Galiform

Annual report and accounts 2008

HOWDENS JOINERY CO. | MAKING SPACE MORE VALUABLE

If you're fitting kitchens professionally
we're in business

HOWDENS

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

The business review

The financial statements

Galiform

"We continue to deliver good performance in tough trading conditions. This is testimony to the motivation of our people, our business model and the strength of our competitive position."

Financial highlights on a continuing operations basis only

	2008 £m	2007 £m	
Turnover[1,2]	794.5	776.4	+2.3%
Operating profit[1,3]	75.9	88.1	-13.8%
Profit before tax[3]	74.3	79.8	-6.9%
Earnings per share[1,3] (pence)	8.5p	9.1p	-6.6%
Net borrowings	61.2	3.3	
Depots opened[1] (number)	20	54	
Depots at year end (number)	454	436	

	2008 £m	2007 £m
Total turnover	805.7	976.5
less supply sales	(11.2)	(200.1)
	794.5	776.4

	2008 £m	2007 £m
Operating profit	80.7	52.7
deduct/add back exceptional items	(4.8)	35.4
Operating profit before exceptional items	75.9	88.1

	2008 £m	2007 £m
Profit before tax	79.1	44.4
deduct/add back exceptional items	(4.8)	35.4
Profit before tax and exceptional items	74.3	79.8

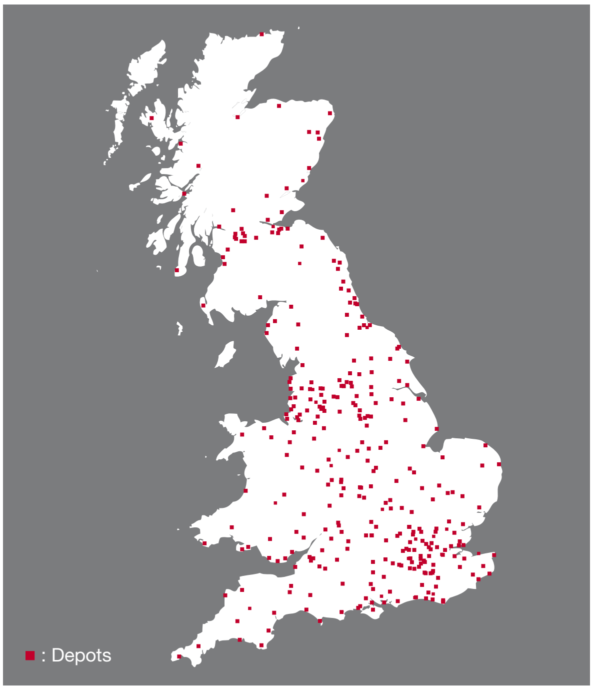
	2008 £m	2007 £m
Basic earnings	55.0	52.9
deduct/add back exceptional items	(4.0)	1.4
Basic earnings before exceptional items	51.0	54.3
Weighted average number of shares (m)	598.0	598.6
Earnings per share before exceptional items (p)	8.5	9.1

1 Financial KPI for the Group
2 Total Group turnover excluding sales by Howden Joinery Supply division to MFI and Hygena Cuisines
3 Before exceptional items

Our business

Galiform Plc is the parent company of Howden Joinery, a leading supplier of kitchens and joinery to trade customers across the United Kingdom. Our kitchens are fitted in all kinds of homes, from local authority and social housing to privately owned and rented flats and houses.

Howden Joinery was founded in Yorkshire in 1995. Today, the Group directly employs 5,750 people in two factories and 454 depots, and sells more kitchens than any other company in the UK. Each year, we supply 240,000 account customers, principally small builders, with around four million kitchen cabinets, two million doors and 400,000 complete kitchens.



Most of our customers are entrepreneurs, running small businesses which need to source consistently reliable products locally at competitive prices and on reasonable terms. They depend on Howden Joinery not only to provide them with products but also to enable them to manage their margins, cash flow and business planning.

Howdens' business model is driven at a local level. Each member of a depot's staff is motivated by a share of the profit created by their depot over the year. This degree of individual accountability has led to operational efficiency, tight cost control and effective credit management. The cash generated by the business, net of MFI legacy costs, has been reinvested in the development of products and services and further expansion of the depot network.

Howden Joinery has an ongoing commitment to its small builder customers and the communities they serve, its employees, its network of suppliers and its shareholders.

"Howdens solves problems for small builders doing joinery work... it's about fitting into their society and not letting them down... associating with people who run their own business... it means a lot. Our customers don't get paid until a job is complete and satisfactory and that means: it looks good, meets standards, is easy to fit, doesn't break, is available locally and when required."

Why customers choose Howden Joinery

Quality	Howden Joinery product looks good, doesn't break, meets British standards and is easy to fit – whether it's our rigid kitchen cabinets, worktops, flooring, doors, accessories or appliances.
Pricing	We believe in offering best prices as well as quality. Our customers don't want to pay for high overheads or expensive showrooms – so we don't have them.
Range	The kitchen is the heart of the home, and that's where our products are used. We offer 40 current kitchen ranges in contemporary and classic designs to suit the requirements of the end user. All our ranges can be combined with a wide variety of accessories, appliances, surfaces, sinks and taps. Our kitchen cabinets are supplied rigid for easy and efficient installation by skilled professionals.
Brand	Since 1995, the Howden Joinery name has been synonymous with consistent, reliable quality. Builders know this – and we think end users should too. That is why we have introduced distinctive branding on all our joinery products and on our own appliances. Our brand is the symbol of our good reputation, and we intend to keep it that way.
Availability	Everything in our catalogue is available from stock and much of it is made in the UK. There's no waiting for orders, so no disruption to work schedules.
Accessibility	Howden Joinery has 454 depots across the country, where local staff serve local tradespeople. Because it's so easy to pop in, builders don't have to find storage space for parts on site. And it's easy to swap items if necessary, too.
Expertise	Our staff know our product in depth, so they can give customers expert advice. A professional CAD plan, drawn up by a Howdens designer, means customers can always deliver the right solution for the end user.
Business support	As well as a complete set of marketing tools, from catalogues to floor plans, and competitive pricing that allows the small builder to make a reasonable margin, we offer customers credit terms that enable them to plan their cash flow. Howden Joinery is an essential part of their business management.
Trust	We understand how important we are to our customers. We know they trust us to provide everything described on this page – week in, week out. We aim to treat them as we would want to be treated ourselves.

Chairman's statement

In this uncertain market environment our locally based business model stands us in good stead, enabling us to improve efficiency while building on the strength of our longstanding relationships with local account customers.

Developing the business

Howden Joinery continued to make progress in 2008, in an uncertain market environment that became increasingly challenging as the year advanced. In this climate our locally based business model stood us in good stead, enabling us to improve efficiency while building on the strength of our longstanding relationships with local account customers.

The Group completed its planned exit from product supply to MFI in December 2007. The business is now wholly focused on trade customers whose principal activity is in the RMI (repair, maintenance and improvement) market, which is driven to a great extent by necessity rather than by discretionary spend. In addition to owner-occupiers, this market includes local authorities, housing associations and private landlords. The Government's target to provide three million more homes in England by 2020, which will include more affordable homes to buy or rent, can only be helpful.

The ending of our supply contract to MFI naturally caused a decrease in revenue, but it also enabled us to reduce logistics and transport costs and to streamline our manufacturing and purchasing activities. Operating profit was affected by the impact of adverse exchange rate movements on the cost of bought-in product. We constantly review our supply arrangements to ensure that we can continue to offer our customers competitive pricing as well as the design and quality of product that they have come to expect.

Our management team, led by Matthew Ingle, worked hard throughout the year to continue to grow Howden Joinery's business by opening 20 new depots, introducing new ranges, making further improvements to our supply chain and systems and mapping out the key areas for future product development. At the same time, they made good progress in mitigating the impact of the legacy left to Galiform by MFI.

Managing the MFI legacy

During the year, we successfully settled outstanding claims made by MEP in respect of cash adjustments and asset valuations following their acquisition of the MFI business. The remaining MFI legacy now falls principally into two areas – property and pensions. At the time of the sale of MFI in 2006, Galiform made full provision for its exposure to 32 MFI properties. The administration of MFI in November 2008 meant that responsibility for the costs associated with a further 46 properties reverted to Galiform. We are actively managing our liabilities in respect of all the former MFI properties. By the time of our results announcement on 5 March 2009, we had successfully negotiated agreements with landlords in respect of lease guarantees on seven former MFI premises, significantly reducing our liabilities in this area. Galiform also continues to be responsible for the retirement benefit payable to MFI pensioners. All of these issues are discussed in more detail in the Review of Operations and Finance on pages 10 to 17.

In December, our Commercial Director Gerard Hughes resigned from the Board, having helped us to establish a sound basis from which we continue to address both legacy issues and our commercial relationships with third parties.

Our responsibilities

Howden Joinery's business is driven at local level and founded on the principle of individual accountability. Every depot, manufacturing site and distribution centre plays an important role in its local community, and the personal involvement of our staff makes a significant difference to the places where they live and work. Last year, they contributed in cash and in kind to over 1,200 charitable organisations and initiatives across the country.

Howden Joinery continues to work in partnership with Leonard Cheshire Disability to help ensure that well-designed, working kitchens are accessible to all, regardless of ability. This partnership involves fundraising, research and consultancy as well as the installation of new kitchens. We are proud of our association with Leonard Cheshire and are committed to pursuing our joint efforts to deliver practical benefits to local communities.

Outlook

Market conditions are undoubtedly harsh, and the economic outlook remains uncertain. As we explain in this report, our resources are directed both towards developing Howden Joinery's strong competitive position and to the ongoing management of the legacy issues. Accordingly, the Board is focused on conserving cash, and recommends that no final dividend be paid.

We are confident that the business of Howden Joinery remains soundly based. Our model is both efficient and transparent. We understand our markets and the trends that are driving them. We have the infrastructure to supply our customers with reliable product from stock at lowest cost. We have the market intelligence that comes from being locally-based, and the flexibility to act on it. In a highly competitive market, we are always thinking about how we can do things better.

Above all, we have highly motivated and skilled people who are fully engaged in expanding our share of the market, thereby building a sustainable and exciting future for the business. We are immensely grateful to them for their hard work and initiative in these challenging times.

Will Samuel
Chairman

4 March 2009

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Chief executive's statement

Last year we continued to build on Howden Joinery's strong competitive position while identifying the opportunities within the business that will drive its future growth.

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Last year we continued to build on Howden Joinery's strong competitive position while identifying the opportunities within the business that will drive its future growth. Our progress can be described under five headings: customers, depots, product, supply and systems.

Customers

In the first half of 2008, we undertook some detailed research with our customers across all parts of the market and all regions of the country. The aim was to deepen our understanding of their relationship with us – how they buy from us, what guides their purchasing decisions and what they value most about Howden Joinery.

At the end of the year we had 178,000 credit account customers and another 62,000 registered account holders. Our sample indicated that over a quarter of them visit one of our depots at least once a week, and 70% visit at least once a month. Over half of the customers we interviewed don't buy kitchen cabinets anywhere else. Each depot manages, on average, around 400 credit accounts. So when we say we know our customers well, that means we know each of them personally. We know them well enough to extend credit to them, which we manage tightly and centrally away from the depots. Our in-stock model underpins our ability to ensure adherence to our payment terms. At the end of 2008, the total cost of credit control, including write-offs and bad debts, remained at the same level as at the half year end: just 1% of sales.

The majority of our customers are entrepreneurs running small businesses. They need to remain profitable while juggling several jobs at once. Their scheduling has to accommodate unpredictable factors such as the surprises that lie hidden in the fabric of older buildings, the timely arrival of other contractors, changes to specifications made by end-users, poor weather at critical moments – and now, a steep decline in the availability of credit. A Howden Joinery credit account allows a small business to manage cash flow, to schedule jobs according to need (our product is always in stock), to provide end-users with professional plans drawn up by our designers and to maintain margin based on our competitive pricing structure. For many customers, we are not simply a supplier – we provide essential business support.

75% of our turnover is through customers who spend less than £25,000 per year with us. We have identified several opportunities for growth through:

- growing the level of sales per account;

- increasing the average number of accounts per depot;

- further developing our planning and project management services; and

- selling our full product range to existing and potential customers – so that we can convert the buyer of a £10 door into the purchaser of a £5,000 kitchen.

Depots

The Howden Joinery depot is the location where the kitchen fitting conundrum is solved. Each of our depots is around 10,000 square feet in size and has on average ten members of staff. A depot is managed and its business developed by its own staff. They are strongly motivated by a locally based incentive plan that sees each one of them, manager and staff, receive a share of gross profit. Our depots take an average of seven years to reach maturity – by which time they have established a solid local customer base.

We have done some in-depth work to analyse depot performance. What this shows is that depot size is not a constraint on sales growth and we have numerous opportunities to further improve sales and margin per depot, even in mature depots. Our analysis also demonstrates that there is a range of stock efficiency across depots. Many depots have the opportunity to reduce absolute stock levels and improve stock-to-sales ratio, without jeopardising the principle of the in-stock model on which our customers depend.

In 2008, we opened 20 new depots, compared to 54 in 2007, considering it prudent to limit the rate of expansion in view of the prevailing economic climate. We do not expect to resume our depot opening programme in 2009, but have every intention of doing so when economic indicators are more favourable. We continue to be clear that there is scope for at least 600 Howden Joinery depots and have already identified preferred locations in several regions.

The experience of finding and managing 454 locations over the past 13 years has brought us valuable property skills. Our specialist team is actively managing the portfolio of former MFI properties, as well as ensuring the smooth running of all Howdens' property arrangements, and has already made significant progress in reducing our liabilities in this area. Property matters are discussed in detail on page 13 in the Review of operations and finance.

During 2008, we made progress with our pilot operation in France, which consists of 11 depots in the Paris region and the north of the country.

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Chief executive's statement

continued

We are a significant player in the UK marketplace, with over £400m of kitchen sales in 2008.

The termination of our supply arrangements to MFI at the end of 2007 means that our supply activity is now wholly focused on the requirements of Howden Joinery.

Excluding central costs, these depots are expected to break even this year.

Product

We sell a wide range of kitchens and joinery that includes cabinets, appliances, doors, worktops, sinks and taps, hardware and flooring. We are a significant player in the UK marketplace, with over £400m of kitchen sales in 2008. We currently sell 40 different kitchen ranges and are focussed on selecting products that we know have winning criteria. Last year we successfully launched a range of freestanding appliances, introduced a new kitchen cabinet with an improved structure and further developed our range of hardware. We have also developed distinctive Howden Joinery branding on our products and appliances.

In the first half of 2009, we plan to introduce eight new kitchen ranges, three range extensions, three new appliances, two sinks, a new range of doors and more basic joinery and hardware. We are also undertaking a full market review to explore the potential to extend our flooring offer and thereby grow our share of the floorcoverings market.

To help us understand more about how our products are used we undertook detailed research based on a large sample of Howden Joinery CAD plans. Our study shows that although there is a large variety of kitchen styles and types in different housing sectors, there are some products that are consistently popular, whether the end-user is a local authority commissioning small, functional kitchens or a private home-owner with a large room to furnish. We are extending our analysis to the penetration of our appliances in different sectors, aiming to gain the same level of insight into how our appliances are used and where there is scope for us to extend or refine our offer.

Supply

We aim to ensure that Howdens is and remains the lowest cost manufacturer and distributor of kitchens in the UK. The termination of our supply arrangements to MFI at the end of 2007 means that our supply activity is now wholly focused on the requirements of Howden Joinery. Last year, we made good progress with rationalising our manufacturing, distribution and logistics, and with tailoring our sourcing arrangements to suit the needs of the business.

Fluctuating exchange rates mean we need to take even more care to ensure that we source from the most appropriate geographical location, bearing in mind our exacting requirements for design, quality, availability and margin.

Systems

With our in-stock model serving trade customers, it is hard to overstate the importance of having systems that work. Since October 2005, we have done a great deal of work to make sure our IT systems and infrastructure is fit for purpose, stable and resilient.

By December 2008, a new, trade-specific depot IT system had been rolled out to nearly 200 depots; the remainder are due to go live in the first quarter of 2009. A new depot portal and a much faster network will enable better, faster sharing of more information between all depots.

We have approved a new warehouse management system which will help us redevelop our supply chain systems and strip out complexities associated with MFI. The implementation of this system will begin in 2009. It is designed to enable us to shorten lead times, reduce overall stock levels, improve depot replenishment processes and increase visibility and control of the entire supply chain.

Our organisation

Our customers depend on Howden Joinery to provide them with a consistent supply of quality products, competitively priced, available locally and on attractive terms. To do this, we are working to maximise efficiency while delivering value to customers in the ways I have described.

We also continue to nurture the principles on which we do business. At its simplest, this means we run a business in which everyone is accountable for his or her actions. We believe that individual accountability at local level is the single most important factor behind the development of Howden Joinery since 1995. As well as ensuring close control of day-to-day operations, accountability enables informed and timely choices to be made, which is why it is as much the cornerstone of a large business as of a small one. In the current economic climate, this is more important than ever.

Matthew Ingle
Chief Executive

4 March 2009

We believe that individual accountability at local level is the single most important factor behind the development of Howdens Joinery since 1995.

Review of operations and finance

Group results
The financial performance of the Group during 2008 reflects the strength of the Group's competitive position and the characteristics of the end-users of its products. The Group has significant exposure to the tenanted housing sector, both public and private, which are subject to different economic drivers than the owner-occupied sector.

Revenue
Total Group revenue fell by £170.8m to £805.7m, but this reflected the termination of sales to MFI at the end of 2007.

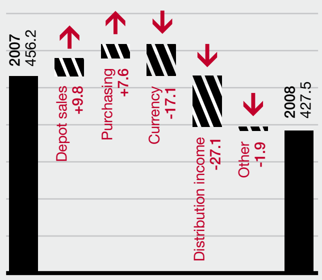
Revenue	2008 £m	2007 £m
Howden Joinery UK depots	782.9	768.4
MFI* /Hygena Cuisines	11.1	200.1
Howden France	11.7	8.0
Group	805.7	976.5

* no sales in 2008

Howden Joinery UK depot sales increased by £14.5m (1.9%) to £782.9m, but declined 3.1% on a same depot basis. The strong sales growth achieved in the first part of the year, to the end of spring, moderated during the summer and early autumn. Sales declined in the last quarter of the year, as markets responded to the UK financial crises.

Sales of our French depots grew by around 25% in local currency to £11.7m.

Gross profit
The gross profit margin before exceptional items was 53.1% (2007: 46.7%). The increase reflects the ending of product sales to MFI, which were supplied 'at cost'. These sales had no impact on gross profit and thereby reduced the gross profit margin in 2007. The absolute level of gross profit fell by £28.7m to £427.5m primarily because of the expected loss of delivery income from MFI (£27.1m – the corresponding and equal cost was in operating costs last year) and the adverse effect of the exchange rate on the cost of goods purchased from overseas suppliers (£17.1m). The impact of these factors was partly offset by purchasing efficiencies and higher depot sales.



Overheads
Excluding exceptional items, selling and distribution costs and administrative expenses decreased by £17.3m to £351.7m.

- Within this, Howden Joinery UK depot operating costs increased by £17.1m, reflecting costs associated with depots opened in the last two years.

These cost increases were offset by cost reductions elsewhere:

- Increased logistics (warehouse and transport) costs in relation to depot sales were more than offset by a reduction arising from the end of the supply contract with MFI (see gross profit note above). The net result was that logistics costs – including 'residual' costs of £10.9m arising from the disposal of MFI – fell by £14.2m.

- Indirect costs associated with the supply chain fell by £9.4m and corporate costs fell by £8.6m. Approximately £6.5m of these decreases were one-off in nature, mostly within the supply chain.

Operating profit
Operating profit before exceptional items was £75.9m (2007: £88.1m), reflecting the impact of the weaker pound against the euro and US dollar, and 'residual' logistics costs, partly offset by the one-off cost reductions in indirect supply chain and corporate costs referred to above.

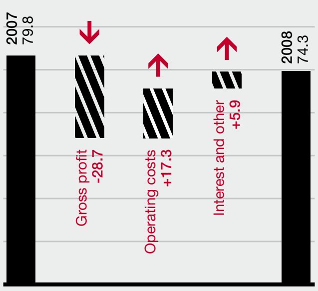
Exceptional items
There was an exceptional credit before tax of £4.8m relating to continuing operations (2007: £35.4m charge). There was an exceptional charge before tax of £108.8m (2007: £11.1m) in respect of discontinued operations, £99.7m of which related to rent and other costs payable on the MFI lease guarantees.

Further detail is shown in note 6 to the financial statements.

Interest
The net interest charge fell £6.7m to £1.6m, due to an increased credit for the finance element of the pension charge and a decreased interest charge associated with the dowry payments to MEP Mayflower Limited (MEP).

Profit before tax
The net result was profit before tax and exceptional items from continuing operations of £74.3m (2007: £79.8m). The profit after exceptional items from continuing operations was £79.1m (2007: £44.4m).

Profit before tax and exceptional items £m



Taxation
The tax charge on profit before tax from continuing operations, excluding exceptional items, was £23.3m, a tax rate of 31.4%. This has been impacted by the following three factors:

- In July 2008, the House of Commons approved the Finance Bill which abolished Industrial Building Allowances (IBAs). This has resulted in an additional deferred tax charge of £1.5m in the year.
- When share schemes do not vest or are unlikely to vest, the Group is not able to reverse the IFRS 2 accounting charge if the scheme carries market related targets. Many of the Group's share schemes have market related targets and, as a consequence of these schemes not vesting or becoming unlikely to vest, a permanent timing difference has arisen. There has also been a reduction in the deferred tax asset recognised in relation to future tax deductions available to the Group on share option exercises driven by the Group's share price. These factors account for an additional deferred tax charge of £2.9m in the year.
- Prior year and other tax credits totalling £4.4m have been taken in the year.

After adjusting for these, the effective rate of tax remains at 31.4% (2007: 32.0%).

The principal exceptional costs relate to payments and provisions relating to the MFI lease guarantees. The Group has assumed no tax relief for these costs until the tax position is agreed with HM Revenue & Customs.

Earnings per share
Basic earnings per share excluding exceptional items from continuing operations was 8.5p (2007: 9.1p) and including exceptional items was 9.2p (2007: 8.8p). Basic earnings per share including exceptional items from continuing and discontinued operations was a loss of 8.6p (2007: earnings of 7.3p).

Dividend
Although the Board recognises the importance of dividends to shareholders, the Board considers that shareholders are best served by retaining cash within the business and therefore does not propose making a final dividend payment.

Acquisition
On 7 March 2008, the Group bought the remaining 50% of Howden Kitchens (Asia) Limited, our sourcing joint venture in the Far East. Prior to the transaction, the Group held 50% of the share capital and voting rights and had accounted for its investment as a joint venture.

Cash
Net cash outflows from operating activities were £37.8m. This included several one-off payments relating primarily to MFI legality issues:

- Cash expenditure in relation to the restructuring of manufacturing and logistics operations announced in June 2007 (£10.8m).
- Final payment due under the terms of Galiform's agreement with MEP in relation to the disposal of the MFI retail business (£12m).
- Settlement of the 'closing cash adjustment' due in respect of cash flows generated by MFI between the effective date and completion date of the sale (£14.8m including interest).
- Settlement of MEP's net asset value claim (£8m).

Review of operations and finance

continued

Stock levels at the end of 2008 were £19.3m higher than a year earlier, reflecting the unexpected sharp deterioration in trading conditions towards the end of the year (although they have subsequently begun to fall). Debtors fell by £22.4m, reflecting the termination of product supply to MFI at the end of 2007 and lower Howden Joinery sales at the end of 2008. Trade and other creditors were £47.0m lower, reflecting the termination of product supply to MFI at the end of 2007.

Payments to landlords of guaranteed properties and other exceptional costs totalled £11.7m, including £5.8m paid to be released from all obligations arising from the leases of six of the 46 properties for which Galiform was guarantor.

There was a cash contribution to the Group's pension schemes, in excess of the operating charge, of £24.3m.

Payments to acquire fixed and intangible assets totalled £19.4m (2007: £21.2m), of which £8.1m related to a new depot IT system. This was partly offset by £3.5m of cash receipts from property disposals.

As a result of the above, net debt rose by £57.9m in 2008, resulting in Group net borrowings of £61.2m at 27 December 2008. At the same date, in respect of the Group's £175m bank facility, the Group had available £77.3m of undrawn committed borrowing facilities (£93.5m at 29 December 2007).

Review of operations

Against the background of weak consumer confidence and general concerns about economic prospects, the Group has continued to focus on opportunities to grow sales through improving its products and service, and increasing the awareness of Howdens. We continue to work to increase profitability through greater efficiencies and prudently manage cash flow. Operations throughout the Group have been reviewed to ensure appropriate resource levels.

Depots

In 2008 twenty UK depots have opened, three were extended and one depot relocated. A review of all our depots led to the decision to close two at Dereham and Keswick, bringing the total at the year end to 454.

Given the uncertainty surrounding the economic outlook, we have no plans to open depots in 2009. We continue to be of the view that the total number of depots can be increased to more than 600 in the UK and are ready to accelerate the opening programme at the appropriate time.

