

Dunelm Group Limited

Directors' report and financial
statements

Registered number 4708277

1 July 2006

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

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Directors' report

The directors present their annual report and the audited financial statements for the financial period ended 1 July 2006.

Principal activities

Dunelm Group Limited is a holding company for a group of companies whose principal activity is the retailing of homewares.

Business review and future developments

The homewares market declined in the 2005 calendar year, according to the independent market research from Allegra Strategies.

Against this challenging backdrop, the group suffered a decline in like-for like sales of 4.8%. However, the benefit of new store openings in the previous financial year, together with five further openings in this period, enable the group to increase overall turnover by 11.6%.

Thanks to tight cost controls as well as continuing improvements in product gross margins, the group was able to deliver operating profit growth of 2.7%.

The directors intend to continue to grow the business through new store openings and to keep improving the customer offer in existing stores.

The Directors have reviewed the key risks facing the company and consider that the greatest damage to its financial position would come from the loss of a significant facility (the central warehouse or head office) or from major disruption to IT systems. These risks are insured to the extent appropriate and contingency arrangements are in place to minimize disruption in the event any of these situations actually occurs.

Proposed dividend and transfer to reserves

Dividends amounting to £7,400,000 (2005: £12,200,000) were paid on the ordinary shares.

After dividends, retained profit amounted to £20,159,000 (2005 £15,007,000).

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:

	1 July 2006 Ordinary shares of £1 each	2 July 2005 Ordinary shares of £1 each
W Adderley	*1,750,000	*1,500,000
WL Adderley	250,000	250,000
DA Stead	-	-
MJ Sears	-	-
GI Cooper	-	-

*includes 750,000 relating to spouse's shareholding

Directors' report *(continued)*

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 and end of year	Exercise price £	Market price at date of exercise £	Date from which exercisable	Expiry Date
DA Stead	4,000	43.35	-	17.12.06	17.12.13
DA Stead	2,000	46.00	-	17.09.07	17.09.14
GI Cooper	1,522	46.00	-	See below	17.09.14
MJ Sears	652	46.00	-	See below	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.

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, having established a partners' council in the course of the year.

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

Donations

During the year the group made charitable contributions of £59,000 (2005: £75,000).

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that as far as they are aware, there is no relevant 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

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

Fosse Way
 Syston
 Leicestershire
 19 September 2006

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 UK Accounting Standards.

The group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the group and the parent company and of the profit or loss 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 applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its 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 group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



KPMG LLP
1 Waterloo Way
Leicester
LE1 6LP
United Kingdom

Independent auditors' report to the members of Dunelm Group Limited

We have audited the group and parent company financial statements of Dunelm Group Limited for the year ended 1 July 2006 which comprise the Consolidated Profit and Loss Account, the Consolidated Balance Sheet, the Company Balance sheet, the Consolidated Cash Flow Statement, the Reconciliation of movements in Group shareholders' funds, the reconciliation of movements in Company shareholders' funds and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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' responsibilities for preparing the Directors' Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 3.

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

We report to you our opinion as to whether the 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

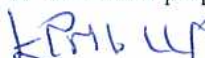
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and 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, in accordance with UK Generally Accepted Accounting Practice, of the state of the group's and parent company's affairs as at 1 July 2006 and of the group's profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.


Chartered Accountants
Registered Auditor

19 September 2006

Consolidated profit and loss account
for the financial period ended 1 July 2006

	<i>Note</i>	2006 £000	Restated 2005 £000
Turnover	<i>1, 2</i>	315,187	282,544
Cost of sales		(263,543)	(234,005)
Gross profit		51,644	48,539
Administrative expenses		(12,407)	(10,322)
Operating profit		39,237	38,217
Interest receivable	<i>6</i>	790	1,130
Interest payable and similar charges	<i>7</i>	(57)	(73)
Profit on ordinary activities before taxation	<i>3</i>	39,970	39,274
Tax on profit on ordinary activities	<i>8</i>	(12,411)	(12,067)
Profit on ordinary activities after taxation and for the financial period		27,559	27,207

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 20 to the financial statements.


