Dunelm Group Limited

Directors' report and financial statements

Registered number 4708277

2 July 2005

Company information

Directors	W Adderley WL Adderley DA Stead MJ Sears GI Cooper
Secretary	DA Stead
Company number	4708277
Registered office	Fosse Way Syston Leicestershire LE7 1NF
Auditors	KPMG LLP 1 Waterloo Way Leicester LE1 6LP
Bankers	Barclays Bank Plc 15 Colmore Row Birmingham B3 2WN

Contents

Directors' report

The directors present their annual report and the audited financial statements for the financial period ended 2 July 2005.

Principal activities

Dunelm Group Limited is a holding company for a group of companies whose principal activity is the retail of soft furnishings and other home wares.

Business review and future developments

The group has enjoyed another successful year of trading. The directors intend to continue growing the business through new store openings as well as increasing volumes in existing stores.

Proposed dividend and transfer to reserves

Dividends amounting to £12,200,000 were paid on the ordinary shares.

After dividends, retained profit amounted to £15,007,000; (*2004 £14,247,000*).

Directors and directors' interests

The directors who held office during the period and their interests in the ordinary shares of the company were as follows:

	2 July 2005 Ordinary shares of £1 each	**30 June 2004 Ordinary shares of £1 each**
GI Cooper	-	-
W Adderley	*1,500,000	*1,500,000
WL Adderley	250,000	250,000
DA Stead	-	-
MJ Sears	-	-

*includes 750,000 relating to spouse's shareholding

According to the register of directors' interests, no rights to subscribe for shares in or debentures of the company (or any other group company) were granted to any of the directors or their immediate families, or exercised by them, during the financial year, (except as indicated below):

	At start of year	**Number of options during the year Granted**	**Exercised**	**At end of year**	**Exercise price £**	**Market price at date of exercise £**	**Date from which exercisable**	**Expiry Date**
DA Stead	4,000	-	-	4,000	43.35	-	17.12.06	17.12.13
DA Stead	-	2,000	-	2,000	46.00	-	17.09.07	17.09.14
GI Cooper	-	1,522	-	1,522	46.00	-	17.09.07	17.09.14
MJ Sears	-	652	-	652	46.00	-	17.09.07	17.09.14

The options held by DA Stead are exercisable only on condition that the company becomes listed on the London Stock Exchange. The options held by GI Cooper and MJ Sears are exercisable on the same condition and at the time of listing only.

Directors' report *(continued)*

Employees

The group is an equal opportunities employer. It recognises its social and statutory duties to employ disabled persons and pursues a policy of providing, wherever possible, the same employment opportunities to disabled persons as to others.

The group places considerable value on the involvement of its employees and continues its practice of consulting and discussing with employees matters likely to affect their interests.

Information on matters of concern to employees is given through bulletins, reports and an in house news letter.

Donations

During the year the group made charitable contributions of £75,000.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

WL Adderley
Director

W. Add

Fosse Way
Syston
Leicestershire

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

KPMG

1 Waterloo Way
Leicester
LE1 6LP
United Kingdom

Report of the independent auditors to the members of Dunelm Group Limited

We have audited the financial statements on pages 5 to 19.

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 auditor's 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 are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions with the company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the 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 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 financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the group's and company's affairs as at 2 July 2005 and of its profit for the financial period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

Chartered Accountants
Registered Auditor

19 April 2006

Consolidated profit and loss account

for the financial period ended 2 July 2005

	Note	2005 £000	2004 £000
Turnover	*1, 2*	**282,530**	238,902
Cost of sales		**(196,874)**	(170,836)
Gross profit		**85,656**	68,066
Administrative expenses		**(47,439)**	(36,394)
Operating profit		**38,217**	31,672
Interest receivable	*6*	**1,130**	638
Interest payable and similar charges	*7*	**(73)**	(270)
Profit on ordinary activities before taxation	*3*	**39,274**	32,040
Tax on profit on ordinary activities	*8*	**(12,067)**	(9,793)
Profit on ordinary activities after taxation		**27,207**	22,247
Dividends on equity shares	*9*	**(12,200)**	(8,000)
Retained profit for the financial period	*18*	**15,007**	14,247

The profit and loss account has been prepared on the basis that all operations are continuing operations.

Movements on reserves are set out in note 18 to the financial statements.

There are no recognised gains or losses other than those included above.