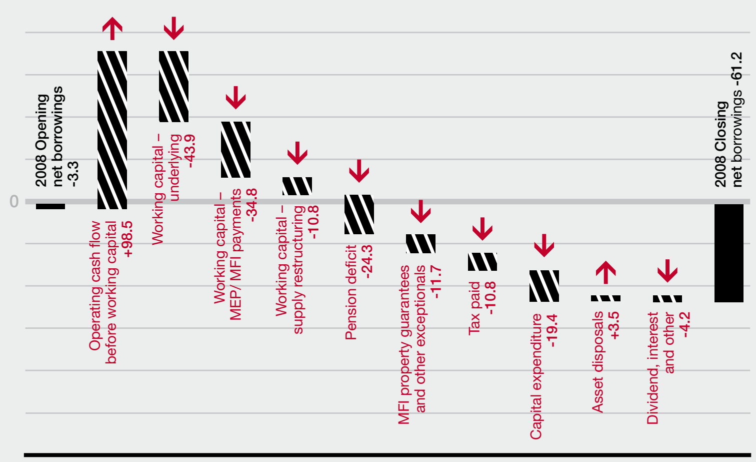
Depot IT system

During the course of 2008, we commenced the roll-out of a new front-end IT system in our UK depots, replacing a twenty year-old system that was costly to maintain and provided limited functionality. The new point-of-sale system, K8, is the market leading trade commercial system and is currently used to manage sales and stock within the depots. Following an extensive trial in the first part of the year, it was operational in over one third of the depots by the year end and roll-out to all depots is on plan to be completed by the end of March.

Howdens brand

We are pursuing a number of initiatives to increase awareness of Howdens as a supplier of kitchens. As well as advertising in trade and consumer

Borrowings / cash flows £m



magazines, we have been rolling out a new Howdens livery across our fleet of lorries, used to deliver goods to our depots. Over 450 of the 520 trailers in the fleet are sporting the new livery.

Product

Investment in product development remains crucial to our continued success. In 2008, we introduced ten new kitchens to our product range and extended the range of appliances on offer to include free standing appliances.

In December, eight new kitchens to be introduced in the first part of 2009 were presented to depot managers, along with possible extensions to our ranges of doors, joinery, worktops and appliances.

We have continued to review arrangements with suppliers, the benefits from which have helped offset cost pressures within our supply chain. We continually benchmark the cost of existing suppliers against alternatives. Indeed, following the weakness of sterling against the US dollar, we have now brought production of our best selling 'Greenwich' range of doors from the Far East to our own Howden factory.

Operating costs

Following completion in the early spring of the major reorganisation of manufacturing and logistics operations after the ending of product supply to MFI at the end of 2007, further steps have been taken to improve operational efficiency and flexibility. A new transport sharing agreement with third parties means that some 60% of return loads by our lorries are carrying goods instead of being empty. A revised scheduling of manufacturing and assembly capacity has enabled a further streamlining of manufacturing operations in Runcorn. New progressive labour agreements mean that we are able to better schedule working hours of employees to match demand.

Following a decision to curtail the number of depot openings in 2008 and with the onset of more difficult market conditions, resource levels in Howden UK depots and support functions were reviewed. The resultant job losses were mostly achieved through natural wastage and the ending of temporary contracts.

The number of employees across the Group at the end of 2008 was 5,782 (2007: 6,546).

MFI claims

During the period, the Group paid a total of £34.8m to MEP/MFI:

- £13.3m plus interest of £1.5m was paid to MEP in final settlement of the amount due in respect of cash flows generated by MFI between 5 August 2006 (the effective date of the Sale and Purchase Agreement to MEP) and 18 October 2006 (the completion date). This comprised an agreed adjustment of £4.9m, together with a further amount of £8.4m determined by an independent expert (compared with an amount of £23.4m originally claimed by MEP).
- MEP's net asset value claim was also settled in the year for £8.0m. MEP's original claim was £57.0m, consisting of some 88 individual items, each of which had been examined in detail on the Company's behalf by external lawyers and forensic accountants.
- The Group also made its scheduled third and final dowry payment of £12.0m in April 2008.

Aside from property matters, the MFI legacy issues have been settled and we can now focus on the main Howden Joinery business. Unfortunately, the appointment of administrators at MFI in the late autumn has left us with some residual property leases which we had guaranteed; provision has been made for these in the accounts and we are actively managing down these costs (see below).

Property

Following the disposal of MFI and Sofa Workshop in 2006, 40 retail/distribution properties were retained by the Group. Active management has reduced this to 24 properties of which 12 remain vacant. In addition the leasehold of a major warehouse in Northampton was assigned to a new tenant and two factory sites in Hull have been sold, generating proceeds of £3.5m.

As mentioned above, the Group was also the guarantor on leases in relation to 56 properties occupied by MFI. At the time of the appointment of the administrator to MFI in November, the number had reduced to 46, with net annual rent and rates of £21.4m. By the year end, we had successfully cancelled the guarantee clause in six leases at a price of £5.8m.

Review of operations and finance
continued

The net annual rent and rates payable on the 40 remaining properties is £17.6m. Payments made by the Group in relation to these guaranteed leases are indemnified by MEP Mayflower Limited, the acquisition vehicle used by the acquirer of the Group's former MFI retail operations. Claims have or will be submitted for payments made to date; however, all such amounts due under this indemnity have been fully provided against as at the year end as MEP Mayflower Limited itself went into administration in November 2008.

Additional provisions of £90.5m have been made during the year to cover these onerous leases.

Key financial performance indicators

The Group uses a number of financial performance indicators to measure operational and financial activity in the business. These are shown in the financial highlights on the first page of this Annual Report. Non-financial indicators are discussed further in the corporate and social responsibility report on pages 18 to 22.

Total sales growth

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

Operating profit

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

Earnings per share (EPS)

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

Depot openings

The business model is based on individual depots providing kitchens to small builders within a local community. As such, the continuing drive to open new depots in new localities is key to the Group's growth prospects. Given the uncertain economic background and the desire to preserve cash, Howden Joinery does not have plans to open depots in 2009.

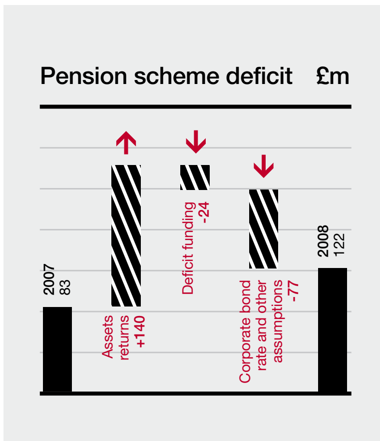
Management of commercial risks and uncertainties

Defined benefit pension scheme

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

Details of the pensions charge and the defined benefit schemes' assets and liabilities are shown in note 24 to the financial statements. This shows a deficit of £122.2m (2007: £83.5m). Changes in this deficit are affected by the assumptions made in valuing the liabilities and the market performance of the assets. Most importantly, the discount rate used for measuring the defined benefit liabilities has increased from 5.9 % in 2007 to 6.3% in 2008.

As part of the secured lending facilities announced on 17 February 2006, the Company and the Trustees together with The Pensions Regulator reached agreement with regard to the funding of the remaining deficit. The Trustees have been granted security over the Group's shares in Howden Joinery Limited.



Disposal of MFI property leases

The appointment of administrators to MFI at the end of 2008 has resulted in claims from landlords for obligations not honoured by MFI for 46 retail leases where Galiform has acted as guarantor. We are trying to mitigate the impact of this and, just before our year end, managed to vary the terms of six of these leases to remove the guarantee provisions for a capital payment of £5.8m. We have made a provision in the accounts for the remaining 40 onerous leases. Cash payments are now being made to the landlords (£17.6m per annum for rent, rates, insurance and service charges) and although these can be recovered by way of an indemnity given by MEP Mayflower Limited, as described above, all such claims made by the Group have been fully provided against. A further decline in the state of the commercial property market would adversely affect the Group's cash flow generation further.

Market conditions
The Group's products are sold to professional fitters for installation in public and private housing, predominantly in the repair, maintenance and improvement market. The results are consequently dependent on levels of activity in these markets which in turn are impacted by many factors including general economic conditions, consumer confidence, interest rates and credit availability, unemployment, demographic trends and, in the short-term, weather. We monitor the market closely and can take swift management action to any adverse change. During the year we have stopped our depot opening program and reduced our staff numbers with a view to conserve cash and work within our borrowing facilities and covenants. In the event of further deterioration in performance, the Group will take action as necessary in order that the business is aligned to the more challenging market conditions.

IT systems
The business involves high transaction volumes and complex logistics. We are therefore heavily dependent on the resilience of both the application software and the data-processing and network infrastructure in our depots, logistics operations and back-office functions. A serious failure could immediately and materially affect our business. The Group has a detailed disaster recovery plan in place. Our main data centre in Northampton has high levels of resilience built into it, and we also have a physically separate third party disaster-recovery site in Harrogate.

Continuity of supply
Any disruption to the relationship with key suppliers could adversely affect the Group's ability to meet its sales and profit plans if suitable alternatives could not be found quickly. The Group strives to maintain dual supply wherever possible in the event that one supplier is unable to deliver goods or services. Good supplier relations are maintained by regular communication, an annual supplier conference and prompt settlement of invoices.

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

Product design leadership
If there was a misalignment between the products we offer and the requirements of our customers and the current trends in the market, there may be an adverse change on the Group's future financial condition and results of operations. Active engagement with suppliers, independent research and, critically, depot managers and their designers encourages and enables product development activity.

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.

Management of financial risks and uncertainties

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.

Review of operations and finance

continued

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 with respect to managing capital is to maintain a balance sheet structure that is both efficient in terms of providing long-term returns to shareholders and safeguards the Group's ability to continue as a going concern. As appropriate the Group can choose to adjust its capital structure by varying the amount of dividends paid to shareholders, returns of capital to shareholders, issuing new shares or the level of capital expenditure.

A two-year extension to the Group's £175m asset-backed bank facility was agreed early in the year, the interest rate on the loan being unchanged. Under the terms of the extension, the facility (which now expires in May 2011) can also be used more efficiently, thus increasing the amount of the facility which is available at any one time.

The Group's committed borrowing facility contains certain financial covenants which have been met throughout the 2008 year. The covenants are tested every four weeks and are based around (i) fixed charges, (ii) tangible net worth and (iii) earnings before interest, tax, depreciation and amortisation (EBITDA) for Howden Joinery. Further detail is given in note 33 to the financial statements.

In addition our pension trustees, who carry a charge over the share capital of Howden Joinery Limited, have a separate covenant test around the EBITDA of Howden Joinery as a standalone business unit.

The current economic conditions create uncertainty around the Group's trading position; particularly over the level of demand for the Group's products and the exchange rate between sterling and both the Euro and the US dollar. The Group's latest forecasts and projections, which include the full impact of the MFI rental guarantees, have been stress-tested for reasonably possible adverse variations in trading performance and show that the Group will operate within the terms of its current borrowing facility and covenants for the foreseeable future. The covenant with the lowest headroom is the EBITDA for Howden Joinery, which is calculated each four week period on a three or six period rolling basis, such that short-term variability in trading performance would increase the risk of non-compliance. Nevertheless, whilst there can be no absolute certainty, after due consideration of the impact of a reasonably possible further decline on the recent trading performance experienced, it is not considered that this covenant will be breached in the foreseeable future.

The cash drawdown against the bank facility at the year end was £82.2m and, after taking into account other utilisation of the facilities for terminable indemnities, the Group was left with £77.3m of available funds.

Interest rate risk

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

Counterparty risk

Group Treasury policy on investment restricts counterparties to those with a minimum Standard and Poor's/ Moody's long-term credit rating of AA and a short-term credit rating of A1/P1. Investments mainly consist of bank deposits and certificates of deposit. The Group continuously reviews the credit quality of counterparties, the limits placed on individual credit exposures and categories of investments. The Group has not had surplus funds to invest with other counterparties during the year.

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. 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.

Principle exchange rates	2008 average	2008 year-end	2007 average	2007 year-end
United States dollar	1.86	1.49	2.00	2.00
Euro	1.26	1.06	1.46	1.36

The net adverse impact of exchange rates on currency transactions in the year, compared to the previous year, was to increase cost of sales by £17.1m to £378.2m. The Group does not have many overseas assets/liabilities so the impact of currency translation is not material.

Set out in the table above are the principal exchange rates affecting the Group's profits. More detail on sensitivity is given in note 33 to the financial statements.

Accounting policies and standards

The principal accounting policies and standards used by the Group are shown in note 2 to the financial statements.

One new accounting standard came into effect during the year, being IFRS 7, 'Financial instruments: Disclosures'. This is described further in note 33 to the financial statements.

Mark Robson
Chief Financial Officer

4 March 2009

Corporate social responsibility report

Howden Joinery is a leading supplier of kitchens and joinery to trade customers across the United Kingdom through a network of over 450 depots. Our kitchens are fitted in all kinds of homes, from local authority and social housing to privately owned and rented flats and houses.

The business was founded in 1995. Today, the company directly employs over 5,750 people across our depot network and UK factory and distribution sites, and sells more kitchens than any other company in the UK. Each year, we supply our customers, principally small builders, with around 4 million kitchen cabinets, 2 million doors and 400,000 complete kitchens.

Our market leading position means we have responsibilities that must be reconciled with the pursuit of our commercial interests. This report describes the actions we have taken over the past year to ensure that our commitment to all our stakeholders is real and sustainable and continues to progress along with our business. Unless otherwise stated, the report covers the entirety of our business.

Measuring our achievements

Last year, we outlined the ongoing structural changes to our business and how we had developed our social responsibilities within that context. In 2008, once the structure of the business had been simplified and our supply commitments to MFI had come to an end, we were able to measure our achievements more clearly, setting ourselves key performance indicators (KPIs) in those areas where we felt our performance to be most critical to the environment in which we operate.

During the year, we introduced three new KPIs relating to the impact of our business on the environment. In this first year, our performance has been measured against internal targets which will give us a set of base data against which to compare our performance in future years. The KPIs are detailed in the sections of this report to which they relate.

Committed to responsible manufacturing in the UK

We operate two manufacturing facilities in the UK – one in Runcorn and one in Howden. We are committed to keeping these facilities operational where commercially viable. Manufacturing at scale in the UK benefits our domestic workforce and the communities in which they live and work.

This year, our UK-based manufacturing teams produced approximately:

- 4,000,000 kitchen cabinets;
- 800,000 kitchen worktops and breakfast bars; and
- 800,000 kitchen frontals.

During 2009, the proportion of product sourced from the UK is expected to increase.

All our UK manufactured kitchen ranges are certified by the UK Forest Stewardship Council (UK FSC). Over 85% of all UK manufactured product is FSC compliant.

Committed to managing our impact on the environment

Wood

Manufactured product

As a supplier of kitchen and joinery products, wood obviously plays a central role in what we do. It is therefore our policy to always try and source wood in a way that is good for the environment as well as good for our business. Our preferred option is to buy wood which is certified by either the UK FSC or by the European Programme for the Endorsement of Forest Certification (PEFC). These respected, independent schemes enable us to source wood and paper products from suppliers that use sustainable methods to manage their forests.

To monitor the effectiveness of this policy, we set ourselves a new KPI during the year:

"To ensure that 100% of our wood product used in manufacturing comes from certified sources"

- In 2008, we used more than 200,000 cubic metres of chipboard and 10,000 cubic metres of MDF in our manufacturing process. All of this came from certified sources, as was the case in 2006 and 2007.

We also aim to source all our cardboard packaging from either recycled or certified sources. The fact that our supply contract with MFI came to an end in 2007 meant that during 2008 we were able to halve the amount of cardboard packaging used in the business. In 2008, we used 2,570 tonnes of cardboard packaging for our manufactured products, all of which came from recycled sources (2007: 5,600 tonnes from certified sources). It is our intention to aim for a similar high standard in the future.

Bought-in product

As well as manufacturing much of our product in the UK, we continue to source joinery products and kitchen fascias from a range of suppliers in the UK, Europe and elsewhere in the world.

Ethical and environmental sourcing is an important factor in our global supply chain, and we expect all our suppliers to comply with high standards in this area. Suppliers of wood-based kitchen and joinery products should either already have or be working toward FSC/PEFC certification wherever possible.

- In 2008, over 90% of our European timber-based product suppliers were certified as sourcing timber from a sustainable supply. We continue to work towards increasing this percentage.

- Regular audits and continuous improvement programmes have become an integral part of supplier selection and development and we continue to audit a sample of our suppliers on an annual basis to verify their compliance with our requirements. Our Vendor Management and Development Programme now operates across all our key suppliers.

- Our key finished goods suppliers are audited every period by a dedicated team using recognised quality performance metrics and measures. In 2008, over 90% of our key suppliers worldwide were audited and assessed for compliance. Over 80% of those audited achieved an A rating in this programme.

- The increasing focus on environmental matters by our customers, particularly those working with local authority and housing association properties, means that we are constantly required to review our products, our supply chain and our logistic and operational processes to ensure that we address their concerns appropriately.

- Howden Joinery has been FSC and PEFC certified since February 2008. 12 of our 40 kitchen ranges (over 25% of our kitchens) are fully compliant with FSC requirements. We aim to increase this proportion in 2009.

Energy

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

Manufacturing

- In 2008, our restructuring led to an overall reduction in the volume of cabinets we manufacture, and we reset our baseline for energy consumption per cabinet to 3.62 KWHr per unit. In 2009, we will seek to reduce this level via in-house energy reduction initiatives.

- In 2008, our manufacturing sites were re-awarded the Carbon Trust's prestigious Energy Efficiency Accreditation. We have now been accredited continuously for more than ten years.

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

Truck fleet

In 2008, the company operated a fleet of 106 trucks, reduced from 160 in 2007. This reduction in the number of trucks which we operate was achieved through a traffic share arrangement. This arrangement improved our transport usage by removing inefficiencies and maximising use of backhaul capacity.

All trucks are as a minimum Euro3 compliant but, as stated last year, the company has a commitment to improve this as part of its ongoing fleet management programme.

The KPI which we set for this area for 2008-2010 is:

"To increase the proportion of our trucks that are Euro4 compliant and above over a three year period"

- At the start of 2008, all our trucks were Euro3 compliant. By the end of the year, we were pleased to report that 51% of the fleet had already moved up to Euro5 compliance.

Corporate social responsibility report

continued

- Last year, we said it was our intention to continue to increase our use of rail transport where commercially possible. Two things have happened which have necessitated a change of direction in this area. Firstly, one of the most frequently used rail routes has been withdrawn by the operator and no alternative rail solution has been put in place. Secondly, a change in our supply base means that we no longer have any product imported from Europe by rail, our new suppliers instead choosing to transport product by sea.

Products

Our KPI here is:

"To ensure that at least 90% of our appliances are A rated and above"

- In line with EC regulations, all kitchen appliances must be rated and labelled in respect of energy efficiency. Ratings range from A-G with A being the most energy efficient. Some appliances qualify for A+ and A++ ratings and we continue to work with our vendors to develop these improvements. We are pleased to report that we have met this KPI during the year, as we did in 2007.

- The Group continues to work towards gaining the Energy Saving Trust Awards for certain product categories and hopes to achieve this certification in the near future.

Waste

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

- Cardboard, plastic and timber waste from the manufacturing process are all segregated from general waste.

- In 2008, more than 90% of the 54,000 tonnes of waste produced in our manufacturing operations was recycled. During the year, we also commissioned a specialist waste management services company to help us to improve our recycle ratio in 2009 through the introduction of a total waste management solution.

- One element of "waste" from the manufacturing process is sawdust. In 2008, we converted over 27,000 tonnes of sawdust into energy at our Howden and Runcorn sites, with the sawdust fuelling eight wood combustion boilers that burn this waste to heat our factories. This equates to approximately 140k MWHr of energy generated from sawdust in 2008.

- In 2008, a new returnable 'eco-pallet' initiative was introduced and is expected to remove 98.1 tonnes of transit waste in 2009.

- We also continued the initiative started in 2007 to recover and repair pallets which would otherwise have been scrapped. This year, we recovered more than 115,000 pallets, 18% up on the prior year (2007: 98,000).

- All of our waste removal companies have been audited during the year to ensure compliance with legislation.

Committed to supporting our workforce to acquire and practise core skills

Employee responsibilities

We take our responsibilities as an employer very seriously and we aim to provide a positive work environment for all our staff, whether they work in factories, warehouses, depots or offices. Our culture emphasises the importance of individual accountability, which means the personal responsibility of each of us towards those we work with every day. We are proud of this culture, which encourages openness and transparency within the business and has been vital to its growth and development since 1995. This culture is reinforced by our commitment to certain core principles:

- Recognising by reward the hard work of all employees.

- Investing in training and development across the business.

- Ensuring that recruitment, career success and progression are solely determined by an employee's abilities and achievements.

Supporting learning and development in the community

Howden Joinery's heritage and culture means we place a high value on the whole range of skills, both technical and managerial, that are practised by local tradespeople. We are keen to promote the use of these skills in the workplace and interest in them in the wider community. During 2008, the Group employed two modern day apprentices in our Supply division, sponsored seven apprenticeships within the depot network and supported over 150 staff across the Group with a variety of NVQ qualifications. In 2009, we plan to extend our support into the local community by sponsoring a number of modern apprentice joiners and a variety of industry-related awards at local community colleges. By giving young people the opportunity to learn traditional skills and understand how to deploy them professionally, we aim to help support the development of local tradespeople and keep their skills alive and valued.

Health & Safety

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

In the depots:

- There were 34 reportable health and safety incidents in 2008 – 15 fewer than last year. Whilst this is still 34 incidents more than we would like to report, it did mean that we met our target of reducing incidents by at least 10%. We will keep working to find ways to reduce incidents.

- In line with the prior year's achievements, we also maintained our target of reducing the number of working hours lost due to injury. We achieved a 21% reduction during the year (2007: 38% reduction).

- As it is our policy to drive all elements of our business at a local level, our depot managers are responsible for the health and safety of the staff working in their depots. To help them in this task, they participate in our Health & Safety Management Training programme which provides training on a rolling three year basis for all depot managers. During the year, 165 depot managers and 196 assistant managers attended the course.

- For those staff who are required to drive as part of their day-to-day roles, a defensive driving course was introduced during the year, with a total of 269 drivers completing the course.

In our manufacturing, warehouse and distribution sites:

- We retained our ISO18001 certification at the Runcorn facility and continue to work to extend this certification across our other facilities.

- We have achieved a 23% reduction year on year of reportable incidents.

- As part of staff development and training.

  – 105 delegates attended and passed a variety of externally accredited health & safety qualifications (IOSH, NEBOSH and CIEH).

  – 157 operatives received Risk Assessment skills training.

  – 140 operatives were regularly involved with our Safety Action teams.

Across the Group, there were no improvement or prohibition notices served on us during the year by the HSE, nor were there any prosecutions by the Health & Safety Executive or the Environment Agency.

Committed to playing an active part in our local communities

Our business is driven at local level, and it is our policy to drive our community activities at local level too.

Each depot, manufacturing site and distribution centre fulfils an important role in the life of the area it serves, and all our staff are encouraged to make a contribution to the local community.

This year, our staff made around 1,300 donations to local good causes. This amounted to some £425,000 across the Group. As well as cash donations and employee fund raising initiatives, the Group donated joinery and kitchen equipment to local schools, village halls, care homes (see below), local youth groups and sports clubs.

Leonard Cheshire Disability is a key community partner for us and, mindful of their reliance on volunteer support (they need to recruit 1,000 new volunteers a year), we decided to continue to fund their volunteer recruitment and training programme, as we have done for the past two years. Our staff continue to fundraise for Leonard Chesire through the Tea 4 Ability fundraising week and by taking part in various challenges such as marathons and parachute jumps. Our staff have also taken part in volunteer projects at several Leonard Cheshire residential premises.

Corporate social responsibility report

continued

Working with Leonard Cheshire, we have continued our research into inclusive kitchens. Our aim is to offer the same range of product choice in the kitchen to all customers and potential customers, regardless of their ability.

In 2008, we designed, donated and installed six further kitchen centres in various Leonard Cheshire locations across the UK. Whereas our initial research resulted in a bespoke solution, 2008 saw the roll-out of a number of new products that allow us to introduce 'off the shelf' solutions to multi-ability kitchen needs. This works particularly well for local authorities and housing associations who have to meet a minimum provision criteria for the housing of disabled residents, frequently without knowing for whom they are providing these facilities before they are installed.

In 2007, the partnership between our company and Leonard Cheshire was recognised at the Third Sector Awards For Excellence when it was voted best UK Charity/Corporate Partnership. Our partnership grew and developed in the course of 2008, and we are now working with Leonard Cheshire as their preferred supplier and consultants to their national redevelopment programme. We are proud of our association with Leonard Cheshire and will continue our work together to create lasting benefit for the communities in which we all live and work.

Matthew Ingle
Chief Executive

4 March 2009

Board of directors

Non-executive chairman

Will Samuel (age 57)
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 of Ecclesiastical Insurance Group plc and a non-executive director of the Edinburgh Investment Trust 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.

Executive directors

Matthew Ingle (age 54)
Chief Executive
Matthew was appointed Chief Executive in October 2005. He set up Howden Joinery in 1995 and has been responsible for its growth into a successful business today. Prior to joining the Company, he had been Managing Director of the Magnet Trade operation. He was elected to the Board of the Company in 1998.

Mark Robson (age 51)
Chief Financial Officer
Mark joined the Board in April 2005 as Chief Financial Officer. Mark spent the previous six years as Group Finance Director at Delta plc. Prior to this, he had held a number of senior financial positions with ICI between 1985 and 1998. He is a Chartered Accountant and qualified with Price Waterhouse.

Non-executive directors

Angus Cockburn (age 45)
Angus was appointed a non-executive director in October 2006. He has been Group Finance Director of Aggreko plc since 2000, having previously been Managing Director of Pringle of Scotland and Regional Finance Director Central Europe for Pepsico Foods. He is a Chartered Accountant and qualified with KPMG Peat Marwick.