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

Consolidated balance sheet
at 1 July 2006

	<i>Note</i>	2006 £000	2005 £000
Fixed assets			
Intangible assets	<i>10</i>	3,665	-
Tangible assets	<i>11</i>	61,490	54,050
		<hr/>	<hr/>
		65,155	54,050
Current assets			
Assets held for sale	<i>12</i>	5,998	-
Stocks	<i>14</i>	56,345	45,121
Debtors	<i>15</i>	10,024	7,388
Cash at bank and in hand		2,964	12,053
		<hr/>	<hr/>
		75,331	64,562
Creditors: amounts falling due within one year	<i>16</i>	(44,185)	(42,488)
		<hr/>	<hr/>
Net current assets		31,146	22,074
		<hr/>	<hr/>
Total assets less current liabilities		96,301	76,124
Creditors: amounts falling due after more than one year	<i>17</i>	-	(73)
Provisions for liabilities and charges	<i>18</i>	(601)	(510)
		<hr/>	<hr/>
Net assets		95,700	75,541
		<hr/> <hr/>	<hr/> <hr/>
Capital and reserves			
Called up share capital	<i>19</i>	2,000	2,000
Profit and loss account	<i>20</i>	93,700	73,541
		<hr/>	<hr/>
Shareholders' funds			
Equity		95,700	75,541
		<hr/> <hr/>	<hr/> <hr/>

These financial statements were approved by the board of directors on 19 September 2006 and were signed on its behalf by:

WL Adderley
 Director



Company balance sheet
at 1 July 2006

	<i>Note</i>	2006 £000	2005 £000
Fixed assets			
Investment in subsidiaries	<i>13</i>	2,000	2,000
		<hr/>	<hr/>
Current assets			
Debtors	<i>15</i>	78,906	44,941
		<hr/>	<hr/>
		78,906	44,941
Creditors: amounts falling due within one year	<i>16</i>	(526)	(86)
		<hr/>	<hr/>
Net current assets		78,380	44,855
		<hr/>	<hr/>
Total assets less current liabilities		80,380	46,855
		<hr/>	<hr/>
Net assets		80,380	46,855
		<hr/> <hr/>	<hr/> <hr/>
Capital and reserves			
Called up share capital	<i>19</i>	2,000	2,000
Profit and loss account	<i>20</i>	78,380	44,855
		<hr/>	<hr/>
Shareholders' funds			
Equity		80,380	46,855
		<hr/> <hr/>	<hr/> <hr/>

These financial statements were approved by the board of directors on 19 September 2006
 and were signed on its behalf by:

WL Adderley
Director

Consolidated cash flow statement
for the financial period ended 1 July 2006

		2006 £000	2005 £000
Cash flow from operating activities	23	35,306	40,249
Returns on investments and servicing of finance	23	736	1,081
Taxation		(11,907)	(11,205)
Capital expenditure	23	(25,430)	(18,370)
Equity dividends paid		(7,400)	(12,200)
		<hr/>	<hr/>
Decrease in cash in the financial period		(8,695)	(445)
		<hr/> <hr/>	<hr/> <hr/>
Reconciliation of net cash flow to movement in net funds			
Decrease in cash in the financial period		(8,695)	(445)
Non cash changes		(2)	(24)
		<hr/>	<hr/>
Movement in cash in the financial period		(8,697)	(469)
Net cash at the start of the financial period		11,511	11,980
		<hr/>	<hr/>
Net cash at the end of the financial period	24	2,814	11,511
		<hr/> <hr/>	<hr/> <hr/>

Reconciliation of movements in Group shareholders' funds
for the financial period ended 1 July 2006

	2006 £000	2005 £000
Profit for the financial period	27,559	27,207
Dividends (note 9)	(7,400)	(12,200)
	<hr/>	<hr/>
Net addition to shareholders' funds	20,159	15,007
Opening shareholders' funds	75,541	60,534
	<hr/>	<hr/>
Closing shareholders' funds	95,700	75,541
	<hr/> <hr/>	<hr/> <hr/>

Reconciliation of movements in Company shareholders' funds
for the financial period ended 1 July 2006

	2006 £000	2005 £000
Profit/(loss) for the financial period	925	(12,060)
Dividends received	32,600	40,000
	<hr/>	<hr/>
Net addition to shareholders' funds	33,525	27,940
Opening shareholders' funds	46,855	18,915
	<hr/>	<hr/>
Closing shareholders' funds	80,380	46,855
	<hr/> <hr/>	<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 group's financial statements except as noted below.

