DUNELM (SOFT FURNISHINGS) LIMITED

Directors' report and financial statements

Registered number 2129238

4 July 2009

Company information

Directors	WL Adderley J Rowell DA Stead S Barton
Secretary	DA Stead
Company number	2129238
Registered office	Fosse Way Syston Leicestershire LE7 1NF
Auditors	KPMG Audit Plc 1 Waterloo Way Leicester LE1 6LP
Bankers	Barclays Bank Plc 15 Colmore Row Birmingham B3 2WN

Contents

Directors' report and business review

The Directors present their report together with the audited financial statements for the period ended 4 July 2009 This report satisfies the requirements of the Companies Act 2006 to produce a Business Review

Principal activity

The principal activity of the company continues to be the retail of soft furnishings

Business review
Overall sales have increased by 8 2% over the financial year Like-for-like sales recovered from a decline of 5 6% in the first half to end the year just 0 5% down – significantly beating the overall homewares market The Company intends to maintain its success by pursuing the four priorities which have constituted the Company's strategy since the Group's flotation

Priority 1 – growing the store portfolio
Six new superstores were opened in the year, at Huddersfield, Newtownabbey, Plymouth, Worcester, Workington and Llanelli Altogether the chain of 82 superstores as at the year-end provided 2 4m square feet of selling space There are a number of opportunities to grow the superstore portfolio without compromising the Company's long-term financial returns Since the year end, 6 further superstores have been opened in Norwich, Londonderry, Broadstairs, Bridgend, St Helens and Cheltenham and the Company is contractually committed to eight more units which are due to open in the next twelve months Whilst expanding the superstore chain the Company continues to look for opportunities to relocate the older high street stores The superstore opening in Worcester replaced the high street store there, which now leaves the Company with twelve high street stores remaining

Priority 2 – developing the customer offer
It is essential for us to continue improving our retail proposition We are as passionate as ever about giving 'simply value for money' to all our customers – a combination of prices, choice, quality, product availability and friendly service

We have introduced a number of developments in our offer over the last year For example, launching an arts and crafts section in a number of stores and grouping existing ranges to create a new laundry and cleaning section The business now also offers add-on services in many stores, such as we deliver products to customers' homes and fit them when required In response to the difficult economic environment, we have increased the proportion of special buys available to customers and have introduced some additional short-term product promotions under the banner of 'Miss it Miss Out'

In the new and refitted stores, we now include a dedicated Dorma area, following our acquisition of the Dorma brand in July 2008 (Dorma is a high-end home textile brand with a strong heritage in bed linen in particular) We have successfully retained Dorma's royal warrants, have refined the branding and developed an exciting new range of Dorma bed linen designs exclusive to Dunelm

We have continued investing in the improvement of our older stores Six refits were completed in the last financial year and we intend to continue our refit programme at the rate of 5 – 10 stores per year

Priority 3 – growing Dunelm Direct
Dunelm Direct is the name we give to our multi channel strategy Sales from our website (www dunelm-mill com) have grown well over the last financial year We expect this to continue this coming year We are also about to relaunch the site on a new technology platform which will improve the shopping experience and give us a much stronger technological base to build upon

Sat on this same platform will be a new website for Dorma (www Dorma co uk) which will act as a showcase for the Dorma brand, stocking all Dorma product be it Dunelm exclusive designs or product distributed by our 3rd party partner

It is early days for our Dunelm Direct growth but the investment made over the last financial year will give us a scalable platform on which to build

Directors' report and business review *(continued)*

Priority 4 – exploiting our infrastructure
We continue to extract further benefits from past investment in IT systems, enabling us to improve stock control and make in-store processes more efficient We are also seeing improvements to our customer offer directly supported by IT, for example the forthcoming launch of a gift card We are taking steps to underpin our medium-term expansion plans by securing additional leasehold space at our central warehouse in Stoke where we have an option over 100,000 sq ft of warehousing to supplement the 250,000 sq ft we currently occupy We anticipate moving operations into this additional space during 2010 Our capital expenditure to fit out new warehousing space is not expected to exceed £2m

As our business grows, we will also need to expand our head office facility Since the year-end we have purchased freehold land in the neighbourhood of our existing base in Syston, Leicester This is a long term project and any new building is unlikely to be ready for occupation until 2011

Outlook

For the first 10 weeks of our financial year, to September, total sales growth has been 26 5% and like-for-like have grown by 16 1% Gross margin has remained strong, with an increase of 180bps year on year