Consolidated balance sheet
at 2 July 2005

	Note	2005 £000	2004 £000
Fixed assets			
Tangible assets	*10*	**54,050**	42,395
Current assets			
Stocks	*12*	**45,121**	32,986
Debtors	*13*	**7,388**	4,171
Cash at bank and in hand		**12,053**	15,049
		64,562	52,206
Creditors: amounts falling due within one year	*14*	**(42,488)**	(33,275)
Net current assets		**22,074**	18,931
Total assets less current liabilities		**76,124**	61,326
Creditors: amounts falling due after one year	*15*	**(73)**	(501)
Provisions for liabilities and charges	*16*	**(510)**	(291)
Net assets		**75,541**	60,534
Capital and reserves			
Called up share capital	*17*	**2,000**	2,000
Profit and loss account	*18*	**73,541**	58,534
Shareholders' funds			
Equity		**75,541**	60,534

These financial statements were approved by the board of directors on 7 April 2006 and were signed on its behalf by:

WL Adderley
Director

W. Add

Company balance sheet
at 2 July 2005

	Note	2005 £000	2004 £000
Fixed assets			
Investment in subsidiaries	*11*	**2,000**	2,000
Current assets			
Debtors	*13*	**44,941**	16,934
Cash at bank and in hand		**-**	1
		44,941	16,935
Creditors: amounts falling due within one year	*14*	**(86)**	(20)
Net current assets		**44,855**	16,915
Total assets less current liabilities		**46,855**	18,915
Creditors: amounts falling due after one year	*15*	**-**	-
Net assets		**46,855**	18,915
Capital and reserves			
Called up share capital	*17*	**2,000**	2,000
Profit and loss account	*18*	**44,855**	16,915
Shareholders' funds			
Equity		**46,855**	18,915

These financial statements were approved by the board of directors on 7 April 2006
and were signed on its behalf by:

WL Adderley
Director

Consolidated cash flow statement

for the financial period ended 2 July 2005

	Note	2005 £000	2004 £000
Cash flow from operating activities	*21*	**40,249**	36,001
Returns on investments and servicing of finance	*21*	**1,081**	404
Taxation		**(11,205)**	(6,316)
Capital expenditure	*21*	**(18,370)**	(22,517)
Equity dividends paid		**(12,200)**	(8,000)
Decrease in cash in the financial period		**(445)**	(428)
Reconciliation of net cash flow to movement in net funds	*22*		
Decrease in cash in the financial period		**(445)**	(428)
Non cash changes		**(24)**	(713)
Movement in cash in the financial period		**(469)**	(1,141)
Net cash at the start of the financial period		**11,980**	13,121
Net cash at the end of the financial period		**11,511**	11,980

Reconciliation of movements in Group shareholders' funds
for the financial period ended 2 July 2005

	2005 £000	2004 £000
Profit for the financial period	**27,207**	22,247
Dividends (note 9)	**(12,200)**	(8,000)
Net addition to shareholders' funds	**15,007**	14,247
Opening shareholders' funds	**60,534**	46,287
Closing shareholders' funds	**75,541**	60,534

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the group's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 2 July 2005.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation.

Depreciation is provided by the group to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	-	50 years
Leasehold improvements	-	over the period of the lease
Office equipment	-	5 years
Fixtures and fittings	-	4 years
Motor vehicles	-	4 years
Plant and machinery	-	5 years
Computer equipment	-	3 years

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors.

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Pension and other retirement benefits

The group operates a defined contribution scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Stocks

Stocks are stated at the lower of cost and net realisable value.

Taxation

The charge for taxation is based on the profit for the year

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Notes *(continued)*

1 Accounting policies *(continued)*

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods to customers.

Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand. Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise investments in money market managed funds.

2 Analysis of turnover and profit on ordinary activities before taxation

In the financial period the group had only one class of business, retail, and it operated entirely in the UK market.

3 Profit on ordinary activities before taxation

	2005	2004
	£000	£000
Profit on ordinary activities before taxation is stated		
after charging		
Auditors' remuneration:		
Audit - group	**42**	35
- company	**2**	2
Other services - fees paid to the auditor and its associates	**247**	87
Depreciation and other amounts written off tangible fixed assets:		
Owned	**6,198**	4,182
Leased	**381**	314
Impairment loss	**631**	150
Hire of other assets - rentals payable under operating leases		
Land and buildings	**14,423**	8,585
Other	**1,112**	1,026
Loss on disposal of tangible fixed assets	**-**	96
after crediting		
Profit on disposal of tangible fixed assets	**495**	-

Notes *(continued)*

4 Remuneration of directors

	2005 £000	2004 £000
Directors' emoluments	**378**	370
	378	370

	Number of directors 2005	2004
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	**1**	1

The aggregate of emoluments of the highest paid director was £160,000.

