Dunelm mill

Dunelm Group plc Annual report 2010

Dunelm is a fast growing specialist out-of-town homewares retailer providing a comprehensive range of products to a wide customer base, under the brand name Dunelm Mill

Contents

Operational highlights

94 superstores at 3 July 2010

10 new superstores opened in the year

Average superstore selling area of 29,000 square feet

Around 20,000 lines in a superstore – broad and deep ranges

Financial highlights FY10

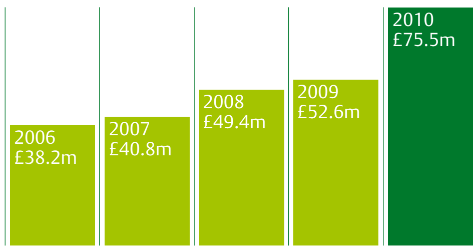
Revenue increase 16.3% (vs 53 weeks in FY09)

Operating margin 15.3%

Operating cash flow £72.0m after interest and tax

Revenue†

Operating profit*†



Profit before tax*†

Net cash from operations†

* The 2007 figures for operating profit and profit before tax included non-recurring items in respect of IPO and warehouse relocation as well as a non-recurring gain on a property disposal. The combined effect of these was to reduce operating profit by £3.2m and profit before tax by £3.0m.

† The 2009 figures reflect a 53 week trading period, compared with 52 weeks in all other years.

Business strategy: These are our key priorities

Priority 1
Open more superstores

We will continue to drive Dunelm's growth by rolling out the successful superstore format. We see the potential to increase from 94 superstores last year-end to 150–200 superstores across the UK.

Priority 2
Further develop our specialist position

We will continue to focus on homewares and our 'Simply Value for Money' proposition – deep ranges of quality products at keen prices, with high availability and supported by friendly service. We intend to keep strengthening each element of the offer.

Priority 3
Grow Dunelm Direct

We see significant opportunity to grow our overall business by further developing direct channels to complement our expanding store base.

Priority 4
Develop and exploit our infrastructure

We will continue to upgrade our infrastructure where necessary to support our ambitious growth plans.

Chairman's statement

Geoff Cooper Chairman

Our key strengths

- UK's largest specialist homewares retailer
- Portfolio of established out-of-town superstores, average sales area 29,000 sq.ft.
- 'Simply Value for Money' proposition:
  – Good quality products
  – Great prices
  – Industry leading choice
  – Deep availability
  – Friendly service
- On-line store featuring 14,000 products
- Owner of 'Dorma' brand
- Robust, scalable infrastructure
- Experienced management team, entrepreneurial culture
- Highly cash generative
- Strong balance sheet

In my interim report to shareholders, I commented on the excellent performance delivered by Dunelm over the 26 weeks to 2 January 2010. I am delighted to say that the business has remained very strong in the second half and we have delivered not only impressive sales growth for the full financial year, but also an outstanding 43.5% increase in profit before tax.

The business has continued to generate very strong cash flows. As a result, we were able to return £43.2m of surplus capital to shareholders in the course of the year – in addition to our normal dividends whilst continuing to invest in the business to support our future growth. The proposed final dividend of 5.0p (2009: 4.0p) brings the full year dividend to 8.0p (2009: 6.0p) – an increase of 33%.

Looking ahead, we remain cautious about the outlook for UK consumer spending and in turn the impact on the homewares market. However, we are very confident that Dunelm will continue to grow its share and become an even more significant player over the coming period.

I am excited about forthcoming changes in Board composition.

After almost 15 years as Dunelm's Chief Executive, Will Adderley has decided to relinquish that role from February 2011, when he will assume the new role of Executive Deputy Chairman, a full-time Board position. In this new role, he will be able to focus on specific aspects of the Group where he has unique expertise and experience, under the direction of the newly appointed Chief Executive.

Nick Wharton will assume the role of Chief Executive Designate with effect from 1 December 2010, and will take over as Chief Executive after the announcement of the Group's interim results in February 2011. Nick has been a Non-Executive Director of Dunelm since August 2009.

This change is a reflection of the Board's desire to enhance and expand the executive management of the Group as it embarks on the next important phase of its development.

The change represents the culmination of a detailed review by the Board, over many months, of the executive management resources required to maintain the pace of development through the next phase of our exciting growth plan. This review was instigated at Will's request and has involved a thorough and formal recruitment process, including benchmarking of external candidates by an executive search firm.

In his new role as Executive Deputy Chairman, he will be able to dedicate all his time and energy to aspects of the business which he is passionate about and where he has a unique level of insight and experience. At the same time, we are bringing increased strength in depth to the executive management team through the appointment of a new Chief Executive.

Nick will be a worthy successor to Will. As well as being a hugely experienced retailer he already has a good understanding of Dunelm's business and, most importantly, of our business philosophy and values. He will maintain the drive and sense of purpose which Dunelm has been used to under Will's leadership. Through his time as a Non-Executive Director, he has built strong relationships with both Will and David Stead, our Finance Director, and we are absolutely confident that the new team will combine to take Dunelm forward to further success.

The whole process typifies the foresight and objectivity shown both by Will, and by Bill and Jean Adderley before him, in considering the long-term interests of Dunelm and all its shareholders.

Geoff Cooper
Chairman
16 September 2010

Priority 1

Open more superstores

- Superstores as at 4 July 2009
- Superstores opened since 4 July 2009

New superstores

Since 4 July 2009 we have opened 12 new superstores adding almost 400,000 square feet of selling space

Chief Executive's review

Business highlights

- 8.0% increase in like-for-like sales
- Exciting developments in our customer offer
- 10 new superstore openings in FY10
- 9 major refits of existing stores in FY10
- Strong growth in Dunelm Direct
- Continuing investment in infrastructure

Trading

I am delighted to report further outstanding growth during the last financial year. Our overall sales increased by 18.2% compared with the equivalent 52 week period in the prior year. Like-for-like sales were extremely strong in the first half and the momentum carried through to a full year increase of +8.0% (again on a 52 week basis) – significantly beating the overall homewares market.

We have delivered these results by retaining a sharp focus on the four priorities which continue to form our growth strategy.

Priority 1 – open more superstores

We opened 10 new superstores in the year, adding over 300,000 square feet of selling space. As at the year-end, our superstore chain comprised 94 stores (including two stores previously treated as high street shops) with 2.8m square feet of selling space.

We have opened two further stores since the year-end in Milton Keynes and Torquay and we are contractually committed to nine more units which are due to open in the current financial year, one being a relocation of an existing under-spaced superstore.

Our recent openings have all traded well. Our target is for new stores to pay back their ingoing investment within 36 months on a discounted cash flow basis, but we have consistently beaten this. The actual payback period for the last 30 openings is expected to be around 26 months on average.

Taking confidence from the performance of both new stores and the existing chain, we have increased our target for national coverage in the UK from 150 to 200 superstores.

Priority 2 – further develop our specialist position

We know that it is essential for us to keep evolving our retail proposition. We remain as passionate as ever about giving 'Simply Value for Money' to all our customers – a combination of good quality products at great prices, industry-leading choice, deep availability and friendly service.

Recent developments in our offer include the following:

- *Dorma*. We continue to roll out dedicated Dorma centres which are now represented in 32 stores. We have extended the range of products sold under the Dorma brand to include bathroom, gift and tableware lines.
- *Window treatments/Dunelm At Home*. We developed some time ago a more integrated and space-efficient way of merchandising products relating to windows (curtains, blinds, tracks and poles, fabrics, nets and voiles). This execution of the offer is now present in 26 stores. In addition, we now supplement our in-store offer with a free home consultation service, branded Dunelm At Home, which allows customers to select from our range of window treatments with the help of an advisor in their own homes. This service is currently provided from 30 stores.
- *Furniture*. We have completed a full review of our furniture ranges, and created an extended furniture department in several of our larger stores.
- *Kitchen*. We have created a radically different version of our traditional kitchen department. The new concept divides the offer between cooking, dining and utility and offers much deeper ranges in each of these areas, supported by new display methods and greater space allocation. This concept has been introduced to 15 stores to date.

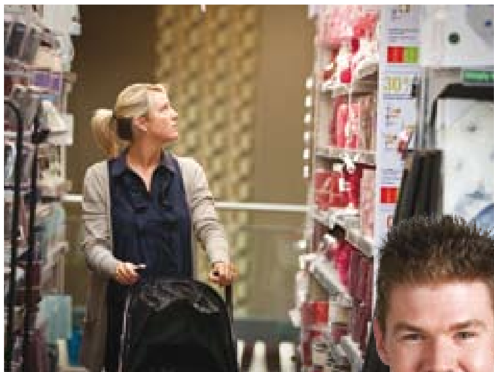
Priority 2

Further develop our specialist position

- Dorma centres in store
- Roll-out of window treatment departments
- Development of Dunelm At Home
- Extended furniture department in larger stores
- Extended kitchen ranges

"Miss It Miss Out" promotions

These special deals further add to the variety and interest in our stores.



Chief Executive's statement *continued*

- *Miss It Miss Out*. We have evolved our use of "Miss It Miss Out" campaigns to signpost great customer deals, and we are increasingly using this mechanism to clear discontinued lines outside of our traditional sale periods. This further adds to the variety and interest of our in-store offer.

We have continued investing to improve the shopping environment in our older stores. We completed nine major refits in the last financial year (2009 – six). The total cost of a refit including the impact of sales disruption is typically around £0.8m per store; this includes any expenditure necessary to maintain the fabric of the building. Sales uplifts in refitted stores have run approximately 10% ahead of trend. Going forward we plan to continue investing judiciously in major refits whilst also taking opportunities to refresh stores through smaller interventions.

Priority 3 – grow Dunelm Direct

During the last financial year we successfully implemented a new software platform for our on-line business (www.dunelm-mill.com and www.dorma.co.uk). This has enabled us to offer a much improved experience for on-line visitors as well as giving customers the option of collecting on-line purchases in store.

At launch of the new platform we were able to offer approximately 7,000 lines for sale; this number has now doubled.

We continue to invest in this channel, with regular enhancements to functionality and further expansion and strengthening of the Dunelm Direct team.

As a result of this focus, we continue to see strong growth in on-line sales. Dunelm Direct is now consistently ranked amongst our top 10 stores in sales terms and we are confident that further growth will be achieved.

Priority 4 – develop and exploit our infrastructure

We continue to extract further benefits from our IT systems, enabling us to improve stock control and make in-store processes more efficient.

We have doubled the space available to us at our Stoke warehouse, to 500,000 square feet. Assuming that the proportion of merchandise distributed via Stoke remains constant, this will give us the capacity to support growth in our store estate for the foreseeable future.

To support our continuing growth, we have acquired a plot of freehold land for a new head office near to our existing base in Syston, Leicester. Construction of a new building is under way and we expect to relocate in mid-2011.

Current trading

We are clearly operating in challenging economic conditions, and we expect to see continuing pressure on consumer spending.

Despite this backdrop, we are confident that Dunelm will demonstrate resilience, benefiting from our focus on continuing to deliver 'Simply Value for Money' and our low average transaction values, and that the business will continue to grow and to strengthen its position in the UK homewares market.

Performance in the early weeks of our new financial year has been pleasing, given strong performance in the comparative period last year.

Board change

As our Chairman explains in his statement, I will shortly be handing over my responsibilities as Chief Executive to Nick Wharton, allowing me to take on the new role of Executive Deputy Chairman.

I am delighted that we have been able to attract somebody with Nick's talent and energy to become our next Chief Executive. He is a great addition to the Dunelm team and I very much look forward to working with him.

I have been privileged to run Dunelm over the last 15 years and I feel invigorated by my forthcoming new role which will allow me to spend much more time on the areas where I believe that I can add the most value.

As the Group's largest shareholders, my family remain totally committed, both emotionally and financially, to Dunelm for the long-term and we are as excited as ever about the next phase of its development which will take place under Nick's leadership. We are convinced that these changes will underpin the long-term development and success of the Group.

Will Adderley
Chief Executive
16 September 2010

Priority 3

Grow Dunelm Direct

- New technology platform launched September 2009
- 14,000 products available
- Collect in-store service
- Rapid growth
- Continuing enhancements

Finance Director's review

Financial highlights

- Revenue increased by 16.3% (18.2% on a 52 week basis)
- Operating profit increased by £22.9m (£23.9m on a 52 week basis)
- Fully diluted EPS increased by 44.6% (47.0% on a 52 week basis)
- 33% increase in dividend
- £43.2m return of capital delivered

Operating result

The year ended 3 July 2010 was a 52 week accounting period but the comparative year ended 4 July 2009 was a 53 week accounting period. The additional 53rd week last year represented £6.7m of revenue and approximately £1.0m of operating profit. Unless otherwise stated, reference to 2009 or the comparative year relate to this 53 week period.

Group revenue for the 52 weeks to 3 July 2010 was £492.8m (2009: £423.8m) an increase of 16.3% (18.2% on a 52 week basis).

Like-for-like sales (comparing stores which have traded throughout the last two financial years) increased by 8.0% on a 52 week basis and new space contributed a further 10.2%. The like-for-like sales growth was strongest in H1 at +15.4% with H2 recording +0.8%, however the shift in our accounting calendar due to the 53rd week last year meant that more of our winter sale fell in the first half than in previous years. Adjusting for this the like-for-like performance would have been approximately 2.0% lower in H1 and 2.0% higher in H2.

Gross margin has continued to increase year on year, due primarily in the most recent period to successful product life cycle management. As a result, gross margin ended the year at 46.8% (2009: 44.9%) a 190 bps improvement. Gross margin is now calculated after taking into account all charges for inventory write-downs, which were previously included in operating costs; the comparative figures for the 53 weeks to 4 July 2009 have been restated onto this new basis.

Operating costs increased 12.8% compared with last year, with the increase primarily due to investment in the portfolio and supporting central infrastructure. Operating costs in like-for-like stores increased only 0.2% held down by improvements in labour cost ratios, a reduction in energy costs and lower than expected rent and rates settlements. Non-store costs grew by £3.4m (11.0%) to support the growth of the business.

Operating profit for the financial year was £75.5m (2009: £52.6) an increase of £22.9m (£23.9m on a 52 week basis).

EBITDA

Earnings before interest, tax, depreciation and amortisation were £86.9m. This has been calculated as operating profit (£75.5m) plus depreciation and amortisation (£11.4m) and represents a 37.3% increase on the previous year. The EBITDA margin achieved was 17.6% of sales (2009: 14.9%).

Financial items and PBT

The Group generated £1.3m net financial income for the year ended 3 July 2010 (2009: £0.9m). Financial items includes foreign exchange gains of £0.8m (2009: £1.0m) arising in respect of US dollar holdings; the Group held $1.8m in US dollar cash deposits and had forward contracts covering approximately 35% of the anticipated US dollar spend over the next 12 months. The balance of net financial income, £0.5m (2009: –£0.1 expense), represents interest on surplus cash deposits.

After accounting for interest and foreign exchange impacts, profit before tax for the year amounted to £76.8m (2009: £53.5m), an increase of 43.5%.

Tax, PAT and EPS

The tax charge for the year was 29.2% of PBT (2009: 29.7%). Ineligible depreciation was at a similar absolute level to last year and this combined with a very significant increase in PBT at 28% has resulted in a lower effective rate.

Basic EPS for the year ended 3 July 2010 was 27.1p (2009: 18.8p), an increase of 44.1%. Fully diluted EPS increased by 44.6% to 26.9p (2009: 18.6p or 18.3p on a 52 week basis).

Priority 4
Develop and exploit our infrastructure

- Improved stock control
- Distribution centre capacity doubled
- Relocation to new head office in mid 2011

Finance Director's review *continued*

Capital expenditure
Gross capital expenditure in the financial year was £24.6m compared with £26.0m last year, although the 2009 spend was boosted by the £5.1m acquisition of the Dorma brand. The major investments in the year were in stores, including fit-out costs for 10 new stores and nine major refits in the period as well as acquisition of the freehold interest in one existing leasehold store. In addition, important investment programmes were begun with the acquisition of land for a new head office building (expected to be completed during 2011) and the commencement of fit-out work on our expanded central warehouse facility.

Working capital
The Group reduced working capital in the year by £1.7m (2009: £14.8m). Investment in inventories was £62.6m, an increase of £4.7m compared with last year but with the growth in the portfolio this represents a reduction of 8.0% in like-for-like stores. Trade and other payables generated a positive cash movement of £6.1m, largely as a result of an increase in accruals and deferred income.