We are very pleased with the start to the new financial year We are confident that our 'Simply Value for Money' proposition will continue to appeal to customers in the current economic climate Our product ranges are suitable for all budgets and tastes Our business is not significantly reliant on big-ticket purchases – our average basket remains below £30 In addition, the relatively weak state of the commercial property market gives us good opportunities to roll out our offer to more locations We are therefore excited about our growth prospects in the medium term, although we are also very mindful that economic and political uncertainty could make 2010 a difficult year,

Results and Dividends

The profit after tax for the year was £36,854,000 (2008 £33,761,000)

Dividends amounting to £20,000,000 (2008 £20,000,000) have been declared, authorised and paid on the ordinary shares

Payment policy and average payment period

The company undertakes to pay its suppliers on time and according to agreed terms of trade, a copy of these terms can be obtained from the Company's registered office It is the Company's policy to agree with all of its suppliers,

- the terms of payment when agreeing the terms of the transaction,
- ensure that the supplier is aware of the terms of payment, and
- abide by those terms

At 4 July 2009 trade creditors expressed as number of days outstanding was 33 days (2008 26 days)

Going concern

The Directors have made appropriate enquiries and formed a judgement at the time of approving the financial statements, that there is reasonable expectation that the company has adequate resources available to it to continue in operational existence for the foreseeable future For this reason the Directors continue to adopt the going concern basis in preparing the financial statements

Directors

The Directors who held office during the year were as follows

WL Adderley
J Rowell
DA Stead
S Barton

Directors' report and business review *(continued)*

Employees

The group 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 Where an employee becomes disabled every effort is made to provide continuity of employment in the same job or a suitable alternative

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 and reports

Political and charitable contributions

During the year the company made no political contributions, but made charitable contributions of £49,000 (2008 £48,000)

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware, and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be re-appointed and KPMG Audit Plc will therefore continue in office

By order of the board

DA Stead
Director

Fosse Way
Syston
Leicestershire
LE7 1NF

10 February 2010

Statement of Directors' responsibilities in respect of the Directors' report and the financial statements

The directors are responsible for preparing the Directors' 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 Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period 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 they have been prepared in accordance with IFRSs as adopted by the EU, and
- 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 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

Responsibility statement

We confirm that 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 of the Company, and
- the management report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that they face

By order of the Board

Will Adderley
Chief Executive

David Stead
Financial Director

Independent Auditors' report to the members of Dunelm (Soft Furnishings) Limited

We have audited the financial statements of Dunelm (Soft Furnishings) Limited for the period ended 4 July 2009 set out on pages 6 to 25 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www frc org uk/apb/scope/UKNP

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 4 July 2009 and of its profit for the period then ended,
- have been properly prepared in accordance with IFRSs as adopted by the EU, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

M J Lane

MJD Lane
(Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
Leicester
22 February 2010

Income Statement
For the 53 weeks ended 4 July 2009

	Note	2009 £000	2008 £000
Revenue	1	**423,783**	391,795
Cost of sales		**(229,701)**	(217,018)
Gross profit		**194,082**	174,777
Operating costs	3	**(142,136)**	(125,296)
Operating profit	2	**51,946**	49,481
Financial income	5	**3,502**	2,925
Financial expenses	5	**(3,267)**	(3,250)
Profit before tax		**52,181**	49,156
Taxation	6	**(15,327)**	(15,395)
Profit for the period attributable to the equity shareholders		**36,854**	33,761
Dividend paid per ordinary share		**£10**	£10

The income statement has been prepared on the basis that all operations are continuing

There are no recognised incomes or expenses other than those included above

Balance Sheet
As at 4 July 2009

	Note	2009 £000	2008 £000
Non-current assets			
Intangible assets	7	**5,843**	2,097
Property, plant and equipment	8	**46,542**	41,247
		52,385	43,344
Current assets			
Inventories	10	**57,895**	60,710
Trade and other receivables	11	**52,587**	47,095
Cash and cash equivalents	12	**24,016**	2,853
		134,498	110,658
Total assets		**186,883**	154,002
Current liabilities			
Trade and other payables	13	**(128,665)**	(117,276)
Liability for current tax payable		**(8,187)**	(3,730)
		(136,852)	(121,006)
Non-current liabilities			
Deferred tax liabilities	9	**(319)**	(669)
Total liabilities		**(137,171)**	(121,675)
Net assets		**49,712**	32,327
Equity			
Share capital	15	**2,000**	2,000
Retained earnings		**47,712**	30,327
Total equity attributable to equity shareholders		**49,712**	32,327