Ian Smith (age 54)
Ian was appointed non-executive director in September 2001. He is currently Chief Executive Officer of Reed Elsevier plc. Previously he was Chief Executive Officer of Taylor Woodrow plc, Chief Executive Officer of the General Healthcare Group, 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 Ltd, a strategy consulting firm. Ian began his business career with Royal Dutch/Shell Group of companies, working with Shell UK Oil in various roles. He then moved to the Middle East where he was Marketing Director of Shell Oman, and then set up and managed the Shell joint venture in Jordan.

Peter Wallis (age 61)
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 69)
Michael was appointed a non-executive director in November 2006. Michael was Chairman of House of Fraser plc from 2001 until November 2006 and is a non-executive director of Inchcape plc and Moneysupermarket.com plc. He was an executive director of Tesco plc from 1989 to 2000. He was Chairman of the British Retail Consortium from 2004 until 2006.

Directors' report

The directors have pleasure in submitting their report and the audited financial statements for the 52 week period ended 27 December 2008. Comparative figures relate to the 52 weeks ended 29 December 2007.

Principal Group activities, business review and results

The principal activity of Galiform Plc and its subsidiaries is the sale of kitchens and joinery products, along with the associated procurement, manufacture and distribution of these products.

The Company is required by the Companies Act to include a business review in this report. The information that fulfils the requirements of the business review can be found in the following sections which are incorporated in this report by reference:

- Chairman's statement on pages 4 to 5.
- Chief Executive's statement on pages 6 to 9.
- Review of operations and finance on pages 10 to 17 (including a review of principal risks and uncertainties and key performance indicators).
- Corporate Social Responsibility report on pages 18 to 22 containing environmental matters, social & community issues and additional information on employees.
- Corporate Governance report including Going Concern statement on pages 37 to 43.

The full results for the period are shown in the financial statements on pages 44 to 107.

Information about the use of financial instruments by the Company and its subsidiaries is given in note 33 to the financial statements.

The subsidiary and associated undertakings principally affecting the profits or net assets of the Group in the year are listed in the table of Parent Company and Principal Subsidiary Undertakings on page 109.

Details of significant events since the balance sheet date are contained in note 29 to the financial statements.

Dividends

The Board is not recommending payment of a final dividend (2007: 0.5p per ordinary share). No interim dividend was paid during the year (2007: nil).

Share capital

Details of the authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 26. The Company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

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

Details of employee share schemes are set out in note 31. Shares held by the Galiform Plc Employee Share Trust abstain from voting.

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

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

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

There are a number of agreements that take effect, alter or terminate upon a change of control such as commercial contracts, bank loan agreements and employee share plans. The only one of these, which is considered to be significant in terms of likely impact on the business of the Group as a whole, is the £175m bank facility (as described in note 23) which requires majority lender consent for any change of control. Should such consent not be forthcoming, a change of control would trigger a mandatory prepayment of the entire facility.

The directors are not aware of any agreements between the Company and its directors or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid.

Essential contracts

The mission of the Group relies on product of "no call back quality" being in stock at all times in order to service the needs of the builder. The Group benefits from a number of contracts which are key to providing the volume of product required to enable the Group to fulfil this mission but is nevertheless confident that other commercial solutions would be available should these contracts be terminated.

Contracts with key personnel are discussed in the review of principal risks and uncertainties on page 15.

Directors and their interests

Details of the directors in office on 27 December 2008 are shown on page 23.

Gerard Hughes resigned on 27 December 2008. Matthew Ingle and Peter Wallis will retire by rotation at the Annual General Meeting and in accordance with Article 76 of the Articles of Association offer themselves for re-election.

In proposing their re-election, the Chairman confirms that the Nomination Committee has considered the formal performance evaluation in respect of those directors seeking re-election and the contribution and commitment of the directors that are required to offer themselves for re-election. He has confirmed to the Board that their performance and commitment is such that the Company should support their re-election.

Information on the directors' service agreements, options and interests of the directors and their families in the share capital of the Company, are set out in the separate Report on Remuneration on pages 27 to 36. Details of indemnity provisions made for the benefit of directors are given in the Corporate Governance Report on pages 37 to 43.

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 41 days (2007: 37 days) and nil (2007: nil) for the Company.

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.

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 £425,000 (2007: £410,000). The Group made no political donations during the current and previous period.

Substantial shareholdings

As at 4 March 2009, the following substantial interests (3% or more) in the Company's share capital had been notified to the Company:

Standard Life Investments Ltd	18.52%
Hermes Focus Asset Management Ltd	15.09%
Deutsche Bank AG	8.02%
IFG Corporate Services (as Trustee of Galiform Employee Benefit Trust	4.59%
JM Finn & Co	4.42%
Legal & General Group Plc	4.20%
Classic Fund Management	4.09%
JO Hambro Capital Management	4.04%
Cazenove Capital Management	3.63%
Investec Asset Management	3.06%

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

Acquisition of the Company's own shares

At the end of the year, the directors had authority under the shareholders' resolutions of 16 May 2008 to purchase through the market 63,391,533 of the Company's ordinary shares at prices ranging between 10p and the higher of a) 105% of the average middle market quotation for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is purchased and b) an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the London Stock Exchange Trading System. The authority expires at the conclusion of the next AGM or 15 months from the date of passing.

Employees

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

At the year end, the Group had 5,782 employees throughout the United Kingdom and overseas and strives to engage its employees wherever possible in its business goals by means of regular regional and local staff meetings.

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. In keeping with the structure of the business, the Company is committed to applying this policy locally and, as a result, staff of all levels regularly benefit from achieving local targets throughout the year.

Directors' report

continued

The Board also recognises employees for their contribution through the use of employee incentive plans and share plans within overall remuneration.

The Group promotes the importance of diversity and adopts an Equal Opportunities Policy under which training and career development opportunities are available to all employees, regardless of gender, religion or race.

The Group is committed to meeting the code of practice on the employment of disabled people and full and fair consideration is given to disabled applicants for employment. It aims to do all that is practicable to meet its responsibility towards the employment and training of disabled people and welcomes and considers fully, applications by disabled persons, having regard to their particular aptitudes and abilities. It is also the Group's policy to retain employees who may become disabled while in service and to provide appropriate training.

Audit information and auditors

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

- So far as each of the directors is aware, there is no relevant audit information of which the Company's auditors are unaware.
- The directors have taken all the steps they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

On 1 December, Deloitte & Touche LLP changed its name to Deloitte LLP. Accordingly, Deloitte 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 UBS Investment Bank, 1 Finsbury Avenue, London, EC2M 2PP on 15 May 2009.

By order of the Board
Caroline Bishop
Secretary

4 March 2009

Directors' remuneration report

1 Summary of changes in the year

As market conditions deteriorated during 2008, it was prudent for the Board to review its aggressive growth strategy and the number of planned depot openings. In light of the strategic review, and after consulting with our largest shareholders, the Remuneration Committee decided to make the following changes to the annual profit share plan for 2008 to ensure executives' incentives remained aligned with the business strategy:

- For the first six months of the year, the bonus subject to pre-exceptional profit before taxation ("PBT") performance remained unchanged. (All references to the Group's PBT are before the impact of exceptional items as set out in the Group's income statement on page 44.)

- For the second half of the year, the bonus was amended and linked to a combination of PBT and Cash Flow targets. In respect of the PBT element, the original targets remained unchanged. However, a sliding scale was introduced between the threshold and maximum performance levels.

- No bonus (including the bonus for the first six months) would be paid in the event that the Company did not report a PBT for the full year.

- Payout of any bonus was also subject to a Return on Assets in excess of the Company's weighted average cost of capital.

- The higher of the bonus earned in respect of the first six months of the year or one third of the full-year bonus will be deferred into shares for three years.

The Remuneration Committee is currently reviewing all executive incentive plans for 2009. However, we envisage that some of the changes made last year including a continued focus on sustainable profitability, cash flow and deferring a significant proportion of annual bonuses into shares will remain appropriate for 2009. The Remuneration Committee is mindful of the current market conditions and sentiment and will consult with our largest shareholders prior to making any changes.

2 Compliance

This Report sets out information on the remuneration of the directors of Galiform Plc for the year ended 27 December 2008. It has been prepared in accordance with Schedule 7A of the Companies Act 1985 and meets the relevant requirements of the Listing Rules of the Financial Services Authority. We consider that we have complied with the disclosure recommendations contained in the:

- Directors' Remuneration Report Regulations 2002

- Guidelines of the Association of British Insurers on Executive Remuneration Policies and Practices

- 2006 Combined Code

The information in Part B of this report has been audited by Deloitte LLP.

We have structured the remuneration report in the following way:

Part A
- Executive remuneration in the year
- The Remuneration Committee
- Remuneration policy
- Components of executive directors' remuneration
- Non-executive remuneration

Part B
- Information subject to audit

Part A

3 The Remuneration Committee

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

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

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

The Committee met seven times during 2008 and attendance of the Committee is shown in the table in the Corporate Governance report. The meetings covered the following key areas:

- Review of the external competitiveness of executives' total reward package including salary.

- Review of entitlements under the 2008 Profit Share Plan.

- Review and agreement of pension arrangements including salary supplements in lieu of pension provided to executive directors.

- Review of incentives for 2008 and 2009 in light of the business strategy review.

Directors' remuneration report

continued

- Review and agreement of executive directors' service contracts and any termination payments.
- Review and agreement of the remuneration report to shareholders.
- Review and agreement of the Chairman's fees.

The Committee's Chairman ensures that the Group maintains timely dialogue with its principal shareholders on executive remuneration. During the year the Chairman consulted with shareholders on two key matters. Firstly the amendments to the annual bonus during the year and secondly the revised remuneration structure for 2009.

The Committee regularly consults with the Chief Executive on matters concerning remuneration, although he is never present when his own reward is under discussion. The Company Chairman attends the Remuneration Committee by invitation except when his own remuneration is determined. The Company Secretary acts as secretary to the Committee but is never present when her own reward is determined. The Committee received advice from Pricewaterhouse Coopers LLP ("PwC") during the year. PwC were appointed by the Committee and also provided tax advice to the Company during the year.

4 Remuneration policy for executive directors

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

The Committee determines policy for current and future years, which is reviewed on an annual basis. Galiform's remuneration policy is set out below.

- The remuneration package should be simple and support the transition of Galiform to maturity while continuing to encourage an entrepreneurial culture.
- Where possible, there should be a common and consistent remuneration policy throughout the business from the CEO down to the depot managers.
- Our policy is to position base salaries at the median level against companies of a similar size and complexity.
- Upper quartile levels of total remuneration should be available for truly superior performance with at least two-thirds of the executive directors' total reward being performance-related.
- Cash-based incentives that reward short-term performance are considered to be the most effective incentive but the overall reward policy should encourage executives to own and invest in Galiform shares and drive longer-term performance.
- Profit growth, which is well understood by the management team and very much within their control and influence, and cash management are considered to be the key performance drivers of shareholder value. The Company's strategic plans and profit growth targets are achievable, but still considered to be at the top-end of stretching performance.
- Executives are encouraged to invest in shares in the company and to build and maintain a shareholding of at least one times salary over a reasonable time frame (two times salary for the CEO).

5 Components of executive director remuneration

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

i Base salary

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

The Committee recognises that given changes in the market capitalisation of the Company over the last two years, salaries for the CEO and CFO are currently above the median of market practice and therefore outside the stated policy. It continues to be the intention of the Committee to bring these salaries into line with the policy over time through below market median increases. As a result and reflecting the current economic environment, executive director salaries for 2009 will be frozen at current 2008 salaries.

Executive director	Salary 2008	Increase on prior year	Salary 2009	Increase on prior year
Matthew Ingle	£538,000	2.5%	£538,000	–%
Mark Robson	£360,000	4.3%	£360,000	–%
Gerard Hughes*	£260,000	15.6%	n/a	n/a

*Gerard Hughes resigned from the Board on 27 December 2008. Due to his appointment to the Board in 2007 his base salary was increased significantly in 2008 to bring it in line with the median salary at that time.

ii Incentive arrangements

Profit Share Plan

The Profit Share Plan for executive directors and senior executives is a cash-based annual plan. For the first six months of the year bonuses were accrued to executive directors and senior executives in respect of the Group's Profit Before Tax ("PBT").

For the second part of the year, the bonus was amended (following consultation with shareholders) and linked to a combination of PBT and cash flow targets. In respect of the PBT element, the original targets were unchanged. No bonus (including the bonus for the first six months) could be paid in the event that the Company did not report a pre-exceptional profit before tax for the full year. Payout of any bonus was also subject to a Return on Assets in excess of the Company's weighted average cost of capital.

The following table shows the PBT targets for the awards for the main board executive directors during 2008:

PBT	M Ingle	M Robson and G Hughes
£68.2m	0.20%	0.15%
Vesting on a straight line basis between these points	–	–
£87.6m or greater	0.60%	0.45%

In respect of the cash flow element, executives could earn up to 50% of salary based on achieving pre-determined cash flow targets. 15% of salary was paid for achieving Threshold target with up to 50% of salary payable for achieving a Maximum target, with payments determined on a straight-line basis between these points. (No bonus was paid below Threshold.)

Cash flow targets were assessed again at the end of February 2009 to ensure that cash flow levels had been maintained beyond the December 2008 year end. Cash flow is defined as the difference between reported Net Debt at the end of the financial year and the beginning of the financial year.

The Group's performance against its financial targets, as it affected the payout of the bonus in respect of the performance year ending December 2008, is shown in the table below:

Key performance indicator	Actual performance in 2008	Bonus as % of salary M Ingle	M Robson	G Hughes
PBT	£74.3m	40%	45%	62%
Cash flow	£57.9m	50%	50%	50%
Total bonus earned*		90%	95%	112%

*The higher of the bonus earned in respect of the first six months of the year or one third of the full-year bonus will be deferred into shares for three years.

Directors' remuneration report

continued

Maximum Profit Share bonuses for any individual for the financial year ended 27 December 2008 were capped at 200%, but due to changes made to the plan during the year, the cap was reduced to what would have been awarded for achieving a PBT of £87.6m under the original Profit Share Plan (prior to any changes during the year).

The Committee will have the discretion to determine the plan targets for each award from year to year.

Co-Investment Plan ("CIP")

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

In 2008, executives invested up to their maximum investment for each award.

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

For the 2008 award under the plan running until the end of the financial year ending 31 December 2010, the following performance targets have been set:

- Each invested share can be matched with up to three free matching shares subject to the achievement of stretching before exceptionals PBT targets.

PBT Target (y/e Dec 2010)	Number of matching shares for each invested share
Less than £110 million	0 shares
£110 million	0.75 shares
Straight-line vesting between these two points	–
£135 million or greater	3 shares

- Additionally, each invested share can be matched with up to two free shares subject to Galiform's Total Share Holder Return ("TSR") being at least upper quartile relative to the FTSE 250 (excluding investment trusts).

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

The matching shares under the two performance measures vest independently of each other.

Share Option Plan Portfolio

The Company operates a share option plan which has three sections. Grants were last made to executive directors in 2007 under Part 3 of the plan. Part 1 of the Share Option Plan is a Her Majesty's Revenue and Customs ("HMRC") approved Plan under which £30,000 of options can be granted to any one individual participant. Under Part 2, the Committee has discretion to grant performance options to executives of up to two times salary subject to the achievement of performance conditions. Under Part 3, the Committee has discretion to grant Performance Options to executive directors of up to four times salary subject to the achievement of demanding and challenging performance targets. Under the plan rules awards may not be made under Part 2 and Part 3 in any one year.

The Share Option Plan is due to expire shortly and will be replaced on broadly similar terms subject to shareholder approval at the AGM in 2009. Certain plan rule provisions (i.e. change of control and leavers) will be brought into line with current corporate governance best practice.

Other existing arrangements

The following incentive plans (discretionary and all-employee) are also at the Committee's disposal. These plans were not operated in 2008.

Performance Share Plan ("PSP")

No awards have been made to directors under this plan since 2005. Conditional awards of shares equivalent to one times 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.

The PSP is due to expire shortly and will be replaced on broadly similar terms subject to shareholder approval at the AGM in 2009. Certain plan rule provisions (i.e. change of control and leavers) will be brought into line with current corporate governance best practice.

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. The last invitation to participate in this plan was made in 2003 when employees were invited to save up to a maximum of £60 per month.

iii Pensions

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

- The defined benefit pension accrues on a Career Average Revalued Earnings (CARE) basis at the rate of 1/50th of actual pensionable pay in each year (currently capped at £112,000); post-retirement increases are linked to the increase in the retail prices index with a maximum of 2.5%.

- In addition to the defined benefit section, the Company will match any voluntary member contribution made to the defined contribution top-up section to a maximum of 8%.

- Members contribute 8% of pensionable pay to the CARE plan.

- Life assurance cover of six times pensionable pay for those members with dependents and two times for those without dependents.

- Pension payable in the event of ill health.

- Spouse's pension on death in retirement of 2/3 of deceased's pension.

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

A pension supplement system operates concurrently with the Plan which recognises that pension entitlement in respect of the CARE part of the Plan has included maximum benefit restrictions (the "Plan Cap") which is currently £112,800 (being based on the previously applied Earnings Cap in 2006/7). This supplement is 30% of basic salary above the Plan Cap to reflect competitive market practice.

If a director chooses to opt out of membership of the pension plan because their total fund value from all their pension sources exceeds the new HMRC maximum fund value restrictions, then the supplement payment will be 30% of total Basic Salary. The CEO had a fully funded pension position in 2006 and hence has chosen to opt out of membership of the Plan and consequently receives this supplement. The Chief Financial Officer continues to participate in the Plan.

iv Service contracts

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

v External appointments

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

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

vi Non-executive directors' remuneration

Non-executive director appointments are for an initial period of three years. They are subject to re-appointment every three years, and annually after 9 years. Non-executive directors do not have contracts of service or notice periods and are not entitled to any form of compensation in the event of early termination for whatever reason.

Directors' remuneration report

continued

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. It is intended that a review will be conducted in 2009 to ensure that remuneration for non-executive directors reflects the time commitment and responsibilities of their roles.

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

Part B

6 The table below summarises total directors' remuneration:

	2008 £000	2007 £000
Emoluments	3,162	1,649
Gains on exercise of share options	–	9
Employer pension contributions	132	126
Total	3,294	1,784

7 Directors remuneration

The following table sets out the directors' emoluments for the 52 weeks to 27 December 2008.

	Basic Salary £000	Fees £000	Benefits[3] £000	Annual cash incentive £000	Compensation £000	Pension supplement[4] £000	52 weeks to 27 Dec 2008 £000	52 weeks to 29 Dec 2007 £000
Chairman								
Will Samuel	–	170	–	–	–	–	170	170
Executive directors								
Matthew Ingle[1]	538	–	18	484	–	161	1,201	1,050
Mark Robson[1]	321	–	27	342	–	73	763	404
Gerard Hughes[2]	230	–	24	291	264	43	852	195
Sub-total	1,089	170	69	1,117	264	277	2,986	1,819
Non-executive directors								
Angus Cockburn	–	48	–	–	–	–	48	46
Michael Wemms	–	48	–	–	–	–	48	46
Ian Smith	–	40	–	–	–	–	40	40
Peter Wallis	–	40	–	–	–	–	40	40
Total	1,089	346	69	1,117	264	277	3,162	1,991

1 A third of the annual cash incentive for Messrs Robson & Ingle will be deferred into shares and held in trust for a further three years.

2 Gerard Hughes ceased to be a Director on 27 December 2008 and the basic salary column above reflects his remuneration up to the date of leaving the Board. The compensation figure comprises fees paid in accordance with Galiform's obligations to make payments in lieu of notice and other contractual commitments to the value of £264,000.

3 The benefits column incorporates benefits in kind which relate in the main to the provision of a fully expensed car or cash equivalent, private medical cover and use of the company driver.
4 Pension supplements are paid every six months in arrears and the next payment is due in March 2009. The table above includes an accrued amount for the period from 1 October 2008 to 27 December 2008. Further details of the Pension Supplement Plan are given on page 31.
5 Employee pension contributions are made on a salary sacrifice basis. Therefore the Basic Salary figures noted are lower for Mark Robson and Gerard Hughes to take account of that.

8 Directors' shareholdings

The beneficial interests of the directors in office on 27 December 2008 and their families in the share capital of the Company are as follows:

	Ordinary shares of 10p each	
	27 December 2008	29 December 2007
Angus Cockburn	3,000	3,000
Matthew Ingle	1,178,339	1,077,549
Gerard Hughes	217,240	191,852
Mark Robson	132,385	–
Will Samuel	40,000	40,000
Ian Smith	154,110	10,000
Michael Wemms	7,000	7,000
	1,732,074	1,329,401

Changes to the directors' interests shown above since 27 December 2008 and the publication of the Company's preliminary results announcement on 5 March 2009 are as follows:

- Matthew Ingle: 1,709,339 following a release of 531,000 shares from the 2006 Foundation Plan on 31 December 2008.
- Mark Robson: 471,635 following a release of 339,250 shares from the 2006 Foundation Plan on 31 December 2008.
- Michael Wemms: 42,000 following a purchase of 35,000 shares on 30 December 2008.
- Gerard Hughes: 1,687,740 following release of 1,045,710 shares in respect of a 3:1 match against shares invested in the 2007 Co-Investment Plan, 212,390 shares released from Trust in respect of a deferral of the 2007 cash incentive and 212,400 shares released from the 2006 Foundation Plan. All the above were released on 31 December 2008.

Directors' remuneration report

continued

9 Share options

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

Director	Scheme interest at 29 Dec 2007	Awarded	Lapsed / Expired unexercised	Exercisd	At 27 Dec 2008	Exercisd price (pence)	Earliest date of exercise	Expiry date
Matthew Ingle								
2000 Share Option Plan (Section 3)	450,902	–	–	–	450,902	124.74	30 May 2004	29 May 2011
Sharesave Scheme	2,067	–	(2,067)	–	–	184.00	1 Dec 2008	30 April 2009
2000 Share Option Plan (Section 3)	275,483	–	–	–	275,483	106.50	26 May 2008	26 May 2015
Foundation Plan 2006	1,194,032	–	–	–	1,194,032	92.00	31 Dec 2008	31 Dec 2009
2000 Share Option Plan (Section 3)	1,324,921	–	–	–	1,324,921	158.5	18 May 2010	18 May 2017
Mark Robson								
2000 Share Option Plan (Section 3)	191,388	–	–	–	191,388	106.50	26 May 2008	26 May 2015
Foundation Plan 2006	716,419	–	–	–	716,419	92.00	31 Dec 2008	31 Dec 2009
2000 Share Option Plan (Section 3)	870,662	–	–	–	870,662	158.5	18 May 2010	18 May 2017
Gerard Hughes								
2000 Share Option Plan (Section 3)	136,882	–	–	–	136,882	131.5	12 June 2004	31 Dec 2009
Sharesave Scheme	2,067	–	(2,067)	–	–	184.00	1 Dec 2008	30 April 2009
2000 Share Option Plan (Section 3)	46,324	–	–	–	46,324	106.50	26 May 2008	31 Dec 2009
Foundation Plan 2006	477,613	–	–	–	477,613	92.00	31 Dec 2008	31 Dec 2009
2000 Share Option Plan (Section 3)	567,823	–	–	–	567,823	158.5	31 Dec 2008	31 Dec 2009
	6,256,583	–	(4,134)	–	6,252,449			

1 The options outstanding are exercisable at prices between 92 pence and 184 pence. In the period the highest middle market closing price was 90.75 pence per share and the lowest middle market closing price was 13.25 pence per share. The middle market price on 24 December 2008 (the last business day before the financial year end) was 14.5 pence per share.

2 Options granted under Section 3 of the 2000 Share Option Plan Portfolio are not normally exercisable unless challenging targets are met. These options have been divided into the following performance conditions:

- For the options granted in 2001, 50% of the award vested if EPS growth of 60% was achieved over the performance period, and 100% vested if EPS growth of 120% was achieved over the performance period.
- For the options granted in 2005 40% of the option became 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 lapsed on 26 May 2008 to the extent that these targets were not satisfied. Targets are not restated.
- For the options granted in 2007, 20% of the options will vest if the share price over 30 consecutive dealing days is 185 pence rising on a straight line basis to 100% vesting if the share price over 30 consecutive days reaches 265 pence. Underpinning this is a requirement to achieve 20% annual compound growth over the performance period.

3 For awards of market value options granted under the Foundation Plan 2006, vesting was dependant upon the achievement of a share price hurdle over thirty consecutive dealing days and subject to an improvement in underlying financial performance of the Company over the financial year commencing 25 December 2005. Thirty five percent of the award vested if the share price achieved 115 pence over thirty consecutive dealing days and 100% of the award vested if the share price achieves 160 pence over thirty consecutive dealing days. The award vested on a straight line basis between these two points. Vested awards can be exercised for a 12 month period commencing on 31 December 2008.

4 The award granted to Gerard Hughes in 2007 under the 2000 Share Option Plan (Section 3) was deemed to vest on 31 December 2008. Any vested options must be exercised within 12 months.