5 Staff numbers and costs

The average number of persons employed by the group (including directors) during the financial period, analysed by category, was as follows:

	Number of employees 2005	2004
Administration	**104**	57
Sales	**4,184**	3,979
Distribution	**156**	137
	4,444	4,173

The aggregate payroll costs of these persons were as follows:

	2005 £000	2004 £000
Wages and salaries	**31,545**	27,467
Social security costs	**1,840**	1,587
Other pension costs	**54**	43
	33,439	29,097

Notes *(continued)*

6 Interest receivable

	2005 £000	2004 £000
Bank interest receivable	**1,130**	638

7 Interest payable

	2005 £000	2004 £000
On bank loans and overdrafts	**3**	195
On finance leases	**70**	75
	73	270

8 Taxation

Analysis of charge in the year

	2005 £000	2004 £000
UK corporation tax		
Current tax on income for the year	**12,001**	9,695
Adjustments in respect of prior years	**(9)**	(193)
Total current tax	**11,992**	9,502
Deferred tax		
Origination of timing differences	**71**	242
Adjustment in respect of prior years	**4**	49
Total deferred tax	**75**	291
Tax on profit on ordinary activities	**12,067**	9,793

Factors affecting the tax charge for the current period

The current tax charge for the period is higher (*2004: lower*) than the standard rate of corporation tax in the UK, 30% (*2004: 30%*). The differences are explained below.

	2005 £000	2004 £000
Current tax reconciliation		
Profit on ordinary activities before tax	**39,274**	32,040
Current tax at 30% *(2004: 30%)*	**11,782**	9,612
Effects of:		
Expenses not deductible for tax purposes	**48**	422
Capital allowances for the year in excess of depreciation	**(67)**	(242)
Lease incentive deductions	**(288)**	(360)
Depreciation on assets not qualifying for capital allowances	**571**	263
Adjustments to tax charge in respect of prior years	**(9)**	(193)
Profit on disposal in excess of capital gain	**(45)**	-
Total current tax charge (see above)	**11,992**	9,502

Notes *(continued)*

9 Dividends and other appropriations

	2005	2004
	£000	£000
Equity shares:		
Interim dividend paid	**12,200**	8,000

10 Tangible fixed assets - group

	Freehold land and buildings	Leasehold improvements	Plant and machinery	Motor vehicles	Fixtures and fittings	Total
	£000	£000	£000	£000	£000	£000
Cost						
At beginning of year	23,065	11,199	-	640	14,862	49,766
Additions	2,063	10,557	50	-	6,415	19,085
Disposals	(188)	(19)	-	(193)	(29)	(429)
At end of year	24,940	21,737	50	447	21,248	68,422
Depreciation						
At beginning of year	837	1,261	-	512	4,761	7,371
Charge for financial period	351	1,418	-	91	4,719	6,579
On disposals	(3)	(8)	-	(185)	(13)	(209)
Impairment	-	228	-	-	403	631
At end of year	1,185	2,899	-	418	9,870	14,372
Net book value						
At 2 July 2005	**23,755**	**18,838**	**50**	**29**	**11,378**	**54,050**
Net book value						
At 30 June 2004	22,228	9,938	-	128	10,101	42,395

Included in the total net book value of fixtures and fittings is £732,000 in respect of assets held under hire purchase contracts. Depreciation for the year on these assets was £371,000. Included in the net book value of motor vehicles is £20,000 in respect of assets held under hire purchase contracts. Depreciation for the year on these assets was £10,000.

Included in the total net book value of freehold land and buildings is £5,889,000 in respect of land.

Dunelm Group Limited has no tangible fixed assets.

Notes *(continued)*

11 Fixed asset investments

Dunelm Group Limited has the following investments in subsidiaries:

	2005
	£
Cost and net book value	
At beginning and end of the financial period	**2,000**

Subsidiary undertaking	**Country of incorporation**	**Class and percentage of shares held**
Dunelm Estates Limited	UK	Ordinary shares 100%
Dunelm (Soft Furnishings) Limited	UK	Ordinary shares 100%
Dunelm Card Services Limited	UK	Ordinary shares 100%
Dunelm Limited	UK	Ordinary shares 100%

12 Stocks

	Group	
	2005	2004
	£000	£000
Finished goods and goods for resale	**45,121**	32,986

The company has no stock.