These financial statements were approved by the board of Directors on 10 February 2010 and were signed on its behalf by

DA Stead
Director

Company number 2129238

Cash Flow Statement

for the 53 weeks ended 4 July 2009

	Note	2009 £000	2008 £000
Cash flows from operating activities			
Profit before tax		**52,181**	49,156
Adjustments for			
Net financing costs	5	**(235)**	325
Operating profit		**51,946**	49,481
Depreciation and amortisation	2	**9,960**	8,933
Loss/(Profit) on sale of property, plant and equipment and intangible assets	2	**26**	(278)
Operating cash flows before movements in working capital		**61,932**	58,136
Decrease/(Increase) in inventories		**2,815**	(53)
(Increase) in trade and other receivables		**(5,492)**	(4,972)
Increase/(Decrease) in trade and other payables		**11,385**	(21,120)
Net movement in working capital		**8,708**	(26,145)
Share based payments expense	14	**333**	120
Foreign exchange gains/(losses)		**323**	(49)
Cash flows from operating activities		**71,296**	32,062
Interest paid		**(3,214)**	(3,167)
Interest received		**2,410**	2,925
Tax paid		**(11,019)**	(14,012)
Net cash generated from operating activities		**59,473**	17,808
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**1**	303
Acquisition of property, plant and equipment	8	**(12,755)**	(12,050)
Acquisition of other intangible assets	7	**(6,273)**	(538)
Net cash from investing activities		**(19,027)**	(12,285)
Cash flows from financing activities			
Dividends paid		**(20,000)**	(20,000)
Net cash from financing activities		**(20,000)**	(20,000)
Net increase/(decrease) in cash and cash equivalents		**20,446**	(14,477)
Foreign exchange revaluations		**717**	(38)
Cash and cash equivalents at the beginning of the period		**2,853**	17,368
Cash and cash equivalents at the end of the period	12	**24,016**	2,853

Statement of changes in equity
for the 53 weeks ended 4 July 2009

	Share capital £000	Retained earnings £000	Total parent equity £000
Balance at 30 June 2007	2,000	16,507	18,507
Profit for the financial year	-	33,761	33,761
Share based payments	-	120	120
Deferred tax on share based payments	-	(154)	(154)
Current corporation tax on share options exercised	-	93	93
Dividends	-	(20,000)	(20,000)
Balance at 28 June 2008	2,000	30,327	32,327
Profit for the financial year	-	36,854	36,854
Share based payments	-	333	333
Deferred tax on share based payments	-	118	118
Current corporation tax on share options exercised	-	80	80
Dividends	-	(20,000)	(20,000)
Balance at 4 July 2009	**2,000**	**47,712**	**49,712**

Accounting policies

Basis of preparation
Dunelm (Soft Furnishings) Limited is a company incorporated and domiciled in the UK

The Company financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs") and in accordance with the provisions of the Companies Act 2006

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements

The annual financial statements are prepared under the historical cost convention The financial statements are prepared in pounds sterling, rounded to the nearest thousand

Use of estimates and judgements
The presentation of the annual financial statements requires the Directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances Actual results may differ from these estimates

Estimates and underlying assumptions are reviewed on an ongoing basis Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected

The key estimates and judgements used in the financial statements are as follows

Inventory Provisions
The Group provides against the carrying value of inventories held, based upon average losses incurred to clear old and discounted lines

Dilapidations
The Group provides for the full estimated costs of any dilapidations on stores with a lease renewal date falling due within three years of the balance sheet date

Taxation
There are transactions whose ultimate tax treatment is uncertain The Group makes provision for anticipated tax issues based on the likelihood of whether additional taxes may arise The Group recognises deferred tax assets and liabilities based on estimates of future taxable income and recoverability If these estimates do not materialise or change, or there are changes in tax rates or to the period over which losses might be recognised, then the value of the deferred tax assets or liability will need to be revised in a future period

Foreign currency
Transactions in foreign currencies are recorded at the prevailing rate at the date of the transaction Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date Foreign exchange differences arising on translation are recognised in the income statement

Accounting policies *(continued)*

Property, plant and equipment
Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases Lease payments are accounted for as described below

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment Land is not depreciated The estimated useful lives are as follows