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

Director	Scheme interest at 29 Dec 2007	Awarded	End of the period for qualifying conditions to be fulfilled	Lapsed / Expired	Vested	At 27 Dec 2008
Matthew Ingle						
Foundation Plan 2006*	900,000	–	31-Dec-08	–	(900,000)	–
Foundation Plan 2007	407,143	–	31-Dec-09	–	–	407,143
Deferred Bonus	170,831	–	28-Mar-08	–	(170,831)	–
Deferred Bonus	191,167	–	13-Mar-09	–	–	191,167
Deferred Bonus	125,151	–	26-Mar-10	–	–	125,151
2007 Co-investment Plan	3,250,000	–	12-Oct-10	–	–	3,250,000
Mark Robson						
Foundation Plan 2006*	575,000	–	31-Dec-08	–	(575,000)	–
Foundation Plan 2007	260,119	–	31-Dec-09	–	–	260,119
Deferred Bonus	94,628	–	13-Mar-09	–	–	94,628
Deferred Bonus	61,950	–	26-Mar-10	–	–	61,950
2007 Co-investment Plan	2,600,000	–	12-Oct-10	–	–	2,600,000
Gerard Hughes						
Foundation Plan 2006*	360,000	–	31-Dec-08	–	(360,000)	–
Foundation Plan 2007	260,119	–	31-Dec-09	–	–	260,119
2007 Co-investment Plan*	1,560,000	–	31-Dec-08	–	(1,560,000)	–
2007 Co-investment Plan	1,040,000	–	31-Dec-09	(519,762)	–	520,238
	11,856,108	–		(519,762)	(3,565,831)	7,770,515

* Shares shown as vested above were released on 31 December 2008

1 For awards of nil-cost options granted under the Foundation Plan 2006, vesting was dependant upon the achievement of a share price hurdle over thirty consecutive dealing days and subject to an improvement in underlying financial performance of the Company over the financial year commencing 25 December 2005. Thirty five percent of the award vested if the share price achieved 95 pence over thirty consecutive dealing days and 100% of the award vested if the share price achieved 125 pence over thirty consecutive dealing days. The award vested on a straight line basis between these two points.

2 For awards of nil-cost options granted under the Foundation Plan 2007, vesting was dependant upon the achievement of a share price hurdle over thirty consecutive dealing days and an underlying profit target of £65 million for the year being met. Twenty percent of the award vests if the share price achieves 150 pence over thirty consecutive dealing days and 100% of the award vests if the share price achieves 185 pence over thirty consecutive dealing days. The award vests on a straight line basis between these two points.

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

4 A modification was made during the year to the award made to Gerard Hughes in 2007 under the Co-Investment Plan 2007. His performance conditions were varied, so that each invested share will be matched by an award of up to three matching shares for specific strategic targets for the period ending 27 December 2008. The strategic targets were in respect of dealing with legacy MFI issues to the satisfaction of the Board prior to his departure. A further match of up to two shares will be made subject to achieving a PBT target during the year ending 31 December 2009.

Directors' remuneration report

continued

11 Executive directors' pensions

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

	Transfer value at 29 Dec 2007 £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 27 Dec 2008 £000	Transfer value at 27 Dec 2008 £000
Matthew Ingle	661.2	–	2.0	2.0	–	74.4	74.4	–	41.9	735.6
Mark Robson	107.6	2.2	0.2	2.4	26.6	11.0	37.6	–	10.4	145.2
Gerard Hughes	252.8	2.0	1.0	3.0	24.5	18.2	42.7	–	24.5	295.5

1 Matthew Ingle opted out of the pension plan on the 5th April 2006 and consequently receives a 30% salary supplement from this date. Both Mark Robson and Gerard Hughes receive a salary supplement of 30% on basic earnings over and above the earnings cap.

2 Employee pension contributions are paid on a Salary Sacrifice basis and therefore aggregate pension costs paid by the Company in respect of the directors' qualifying services were £132,024 (2007 – £126,822). The amount paid in respect of the highest paid director was £74,012 (2007: £75,411).

Name	Date pensionable service commenced	Pensionable service (complete years and months)
Matthew Ingle	12 April 1995	10 years 11 months
Mark Robson	12 April 2005	3 years 8 months
Gerard Hughes	1 May 2000	8 years 7 months

12 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	No of Shares
Matthew Ingle	311

13 Directors' Remuneration Report Regulations 2002

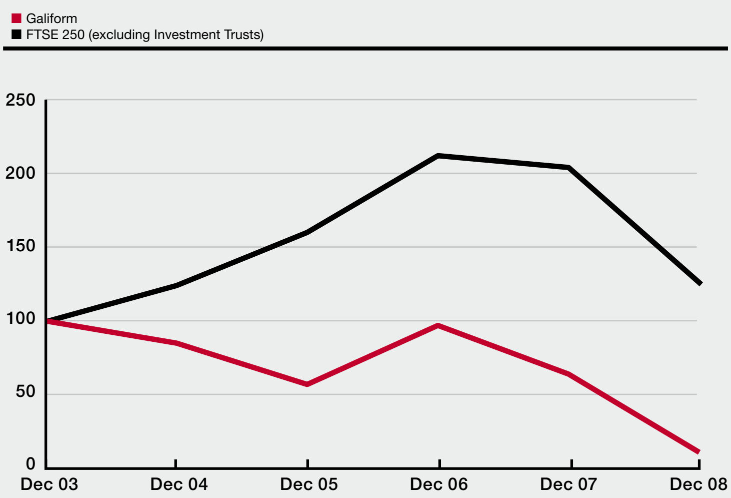
Under the Directors' Remuneration Report Regulations 2002 ("the Regulators") the Company is required to include in this report a graph showing the Company's total shareholder return (TSR) performance over the most recent 5 years compared to an appropriate index. The graph illustrates the Company's TSR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

By order of the Board

Caroline Bishop
Secretary

4 March 2009

Galiform 5 year TSR performance



Source from datastream

Corporate governance report

Statement of compliance

The Board is committed to high standards of corporate governance and supports the principles of the Combined Code on Corporate Governance that was issued in 2006 by the Financial Reporting Council ("the Combined Code" or "Code"). Throughout the year ended 27 December 2008, the Company has complied with the provisions set out in section 1 of the Code, including both the main and supporting principles. Further explanation of how the principles and supporting principles have been applied is set out below and in the Directors' Remuneration Report.

Organisational structure

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

The primary purpose of the Board is to ensure that the needs and aspirations of all stakeholders are satisfied. The Board seeks to achieve this through the development of a balanced strategy which serves the interests of the stakeholders. The Board's role is to set the context for the business, 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.

The Board holds regular meetings and receives accurate and timely information. During 2008, the Board held seven formal Board meetings and a number of other meetings and teleconferences to discuss and review progress on issues affecting the Company during the year. In addition to the regular Board meetings, information is circulated to the directors outside of these meetings. The Chairman meets with the non-executive directors twice a year without the executive directors being present.

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

Gerard Hughes resigned from the Board in December 2008 following completion of the transitional obligations which remained from the sale of the MFI business in 2006. There was no change to the composition of the Board Committees.

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

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

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

The separate roles of the Chairman and Chief Executive 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 for the satisfactory execution of the strategy agreed by the Board working with his colleagues on the Executive Committee. Appropriate induction (as described below in the section on the Nominations Committee) and training is available to all directors. Biographical details of the directors are given on page 23.

In accordance with the Code, 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 112. The terms of reference are available on request from the Company Secretary and on the Company's website www.galiform.com.

In addition to these standing committees, the Group has an Executive Committee comprising those members detailed on page 112.

Corporate governance report

continued

The principal purpose of the Committee, which meets weekly, is the implementation of the Group's strategy and operational plans. The Committee monitors the operational and financial performance of the business on a divisional basis, as well as being responsible for the optimisation of resources and the identification and control of risk within the Group.

The Board has adopted a formal process for reviewing its own effectiveness. During the year, a formal evaluation of the Board's performance was carried out with the assistance of an external, independent facilitator. The process included detailed interviews with each member of the Board, based on a previously circulated questionnaire that addressed key topics.

These included:

- the composition of the Board;
- the extent and quality of information provided to the Board;
- the conduct of Board meetings and processes;
- the extent to which the Board engages in strategic planning;
- the performance of the Chairman, of Board committees and of individual members;
- the openness of communications, including with shareholders and with senior management; and
- the quality of debate within the Board.

In addition, perceptions of the Board's interactions with key audiences were sought from a cross-section of shareholders and advisors who had had close contact with the Board over the year.

The report of the evaluation was presented to the Board by the facilitator in February 2009. The Board accepted the report and its recommendations.

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

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 table below 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.

Audit committee

Composition of the Audit Committee

In compliance with the Code, the Audit Committee currently consists of four independent non-executive directors: Angus Cockburn, Ian Smith, Peter Wallis and Michael Wemms. It has been chaired since 6 March 2007 by Angus Cockburn who, as a qualified chartered accountant and Group Finance Director of Aggreko plc, fulfils the Committee's requirement to include one financially qualified member. Appointments to the Committee are for a period of three years and are extendable by no more than two additional three year periods.

The Audit Committee's terms of reference include all matters indicated

	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	–	–	–	–	3	3
Angus Cockburn	7	7	3	3	7	7	3	3
Gerard Hughes	7	7	–	–	–	–	–	–
Matthew Ingle	7	7	–	–	–	–	–	–
Mark Robson	7	6	–	–	–	–	–	–
Ian Smith	7	7	3	3	7	6	3	3
Peter Wallis	7	7	3	3	7	7	3	3
Michael Wemms	7	7	3	3	7	7	3	3

by Disclosure and Transparency Rule 7.1 and the Combined Code. The terms of reference are considered annually by the Committee and are then referred to the Board for approval.

The Audit Committee met three times in 2008 and has an agenda linked to the events in the Group's financial calendar. The Audit Committee invites the Chief Executive, the Chief Financial Officer, the Group Financial Controller, Head of Internal Audit and senior representatives of the external auditors to attend all of its meetings in full, although it reserves the right to request any of these individuals to withdraw. Other members of senior management are invited to present such reports as are required for the Committee to discharge its duties.

Summary of the role of the Audit 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.

The Audit Committee is responsible for:

- Monitoring the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial performance and reviewing significant financial reporting judgements contained therein.
- Reviewing the Company's internal financial controls and the Group's internal control systems, with the Board as a whole responsible for reviewing the Group's risk management systems.
- Monitoring and reviewing the effectiveness of the Company's internal audit function.
- Making recommendations to the Board in relation to the appointment of the external auditor and approving the remuneration and terms of engagement of the external auditor.
- Reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements.
- Developing and implementing a policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm.

The Audit Committee is also responsible for reporting to the Board, identifying any matters in respect of which it considers that action or improvement is needed, and making recommendations as to the steps to be taken.

Overview of the actions taken by the Audit Committee to discharge its duties

During the year, the Committee discharged its responsibilities through the following activities:

- Reviewing the Group's 2007 annual report and financial statements, the half yearly financial report and the interim management statements.
- Reviewing the effectiveness of the Group's internal financial controls, with specific reference to controls used on a divisional basis including a review of staffing, divisional controls and procedures.
- Receiving reports from the external auditors on the conduct of their audit, their review of accounting policies, areas of judgement and their comments on risks and controls.
- Review of the proposed plan of work presented by the external auditors in respect of the year end audit, including terms of engagement and fees.
- Review of the Group's policy on the engagement of the external auditor for non-audit work.
- Reviewing the effectiveness of the external auditors, including consideration of the independence of the external auditors, Deloitte's own quality control procedures and their annual transparency report.
- Evaluating the performance of the Internal Audit function and agreeing with that function, a programme of work.
- Receiving reports from the Internal Audit function on its work and monitoring the status of actions taken in response to its findings.
- Review of business continuity planning and disaster recovery with specific reference to IT related projects.
- Review of its own effectiveness as part of the Board's evaluation process.
- Review of the Committee's terms of reference and recommendation of minor changes to the Board.

External auditors

The Committee recognises that auditor independence is an essential part of the audit framework and the assurance it provides. The Committee is responsible for the development, implementation and monitoring of the Group's policy on external audit.

Corporate governance report

continued

The current policy sets out the categories of non-audit services which the external auditors will and will not be allowed to provide to the Group, subject to de minimis levels. Details of Deloitte's fees for audit and non-audit work during 2008 are included on page 57.

To fulfil its responsibility regarding the independence of the external auditors, the Committee has, during the year:

- Reviewed the independence of the external auditors and the arrangements which Deloitte's have in place to identify, report and manage conflicts of interest.
- Reviewed changes in key external audit staff for the current year and the arrangements for the day to day management of the audit relationship.
- Considered the effectiveness of the external auditors through a review of their plan of work and the outputs arising from the audit.
- Considered the overall extent of non-audit services provided by the external auditors.

As a result of its work above, and taking into account the tenure of the auditors, the Committee has recommended to the Board that a proposal be put to the shareholders at the Annual General Meeting that Deloitte LLP be re-appointed as external auditors and that the Directors be authorised to fix their remuneration.

Internal audit

The audit committee is required to assist the Board to fulfil its responsibilities relating to the adequacy of resourcing and plans of the internal audit department. During the year, the Committee reviewed:

- Internal audit's programme of work and progress made against planned activity.
- Results of key audits and other significant findings including the adequacy and timeliness of management's response.
- Staffing, reporting and effectiveness of divisional audits.

The Group's Whistleblowing Policy contains arrangements for the Head of Internal Audit to receive, in confidence, complaints on accounting, risk issues, internal controls, auditing issues and related matters for reporting to the audit committee as appropriate.

The Chairman of the Audit Committee will be available at the Annual General Meeting to answer any questions about the work of the Committee.

Remuneration committee

The Remuneration Committee currently consists of four independent non-executive directors and is chaired by Michael Wemms. Its composition during the year is described in the Remuneration Report on pages 27 to 36. 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, the Company Secretary and the Company's internal Human Resources function. Full details of the Committee's work are contained in the Remuneration report which is incorporated in this Corporate Governance report by reference. This report includes details on remuneration policy, terms of appointment, and the remuneration of executive directors.

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

During 2008, the Committee met seven 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 size, composition and structure of the Board, including succession, and makes recommendations to the Board for all new appointments and re-appointments.

During 2008, the Nominations Committee met three times to consider:

- The re-appointment of directors at the 2008 AGM.
- The engagement of external consultants to conduct the Board evaluation process.
- A general review of succession planning.
- The resignation of Gerard Hughes as Group Commercial Director and the resulting structure and composition of the Board.

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

Relations with shareholders

The Company considers its relationship with both institutional and private investors to be important and readily enters into dialogue with investors. The Company has consulted extensively with its principal shareholders in the course of 2008 in relation to the ongoing progress of the Company and also in relation to identifying appropriate executive incentive arrangements to reflect the changing business profile of the Company. The Senior Independent Director makes himself available for meetings with shareholders as required. An investor relations website (www.galiform.com) provides an ideal channel for communication with existing and potential investors. The Annual General Meeting provides an opportunity for shareholders to put their questions to the directors.

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

Risk and internal control

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness, whilst the role of management is to implement Board policies on risk and control. Such a system is, however, designed to manage rather than eliminate the risks of failure to achieve business objectives. In pursuing these objectives, internal controls can only provide reasonable assurance against 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 guidance on the wider aspects of internal control in September 1999 which was further revised in October 2005 (the Turnbull Guidance). The Board has conducted reviews of the effectiveness of the system of internal controls through the processes described below. During the course of its review of the system of internal control, the Board has not identified or been advised of any failings or weaknesses which it has determined to be significant therefore a confirmation in respect of necessary actions has not been considered appropriate.

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 2008 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 Chief Financial Officer 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 Committee to review the effectiveness of the risk management process and internal controls on behalf of the Board. The Executive Committee 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 division 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 division 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 Committee. The Executive Committee then reviews the key risks to assess the effectiveness of the risk management strategies.

- The senior executive team within each division 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 Executive Committee.

- Key generic risks and their management are regularly reported to and discussed at the Executive Committee.

Corporate governance report

continued

- A review of the risk process and key risks arising, are formally discussed by the Group Board every six months.

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

- The Board reviews the strategies of the divisions and the executive management are accountable for their 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

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Chairman's statement on pages 3 to 4, the Chief Executive's statement on pages 5 to 9 and the Review of Operations and Finance on pages 10 to 17. The Review of Operations and Finance describes the financial position of the Group, its cash flows, liquidity position, borrowing facilities, and the Group's objectives, policies and processes for managing its commercial and financial risks. The Group's financial risk management objectives and its exposures to credit risk and liquidity risk in relation to financial instruments are described in note 33.

As highlighted in note 23 to the financial statements, the Group meets its day to day working capital requirements through an asset backed lending facility which is due for renewal in May 2011. The current economic conditions create uncertainty particularly over (a) the level of demand for the Group's products and (b) the exchange rate between sterling and both the Euro and the US dollar which would impact the cost of the Group's operations.

The Group's forecasts and projections have been stress-tested for reasonably possible adverse variations in trading performance. The results of this testing show that the Group should be able to operate within the level of its current facility and covenants. The Group's banking facility expires in May 2011 so at this stage the Group has not sought any written commitment that the facility will be renewed. We will open renewal negotiations with the bank in due course.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report, Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. The directors are required by the IAS Regulation to prepare the Group financial statements under IFRSs (IFRSs) as adopted by the European Union. The Group financial statements are also required by law to be properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

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

- Properly select and apply accounting policies.

- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.

- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

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

- Select suitable accounting policies and then apply them consistently.
- Make judgments and estimates that are reasonable and prudent.
- State whether applicable UK Accounting Standards have been followed 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' Responsibility Statement

We confirm to the best of our knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings including the consolidation taken as a whole.
- The review of operations and finance along with other documents which are incorporated into the directors' report, together include a fair review of the development and performance of the business and the position of the Company and the undertakings including the consolidation taken as a whole together with a description of the principal risks and uncertainties they face.

By order of the Board

M Ingle
Chief Executive

M Robson
Chief Financial Officer

4 March 2009

Consolidated income statement

	Notes	52 weeks to 27 December 2008 Before exceptional items £m	Exceptional items (note 6) £m	Total £m	52 weeks to 29 December 2007 Before exceptional items £m	Exceptional items (note 6) £m	Total £m
Continuing operations:							
Revenue	4	805.7	–	805.7	976.5	–	976.5
Cost of sales		(378.2)	1.0	(377.2)	(520.3)	(6.9)	(527.2)
Gross profit		427.5	1.0	428.5	456.2	(6.9)	449.3
Other operating income/(expenses)		–	1.9	1.9	–	(6.3)	(6.3)
Selling & distribution costs		(298.3)	1.5	(296.8)	(307.5)	(15.6)	(323.1)
Administrative expenses		(53.4)	0.4	(53.0)	(61.5)	(6.6)	(68.1)
Share of joint venture profits		0.1	–	0.1	0.9	–	0.9
Operating profit	7	75.9	4.8	80.7	88.1	(35.4)	52.7
Finance income	9	1.4	–	1.4	1.3	–	1.3
Finance expense	10	(6.3)	–	(6.3)	(9.9)	–	(9.9)
Other finance income - pensions	9	3.3	–	3.3	0.3	–	0.3
Profit before tax from continuing operations		74.3	4.8	79.1	79.8	(35.4)	44.4
Tax on profit from continuing operations	11	(23.3)	(0.8)	(24.1)	(25.5)	34.0	8.5
Profit after tax from continuing operations		51.0	4.0	55.0	54.3	(1.4)	52.9
Discontinued operations:							
Loss before tax from discontinued operations	12	–	(108.8)	(108.8)	–	(11.1)	(11.1)
Tax on loss from discontinued operations	11	–	2.6	2.6	–	2.1	2.1
Loss after tax from discontinued operations	12	–	(106.2)	(106.2)	–	(9.0)	(9.0)
Profit/(loss) for the period attributable to the equity holders of the parent		51.0	(102.2)	(51.2)	54.3	(10.4)	43.9
Earnings per share:							
From continuing operations							
Basic earnings per 10p share	13			9.2p			8.8p
Diluted earnings per 10p share	13			9.0p			8.6p
From continuing and discontinued operations							
Basic (loss)/earnings per 10p share	13			(8.6)p			7.3p
Diluted (loss)/earnings per 10p share	13			(8.4)p			7.2p

Consolidated balance sheet

	Notes	27 December 2008 £m	29 December 2007 £m
Non-current assets			
Goodwill	15	2.5	–
Other intangible assets	16	6.2	2.5
Property, plant and equipment	17	89.4	91.2
Investments	18	4.0	10.1
Deferred tax asset	19	52.6	45.6
		154.7	149.4
Current assets			
Inventories	20	121.3	101.0
Trade and other receivables	21	99.2	122.3
Other assets	21	1.3	2.4
Cash at bank and in hand	21	21.2	33.6
		243.0	259.3
Total assets classified as held for sale	17 (a)	1.0	3.1
Total assets		398.7	411.8
Current liabilities			
Trade and other payables	22	(120.4)	(201.1)
Current tax liability		(4.9)	(8.5)
Current borrowings	23	(3.4)	(3.3)
		(128.7)	(212.9)
Non-current liabilities			
Non-current borrowings	23	(80.3)	(36.0)
Pension liability	24	(122.2)	(83.5)
Deferred tax liability	19	(5.5)	(2.9)
Provisions	25	(119.8)	(39.4)
		(327.8)	(161.8)
Total liabilities		(456.5)	(374.7)
Net (liabilities)/assets		(57.8)	37.1
Equity			
Called up share capital	26	63.4	63.4
Share premium account	27	85.1	85.0
ESOP reserve	27	(27.1)	(32.6)
Other reserves	27	28.1	28.1
Retained loss	27	(207.3)	(106.8)
Total (deficit)/equity		(57.8)	37.1

These financial statements were approved by the Board on 4 March 2009 and were signed on its behalf by Mark Robson, director.

Consolidated cash flow statement

	Notes	52 weeks to 27 December 2008 £m	52 weeks to 29 December 2007 £m
Net cash flows from operating activities	28	(37.8)	25.7
Cash flows used in investing activities			
Interest received		1.5	1.3
Cash flow from acquisition	34	3.2	–
Repayment of investment		4.0	–
Payments to acquire property, plant and equipment and intangible assets		(19.4)	(21.2)
Dividend received from joint ventures		–	0.5
Receipts from sale of property, plant and equipment and intangible assets		3.5	–
Net cash used in investing activities		(7.2)	(19.4)
Cash flows from financing activities			
Interest paid		(8.5)	(8.4)
Receipts from issue of share capital		0.1	1.5
Receipts from release of shares from share trust		–	4.9
Increase/(decrease) in loans		44.1	(24.3)
Repayment of capital element of obligations under finance leases		(1.2)	(0.3)
Decrease in other assets		1.1	0.7
Dividends paid to Group shareholders		(3.0)	–
Net cash generated from/(used in) financing activities		32.6	(25.9)
Net decrease in cash and cash equivalents		(12.4)	(19.6)
Cash and cash equivalents at beginning of period		33.6	53.2
Cash and cash equivalents at end of period	28	21.2	33.6

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 operating activities are shown in note 28. There are no cash flows from discontinued investing or financing activities.

Consolidated statement of recognised income and expense

	52 weeks to 27 December 2008 £m	52 weeks to 29 December 2007 £m
Actuarial (losses)/gains on defined benefit pension schemes	(66.3)	87.2
Deferred tax on actuarial loss/(gain) on defined benefit pension schemes	18.6	(26.1)
Effect of change in tax rate on deferred tax on actuarial gains/losses	–	(3.6)
Currency translation differences	1.4	1.1
Net (expense)/income recognised directly in equity	(46.3)	58.6
(Loss)/profit for the financial period	(51.2)	43.9
Total recognised income and expense for the period attributable to equity holders of the parent	(97.5)	102.5

Notes to the consolidated financial statements

1 General information

Galiform Plc is a company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given in the shareholder information on page 109. The nature of the Group's operations and principal activities are set out in note 5, and in the review of operations and finance on pages 10 to 17.

2 Significant accounting policies

Basis of presentation

The Group's accounting period covers the 52 weeks to 27 December 2008. The comparative period covered the 52 weeks to 29 December 2007.

Statement of compliance and basis of accounting

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

The financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments, and on the going concern basis, as described in the going concern statement in the Corporate Governance Report on page 42. The principal accounting policies are set out below.

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

- IFRS 8 "Operating segments"
- IAS 1 "Presentation of Financial Statements (revised)"
- IFRS 3 "Business Combinations"
- IFRIC 10 "Interim reporting and impairments"
- IFRIC 11 "IFRS2 – Group and Treasury Share transactions"
- IFRIC 12 "Service commission agreements"
- IFRIC 13 "Customer Loyalty Programmes"
- IFRIC 14 "The Limit on a Defined Benefit Asseet, Minimum Funding Requirements and their Interaction"
- IFRIC 15 "Agreements for the Contruction of Real Estate"
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"
- Amendments to IFRS 1 and IAS 27 "Cost of an Investment in Subsidiary"
- Amendments to IAS 23 "Borrowing Costs"
- Amendments to IAS 27 "Consolidated and Separate Financial Statements"
- Amendments to IAS 1 "Presentation of Financial Statements: A revised presentation"
- Amendments to IFRS 2 "Share-based payment: vesting conditions and cancellations"
- Amendments to IAS 32 and IAS 1 "Puttable financial instruments and obligations arising on liquidation"
- Improvements to IFRSs
- IAS 39 "Financial Instruments Recognition and Measurement: Eligible Hedged Items"

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 when the relevant standards come into effect for periods commencing on or after 1 January 2009.

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. Control is achieved where the Group has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

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

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

Joint ventures

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

Business combinations

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

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

Foreign currencies

Foreign currency transactions

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

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

Exchange differences arising from the translation of the results and net assets of overseas subsidiaries are taken to equity via the Statement of Recognised Income and Expense.

Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

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

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

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

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

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

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

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

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

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

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

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

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

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

Investments
Investments are stated at cost less any provision for impairment.

Goodwill
Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units which is expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of an subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

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

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

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

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

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

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

Capital work in progress is not depreciated.

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.

Apart from in the case of trade and other receivables, 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.