In these financial statements the following new standards have been adopted for the first time:

- FRS 21 'Events after the balance sheet date;'
- The presentation requirements of FRS 25 'Financial instruments presentation and disclosure'; and
- FRS 28 'Corresponding amounts.'

FRS 21 and FRS 25 have had no material effect on the financial statements.

In addition, FRS 28 'Corresponding amounts' has had no material effect as it imposes the same requirements for comparatives hitherto required by the Companies Act 1985.

Basis of preparation

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

Administrative expenses relate to the costs of running the administrative function at head office. All other costs are classed as cost of sales. The profit and loss account for the period ended 2 July 2005 has been restated to reflect this classification.

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 1 July 2006.

Intangible fixed assets and amortisation

Intangible fixed assets are stated at cost less amortisation and relate to the development of the company's information technology systems.

Amortisation is provided by the company to write off the cost less the estimated residual value of the intangible fixed assets by equal instalments over their estimated useful economic lives of three years.

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.

Notes *(continued)*

1 Accounting policies *(continued)*

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 independently administered funds. 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.

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.

Notes (continued)

3 Profit on ordinary activities before taxation

	2006 £000	2005 £000
<i>Profit on ordinary activities before taxation is stated after charging</i>		
Auditors' remuneration:		
Audit - group	60	42
- company	2	2
Taxation	60	30
Corporate finance	2	-
Other services - fees paid to the auditor and its associates	121	217
Amortisation of intangible fixed assets	511	-
Depreciation and other amounts written off tangible fixed assets:		
Owned	7,641	6,198
Leased	182	381
Impairment loss	-	631
Hire of other assets - rentals payable under operating leases		
Land and buildings	15,083	10,846
Plant & machinery	927	1,112
Loss on disposal of tangible fixed assets	3	-
	<u> </u>	<u> </u>
<i>after crediting</i>		
Profit on disposal of tangible fixed assets	-	496
	<u> </u>	<u> </u>

4 Remuneration of directors

	2006 £000	2005 £000
Directors' emoluments	694	378
Company contributions to money purchase pension schemes	18	-
	<u> </u>	<u> </u>
	712	378
	<u> </u>	<u> </u>
		Number of directors
	2006	2005
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	1	1
	<u> </u>	<u> </u>

The aggregate of emoluments of the highest paid director was £313,000 (2005: £160,000).

Notes *(continued)*

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	
	2006	2005
Administration	142	104
Sales	4,577	4,184
Distribution	165	156
	<u>4,884</u>	<u>4,444</u>

The aggregate payroll costs of these persons were as follows:

	2006 £000	2005 £000
Wages and salaries	37,941	31,545
Social security costs	2,202	1,840
Other pension costs	74	54
	<u>40,217</u>	<u>33,439</u>

6 Interest receivable

	2006 £000	2005 £000
Bank interest receivable	<u>790</u>	<u>1,130</u>

7 Interest payable

	2006 £000	2005 £000
On bank loans and overdrafts	15	3
On finance leases	42	70
	<u>57</u>	<u>73</u>

Notes *(continued)*

8 Taxation

Analysis of charge in the year

	2006 £000	2005 £000
UK corporation tax		
Current tax on income for the year	12,307	12,001
Adjustments in respect of prior years	(74)	(9)
	<hr/>	<hr/>
Total current tax	12,233	11,992
	<hr/>	<hr/>
<i>Deferred tax</i>		
Origination of timing differences	225	71
Adjustment in respect of prior years	(47)	4
	<hr/>	<hr/>
Total deferred tax	178	75
	<hr/>	<hr/>
Tax on profit on ordinary activities	12,411	12,067
	<hr/> <hr/>	<hr/> <hr/>

Factors affecting the tax charge for the current period

The current tax charge for the period is higher (2005: higher) than the standard rate of corporation tax in the UK, 30% (2005: 30%). The differences are explained below.