Cash position
The Group generated £72.0m (2009: £67.4m) net cash from operating activities in the last financial year, an increase of 6.8%. In the second half, the Group returned excess capital to shareholders amounting to £43.2m. As a result, net cash resources at the end of the year were £15.4m (2009: £24.0m). A committed undrawn revolving loan facility of £40.0m remains in place until September 2011.

It is anticipated that the financial year to July 2011 will see an increase in the level of cash reinvested in the business. Continuing expansion of the store portfolio will require a typical investment cost of £1.2m per store, whilst the refit programme brings a typical investment of £0.8m per store. This year will also include completion of the fit-out of the central warehouse extension (approximately £1.0m) as well as development of the new head office facility, expected to cost a further £10.0m capital over the years to July 2011 and July 2012. In addition, freehold store acquisition opportunities have been identified with potential investment of up to £8.0m.

Dividend
An interim dividend of 3.0p was paid in April 2010 (2009: 2.0p). It is proposed to pay a final dividend of 5.0p per share (2009: 4.0p). The total dividend of 8.0p represents a 33% increase over last year and leaves dividend cover a little over the top end of our target range of 2.5x–3.0x. This reflects the fact that a high level of capital expenditure is anticipated in the next financial year, to support ongoing growth of the business.

Key performance indicators
In addition to the traditional accounting measures of sales and profits, the Directors review business performance each month using a range of other KPIs. These include those on the table opposite.

Key risks
The Directors also consider key risks to the business in the areas of strategic, operational and financial risks.

Strategic risks
Increased competition in the homewares market could materially impact returns and limit opportunities for growth. We will continue to monitor major competitor threats and activity and seek to modify our proposition if necessary.

Changes in political and economic conditions will continue to put pressure on consumer expenditure and a continued downturn could result, impacting the retail sector as a whole. We mitigate this risk by reacting quickly to changes in customer demand and adjusting our offer in response. Continued focus on a low cost base also enables us to maintain our 'Simply Value for Money' proposition.

Key performance indicators FY10

Sales growth†

2010	+18.2%
2009	+6.4%
2008	+10.5%

Like-for-like sales growth†

2010	+8.0%
2009	+0.5%
2008	+2.5%

Gross margin change (basis points)

2010	+190bps
2009	+120bps
2008	+60bps

Operating margin

2010	15.3%
2009	12.4%
2008	12.6%

EBITDA £m

2010	£86.9m
2009	£63.2m
2008	£58.9m

Earnings per share (diluted)

2010	26.9p
2009	18.6p
2008	16.6p

Dividend (per share)

2010	8.0p
2009	6.0p
2008	5.5p

New store openings

2010	10
2009	6
2008	8

Major refits

2010	9
2009	6
2008	1

† 2009 is treated as a 52 week period for these measures (53 weeks for the rest).

Finance Director's review *continued*

Dunelm, like many other retailers could experience upward pressure on input costs particularly in areas such as foreign currencies, freight rates and raw material costs. These could impact margins. We have protected our business from fluctuating currencies through hedging a greater proportion of our foreign spend. In addition our increased scale and rate of growth provide further protection.

Our growth plans rely heavily on our being able to gain access to additional trading locations. If for any reason the supply of vacant retail warehouse space declines significantly, we will be forced to accept a lower pace of expansion. However, with increasing pressures on retailers and landlords we anticipate continuing availability of space over the next few years.

Operational risks

Information systems and technology operate at the heart of our business. A major incident or interruption to key systems could constitute a significant threat to the business, at least in the short-term. A disaster planning committee oversees the disaster recovery plan designed to ensure business continuity in such an event. In addition, certain key systems are either hosted offsite with full disaster recovery and the remainder are backed up in separate locations.

The business could suffer disruption in the event of a major incident within the supply chain, e.g. loss of our central warehouse or a major supplier. However, our use of a wide supply base, active management of key supplier relationships, high stock service levels and a high proportion of direct-to-store deliveries mitigate this risk.

Dunelm has a number of staff members in specialist positions whose expertise is important to operations and who could not easily be replaced. We have mitigated this risk by incentivising loyalty through deferred share awards as well as continuing to build strength in depth within the operating management team over recent years.

Financial risks

Dunelm has a committed bank facility under a revolving loan agreement with Lloyds Banking Group plc of £40m. This facility expires in September 2011. The Group also has existing cash resources which together with banking facilities are considered to provide sufficient funding for the Group's operations.

We do not consider our direct exposure to interest rate fluctuations to generate any significant downside risk and we are well placed to take advantage of any interest rate increases.

The Group invests surplus funds in overnight deposit accounts, fixed term facilities and in structured deposits. Counter parties are approved by the Board and risk associated with these counterparties is continually monitored. A credit rating of at least an 'A' is required.

David Stead
Finance Director
16 September 2010

Directors

1. 2. 3. 4. 5. 6.

1. Will Adderley
Chief Executive

Will Adderley, joined the business in 1992. He has worked in and is familiar with all major areas of the business and took over the day-to-day running of the Group from his father in 1996.

During the coming year, Will is to take on the new role of Executive Deputy Chairman.

2. David Stead
Finance Director

David Stead, joined the Group in 2003. Previously he spent 14 years at Boots where he was Finance Director of Boots The Chemists and Finance Director of Boots Healthcare International.

3. Geoff Cooper
Non-Executive Chairman

Geoff Cooper, joined the Board in November 2004. Member of the Remuneration and Nominations Committees. He is currently Chief Executive of Travis Perkins plc, and is a former Director of Gateway (now Somerfield plc) and has also been Finance Director and then Deputy Chief Executive of Alliance UniChem plc.

4. Marion Sears
Senior Independent Non-Executive Director

Marion Sears, joined the Board in July 2004. Chairman of the Remuneration and Nominations Committees and Member of the Audit Committee. She is also a Non-Executive Director of Zetar Plc.

Bill Adderley
Founder and Life President

Bill Adderley founded Dunelm in 1979. He led the development of the business successfully for many years, then took a non-executive role before retiring in February 2008. He and his wife Jean remain passionate Dunelm supporters and major shareholders.

5. Simon Emeny
Independent Non-Executive Director

Simon Emeny, joined the Board in June 2007. Member of the Audit, Remuneration and Nominations Committees. Simon has recently been appointed Group Managing Director of Fuller Smith and Turner P.L.C. where he was previously responsible for the Fuller's Inns division.

6. Nick Wharton
Independent Non-Executive Director

Nick Wharton, joined the Board in August 2009. Chairman of the Audit Committee, member of the Remuneration and Nominations Committees. Nick is Finance Director of Halfords Group plc.

Nick will become Chief Executive of the Group in the coming year.

Letter from the Chairman

Dear Shareholder,

In an effort to improve communication and increase understanding of Dunelm, I thought it would be helpful to introduce the Corporate Governance section in our annual report. In addition, as remuneration is such an important subject, I have asked Marion Sears to write to you separately outlining our approach to executive pay and you will find this on page 21. It is my experience that whilst shareholders rightly expect the Board to take collective responsibility for all published information, they also appreciate a sharp sense of accountability where individual directors take the lead on a particular issue.

We are very clear at Dunelm that the Board should have an involved and active role in supporting the Executive Directors and the senior management team. We aim, as a minimum, to incorporate best practice and to comply with the UK Corporate Governance Code in all respects but we have also formed some guidelines of our own that we feel improve the role of the Board and are in keeping with our positive and energetic culture.

We have worked hard to compose a Board with diversity of thought. This includes appointing non-executive directors ('NEDs') with diverse backgrounds including executive positions in other companies. Our NEDs have experience and diverse perspectives of issues of direct interest to Dunelm, including a range of business models, challenges involved in consumer markets, City and investor experience and retail knowledge. With the help of the finance and Company secretarial departments we manage and administer corporate governance ourselves internally and the NEDs are actively involved in this.

There is a strong collegiate and respectful relationship between the Executive and NEDs. All the NEDs aim to visit a store once a month, often with a member of the senior management team. This is helpful in fostering our understanding of business issues as well as communicating internally from head office to store teams and vice versa. In addition, Board meetings are often held in store or at other Company locations and include presentations from managers within the business.

Shareholder feedback is regularly monitored, with NEDs joining management in a selection of shareholder meetings following our results announcements. We will continue to attend a sample of meetings, however, if any shareholder wishes to meet with any of the NEDs without management present to discuss Dunelm then this can be arranged through our advisers.

We have announced a key development for Dunelm with the appointment of Will Adderley as Executive Deputy Chairman and of Nick Wharton as Chief Executive. These changes have been made following a thorough review by the Board of the needs of the business to support its future development. This review included benchmarking of external candidates for the Chief Executive role through an executive search company.

Yours faithfully,

Geoff Cooper
Chairman
16 September 2010

Corporate governance report

The Board is committed to high standards of corporate governance. This report explains how the Group has applied the principles of good governance and code of best practice set out in the 2008 version of the Combined Code on Corporate Governance (the 'Combined Code') during the financial year. The Board considers that the Group's governance complied with the Combined Code.

The Board has reviewed the new UK Corporate Governance Code (the 'Corporate Governance Code') published in June 2010 and has agreed actions during the 2010/11 financial year to bring its governance arrangements into line with this new code.

The Board

The Board has overall responsibility for controlling the Group, making decisions relating to the Group's strategic direction and measuring progress towards strategic goals.

The Board has 10 scheduled meetings per annum, including one strategy meeting. There was full attendance at all Board meetings during the year except that Simon Emeny was absent from one Board meeting.

The Board has reviewed the schedule of matters reserved to the Board for decision or approval, which is available on the Group's website or from the Company Secretary. Examples of such matters include Group strategy and budget, Group capital structure, approval of financial results and report and accounts, significant capital or contractual commitments, maintaining internal control and risk management, and approval of Group-wide policies.

At each meeting, the Chief Executive reports on operational performance (including health and safety) and the Finance Director reports on financial performance. Other matters are discussed by the Board as required, supported by a briefing paper where a decision is to be made by the Board.

Minutes of all Board and Committee meetings are taken by the Company Secretary and committee secretaries respectively and circulated for approval. Any unresolved concerns raised by a Director are recorded in the minutes.

The Chairman and the other Non-Executive Directors meet from time to time without Executive Directors being present, and regularly have individual meetings with other senior managers in the business. In addition the Non-Executive Directors have the opportunity to meet at least once a year without the Chairman present as part of the Board effectiveness review process.

Directors

The Non-Executive Chairman is Geoff Cooper and the Chief Executive is Will Adderley. The Board has adopted a written statement setting out their respective responsibilities. In general terms, the Chairman is responsible for running the Board and the Chief Executive is responsible for running the Group's business.

The other Non-Executive Directors during the year were Marion Sears, Simon Emeny and Nick Wharton (appointed on 14 August 2009). David Stead is an Executive Director.

The Senior Independent Director is Marion Sears.

Subsequent to the year-end, it has been announced that Will Adderley will take on the new role of Executive Deputy Chairman. He will be replaced as Chief Executive, after a handover period, in February 2011 by Nick Wharton.

The Board considers that Geoff Cooper was independent on appointment, and that Marion Sears and Simon Emeny are independent. The Board further considers that Nick Wharton was independent during the year ended 3 July 2010. Following the announcement of his appointment as Chief Executive he ceases to be so. It is the Board's intention to recruit an appropriately skilled new Non-Executive Director in due course.

Directors are required to retire from the Board by rotation and offer themselves for re-election at least every three years.

Board committees

The **Audit Committee** was chaired during the year by Nick Wharton, the other members being Marion Sears and Simon Emeny. The Board considers that Nick has recent and relevant financial experience by virtue of his professional qualification and his executive role as Finance Director of Halfords Group plc.

The committee has adopted terms of reference which are available on the Group's website or from the Company Secretary.

The committee is scheduled to meet at least three times a year, to coincide with key dates in the Group's financial reporting and audit cycle. During the period under review it met in September, February and May with full attendance. The Group Chairman and the Finance Director usually attend meetings by invitation, along with a representative from the external auditors.

The principal responsibilities of the committee are to:
- monitor the integrity of the Group's financial statements and public announcements relating to financial performance;
- oversee the external audit process, including the appointment of the auditors, their objectiveness and independence and the scope and effectiveness of the audit;

Corporate governance report continued

- monitor the effectiveness of internal controls and consider annually the need for an internal audit function; and
- review the process for identifying and managing risk throughout the Group.

During the year the committee:
- approved the full year results issued in September 2009 and the interim results issued in February 2010;
- decided that an internal audit function was not required in view of the adequacy of financial controls in place and low level of complexity in the business;
- confirmed the Group's policy for use of the auditors for non-audit advice; and
- verified the independence of the auditors, and approved the scope of the audit plan and the audit fee.

The committee met privately with the auditors in the course of each meeting during the period.

The committee has approved a policy that the auditors should only be used for non-audit work if they offer demonstrably better capability than alternative providers and there is no potential conflict with the independence of the audit.

The committee has approved a policy which allows employees to raise legitimate concerns in confidence without fear of discrimination.

The **Nominations Committee** is chaired by Marion Sears, the other members are Geoff Cooper and Simon Emeny. Nick Wharton was a member of the committee during the year but was not involved in meetings considering the selection of a new Chief Executive.

The committee has adopted terms of reference which are available on the Group's website or from the Company Secretary.

The committee's responsibilities include:
- reviewing the composition and balance of the Board;
- Board succession planning; and
- making recommendations on appointments to the Board (including reappointments at Annual General Meeting).

The committee met in July 2009 with full attendance to approve the appointment of Nick Wharton as Non-Executive Director. In making this appointment, the committee chose to rely on its own research into potential candidates rather than engaging an external search consultancy, in the belief that committee members themselves would be better placed to identify individuals likely to fit well with Dunelm's unique culture. The committee recognised in particular that Nick would bring a combination of retail business experience (from Halfords Group plc and Boots Group plc) and relevant finance experience to allow him to take over chairmanship of the Audit Committee.

The committee met on numerous occasions during 2010 to consider the appointment of a Chief Executive in succession to Will Adderley. An executive search consultancy was engaged to assist in this process. It was recognised that the qualities leading to Nick Wharton's appointment as a Non-Executive Director also made him a strong candidate for the Chief Executive role. From that point, Nick Wharton did not participate in meetings concerning the Chief Executive succession.

The committee keeps under constant review the balance between Executive and Non-Executive Directors, as well as the mix of skill-sets and experience possessed by the Board as a whole. The committee remained satisfied that the Board contained an appropriate mix of individuals during the year.

The **Remuneration Committee** is chaired by Marion Sears, the other members are Geoff Cooper and Simon Emeny. Nick Wharton was a member of the committee during the year. The Chief Executive normally attends by invitation.

The committee has adopted terms of reference which are available on the Group's website or from the Company Secretary.

The committee's responsibilities include:
- recommending to the Board the specific pay and benefits packages for the Executive Directors, including pensions and any compensation payments;
- recommending and monitoring the level and structure of pay and benefits for senior management; and
- implementing any awards made under share incentive schemes.

During the year the committee met four times with full attendance and:
- determined the pay reviews and incentive arrangements for Executive Directors;
- determined the annual bonus payable to Executive Directors in respect of the year ending 3 July 2010; and
- approved conditional share awards to be made to Executive Directors under the Group's Long-Term Incentive Plan and other share incentives to be offered to senior management and other employees.

Following the year end the committee met, without Nick Wharton, to determine the remuneration package of the new Chief Executive.

Further details of the committee's activities are set out in the Remuneration Report on page 23.

Appointment and removal of Directors

The Articles of Association of the Company provide that a Director may be appointed by ordinary resolution of the Company's shareholders in general meeting, or by the Board so long as the Director stands down and offers himself for election at the next Annual General Meeting of the Company. The Articles also provide that each Director must stand down and offer him or herself for re-election by shareholders at the Annual General Meeting at least every three years.

Directors may be removed by a special resolution of shareholders, or by an ordinary resolution of which special notice has been given in accordance with the Companies Act 2006. The Articles also provide that the office of a Director shall be vacated if he is prohibited by law from being a director, or is bankrupt; and that the Board may resolve that his office be vacated if he is of unsound mind or is absent from Board meetings without consent for six months or more. A Director may also resign from the Board.

The Nominations Committee makes recommendations to the Board on the appointment and removal of Directors.

Powers of Directors

In accordance with the Companies Act 2006 and the Articles of Association, the business of the Company is managed by the Board, which may exercise all of the powers of the Company, subject to the requirements of the Companies Acts, the Memorandum and Articles of Association of the Company, and any special resolution of the Company. As stated above, the Board has adopted internal delegations of authority in accordance with the Code, and these set out matters which are reserved to the Board or Committees and the powers and duties of the Chairman and Chief Executive respectively.