- computer equipment 3 years
- freehold buildings 50 years
- fixtures and fittings 4 years
- motor vehicles 4 years
- office equipment 5 years
- plant and machinery 4 years
- leasehold improvements over the period of the lease

The residual value of an asset, if significant, is reassessed annually

Intangible assets
These comprise software development and implementation costs and are stated at cost less amortisation which is charged on a straight line basis over three years

Inventories
Inventories are stated at the lower of cost and net realisable value Cost is derived using the average cost method and includes expenditure incurred in acquiring the inventories and bringing them into the business Net realisable value is the estimated selling price less cost to sell in the ordinary course of business

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits Bank overdrafts that are repayable on demand and form an integral part of the Companies cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows

Impairment
The carrying amounts of the Company's assets, other than inventories and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment If any such indication exists, the asset's recoverable amount is estimated

Calculation of recoverable amount

The recoverable amount is the greater of net selling price and value in use In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs

Reversals of impairment

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds the recoverable amount Impairment losses are recognised in the income statement

Accounting policies *(continued)*

Employee benefits

Defined contribution plans
The Company operates a defined contribution pension plan using a third party provider Obligations for the contributions to this plan are recognised as an expense in the income statement as incurred

Share-based payment transactions
The Group issues equity settled share based payments to certain employees and Directors of the Company and these are treated as equity settled in the Company's accounts

Equity settled share based payments are measured at fair value at the date of grant The fair value determined at the date of grant of the equity share based payment (calculated using the binomial model) is expressed over the period from the date when it is first known that an award will be made until the date when that award first vests, with a corresponding increase recorded in equity

Provisions
A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability

Revenue
Revenue represents the amounts (excluding value added tax) derived from the provision of goods to customers Where deposits are taken, these are treated as deferred income until the sale is completed

Expenses

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

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

Financing income and expenses
Financing income/expense comprises interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested, foreign exchange gains and losses, and gains and losses on forward exchange contracts

Taxation
Tax on the profit or loss for the year comprises current and deferred tax Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity

Current tax represents the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, together with any adjustment to tax payable in respect of previous years

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes

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 recognised Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be recognised

Accounting policies *(continued)*

Adopted IFRS and IFRIC not yet applied

In the current year the Company adopted

IFRS 2 Amended IFRS 2 – Share-Based Payment Vesting Conditions and Cancellations

This did not have any significant impact on the financial statements of the Company

At the date of approval of these financial statements, the following standards, amendments and interpretations were in place but not yet effective

IFRS 3	Revised	IFRS 3	– Business Combinations
IFRS 8		Operating Segments	
IAS 1	Revised	IAS1 - Presentation of Financial Statements	
IAS 23	Revised	IAS 23	- Borrowing costs
IAS 27	Revised	IAS 27	- Consolidated and Separate Financial Statements
IAS 32	Revised	IAS 32	- Financial Instruments Presentation
IAS 39/IFRS 7	Revised	IAS 39	- Financial Instrument Recognition & Measurement and
		IFRS 7	- Reclassification of Financial Instruments
IFRIC 13	Customer Loyalty Programmes		
IAS 32	Amendment	IAS 32	- Financial Instruments Presentation Classification of Rights Issues
IFRIC 9/IAS 39	Amendment	IAS 39	- Financial Instrument Embedded Derivatives
IAS 32	Amendment	IAS 32	- Financial Instruments Recognition and Measurement of Eligible Hedged Items
IAS 39	Amendment	IAS 39	- Financial Instrument Reclassification of Financial Assets

The above will be adopted in the Company's financial statements when they become effective Revised IFRS 3 will require the recognition of subsequent changes in the fair value of contingent consideration in the income statement rather than against goodwill, and transaction costs will be required to be recognised immediately in the income statement IFRS 8 requires segment information to be based on the same basis as information reported to management for decision making purposes Revised IAS 23 requires borrowing costs attributable to the acquisition or construction of certain assets to be capitalised

When adopted none of the above standards or amendments are expected to have any significant impact on the financial statements of the Company

Notes

1 Segment reporting

In both 2008 and 2009 the company had only one class of business, retail, and it operated entirely in the UK market

2 Operating profit

Operating profit is stated after charging/(crediting) the following items

	2009	2008
	£000	£000
Inventories		
Cost of inventories included in cost of sales	**229,701**	517,018
Write down of inventories	**2,758**	5,867
Amortisation of intangible assets	**2,550**	2,134
Depreciation of property, plant and equipment		
Owned	**7,410**	6,799
Operating lease rentals		
Land and buildings	**24,778**	21,674
Plant and machinery	**1,151**	937
Loss/(Profit) on disposal of property, plant and equipment	**26**	(278)