	2006 £000	2005 £000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	39,970	39,274
	<hr/>	<hr/>
Current tax at 30% (2005: 30%)	11,991	11,782
	<hr/>	<hr/>
<i>Effects of:</i>		
Expenses not deductible for tax purposes	27	48
Capital allowances for the year in excess of depreciation	(225)	(67)
Lease incentive deductions	(306)	(288)
Depreciation on assets not qualifying for capital allowances	821	571
Marginal relief	(1)	-
Adjustments to tax charge in respect of prior years	(74)	(9)
Profit on disposal in excess of capital gain	-	(45)
	<hr/>	<hr/>
Total current tax charge (see above)	12,233	11,992
	<hr/> <hr/>	<hr/> <hr/>

Notes *(continued)*

9 Dividends and other appropriations

	2006	2005
	£000	£000
Equity shares:		
Interim dividend paid	7,400	12,200
	<u> </u>	<u> </u>

10 Intangible fixed assets

	IT system development £000
<i>Cost</i>	
At beginning of financial period	-
Additions	4,176
	<u> </u>
At end of financial period	4,176
	<u> </u>
<i>Amortisation</i>	
At beginning of financial period	-
Charge for financial period	511
	<u> </u>
At end of financial period	511
	<u> </u>
<i>Net book value</i>	
At 1 July 2006	3,665
	<u> </u>
At 2 July 2005	-
	<u> </u>

Notes (continued)

11 Tangible fixed assets - group

	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 year	24,940	21,737	50	447	21,248	68,422
Additions	10,780	6,464	2	-	4,004	21,250
Transfers to current assets	(6,298)	-	-	-	(482)	(6,780)
Disposals	-	(13)	-	(166)	-	(179)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	29,422	28,188	52	281	24,770	82,713
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation						
At beginning of year	1,185	2,899	-	418	9,870	14,372
Charge for financial period	386	1,953	13	27	5,444	7,823
Transfers to current assets	(400)	-	-	-	(382)	(782)
On disposals	-	-	-	(164)	-	(164)
Impairment	-	(48)	-	-	22	(26)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	1,171	4,804	13	281	14,954	21,223
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net book value						
At 1 July 2006	28,251	23,384	39	-	9,816	61,490
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net book value At 2 July 2005	23,755	18,838	50	29	11,378	54,050
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Included in the total net book value of fixtures and fittings is £236,000 (2005: £732,000) in respect of assets held under hire purchase contracts. Depreciation for the year on these assets was £174,000 (2005: £371,000). Included in the net book value of motor vehicles is £7,000 (2005: £20,000) in respect of assets held under hire purchase contracts. Depreciation for the year on these assets was £8,000 (2005: £10,000).

Included in the total net book value of freehold land and buildings is £10,825,000 in respect of land.

Dunelm Group Limited has no tangible fixed assets.

12 Assets held for sale

	2006 £000	2005 £000
Assets held for sale:	5,998	-
	<hr/>	<hr/>

The Burton distribution centre was being actively marketed for sale as at 1 July 2006. Accordingly, this asset has been transferred from fixed assets to be held as a current asset for sale.

Notes (continued)

13 Fixed asset investments

Dunelm Group Limited has the following investments in subsidiaries:

	2006
	£000
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%

14 Stocks

	Group	
	2006	2005
	£000	£000
Finished goods and goods for resale	56,345	45,121

The company has no stock.

15 Debtors

	Group	Company	Group	Company
	2006	2006	2005	2005
	£000	£000	£000	£000
Trade debtors	68	-	483	-
Amounts owed by group undertakings	-	78,501	-	44,935
Other debtors	2,564	-	1,630	6
Prepayments and accrued income	7,392	405	5,275	-
	10,024	78,906	7,388	44,941

Notes (continued)

16 Creditors: amounts falling due within one year

	Group 2006 £000	Company 2006 £000	Group 2005 £000	Company 2005 £000
Obligations under hire purchase contracts (secured - see below)	150	-	469	-
Trade creditors	24,355	-	26,829	5
Taxation and social security	1,895	-	192	-
Corporation tax	6,213	391	5,889	75
Other creditors	94	-	47	-
Accruals and deferred income	11,478	135	9,062	6
	<u>44,185</u>	<u>526</u>	<u>42,488</u>	<u>86</u>

Hire purchase contracts are secured on the assets to which they relate.