At the Annual General Meetings of the Company in 2007, 2008 and 2009 the Board sought and was given authority to issue shares and to buy back and reissue shares, subject to the limits imposed by law and those set out in the text of the resolution. Similar resolutions are being tabled at the 2010 Annual General Meeting, together with a waiver of any obligation of Will Adderley under the City Code on Takeovers and Mergers to make an offer for all of the shares of the Company if the authority to buy back shares is used. For further details see pages 27 and 28 of the Directors' Report and Business Review, and the Notice of Annual General Meeting which is sent separately with this report.

Advice and insurance

All Directors have access to the advice and services of the Company Secretary. In addition Directors may seek legal advice at the Group's cost if they consider it necessary in connection with their duties.

The Group purchases Directors' and Officers' Liability insurance cover for its Directors.

Training

Upon joining the Board, any new Director is offered a comprehensive induction programme with visits to key sites and meetings with senior managers and other staff members. As part of each Director's annual review any additional training or development needs are addressed. Throughout the year all Directors have maintained a regular series of visits to stores and meetings with members of the senior management team. The Board has also received presentations from independent advisers on financial policy and on retail sector trends.

Evaluation

The Chairman appraises the performance of the Chief Executive with regard to personal objectives agreed at the start of each financial year. The Chief Executive similarly appraises the performance of the Finance Director.

There is a well established process for evaluating the performance of the Chairman, the other Non-Executive Directors, the Board Committees and the Board as a whole. This takes the form of a Board meeting convened solely for the purpose of such review. During the course of this meeting there is the opportunity for the Chairman or other individual Directors to be asked to leave the discussion whilst their performance is assessed.

Conflicts of interest

The Companies Act 2006 allows the Board of public companies to authorise conflicts and potential conflicts of interest of individual directors where the Articles of Association contain a provision to that effect. At the 2008 Annual General Meeting, new Articles of Association were adopted which give the Board this authority subject to the following safeguards:

- Directors who have an interest in matters under discussion at a Board meeting must declare that interest and abstain from voting.

Corporate governance report continued

- Only directors who have no interest in the matter being considered are able to approve a conflict of interest and, in taking that decision and the Directors must act in a way they consider, in good faith, would be most likely to promote the success of the Company.
- The Directors are able to impose limits or conditions when giving authorisation if they feel this is appropriate.

Following the adoption of the Articles of Association, all Directors were requested to disclose any actual or potential conflicts to the Board and the following matters were considered and approved:
- Will Adderley is a major shareholder and connected to other major shareholders. Authorised on the basis that Will Adderley continues to abide by the terms of the Relationship Agreement entered into between himself, other major shareholders
- Geoff Cooper is a director of Travis Perkins plc; and Nick Wharton is a director of Halfords Group plc, each of which potentially competes with the Company for retail property. Authorised on the basis that Geoff Cooper is not involved in day to day decisions in relation to the property portfolio in either company; and Nick Wharton to absent himself from any meeting of the Company in which property matters are to be discussed and a conflict of interest might arise.

There were no other matters disclosed that were considered by the Board to give rise to a conflict of interest.

Any conflicts considered by the Board and any authorisations given are recorded in the Board minutes and reviewed annually by the Board.

The Board considers that its procedures to approve conflicts of interest and potential conflicts of interest are operating effectively.

Significant shareholders

The Group's significant shareholders are listed in the Directors' report on page 29 and voting rights are stated on page 27.

Articles of Association

The Company's Articles of Association may only be amended by a special resolution of shareholders.

Risk management and internal control

Throughout the year and up to the date of approval of this Annual Report there has been in place an established, ongoing process for identifying, evaluating and managing the significant risks faced by the Group. The process has been reviewed by the Audit Committee and the Board and is in accordance with the Turnbull Guidance on Internal Control for Directors. This will be reviewed in the light of the revised Turnbull Guidance which is due to be issued later in 2010.

A register of major strategic and operational risks is maintained and reviewed regularly by the Board, which also monitors the status of agreed actions to mitigate key risks.

The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness. However such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable, and not absolute, assurance against material loss and misstatement.

The Group maintains a well established control framework comprising clear structures and accountabilities, well understood policies and procedures and budgeting and review processes.

Each store manager has clear responsibilities and operates within defined policies and procedures covering such areas as financial targets, human resources management, customer service, health and safety etc. The Executive Directors monitor compliance with these policies and procedures in the course of regular reviews.

The Audit Committee considers annually whether an internal audit function is required. It does not consider that this is necessary in view of the adequacy of internal and risk management controls and reporting in place, and the low level of complexity of the business.

Investor relations

There is a formal investor relations programme based around results presentations and trading statements. In addition analyst/shareholder visits are arranged. All of the Non-Executive Directors are available to attend meetings at shareholder request. The Chairman and Executive Directors feed back any investor comments to the Board.

All Directors will be available at the Annual General Meeting to meet with shareholders and answer their questions.

Letter from the Chairman of the Remuneration Committee

Dear Shareholder,

I am writing to set out for you our approach to executive reward at Dunelm. I hope you find this adds to your understanding of our culture and our way of doing business.

In preparation for our flotation on the main market in 2006, with the benefit of a clean sheet of paper, we designed the simplest, most transparent remuneration structure for Executive Directors that we could whilst following best practice, the Combined Code (as it then was) and the Association of British Insurers' guidelines.

Our aims were to pay fairly for the role and responsibilities of each director and to incentivise strongly for value creation, with an emphasis on the long-term. In keeping with Dunelm's family background our overriding principle was to design a structure where directors become strongly aligned with business goals by virtue of share ownership. We believe strong alignment of ownership by Executive Directors is the single most important factor in an effective remuneration structure.

From flotation we adopted the traditional three-pronged remuneration structure comprising basic salary (including benefits), an annual cash bonus and a three-year share-based Long-Term Incentive Plan ('LTIP'). Basic salary was initially set just below median levels for comparator companies at that time. However, a consequence of our growth, store roll-out programme and new business initiatives over the last few years has been to increase the operational scale of the executives' roles and make them more complex. It is important to recognise this appropriately and for 2010/11 we have increased David Stead's salary ahead of inflation and ahead of the Company-wide increase, to reflect both his performance and his increased responsibilities. Will Adderley has indicated that, as a large shareholder, he does not need or wish to take an increase in salary above the general Company level.

We initially set the maximum annual cash bonus opportunity at 60% of basic salary. From 2010/11 we have increased this to 100%, which we see as a more typical level in peer companies. We set the maximum LTIP award at 120% of basic salary. This level will be maintained for the October 2010 conditional LTIP award, although we now recognise that 120% is lower than some competitor companies and we will review this against market practice prior to next year's award. We feel that the balance between short-term bonus and longer-term reward is important in order to maintain the focus on the long-term as well as helping to build up a director's alignment. To encourage alignment, we require Executive Directors to build a shareholding equivalent to at least 2x their basic salary. This is a high multiple relative to the market norm.

For both the annual bonus and LTIP we chose to use fully diluted earnings per share ('EPS') as the only financial performance measure. We did this after careful consideration on the basis that EPS is audited, easy to understand and simple to measure. It is also a main driver of share price and is a reasonable proxy for value, provided capital investment is monitored. We recognise that, with EPS as the only measure, it is essential that the Board controls both capital investment and leverage to ensure the business is driven to increase shareholder value, and these are part of our regular Board processes.

Our approach has always been to do things properly whilst doing what is appropriate for Dunelm's particular circumstances. Therefore we set a very high EPS hurdle requiring EPS compound annual growth to reach the increase in the retail price index ('RPI') plus 20% for maximum LTIP vesting. This was at the very top end of the benchmark spectrum for LTIPs but felt right for a growing company. However, in 2008 and 2009 we reduced this to RPI+12% given the worsening economic outlook. We remain committed to reviewing the hurdles carefully every year.

The remuneration of below-Board executive committee members is handled by the Chief Executive with guidance from the Remuneration Committee. This tier of management is incentivised by a discretionary annual bonus scheme with matching nil cost share options, deferred for three years. We are also considering a shareholding requirement for the executive committee and other senior managers.

In early 2010, following the first LTIP vesting, we conducted a full Remuneration Review with the whole Board where we looked at how our original policies have suited us and how the Directors involved have been rewarded. We concluded that we should leave the basic structure unchanged for as long as possible whilst looking carefully at the base salaries and performance conditions each year.

As with all such decisions in Dunelm, the Remuneration Committee's stance is to try and take decisions which are fair for the individuals and best for the business long-term. I hope therefore, that shareholders will feel that our approach to executive pay is aligned with their interests.

Letter from the Chairman of the Remuneration Committee continued

Following the year-end, we have set the remuneration terms for Nick Wharton when he becomes a full-time Executive Director – from 1 December 2010 as Chief Executive Designate, and from February 2011 as Chief Executive. Nick's remuneration will follow Dunelm's established policy. He will receive a basic salary of £400,000 per annum plus benefits including car allowance, medical and life insurance and a pension contribution equivalent to 10% of salary. He will participate in the annual bonus and the LTIP scheme, both of which will be adjusted pro-rata to length of employment in respect of FY2011. On joining, Nick will receive a one-off cash payment of £150,000 in lieu of his annual bonus foregone. Subject to shareholder approval, he will also receive a one-off grant of nil cost share options to a value of £1,000,000 at date of joining in compensation for long-term incentive payment foregone. This will vest, subject only to continuing employment, after five years. The Remuneration Committee believes this is an important incentive to ensure alignment of his interests with those of shareholders in the context of long-term commitment to the business. To reinforce this alignment, Nick will be required to build a shareholding of at least two times basic salary over time.

Yours faithfully,

Marion Sears
Chairman of the Remuneration Committee
16 September 2010

Remuneration report

The Directors present their Remuneration report for the period ended 3 July 2010.

Introduction

The Remuneration Committee has prepared this report in accordance with the requirements of Section 420 Companies Act 2006 and the Listing Rules. The report and the Group's remuneration policy comply with the UK Corporate Governance Code. An ordinary resolution to approve the report through a shareholder vote will be proposed at the Annual General Meeting.

The disclosures that the Group's auditors are required to audit within the Remuneration report are contained in the section headed 'Audited Information'. The auditors' opinion is included in their report on page 36.

Non-audited information

Remuneration committee and advisers

During the year ended 3 July 2010, the Remuneration Committee was made up of four members, Marion Sears, Simon Emeny, Nick Wharton and Geoff Cooper. Marion Sears, who is the Senior Independent Non-Executive Director, chairs the committee and also acts as Secretary. The committee determines the Executive Directors' annual remuneration packages and provides guidance on the remuneration packages of members of senior management. No Director determines their own pay.

Changes in policy during the year

There have been no changes to remuneration policy during the year.

Executive remuneration policy

The Remuneration Committee's policy is to provide an executive remuneration structure that will attract, motivate and retain the high quality individuals who are essential for the successful development of the business over the long-term. Executive remuneration aims to ensure that the Executive Directors are fairly rewarded for their success measured by the Group's performance and are incentivised to enhance value for shareholders on a continuing and long-term basis.

There are three main elements of the remuneration package for Executive Directors:
- base annual salary including benefits;
- annual bonus; and
- Long-Term Incentive Plan.

Two of these main elements are performance based, which means that there is significant emphasis in the Group's executive remuneration policy on its performance.

The Remuneration Committee oversees the two performance-based plans: an annual bonus plan and a Long-Term Incentive Plan ('LTIP'). In accordance with governance guidelines and the requirements of the Combined Code, the Remuneration Committee implemented these two performance based plans to ensure alignment of interests between shareholders and Executive Directors. The annual bonus plan is short-term and provides cash rewards. The LTIP is long-term and rewards are in the form of shares.

Base salary and benefits

Prior to the beginning of each financial year the Remuneration Committee sets the base salaries of Executive Directors. The committee examines the salaries of Directors in a comparator group of public companies and considers the operational scale and complexity of the role each Director performs. It also reviews published research and surveys, and considers the wage increases across the Group as a whole. The committee aims to set salaries at around the median level provided by similar companies. In addition to base salary, the Executive Directors are entitled to benefits comprising a car allowance, a contribution to a personal pension, private medical insurance and life insurance.

Annual bonus

The Group operates a discretionary annual cash bonus scheme. Any bonus amounts determined to be payable are paid after the year-end results are finalised. The Remuneration Committee has established bonus objectives that are principally financial but also include personal objectives for the year relevant to each Director. The bonus payment for on target EPS is 24% of salary, subject to personal performance, and the maximum bonus payable for the year ended 3 July 2010 was 60% of salary.

Remuneration report continued

For the year ended 3 July 2010, EPS exceeded target. After due consideration of job performance, the committee awarded an annual bonus to Will Adderley of £195,840 and to David Stead of £134,640.

Long-Term Incentive Plan
Under the LTIP, Executive Directors are awarded nominal cost share options annually. These awards will vest three years after date of grant, to the extent that the applicable performance target is met.

The Remuneration Committee has chosen growth in fully diluted EPS over each three-year performance period as the performance target for the awards under the LTIP. The committee believes that this measure is closely aligned to the drivers of growth of the business, and that in the long-term, EPS performance will be reflected in shareholder value. The committee is satisfied that capital expenditure controls exercised by the Board are sufficiently rigorous to avoid EPS accretion by means of ineffective investment of capital, and in any event reserves the right to adjust the target in the event of a major capital transaction.

The LTIP is structured as follows (awards vest on a straight line basis between the threshold and maximum points):

	Compound annual growth in EPS		
Periods ending	2009, 2010	2011, 2012	Vesting percentage
Threshold	RPI + 5%	RPI + 3%	25%
Maximum	RPI + 20%	RPI + 12%	100%

The committee decided to reduce the performance hurdle in respect of the schemes maturing in 2011 and 2012, recognising the challenging market conditions expected to result from global recession.

The committee meets after the results for each three-year performance period are available to determine the extent to which performance conditions have been satisfied. There is no retesting.

Awards cannot be granted under discretionary schemes, including the LTIP, over Ordinary Shares in excess of 5% of the issued Ordinary Share capital in any rolling 10 year period.

Awards of Ordinary Shares worth 120% of base salary were made to Will Adderley and David Stead in March and September 2007, in September 2008 and in September 2009. The March 2007 award was in respect of the three-year performance period to 4 July 2009, over which the compound annual growth in EPS was 14.8% (12.4% above RPI). Accordingly, 62% of the conditional shares awarded in March 2007 vested in March 2010 and the entitlements were exercised by both Will Adderley (93,809 shares) and David Stead (61,461 shares) on 23 March 2010.

The Remuneration Committee has reviewed the Company's EPS record over the three year performance period which ended on 3 July 2010. Reported EPS, grew at a compound annual rate of 30.1%. This is 27.3% above RPI over the same period. Accordingly, 100% of the September 2007 LTIP award will vest in September 2010, representing 190,130 shares in favour of Will Adderley and 127,792 shares in favour of David Stead.

Other share options
The Group operates an all-employee SAYE scheme in which Executive Directors are also entitled to participate.

Non-executive remuneration policy
Non-Executive Directors' remuneration is determined by the Executive Directors. The Non-Executive Directors do not receive bonuses or participate in any incentive plans. They are paid annual fees which reflect additional responsibilities taken when chairing a committee of the Board. All Non-Executives have letters of appointment, detailed in the table on page 25.

Service contracts
In accordance with the Group's policy, the service contracts of the Executive Directors have no fixed term, the notice period for termination is 12 months from either party and payments on termination are restricted to a maximum of the value of salary for the notice period.