Auditors' remuneration

	2009	2008
	£000	£000
Amounts receivable by the auditors in respect of		
Audit	**50**	50
Tax compliance	**20**	21
Other tax services	**8**	9
Other services	**-**	6

3. Operating costs

	2009	2008
	£000	£000
Selling and Distribution	**121,860**	108,051
Administrative	**20,250**	17,523
Loss/(Profit) on disposal of property, plant and equipment	**26**	(278)
	142,136	125,296

4. Employee numbers and costs

The average number of persons employed by the Company (including Directors) during the year, analysed by category, was as follows

	Number of employees	
	2009	2008
Selling	**5,003**	4,875
Distribution	**250**	217
Administration	**156**	139
	5,409	5,231

Notes *(continued)*

4. Employee numbers and costs *(continued)*

The aggregate payroll costs of these persons were as follows

	2009 £000	2008 £000
Wages and salaries including bonuses and termination benefits	52,643	46,371
Social security costs	3,320	3,055
Contributions to defined contribution plans	170	155
Share based payments (See note 14)	333	120
	56,466	49,701

5. Finance income and expense

	2009 £000	2008 £000
Finance income		
Group undertakings	1,886	1,855
Interest on bank deposits	576	1,070
Foreign exchange gains	1,040	-
Total finance income	3,502	2,925
Finance expense		
Group undertakings	3,263	3,132
Interest on bank borrowings and overdrafts	4	31
Net foreign exchange loss	-	87
Total finance expense	3,267	3,250
Net finance (income)/expense	(235)	325

6. Taxation

	2009 £000	2008 £000
Current tax expense		
Current year	15,533	11,873
Adjustments for prior years	26	(177)
Current tax expense	15,559	11,696
Deferred tax expense		
Origination and reversal of temporary differences	(235)	3,144
Adjustments for prior years	3	555
Deferred tax expense	(232)	3,699
Total tax expense in income statement	15,327	15,395

Notes *(continued)*

6. Taxation *(continued)*

Reconciliation of effective tax rate

	2009 £000	2008 £000
Profit for the year	**52,181**	49,156
Current tax at 28% (2008 29 5%)	**14,611**	14,501
Factors affecting the charge in the period		
Expenses not deductable for tax	**26**	124
Depreciation on ineligible assets	**781**	764
Ineligible loss/(profit) on disposal in excess of capital gain	**5**	(76)
Non taxable credit to P&L relating to new leases (tenant to tenant leases)	**(125)**	(128)
Tax rate differential	**-**	(168)
Adjustment in respect of prior periods	**29**	378
Total tax expense	**15,327**	15,395

Notes *(continued)*

7. Intangible assets

	Rights to Dorma brand £000	Software development and licences £000	Total £000
Cost			
Balance at 30 June 2007	5,921	-	5,921
Additions	538	-	538
Disposals	(208)	-	(208)
Transfers from property, plant and equipment	362	-	362
Balance at 28 June 2008	6,613	-	6,613
Additions	1,237	5,036	6,273
Disposals	(153)	-	(153)
Transfers from property, plant and equipment	41	-	41
Balance at 4 July 2009	**7,738**	**5,036**	**12,774**
Amortisation			
Balance at 30 June 2007	2,253	-	2,253
Amortisation for the year	2,134	-	2,134
Disposals	(208)	-	(208)
Transfers from property, plant and equipment	337	-	337
Balance at 28 June 2008	4,516	-	4,516
Amortisation for the year	1,627	923	2,550
Disposals	(135)	-	(135)
Balance at 4 July 2009	**6,008**	**923**	**6,931**
Net book value			
At 4 July 2009	**1,730**	**4,113**	**5,843**
At 28 June 2008	2,097	-	2,097
At 30 June 2007	3,668	-	3,668

All additions were acquired and do not include any internal development costs

Transfers relate to assets which were classified initially as fixtures and fittings

