simply value for money...

Dunelm Group plc | Annual report 2007

Highlights

£355m
Sales up 12.5% to £354.7m (2006: £315.2m)

+6.1%
Like-for-like sales increase of 6.1%

£44.0m
Underlying operating profit up 15.3% to £44.0m*

£40.8m
Statutory operating profit

£41.0m
Underlying profit before tax*

£37.8m
Statutory profit before tax

* Underlying profit is defined as profit before non-recurring items i.e. profit on sale of former warehouse (£1.1m), costs in relation to warehouse relocation (£1.3m) and IPO costs (£3.0m).

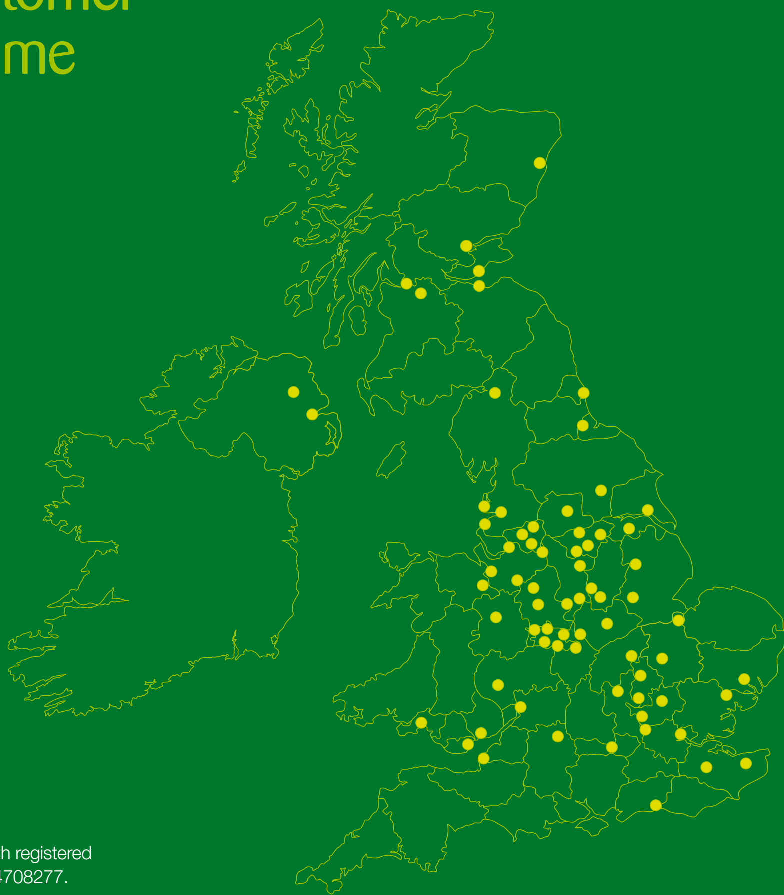
Operational

- 82 stores at 30 June 2007 (70 OOT superstores)
- Average superstore selling area of 28,000 sq ft
- Around 20,000 lines in a superstore – broad and deep ranges
- New IT systems rolled out
- Transition to new central warehouse completed

Financial

- £355m turnover in FY 2006/07
- Underlying operating margin 12.4%
- Operating cash flow £34.7m after interest and tax

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.



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Dunelm Group plc is a company incorporated and domiciled in England with registered office Fosse Way, Syston, Leicestershire, LE7 1NF and registered number 4708277.

simply value for money...

The choice and value we offer our customers across the board in homewares is second to none in the UK.

This has been a momentous year in Dunelm's development which has included the successful IPO last October. At the same time, the business has delivered record sales and profits. I believe this is a real tribute both to the strength of the Dunelm proposition and particularly to the focus and determination of its management team.

Within the strong all-round financial performance set out in this Annual Report, the like-for-like sales increase of 6.1% deserves particular comment. This performance demonstrates the continuing appeal of the Dunelm proposition to a wide range of customers. Dunelm's philosophy is 'simply value for money', focused on giving all our customers a great deal, whatever price point they are looking to buy at. The choice and value we offer our customers across the board in homewares is second to none in the UK.

The transition to becoming a publicly listed company was eased by the Company's policy, adopted some five years ago, of applying much of the rigour and processes required when answerable to public shareholders. However, one of the few ways in which we have changed is to bring the membership of our Board more into line with the requirements of the Combined Code. We have addressed this through the appointment of Simon Emeny as a Non-Executive Director and I am delighted to welcome Simon to the Board. He has an excellent track record of achievement as Managing Director of the major operating businesses within Fuller, Smith and Turner P.L.C. and I am sure that his experience and drive will be of great benefit to us.