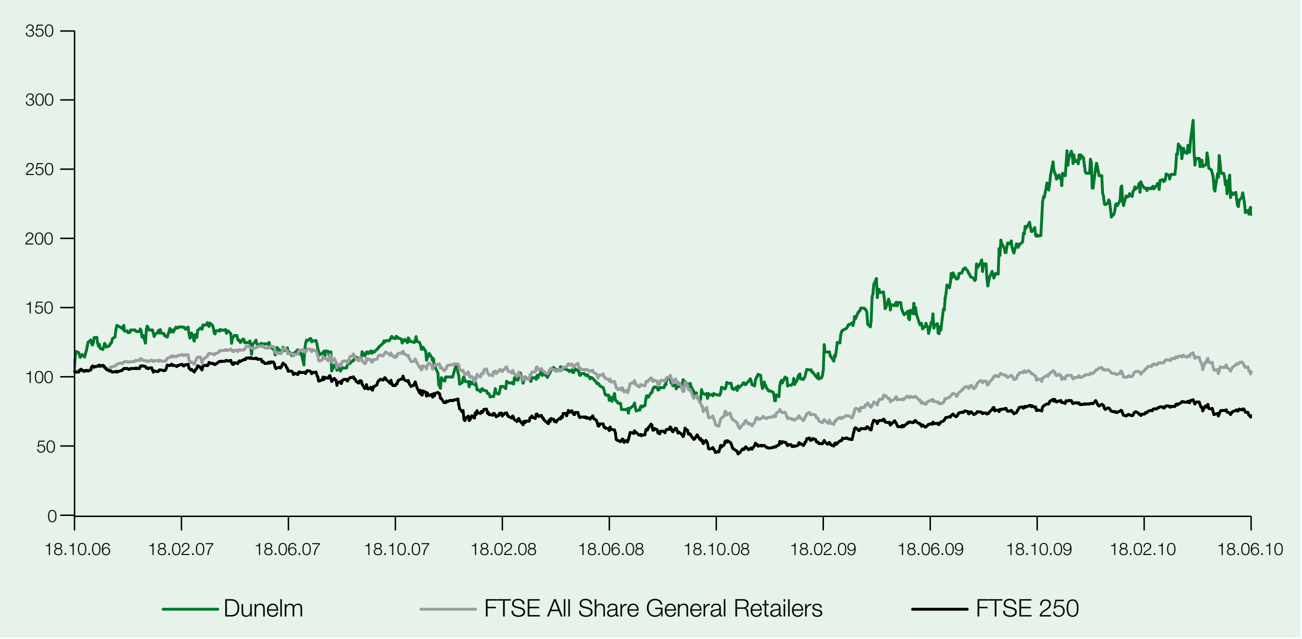
The Non-Executive Directors have letters of appointment for an initial period of three years with a provision for termination of one month's notice from either party, or three months' notice from either party in the case of Geoff Cooper, the Chairman.

	Date of Initial contract	Unexpired remaining term	Notice period
Will Adderley	28.09.06	n/a	12 months
David Stead	15.09.03	n/a	12 months
Geoff Cooper	08.10.04	1 month	3 months
Marion Sears	22.07.04	34 months	1 month
Simon Emeny	25.06.07	33 months	1 month
Nick Wharton	10.08.09	23 months	1 month

Retirement plans
The Remuneration Committee has decided not to use final salary pension plans as a way of remunerating its Executive Directors. Instead the Group contributes to the Executive Directors' personal pension plans. The Remuneration Committee believes this is an efficient way to assist Executives to prepare for retirement. When determining the mixture of fixed and performance based pay, the Remuneration Committee takes account of contributions to pension plans.

Performance graph
The graph below shows the Group's performance since flotation, measured by total shareholder return, compared with the FTSE General Retail Index and the FTSE 250. The Remuneration Committee has chosen these indices for comparison because they provide a range of comparator companies which have similar market capitalisation, which are in the same sector and which face similar market and economic challenges in the long-term.

The shares traded in the range 202.5p to 438.4p during the year, and stood at 325.3p at 3 July 2010.



Remuneration report continued

Audited information

Details of Directors' remuneration

Details of individual Directors' remuneration in respect of the year ended 3 July 2010 are as follows:

	Base salary or fees £'000	Vehicle allowance £'000	Taxable benefits £'000	Contribution to personal pension £'000	Annual bonus £'000	**2010 Total £'000**	2009 Total £'000
Executive Directors							
Will Adderley	326	10	1	waived	196	**533**	481
David Stead	224	10	waived	20	135	**389**	348
Non-Executive Directors							
Geoff Cooper	86	–	–	–	–	**86**	84
Marion Sears	32	–	–	–	–	**32**	32
Simon Emeny	27	–	–	–	–	**27**	26
Nick Wharton	24	–	–	–	–	**24**	–
Total	719	20	1	20	331	**1,091**	971

Will Adderley waived pension contributions totalling £20,000 and David Stead waived other taxable benefits totalling approximately £1,000.

Directors' interests in share options

The Directors' beneficial interests in options granted under the Long-Term Incentive Plan, all of which will vest only if EPS performance conditions are met, are as follows:

Director	Date of award	**Share options at 3 July 2010**	End of performance period	Market Price of shares at date of award
Will Adderley	Sept 2007	**190,130**	June 2010	193p
	Sept 2008	**259,459**	June 2011	148p
	Sept 2009	**123,949**	June 2012	316p
David Stead	Sept 2007	**127,792**	June 2010	193p
	Sept 2008	**178,378**	June 2011	148p
	Sept 2009	**85,215**	June 2012	316p

The Directors' beneficial interests in options granted under other schemes are as follows:

Director	Type of option	Shares under option at 5 July 2009	**Shares under option at 3 July 2010**	Granted during period	Exercised during period	Lapsed during period	Exercise price per share	Market price of shares at date of exercise	Vesting date	Expiry date
Will Adderley	SAYE	7,710	**7,710**	–	–	–	124p	–	Jan 2012	Jun 2012
David Stead	SAYE	7,710	**7,710**	–	–	–	124p	–	Jan 2012	Jun 2012

Approval

This report was approved by the Board of Directors on 16 September 2010 and signed on its behalf by:

Marion Sears
Chairman of Remuneration Committee
16 September 2010

Directors' report and business review

The Directors present their report together with the audited financial statements for the year ended 3 July 2010. Together with certain information in the reports from the Chief Executive and the Finance Director on pages 6 to 14 which are incorporated into this report by reference, this report satisfies the requirements of the Companies Act 2006 to produce a Business Review.

The purpose of this Business Review is to provide to shareholders a review of the Group's business over the period, and to describe the principal risks and uncertainties facing the Group.

Principal activity

The principal activity of the Group is that of a specialist UK homewares retailer selling to customers through stores and over the internet.

Review of business and future developments

A review of the business and future developments of the Group is given in the Chief Executive's Review on pages 6 to 8.

Shareholder and voting rights

All members who hold Ordinary Shares are entitled to attend and vote at the Annual General Meeting. On a show of hands at a general meeting every member present in person shall have one vote and on a poll, every member present in person or by proxy shall have one vote for every Ordinary Share held.

On 2 October 2006, Jean Adderley, Bill Adderley and Will Adderley (all shareholders) entered into a Relationship Agreement with the Company, pursuant to which each of Jean Adderley, Bill Adderley and Will Adderley undertook to the Company that, for so long as, individually or together, they are entitled to exercise, or to control the exercise of, 30% or more of the rights to vote at general meetings of the Company or they are able to control the appointment of directors who are able to exercise a majority of votes at Board meetings of the Company, they will:

(a) conduct all transactions and relationships with any member of the Group on arms length terms and on a normal commercial basis;
(b) not take any action which precludes or inhibits any member of the Group from carrying on its business independently of Jean and Bill Adderley and their associates (as defined in the Listing Rules);
(c) not exercise any of their voting rights or other powers to procure any amendment to the Articles of Association of the Company which would be inconsistent with or undermine any of the provisions of the Relationship Agreement;
(d) abstain from voting on any resolution to which LR11.7.R(4) of the Listing Rules applies involving Jean Adderley, Bill Adderley or Will Adderley or any of their associates as the related party;
(e) not carry on (other than through their holding of securities of the Company) or have any financial interest (other than a financial interest in securities which are held for investment purposes only) in any person who carries on a business as a homewares retailer, to the extent that it would be inconsistent with or undermine any provisions of the Relationship Agreement; and
(f) only enter into, amend or terminate any transaction, agreement or relationship between themselves or any of their associates and any member of the Group with the approval of a majority of the independent Non-Executive Directors.

There are no restrictions on the transfer of Ordinary Shares in the Company other than certain restrictions imposed by laws and regulations (such as insider trading and marketing requirements relating to close periods) and requirements of the Listing Rules whereby Directors and certain employees of the Company require Board approval to deal in the Company's securities.

Change of control

The Company is not party to any significant agreements which take effect, alter or terminate solely on a change of control of the Company following a takeover bid.

There are no agreements between the Company and its Directors or employees providing for additional compensation for loss of office or employment (whether through resignation, redundancy or otherwise) that occurs because of a takeover bid.

Results and dividends

The consolidated profit for the year after taxation was £54.4m (2009: £37.6m). The results are discussed in greater detail in the Finance Director's review on pages 10 to 14.

A final dividend of 5.0p per share (2009: 4.0p) is proposed in respect of the year ended 3 July 2010 to add to an interim dividend of 3.0p per share paid on 1 April 2010 (2009: 2.0p per share). The final dividend will be paid on 10 December 2010 to shareholders on the register at 26 November 2010.

Directors' report and business review continued

Directors

Details of the Directors in office at the year end are set out on page 15.

Directors serving at the year end and their interests in the shares of the Company were:

	At 3 July 2010 1p ordinary shares	At 4 July 2009 1p ordinary shares
WL Adderley	**69,953,809**	50,000,000
D Stead	**466,546**	430,085
G Cooper	**181,611**	181,611
M Sears	**100,000**	100,000
S Emeny	**24,000**	19,000
N Wharton	**12,500**	–

Will Adderley's beneficial shareholding has increased during the period as a result of receipt of a gift of 20,000,000 ordinary shares from Bill Adderley on 14 December 2010, and the exercise of nil cost options over 93,809 shares under the Long Term Incentive Plan on 23 March 2010. The total shown above includes 2,093,809 Ordinary Shares held by Will Adderley's wife Nadine Adderley, which were transferred to her by way of a gift during the period. On 2 March 2010 Will Adderley transferred 140,000 Ordinary Shares to The Leicester Foundation, a charitable trust of which he is a trustee. He is deemed to retain a legal interest in these shares which are not included in the above total.

On 14 July 2010, The Leicester Foundation sold 48,200 shares to a family trust of which Will Adderley is a trustee but not a beneficiary. Following this transaction, The Leicester Foundation holds 91,800 Ordinary Shares and the family trust holds 48,200 Ordinary Shares. Will Adderley is deemed to retain a legal interest in these shares which are not included in the total in the table above.

David Stead exercised nil cost options over 61,641 shares under the Long-Term Incentive Plan on 23 March 2010. On the same day he sold 25,000 Ordinary Shares to cover his tax and national insurance liability.

Nick Wharton purchased 12,500 Ordinary Shares on 25 February 2010 and Simon Emeny purchased 5,000 Ordinary Shares on 26 February 2010.

There were no changes in the Directors' shareholdings between the year end and 16 September 2010.

Details of share options held by Directors at the year end are given in the Remuneration report.

Simon Emeny and Will Adderley will be retiring by rotation at the 2010 Annual General Meeting and will be offering themselves for re-election. Biographical details of these Directors are set out on page 15 and details of their service contracts are in the Remuneration report on page 23.

Share capital and treasury shares

The Company has only one class of shares, Ordinary Shares of 1p each.

During the year the Company effected a return of capital to shareholders amounting to £43.2m (21.5p per share). This was achieved through the issue of redeemable B shares. By year end all B shares had been redeemed and cancelled.

The issued share capital of the Company has increased by 248,748 during the period due to the exercise of share options by Directors and some senior managers pursuant to bonus schemes, and by other employees in connection with the Group's Savings Related Share Option Plan.

At 3 July 2010 the Company held 99,628 shares in treasury. During the period 737,507 Ordinary Shares were transferred out of treasury to employees on the exercise of share options. Details of option exercises by directors are set out in the Remuneration report on page 23. The remaining shares in treasury are held by the Company for the purpose of delivery to employees under employee share schemes. There have been no movements of shares into or out of treasury since the period end.

Significant shareholders
At 16 September 2010 the following had notified the Company of a disclosable interest in 3% or more of the nominal value of the Company's Ordinary Shares:

	Ordinary shares	Percentage of share capital
WL Adderley	69,953,809	34.8
W Adderley	48,070,000	24.0
Standard Life Investments Ltd	8,457,936	4.2

WL Adderley is also deemed to hold a legal interest in 91,800 Ordinary Shares held by The Leicester Foundation and 48,200 Ordinary Shares held by a private family trust, by virtue of the fact that he is a trustee of those trusts.

Powers of Directors
Specific powers of Directors in relation to shares and the Company's Articles of Association are referred to in the Corporate Governance Report on page 19.

Charitable donations
The Group's charity of the year in the last financial year was Children's Hospices UK. Collections are made in stores for the nominated charity throughout the financial year, specific fund-raising events are organised and the Group makes its own donations, from time to time the Group also makes adhoc donations to local charities. The total value of donations made by the Group in the year ended 3 July 2010 was £60,000 (2009: £49,000).

The Group made no donations to political parties in either financial year.

Treasury and risk management
The Group's approach to treasury and financial risk management is explained in the Finance Director's Review on page 14.

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

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 Group's auditors are unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Disclaimer
This Directors' Report and Business Review and the Financial Statements contain certain forward-looking statements with respect to the financial condition, results, operations and business of Dunelm Group plc. These statements and forecasts involve risk and uncertainty because they relate to events, and depend upon circumstances, that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. Nothing in this Directors' Report and Business Review or in these Financial Statements should be construed as a profit forecast.

Directors’ report and business review continued

Annual General Meeting

The Annual General Meeting will be held at 10.30am on Tuesday 16 November 2010 at the Dunelm Group Distribution Centre, Birmingham Road, Stoke-on-Trent, ST4 4DG. Special business at the Annual General Meeting will be:

- Requesting authority pursuant to section 551 of the Companies Act 2006, to issue shares to the value of one third of the issued Ordinary Share capital of the Company. The nominal amount of shares covered by this authority is £669,826 (66,982,602 Ordinary Shares), 33.3% of the issued share capital at 16 September 2010. At that date the Company also held 99,628 Ordinary Shares in treasury, which represents approximately 0.05% of the total Ordinary Share capital. This authority will lapse at the 2011 Annual General Meeting or, if earlier, on 31 December 2011. The Directors have no present intention to exercise this authority except to issue shares pursuant to the Group’s employee share schemes.
- Requesting authority pursuant to section 561 of the Companies Act 2006 to distribute Ordinary Shares to the value of £100,474 (10,047,390 Ordinary Shares), which constitutes 5% of the Company’s issued share capital (excluding treasury shares) at 16 September 2010, without offering them to existing shareholders. This authority will lapse at the 2011 Annual General Meeting or, if earlier, on 31 December 2011. The Directors do not intend to issue more than 7.5% of the issued share capital of the Company for cash on a non pre-emptive basis in any rolling three year period without prior consultation with the Investment Committees of the Association of British Insurers and the National Association of Pension Funds.
- Requesting that the Directors be authorised pursuant to section 701 of the Companies Act 2006 to buy up to 5,000,000 Ordinary Shares, approximately 2.5% of issued Ordinary Share capital (excluding treasury shares) in the Company. The Directors will only exercise this authority if it enhances earnings per share and is in the interests of shareholders generally. Shares purchased may be cancelled or held in treasury. If held in treasury and used to satisfy share options, the NAPF’s (National Association of Pension Funds) guidelines would be complied with.
- Requesting a waiver of any obligation that could arise on WL Adderley to make a general offer for the entire issued capital of the Company as a result of: purchases by the Company of Ordinary Shares; and/or the grant to and exercise by WL Adderley of options granted to him under the Company’s Long-Term Incentive Plan. Voting on these resolutions will take place on a poll; WL Adderley and persons connected with him will not be eligible to vote.
- Authorising the Board to convene a general meeting other than an Annual General Meeting on at least 14 days’ notice. The Companies (Shareholders’ Rights) Regulations require that all meetings other than an Annual General Meeting must be held on at least 21 days’ notice unless shareholders agree to a shorter period. Under the Companies Act 2006 and the Company’s Articles of Association, the Company can call meetings other than an Annual General Meeting on 14 days’ notice. This resolution will allow the Company to continue to do so, and will be effective until the next Annual General Meeting when it is intended that a similar resolution will be proposed. The Company will also need to meet the requirements for electronic voting under the Regulations before it can call a meeting on 14 days’ notice.
- Requesting a waiver of the rules of the Dunelm Group Long-Term Incentive Plan to allow the following conditional awards to be made to Nick Wharton: (i) over Ordinary Shares with a market value at the date of the award equivalent to £280,000, being 120% of his basic salary for the period between 1 December 2010 to 2 July 2011; and (ii) over Ordinary Shares with a market value at the date of the award equivalent to £1,000,000. It is proposed that the awards be made on the commencement of his employment as a full time Executive Director of the Company.