Notes *(continued)*

8. Property, plant and equipment

	Land and buildings £000	Leasehold improve-ments £000	Plant and machinery £000	Motor vehicles £000	Fixtures and fittings £000	Total £000
Cost						
Balance at 30 June 2007	4,462	33,035	87	121	26,160	63,865
Additions	-	7,601	15	-	4,440	12,056
Disposals	(155)	(385)	-	(22)	(1,145)	(1,707)
Transfers to intangible assets	-	-	-	-	(362)	(362)
Transfers between categories	5	(5)	-	-	-	-
Balance at 28 June 2008	4,312	40,246	102	99	29,093	73,852
Additions	55	7,179	93	-	5,428	12,755
Disposals	-	(7)	-	(13)	(151)	(171)
Transfers to intangible assets	-	(10)	-	-	(31)	(41)
Balance at 4 July 2009	**4,367**	**47,408**	**195**	**86**	**34,339**	**86,395**
Depreciation						
Balance at 30 June 2007	651	7,101	29	121	19,919	27,821
Depreciation charge for the year	29	3,125	22	-	3,623	6,799
Disposals	(170)	(354)	-	(22)	(1,132)	(1,678)
Transfers to intangible assets	-	-	-	-	(337)	(337)
Balance at 28 June 2008	510	9,872	51	99	22,073	32,605
Depreciation charge for the year	66	3,405	44	-	3,895	7,410
Disposals	-	(4)	-	(13)	(145)	(162)
Balance at 4 July 2009	**576**	**13,273**	**95**	**86**	**25,823**	**39,853**
Net book value						
At 4 July 2009	**3,791**	**34,135**	**100**	**-**	**8,516**	**46,542**
At 28 June 2008	3,802	30,374	51	-	7,020	41,247
At 30 June 2007	3,811	25,934	58	-	6,241	36,044

Notes *(continued)*

9. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a taxation rate of 28% (2008 28%)

Deferred taxation assets and liabilities are attributable to the following

	Assets		Liabilities		Net	
	2009	2008	**2009**	2008	**2009**	2008
	£000	£000	**£000**	£000	**£000**	£000
Property, plant and equipment	-	-	**(762)**	(805)	**(762)**	(805)
Other temporary differences	**47**	155	-	(158)	**47**	(3)
Share-based payments	**396**	139	-	-	**396**	139
	443	294	**(762)**	(963)	**(319)**	(669)

Movement in net deferred tax is as follows

	1 July 2007 £000	Recognised in income £000	Recognised in equity £000	28 June 2008 £000
Property, plant and equipment	(541)	(264)	-	(805)
Employee benefits	284	9	(154)	139
Lease incentives	2,636	(2,636)	-	-
Short term temporary differences	805	(808)	-	(3)
	3,184	(3,699)	(154)	(669)

	29 June 2008 £000	Recognised in income £000	Recognised in equity £000	4 July 2009 £000
Property, plant and equipment	(805)	43	-	**(762)**
Employee benefits	139	139	118	**396**
Short term temporary differences	(3)	50	-	**47**
	(669)	232	118	**(319)**

10. Inventories

	2009 £000	2008 £000
Goods for resale	**57,895**	60,710

Notes *(continued)*

11. Trade and other receivables

	2009 £000	2008 £000
Trade receivables	**460**	144
Other receivables	**2,179**	1,813
Prepayments and accrued income	**8,067**	9,649
Amounts owed by group undertakings	**41,881**	35,489
	52,587	47,095

12. Cash and cash equivalents/ bank overdrafts

	2009 £000	2008 £000
Cash and cash equivalents	**24,016**	2,853

13. Trade and other payables

	2009 £000	2008 £000
Current		
Trade payables	**26,337**	22,875
Accruals and deferred income	**30,186**	24,866
Other tax and social security	**4,390**	4,364
Other creditors	**3,743**	865
Amounts owed to group companies	**64,009**	64,306
	128,665	117,276

14. Share-based payments

As at 4 July 2009, the Company operated three share award plans

a) Dunelm Group Share Option Plan ('GSOP')
b) Dunelm Group Savings Related Share Option Plan ('Sharesave')
c) Long-Term Incentive Plan ('LTIP')

There were 245,935 exercisable options in total under these schemes as at 4 July 2009

a) Dunelm Group Share Option Plan

The GSOP was established in December 2003 Options have a vesting period of three years from date of grant and a maximum life of ten years All options granted prior to IPO have an exercise price equal to the market value as agreed with HMRC at date of grant, all subsequent grants have had an exercise price equal to market price at date of grant There are no performance conditions but there is a requirement that the Group's shares be traded on a public exchange at date of exercise, and the awards are also subject to continued employment with the Group

Notes *(continued)*

14. Share-based payments *(continued)*

The fair value of services received in return for share options granted is measured by reference to the fair value of the options, assessed using a binomial model The fair value per option granted and the assumptions used in the calculations are as follows