For trade and other receivables which are considered to be impaired, the carrying amount is reduced through the use of an allowance for estimated irrecoverable amounts. Changes in the carrying value of this allowance 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 are classified as held for sale if their carrying amount will be recovered through a sale transasction rather than through continuing use. 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. No depreciation is charged on non-current assets classifies as held for sale.

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.

Discontinued operations
Cash flows and operations that relate to a major component of the business or geographical region that has been sold or is classified as held for sale are shown separately from continuing operations.

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 a defined benefit pension scheme. The Group's net obligation in respect of the defined benefit pension scheme 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
IFRS7: "Financial Instruments: Disclosures" was adopted in the current period.

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. Such allowances are raised based on an assessment of debtor ageing, past experience, or known customer circumstances.

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

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

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

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

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

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

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

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

Other payables
Other payables are stated at their fair value.

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

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

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

3 Judgements and estimates

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

Impairment of assets

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

Post-employment benefits

The Group operates various defined benefit schemes for its employees. The present value of the schemes' liabilities recognised at the balance sheet date is dependent on interest rates of high quality corporate bonds. The net financing charge recognised in the income statement is dependent on the interest rate of high quality corporate bonds and an expectation of the weighted average returns on the assets within the schemes. Other key assumptions within this calculation are based on market conditions or estimates of future events, including mortality rates, as set out in note 24.

Provisions

Descriptions of the provisions held at period end are given at Note 25. These provisions are estimates and the actual costs and timing of future cash flows are dependent on future events. Any difference between expectations and the actual future liability is accounted for in the period when such determination is made.

The property provisions require judgement and estimation in determining management's best estimate of the following main areas: the length of time it might take to find a tenant for a vacant property; the amount which the landlord of a property may accept as a lump sum in order to release the Group from its future obligations; the amount and timing of likely future increases in rent and other property costs; the extent, and hence the likely cost, of any associated legal and professional advice which will be required; future maintenance costs and dilapidations; and an estimate of future costs of capital in order to arrive at a suitable discount rate.

Income taxes

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

Allowances against the carrying value of inventories

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

Allowances against the carrying value of trade receivables

Using information available at the balance sheet date, the Group reviews its accounts receivable balances and makes judgements based on an assessment of debt ageing, past experience, or known customer circumstances in order to determine the appropriate level of allowance required to account for potential uncollectable trade receivables.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which the goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date, together with details of any impairment loss and details of the impairment loss calculation are included in the relevant note to the accounts.

4 Revenue

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

	52 weeks to 27 December 2008 £m	52 weeks to 29 December 2007 £m
Continuing operations		
Sales of goods	805.7	976.5
Finance income	1.4	1.3
Total revenue	807.1	977.8

There is no revenue from discontinued operations.

5 Segmental reporting

Primary segmental reporting: business segments

(a) Change in basis of segmentation

On the first day of the current period, the trade and assets of Howden Kitchens, the entity which historically carried out the Group's supply and sourcing, were transferred to Howden Joinery Limited, the entity which previously sold kitchen and joinery products to the building trade. In previous periods, the business carried out by Howden Kitchens was treated as a separate operating segment, which was formerly called Supply. The Group now operates and reports as one business segment, Howden Joinery. Segmental information for previous periods has been represented on the new basis of segmentation.

(b) External revenue

	52 weeks to 27 December 2008 £m	52 weeks to 29 December 2007 £m
Continuing operations:		
Total revenue – Howden Joinery	805.7	976.5

(c) Result

	52 weeks to 27 December 2008 £m	52 weeks to 29 December 2007 £m
Continuing operations:		
Howden Joinery – result before exceptional items	75.9	88.1
Exceptional items – continuing operations	4.8	(35.4)
Total continuing operations – operating profit	80.7	52.7
Finance income	1.4	1.3
Finance expenses (including pension finance credit)	(3.0)	(9.6)
Profit before tax – continuing operations	79.1	44.4
Tax on continuing operations	(24.1)	8.5
Profit after tax from continuing operations	55.0	52.9
Discontinued operations:		
Discontinued exceptional items – before tax	(108.8)	(11.1)
Tax on discontinued operations	2.6	2.1
Loss after tax from discontinued operations	(106.2)	(9.0)
(Loss)/profit for the period after tax – continuing and discontinued operations	(51.2)	43.9

	52 weeks to 27 December 2008 £m	52 weeks to 29 December 2007 £m
Other information:		
Capital additions	19.6	26.3
Depreciation and amortisation	17.2	18.7
Impairment losses recognised in income	–	7.4

	27 December 2008 £m	29 December 2007 £m
Balance sheet:		
Segment assets	398.7	411.8
Segment liabilities	(456.5)	(374.7)

Secondary segmental reporting: geographical segments

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

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

	52 weeks to 27 December 2008 £m	52 weeks to 29 December 2007 £m
UK	783.3	946.7
France	22.4	29.8
	805.7	976.5

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	
	27 December 2008 £m	29 December 2007 £m
UK	390.0	406.0
France	8.7	5.8
	398.7	411.8

	Additions to property, plant and equipment and intangible assets	
	52 weeks to 27 December 2008 £m	52 weeks to 29 December 2007 £m
UK	19.0	26.1
France	0.6	0.2
	19.6	26.3

6 Exceptional items

Exceptional items charged to the income statement in the 52 weeks to 27 December 2008 are analysed as follows:

	Note	Cost of sales £m	Other operating expenses £m	Selling and distribution costs £m	Administrative expenses £m	Total £m
Continuing operations:	(a)					
Provision for future rent payable on vacated sites		–	–	(1.5)	–	(1.5)
Redundancies and other staff costs		–	–	–	(0.2)	(0.2)
Other administrative costs		–	–	–	(0.2)	(0.2)
Release of exceptional stock provision made in 2006		(1.0)	–	–	–	(1.0)
Other profit on disposal of property plant and equipment		–	(1.9)	–	–	(1.9)
Total credited to operating profit		(1.0)	(1.9)	(1.5)	(0.4)	(4.8)
Tax on exceptional items in continuing operations						0.8
Net exceptional items credited to continuing operations						(4.0)
Discontinued operations:	(b)					
Costs and obligations relating to empty properties						99.7
Redundancies and other staff costs						3.0
Associated legal and professional costs						2.1
Product warranty liabilities						2.0
Bad debts written off						2.0
Total discontinued exceptional items before tax						108.8
Tax on discontinued exceptional items						(2.6)
Net exceptional items in discontinued operations						106.2
Total exceptional items before tax						104.0
Tax on exceptional items						(1.8)
Total exceptional items after tax						102.2

(a) Continuing operations

All of the items in continuing operations, with the exception of “Other profit on disposal of property, plant and equipment”, represent releases from provisions made in prior periods. The release of the exceptional stock provision is a release against a provision booked as an exceptional item in continuing operations in the 52 weeks to 30 December 2006. The other releases are releases against provisions recorded as continuing exceptional items in the 52 weeks to 29 December 2007 for the purposes of Supply restructuring. The 2007 Supply restructuring provision is shown in the analysis of prior period exceptional items given below. The 2006 exceptional stock provision is shown in the 2006 consolidated accounts.

The item “Other profit on disposal of property plant, and equipment” comprises the net profit on disposals of property, plant and equipment during the current period.

(b) Discontinued operations

The items in discontinued operations are connected to the Group's former MFI Retail operations which were sold and treated as discontinued in 2006 and which went into administration in the current period.

As the Group disclosed at the time of the sale of the MFI business in 2006, and as the Group has disclosed in the Contingent Liabilities notes to its Annual and Half-Yearly Reports since the sale, the Group is the guarantor on leases in relation to several properties which were held by MFI Properties Ltd and which were occupied by the MFI UK Retail operations. During the course of the current year, these contingent liabilities have crystallised and the Group has begun to incur costs in connection with them.

The developments which have taken place during the current period have been detailed in various of the Group's regulatory announcements made on 29 and 30 September, 13 and 26 November, and 23 December 2008.

The item "Costs and obligations relating to empty properties" covers the Group's best estimate of the rent, rates, and other associated costs of these properties. It includes amounts paid under the property guarantees up to the end of the current year, as well as a provision for future amounts payable. It also includes the payments made to landlords of 6 of the Guaranteed Properties in order to release the Group from all obligations in respect of those properties, as detailed in the Group's regulatory announcement made on 23 December 2008. The amounts are discounted to their present value. The provision element of the exceptional item is included as part of the total additions to the property provision in the current period as shown in note 25.

The Group is indemnified by MEP Mayflower Limited for payments made in respect of the guaranteed properties. Claims have or will be submitted under this indemnity for payments made to date. However, all amounts due have been fully provided against as at the year end as MEP Mayflower Limited itself went into administration in November 2008.

The other items are as described in the analysis of discontinued items, above, and they are all connected to the administration of the Group's former MFI Retail operations during the year.

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

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

(c) Restructuring - 2007

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

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

The costs of restructuring comprise the following items:

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

(d) Exceptional tax credit

This is explained in note 19.

(e) Discontinued operations

A change to the law regarding business rates on vacant properties was substantially enacted during 2007. Prior to the change, there were no business rates to pay for the first three months that a property was empty, and then there was a business rates exemption of 50% for retail properties and 100% for warehouses. Following the change, there was still an exemption for the first three months for all properties, and six months for indusrtial and warehouse properties, but after that time companies now have to pay business rates at 100% for all properties.

The amount provided in 2007 related primarily to business rates on properties which were part of the Group's former MFI Retail operations, which were discontinued in 2006. On the disposal of the MFI Retail operations, the continuing Group remained the ultimate guarantor for these properties and made such provision for rent payable in empty periods as was considered necessary at the time. That provision was included in the £31.7m item "Exceptional provisions on disposal of MFI Retail Limited" included in the 2006 accounts. Of the total £7.1m charged in 2007, £5.6m related to business rates, while the balance related to other related property expenses. There was an associated tax credit of £2.1m.

7 Operating profit

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

	Continuing operations		Discontinued operations		Total	
	52 weeks to 27 December 2008 £m	52 weeks to 29 December 2007 £m	52 weeks to 27 December 2008 £m	52 weeks to 29 December 2007 £m	52 weeks to 27 December 2008 £m	52 weeks to 29 December 2007 £m
Net foreign exchange (losses)/gains	(11.2)	9.7	–	–	(11.2)	9.7
Depreciation of property, plant and equipment:						
– on owned assets	(15.8)	(17.9)	–	–	(15.8)	(17.9)
– on assets held under finance lease	(0.4)	–	–	–	(0.4)	–
Amortisation of intangible assets (included in administrative expenses)	(1.0)	(0.8)	–	–	(1.0)	(0.8)
Impairment of property, plant and equipment	–	(7.4)	–	–	–	(7.4)
Cost of inventories recognised as an expense	(390.0)	(497.1)	–	–	(390.0)	(497.1)
Write downs of inventories	(9.5)	(13.9)	–	–	(9.5)	(13.9)
Reversal of write downs of inventories in the period	–	1.5	–	–	–	1.5
Profit on disposal of fixed assets	1.9	1.1	–	–	1.9	1.1
Movement in allowance for doubtful debts (note 21)	0.2	(2.0)	–	–	0.2	(2.0)
Staff costs (note 8)	(207.9)	(219.2)	–	–	(207.9)	(219.2)
Minimum lease payments under operating leases	(46.6)	(55.9)	–	–	(46.6)	(55.9)
Auditors' remuneration for audit services (see below)	(0.3)	(0.3)	–	–	(0.3)	(0.3)

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

	52 weeks to 27 December 2008 £m	52 weeks to 29 December 2007 £m
Audit services:		
Fees paid to the company's auditors for the audit of the company's annual accounts	(0.1)	(0.1)
Fees paid to the Company's auditors and their associates for other services to the Group:		
– the audit of the subsidiary companies pursuant to legislation	(0.2)	(0.2)
Total audit fees	(0.3)	(0.3)
Other services:		
Other services pursuant to legislation	(0.1)	(0.1)
Tax services	(0.1)	(0.2)
Total non-audit fees	(0.2)	(0.3)

8 Staff costs

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

	52 weeks to 27 December 2008 £m	52 weeks to 29 December 2007 £m
Wages and salaries	184.4	195.2
Social security costs	14.9	14.7
Pension operating costs (note 24)	8.6	9.3
	207.9	219.2

Wages and salaries includes a charge in respect of share-based payment of £5.5m (2007: £5.7m).

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

	52 weeks to 27 December 2008 Number	52 weeks to 29 December 2007 Number
Howden Joinery	4,538	4,294
Houdan France	99	89
Howden Joinery Supply Division	1,269	1,797
Other	195	215
	6,101	6,395

9 Finance income and other finance income – pensions

Finance Income	52 weeks to 27 December 2008 £m	52 weeks to 29 December 2007 £m
Bank interest receivable	0.5	1.3
Other interest receivable	0.9	–
Total finance income	1.4	1.3

Other interest receivable relates to interest on a refund from HMRC.

Other finance income – pensions	52 weeks to 27 December 2008 £m	52 weeks to 29 December 2007 £m
Pensions finance credit	3.3	0.3

10 Finance expenses

	52 weeks to 27 December 2008 £m	52 weeks to 29 December 2007 £m
Interest payable on bank loans	5.6	5.7
Other interest	0.4	1.1
Interest charge on remeasuring creditors to fair value	0.2	3.1
Interest charge on finance lease payments	0.1	–
Total finance expenses	6.3	9.9

The Group acquired assets via finance lease at the end of 2007, but the amount of finance lease interest paid in 2007 was less than £0.1m.

Further details of the interest charge on remeasuring creditors to fair value is given in note 22.

11 Tax

(a) Tax in the income statement

	Continuing operations		Discontinued operations		Total	
	52 weeks to 27 December 2008 £m	52 weeks to 29 December 2007 £m	52 weeks to 27 December 2008 £m	52 weeks to 29 December 2007 £m	52 weeks to 27 December 2008 £m	52 weeks to 29 December 2007 £m
Current tax:						
Current year	12.0	10.3	(2.6)	(2.1)	9.4	8.2
Adjustments in respect of previous years	(2.1)	(3.0)	–	–	(2.1)	(3.0)
Total current tax	9.9	7.3	(2.6)	(2.1)	7.3	5.2
Deferred tax:						
Current year	16.2	9.9	–	–	16.2	9.9
Adjustments in respect of previous years	(2.0)	*(25.7)	–	–	(2.0)	(25.7)
Total deferred tax	14.2	(15.8)	–	–	14.2	(15.8)
Total tax charged/(credited) in the income statement	24.1	(8.5)	(2.6)	(2.1)	21.5	(10.6)

UK Corporation tax is calculated at 28.5% (2007: 30%) of the estimated assessable profit for the period.

* The adjustment in respect of previous periods in the comparatives for 2007 relates principally to the Group recognising £23.9m of deferred tax assets in certain of its subsidiaries. These subsidiaries had been loss-making in 2006 and no deferred tax assets had previously been booked on the balance sheet.

(b) Tax relating to items charged/credited to equity

	52 weeks to 27 December 2008 £m	52 weeks to 29 December 2007 £m
Deferred tax:		
Actuarial (loss)/gain on pension scheme	(18.6)	26.1
Charge to equity re tax rate change*	–	3.6
Total tax (credited)/charged to statement of recognised income and expense	(18.6)	29.7

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

(c) Reconciliation of the total tax charge

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

	52 weeks to 29 December 2008 £m	52 weeks to 29 December 2007 £m
Profit/(loss) before tax:		
Continuing operations	79.1	44.4
Discontinued operations	(108.8)	(11.1)
	(29.7)	33.3

	Continuing operations		Discontinued operations		Total	
	52 weeks to 27 December 2008 £m	52 weeks to 29 December 2007 £m	52 weeks to 27 December 2008 £m	52 weeks to 29 December 2007 £m	52 weeks to 27 December 2008 £m	52 weeks to 29 December 2007 £m
Tax at the UK Corporation tax rate of 28.5% (2007: 30%)	22.5	13.3	(31.0)	(3.3)	(8.5)	10.0
Non-qualifying depreciation	0.9	4.2	–	–	0.9	4.2
Expenses not deductible for tax purposes	0.7	1.7	****27.8	1.2	28.5	2.9
Sub-total	24.1	19.2	(3.2)	(2.1)	20.9	17.1
IFRS2 share scheme charge	**2.9	–	**0.6	–	3.5	–
Abolition of industrial building allowances	***1.5	–	–	–	1.5	–
Tax adjustments in respect of previous years	(4.1)	(28.7)	–	–	(4.1)	(28.7)
Change in tax rate	–	(1.8)	–	–	–	(1.8)
Others	(0.3)	2.8	–	–	(0.3)	2.8
Total tax charged/(credited) in the income statement	24.1	(8.5)	(2.6)	(2.1)	21.5	(10.6)

** Where share schemes do not vest or are unlikely to vest, the Group is not able to reverse the IFRS2 accounting charge if the scheme carries market related targets. As a consequence a permanent timing difference has arisen amounting to £5.5m, and this is shown as an additional deferred tax charge in the current year. There is also a reduction in the deferred tax asset recognised in relation to future tax deductions available to the Group on future share option exercises driven by the Group's share price (£7m).

*** In July 2008 the House of Commons approved the Finance Bill which abolishes Industrial Building Allowances (IBAs). This has resulted in a deferred tax charge of £1.5m in the current year charge.

**** The Group has assumed no tax relief for the payments and provisions made for the MFI rental guarantees until the tax position is agreed with HM Revenue & Customs.

12 Discontinued operations

The items in the current and prior periods relating to discontinued operations are all exceptional items, and are all explained in the exceptional item note (note 6). The cash flow associated with the discontinued items is shown in note 28.

13 Earnings per share

	52 weeks to 27 December 2008			52 weeks to 29 December 2007		
	Earnings	Weighted average number of shares	Earnings per share	Earnings	Weighted average number of shares	Earnings per share
	£m	m	p	£m	m	p
From continuing operations:						
Basic earnings per share	55.0	598.0	9.2	52.9	598.6	8.8
Effect of dilutive share options	–	11.5	(0.2)	–	13.8	(0.2)
Diluted earnings per share	55.0	609.5	9.0	52.9	612.4	8.6
From continuing and discontinued operations:						
Basic (loss)/earnings per share	(51.2)	598.0	(8.6)	43.9	598.6	7.3
Effect of dilutive share options	–	11.5	0.2	–	13.8	(0.1)
Diluted (loss)/earnings per share	(51.2)	609.5	(8.4)	43.9	612.4	7.2
From discontinued operations:						
Basic loss per share	(106.2)	598.0	(17.8)	(9.0)	598.6	(1.5)
Effect of dilutive share options	–	11.5	0.4	–	13.8	–
Diluted loss per share	(106.2)	609.5	(17.4)	(9.0)	612.4	(1.5)
From continuing operations excluding exceptional items:						
Basic earnings per share	51.0	598.0	8.5	54.3	598.6	9.1
Effect of dilutive share options	–	11.5	(0.1)	–	13.8	(0.2)
Diluted earnings per share	51.0	609.5	8.4	54.3	612.4	8.9
From continuing and discontinued operations excluding exceptional items:						
Basic earnings per share	51.0	598.0	8.5	54.3	598.6	9.1
Effect of dilutive share options	–	11.5	(0.1)	–	13.8	(0.2)
Diluted earnings per share	51.0	609.5	8.4	54.3	612.4	8.9

14 Dividends

Amounts recognised as distributions to equity holders in the period:

	52 weeks to 27 December 2008 £m	52 weeks to 29 December 2007 £m
Final dividend for the 52 weeks to 29 December 2007 – 0.5p (52 weeks to 29 December 2006 – nil)	3.0	–
Interim dividend for the 52 weeks to 27 December 2008 – nil (52 weeks to 29 December 2007 – nil)	–	–
	3.0	–

	52 weeks to 27 December 2008 £m	52 weeks to 29 December 2007 £m
Proposed final dividend for the 52 weeks to 27 December 2008 – nil (52 weeks to 29 December 2007 – 0.5p)	–	3.0

15 Goodwill

	£m
Cost	
At 30 December 2006 and 29 December 2007	–
Recognised on acquisition of subsidiary	2.5
At 27 December 2008	2.5
Accumulated impairment losses	
At 30 December 2006 and 29 December 2007	–
Impairment losses for the period	–
At 27 December 2008	–
Carrying value at 27 December 2008	2.5
Carrying value at 29 December 2007	–

The goodwill recognised in the current period was recognised on the acquisition of the remaining 50% of Howden Kitchens (Asia) Limited ("HK Asia") during the period. Further details of the acquisition are given in note 34.

The Group tests annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amount of the Cash Generating Unit ("CGU") has been determined from a value in use calculation. The key assumptions for the value in use calculation are those regarding the discount rates, growth rates, and the expected future net benefits of using HK Asia to source products at a saving compared to sourcing from elsewhere.

The estimates of future sourcing benefits are based on a detailed analysis of planned 2009 sourcing via HK Asia,and management's assessments of the net savings to be made from sourcing via HK Asia, after taking into account the associated overhead costs of running the HK Asia business. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money. Management has chosen a discount rate which reflects their assessment of the Group's weighted average cost of capital, as adjusted for any specific risks. The figure used was 8%. This is arrived at using the actual costs of capital as a benchmark, which was then adjusted as necessary for any expected future changes. The growth rates assume no growth other than inflation (3%), which does not exceed the long-term growth rate for the market in which HK Asia operates. The growth rate is felt to be appropriate in the current economic climate, although management will continue to update this assumption in future periods in line with actual experience. The value in use calculations use this growth rate to perpetuity.

The whole of the goodwill is allocated to the HK Asia CGU.

The Group has conducted sensitivity analysis on the impairment test of the HK Asia CGU. With reasonably possible changes in the key assumptions, there is no indication that the carrying amount of the goodwill would have to be reduced to a lower amount.

16 Other intangible assets

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

	£m
Cost	
At 30 December 2006	6.6
Additions	1.4
At 29 December 2007	8.0
Additions	5.1
Disposals	(0.5)
At 27 December 2008	12.6
Amortisation	
At 30 December 2006	4.7
Charge for the period	0.8
At 29 December 2007	5.5
Charge for the period	1.0
Disposals	(0.1)
At 27 December 2008	6.4
Net book value at 27 December 2008	6.2
Net book value at 29 December 2007	2.5

17 Property, plant and equipment

	Freehold property £m	Leasehold long-term £m	Property short-term £m	Plant, machinery & vehicles £m	Fixtures & fittings £m	Capital WIP £m	Total £m
Cost							
At 30 December 2006	23.7	1.4	18.9	178.2	57.0	5.1	284.3
Exchange adjustments	–	–	–	0.1	0.1	–	0.2
Additions	0.2	–	5.0	5.1	9.0	5.6	24.9
Disposals	–	–	(0.2)	(16.2)	(1.8)	–	(18.2)
Transferred to assets held for resale	(3.5)	(1.4)	(3.7)	–	–	–	(8.6)
Reclassifications within property, plant and equipment	–	–	–	4.9	–	(4.9)	–
At 29 December 2007	20.4	–	20.0	172.1	64.3	5.8	282.6
Exchange adjustments	–	–	–	0.4	0.4	–	0.8
Additions	0.1	–	2.2	7.0	3.4	1.8	14.5
Disposals	–	–	(1.8)	(26.3)	(3.7)	–	(31.8)
Reclassifications	0.4	–	0.7	4.6	(0.1)	(5.6)	–
At 27 December 2008	20.9	–	21.1	157.8	64.3	2.0	266.1
Depreciation							
At 30 December 2006	–	–	5.6	143.2	38.4	–	187.2
Charge for the period	0.5	0.1	1.0	10.6	5.7	–	17.9
Impairment charge	0.6	–	3.6	3.2	–	–	7.4
Disposals	–	–	0.1	(14.0)	(1.7)	–	(15.6)
Transferred to assets held for resale	(1.4)	(0.4)	(3.7)	–	–	–	(5.5)
Reclassifications within property, plant and equipment	0.7	0.3	(1.0)	–	–	–	–
At 29 December 2007	0.4	–	5.6	143.0	42.4	–	191.4
Exchange adjustments	–	–	–	0.2	0.1	–	0.3
Charge for the period	0.5	–	1.3	8.5	5.9	–	16.2
Disposals	–	–	(1.4)	(26.2)	(3.6)	–	(31.2)
At 27 December 2008	0.9	–	5.5	125.5	44.8	–	176.7
Net book value at 27 December 2008	20.0	–	15.6	32.3	19.5	2.0	89.4
Net book value at 29 December 2007	20.0	–	14.4	29.1	21.9	5.8	91.2

The impairment charge in 2007 related to assets which were assessed as being impaired as a result of the Howden Joinery Supply division restructuring which took place during that year (see note 6 for further details of the restructuring). Some of these assets were then transferred to assets held for resale after being impaired, and are shown in note 17(a) below.

The Group has pledged its property, plant and equipment to secure bank borrowings. More details are given in note 23.

At 27 December 2008, the Group had entered into contractual commitments to acquire property, plant and equipment amounting to £0.3m (2007: £1.3m).

Analysis of assets held under finance leases

	27 December 2008		29 December 2007
	Plant, machinery & vehicles	Capital WIP	Capital WIP
	£m	£m	£m
Cost	4.9	–	3.1
Accumulated depreciation	(0.4)	–	–
Net book value	4.5	–	3.1

17(a) Assets classified as held for sale

Assets held for sale are as follows:

	Freehold property	Long-term leasehold	Total
	£m	£m	£m
27 December 2008	–	1.0	1.0
29 December 2007	2.1	1.0	3.1

The period end carrying value shown above represents anagement's best assessment of their resale value, based on research as to likely resale values, and on any indicative offers received to date.