The Notice of Annual General Meeting is set out in the separate booklet enclosed with this report.

Auditors

KPMG Audit Plc offer themselves for reappointment as auditors in accordance with section 489 of the Companies Act 2006.

Corporate social responsibility

The Group recognises that it has a duty on behalf of all stakeholders to minimize its business related social, ethical and environmental impacts. As part of this commitment the Dunelm's Corporate Social Responsibility programme has focused on reducing key impacts in many significant areas such as waste management, energy reduction and carbon emissions.

The Board places particular emphasis on maintaining good relationships with its customers, employees and suppliers; on ethical sourcing; on environmental issues; and on charitable contributions.

The Chief Executive reports regularly to the Board on all of these issues.

Customers
The Group is committed to delivering consistently high standards of customer service and satisfaction. We constantly strive to provide high quality, safe products at a fair price supported by our 'Simply Value for Money' ethos.

The Group aims to ensure that it complies fully with relevant legislation in all areas affecting its customers including marketing, product quality, the environment and customer data.

The Group has a dedicated Customer Service team that deals with customer contact whether it is by letter, e-mail, fax or phone and supports the store teams in delivering a strong customer experience. Weekly communications are sent to all stores highlighting areas of good customer service and also opportunities for improvement.

Employees
Dunelm employs over 6,000 staff engaged throughout the Group's stores, distribution and head office locations and in a range of disciplines including Buying, Marketing, Warehousing, IT, Finance, HR as well as many customer facing roles.

The Group is a growing business and offers competitive benefits as well as personal and career enhancement opportunities. We have recently launched our 'Dunelm Directions' programme to support the development of talented staff and management. We also offer further support for employees to obtain relevant professional skills and qualifications.

The Group is an equal opportunities employer. We are committed to recruit, develop, promote and retain skilled and motivated people regardless of disability, race, religion, gender, colour, nationality, sex, sexual orientation, marital status or age.

The Group places considerable value on the involvement of its employees and continues its practice of consulting with employees on matters likely to affect their interests, through its partners' council.

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

The Group recognises its obligations towards disabled people and endeavours to provide employment where possible having regard to the physical demands of the Group's operations and the abilities of the disabled persons. In the event of employees becoming disabled, every effort is made to retrain them in order that their employment with the Group may continue. It is the policy of the Group that training, career development and promotion opportunities should be available to all employees and this is reflected in its Equal Opportunities Policy.

Health and safety
Dunelm is responsible for the health and safety of our employees, contractors, customers and any other visitors to our premises.

A dedicated Health & Safety manager ensures that key operational risks are fully understood and that all mitigating action has been taken to ensure a safe environment for everyone. A programme of risk assessments and independent audits helps us to identify areas of concern whether in workplace transport, safety during store development or a safe shopping environment. Training programmes are key to ensuring a safe and clean environment and we adopt a number of methods for keeping these live ranging from documented SSOW ('safe systems of work') to web based 'e-learning' and testing modules.

During the past year the number of reportable accidents was 46 (2009: 56).

The Group undertakes a full programme of self-audit through site management, health & safety representatives and the operational audit team designed to identify issues with compliance or training. Results of these audits are escalated appropriately and communicated back to the executive committee at least monthly.

Corporate social responsibility continued

Suppliers

Dunelm sources the products it sells from many countries around the world. We work with suppliers to stress the importance of ethical trading and we encourage contractors and suppliers to manage the environmental impact of their activities and to support the Group's environmental policy.

The Group has a firm policy on ethical sourcing which all suppliers are required to sign up to. This policy seeks to ensure that products are produced in clean and safe environments, that workers are treated with respect and earn a reasonable wage and that suppliers work within the relevant laws and legislation. Independent audits of suppliers' facilities, particularly in the Far East are carried out on a regular basis.

Payment policy and average payment period

Dunelm trades with all stock suppliers on an electronic basis providing an efficient payment process. This process ensures that all suppliers are treated on the same basis and operate to standard terms and conditions. All new suppliers are made aware of the basis of trade with Dunelm and in particular our standard payment terms in advance of commencing trade.

The number of days' purchases outstanding for payment at 3 July 2010 was 36 days (2009: 33 days).

Contractual or other arrangements

The Directors consider that there are no contractual or other arrangements, with major suppliers, which are likely to influence, directly or indirectly, their performance of the business and its value.

Environment

Dunelm recognises that the business has an impact on the environment both directly, through its store portfolio, head office and distribution infrastructure but also indirectly through partnerships with suppliers and through customers when it comes to buying products for their home.

Dunelm continues to be committed to achieving high standards of environmental performance in all aspects of its business activities.

The Group has in place an Environmental Committee tasked with understanding our environmental impact and to continually improve in the key areas of energy usage, waste and carbon emissions. We have launched a 'Turning Dunelm Greener' campaign designed to place environmental impact at the heart of what we do. Specific objectives for the forthcoming year are outlined below:

1. Increasing the proportion of waste which is recycled

Dunelm is aiming to maximise the volume of waste which is recycled and in so doing reduce the volume going to landfill. Over the past year we have worked to deliver more effective waste management procedures. We have doubled the number of sites with balers to 43 (2009: 21) and commenced the recycling of plastic, in addition to cardboard, in all locations. We intend to double this again in the coming year.

We have also introduced 'Dry Mixed Recycling' into 12 sites (2009: nil) which has enabled us to recycle all plastics, paper and tin/aluminium cans. This initiative will be rolled out to many more sites in the forthcoming year.

Annual waste to landfill (like-for-like stores) – 1000m³

We have engaged with a waste management company to identify further opportunities for recycling and aim to either reuse or recycle all of our waste fabric and soft furnishings going forward.

These initiatives, together with enhanced reporting of site by site performance has enabled Dunelm to reduce the proportion of waste to landfill in like-for-like stores by 25.8%.

Our target for the forthcoming year is to reduce the cube volume of waste sent to landfill by a further 25%.

2. Reducing the level of product packaging
Dunelm continues to work with suppliers to reduce the level of packaging in our products. We have completed a trial to introduce reusable delivery totes into our supply chain and we expect to launch this with a number of key suppliers in the second half of the financial year ending 2 July 2011. This will reduce product packaging for those suppliers by up to 50%.

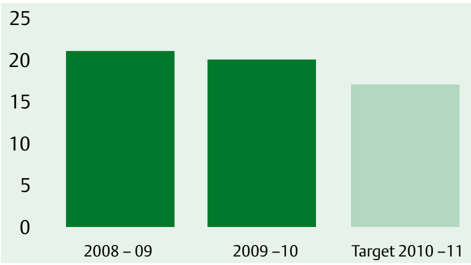
In the year we have audited many of our waste streams to divert materials from landfill where possible. Most recently we have identified a particular specification of clear plastic or wrap that should be used by suppliers – Low Density Polyethylene. This product has a much greater recyclable content and will be standard for all suppliers going forward.

Eco-bags are offered in all stores to promote reusable customer packaging and plastic bags are no longer being encouraged with each transaction. The number of plastic carrier bags used during the year ended 3 July 2010 declined by 6.8%, despite the increase in business.

Our target for the forthcoming year is to reduce the number of carrier bags used per store by a further 10%.

3. Reducing energy consumption across all locations
Dunelm has completed the roll out of new electricity meters to all stores. We are also halfway through implementation of a similar technology for our sites with gas meters. We expect this to be completed by the end of December 2010 . These meters have allowed us to monitor energy consumption on a half-hourly basis and to provide a range of site by site exception reports targeted at reducing the level of consumption and eliminating waste. Energy usage has also been added to monthly bonus targets for all stores which is encouraging store management to challenge performance.

Electricity usage (like-for-like stores) – GWh



The Group has also commenced a trial of Building Management Systems ('BMS') in 11 stores. These systems are designed to optimise energy usage across the store and cut out unnecessary wastage. This investment will be reviewed over the next few months and, if successful, we intend to roll these out in all new stores, refits and progressively to other stores in the chain.

As a result of these actions we have reduced electricity usage by 2.4% in like-for-like stores.

Our target for the forthcoming year is to reduce electricity and gas usage by 10% on a like-for-like basis.

Corporate social responsibility continued

4. Carbon Reduction (CO_2)

Dunelm's energy carbon footprint for the period ended 3 July 2010 was 23,371 tonnes of CO_2. This is a reduction year on year of 2.6% of CO_2, despite a growth of 12% in the number of superstores trading.

Over the year ended 3 July 2010, 80% of the power used by Dunelm was on a renewable combined heat and power ('GQCHP') tariff, where CO_2 emissions are 30% lower than the national average. The remaining supplies will be transferred to these 'green tariffs' as from October 2010.

As a result of the work being undertaken, apart from those supplies picked up through our continued expansion, which take several months to transfer, all power used by Dunelm will be on either a renewable or green tariff by the end of June 2011.

Investment has also been made at our Stoke distribution centre where we have fitted the new 250,000 square feet extension with energy efficient lighting and taken the opportunity to retrofit the existing 250,000 square feet facility. Company car fuel efficiency has also been targeted and we have reduced the maximum CO2 emissions to 155g/km for all new cars. We will reduce this further in the coming year.

In the coming year we will focus on investments in stores to reduce energy consumption. The most significant investment is likely to be in building management systems but we will further roll out energy efficient lighting, motion detectors and climatic sensors to moderate the use of heating and cooling systems.

Over the past year Dunelm has worked with an external consultancy to drive reductions in our carbon emissions. We have registered for the Carbon Trust Standard as part of the new Carbon Reduction Commitment legislation. A full application will be made by the end of October 2010.

Our target for the forthcoming year is to reduce absolute CO_2 levels year on year.

By order of the Board

David Stead
Company Secretary
16 September 2010

Statement of Directors' responsibilities in respect of the Annual Report and the financial statements

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the European Union ('EU') and applicable law and have elected to prepare the Parent Company financial statements on the same basis.

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 Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company 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 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 Group and the Parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transaction and 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 2006. 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.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

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.

Responsibility Statement

We confirm that to the best of our knowledge:

(a) The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and

(b) the management report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Geoff Cooper
Chairman
16 September 2010

Will Adderley
Chief Executive

Independent Auditor's report to the members of Dunelm Group plc

We have audited the financial statements of Dunelm Group plc for the financial year ended 3 July 2010 set out on pages 37 to 41. 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 and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 35, 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 website at www.frc.org.uk/apb/scope/UKP.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 3 July 2010 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the corporate governance statement with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures 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:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited 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; or
- a Corporate Governance Statement has not been prepared by the company.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 35, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Wayne Cox
(Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
Leicester
16 September 2010

Consolidated income statement

For the 52 weeks ended 3 July 2010

	Note	52 weeks 2010 £'000	53 weeks 2009 £'000
Revenue	1	**492,839**	423,783
Cost of sales		**(262,253)**	(233,628)
Gross profit		**230,586**	190,155
Operating costs	3	**(155,126)**	(137,560)
Operating profit	2	**75,460**	52,595
Financial income	5	**1,361**	1,563
Financial expenses	5	**(65)**	(667)
Profit before taxation		**76,756**	53,491
Taxation	6	**(22,406)**	(15,870)
Profit for the period attributable to equity shareholders of the parent		**54,350**	37,621
Earnings per Ordinary Share – basic	8	**27.1p**	18.8p
Earnings per Ordinary Share – diluted	8	**26.9p**	18.6p
Dividend proposed per Ordinary Share	7	**5.0p**	4.0p
Dividend paid per Ordinary Share	7	**3.0p**	2.0p

All activities relate to continuing operations.

Financial statements

Consolidated statement of comprehensive income

For the 52 weeks ended 3 July 2010

	52 weeks 2010 £'000	Restated 53 weeks 2009 £'000
Profit for the period	**54,350**	37,621
Effective portion of movement in fair value of cash flow hedges	**(545)**	–
Deferred tax on hedging movements	**153**	–
Total comprehensive income for the period	**53,958**	37,621

Consolidated statement of financial position

As at 3 July 2010

	Note	3 July 2010 £'000	4 July 2009 £'000
Non-current assets			
Intangible assets	9	**5,202**	5,843
Property, plant and equipment	10	**102,599**	88,771
Total non-current assets		**107,801**	94,614
Current assets			
Inventories	12	**62,583**	57,895
Trade and other receivables	13	**10,470**	10,739
Cash and cash equivalents	14	**15,369**	24,016
Total current assets		**88,422**	92,650
Total assets		**196,223**	187,264
Current liabilities			
Trade and other payables	15	**(71,638)**	(65,550)
Liability for current tax		**(11,200)**	(8,797)
Financial instruments	17	**(545)**	–
Interest-bearing loans and borrowings	16	**–**	(18)
Total current liabilities		**(83,383)**	(74,365)
Non-current liabilities			
Deferred tax liability	11	**(152)**	(127)
Total non-current liabilities		**(152)**	(127)
Total liabilities		**(83,535)**	(74,492)
Net assets		**112,688**	112,772
Equity			
Issued capital	18	**2,010**	2,008
Share premium		**580**	345
Capital redemption reserve		**43,155**	–
Hedging reserve		**(392)**	–
Retained earnings		**67,335**	110,419
Total equity attributable to equity holders of the Parent		**112,688**	112,772

The financial statements on pages 37 to 58 were approved by the Board of Directors on 16 September 2010 and were signed on its behalf by:

Will Adderley
Chief Executive

Consolidated statement of cash flows

For the 52 weeks ended 3 July 2010

	Note	52 weeks 2010 £'000	53 weeks 2009 £'000
Profit before taxation		**76,756**	53,491
Adjustment for net financing costs		**(1,296)**	(896)
Operating profit		**75,460**	52,595
Depreciation and amortisation		**11,370**	10,555
Loss on disposal of property, plant and equipment		**13**	26
Operating cash flows before movements in working capital		**86,843**	63,176
(Increase)/decrease in inventories		**(4,688)**	2,815
Decrease in receivables		**269**	897
Increase in payables		**6,094**	11,132
Net movement in working capital		**1,675**	14,844
Share-based payments expense		**1,330**	599
Foreign exchange losses		**516**	323
		90,364	78,942
Interest paid		**(71)**	(821)
Interest received		**557**	523
Tax paid		**(18,899)**	(11,200)
Net cash generated from operating activities		**71,951**	67,444
Cash flows from investing activities			
Proceeds on disposal of property, plant and equipment		**7**	1
Acquisition of property, plant and equipment		**(23,344)**	(19,647)
Acquisition of intangible assets		**(1,233)**	(6,295)
Net cash utilised in investing activities		**(24,570)**	(25,941)
Cash flows from financing activities			
Proceeds from issue of share capital		**244**	–
Purchase of treasury shares		**–**	(186)
Proceeds from issue of treasury shares		**642**	124
Repayment of bank loan		**(10,000)**	(10,000)
Proceeds from bank loan		**10,000**	–
Return of capital to shareholders		**(43,155)**	–
Dividends paid		**(14,029)**	(10,993)
Net cash flows utilised in financing activities		**(56,298)**	(21,055)
Net (decrease)/increase in cash and cash equivalents		**(8,917)**	20,448
Foreign exchange revaluations		**288**	717
Cash and cash equivalents at the beginning of the period		**23,998**	2,833
Cash and cash equivalents at the end of the period	14	**15,369**	23,998

Consolidated statement of changes in equity

For the 52 weeks ended 3 July 2010

	Issued share capital £'000	Share premium £'000	Capital redemption reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total equity £'000
As at 28 June 2008	**2,008**	**345**	**–**	**–**	**83,036**	**85,389**
Profit and total comprehensive income for the financial year	–	–	–	–	37,621	37,621
Purchase of treasury shares	–	–	–	–	(186)	(186)
Treasury shares reissued in respect of share option schemes	–	–	–	–	123	123
Share-based payments	–	–	–	–	599	599
Deferred tax on share-based payments	–	–	–	–	139	139
Current corporation tax on share options exercised	–	–	–	–	80	80
Dividends	–	–	–	–	(10,993)	(10,993)
Total transactions with owners, recorded directly in equity	–	–	–	–	(10,238)	(10,238)
As at 4 July 2009	**2,008**	**345**	**–**	**–**	**110,419**	**112,772**
Profit for the financial year	–	–	–	–	54,350	54,350
Movement in fair value of cash flow hedges	–	–	–	(545)	–	(545)
Deferred tax on hedging movements	–	–	–	153	–	153
Total comprehensive income for the financial year	–	–	–	(392)	54,350	53,958
Issue of share capital	2	235	–	–	–	237
Issue of B shares	43,155	–	–	–	(43,155)	–
Redemption of B shares	(43,155)	–	43,155	–	(43,155)	(43,155)
Treasury shares reissued in respect of share option schemes	–	–	–	–	649	649
Share-based payments	–	–	–	–	1,330	1,330
Deferred tax on share-based payments	–	–	–	–	320	320
Current corporation tax on share options exercised	–	–	–	–	606	606
Dividends	–	–	–	–	(14,029)	(14,029)
Total transactions with owners, recorded directly in equity	2	235	43,155	–	(97,434)	(54,042)
As at 3 July 2010	**2,010**	**580**	**43,155**	**(392)**	**67,335**	**112,688**

2009 financial year was 53 weeks.