	June 2008 grant	August 2006 grant	September 2005 grant	December 2004 grant	September 2004 grant
Fair value at measurement date	65 6p	7 0p	6 3p	6 0p	6 2p
Share price	220 5p	n/a	n/a	n/a	n/a
Exercise price	137 0p	62 1p	57 0p	46 0p	46 0p
Expected volatility (weighted average volatility used in modelling – based on historical volatility of comparable quoted companies)	35%	35%	35%	35%	35%
Option life (weighted average life used in modelling)	3 years	3 years	3 years	3 years	3 years
Expected dividends	8 7%	8 7%	8 7%	8 7%	8 7%
Risk-free interest rate	4 8%	4 8%	4 8%	4 8%	4 8%

The number and weighted average exercise price of options under the GSOP is as follows

	Weighted average exercise price 2009	**Number of shares under option 2009**	Weighted average exercise price 2008	Number of shares under option 2008
Outstanding at beginning of year	**52.4p**	**610,500**	49 8p	1,028,000
Granted during year	**137.0p**	**36,496**	-	-
Forfeited during year	**46.0p**	**21,700**	-	-
Exercised during year	**56.1p**	**(241,365)**	46 0p	(417,500)
Outstanding at end of year	**60.5p**	**427,331**	52 4p	610,500

b) Dunelm Group Savings Related Share Option Plan

The Sharesave scheme was established in 2006 and is open to all staff with eligible length of service One grant was made under the scheme during the year, in October 2008 Options may be exercised under the scheme on completion of the three year savings contract and must be exercised within 6 months from that date There is provision for early exercise in certain circumstances such as death, disability, redundancy and retirement

The fair value per option granted and the assumptions used in the calculations are as follows

	October 2008	October 2007	November 2006
Fair value at measurement date	47 0p	70 0p	69 0p
Share price	125 0p	212 0p	202 0p
Exercise price	124 5p	157 0p	153 0p
Expected volatility (weighted average volatility used in modelling – based on historical volatility of comparable quoted companies)	58%	30%	30%
Option life (weighted average life used in modelling)	3 5 years	3 5 years	3 5 years
Expected dividends	2 5%	2 5%	2 5%
Risk-free interest rate	3 0%	4 8%	4 8%

Notes *(continued)*

14. Share-based payments *(continued)*

The number and weighted average exercise price of options outstanding under the Sharesave at 4 July 2009 is as follows

	Weighted average exercise price 2009	**Number of shares under option 2009**	Weighted average exercise price 2008	Number of shares under option 2008
Outstanding at beginning of year	**154.0p**	**1001,273**	153 0p	1,045,846
Granted during year	**124.5p**	**362,125**	157 0p	219,979
Forfeited during year	**151.4p**	**(495,426)**	153 0p	(264,552)
Outstanding at end of year	**142.9p**	**867,972**	154 0p	1,001,273

c) Long-Term Incentive Plan
Bonuses earned during the year by a number of senior managers will be paid in the form of nil cost share options, exercisable in July 2010, provided the individuals remain in employment with the Group at that date The value of these options has been estimated on the basis of the assumed share price at the date of grant (July 2008) and the cost will be spread over the period from 1 July 2008 to 31 July 2010

The total expense recognised in the income statement arising from share–based payments is as follows

	2009 £000	2008 £000
Group Share Option Plan	**6**	12
Sharesave	**128**	17
LTIP – Senior Managers share match	**199**	91
Total	**333**	120

15. Share capital

	Number of ordinary shares	
	2009 £000	2008 £000
Authorised		
Ordinary shares of £1 each	**5,000**	5,000
Allotted, called up and fully paid		
Ordinary shares of £1 each	**2,000**	2,000

16. Financial risk management

The Board of Directors of Dunelm Group plc has overall responsibility for the oversight of the Group's risk management framework A formal process for reviewing and managing risk in the business has been developed A register of strategic and operational risks is maintained and reviewed quarterly by the Group Board, who also monitors the status of agreed actions to mitigate key risks

Credit risk
Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from customers The Company only deals with creditworthy counterparties, and uses publicly available financial information to rate its customers

Notes *(continued)*

16. Financial risk management *(continued)*

As the principal business of the Company is retail related, trade receivables consist of a relatively small number of customers, which tend to be charity or local authority based The carrying amount of financial assets recorded in the financial statements represents the Group's maximum exposure to credit risk