Finally, I would like to take this opportunity to pay public tribute to the founders of Dunelm, Bill and Jean Adderley. They have laid the foundations for the long-term prosperity of the Group not only by driving its growth and development until relatively recently, but equally importantly by having the strength to stand back from the Group and let others take it forward, both in terms of management and ownership. Of course, Bill and Jean remain major shareholders and Bill is still an active and challenging Non-Executive Director. His son, Will, has already demonstrated immense capability as Chief Executive of the business and I am certain that he and the rest of the senior team will continue to push it forward to even greater success, to the benefit of all shareholders.

GEOFF COOPER
CHAIRMAN
19 September 2007

simply focused

We are as passionate as ever about giving 'simply value for money' to all our customers – a combination of great prices, unrivalled choice, excellent quality, great product availability and friendly service.

TRADING

I am delighted to report continued successful growth of the Group during the last financial year. Our overall sales increased by 12.5%, including growth of 6.1% in like-for-like sales. This like-for-like sales growth was particularly strong in the final quarter, at 10.1%. Our growth exceeded the wider retail market and will almost certainly give us a further increase in our market share within homewares.

The market environment was uncertain for much of the year. Consumer demand held up better than might have been expected given the series of base rate increases from mid-2006, and in our view the homewares market experienced steady but unspectacular growth. The intensity of competition also increased during the period, with the supermarkets continuing to give additional space to homewares along with other multiple retailers. Nevertheless, I firmly believe that Dunelm remains the leading multiple homewares specialist in the UK, a position we intend to hold onto by continuing to pursue the four strategic priorities which we outlined at the time of our flotation.

PRIORITY 1 – GROWING THE STORE PORTFOLIO

We opened four new superstores in the year, at Stevenage, Colchester, Perth and Bradford. All have received strongly positive customer reaction and all are trading in line with our expectations. In addition we relocated our Swansea superstore to an adjacent, larger unit and have seen a very strong increase in trading as a result. Altogether the chain of 68 superstores as at the year-end provided over 1.9m square feet of selling space.

It remains our firm intention to grow the superstore portfolio as rapidly as we can, without compromising our long-term financial returns. We have opened two further units since the year-end, in Aberdeen and Shoreham. We are contractually committed to four more units which are due to open this financial year or early next and we have numerous further opportunities under negotiation. We believe that the demand for retail space has cooled over the past couple of years and we are therefore optimistic that we will be able to achieve a good number of additions to our estate in the coming year, on attractive terms.

Whilst expanding our superstore chain, we have taken the opportunity to close three high street stores. In all three cases there is already a superstore serving the same catchment area and the total space exited is less than one average superstore. This leaves us with 14 high street stores at present and we will continue to look for opportunities to relocate to superstores in these towns.

PRIORITY 2 – DEVELOPING THE CUSTOMER OFFER

We know that it is essential for us to continue improving our retail proposition. We are as passionate as ever about giving 'simply value for money' to all our customers – a combination of great prices, unrivalled choice, excellent quality, great product availability and friendly service. We respect our competitors and know that they will keep improving; we know that we always have to get better too if we want to keep satisfying our customers.



A good example of the way we operate is our decision to cease selling beds. This was a range we experimented with but where we found we were unable to outdo the established specialists in the field. Accordingly we have made a rapid but low-cost withdrawal, giving the space released back to mainstream categories, particularly bedding. The extra space has allowed us to introduce an additional range of plain-dye linen, and also to showcase new designs from Dorma which are exclusive to Dunelm. The result has been a significant increase in bedding sales and further reinforcement of our position as the specialist in this area.

Looking ahead we see opportunities to improve our product offering in several categories and to provide even better customer service through our friendly staff. We look forward to giving our customers an even more enjoyable shopping experience as a result.

PRIORITY 3 – EXPLOITING OUR INFRASTRUCTURE

The last financial year saw some important milestones achieved in our infrastructure development. First, the transition from our Burton warehouse to a new facility at Stoke was fully completed and this now gives us a much larger central warehousing capacity – approximately four times as many pallet locations as were previously available. With around 80% of merchandise still being supplied direct to stores, we believe that the current Stoke warehouse will be able to support the central distribution requirement for a chain of over 100 superstores and we will continue to drive efficiency in the warehouse operation to ensure this is the case.