Accounting policies

Basis of preparation

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group'). The Parent Company financial statements present information about the Company as a separate entity and not about its Group.

The Group 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 and these are presented on pages 37 to 58.

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

The annual financial statements are prepared under the historical cost convention except where financial instruments have been stated at fair value. The financial statements are prepared in pounds sterling, rounded to the nearest thousand.

Going concern

The Group has considerable financial resources together with long standing relationships with a number of key suppliers and an established reputation in the retail sector across different geographic areas. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current economic outlook. The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and financial statements.

Further information regarding the Group's business activities, together with the factors likely to affect its future development, performance and position is set out in the Directors' Report and Business Review on pages 27 to 30. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Director's review on pages 10 to 14. In addition note 17 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; and its exposures to credit risk and liquidity risk.

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 where required.

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.

Equity-settled share-based payments
Certain employees and Directors of the Group receive equity-settled remuneration in the form of equity-settled share-based payment transactions, whereby employees render services in exchange for shares or rights over shares. The cost equity-settled transactions with employees is measured by reference to the fair value, determined using an appropriate pricing model, at the date at which they are granted. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the non-market vesting conditions are expected to be fulfilled, ending on the relevant vesting date. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period and is adjusted to reflect the Directors' best available estimate of the number of equity instruments that will ultimately vest based upon non-market conditions.

Basis of consolidation
Subsidiaries
Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Transactions eliminated on consolidation
Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

Revenue
Revenue represents the proceeds from sales of goods and related services. It excludes sales between Group companies and is after deducting returns, discounts given and VAT. For the majority of sales, revenue is recognised at the point of sale with the exception of make-up charges for custom made products, where revenue is recognised at the point that the goods are collected, and gift vouchers, where revenue is recognised when the vouchers are redeemed.

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

Intangible assets
These comprise software development and implementation costs and trademarks and are stated at cost less amortisation (see below).

Amortisation
Amortisation is charged to the income statement on a straight-line basis over the estimated useful life of the asset. These are as follows:
- software development 3 years
- trademarks 5 years

Property, plant and equipment
Owned assets
Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and 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.

Depreciation
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.

Accounting policies continued

Current assets

Trade and other receivables

Trade and other receivables are initially recognised at fair value and then carried at amortised cost net of impairment provisions.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is derived using the average cost method and includes costs incurred in bringing the inventories to their present location and condition. 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 Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Bank borrowings and borrowing costs

Interest-bearing bank loans and overdrafts are recorded at the proceeds received.

Borrowing costs are recognised as an expense in the financial period in which they are incurred.

Borrowings are classed as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months from the balance sheet date.

Derivative financial instruments

Derivative financial instruments used are forward exchange contracts and are measured at fair value. The fair values are determined by reference to the market prices available from the market on which the instruments involved are traded.

Certain derivative financial instruments are designated as hedges in line with the Group's treasury policy. Cash flow hedges that hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or a liability or a highly probable forecasted transaction.

For cash flow hedges that proportion of the gain or loss on the hedging instrument that is determined to be an effective hedge, as defined by IAS 39 'Financial Instruments: Recognition and Measurement', is recognised in equity, directly in the hedge reserve with any ineffective portion recognised in the income statement. Such hedges are tested, both at inception to ensure they are expected to be effective and periodically throughout their duration to assess continuing effectiveness. When the forecast transaction results in the recognition of a non-financial asset or liability, the associated gains or losses previously recognised in equity are included in the initial measurement of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same period in which the hedge cash flows affect the income statement.

Any gains or losses arising from changes in fair value derivative financial instruments not designated as hedges are recognised in the income statement.

Impairment

The carrying amounts of the Group'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.

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.

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.

Share capital

Where the Company purchases its own equity share capital (treasury shares) the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received net of any directly attributable incremental transactions costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

Provisions
A provision is recognised in the balance sheet when the Group has a current legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. A provision for onerous contracts is recognised when the expected benefit to be derived by the Group from a contract is lower than the unavoidable costs of meeting its obligations under the contract.

Expenses
Property leases
Lease incentives received are recognised in the income statement evenly over the full term of the lease.

Where leases for land and buildings provide for fixed rent review dates and amounts, the Group accounts for such reviews by recognising, on a straight-line basis, the total implicit minimum lease payments over the non-cancellable period of the lease term.

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

Retirement benefits
The Group 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 operates an employee share save scheme open to all employees with over six months' service, enabling them to save money which may be used after three years to acquire shares in the Company at a predetermined price.

The Group also operates other share option schemes enabling certain employees to acquire shares of the Company.

The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. Fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. Fair value is measured using the binomial model, taking into account the terms and conditions applicable to the options.

At each balance sheet date the Group revises its estimates of the number of share incentives that are expected to vest and amends the charge accordingly.

Dividends
Dividends are recognised as a liability in the period in which they are approved such that the Company is obligated to pay the dividend.

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

IFRS 8	Operating segments
IAS 27 (revised)	Consolidated and Separate Financial Statements

The effect of the revision of IAS 27 is disclosed on page 41.

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

IFRS 1	Revised IFRS 1	– First time adoption of IFRSs
IFRS 7	Revised IFRS 7	– Financial Instruments
IFRS 9	Revised IFRS 9	– Financial Instruments
IAS 1	Revised IAS 1	– Presentation of Financial Statements
IAS 27	Revised IAS 27	– Consolidated and Separate Financial Statements
IAS 34	Revised IAS 34	– Interim Financial Reporting
IFRIC 13	Revised IFRIC 13	– Customer Loyalty Programmes

The above will be adopted in the Group and Company's financial statements when they become effective.

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

Revised IFRS 7 requires additional disclosure to better enable users to evaluate an entity's exposure to risks arising from financial instruments. Revised IAS 1 requires a reconciliation of each component of equity to be presented in the statement of changes in equity showing separately changes arising from items recognised in profit or loss, in other comprehensive income, and from transactions with owners acting in their capacity as owners.

Notes to the annual financial statements

For the 52 weeks ended 3 July 2010

1 Segmental reporting

The Group has one reportable segment, retail of homewares. Management believe that these measures are the most relevant in evaluating the performance of the segment and for making resource allocation decisions.

The Chief Operating Decision Maker is the Group's Executive Committee. Internal management reports are reviewed by them on a monthly basis. Performance of the segment is assessed based on profit before interest and taxation.

All material operations of the reportable segment are carried out in the UK. The Group's revenue is driven by the consolidation of individual small value transactions and as a result Group revenue is not reliant on a major customer or group of customers.

2 Operating profit

Operating profit is stated after charging the following items:

	2010 £'000	2009 £'000
Inventories		
Cost of inventories included in cost of sales	**262,253**	229,701
Write down of inventories	**1,120**	2,758
Amortisation of intangible assets	**1,876**	2,550
Depreciation of property, plant and equipment		
Owned	**9,494**	8,005
Operating lease rentals		
Land and buildings	**22,544**	21,683
Plant and machinery	**1,351**	1,151
Loss on disposal of property, plant and equipment and intangible assets	**13**	26

The analysis of auditors' remuneration is as follows:

	2010 £'000	2009 £'000
Fees payable to the Company's auditors for the audit of the Parent and consolidated annual accounts	**15**	15
Fees payable to the Company's auditors and their associates for other services to the Group		
– audit of the Company's subsidiaries pursuant to legislation	**52**	52
– tax compliance	**30**	29
– other tax services	**88**	8
– all other services	**17**	–

3 Operating costs

	2010 £'000	Restated 2009 £'000
Selling and Distribution	**130,606**	117,933
Administrative	**24,507**	19,601
Loss on disposal of property, plant and equipment and intangible assets	**13**	26
	155,126	137,560

4 Employee numbers and costs

The average number of people employed by the Group (including Directors) was:

	2010 Number of heads	**2010 Full time equivalents**	2009 Number of heads	2009 Full time equivalents
Selling	**5,608**	**3,493**	5,003	3,302
Distribution	**285**	**274**	250	240
Administration	**198**	**194**	161	158
	6,091	**3,961**	5,414	3,700

Notes to the annual financial statements continued

For the 52 weeks ended 3 July 2010

4 Employee numbers and costs continued

The aggregate remuneration of all employees including Directors comprises:

	2010 £'000	2009 £'000
Wages and salaries including bonuses and termination benefits	**61,994**	52,696
Social security costs	**4,324**	3,429
Share-based payment expense (note 20)	**1,330**	599
Defined contribution pension costs	**196**	206
	67,844	56,930

Details of Directors' remuneration, share options, long-term incentive schemes and pension entitlements are disclosed in the Remuneration Report on pages 23 to 26.

5 Financial income and expense

	2010 £'000	2009 £'000
Finance income		
Interest on bank deposits	**557**	523
Foreign exchange gains	**804**	1,040
	1,361	1,563
Finance expenses		
Interest on bank borrowings and overdraft	**(65)**	(667)
Net finance income	**1,296**	896

6 Taxation

	2010 £'000	2009 £'000
Current taxation		
UK corporation tax charge for the period	**22,146**	16,143
Adjustments in respect of prior periods	**(238)**	94
	21,908	16,237
Deferred taxation		
Origination of temporary differences	**324**	(332)
Adjustment in respect of prior periods	**174**	(35)
	498	(367)
Total taxation expense in the income statement	**22,406**	15,870

The tax charge is reconciled with the standard rate of UK corporation tax as follows:

	2010 £'000	2009 £'000
Profit before tax	**76,756**	53,491
UK corporation tax at standard rate of 28.0% (2009: 28.0%)	**21,492**	14,977
Factors affecting the charge in the period:		
Non-deductible expenses	**128**	7
Ineligible depreciation	**972**	947
Lease incentive deductions	**(122)**	(125)
Adjustments to tax charge in respect of prior years	**(64)**	59
Profit on disposal in excess of capital gain	**–**	5
	22,406	15,870

The taxation charge for the period as a percentage of profit before tax is 29.2% (2009: 29.7%).

7 Dividends

All dividends relate to the 1p Ordinary Shares.

		2010 £'000	2009 £'000
Final for the period ended 28 June 2008	– paid 3.5p	**–**	(6,994)
Interim for the period ended 4 July 2009	– paid 2.0p	**–**	(3,999)
Final for the period ended 4 July 2009	– paid 4.0p	**(8,008)**	–
Interim for the period ended 3 July 2010	– paid 3.0p	**(6,021)**	–
		(14,029)	(10,993)

The Directors are proposing a final dividend of 5.0p per Ordinary Share for the period ended 3 July 2010 which equates to £10.0m. The dividend will be paid on 10 December 2010 to shareholders on the register at the close of business on 26 November 2010.

8 Earnings per share

Basic earnings per share is calculated by dividing the profit for the period attributable to equity shareholders by the weighted average number of Ordinary Shares in issue during the period.

For diluted earnings per share, the weighted average number of Ordinary Shares in issue is adjusted to assume conversion of all dilutive potential Ordinary Shares. These represent share options granted to employees where the exercise price is less than the average market price of the Company's Ordinary Shares during the period.

Weighted average numbers of shares:

	52 weeks ended 3 July 2010 '000	53 weeks ended 4 July 2009 '000
Weighted average number of shares in issue during the period	**200,264**	199,874
Impact of share options	**2,047**	2,559
Number of shares for diluted earnings per share	**202,311**	202,433

9 Intangible assets

	Software development and licences £'000	Rights to Dorma brand £'000	Total £'000
Cost			
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
At 4 July 2009	7,738	5,036	12,774
Additions	1,233	–	1,233
Disposals	(5,444)	–	(5,444)
Transfers from property, plant and equipment	2	–	2
At 3 July 2010	**3,529**	**5,036**	**8,565**
Amortisation			
At 28 June 2008	4,516	–	4,516
Charge for the financial period	1,627	923	2,550
Disposals	(135)	–	(135)
At 4 July 2009	6,008	923	6,931
Charge for the financial period	869	1,007	1,876
Disposals	(5,444)	–	(5,444)
At 3 July 2010	**1,433**	**1,930**	**3,363**
Net book value			
At 28 June 2008	2,097	–	2,097
At 4 July 2009	1,730	4,113	5,843
At 3 July 2010	**2,096**	**3,106**	**5,202**

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

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

Notes to the annual financial statements continued

For the 52 weeks ended 3 July 2010

10 Property, plant and equipment

	Land and buildings £'000	Leasehold improvements £'000	Plant and machinery £'000	Motor vehicles £'000	Fixtures and fittings £'000	Total £'000
Cost						
At 28 June 2008	41,769	40,246	102	99	29,092	111,308
Additions	6,969	7,179	93	–	5,428	19,669
Transfers to intangible assets	–	(10)	–	–	(31)	(41)
Disposals	–	(7)	–	(13)	(151)	(171)
At 4 July 2009	48,738	47,408	195	86	34,338	130,765
Additions	4,144	10,049	281	–	8,870	23,344
Transfers to intangible assets	–	66	–	–	(68)	(2)
Disposals	–	(319)	–	(33)	(13,206)	(13,558)
At 3 July 2010	**52,882**	**57,204**	**476**	**53**	**29,934**	**140,549**
Depreciation						
At 28 June 2008	2,054	9,871	52	99	22,075	34,151
Charge for financial period	661	3,405	44	–	3,895	8,005
On disposals	–	(4)	–	(13)	(145)	(162)
At 4 July 2009	2,715	13,272	96	86	25,825	41,994
Charge for financial period	802	3,996	43	–	4,653	9,494
On disposals	–	(314)	–	(33)	(13,191)	(13,538)
At 3 July 2010	**3,517**	**16,954**	**139**	**53**	**17,287**	**37,950**
Net book value						
At 28 June 2008	39,715	30,375	50	–	7,017	77,157
At 4 July 2009	46,023	34,136	99	–	8,513	88,771
At 3 July 2010	**49,365**	**40,250**	**337**	**–**	**12,647**	**102,599**

11 Deferred tax

Deferred tax is provided in full on temporary differences under the liability method using a taxation rate of 28% (2009: 28%). Deferred taxation assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2010 £'000	2009 £'000	**2010 £'000**	2009 £'000	**2010 £'000**	2009 £'000
Property, plant and equipment	**–**	–	**(1,187)**	(634)	**(1,187)**	(634)
Other temporary differences	**153**	–	**(169)**	(51)	**(16)**	(51)
Share-based payments	**1,051**	558	**–**	–	**1,051**	558
	1,204	558	**(1,356)**	(685)	**(152)**	(127)

The movement in the net deferred tax balance is as follows:

	Balance at 28 June 2008 £'000	Recognised in income £'000	Recognised in equity £'000	Balance at 4 July 2009 £'000
Property, plant and equipment	(813)	179	–	(634)
Employee benefits	182	236	140	558
Short-term temporary differences	(3)	(48)	–	(51)
	(634)	367	140	(127)

11 Deferred tax continued

	Balance at 5 July 2009 £'000	Recognised in income £'000	Recognised in equity £'000	**Balance at 3 July 2010 £'000**
Property, plant and equipment	(634)	(553)	–	**(1,187)**
Employee benefits	558	173	320	**1,051**
Short-term temporary differences	(51)	(118)	153	**(16)**
	(127)	(498)	473	**(152)**

12 Inventories

	2010 £'000	2009 £'000
Goods for resale	**62,583**	57,895

13 Trade and other receivables

	2010 £'000	2009 £'000
Trade receivables	**122**	463
Other receivables	**628**	1,113
Prepayments and accrued income	**9,720**	9,163
	10,470	10,739

All amounts fall due within one year. All trade receivables are current. No interest is charged on trade receivables, whilst these remain current.