13 Debtors

	Group	**Company**	Group	Company
	2005	**2005**	2004	2004
	£000	**£000**	£000	£000
Trade debtors	**483**	**-**	131	-
Amounts owed by group undertakings	**-**	**44,935**	-	16,934
Other debtors	**1,630**	**6**	864	-
Prepayments and accrued income	**5,275**	**-**	3,176	-
	7,388	**44,941**	4,171	16,934

Notes *(continued)*

14 Creditors: amounts falling due within one year

	Group 2005 £000	Company 2005 £000	Group 2004 £000	Company 2004 £000
Bank loans and overdrafts	-	-	2,078	-
Obligations under hire purchase contracts	469	-	490	-
Trade creditors	26,829	5	15,696	-
Taxation and social security	192	-	2,956	20
Corporation tax	5,889	75	5,103	-
Other creditors	47	-	12	-
Accruals and deferred income	9,062	6	6,940	-
	42,488	86	33,275	20

15 Creditors: amounts falling due after more than one year

	Group 2005 £000	Company 2005 £000	Group 2004 £000	Company 2004 £000
Obligations under hire purchase contracts	73	-	501	-

The maturity of obligations under hire purchase contracts is as follows:

	Group 2005 £000	Group 2004 £000
Within one year	469	490
In second to fifth years	73	501
	542	991

16 Provisions for liabilities and charges

	Other £000	Group deferred tax £000	Total £000
At beginning of the financial period	-	291	291
Charge to profit and loss for the financial period	144	75	219
At end of financial period	144	366	510

The other provision relates to onerous leases held by Dunelm Soft Furnishings Limited.

The elements of deferred taxation are as follows:

	2005 £000	2004 £000
Difference between accumulated depreciation and amortisation and capital allowances	366	291

Notes *(continued)*

17 Called up share capital

	2005	2004
	£000	£000
Authorised		
Equity: Ordinary shares of £1 each	**5,000**	5,000
Allotted, called up and fully paid		
Equity: Ordinary shares of £1 each	**2,000**	2,000

18 Reserves

	Group Profit and loss account	**Company Profit and loss account**
	£000	**£000**
At beginning of financial period	58,534	16,915
Retained profit for the financial period	15,007	27,940
At end of financial period	73,541	44,855

Notes *(continued)*

19 Commitments

a) Capital commitments at the end of the financial period for which no provision has been made, are as follows:

	Group 2005 £000	Group 2004 £000
Contracted	**5,721**	2,227

The company had no capital commitments at either period end.

(b) Annual commitments under non-cancellable operating leases are as follows:

	Group 2005		Group 2004	
	Land and buildings £000	**Other £000**	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	**22**	**254**	11	1
In one to two years	**147**	**584**	22	3
In the second to fifth years inclusive	**1,198**	**183**	773	27
Over five years	**15,430**	**-**	13,599	-
	16,797	**1,021**	14,405	31

The company had no commitments under non-cancellable leases at the period end.

20 Pension scheme

The group operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the group to the scheme and amounted to £54,000 (*2004: £43,000*).

There were no outstanding or prepaid contributions at either the beginning or end of the financial period.

Notes *(continued)*

21 Analysis of cash flows

	2005 £000	2004 £000
Reconciliation of operating profit to net cash flow from operating activities		
Operating profit	**38,217**	31,672
Depreciation charges	**7,210**	4,646
(Profit)/loss on sale of fixed assets	**(496)**	96
Increase in stocks	**(12,135)**	(5,157)
Increase in debtors	**(3,217)**	(2,146)
Increase in creditors	**10,669**	6,890
Net cash inflow from operating activities	**40,249**	36,001

Analysis of cash flows for headings netted within the cash flow statement

	2005 £000	2004 £000
Returns on investment and servicing of finance		
Interest received	**1,130**	638
Interest paid	**(49)**	(234)
	1,081	404
Capital expenditure		
Purchase of tangible fixed assets	**(19,085)**	(22,528)
Proceeds on sale of fixed assets	**715**	11
	(18,370)	(22,517)

22 Analysis of net funds

	At beginning of financial period £000	Cash flow £000	Other non cash changes £000	At end of financial period £000
Cash at bank and in hand	15,049	(2,996)	-	12,053
Overdrafts	(2,078)	2,078	-	-
Debt due after one year	(501)	-	428	(73)
Debt due within one year	(490)	473	(452)	(469)
Total net funds	11,980	(445)	(24)	11,511