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

18 Investments

	Other unlisted investments	Share of joint ventures	Total
	£m	£m	£m
At 30 December 2006	8.0	1.7	9.7
Profit for the period	–	0.9	0.9
Dividend received	–	(0.5)	(0.5)
At 29 December 2007	8.0	2.1	10.1
Profit for the period	–	0.1	0.1
Repayment of investment	(4.0)	–	(4.0)
Acquisition of remainder of joint venture	–	(2.2)	(2.2)
At 27 December 2008	4.0	–	4.0

In the opinion of the directors, the fair value of the unlisted investment is materially equal to its carrying value. During the year, 50% of the unlisted investment was redeemed at cost.

During the first half of the current period, the Group purchased the remaining 50% of the joint venture investment, thus making it a subsidiary, whose assets and results are included in the consolidated Group results from the date of the acquisition transaction. Further details of the acquisition are given in note 34 to these accounts.

19 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	Controlled foreign company differences £m	Other timing differences £m	Total £m
At 30 December 2006	56.8	(3.7)	(0.3)	3.8	56.6
(Charge)/release to income	(5.6)	(4.5)	(0.4)	0.6	(9.9)
Exceptional re tax rate change	1.9	0.1	–	(0.2)	1.8
Exceptional credit to income	–	17.7	–	6.2	*23.9
Charge to equity	(26.1)	–	–	–	(26.1)
Charge to equity re tax rate change	(3.6)	–	–	–	(3.6)
At 29 December 2007	23.4	9.6	(0.7)	10.4	42.7
(Charge)/release to income	(7.8)	(4.5)	0.7	(2.6)	(14.2)
Credit to equity	18.6	–	–	–	18.6
At 27 December 2008	34.2	5.1	–	7.8	47.1

Deferred tax arising from accelerated capital allowances can be further analysed as £10.6m asset and £5.5m liability (2007: £11.8m asset and £2.2m liability).

* The exceptional release in 2007 relates to the Group recognising £23.9m of deferred tax assets in certain of its subsidiaries. These subsidiaries had been loss-making in 2006 and no deferred tax assets had previously been booked on the balance sheet.

The presentation in the balance sheet is as follows:

	27 December 2008 £m	29 December 2007 £m
Deferred tax assets	52.6	45.6
Deferred tax liabilities	(5.5)	(2.9)
	47.1	42.7

There are potential deferred tax assets in relation to trading tax losses totalling £14.8m (2007: £14.8m) that have not been recognised on the basis that their future economic benefit is uncertain. All of these losses may be carried forward indefinitely. The Group also has carried forward capital losses and the potential deferred tax asset of £23.9m (2007: £23.9m) has not been booked. These capital losses may be carried forward indefinitely.

20 Inventories

	27 December 2008 £m	29 December 2007 £m
Raw materials	2.5	5.4
Work in progress	1.9	4.2
Finished goods and goods for resale	131.5	116.5
Allowance against carrying value of inventories	(14.6)	(25.1)
	121.3	101.0

The Group has pledged its inventories to secure bank borrowings. More details are given in note 23.

21 Other financial assets

Trade and other receivables

	27 December 2008 £m	29 December 2007 £m
Trade receivables	77.6	103.7
Prepayments and accrued income	19.6	18.6
Other receivables	2.0	–
	99.2	122.3

Trade and other receivables are not interest-bearing, and are on commercial terms.

Their carrying value approximates to their fair value.

An analysis of the Group's allowance for doubtful receivables is as follows:

	27 December 2008 £m	29 December 2007 £m
Balance at start of period	10.0	12.0
Increase/(decrease) in allowance recognised in the Income Statement	0.2	(2.0)
Balance at end of period	10.2	10.0

The Group's exposure to the credit risk inherent in its trade receivables is discussed in note 33. The Group has no significant concentration of credit risk, with exposure spread over a large number of customers. Interest is charged at appropriate market rates on balances which are in litigation.

Before accepting any new credit customer, the Group obtains a credit check from an external agency to assess the potential customer's credit quality, and then sets credit limits on a customer-by-customer basis. These credit limits are reviewed regularly. In the case of one-off customers, the Group's policy is to require immediate payment at the point of sale, and not to offer credit terms.

The historical level of customer default is minimal, and as a result the "credit quality" of year end trade receivables is considered to be high. The Group reviews trade receivables past due but not impaired on a regular basis and considers, based on past experience, whether the credit quality of these amounts at the balance sheet date has deteriorated since the transaction was entered into and therefore whether the amounts are recoverable or require provision. Regular contact is maintained with all such customers and, where necessary, legal action is taken to recover the receivable. An allowance for impairment is made for any specific amounts which are considered irrecoverable or only partly recoverable. There is also a separate allowance, which is calculated as a percentage of sales. At the period end, the total bad debt provision of £10.2m (2007: £10.0m) consists of a specific provision of £6.4m (2007: £5.5m) which has been made against specific debts with a gross carrying value of £7.6m (2007: £7.1m), and an additional provision of £3.8m (2007: £4.5m) based on sales. To the extent that recoverable amounts are estimated to be less than their associated carrying values, impairment charges have been recorded in the consolidated income statement and the carrying values have been written down to their recoverable amounts.

£9.9m debts were written off in the period (2007: £4.8m). Included within the Group's aggregate trade receivables balance are specific debtor balances with customers totalling £21.6m before bad debt provision (2007: £18.2m before provision) which are past due as at the reporting date. The Group has assessed these balances for recoverability and believes that their credit quality remains intact.

An ageing analysis of these past due trade receivables is provided as follows:

	27 December 2008 £m	29 December 2007 £m
0-30 days past due	10.9	8.8
30-60 days past due	2.4	1.6
60-90 days past due	1.6	0.9
90+ days past due	6.7	6.9
Total overdue amounts, excluding allowance for doubtful receivables	21.6	18.2

There were no trade receivables which would have been impaired at either period end were it not for the fact that their credit terms were renegotiated. The Group does not renegotiate credit terms.

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 £1.3m (2007: £2.4m) and the monies are held with AA-rated financial institutions, and have maturities of up to one year. Interest is paid at both fixed and floating rates based on LIBOR. The carrying amount of these assets approximates to their fair value.

Cash and cash equivalents

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

Assets pledged as security

The Group has pledged its other financial assets to secure bank borrowings. More details are given in note 23.

22 Other financial liabilities

Trade and other payables

Current liabilities	27 December 2008 £m	29 December 2007 £m
Trade payables	55.6	73.0
Other tax and social security	26.3	30.5
Other payables	4.2	29.4
Accruals and deferred income	34.3	68.2
	120.4	201.1

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 (2007: carrying value equates to fair value, except from in the case of one payment due under the terms of the sale of the Group's UK Retail operations. This payment of £12.0m, paid in April 2008 and included in Other Payables in 2007, was recorded at its discounted fair value of £11.8m at 29 December 2007). The difference between discounted fair values at each period end is called "interest charge on remeasuring creditors to fair value" and is included in Finance Expenses as shown in note 10.

The average credit taken for trade purchases during the period, based on total operations, was 41 days (2007: 37 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.

23 Borrowings

Total borrowings

	27 December 2008 £m	29 December 2007 £m
Current borrowings		
Bank borrowings	1.7	2.2
Current portion of finance lease obligations	1.7	1.1
	3.4	3.3
Non-current borrowings		
Bank borrowings	78.5	33.9
Non-current portion of finance lease obligations	1.8	2.1
	80.3	36.0
Total borrowings	83.7	39.3

Bank borrowings

	27 December 2008 £m	29 December 2007 £m
The bank borrowings are repayable as follows:		
Current liabilities:		
On demand or within one year	2.5	2.2
Less prepaid issue fees set against cost of loan	(0.8)	–
	1.7	2.2
Non-current liabilities:		
In the second year	1.8	2.2
In the third to fifth years inclusive	77.9	32.7
Less prepaid issue fees set against cost of loan	(1.2)	(1.0)
	78.5	33.9
Total bank borrowings	80.2	36.1

All bank borrowings are in sterling, and are drawn under the £175m committed bank facility. The terms of this facility are explained further in the final paragraph of note 33 (a).

This facility is secured on the property, other assets, and investments of the group. The carrying values of each of these classes of assets is as presented in the balance sheet and notes to these consolidated financial statements.

The available facility limit is calculated every week, based on the asset backing at the time and can never exceed £175m. As at 27 December 2008, the Group had available £77.3m of undrawn committed borrowing facilities, in respect of which all conditions precedent had been met (2007: £93.5m).

The loan carries interest at a rate of LIBOR plus a margin. The margin varies between 175 and 300 basis points, and is determined by the minimum headroom against the Group's lending covenants in the prior month.

Finance lease obligations

	27 December 2008 £m	29 December 2007 £m
The finance lease obligations are repayable as follows:		
Current liabilities:		
Within one year	1.7	1.1
Non-current liabilities:		
In the second year	1.4	1.2
In the third to fifth years inclusive	0.4	0.9
Total finance lease obligations	3.5	3.2

All finance lease obligations are in sterling. Each lease contract is at a fixed interest rate.

The weighted average of the fixed rates on the various contracts is 6.5% at the current year end (2007: 4.5%).

The finance lease obligations are unsecured. The average remaining lease term is 2 years and 4 months (2007: 3 years and 3 months).

Reconciliation of total future minimum lease payments to their present value

	Minimum lease payments		Present value of minimum lease payments	
	27 December 2008 £m	29 December 2007 £m	27 December 2008 £m	29 December 2007 £m
Amounts payable under finance leases:				
Within one year	1.8	1.2	1.7	1.1
In the second year	1.5	1.2	1.4	1.2
In the third to fifth years inclusive	0.4	1.0	0.4	0.9
	3.7	3.4	3.5	3.2
Less future finance charges	(0.2)	(0.2)		
Present value of lease obligations	3.5	3.2		
Disclosed as:				
Current	1.7	1.1		
Non-current	1.8	2.1		
	3.5	3.2		

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

The weighted average interest rates paid were as follows:

	52 weeks to 27 December 2008 %	52 weeks to 29 December 2007 %
Finance lease obligations	6.5	4.5
Bank borrowings	7.0	7.9

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

	27 December 2008 £m	29 December 2007 £m
Finance lease obligations	3.5	3.2
Bank borrowings	80.2	36.1

24 Retirement benefit obligations

Defined contribution plan

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

The total cost charged to income in respect of this scheme in the current period of £1.0m (2007: £0.6m) represents the Group's contributions due and paid in respect of the period.

Defined benefit plans

The Group operates a funded pension scheme which provides benefits based on the final pensionable pay of participating employees. Prior to 5 April 2008, the Group operated two such schemes, which were always reported on an aggregate basis in the Group consolidated statutory accounts. The two schemes were merged on 5 April 2008 for ease of administration, but this merger did not change the benefits payable under the schemes, or their assets or liabilities. The assets of the scheme 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 5 April 2008 by the scheme actuary. The actuary advising the Group has subsequently rolled forward this valuation to 27 December 2008 and restated the results onto a basis consistent with market conditions at that date.

Total amounts charged in respect of pensions in the period

	52 weeks to 27 December 2008 £m	52 weeks to 29 December 2007 £m
Charged/(credited) to the income statement:		
Defined benefit schemes – total operating charge	7.6	8.7
Defined benefit schemes – net finance credit	(3.3)	(0.3)
Defined contribution scheme – total operating charge	1.0	0.6
Total net amount charged to profit before tax	5.3	9.0
Charged/(credited) to equity:		
Defined benefit schemes – net actuarial losses/(gains) net of deferred tax	47.7	(61.1)
Total pension charge/(credit)	53.0	(52.1)

Key assumptions used in the valuation of the schemes

	52 weeks to 27 December 2008	52 weeks to 29 December 2007
Rate of increase of pensions in payment:		
– pensions with guaranteed increases (i.e. most of the pre-1997 pensions)	3.00%	3.00%
– pensions with increases capped at the lower of LPI and 5%	3.00%	3.50%
– pensions with increases capped at the lower of LPI and 2.5%	2.50%	2.50%
Rate of increase in salaries	4.00%	4.50%
Inflation assumption	3.00%	3.50%
Expected return on scheme assets (weighted average)	6.35%	7.39%
Discount rate	6.30%	5.90%

The following mortality tables were used:

Mortality before retirement, 2008:	Males AM92 Females AF92
Mortality before retirement, 2007:	Males AM92 Females AF92
Mortality in retirement (i.e. current pensioners), 2008:	Males PNMA00 U2008, long cohort with 1.0% pa underpin on the improvement factors
	Females PNMA00 U2008, long cohort with 0.5% pa underpin on the improvement factors
Mortality in retirement (i.e. current pensioners), 2007:	Males PMA92 short cohort, projected to 2015
	Females PFA92 short cohort, projected to 2015
Mortality in retirement (i.e. pensions not yet in payment), 2008:	Males PNMA00 U2008, long cohort with 1.0% pa underpin on the improvement factors
	Females PNMA00 U2008, long cohort with 0.5% pa underpin on the improvement factors
Mortality in retirement (i.e. pensions not yet in payment), 2007:	Males PMA92 short cohort, projected to 2025
	Females PFA92 short cohort, projected to 2025

The mortality assumption adopted by the Group in 2008 is equivalent to the following life expectancies (from age 65):

	Male (yrs)	Female (yrs)
Non-pensioner	25.6	27.1
Pensioner	23.5	25.9

The mortality assumption adopted by the Group in 2007 is equivalent to the following life expectancies (from age 65):

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

Sensitivity to changes in assumptions

If there was an increase/decrease in the net discount rate (i.e. the difference between the discount rate and the assumed rates of increase in salaries, deferred pension revaluation or pensions in payment) of 0.1%, there would be a corresponding decrease/increase in the scheme liabilities of around 2%, or £11m, and a decrease/increase in the current service cost of around 2% or £0.1m.

The effect of changing the assumption regarding life expectancy by one year longer than shown above would be to increase the assessed value of liabilities by around 2% or £11m, and to increase the assessed value of the current service cost by around 2% or £0.1m.

Analysis of scheme assets and the expected rates of return

	Expected rate of return		Fair value of scheme assets	
	52 weeks to 27 December 2008 %	52 weeks to 29 December 2007 %	27 December 2008 £m	29 December 2007 £m
Equities	7.3	8.4	297.3	396.4
Government bonds	3.6	4.5	97.0	135.5
Corporate bonds	6.3	n/a	49.0	–
Cash	2.0	5.5	3.0	1.6
			446.3	533.5

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

Balance sheet

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

	27 December 2008 £m	29 December 2007 £m
Present value of defined benefit obligations	(568.5)	(617.0)
Fair value of scheme assets	446.3	533.5
Deficit in the scheme, recognised in the balance sheet	(122.2)	(83.5)

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

	52 weeks to 27 December 2008 £m	52 weeks to 29 December 2007 £m
Present value at start of period	617.0	670.8
Current service cost	7.6	8.7
Interest cost	36.1	34.3
Contributions from scheme members	0.2	0.4
Actuarial gains	(73.8)	(79.0)
Benefits paid	(18.6)	(18.2)
Present value at end of period	568.5	617.0

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

	52 weeks to 27 December 2008 £m	52 weeks to 29 December 2007 £m
Fair value at start of period	533.5	481.6
Expected return on assets	39.4	34.6
Contributions from scheme members	0.2	0.4
Contributions from the Group	31.9	26.9
Actuarial (losses)/gains	(140.1)	8.2
Benefits paid	(18.6)	(18.2)
Fair value at end of period	446.3	533.5

Movements in the deficit during the period are as follows:

	52 weeks to 27 December 2008 £m	52 weeks to 29 December 2007 £m
Deficit at start of period	(83.5)	(189.2)
Current service cost	(7.6)	(8.7)
Employer contributions	31.9	26.9
Other finance income	3.3	0.3
Actuarial (losses)/gains	(66.3)	87.2
Deficit at end of period	(122.2)	(83.5)

Income statement

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

	52 weeks to 27 December 2008 £m	52 weeks to 29 December 2007 £m
Amount charged to profit:		
Current service cost	7.6	8.7

The current service cost is included in the statutory accounts heading Staff Costs.

	52 weeks to 27 December 2008 £m	52 weeks to 29 December 2007 £m
Amount credited to other finance charges:		
Expected return on pension scheme assets	(39.4)	(34.6)
Expected charge on pension scheme liabilities	36.1	34.3
Net credit	(3.3)	(0.3)

The actual return on scheme assets was £100.7m (52 weeks to 29 December 2007, £39.3m).

Statement of recognised income and expense

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

	52 weeks to 27 December 2008 £m	52 weeks to 29 December 2007 £m
Actuarial (loss)/gain on scheme assets	(140.1)	8.2
Actuarial gain on scheme liabilities	73.8	79.0
Net actuarial (loss)/gain	(66.3)	87.2

The cumulative amount of actuarial gains and losses recognised in the statement of recognised income and expense is a cumulataive net gain of £37.5m (2007: £103.8m).

History of scheme deficit and experience adjustments

	27 December 2008 £m	29 December 2007 £m	30 December 2006 £m	24 December 2005 £m	25 December 2004 £m
Present value of defined benefit obligations	(568.5)	(617.0)	(670.8)	(707.6)	(610.1)
Fair value of schemes' assets	446.3	533.5	481.6	410.5	315.6
Deficit in the schemes	(122.2)	(83.5)	(189.2)	(297.1)	(294.5)

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

	27 December 2008	29 December 2007	30December 2006	24 December 2005	Cumulative since adoption of IFRS
Amount of experience gain/(loss) on scheme liabilities (£m)	73.8	79.0	40.0	(82.9)	109.9
Percentage of scheme liabilities (%)	13.0%	12.8%	6.0%	(11.7)%	

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

	27 December 2008	29 December 2007	30 December 2006	24 December 2005	Cumulative since adoption of IFRS
Amount of experience gain/(loss) on scheme assets (£m)	(140.1)	8.2	24.2	38.8	(68.9)
Percentage of scheme assets (%)	(31.4%)	1.5%	5.0%	9.5%	
Total cumulative actuarial gain since adoption of IFRS (£m)	41.0				

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 26 December 2009 are £27.5m.

25 Provisions

	Property provision £m	Other provisions £m	Total £m
At 30 December 2006	19.8	–	19.8
Additional provision in the period	22.0	1.0	23.0
Provision released in the period	(0.3)	–	(0.3)
Utilisation of provision in the period	(3.1)	–	(3.1)
At 29 December 2007	38.4	1.0	39.4
Additional provision in the period	90.5	4.4	94.9
Provision released in the period	(2.8)	–	(2.8)
Utilisation of provision in the period	(10.4)	(1.3)	(11.7)
At 27 December 2008	115.7	4.1	119.8

The property provision mainly covers onerous leases. For any such leases, the Group provides for any shortfall between rent payable and rent receivable on any non-trading leased properties. The provision is based on the period until the end of the lease, or until the Group can cover the shortfall by subletting, assigning or surrendering the lease. The property provision also includes amounts for any related shortfalls in business rates on these properties, and for dilapidations, agents' fees and other professional fees.

The additions to the property provision in the current period are included in the £99.7m exceptional item relating to discontinued operations which is shown in note 6(b). There is a discussion of the main sources of estimation and uncertainty which apply to this provision at note 3. The amount of the expected future cashflows have been adjusted to reflect the expected range of possibilities and, as the outflows under this provision are expected to take place over a number or years, the provision has been discounted to its present value.

Other provisions relate to amounts due in respect of contractual terminations. Additions in the current period include the £2.1m shown in note 6(b) shown as an exceptional item in discontinued operations and called "Product liability warranties". They also include an element of the £3.0m shown in note 6(b) as an exceptional item in discontinued operations as "Redundancies and other staff costs".

Notes to the consolidated financial statements continued

26 Share capital

Ordinary shares of 10p each	52 weeks to 27 December 2008 Number	52 weeks to 29 December 2007 Number	52 weeks to 27 December 2008 £m	52 weeks to 29 December 2007 £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	633,783,210	631,659,746	63.4	63.2
Issued during the period	132,119	2,123,464	–	0.2
Balance at the end of the period	633,915,329	633,783,210	63.4	63.4

27 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
Opening equity at 30 December 2006	63.2	83.7	(43.2)	28.1	(209.3)	(77.5)
Net actuarial gain on defined benefit scheme	–	–	–	–	61.1	61.1
Effect of change in tax rate, taken through reserves	–	–	–	–	(3.6)	(3.6)
Foreign exchange	–	–	–	–	1.1	1.1
Accumulated profit for the period	–	–	–	–	43.9	43.9
Issue of new shares	0.2	1.3	–	–	–	1.5
Net movement in ESOP	–	–	10.6	–	–	10.6
At 29 December 2007	63.4	85.0	(32.6)	28.1	(106.8)	37.1
Net actuarial loss on defined benefit scheme	–	–	–	–	(47.7)	(47.7)
Foreign exchange	–	–	–	–	1.4	1.4
Accumulated loss for the period	–	–	–	–	(51.2)	(51.2)
Issue of new shares	–	0.1	–	–	–	0.1
Net movement in ESOP	–	–	5.5	–	–	5.5
Dividends declared and paid	–	–	–	–	(3.0)	(3.0)
At 27 December 2008	63.4	85.1	(27.1)	28.1	(207.3)	(57.8)

The ESOP reserve includes shares in Galiform Plc with a market value on the balance sheet date of £5.3m (2007: £33.9m), which have been purchased in the open market and which are held by the Group's Employee Share Trusts in order to satisfy share options and awards made under the Group's various share-based payment schemes.

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

28 Notes to the cash flow statement

(a) Net cash flows from operating activities

	52 weeks to 27 December 2008 £m	52 weeks to 29 December 2007 £m
Group operating profit before tax and interest – continuing operations	80.7	52.7
Group operating loss before tax and interest – discontinued operations	(108.8)	(11.1)
Group operating (loss)/profit before tax and interest	(28.1)	41.6
Adjustments for:		
Depreciation and amortisation included in operating profit	17.2	17.4
Share-based payments charge	5.5	5.7
Share of joint venture profits	(0.1)	(0.9)
Profit on disposal of property, plant and equipment and intangible assets	(1.9)	(1.1)
Other exceptional items (before tax)	105.9	47.6
Operating cash flows before movements in working capital	98.5	110.3
Movements in working capital and exceptional items		
(Increase)/decrease in stock	(19.3)	25.1
Decrease/(increase) in trade and other receivables	22.4	(19.9)
Decrease in trade and other payables and provisions	(92.6)	(60.0)
Difference between pensions operating charge and cash paid	(24.3)	(18.2)
Net cash flow – exceptional items	(11.7)	(11.9)
	(125.5)	(84.9)
Cash generated from operations	(27.0)	25.4
Tax (paid)/reclaimed	(10.8)	0.3
Net cash flows from operating activities	(37.8)	25.7
Net cash flow from operating activities comprises:		
Continuing operating activities	(26.1)	25.7
Discontinued operating activities	(11.7)	–
	(37.8)	25.7

(b) Reconciliation of net debt

	52 weeks to 27 December 2008 £m	52 weeks to 29 December 2007 £m
Net debt at start of period	(3.3)	(4.1)
Net decrease in cash and cash equivalents	(12.4)	(19.6)
Net decrease in current asset investments	(1.1)	(0.7)
(Increase)/decrease in bank borrowings	(44.1)	24.3
Increase in finance leases	(0.3)	(3.2)
Net debt at end of period	(61.2)	(3.3)
Represented by:		
Cash and cash equivalents	21.2	33.6
Investments	1.3	2.4
Bank loans	(80.2)	(36.1)
Finance leases	(3.5)	(3.2)
	(61.2)	(3.3)

(c) Analysis of net debt

	Cash and cash equivalents £m	Current asset investment £m	Bank loans £m	Finance leases £m	Net debt £m
At 29 December 2007	33.6	2.4	(36.1)	(3.2)	(3.3)
Finance leases entered into in the period	–	–	–	(1.5)	(1.5)
Cash flow	(12.4)	(1.1)	(44.1)	1.2	(56.4)
At 27 December 2008	21.2	1.3	(80.2)	(3.5)	(61.2)

29 Contingent liabilities

(a) Relating to Sofa Workshop

This Group used to own Sofa Workshop Limited ("Sofa Workshop"). Sofa Workshop was sold to a third party in the period to 30 December 2006. Following the sale, the Group remained the guarantor of leases in relation to up to 12 properties which were held by Sofa Workshop and used in their business. The Group's guarantees are triggered if Sofa Workshop defaults on its obligations under the leases, for example because it is suffering financial distress.

It was previously management's assessment that any possibility of the Group having an obligation under the guarantees was remote. However, late in 2008, shortly before the current period end, the Group became aware that Sofa Workshop had made an application to appoint an administrator. In management's opinion the application to appoint an administrator increases the possibility that the Group has a possible obligation, and therefore it is appropriate to disclose a contingent liability.

It is currently uncertain as to what will happen to the Sofa Workshop business during its administration. If Sofa Workshop were to cease meeting its liabilities under the leases of the 12 properties, the Group would become liable for them. The Group's best estimate of the current annual rent payable on these properties is £1.0m. If the liability were to crystallise, there may also be rates and other associated costs which may become payable. The remaining lease terms range from less than 1 year to just over 11 years, with an average remaining term of just under 6.5 years from the current period end.

(b) Other guarantees

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.