14 Cash and cash equivalents

	2010 £'000	2009 £'000
Cash at bank and in hand	**15,369**	23,998
Cash and cash equivalents include the following for the purpose of the cash flow statement:		
Cash at bank and in hand	**15,369**	24,016
Bank overdraft	**–**	(18)
	15,369	23,998

15 Trade and other payables

	2010 £'000	2009 £'000
Trade payables	**32,451**	28,850
Accruals and deferred income	**35,509**	31,462
Other taxation and social security	**3,283**	3,971
Other creditors	**395**	1,267
	71,638	65,550

16 Interest bearing loans and borrowings

	2010 £'000	2009 £'000
Bank overdraft	**–**	18
	–	18

On 26 September 2006 the Group entered into a £50m revolving credit facility, repayable in full on 26 September 2011 and sub-divided into two elements: a £40m facility and a £10m facility. The £10m facility was cancelled on 26 May 2009. The £40m facility remains available but was not utilised at the balance sheet date.

Interest is payable on funds utilised under the £40m facility at the rate of LIBOR plus 0.35%. LIBOR is fixed for a given loan at the date of draw down.

The facility is guaranteed by the Parent Company and its subsidiaries.

Notes to the annual financial statements continued

For the 52 weeks ended 3 July 2010

16 Interest bearing loans and borrowings continued

Interest rate risk profile of financial assets and liabilities

The interest rate profile of the Group's financial liabilities as at the period end was:

	2010 Total £'000	2010 Floating rate £'000	2010 Fixed rate £'000	Effective interest rate %	2009 Total £'000	2009 Floating rate £'000	2009 Fixed rate £'000	Effective interest rate %
Overdraft	–	–	–	–	18	18	–	2.00
	–	–	–	–	18	18	–	2.00

All liabilities are denominated in sterling.

The floating rate on the overdraft is linked to Barclays Bank Base Rate and the Group believes that an increase in the rate of 1% would not have had a material impact on profit before tax for the period.

Financial assets at 3 July 2010 consisted of £122,000 (2009: £463,000) trade receivables and £15,369,000 (2009: £24,016,000) cash at bank and on deposit; interest earned is at normal commercial rates.

17 Financial risk management

The Board of Directors 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 Board, who also monitor the status of agreed actions to mitigate key risks.

Credit risk

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

As the principal business of the Group 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 Group will not be able to meet its financial obligations as they fall due. The Group'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 Group manages this risk by continuously monitoring cash flow forecasts. The Group's available facilities can be found in note 16.

Group policy is that surplus funds are placed on deposit with counterparties approved by the Board, with a minimum of 'A' credit rating. Credit limits with approved counterparties are limited to £20m for any individual party.

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.

Interest rate risk

The Group's bank borrowings incur variable interest rate charges linked to LIBOR and Barclays Bank Base Rate. The Directors do not consider that future changes in interest rates are likely to cause a material direct impact on profitability. The Group's exposure to interest rates on financial assets and liabilities are detailed in note 16.

Foreign currency risk

The Group is exposed to foreign currency risk on purchases denominated in US dollars. These amounted to approximately 11% of the total purchases in the year ended 3 July 2010. The outstanding US dollar liabilities at the year end were $139,000 (2009: $400,000).

During the year the Group entered into exchange rate swaps for $18.8m to sell sterling and buy US dollars. These swaps are accounted for as cash flow hedges. During the year the mark to market loss on foreign currency hedging instruments taken to equity was £0.5m (2009: nil). At the balance sheet date the Group had eight swap contracts outstanding with a maximum value of $30.0m.

17 Financial risk management continued

All of the Group's revenues are in sterling. Purchases of promotional goods are generally in US dollars. Purchase of regular range goods are generally in sterling, although some lines are now being imported directly and paid for in dollars. We will cover exchange rate exposure on expected promotional product purchases up to a maximum of 100% of forecast purchases over a four month horizon. We will cover exchange rate exposure on expected regular range purchases up to a maximum of 50% of forecast purchases over a 12 month horizon. We will use various means to cover the above currency exposures; hold excess funds in US dollars, take out forward contracts for the purchase of US dollars, enter into forward rate options.

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

Sensitivity analysis

The Group's principal foreign currency exposure is to the US dollar.

The Directors believe that an increase or decrease of 10% in the US dollar/sterling exchange rates would not have a material effect on the Statement of comprehensive income.

The US dollar year end exchange rate applied in the above analysis is 1.5186 (2009: 1.5870). Strengthening and weakening of sterling may not produce symmetrical results depending on the proportion and nature of foreign exchange derivatives which do not qualify for hedge accounting.

Fair values

The fair value of the Group's financial assets and liabilities is not materially different from their carrying value. The fair value of foreign currency contracts are sums required by the counterparties to cancel the contracts at the end of the year.

Fair value hierarchy

Financial instruments carried at fair value are required to be measured by reference to the following levels:

- Level 1: quoted prices in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All financial instruments carried at fair value have been measured by a Level 2 valuation method.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

From time to time the Group purchases its own shares on the market; the timing of these purchases depends on market prices. The shares are intended to be used for issuing shares under the Group's share option programmes. Buy and sell decisions are made on a specific transaction basis by the Board. The Group does not have a defined share buy-back plan.

The following table is a comparison by category of the carrying amounts and fair values of the Group's financial assets and liabilities at 3 July 2010 and 4 July 2009.

	2010 Carrying value £'000	**2010 Fair value £'000**	2009 Carrying value £'000	2009 Fair value £'000
Cash and cash equivalents	**15,369**	**15,369**	23,998	23,998
Trade receivables	**122**	**122**	463	463
Total financial assets	**15,491**	**15,491**	24,461	24,461
Trade payables	**(32,451)**	**(32,451)**	(28,850)	(28,850)
Forward exchange contracts	**(545)**	**(545)**	–	–
Total financial liabilities	**(32,996)**	**(32,996)**	(28,850)	(28,850)
Net financial liabilities	**(17,505)**	**(17,505)**	(4,389)	(4,389)

The fair value on trade receivables and trade payables are approximate to the carrying value.

Notes to the annual financial statements continued

For the 52 weeks ended 3 July 2010

17 Financial risk management continued

The currency profile of the Group's cash and cash equivalents is as follows:

	2010 £'000	2009 £'000
Sterling	**14,057**	22,669
US dollar	**1,209**	1,329
Euro	**103**	–
	15,369	23,998

As at 3 July 2010, the analysis of trade receivables that were past due but not impaired is as follows:

	Total £'000	Neither past due nor impaired £'000	Less than 30 days £'000	31–60 days £'000	61–90 days £'000	More than 90 days £'000
3 July 2010	122	26	49	1	10	36
4 July 2009	463	43	407	7	4	2

18 Share capital

	Number of ordinary shares of 1p each 2010	**Number of B shares of 21.5p each 2010**	Number of ordinary shares of 1p each 2009
In issue at the start of the period	**200,791,400**	**–**	200,791,400
B shares issued via a bonus issue	**–**	**200,723,131**	–
B shares redeemed in the year	**–**	**(200,723,131)**	–
Issued during the period in respect of share option schemes	**248,748**	**–**	
In issue at the end of the period	**201,040,148**	**–**	200,791,400

Proceeds received in relation to shares issued during the period were £238,000 (2009: £nil).

	2010 number of shares	**2010 £'000**	2009 number of shares	2009 £'000
Ordinary shares of 1p each:				
Authorised	**500,000,000**	**5,000**	500,000,000	5,000
Allotted, called up and fully paid	**201,040,148**	**2,010**	200,791,400	2,008

During the year the authorised share capital of the Group was increased by £43,155,000 from £5,000,000 to £48,155,000 by the creation of 200,723,131 21.5p non cumulative redeemable preference shares ('B shares'). £43,155,000 was capitalised standing to the credit of the Group's merger reserve to pay up in full the B shares. The B shares were allotted and issued to Shareholders on the basis of one B share for each Ordinary Share held on 22 February 2010. All of the B shares were redeemed and cancelled by the end of the financial year.

The holders of the B shares were not entitled, in their capacity as holders of such shares, to receive notice of any general meeting of the Group nor to attend, speak or vote at any such general meeting.

19 Treasury shares

	2010 number of shares	**2010 £'000**	2009 number of shares	2009 £'000
Outstanding at beginning of year	**837,135**	**1,301**	951,500	1,522
Purchased during year	**–**	**–**	127,000	186
Reissued during the period in respect of share option schemes	**(737,507)**	**(1,173)**	(241,365)	(407)
Outstanding at end of year	**99,628**	**128**	837,135	1,301

In the past the Company has acquired its own shares ('treasury shares') for the purpose of delivery to employees under employee share schemes. No such purchases were made during the financial year.

The Company reissued 737,507 (2009: 241,365) treasury shares for a total consideration of £641,843 (2009: £124,453).

The Company has the right to reissue the remaining treasury shares at a later date.

20 Share-based payments

As at 3 July 2010, the Group 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 6,241 exercisable options in total under these schemes as at 3 July 2010.

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 10 years. All options granted prior to October 2006 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.

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:

	January 2010 grant	June 2008 grant	August 2006 grant	September 2005 grant	December 2004 grant	September 2004 grant
Fair value at measurement date	133.5p	65.6p	7.0p	6.3p	6.0p	6.2p
Exercise price	405.0p	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%	35%
Option life (weighted average life used in modelling)	3 years	3 years	3 years	3 years	3 years	3 years
Expected dividends	2.5%	8.7%	8.7%	8.7%	8.7%	8.7%
Risk-free interest rate	2.8%	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 2010	**Number of shares under option 2010**	Weighted average exercise price 2009	Number of shares under option 2009
Outstanding at beginning of year	**60.5p**	**427,331**	52.4p	610,500
Granted during year	**405.0p**	**12,345**	137.0p	36,496
Retrospective adjustment to prior year	**–**	**–**	46.0p	21,700
Exercised during year	**54.9p**	**(390,836)**	56.1p	(241,365)
Outstanding at end of year	**203.8p**	**48,840**	60.5p	427,331

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 2009. Options may be exercised under the scheme on completion of the three year savings contract and must be exercised within six months from that date. There is provision for early exercise in certain circumstances such as death, disability, redundancy and retirement.

Notes to the annual financial statements continued

For the 52 weeks ended 3 July 2010

20 Share-based payments continued

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

	October 2009	October 2008	October 2007	November 2006
Fair value at measurement date	180.4p	47.0p	70.0p	69.0p
Share price	376.3p	125.0p	212.0p	202.0p
Exercise price	253.0p	124.5p	157.0p	153.0p
Expected volatility (weighted average volatility used in modelling – based on historical volatility of comparable quoted companies)	57%	58%	30%	30%
Option life (weighted average life used in modelling)	3.5 years	3.5 years	3.5 years	3.5 years
Expected dividends	2.5%	2.5%	2.5%	2.5%
Risk-free interest rate	2.8%	3.0%	4.8%	4.8%
Forfeiture rate	48%	29%	10%	0%

The number and weighted average exercise price of options outstanding under the Sharesave at 3 July 2010 is as follows:

	Weighted average exercise price 2010	**Number of shares under option 2010**	Weighted average exercise price 2009	Number of shares under option 2009
Outstanding at beginning of year	**142.9p**	**867,972**	154.0p	1,001,273
Granted during year	**253.0p**	**347,376**	124.5p	362,125
Exercised during the year	**153.0p**	**(440,150)**	–	–
Forfeited during year	**161.5p**	**(103,426)**	151.4p	(495,426)
Outstanding at end of year	**190.4p**	**671,772**	142.9p	867,972

c) Long-Term Incentive Plan

The LTIP was approved by the Board in 2006 enabling the Group to award shares to particular individuals, normally in the form of nominal cost options. The LTIP is administered by the Remuneration Committee. Two grants were made in the year, to the Executive Directors and senior management. The Executive Directors' grant in September 2009 is exercisable in September 2012 and the senior management grant in September 2009 is exercisable in July 2011. The grant to the Executive Directors is dependent on the level of growth in Group EPS relative to RPI, as well as continuing employment. The grant to senior management is dependent on continuing employment within the Group. The maximum life of options under the LTIP is 10 years from the date of grant. Full details of this plan are included in the Remuneration Report on pages 23 to 26.

The fair value of services received in return for share options granted is measured by reference to the fair value of the options. This has been calculated as follows:

	September 2009	September 2008	September 2007	March 2007
Share price at date of grant	316.0p	148.0p	193.0p	229.0p
Discount factor, based on dividend yield of 3.0% to vesting date	0.913	0.889	0.913	0.913
Fair value of option	288.5p	132.5p	178.9p	209.0p

The number and weighted average exercise price of options under the LTIP at 3 July 2010 is as follows:

	Weighted average exercise price 2010	**Number of shares under option 2010**	Weighted average exercise price 2009	Number of shares under option 2009
Outstanding at beginning of year	**–**	**1,263,571**	–	568,356
Granted during year	**–**	**384,164**	–	713,554
Exercised during year	**–**	**(155,270)**	–	–
Forfeited during year	**–**	**(165,997)**	–	(18,339)
Outstanding at end of year	**–**	**1,326,468**	–	1,263,571

20 Share-based payments continued

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

	2010 £'000	2009 £'000
GSOP	**2**	6
Sharesave	**93**	128
LTIP	**1,235**	465
	1,330	599

21 Commitments

As at 3 July 2010 the Group had entered into capital contracts amounting to £15.4m. The equivalent figure as at 4 July 2009 was £2.0m.

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

	2010 Motor vehicles £'000	2010 Land and buildings £'000	2010 Plant and machinery £'000	2009 Motor vehicles £'000	2009 Land and buildings £'000	2009 Plant and machinery £'000
Within one year	**428**	**23,723**	**292**	368	20,852	280
In the second to fifth year inclusive	**374**	**86,794**	**535**	398	76,915	578
After five years	**–**	**115,241**	**–**	–	103,199	–
	802	**225,758**	**827**	766	200,966	858

The Group has 91 operating leases in respect of properties. These leases run for periods of up to 20 years, with an option to renew leases on expiry. Lease payments are typically reviewed every five years.

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

22 Contingent liabilities

The Group had no contingent liabilities at either period end date.

23 Related parties

Identity of related parties

The Group has related party relationships with its subsidiaries and with its Directors. Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation for the Group.

Key management personnel

The key management personnel of the Group comprise members of the Board of Directors and the executive team.

Directors of the Company and their immediate relatives control 59.1% of the voting shares of the Company.

Disclosures relating to remuneration of Directors are set out in the Remuneration Report on pages 23 to 26. The remuneration of the key management personnel (Executive Committee excluding Directors) of the Group is set out below:

	2010 £'000	2009 £'000
Salaries and other short-term benefits	**1,269**	637
Post-employment benefits	**22**	13
Share-based payments	**4**	45
	1,295	695

Notes to the annual financial statements continued

For the 52 weeks ended 3 July 2010

23 Related parties continued

From time to time the Group makes purchases on behalf of a major shareholder, Bill Adderley, and sells fully depreciated vehicles to him that the Group 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 in the year ended 3 July 2010 was £766 (2009: £1,000).

From time to time Directors of the Group, or their related entities, may purchase goods from the Group. These purchases are on the same terms and conditions as those entered into by other Group employees or customers and values involved are trivial.

24 Ultimate controlling party

The Directors consider that the Adderley family is the ultimate controlling party of Dunelm Group plc by virtue of their combined shareholding.

25 Subsequent events

There are no material post-balance sheet events.

