

Dunelm (Soft Furnishings) Limited

**Directors' report and financial
statements**

Registered number 2129238

2 July 2005



Company information

Directors	WL Adderley J Rowell DA Stead S Barton I McMillan
Secretary	SE Ferris
Company number	2129238
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	1
Statement of directors' responsibilities	3
Report of the independent auditors to the members of Dunelm (Soft Furnishings) Limited	4
Profit and loss account	5
Balance sheet	6
Reconciliation of movements in shareholders' funds	7
Notes	8

Directors' report

The directors present their annual report and the audited financial statements for the 52 weeks ended 2 July 2005.

Principal activities

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

Business review and future developments

The company 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 £40,000,000 (2004: £25,000,000) are proposed on the ordinary shares.

After dividends, the retained loss amounted to £13,954,000 (2004: loss £2,285,000).

Directors and directors' interests

The directors who held office during the financial period were as follows:

WL Adderley
J Rowell
G Gwynne (resigned 30 June 2005)
J Phipps (resigned 5 April 2005)
DA Stead
S Barton
I McMillin

None of the directors held any interest in the shares of the company at any time during the financial period. The interests of WL Adderley and DA Stead in the shares of the holding company, Dunelm Group Limited are disclosed in the accounts of that company.

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.

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.

Donations

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

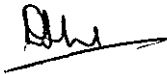
Directors' report *(continued)*

Auditors

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

By order of the board

DA Stead
Director



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.



1 Waterloo Way
Leicester
LE1 6LP
United Kingdom

Report of the independent auditors to the members of Dunelm (Soft Furnishings) Limited

We have audited the financial statements on pages 5 to 16.

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 company's affairs as at 2 July 2005 and of its profit for the 52 weeks then ended and have been properly prepared in accordance with the Companies Act 1985.

KPM LLP

*Chartered Accountants
Registered Auditor*

19 April 2006

Profit and loss account
for the 52 weeks ended 2 July 2005

	<i>Note</i>	2005 £000	2004 £000
Turnover	<i>1, 2</i>	280,617	238,902
Cost of sales		(196,873)	(170,836)
Gross profit		82,744	68,066
Administrative expenses		(47,245)	(36,100)
Operating profit		36,499	31,966
Interest receivable	<i>6</i>	1,749	1,038
Interest payable and similar charges	<i>7</i>	(737)	(496)
Profit on ordinary activities before taxation	<i>3</i>	37,511	32,508
Tax on profit on ordinary activities	<i>8</i>	(11,465)	(9,793)
Profit on ordinary activities after taxation		26,046	22,715
Dividends on equity shares	<i>9</i>	(40,000)	(25,000)
Retained (loss) for the financial period	<i>17</i>	(13,954)	(2,285)

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 17 to the financial statements.

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

Balance sheet
at 2 July 2005

	<i>Note</i>	2005 £000	2004 £000
Fixed assets			
Tangible assets	10	40,190	30,327
Current assets			
Stocks	11	45,121	32,986
Debtors	12	7,383	4,174
Cash at bank and in hand		10,357	15,040
		62,861	52,200
Creditors: amounts falling due within one year	13	(72,381)	(37,694)
Net current (liabilities)/assets		(9,520)	14,506
Total assets less current liabilities		30,670	44,833
Creditors: amounts falling due after one year	14	(73)	(501)
Provisions for liabilities and charges	15	(510)	(291)
Net assets		30,087	44,041
Capital and reserves			
Called up share capital	16	2,000	2,000
Profit and loss account	17	28,087	42,041
Shareholders' funds		30,087	44,041

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

D A Stead
 Director



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

	2005 £000	2004 £000
Profit for the financial year	26,046	22,715
Dividends	(40,000)	(25,000)
	<hr/>	<hr/>
Net reduction in shareholders' funds	(13,954)	(2,285)
Opening shareholders' funds	44,041	46,326
	<hr/>	<hr/>
Closing shareholders' funds	30,087	44,041
	<hr/>	<hr/>

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 company'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.

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own consolidated financial statements.

As the company is a wholly owned subsidiary of Dunelm Group Limited and 100% of the company's voting rights are controlled within the group headed by Dunelm Group Limited, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation.

Depreciation is provided by the company 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
Plant and machinery	-	5 years
Office equipment	-	5 years
Fixtures and fittings	-	4 years
Motor vehicles	-	4 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 company 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.

Notes (continued)

1 Accounting policies (continued)

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.

Turnover

Turnover 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.

2 Analysis of turnover and profit on ordinary activities before taxation

In both 2004 and 2005 the company had only one class of business, retail, and it operated entirely in the UK market.

3 Profit on ordinary activities before taxation

	2005 £000	2004 £000
<i>Profit on ordinary activities before taxation is stated</i>		
<i>after charging</i>		
Auditors' remuneration:		
Audit	41	32
Other services - fees paid to the auditor and its associates	247	87
Depreciation and other amounts written off tangible fixed assets:		
Owned	6,010	4,007
Leased	381	314
Impairment loss	630	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	-	108
	<hr/>	<hr/>
<i>after crediting</i>		
Profit on disposal of tangible fixed assets	496	-
	<hr/>	<hr/>

Notes (continued)

4 Remuneration of directors

	2005 £000	2004 £000
Directors' emoluments	462	552
Company contributions to money purchase pension schemes	4	10
Compensation for loss of office	225	-
	<u>691</u>	<u>562</u>
	Number of directors	
	2005	2004

Retirement benefits are accruing to the following number of directors under:

Money purchase schemes	1	2
	<u>1</u>	<u>2</u>

The aggregate of emoluments of the highest paid director were £113,000.