30 Financial commitments

Capital commitments

	27 December 2008 £m	29 December 2007 £m
Contracted for, but not provided for in the accounts	0.3	1.3

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	
	52 weeks to 27 December 2008 £m	52 weeks to 29 December 2007 £m	52 weeks to 27 December 2008 £m	52 weeks to 29 December 2007 £m	52 weeks to 27 December 2008 £m	52 weeks to 29 December 2007 £m
Payments falling due:						
Within one year	40.1	43.8	8.7	9.0	48.8	52.8
In the second to fifth year inclusive	140.4	154.9	11.6	14.0	152.0	168.9
After five years	217.2	220.5	0.8	1.0	218.0	221.5
	397.7	419.2	21.1	24.0	418.8	443.2

The Group as lessor:

The Group sublets certain leased properties to third parties.

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

	52 weeks to 27 December 2008 £m	52 weeks to 29 December 2007 £m
Payments receivable:		
Within one year	0.2	3.0
In the second to fifth year inclusive	0.8	4.1
After five years	1.5	2.0
	2.5	9.1

Finance lease commitments are analysed in note 23.

31 Share-based payments

1) Details of each scheme

The Group recognised a charge of £5.5m (2007: charge of £5.7m) 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 where participants have a contingent right to receive free shares with performance conditions attached.

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

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

ii) No other condition other than continued employment.

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

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

b) (i) Deferred Bonus Plan – pre-2008 grants

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.

b) (ii) Deferred Bonus Plan – 2008 grants

Under the Co-Investment Plan participants can defer some or all of their cash bonus into shares and pledge these deferred shares as "invested shares" under the plan (see below (d)). The deferred share awards in 2008 are the result of particpants deferring the cash bonuses awarded to them in March 2008. The shares are held in trust and participants are entitled to dividends during the deferral period. A participant can remove the shares from the Trust at any time but as they would no longer be pledged as Invested Shares under the Co-Investment Plan, then unless replaced, the participant would forego the resulting match.

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. The performance conditions dictate that 50% will vest if there is an EPS growth of RPI plus 80% over the performance period, and at 100% if there is an EPS growth of RPI plus 100% over the performance period. EPS growth performance is measured from the start of the financial year in which the awards were granted. The performance period is three years.

The matching awards lapsed during the year.

d) Co-Investment Plan

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

(i) (A) 2007 award: PBT targets. At the end of a three year performance period, each invested share will be matched by an award of up to three matching shares if 2010 PBT of £135m is achieved; 25 percent of the maximum match (i.e. 0.75:1) will be earned for achieving 2010 PBT of £110m and the awards will vest on a sliding scale between these two points.

(i) (B) 2007 award: individual non-market related performance conditions. On 31/12/08 each invested share will be matched by an award of up to three matching shares if certain individual targets are achieved.

(ii) (A) 2007 award: TSR target. A further match of up to two shares will be made for achieving upper quartile Total Shareholder Return (TSR), measured against the FTSE 250 Index (excluding investment trusts).

(ii) (B) 2007 award: 2009 PBT target. At the end of 2009, each invested share will be matched by an award of up to two matching shares if 2009 PBT target (pro-rated in relation to the 2010 target noted in (i) (A) above) is achieved.

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.

2006 Awards
These 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 95 pence and 100% of the award vests for the achievement of 125 pence. The award vests on a straight line basis between these two points.

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

2007 Awards
These awards were granted in the form of nil-cost options and vested on the last day of the 2007 financial year to the degree that the performance conditions had been met. There is a further deferral period of two years before the vested awards are made available to the participants.

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

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

i) 40% vesting if EPS growth equals RPI+40%, rising to 100% vesting for EPS growth of RPI+100%.

ii) 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.

iii) No other condition except for continued employment with the Group.

iv) 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.

v) 20% of the options will vest if the share price over 30 consecutive dealing days is 185p rising on a straight line basis to 100% vesting if the share price over 30 consecutive days reaches 265p. Underpinning this is a requirement to achieve 20% annual compound growth over the performance period.

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

h) SAYE (Sharesave)
This is a save as you earn scheme for all employees whereby participants receive an option to purchase shares at a later date at a price equal to the market price at grant date. The term of this scheme is five years ending on 1.12.08. Participants have a right to exercise options for a period of six months after this date.

2) Movements in the period

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

a) Performance Share Plan
i) EPS must grow at >9%. 40% of award vests for median TSR, 100% vests on upper quartile TSR

	52 weeks to 27 December 2008 Number	52 weeks to 27 December 2008 WAEP (£)	52 weeks to 29 December 2007 Number	52 weeks to 29 December 2007 WAEP (£)
In issue at beginning of period	1,239,627	nil	2,087,917	nil
Granted in period	–	–	–	–
Lapsed in period	(1,239,627)	nil	(848,290)	nil
Exercised in period	–	–	–	–
In issue at end of period	–	–	1,239,627	nil
Exercisable at end of period	–	–	–	–
Number of options in the closing balance that were granted before 7 November 2002	–		–	
Weighted average share price for options exercised during the period		–		–
Weighted average contractual life remaining for share options outstanding at the period end (years)	–		0.04	
Weighted average fair value of options granted during the period (£)	–		–	
Range of exercise prices for options outstanding at the period end (£):				
– from	–		nil	
– to	–		nil	

a) Performance Share Plan
ii) No conditions other than employment

	52 weeks to 27 December 2008 Number	52 weeks to 27 December 2008 WAEP (£)	52 weeks to 29 December 2007 Number	52 weeks to 29 December 2007 WAEP (£)
In issue at beginning of period	315,500	nil	–	–
Granted in period	–	–	338,500	nil
Lapsed in period	(14,500)	nil	(17,500)	nil
Exercised in period	(13,000)	nil	(5,500)	nil
In issue at end of period	288,000	nil	315,500	nil
Exercisable at end of period	–	–	–	–
Number of options in the closing balance that were granted before 7 November 2002	–		–	
Weighted average share price for options exercised during the period		0.53		1.15
Weighted average contractual life remaining for share options outstanding at the period end (years)	1.42		2.42	
Weighted average fair value of options granted during the period (£)	–		1.50	
Range of exercise prices for options outstanding at the period end (£):				
– from	nil		nil	
– to	nil		nil	

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

	52 weeks to 27 December 2008 Number	52 weeks to 27 December 2008 WAEP (£)	52 weeks to 29 December 2007 Number	52 weeks to 29 December 2007 WAEP (£)
In issue at beginning of period	1,273,861	nil	–	–
Granted in period	–	–	1,273,861	nil
Lapsed in period	–	–	–	–
Exercised in period	(64,984)	nil	–	–
In issue at end of period	1,208,877	nil	1,273,861	nil
Exercisable at end of period	–	–	–	–
Number of options in the closing balance that were granted before 7 November 2002	–		–	
Weighted average share price for options exercised during the period		0.75		–
Weighted average contractual life remaining for share options outstanding at the period end (years)	1.42		2.42	
Weighted average fair value of options granted during the period (£)	–		1.50	
Range of exercise prices for options outstanding at the period end (£):				
– from	nil		nil	
– to	nil		nil	

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

	52 weeks to 27 December 2008 Number	52 weeks to 27 December 2008 WAEP (£)	52 weeks to 29 December 2007 Number	52 weeks to 29 December 2007 WAEP (£)
In issue at beginning of period	1,232,658	nil	–	–
Granted in period	–	–	1,232,658	nil
Lapsed in period	–	–	–	–
Exercised in period	(45,912)	nil	–	–
In issue at end of period	1,186,746	nil	1,232,658	nil
Exercisable at end of period	–	–	–	–
Number of options in the closing balance that were granted before 7 November 2002	–		–	
Weighted average share price for options exercised during the period		0.24		–
Weighted average contractual life remaining for share options outstanding at the period end (years)	2.00		3.00	
Weighted average fair value of options granted during the period (£)	–		1.08	
Range of exercise prices for options outstanding at the period end (£):				
– from	nil		nil	
– to	nil		nil	

Notes to the consolidated financial statements continued

b) Deferred Bonus Plan
i) pre-2008 grants

	52 weeks to 27 December 2008 Number	52 weeks to 27 December 2008 WAEP (£)	52 weeks to 29 December 2007 Number	52 weeks to 29 December 2007 WAEP (£)
In issue at beginning of period	643,807	nil	512,425	nil
Granted in period	–	–	187,181	nil
Lapsed in period	–	–	–	–
Exercised in period	(170,831)	nil	(55,799)	nil
In issue at end of period	472,976	nil	643,807	nil
Exercisable at end of period	–	–	–	–
Number of options in the closing balance that were granted before 7 November 2002	–		–	
Weighted average share price for options exercised during the period		0.82		1.64
Weighted average contractual life remaining for share options outstanding at the period end (years)	0.55		1.28	
Weighted average fair value of options granted during the period (£)	–		1.42	
Range of exercise prices for options outstanding at the period end (£):				
– from	nil		nil	
– to	nil		nil	

b) Deferred Bonus Plan
ii) 2008 grant

	52 weeks to 27 December 2008 Number	52 weeks to 27 December 2008 WAEP (£)	52 weeks to 29 December 2007 Number	52 weeks to 29 December 2007 WAEP (£)
In issue at beginning of period	–	–	–	–
Granted in period	1,371,881	nil	–	–
Lapsed in period	–	–	–	–
Exercised in period	–	–	–	–
In issue at end of period	1,371,881	nil	–	–
Exercisable at end of period	–	–	–	–
Number of options in the closing balance that were granted before 7 November 2002	–		–	
Weighted average share price for options exercised during the period		–		–
Weighted average contractual life remaining for share options outstanding at the period end (years)	2.01		–	
Weighted average fair value of options granted during the period (£)	0.79		–	
Range of exercise prices for options outstanding at the period end (£):				
– from	nil		–	
– to	nil		–	

c) Senior Management Co-investment Plan

	52 weeks to 27 December 2008 Number	52 weeks to 27 December 2008 WAEP (£)	52 weeks to 29 December 2007 Number	52 weeks to 29 December 2007 WAEP (£)
In issue at beginning of period	153,245	nil	502,748	nil
Granted in period	–	–	–	–
Lapsed in period	(153,245)	nil	(336,062)	nil
Exercised in period	–	–	(13,441)	nil
In issue at end of period	–	–	153,245	nil
Exercisable at end of period	–	–	–	–
Number of options in the closing balance that were granted before 7 November 2002	–		–	
Weighted average share price for options exercised during the period		–		1.17
Weighted average contractual life remaining for share options outstanding at the period end (years)	–		0.25	
Weighted average fair value of options granted during the period (£)	–		–	
Range of exercise prices for options outstanding at the period end (£):				
– from	–		nil	
– to	–		nil	

d) Executive Co-investment Plan
i) (a) 2007 award, PBT target

	52 weeks to 27 December 2008 Number	52 weeks to 27 December 2008 WAEP (£)	52 weeks to 29 December 2007 Number	52 weeks to 29 December 2007 WAEP (£)
In issue at beginning of period	7,710,000	nil	–	–
Granted in period	–	–	7,710,000	nil
Modified in period – see note below	(1,560,000)	nil	–	–
Exercised in period	–	–	–	–
In issue at end of period	6,150,000	nil	7,710,000	nil
Exercisable at end of period	–	–	–	–
Number of options in the closing balance that were granted before 7 November 2002	–		–	
Weighted average share price for options exercised during the period		–		–
Weighted average contractual life remaining for share options outstanding at the period end (years)	2.00		3.00	
Weighted average fair value of options granted during the period (£)	–		1.08	
Range of exercise prices for options outstanding at the period end (£):				
– from	nil		nil	
– to	nil		nil	

NOTE: the performance conditions for 1,560,000 options were modified during the year. These options are now shown in the table at (d) (i) (b) overleaf.

d) Executive Co-investment Plan
i) (b) 2007 award, individual non-market conditions

	52 weeks to 27 December 2008 Number	52 weeks to 27 December 2008 WAEP (£)	52 weeks to 29 December 2007 Number	52 weeks to 29 December 2007 WAEP (£)
In issue at beginning of period	–	–	–	–
Granted in period	1,560,000	nil	–	–
Lapsed in period	–	–	–	–
Exercised in period	–	–	–	–
In issue at end of period	1,560,000	nil	–	–
Exercisable at end of period	–	–	–	–
Number of options in the closing balance that were granted before 7 November 2002	–		–	
Weighted average share price for options exercised during the period		–		–
Weighted average contractual life remaining for share options outstanding at the period end (years)	2.57		–	
Weighted average fair value of options granted during the period (£)	0.69		–	
Range of exercise prices for options outstanding at the period end (£):				
– from	nil		–	
– to	nil		–	

d) Executive Co-investment Plan
(ii) (a) 2007 award, TSR target

	52 weeks to 27 December 2008 Number	52 weeks to 27 December 2008 WAEP (£)	52 weeks to 29 December 2007 Number	52 weeks to 29 December 2007 WAEP (£)
In issue at beginning of period	5,140,000	nil	–	–
Granted in period	–	–	–	–
Modified in period – see note below	(1,040,000)	nil	5,140,000	nil
Exercised in period	–	–	–	–
In issue at end of period	4,100,000	nil	5,140,000	nil
Exercisable at end of period	–	–	–	–
Number of options in the closing balance that were granted before 7 November 2002	–		–	
Weighted average share price for options exercised during the period		–		–
Weighted average contractual life remaining for share options outstanding at the period end (years)	2.00		3.00	
Weighted average fair value of options granted during the period (£)	–		0.55	
Range of exercise prices for options outstanding at the period end (£):				
– from	nil		nil	
– to	nil		nil	

NOTE: the performance conditions for 1,040,000 options were modified during the year. These options are now shown in the table at (d) (ii) (b).

d) Executive Co-investment Plan
ii) (b) 2007 award, 2009 PBT target

	52 weeks to 27 December 2008 Number	52 weeks to 27 December 2008 WAEP (£)	52 weeks to 29 December 2007 Number	52 weeks to 29 December 2007 WAEP (£)
In issue at start of period	–	–	–	–
Granted in period	1,040,000	nil	–	–
Lapsed in period	–	–	–	–
Exercised in period	–	–	–	–
In issue at end of period	1,040,000	nil	–	–
Exercisable at end of period	–	–	–	–
Number of options in the closing balance that were granted before 7 November 2002	–		–	
Weighted average share price for options exercised during the period		–		–
Weighted average contractual life remaining for share options outstanding at the period end (years)	2.57		–	
Weighted average fair value of options granted during the period (£)	0.69		–	
Range of exercise prices for options outstanding at the period end (£):				
– from	nil		–	
– to	nil		–	

e) Foundation Plan
i) 2006 award: Nil-Cost Option

	52 weeks to 2 7 December 2008 Number	52 weeks to 27 December 2008 WAEP (£)	52 weeks to 29 December 2007 Number	52 weeks to 29 December 2007 WAEP (£)
In issue at beginning of period	4,445,000	nil	4,445,000	nil
Granted in period	–	–	–	–
Lapsed in peiod	–	–	–	–
Exercised in period	–	–	–	–
In issue at end of period	4,445,000	nil	4,445,000	nil
Number of options in the closing balance that were granted before 7 November 2002	–		–	
Weighted average share price for options exercised during the period		–		–
Weighted average contractual life remaining for share options outstanding at the period end (years)	–		–	
Weighted average fair value of options granted during the period (£)	–		–	
Range of exercise prices for options outstanding at the period end (£):				
– from	nil		nil	
– to	nil		nil	

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

	52 weeks to 27 December 2008 Number	52 weeks to 27 December 2008 WAEP (£)	52 weeks to 29 December 2007 Number	52 weeks to 29 December 2007 WAEP (£)
In issue at beginning of period	5,850,760	0.92	11,270,000	0.92
Granted in period	–	–	–	–
Lapsed in period	–	–	(5,419,240)	0.92
Exercised in period	–	–	–	–
In issue at end of period	5,850,760	0.92	5,850,760	0.92
Number of options in the closing balance that were granted before 7 November 2002	–		–	
Weighted average share price for options exercised during the year		–		–
Weighted average contractual life remaining for share options outstanding at the period end (years)	–		–	
Weighted average fair value of options granted during the period (£)	–		–	
Range of exercise prices for options outstanding at the period end (£):				
– from	0.92		0.92	
– to	0.92		0.92	

e) Foundation Plan
iii) 2007 award: Nil-Cost Options

	52 weeks to 27 December 2008 Number	52 weeks to 27 December 2008 WAEP (£)	52 weeks to 29 December 2007 Number	52 weeks to 29 December 2007 WAEP (£)
In issue at beginning of period	3,930,000	nil	–	–
Granted in period	–	–	3,930,000	nil
Lapsed in period	–	–	–	–
Exercised in period	–	–	–	–
In issue at end of period	3,930,000	nil	3,930,000	nil
Exercisable at end of period	–	–	–	–
Number of options in the closing balance that were granted before 7 November 2002	–		–	
Weighted average share price for options exercised during the period		–		–
Weighted average contractual life remaining for share options outstanding at the period end (years)	–		–	
Weighted average fair value of options granted during the period (£)	–		1.01	
Range of exercise prices for options outstanding at the period end (£):				
– from	nil		nil	
– to	nil		nil	

f) Executive Share Options
i) 40% vesting if EPS growth = RPI+40% rising to 100% vesting if EPS growth = RPI+100%

	52 weeks to 27 December 2008 Number	52 weeks to 27 December 2008 WAEP (£)	52 weeks to 29 December 2007 Number	52 weeks to 29 December 2007 WAEP (£)
In issue at beginning of period	1,664,017	1.07	2,471,948	1.07
Granted in period	–	–	–	–
Lapsed in period	(767,944)	1.07	–	–
Exercised in period	–	–	(807,931)	1.07
In issue at end of period	896,073	1.07	1,664,017	1.07
Exercisable at end of period	896,073	1.07	–	–
Number of options in the closing balance that were granted before 7 November 2002	–		–	
Weighted average share price for options exercised during the period		–		1.45
Weighted average contractual life remaining for share options outstanding at the period end (years)	–		0.25	
Weighted average fair value of options granted during the period (£)	–		–	
Range of exercise prices for options outstanding at the period end (£):				
– from	1.07		1.07	
– to	1.07		1.07	

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

	52 weeks to 27 December 2008 Number	52 weeks to 27 December 2008 WAEP (£)	52 weeks to 29 December 2007 Number	52 weeks to 29 December 2007 WAEP (£)
In issue at beginning of period	1,328,009	1.27	5,189,279	1.11
Granted in period	–	–	–	–
Lapsed in period	–	–	(1,581,713)	1.20
Exercised in period	–	–	(2,279,557)	1.42
In issue at end of period	1,328,009	1.27	1,328,009	1.27
Exercisable at end of period	1,328,009	1.27	1,328,009	1.27
Number of options in the closing balance that were granted before 7 November 2002	1,328,009		1,328,009	
Weighted average share price for options exercised during the period		–		0.98
Weighted average contractual life remaining for share options outstanding at the period end (years)	–		–	
Weighted average fair value of options granted during the period (£)	–		–	
Range of exercise prices for options outstanding at the period end (£):				
– from	1.03		1.03	
– to	1.32		1.32	

Notes to the consolidated financial statements continued

f) Executive Share Options
iii) No other performance conditions except continued employment

	52 weeks to 27 December 2008 Number	52 weeks to 27 December 2008 WAEP (£)	52 weeks to 29 December 2007 Number	52 weeks to 29 December 2007 WAEP (£)
In issue at beginning of period	49,900	0.42	199,600	0.42
Granted in period	–	–	–	–
Lapsed in period	–	–	–	–
Exercised in period	–	–	(149,700)	0.42
In issue at end of period	49,900	0.42	49,900	0.42
Exercisable at end of period	49,900	0.42	49,900	0.42
Number of options in the closing balance that were granted before 7 November 2002	49,900		49,900	
Weighted average share price for options exercised during the period		–		1.43
Weighted average contractual life remaining for share options outstanding at the period end (years)	–		–	
Weighted average fair value of options granted during the period (£)	–		–	
Range of exercise prices for options outstanding at the period end (£):				
– from	0.42		0.42	
– to	0.42		0.42	

f) Executive Share Options
iv) Full vesting if EPS increases by RPI + 9%

	52 weeks to 27 December 2008 Number	52 weeks to 27 December 2008 WAEP (£)	52 weeks to 29 December 2007 Number	52 weeks to 29 December 2007 WAEP (£)
In issue at beginning of period	3,255,476	1.03	9,342,432	1.08
Granted in period	–	–	–	–
Lapsed in period	(562,490)	1.07	(2,770,517)	1.19
Exercised in period	(47,619)	0.91	(3,316,439)	1.47
In issue at end of period	2,645,367	1.02	3,255,476	1.03
Exercisable at end of period	2,645,367	1.02	1,711,434	1.05
Number of options in the closing balance that were granted before 7 November 2002	2,645,367		1,711,434	
Weighted average share price for options exercised during the period		0.63		0.92
Weighted average contractual life remaining for share options outstanding at the period end (years)	–		0.16	
Weighted average fair value of options granted during the period (£)	–		–	
Range of exercise prices for options outstanding at the period end (£):				
– from	0.63		0.56	
– to	1.39		1.60	

f) Executive Share Options

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

	52 weeks to 27 December 2008 Number	52 weeks to 27 December 2008 WAEP (£)	52 weeks to 29 December 2007 Number	52 weeks to 29 December 2007 WAEP (£)
In issue at beginning of period	5,570,978	1.59	–	–
Granted in period	–	–	5,570,978	1.59
Lapsed in period	(329,338)	1.59	–	–
Exercised in period	–	–	–	–
In issue at end of period	5,241,640	1.59	5,570,978	1.59
Exercisable at end of period	–	–	–	–
Number of options in the closing balance that were granted before 7 November 2002	–		–	
Weighted average share price for options exercised during the period		–		–
Weighted average contractual life remaining for share options outstanding at the period end (years)	1.42		2.42	
Weighted average fair value of options granted during the period (£)	–		0.43	
Range of exercise prices for options outstanding at the period end (£):				
– from	1.59		1.59	
– to	1.59		1.59	

g) Share incentive scheme (Freeshares)

	52 weeks to 27 December 2008 Number	52 weeks to 27 December 2008 WAEP (£)	52 weeks to 29 December 2007 Number	52 weeks to 29 December 2007 WAEP (£)
In issue at beginning of period	574,406	nil	941,942	nil
Granted in period	–	–	–	–
Lapsed in period	(29,513)	nil	(288,481)	nil
Exercised in period	(108,620)	nil	(79,055)	nil
In issue at end of period	436,273	nil	574,406	nil
Exercisable at end of period	436,273	nil	574,406	nil
Number of options in the closing balance that were granted before 7 November 2002	436,273		574,406	
Weighted average share price for options exercised during the period		0.53		0.92
Weighted average contractual life remaining for share options outstanding at the period end (years)	–		–	
Weighted average fair value of options granted during the period (£)	–		–	
Range of exercise prices for options outstanding at the period end (£):				
– from	nil		nil	
– to	nil		nil	

Notes to the consolidated financial statements continued

h) SAYE (Sharesave)

	52 weeks to 27 December 2008 Number	52 weeks to 27 December 2008 WAEP (£)	52 weeks to 29 December 2007 Number	52 weeks to 29 December 2007 WAEP (£)
In issue at beginning of period	927,180	1.84	1,940,063	1.84
Granted in period	–	–	–	–
Lapsed in period	(207,030)	1.84	(1,012,883)	1.84
Exercised in period	–	–	–	–
In issue at end of period	720,150	1.84	927,180	1.84
Exercisable at end of period	720,150	1.84	–	–
Number of options in the closing balance that were granted before 7 November 2002	–		–	
Weighted average share price for options exercised during the period		–		–
Weighted average contractual life remaining for share options outstanding at the period end (years)	–		1.01	
Weighted average fair value of options granted during the period (£)	–		–	
Range of exercise prices for options outstanding at the period end (£):				
– from	1.84		1.84	
– to	1.84		1.84	

3) Fair value of options granted

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

	52 weeks to 27 December 2008	52 weeks to 29 December 2007
Dividend yield (%)	0.71	2.00
Expected share price volatility (%)	46	36 to 39
Historical volatility (%)	46	36 to 39
Risk-free interest rate (%)	4.5	5.0 to 5.8
Expected life of options (years)	2.6	2.5 to 3.2

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.

32 Related party transactions

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

Trading transactions

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

	Howden Kitchens (Asia) Limited	
	2008 £m	2007 £m
Sale of goods and services during the period	–	0.1
Purchases of goods and services during the period	5.2	31.6
Amounts owed by related party at period end	–	0.6

Howden Kitchens (Asia) Limited was a related party because it was a joint venture during the period.

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

The amounts outstanding are unsecured and will be settled in cash, except for the £0.6m shown as owing from the joint venture at the end of 2007, which represented a prepayment for purchases and which was settled by the delivery of the purchased goods. No guarantees have been given or received.

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

Howden Kitchens (Asia) Limited has ceased to be a related party by the end of the current period, as the remaining 50% shareholding has been acquired by the group during the period and Howden Kitchens (Asia) Limited is now a subsidiary. The information above only relates to the company during the time it was a joint venture. Further details of the acquisition are given in note 34.

There are no other significant changes in related parties since 29 December 2007.

Remuneration of key management personnel

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

	52 weeks to 27 December 2008 £m	52 weeks to 29 December 2007 £m
Short-term employment benefits	3.0	3.1

Other transactions with key management personnel

There were no other transactions with key management personnel.

33 Financial risk management

a) Capital risk management

The Group manages its capital structure to maximise the return to shareholders through the optimisation of its debt and equity balance, trading-off the benefits of financial leverage with the expected future costs of financial distress.

The capital structure of the Group consists of debt (including the borrowings disclosed in note 23 offset by cash and cash equivalents) and equity attributable to equity holders of the parent (including issued share capital and reserves as disclosed in notes 26 and 27).