Parent Company financial statements

Parent Company statement of financial position

As at 3 July 2010

	Note	2010 £'000	Restated 2009 £'000	Restated 2008 £'000
Non-current assets				
Investment in subsidiaries	4	**46,134**	45,771	45,438
Deferred tax asset	5	**630**	202	43
Total non-current assets		**46,764**	45,973	45,481
Current assets				
Trade and other receivables	6	**47,910**	64,107	64,413
Total current assets		**47,910**	64,107	64,413
Total assets		**94,674**	110,080	109,894
Current liabilities				
Trade and other payables	7	**(855)**	(591)	(879)
Liability for current tax		**(102)**	(278)	89
Interest bearing loans and borrowings	8	**–**	(18)	(20)
Total current liabilities		**(957)**	(887)	(810)
Non-current liabilities				
Interest bearing loans and borrowings		**–**	–	(10,000)
Total non-current liabilities				
Total liabilities		**(957)**	(887)	(10,810)
Net assets		**93,717**	109,193	99,084
Capital and reserves				
Issued capital	10	**2,010**	2,008	2,008
Share premium		**580**	346	346
Non-distributable reserves		**979**	616	283
Capital Redemption Reserve		**43,155**	43,155	43,155
Retained earnings		**46,993**	63,068	53,292
Equity shareholders' funds		**93,717**	109,193	99,084

The financial statements on pages 59 to 68 were approved by the Board of Directors on 16 September 2010 and were signed on its behalf by:

David Stead
Director
16 September 2010

Company number 4708277

Parent Company statement of cash flows

For the 52 weeks ended 3 July 2010

	52 weeks 2010 £'000	53 weeks 2009 £'000
Profit before tax	**38,922**	20,773
Adjusted for:		
Net financing costs	**(2,390)**	(2,550)
Operating profit	**36,532**	18,223
Operating cash flows before movements in working capital		
Decrease in receivables	**16,200**	306
Increase/(Decrease) in payables	**266**	(134)
Net movement in working capital	**16,466**	172
Investment income	**(40,000)**	(20,000)
Share-based payments expense	**935**	266
Cash flows from operating activities	**13,933**	(1,339)
Dividends received	**40,000**	20,000
Interest paid	**(71)**	(870)
Interest received	**2,454**	3,266
Net cash generated from operating activities	**56,316**	21,057
Cash flows from financing activities		
Proceeds from issue of share capital	**244**	–
Purchase of treasury shares	**–**	(186)
Proceeds from issue of treasury shares	**642**	124
Proceeds from bank loan	**10,000**	–
Repayment of bank loan	**(10,000)**	(10,000)
Return of capital	**(43,155)**	–
Dividends paid	**(14,029)**	(10,993)
Net cash flows utilised in financing activities	**(56,298)**	(21,055)
Net increase in cash and cash equivalents	**18**	2
Cash and cash equivalents at the beginning of the period	**(18)**	(20)
Cash and cash equivalents at the end of the period	**–**	(18)

Parent Company statement of changes in equity

For the 52 weeks ended 3 July 2010

	Issued share capital £'000	Share premium £'000	Merger reserve £'000	Capital redemption reserve £'000	Non-distributable £'000	Retained earnings £'000	Total £'000
As at 28 June 2008	**2,008**	**346**	**–**	**–**	**283**	**53,292**	**55,929**
Prior year adjustment	–	–	43,155	–	–	–	43,155
Restated as at 28 June 2008	2,008	346	43,155	–	283	53,292	99,084
Profit for the financial year	–	–	–	–	–	20,545	20,545
Total comprehensive income for the financial year	–	–	–	–	–	20,545	20,545
Purchase of treasury shares	–	–	–	–	–	(186)	(186)
Treasury shares reissued in respect of share option schemes	–	–	–	–	–	123	123
Share-based payments	–	–	–	–	333	266	599
Deferred tax on share-based payments	–	–	–	–	–	21	21
Dividends	–	–	–	–	–	(10,993)	(10,993)
Total transactions with owners, recorded directly in equity	–	–	–	–	333	(10,769)	(10,436)
Restated as at 4 July 2009	**2,008**	**346**	**43,155**	**–**	**616**	**63,068**	**109,193**
Profit for the financial year	–	–	–	–	–	39,205	39,205
Total comprehensive income for the financial year	–	–	–	–	–	39,205	39,205
Issue of share capital	2	234	–	–	–	–	236
Treasury shares reissued in respect of share option schemes	–	–	–	–	–	649	649
Issue of B shares as bonus issue	43,155	–	(43,155)	–	–	–	–
Redemption of B shares for cash	(43,155)	–	–	–	–	–	(43,155)
Creation of capital redemption reserve	–	–	–	43,155	–	(43,155)	–
Share-based payments	–	–	–	–	363	935	1,298
Deferred tax on share-based payments	–	–	–	–	–	284	284
Current corporation tax on share options exercised	–	–	–	–	–	36	36
Dividends	–	–	–	–	–	(14,029)	(14,029)
Total transactions with owners, recorded directly in equity	2	234	(43,155)	43,155	363	(55,280)	(54,681)
As at 3 July 2010	**2,010**	**580**	**–**	**43,155**	**979**	**46,993**	**93,717**

The non-distributable reserve's purpose is to reflect movements in share-based payments in respect of awards given by the Parent Company to employees of subsidiaries.

The 2009 financial year was 53 weeks.

Accounting policies

Basis of preparation
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 as applied in accordance with the provisions of the Companies Act 2006.

The accounts of the Company are prepared under the historical cost convention, in accordance with the Companies Act 2006, applicable accounting standards and specifically in accordance with the accounting policies set out below.

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

The revision of IAS 27 became applicable and in line with its provisions, the Group elected to restate the share for share acquisition which occurred in 2003. No further acquisitions have occurred since this date. The impact of this adjustment is to increase the cost of the investment in Dunelm (Soft Furnishings) Limited to the value of the net assets at the date of the acquisition. This increases the investment by £43,155,000 and creates a merger reserve of the same amount within shareholders' funds.

Investments
Investments in subsidiary undertakings are stated at the adjusted cost of the investment, IFRIC 8 'Scope of IFRS 2 share-based payments' requires the Parent Company to recognise an increase in the cost of its investment in a subsidiary which has issued share options in the Parent Company's shares to its employees.

Bank borrowings and borrowing costs
Interest bearing bank loans and overdrafts are recorded at the proceeds received.

Borrowing costs are recognised as an expense in the financial period in which they are incurred.

Borrowings are classed as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months from the balance sheet date.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Where a Group Company enters into financial guarantee contracts to guarantee the indebtedness of other Group Companies within the Group, the Company considers these to be insurance arrangements for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable the Company will be required to make a payment under the guarantee.

Share capital
Where the Company purchases its own equity share capital (treasury shares) the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received net of any directly attributable incremental transactions costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

Share-based payments
The Company operates two share options schemes details of which are set out in note 12.

The fair value of options granted is realised as an employee expense with a corresponding increase in equity. Fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. Fair value is measured using the binomial model, taking into account the terms and conditions applicable to the options.

At each balance sheet date the Company revises its estimates of the number of share incentives expected to vest. Any impact of this revision is recognised as an adjustment to equity with a corresponding adjustment to investments.

Dividends

Dividends are recognised as a liability in the period in which they are approved such that the Company is obligated to pay the dividend.

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.

Adopted IFRS and IFRIC not yet applied

IFRS 8	Operating segments
IAS 27 (revised)	Consolidated and Separate Financial Statements

The effect of the revision of IAS 27 is disclosed on page 61.

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

IFRS 1	Revised IFRS 1	– First time adoption of IFRSs
IFRS 7	Revised IFRS 7	– Financial Instruments
IFRS 9	Revised IFRS 9	– Financial Instruments
IAS 1	Revised IAS 1	– Presentation of Financial Statements
IAS 27	Revised IAS 27	– Consolidated and Separate Financial Statements
IAS 34	Revised IAS 34	– Interim Financial Reporting
IFRIC 13	Revised IFRIC 13	– Customer Loyalty Programmes

The above will be adopted in the Group and Company's financial statements when they become effective.

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

Revised IFRS 7 requires additional disclosure to better enable users to evaluate an entity's exposure to risks arising from financial instruments. Revised IAS 1 requires a reconciliation of each component of equity to be presented in the statement of changes in equity showing separately changes arising from items recognised in profit or loss, in other comprehensive income, and from transactions with owners acting in their capacity as owners.

Notes to the Parent Company financial statements

For the 52 weeks ended 3 July 2010

1 Income statement

The Company made a profit after tax of £39,206,000 (2009: £20,544,000). The Directors have taken advantage of the exemption available under section 408 Companies Act 2006 and have not presented an income statement for the Company alone.

The Company is not required to give details of the fees paid to its auditors in accordance with the Companies (Disclosure of Auditor Remuneration) Regulations 2005.

2 Employee costs

The Company has no employees other than the two Executive Directors. Full details of the Directors' remuneration and interest are set out in the Remuneration Report on pages 23 to 26, and share-based payments details in note 12 on pages 67 to 68.

3 Dividends

All dividends relate to the 1p Ordinary Shares.

	2010 £'000	2009 £'000
Final for the period ended 28 June 2008 – paid 3.5p	**–**	(6,994)
Interim for the period ended 4 July 2009 – paid 2.0p	**–**	(3,999)
Final for the period ended 4 July 2009 – paid 4.0p	**(8,008)**	–
Interim for the period ended 3 July 2010 – paid 5.0p	**(6,021)**	–
	(14,029)	(10,993)

The Directors are proposing a final dividend of 5.0p per Ordinary Share for the period ended 3 July 2010 which equates to £10m. The dividend will be paid on 10 December 2010 to shareholders on the register at the close of business on 26 November 2010.

4 Investments

Shares in subsidiary undertakings.

	Restated £'000
As at 28 June 2008	45,438
Share-based payments	333
As at 4 July 2009	45,771
Share-based payments	363
As at 3 July 2010	**46,134**

Principal subsidiaries

The following are the principal subsidiaries as at the end of the year:

Subsidiary	Proportion of ordinary shares held	Nature of business
Dunelm (Soft Furnishings) Limited	100%	Retailer of soft furnishings
Dunelm Estates Limited	100%	Property holding company

Both of the above subsidiaries and the Parent Company are registered and operate in England and Wales.

5 Deferred tax assets

	Assets 2010 £'000	2009 £'000
Share-based payments	**630**	202

The movement in deferred tax assets is as follows:

	Balance at 28 June 2008 £'000	Recognised in income £'000	Recognised in equity £'000	Balance at 4 July 2009 £'000
Employee benefits	43	138	21	202

	Balance at 5 July 2009 £'000	Recognised in income £'000	Recognised in equity £'000	Balance at 3 July 2010 £'000
Employee benefits	202	144	284	630

Deferred tax assets are recognised for other temporary differences to the extent that the realisation of the related tax benefit through future taxable profits is probable.

6 Trade and other receivables

	2010 £'000	2009 £'000
Amounts owed by subsidiary undertakings	**47,870**	64,071
Prepayments and accrued income	**29**	30
Other taxation and social security	**11**	6
	47,910	64,107

Amounts owed by subsidiary undertakings are immediately repayable. Interest is charged monthly on all intercompany balances at an annual rate of 5.25%.

7 Trade and other payables

	2010 £'000	2009 £'000
Trade payables	**15**	14
Accruals and deferred income	**820**	557
Other creditors	**20**	20
	855	591

8 Interest bearing loans and borrowings

	2010 £'000	2009 £'000
Bank overdraft	**–**	18
	–	18

On 26 September 2006 the Company entered into a £50m revolving credit facility which is repayable in full on 26 September 2011. The facility is sub-divided into two elements: a £40m facility and a £10m facility. The £10m facility was cancelled on 26 May 2009. The £40m facility was not utilised at the balance sheet date.

Interest is payable on the £40m facility at the rate of LIBOR plus 0.35%.

The facility is guaranteed by the Company and its subsidiaries.

Notes to the Parent Company financial statements

For the 52 weeks ended 3 July 2010

9 Financial risk management

Capital management

The following table is a comparison by category of the carrying amounts and fair values of the Company's financial assets and liabilities at 3 July 2010 and 4 July 2009.

	2010 Carrying value £'000	**2010 Fair value £'000**	2009 Carrying value £'000	2009 Fair value £'000
Subsidiary loans	**47,870**	**47,870**	64,071	64,071
Total financial assets	**47,870**	**47,870**	64,071	64,071
Short-term borrowings	**–**	**–**	(18)	(18)
Trade payables	**(15)**	**(15)**	(14)	(14)
Total financial liabilities	**(15)**	**(15)**	(32)	(32)
Net financial liabilities	**47,855**	**47,855**	64,039	64,039

The fair value on subsidiary loans and trade payables are approximate to the carrying value.

The currency profile of the Company's net debt is as follows:

	2010 £m	2009 £m
Sterling	**–**	(18)
	–	(18)

10 Share capital

	Number of ordinary shares of 1p each 2010	**Number of B shares of 21.5p each 2010**	Number of ordinary shares of 1p each 2009
In issue at the start of the period	**200,791,400**	**–**	200,791,400
B shares issued via a bonus issue	**–**	**200,723,131**	–
B shares redeemed in the year	**–**	**(200,723,131)**	–
Issued during the period in respect of share option schemes	**248,748**	**–**	–
In issue at the end of the period	**201,040,148**	**–**	200,791,400

Proceeds received in relation to shares issued during the period were £238,000 (2009: £nil).

	2010 number of shares	**2010 £'000**	2009 number of shares	2009 £'000
Ordinary Shares of 1p each				
Authorised	**500,000,000**	**5,000**	500,000,000	5,000
Allotted, called up and fully paid	**201,040,148**	**2,010**	200,791,400	2,008

The holders of the Ordinary Shares are entitled to receive dividends as declared and are entitled to one vote per share.

11 Treasury shares

	2010 Number of shares	**2010 £'000**	2009 Number of shares	2009 £'000
Outstanding at beginning of year	**837,135**	**1,301**	951,500	1,522
Purchased during year	**–**	**–**	127,000	186
Reissued during the period in respect of share option schemes	**(737,507)**	**(1,173)**	(241,365)	(407)
Outstanding at end of year	**99,628**	**128**	837,135	1,301

In the past the Company has acquired its own shares ('treasury shares') for the purpose of delivery to employee share schemes. No such purchase was made during the year.

The Company reissued 737,507 (2009: 241,365) treasury shares for a total consideration of £641,843 (2009: £124,453).

The Company has the right to reissue the remaining treasury shares at a later date.

12 Share-based payments

As at 3 July 2010, the Company operated two share award plans:
a) Dunelm Group Share Option Plan ('GSOP')
b) Long-Term Incentive Plan ('LTIP')

There were no exercisable options as at 3 July 2010.

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 10 years. All options granted prior to IPO have an exercise price equal to the market value as agreed with HMRC at date of grant; there have been no further grants since IPO. 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.

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:

	August 2006 grant	September 2005 grant	December 2004 grant	September 2004 grant
Fair value at measurement date	7.0p	6.3p	6.0p	6.2p
Exercise price	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%
Option life (weighted average life used in modelling)	3 years	3 years	3 years	3 years
Expected dividends	2.5%	8.7%	8.7%	8.7%
Risk-free interest rate	2.8%	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 2010	**Number of shares under option 2010**	Weighted average exercise price 2009	Number of shares under option 2009
Outstanding at beginning of year	**–**	**–**	–	–
Exercised during year	**–**	**–**	–	–
Outstanding at end of year	**–**	**–**	–	–

b) Long-Term Incentive Plan

The LTIP was approved by the Board prior to IPO enabling the Company to award shares to particular individuals, normally in the form of nominal cost options. The LTIP is administered by the Remuneration Committee. One grant has been made in the year, to the Executive Directors only, and is exercisable in September 2010 depending on the level of growth in Group EPS relative to RPI. The maximum life of options under LTIP is 10 years from the date of grant. Full details of this plan are included in the Remuneration Report on pages 23 to 26.

The fair value of services received in return for share options granted is measured by reference to the fair value of the options. This has been calculated as follows:

	September 2009	September 2008	September 2007	March 2007
Share price at date of grant	316.0p	149.0p	196.0p	229.0p
Discount factor, based on dividend yield of 3.0% to vesting date	0.913	0.889	0.913	0.913
Fair value of option	288.5p	132.5p	178.9p	209.0p

Notes to the Parent Company financial statements continued

12 Share-based payments continued

The number and weighted average exercise price of options under the LTIP at 3 July 2010 is:

	Weighted average exercise price 2010	**Number of shares under option 2010**	Weighted average exercise price 2009	Number of shares under option 2009
Outstanding at beginning of year	**–**	**1,006,193**	–	568,356
Granted during year	**–**	**209,164**	–	437,837
Exercised during year	**–**	**(155,270)**	–	–
Lapsed during year	**–**	**(95,164)**	–	–
Outstanding at end of year	**–**	**964,923**	–	1,006,193

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

	2010 £'000	2009 £'000
LTIP	**935**	266
	935	266

13 Contingent liability

The Company and certain subsidiaries have given joint and several guarantees in connection with all bank facilities provided by the Group's principal bankers.

The Group's banking facilities are subject to a netting facility whereby credit balances may be offset against indebtedness of other Group companies.

14 Related party disclosure

The amount due to the Company from subsidiary undertakings is set out in note 6. Transactions between the Company and its subsidiaries were as follows:

	2010 £'000	2009 £'000
Cash paid to Group undertakings	**(69,653)**	(56,759)
Cash received from Group undertakings	**10,997**	33,199
Dividends received	**40,000**	20,000
Net interest receivable	**2,454**	3,266

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