5 Staff 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	
	2005	2004
Administration	99	57
Sales	4,183	3,979
Distribution	156	137
	<u>4,438</u>	<u>4,173</u>

The aggregate payroll costs of these persons were as follows:

	2005 £000	2004 £000
Wages and salaries	31,187	27,089
Social security costs	1,798	1,541
Other pension costs	54	43
	<u>33,039</u>	<u>28,673</u>

Notes (continued)

6 Interest receivable

	2005 £000	2004 £000
Group undertakings	627	400
Bank interest receivable	1,122	638
	<hr/>	<hr/>
	1,749	1,038
	<hr/>	<hr/>

7 Interest payable

	2005 £000	2004 £000
Group undertakings	664	413
On bank loans and overdrafts	3	8
On finance leases	70	75
	<hr/>	<hr/>
	737	496
	<hr/>	<hr/>

8 Taxation

Analysis of charge in the financial period.

	2005 £000	2004 £000
<i>UK corporation tax</i>		
Current tax on income for the financial period	11,399	9,695
Adjustments in respect of prior years	(9)	(193)
	<hr/>	<hr/>
Total current tax	11,390	9,502
	<hr/>	<hr/>
<i>Deferred tax</i>		
Origination of timing differences	71	242
Adjustment in respect of prior years	4	49
	<hr/>	<hr/>
Total deferred tax	75	291
	<hr/>	<hr/>
Tax on profit on ordinary activities	11,465	9,793
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Notes (continued)

8 Taxation (continued)

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
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	37,511	32,508
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Current tax at 30% (2004: 30%)	11,253	9,752
<i>Effects of:</i>		
Expenses not deductible for tax purposes	30	418
Capital allowances for the year in excess of depreciation	(71)	(242)
Group relief received	-	(81)
Depreciation on assets not qualifying for capital allowances	514	208
Lease incentive deductions	(288)	(360)
Adjustments to tax charge in respect of prior years	(9)	(193)
Profit on disposal in excess of capital gain	(39)	-
	<hr/>	<hr/>
Total current tax charge (see above)	11,390	9,502
	<hr/>	<hr/>

9 Dividends and other appropriations

	2005 £000	2004 £000
Equity shares:		
Interim dividend paid	-	25,000
Final dividend proposed	40,000	-
	<hr/>	<hr/>
	40,000	25,000
	<hr/>	<hr/>

Notes (continued)

10 Tangible fixed assets

	Freehold land and buildings £000	Leasehold improvements £000	Plant and machinery £000	Motor vehicles £000	Fixtures and fittings £000	Total £000
Cost						
At beginning of financial period	10,808	11,199	-	640	14,862	37,509
Additions	81	10,557	50	-	6,415	17,103
Disposals	(188)	(19)	-	(193)	(29)	(429)
At end of financial period	10,701	21,737	50	447	21,248	54,183
Depreciation						
At beginning of financial period	648	1,261	-	512	4,761	7,182
Charge for financial period	161	1,418	-	91	4,719	6,389
On disposal	(3)	(8)	-	(185)	(13)	(209)
Impairment	-	228	-	-	403	631
At end of financial period	806	2,899	-	418	9,870	13,993
Net book value						
At 2 July 2005	9,895	18,838	50	29	11,378	40,190
At 30 June 2004	10,160	9,938	-	128	10,101	30,327

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 financial period 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 financial period on these assets was £10,000.

Included in the total net book value of freehold land and buildings is £2,529,000 in respect of land.

11 Stocks

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

Notes (continued)

12 Debtors

	2005 £000	2004 £000
Trade debtors	478	131
Other debtors	1,630	867
Prepayments and accrued income	5,275	3,176
	<u>7,383</u>	<u>4,174</u>

13 Creditors: amounts falling due within one year

	2005 £000	2004 £000
Bank loans and overdrafts	-	2,078
Obligations under hire purchase contracts	469	490
Trade creditors	26,699	15,698
Amounts owed to group undertakings	30,537	4,650
Taxation and social security	519	2,936
Corporation tax	5,287	5,103
Other creditors	46	12
Accruals and deferred income	8,824	6,727
	<u>72,381</u>	<u>37,694</u>

Notes (continued)

14 Creditors: amounts falling due after more than one year

	2005 £000	2004 £000
Obligations under hire purchase contracts	73	501

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

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

15 Provisions for liabilities and charges

	Other £000	Deferred tax £000	Total £000
At beginning of financial period	-	291	291
Charge to the 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.

The elements of deferred taxation are as follows:

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

16 Called up share capital

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

Notes (continued)

17 Reserves

	Profit and loss account £000
At beginning of financial period	42,041
Retained loss for the financial period	(13,954)
At end of financial period	<u>28,087</u>

18 Commitments

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

	2005 £000	2004 £000
Contracted	<u>1,796</u>	<u>2,227</u>

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

	2005		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	-
	<u>16,797</u>	<u>1,021</u>	<u>14,405</u>	<u>31</u>

19 Pension scheme

The company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the company to the scheme and amounted to £54,000 (2004: £42,041).

20 Holding company

The company is a wholly owned subsidiary of Dunelm Group Limited which is incorporated in the United Kingdom.