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and extreme circumstances The Company manages this risk by continuously monitoring cash flow forecasts

Company policy is that surplus funds are placed on deposit with counterparties approved by the Group Board, with a minimum of 'A' credit rating

Interest rate risk

All interest bearing borrowings are from group companies

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income

Foreign currency risk

The Group is exposed to foreign currency risk on purchases denominated in US dollars These amounted to approximately 10% of the total purchases in the year ended 4 July 2009 The outstanding US dollar liabilities at the year end were $400,000 (2008 $870,000)

The Company manages its exposure to exchange rate fluctuations by purchasing US dollars on the 'spot' market at levels required to meet medium term purchases As at 4 July 2009 the Company held US dollar balances of $2 2m (2008 $7 0m), in order to protect itself against short term fluctuations in the US dollar rate This was expected to cover purchases in US dollars for approximately two months

In the event of a significant adverse movement in the US dollar exchange rate, the Company would seek to minimise the impact on profitability by changing the selling price of goods

Fair values

The fair value of the Company's financial assets and liabilities is not materially different from their carrying value

Capital management

The Group's policy is to maintain the capital structure of subsidiary companies in order to achieve the overall Group strategy of maintaining a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business

17. Commitments

As at 4 July 2009 the Company had entered into capital contracts amounting to £2 0 million The equivalent figure as at 28 June 2008 was £2 6 million

The future minimum lease payments under non-cancellable operating leases were as follows

	Motor Vehicles 2009 £000	**Land and buildings 2009 £000**	**Plant and machinery 2009 £000**	Motor Vehicles 2008 £000	Land and buildings 2008 £000	Plant and machinery 2008 £000
Within one year	**368**	**24,365**	**280**	443	23,742	249
In the second to fifth year inclusive	**398**	**90,755**	**578**	226	88,935	540
After five years	**-**	**123,327**	**-**	-	128,930	-
	766	**238,447**	**858**	669	241,607	789

Notes *(continued)*

17. Commitments *(continued)*

The Company has 92 operating leases in respect of properties These leases run for periods up to 20 years, with an option to renew leases on expiry Lease payments are typically reviewed every five years

The Company also leases a number of vehicles, shop fittings and items of computer hardware under operating leases These vary in length

18. Contingent liabilities

The Company had no contingent liabilities at either period end date

19. Related parties

Identity of related parties

The Company has related party relationships with its parent and Group subsidiaries and with its Directors

Key management personnel

The key management personnel comprise the Directors of the Company Disclosures relating to remuneration of the Group Directors are set out in the Remuneration Report of the Group's financial statements

The compensation of key management personnel (the Directors) is as follows

	2009	2008
	£000	£000
Key management emoluments including social security costs	**272**	268
Company contributions to money purchase pension plans	**5**	5
	277	273
Highest paid Director	**165**	138
Number of Directors to whom retirement benefits are accruing under money purchased plans	**1**	1

Other related party transactions

From time to time the Company makes purchases on behalf of a major shareholder of the Group, Bill Adderley, and sells vehicles to him that the Company no longer requires These amounts are billed based on normal market rates for such supplies and payable under normal payment terms No balances remained unsettled at either period end The aggregate value of these transactions was £1,000 (2008 £3,000)

All vehicles sold to Bill Adderley during the period were fully depreciated

Notes *(continued)*

19. Related parties *(continued)*

The amounts due to and from the Company in respect of the Parent company and other Group subsidiaries were as follows

	Parent company		Other group companies	
	2009	2008	**2009**	2008
	£000	£000	**£000**	£000
Cash paid to group undertakings	**(26,176)**	(312)	**(3,117)**	(5,093)
Cash received from group undertakings	**49,736**	47,326	**7,623**	5,565
Dividends paid	**(20,000)**	(20,000)	-	-
Net interest (payable)/receivable	**(3,263)**	(3,132)	**1,886**	1,855
	297	23,882	**6,392**	2,327

	Parent company		Other group companies	
	2009	2008	**2009**	2008
	£000	£000	**£000**	£000
Balances receivable from	-	-	**41,881**	35,489
Balances payable to	**64,009**	64,306	-	-

20. Ultimate parent company

The Company is a subsidiary undertaking of Dunelm Group Plc which is the ultimate parent company incorporated in England and Wales The ultimate controlling party is the Adderley family by virtue of their combined shareholding in Dunelm Group Plc

21. Subsequent event

There are no material post balance sheet events