The Board of Directors reviews the capital structure regularly, including, but not limited to, the time of preparing annual budgets, preparing three year corporate plans, and considering corporate transactions. As part of this review, the Board reviews the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

The Group currently has a £175m commited bank facility secured against the assets of the Group and based on four sub-facilities (stock, trade receivables, property and a cash flow facility). The facility limit is the lower of £175m and the sum of the four sub-facilities. The property component (initially £17.4m) amortises at the rate of 1/96th each month, whereas the other components act as a revolving credit facility with no amortisation. Under the terms of the facility, none of the Group's principal subsidiary companies can sign up to additional secured borrowings, other than those expressly permitted within the terms of the facility. The facility (i) permits normal trade credit granted to it in the ordinary course of business; (ii) allows up to £10m of additional secured borrowings, and (iii) allows up to £10m of finance lease borrowing. The facilities expire in May 2011. Further information is shown in the Review of operations and finance.

b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 2 to the financial statements.

c) Categories of financial instruments

	27 December 2008 £m	29 December 2007 £m
Financial assets (current and non-current)		
Trade receivables	77.6	103.7
Cash and cash equivalents	21.2	33.6
Other assets	1.3	2.4
Financial liabilities (current and non-current)		
Trade payables	55.6	73.0
Borrowings	83.7	39.3

d) Financial risk management

General

The Group is exposed in varying degrees to a variety of financial instrument related risks. The Board has approved and monitors the risk management processes, inclusive of documented treasury policies, counterparty limits, controlling and reporting structures. The types of risk exposure, the way in which such exposure is managed, and the quantification of the level of exposure in the balance sheet is shown below (subcategorised into credit risk, liquidity risk and market risk). The Group is actively engaged in the management of all of these financial risks in order to minimise their potential adverse impact on the Group's financial performance.

The principles, practices and procedures governing the Group-wide financial risk management process have been approved by the Board and are overseen by the executive committee. In turn, the executive committee delegates authority to a central treasury function ('Group treasury') for the practical implementation of the financial risk management process across the Group and for ensuring that the Group's entities adhere to specified financial risk management policies. Group treasury regularly reassesses and reports on the financial risk environment, identifying and evaluating financial risks. The Group does not take positions on derivative contracts and only enters into contractual bank deposit or lending arrangements with counterparties that have investment grade credit ratings.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and demand deposits, together with short-term highly liquid investments which have a maturity of six months or less from the date of acquisition. Arrangements are in place to ensure that cash is utilised most efficiently for the ongoing working capital needs of the Group's operating units and to ensure that the Group earns the most advantageous rates of interest available. The prime consideration in the investment of cash balances is the security of the asset, followed by liquidity and then yield.

Management of trade receivables is discussed in note 21.

e) 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 mainly confined to the risk of customers defaulting on sales invoices raised. The Group has adopted a policy of only dealing with creditworthy counterparties as a way of mitigating the risk of financial loss from defaults.

The Group's policy on dealing with trade customers is described in the accounting policies and in note 21. Trade receivables consist of a large number of customers. Ongoing credit evaluation is performed on the financial condition of accounts receivable. The Group does not have any significant credit risk exposure to any single counterparty.

The Group limits exposure to credit risk on liquid funds and derivative financial instruments through adherence to a policy of minimum long-term counterparty credit ratings assigned by international credit-rating agencies (Standard and Poor's AA- and Moody's Aa3).

Full disclosure of the Group's maximum exposure to credit risk is presented in the following table:

	27 December 2008 £m	29 December 2007 £m
Trade receivables (net of allowance)	77.6	103.7
Cash and cash equivalents	21.2	33.6
Other assets	1.3	2.4
Total credit risk exposure	100.1	139.7

f) Liquidity risk
Liquidity risk is the risk that the Group could experience difficulties in meeting its commitments to creditors as financial liabilities fall due for payment. The Group manages its liquidity risk by using reasonable and retrospectively-assessed assumptions to forecast the future cash-generative capabilities and working capital requirements of the businesses it operates and by maintaining sufficient reserves, committed borrowing facilities and other credit lines as appropriate. Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has agreed an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities as far as is possible. Included in note 23 is a description of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk. In addition, the Financial Review contains a section describing the interaction of liquidity risk and the going concern review.

Maturity profile of outstanding financial liabilities
The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. the Group has no derivative financial liabilities. The tables have been drawn up on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

At 27 December 2008	Within 1 year Capital £m	Within 1 year Floating interest £m	Within 1 year Fixed interest £m	2 – 3 years Capital £m	2 – 3 years Floating interest £m	2 – 3 years Fixed interest £m	Total £m
Trade payables	55.6	–	–	–	–	–	55.6
Finance leases	1.7	–	0.2	1.8	–	0.1	3.8
Bank loan	1.7	3.0	–	78.5	4.2	–	87.4
	59.0	3.0	0.2	80.3	4.2	0.1	146.8

At 29 December 2007	Within 1 year Capital £m	Within 1 year Floating interest £m	Within 1 year Fixed interest £m	2 – 3 years Capital £m	2 – 3 years Floating interest £m	2 – 3 years Fixed interest £m	Total £m
Trade payables	73.0	–	–	–	–	–	73.0
Finance leases	1.1	–	0.1	2.1	–	0.1	3.4
Bank loan	2.2	2.5	–	33.9	1.0	–	39.6
	76.3	2.5	0.1	36.0	1.0	0.1	116.0

Note: it has been assumed that, where applicable, interest and foreign currency exchange rates prevailing at the reporting balance sheet date will not vary over the time periods remaining for future cash flows.

g) Market risk

This is the risk that financial instrument fair values will fluctuate owing to changes in market prices. The significant market risks to which the Group is exposed are foreign exchange risk, and interest rate risk. These are discussed further below:

Foreign exchange risk

The Group is exposed to several currencies, principally as a result of operating costs incurred in foreign currencies, and to a lesser extent, from non-Sterling revenues. The Group's policy is generally not to hedge such exposures. The exposure of the Group's financial assets and liabilities to currency risk is as follows:

	27 December 2008 £m	29 December 2007 £m
Euro		
Trade receivables	2.6	3.1
Cash and cash equivalents	3.2	3.4
Trade payables	(12.5)	(18.1)
	(6.7)	(11.6)
US Dollar		
Cash and cash equivalents	0.1	0.2
Trade payables	(0.9)	(3.5)
	(0.8)	(3.3)
Hong Kong Dollar		
Cash and cash equivalents	4.6	7.2
Trade payables	(1.1)	(1.8)
	3.5	5.4
Total	(4.0)	(9.5)

Interest rate risk

The Group is exposed to interest rate risk as the parent company has borrowed funds at floating interest rates. The Board has reviewed this risk of interest rate increases causing financial distress and concluded that hedging protection should only be considered if net borrowings or cash surpluses were to exceed £150m. The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Payments on the Group's finance leases are fixed on inception of the lease contract, and as such are regarded as fixed rate borrowings.

Notes to the consolidated financial statements continued

h) Financial instrument sensitivities

Financial instruments affected by market risk include borrowings, deposits, trade receivables and trade payables. The following analysis, required by IFRS 7, is intended to illustrate the sensitivity of the Group's financial instruments as at its year end to changes in market variables, being exchange rates and interest rates. The sensitivity analysis has been prepared on the basis that the components of net debt and the proportion of financial instruments in foreign currencies are all constant. For floating rate liabilities, the analysis is prepared assuming that the amount of liability outstanding at the year end date was outstanding for the whole year. As a consequence, this sensitivity analysis relates to the position as at the balance sheet date. The following assumptions were made in calculating the sensitivity analysis:

- All income statement sensitivities also impact equity.
- Debt and other deposits are carried at amortised cost and therefore carrying value does not change as interest rates move.
- No sensitivity is provided for accrued interest as accruals are based on pre-agreed interest rates and therefore are not susceptible to further rate movements.
- Finance lease interest payments are fixed at the inception of the contract and are not subject to repricing. They have therefore been excluded from this analysis.
- Translation of foreign subsidiaries and operations into the Group's presentation currency have been excluded from the sensitivity.

Using the above assumptions, the following analyses show the illustrative effect on the income statement and equity that would result from reasonably possible changes in the relevant foreign currency or interest rates:

Interest rate sensitivity

The sensitivity analysis below has been determined based on the exposure to interest rates for floating rate non-derivative instruments at the balance sheet date. The Group holds no derivative financial instruments. Fixed rate liabilities are not susceptible to changes in interest rates, and are omitted from the analysis below. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the balance sheet date was outstanding for the whole year. A 50 basis points decrease is used as this represents management's assessment of the possible change in interest rates.

At the reporting date, if interest rates had been 50 basis points lower and all other variables were held constant, the Group's net profit and profit and loss reserve would increase by £0.4m (2007: £0.2m).

For an increase of 50 bps, the numbers shown above would have the opposite sign.

Foreign exchange sensitivity

As noted above, the Group is mainly exposed to movements in Euros and US dollars rates, the Hong Kong dollar being effectively pegged to the US dollar. The following table details the Group's sensitivity to a 10% weakening or strengthening in pounds Sterling against the Euro, the US Dollar and the Hong Kong dollar. These percentages are the rates used by management when assessing sensitivities internally and represent management's assessment of the possible change in foreign currency rates. The sensitivity analysis of the Group's exposure to foreign currency risk at the reporting date has been determined based on the change taking place at the beginning of the financial year and held constant throughout the reporting period.

	27 December 2008	29 December 2007
	£m	£m
10% weakening of Sterling to Euro	(0.7)	(1.3)
10% strengthening of Sterling to Euro	0.6	1.1
10% weakening of Sterling to US dollar	(0.1)	(0.4)
10% strengthening of Sterling to US dollar	0.1	0.3
10% weakening of Sterling to Hong Kong dollar	0.4	0.6
10% strengthening of Sterling to Hong Kong dollar	(0.3)	(0.5)

34 Acquisition

On 7 March 2008, the Group bought the remaining 50% of Howden Kitchens (Asia) Limited, a company registered in Hong Kong. Prior to this transaction, the Group held 50% of the share capital and voting rights of this company, and the Group accounted for the company as a joint venture. Following this transaction, Howden Kitchens (Asia) Limited is now a 100% owned Group subsidiary, and is accounted for as such.

The details of the acquisition are as follows:

	Book values and fair values of the 50% share acquired £m	Provisional fair values acquired £m
Property, plant and equipment	0.1	0.1
Trade receivables	0.7	0.7
Cash and cash equivalents	3.8	3.8
Trade payables	(2.5)	(2.5)
Other payables	(0.1)	(0.1)
Total	2.0	2.0
Provisional goodwill acquired		2.5
Total consideration		4.5
Total consideration satisfied by:		
Cash paid		4.4
Directly attributable costs		0.1
Total consideration		4.5
Net cash flow arising on acquisition:		
Cash consideration		(4.4)
Cash and cash equivalents acquired		3.8
Net cash outflow arising on acquisition of remaining 50% of joint venture		(0.6)
Plus: cash element of the Group's original 50% holding (see note* below)		3.8
Total cash inflow arising		3.2

Prior to acquiring the remaining 50% of the joint venture, the Group did not consolidate its proportion of the joint venture's assets and liabilities. On acquiring the remaining 50%, these assets and liabilities associated with the Group's original 50% holding were now consolidated onto the Group balance sheet. Thus, the total cash inflow as a result of acquiring the remaining 50% of the joint venture includes the £3.8m acquired on 7 March 2008, as well as the additional £3.8m associated with the Group's original 50% holding, but which never previously appeared on the Group's balance sheet.

The provisional goodwill arising is attributable to the anticipated profitability and operating efficiencies which the acquired company is expected to contribute to the Group.

All turnover of Howden Kitchens (Asia) Limited is intra-group turnover, so it is all eliminated on consolidation. Howden Kitchens (Asia) Limited contributed £0.1m profit before tax to the Group in the period between the date of acquisition and the period end.

If the acquisition of Howden Kitchens (Asia) Limited had been completed on the first day of the current period, Group revenues for the period would have remained unchanged, for the reason given above, and Group loss attributable to equity holders of the parent company would have been £51.2m for the current 52 week period.

There are no other significant changes in related parties since 29 December 2007.

Independent auditors' report on the consolidated Group accounts

We have audited the group financial statements of Galiform Plc for the 52 weeks ended 27 December 2008 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 34. These group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the parent company financial statements of Galiform Plc for the 52 weeks ended 27 December 2008.

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. The information given in the Directors' Report includes that specific information presented elsewhere in the Annual Report that is cross referred from the Business Review section of the Directors' Report.

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 director's remuneration and other transactions is not disclosed.

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

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 27 December 2008 and of its loss for the 52 weeks then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the part of the directors' remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the group financial statements.

Deloitte LLP
Chartered Accountants and
Registered Auditors

London, United Kingdom
4 March 2009

Company balance sheet

	Notes	27 December 2008 £m	29 December 2007 £m
Fixed assets			
Investments	3	706.0	701.5
Current assets			
Debtors	4	6.8	15.1
Cash at bank and in hand		–	5.0
		6.8	20.1
Current liabilities			
Creditors: amounts falling due within one year	5	(181.0)	(203.9)
Net current assets		(174.2)	(183.8)
Total assets less current liabilities		531.8	517.7
Non-current liabilities			
Creditors: amounts falling due after more than one year	6	(78.5)	(33.9)
Provisions	7	(87.3)	(1.0)
Net assets		366.0	482.8
Equity			
Called up share capital	8	63.4	63.4
Share premium account	9	85.1	85.0
Retained earnings reserve	9	217.5	334.4
Total equity		366.0	482.8

These financial statements were approved by the Board on 4 March 2009 and were signed on its behalf by Mark Robson, director.

Notes to the company balance sheet continued

1 Significant company accounting policies

Basis of presentation

The Company's accounting period covers the 52 weeks to 27 December 2008. The comparative period covered the 52 weeks to 29 December 2007.

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. They have also been prepared on the going concern basis as described in the going concern statement in the Corporate Governance Report on page 42 of the Group's Annual Report.

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.

Related parties

The Company has taken advantage of paragraph 3(c) of Financial Reporting Standard 8 ("Related Party Disclosures") not to disclose transactions with Group entities or investees of the Group qualifying as related parties.

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 52 weeks to 27 December 2008 was a loss of £113.9m (52 weeks to 29 December 2007: loss after tax for the period of £69.0m).

The Company has no employees (2007: none), did not pay directors' emoluments (2007: £nil), and the Company's audit fees (£10,000 in both current and prior periods) were borne by a fellow Group undertaking.

3 Investments

Cost and carrying value:	Shares in subsidiary undertakings £m	Long-term loans to subsidiary undertakings £m	Other unlisted investments £m	Total £m
At 29 December 2007	2.5	698.9	0.1	701.5
Additions	4.5	–	–	4.5
Transfers	0.1	–	(0.1)	–
At 27 December 2008	7.1	698.9	–	706.0

Details of principal subsidiary undertakings are given on page 109.

The other unlisted investment at the beginning of the period represents a 50% holding in Howden Kitchens (Asia) Limited. At the beginning of the period, this company was a joint venture. During the year, the company bought the remaining 50% of the company, and it is now accounted for as a subsidiary.

Details of the acquisition are given in note 11.

4 Debtors

	27 December 2008 £m	29 December 2007 £m
Other debtors	0.8	3.9
Corporation tax	6.0	11.2
	6.8	15.1

5 Creditors: amounts falling due within one year

	27 December 2008 £m	29 December 2007 £m
Other tax and social security	4.4	0.3
Current portion of long-term bank loan	1.7	2.2
Owed to subsidiaries	174.3	160.1
Other creditors	–	22.8
Accruals and deferred income	0.6	18.5
	181.0	203.9

6 Creditors: amounts falling due after more than one year

	27 December 2008 £m	29 December 2007 £m
Long-term portion of bank loan	78.5	33.9

	27 December 2008 £m	29 December 2007 £m
The borrowings are repayable as follows:		
Current liabilities:		
On demand or within one year	2.5	2.2
Less prepaid issue fees set against cost of loan	(0.8)	–
On demand or within one year	1.7	2.2
Non-current liabilities:		
In the second year	1.8	2.2
In the third to fifth years inclusive	77.9	32.7
Less prepaid issue fees set against cost of loan	(1.2)	(1.0)
	78.5	33.9
Total borrowings	80.2	36.1

All borrowings are in sterling.

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

52 weeks to 27 December 2008 %	52 weeks to 29 December 2007 %
7.0	7.9

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

27 December 2008 £m	29 December 2007 £m
80.2	36.1

7 Provisions

	Property provision £m	Other provision £m	Total £m
At 29 December 2007	–	1.0	1.0
Additional provision in the period	86.2	1.1	87.3
Utilisation of provision in the period	–	(1.0)	(1.0)
At 27 December 2008	86.2	1.1	87.3

The property provision mainly covers onerous leases. For any such leases, the Group provides for any shortfall between rent payable and rent receivable on any non-trading leased properties. The provision is based on the period until the end of the lease, or until the Group can cover the shortfall by subletting, assigning or surrendering the lease. The property provision also includes amounts for any related shortfalls in business rates on these properties, and for dilapidations, agents' fees and other professional fees.

The additions to the property provision in the current period are included in the £99.7m exceptional item relating to discontinued operations which is shown in note 6(b) to the consolidated financial statements. There is a discussion of the main sources of estimation and uncertainty which apply to this provision at note 3 to the consolidated financial statements. The amount of the expected future cashflows have been adjusted to reflect the expected range of possibilities and, as the outflows under this provision are expected to take place over a number or years, the provision has been discounted to its present value.

Other provisions relate to amounts due in respect of contractual terminations.

8 Share capital

Ordinary shares of 10p each	52 weeks to 27 December 2008 Number	52 weeks to 29 December 2007 Number	52 weeks to 27 December 2008 £m	52 weeks to 29 December 2007 £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	633,783,210	631,659,746	63.4	63.2
Issued during the period	132,119	2,123,464	–	0.2
Balance at the end of the period	633,915,329	633,783,210	63.4	63.4

9 Reconciliation of movements in equity shareholders' funds

	Called up share capital £m	Share premium account £m	Retained earnings £m	Total £m
At 29 December 2007	63.4	85.0	334.4	482.8
Retained loss for the period	–	–	(113.9)	(113.9)
Dividend paid	–	–	(3.0)	(3.0)
Shares issued	–	0.1	–	0.1
At 27 December 2008	63.4	85.1	217.5	366.0

Notes to the company balance sheet continued

10 Contingent liabilities

(a) Relating to Sofa Workshop

This Group used to own Sofa Workshop Limited ("Sofa Workshop"). Sofa Workshop was sold to a third party in the period to 30 December 2006. Following the sale, the Company remained the guarantor of leases in relation to up to 12 properties which were held by Sofa Workshop and used in their business. The Company's guarantees are triggered if Sofa Workshop defaults on its obligations under the leases, for example because it is suffering financial distress.

It was previously management's assessment that any possibility of the Company having an obligation under the guarantees was remote. However, late in 2008, shortly before the current period end, the Company became aware that Sofa Workshop had made an application to appoint an administrator. In management's opinion the application to appoint an administrator increases the possibility that the Company has a possible obligation, and therefore it is appropriate to disclose a contingent liability.

It is currently uncertain as to what will happen to the Sofa Workshop business during its administration. If Sofa Workshop were to cease meeting its liabilities under the leases of the 12 properties, the Company would become liable for them. The Company's best estimate of the current annual rent payable on these properties is £1.0m. If the liability were to crystallise, there may also be rates and other associated costs which may become payable. The remaining lease terms range from less than 1 year to just over 11 years, with an average remaining term of just under 6.5 years from the current period end.

(b) Other guarantees

The Company has guaranteed a US$12m (2007: US$10.0m) letter of credit facility from Standard Chartered Bank in favour of Howden Kitchens (Asia) Limited's suppliers. This contingency would only trigger in the event that Howden Kitchens (Asia) Limited fails to honour its obligations under the terms of the facility.

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

There is a Group VAT registration cross-guarantee under which if one Group company fails to pay its VAT then the other Group companies are jointly and severally liable. The amount outstanding on this guarantee at the period end is £10.7m (2007: £11.3m).

The Company, together with other Group companies, has guaranteed the obligations under the £175m committed bank facility.

11 Acquisition

On 7 March 2008, the Company bought the remaining 50% of Howden Kitchens (Asia) Limited, a company registered in Hong Kong. Prior to this transaction, the Company held 50% of the share capital and voting rights of this company, and the accounted for the company as a joint venture. Following this transaction, Howden Kitchens (Asia) Limited is now a 100% owned subsidiary of the Company, and is accounted for as such.

The details of the acquisition are as follows:

	Book values and fair values of the 50% share acquired £m	Provisional fair values acquired £m
Property, plant and equipment	0.1	0.1
Trade receivables	0.7	0.7
Cash and cash equivalents	3.8	3.8
Trade payables	(2.5)	(2.5)
Other payables	(0.1)	(0.1)
Total	2.0	2.0
Provisional goodwill acquired		2.5
Total consideration		4.5
Total consideration satisfied by:		
Cash paid		4.4
Directly attributable costs		0.1
Total consideration		4.5

Independent auditors' report on the Company

We have audited the parent company financial statements of Galiform Plc for the 52 weeks ended 27 December 2008 which comprise the balance sheet and the related notes 1 to 11. These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the group financial statements of Galiform Plc for the 52 weeks ended 27 December 2008 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 and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 27 December 2008;
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the parent company financial statements.

Deloitte LLP
Chartered Accountants and Registered Auditors

London, United Kingdom
4 March 2009

Parent company and principal subsidiary undertakings at 27 December 2008

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

* The Company ultimately owns 100% of the ordinary share capital of all of the above mentioned companies. 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
	December 2008 52 weeks £m	December 2007 52 weeks £m	December 2006 53 weeks £m	December 2005 52 weeks £m	December 2004* 52 weeks £m
Summarised income statement					
Revenue – continuing operations	805.7	976.5	733.0	621.8	1,395.2
Revenue – discontinued operations	–	–	546.8	930.4	119.4
	805.7	976.5	1,279.8	1,552.2	1,514.6
Operating profit – continuing operations	80.6	51.8	32.5	40.8	30.8
Operating profit – discontinued operations	(108.8)	(11.1)	(179.6)	(144.4)	1.6
Share of joint venture operating profit/(loss)	0.1	0.9	1.0	0.6	(2.1)
	(28.1)	41.6	(146.1)	(103.0)	30.3
Profit on continuing ordinary activities before tax	74.3	79.8	57.2	42.5	20.6
Dividend per share (pence)	–	0.5	–	2.0	4.0
Basic EPS – (pence)	9.2	8.8	1.0	1.1	1.3
Summarised balance sheet					
Total non-current assets**	155.7	152.5	169.3	357.2	403.4
Inventories	121.3	101.0	126.1	173.5	238.4
Receivables	99.2	122.3	102.4	134.5	217.9
Payables and provisions	(250.6)	(251.9)	(282.0)	(271.4)	(372.8)
Pension liability	(122.2)	(83.5)	(189.2)	(297.1)	(206.2)
	(152.3)	(112.1)	(242.7)	(260.5)	(122.7)
Net borrowings	(61.2)	(3.3)	(4.1)	(55.5)	(62.2)
Total net (liabilities)/assets	(57.8)	37.1	(77.5)	41.2	218.5

* Not restated for FRS17, or for the disposal of UK Retail.

** Includes assets held for resale, which are held in the Balance Sheet as part of current assets.

Number of outlets at end of year					
Howden Joinery	454	436	382	342	320
Houdan France	11	11	11	11	–
Capital expenditure (£m)	19	21	30	48	83

Shareholder information as at 27 December 2008

	Number of holders	Percentage of holders	Number of shares	Percentage of shares
Corporate holders				
0 to 1,000	87	0.9	40,427	–
1,001 to 5,000	140	1.4	401,208	0.1
5,001 to 10,000	58	0.6	453,106	0.1
10,001 to 50,000	100	1.0	2,542,397	0.4
50,001 to 100,000	46	0.5	3,583,375	0.6
100,001 to 250,000	57	0.6	9,671,668	1.5
250,001 to max	134	1.3	598,281,345	94.3
	622	6.3	614,973,526	97.0
Individual holders				
0 to 1,000	6,829	68.1	2,950,253	0.5
1,001 to 5,000	2,048	20.4	4,984,168	0.8
5,001 to 10,000	325	3.2	2,404,393	0.4
10,001 to 50,000	180	1.8	3,504,137	0.6
50,001 to 100,000	13	0.1	866,559	0.1
100,001 to 250,000	9	0.1	1,558,954	0.2
250,001 to max	3	–	2,673,339	0.4
	9,407	93.7	18,941,803	3.0
Total	10,029	100.0	633,915,329	100.0

Registrar and shareholder enquiries

For information about the management of shareholdings, the corporate website www.galiform.com has a 'Shareholder FAQs' section that provides answers to commonly asked questions.

Assistance can also be obtained from our registrar, Computershare, as follows:

Computershare Investor Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol, BS99 7NH
Telephone 0870 707 1148

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

Institutional investors and analysts should contact:

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

Electronic communications

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

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

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

Unsolicited mail

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

Advisers and committees

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Angus Cockburn (Chairman)
Ian Smith
Peter Wallis
Michael Wemms

Executive Committee
Matthew Ingle
Mark Robson
Rob Fenwick
Chris Youell
David Hallett
Andy Witts

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

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

Corporate timetable

30 April 2009	Interim Management Statement
15 May 2009	Annual General Meeting
22 July 2009*	Half year Report for the 24 weeks ended 13 June 2009 announced
12 November 2009*	Interim Management Statement
26 December 2009	End of 2009 financial year

*dates are based on current expectations