17 Creditors: amounts falling due after more than one year

	Group 2006 £000	Company 2006 £000	Group 2005 £000	Company 2005 £000
Obligations under hire purchase contracts (secured - see note 15)	-	-	73	-

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

	Group 2006 £000	Group 2005 £000
Within one year	150	469
In second to fifth years	-	73
	<u>150</u>	<u>542</u>

Notes *(continued)*

18 Provisions for liabilities and charges

	Other	Group Deferred tax	Total
	£000	£000	£000
At beginning of the financial period	144	366	510
Charge to profit and loss for the financial period	(87)	178	91
	57	544	601
	57	544	601

The other provision relates to onerous leases held by Dunelm Soft Furnishings Limited. It is anticipated that the transfer of economic benefits will occur during the financial year ending 30 June 2007.

The elements of deferred taxation are as follows:

	2006		2005
	£000		£000
Difference between accumulated depreciation and amortisation and capital allowances	544		366
	544		366
	544		366

19 Called up share capital

	2006		2005
	£000		£000
<i>Authorised</i>			
Equity: Ordinary shares of £1 each	5,000		5,000
	5,000		5,000
<i>Allotted, called up and fully paid</i>			
Equity: Ordinary shares of £1 each	2,000		2,000
	2,000		2,000
	2,000		2,000

20 Reserves

	Group Profit and loss account		Company Profit and loss account
	£000		£000
At beginning of financial period	73,541		44,855
Profit for the financial period	27,559		925
Dividends	(7,400)		32,600
	93,700		78,380
	93,700		78,380

Notes *(continued)*

21 Commitments

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

	Group	
	2006	2005
	£000	£000
Contracted	1,370	5,721

The company had no capital commitments at either period end.

(b)

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

	Group		Group	
	2006		2005	
	Land and	Other	Land and	Other
	buildings		buildings	
	£000	£000	£000	£000
Operating leases which expire:				
Within one year	271	36	22	254
In one to two years	175	65	147	584
In the second to fifth years inclusive	1,428	240	1,198	183
Over five years	15,549	1	15,430	-
	<u>17,423</u>	<u>342</u>	<u>16,797</u>	<u>1,021</u>

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

22 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 £74,000 (2005: £54,000).

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

Notes (continued)

23 Analysis of cash flows

	2006 £000	2005 £000
Reconciliation of operating profit to net cash flow from operating activities		
Operating profit	39,237	38,217
Depreciation, amortisation and impairment charges	8,308	7,210
Loss/(profit) on sale of fixed assets	3	(496)
Increase in stocks	(11,224)	(12,135)
Increase in debtors	(2,637)	(3,217)
Increase in creditors	1,619	10,670
	35,306	40,249
	35,306	40,249
Analysis of cash flows for headings netted within the cash flow statement		
	2006 £000	2005 £000
Returns on investment and servicing of finance		
Interest received	791	1,130
Interest paid	(55)	(49)
	736	1,081
	736	1,081
Capital expenditure		
Purchase of tangible fixed assets	(21,255)	(19,085)
Purchase of intangible fixed assets	(4,176)	-
Proceeds on sale of fixed assets	1	715
	(25,430)	(18,370)
	(25,430)	(18,370)

24 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	12,053	(9,089)	-	2,964
Overdrafts	-	-	-	-
	-	-	-	-
Debt due after one year	(73)	(75)	(2)	(150)
Debt due within one year	(469)	469	-	-
	11,511	(8,695)	(2)	2,814
Total net funds	11,511	(8,695)	(2)	2,814

25 Ultimate controlling company

The directors consider that Mr W Adderley is the ultimate controlling party of the company by virtue of his shareholding (including that of his spouse) in Dunelm Group Limited.