The second major achievement was the roll-out of SAP stock management to all of our stores. For the first time, this gives us full visibility of all stock throughout the chain and enables us to control stock levels more tightly.

PRIORITY 4 – LONGER TERM GROWTH

We aim to develop a number of initiatives to increase the potential for longer term growth. Our webstore opened in early 2006 and now contains over 7,500 products – to which we are adding all the time. Whilst this channel remains small relative to the business as a whole, sales are growing and we believe that we are well positioned to benefit from any significant migration of customer purchasing to the internet.

OUTLOOK

In the early weeks of our new financial year, we have continued to benefit from relatively soft comparatives driven by last year's very hot summer together with the climax of the football World Cup. For the 11 weeks to 15 September, total sales growth has been 12.5% and like-for-like growth has been 7.0%.

We are very pleased with these figures. At the same time we are naturally cautious about the outlook for the next few months. Not only do we start to see more challenging comparatives, but the state of consumer demand remains uncertain. We do not take continued strong growth for granted, but I can assure all shareholders that we will be working hard to ensure that our offer remains as compelling for customers as ever.

WILL ADDERLEY
CHIEF EXECUTIVE OFFICER
19 September 2007

simply delivering

The Group's profile of strong cash generation continued in the last financial year. Net cash generated from operations, after interest and tax, was £34.7m (an increase of 44.0%).

UNDERLYING OPERATING RESULT
Sales in the financial year were £354.7m, an increase of 12.5%. On our conservative definition of like-for-like (i.e. including only stores which traded throughout the financial year in question and all of the preceding financial year), the like-for-like growth was 6.1%.

We continued to benefit from our increased scale and buying power as well as weakness of the US dollar, allowing us to achieve a 0.4% point increase in gross margin.

Operating costs remained well controlled, with an overall 3.7% increase in costs in like-for-like stores. However, as we have explained previously, the non-store cost base now includes a rent charge on the new Stoke distribution centre and amortisation of the new SAP software and associated hardware. In the previous financial year there was no rent charge for the distribution centre and only a part year amortisation charge for SAP. The overall effect is an increase in our non-store cost base of £2.1m due to these items.

Operating profit on an underlying basis (i.e. after charging the new costs described above, but before non-recurring items) was £44.0m, an increase of 15.3%.

NON-RECURRING ITEMS
In our definition of underlying operating profit we exclude the following items which we consider to be outside the normal running of the business:
- IPO costs – the Group bore £3.0m of costs in relation to the IPO in October 2006.
- Warehouse transition – costs of £1.3m arose during the year in respect of the transfer of operations from the former distribution centre at Burton to the new facility at Stoke, including redundancy, other closure costs and the incremental cost of parallel running the two sites for a period during the year.
- Warehouse disposal – a gain of £1.1m was realised on disposal of the Burton freehold property.

After including all of the above items, the operating result for the year was a profit of £40.8m, an increase of 7.0%.

EBITDA
Earnings before interest, tax, depreciation and amortisation were £53.5m, excluding non-recurring items. This has been calculated as underlying operating profit (£44.0m) plus depreciation and amortisation (£9.5m) and represented a 15.2% increase on the previous year. The EBITDA margin achieved, at 15.1% of sales, demonstrates the strength of Dunelm's business model.

FINANCIAL ITEMS AND PBT
In October 2006, immediately prior to IPO, the Group assumed bank debt of £50m in order to fund a special dividend. Historically the Group has held a cash surplus. Accordingly, there was a shift from net interest receivable of £0.7m in the prior year to net interest payable of £1.6m in the latest financial year.

Additionally, the Group suffered foreign exchange losses in respect of US dollar holdings which amounted to £1.4m, based on a year-end exchange rate of $2.00.The equivalent net loss last year was £0.8m, with a closing exchange rate of $1.84. The Group has no further forward exchange contracts outstanding and the dollars held in cash will be utilised to fund purchases of stocks over the coming year. Going forward, it is our intention to purchase foreign currency at spot rates as and when required for actual foreign currency payments.

After accounting for interest and foreign exchange impacts, underlying profit before tax for the year amounted to £41.0m, an increase of 7.8%. Statutory PBT, after non-recurring items, was £37.8m.

TAX, PAT AND EPS
The headline tax charge for the year was 34.9% of statutory PBT. However, the effective tax rate was impacted by the IPO costs which are not deductible for corporation tax purposes. It also includes the impact of recalculating deferred tax based on the new



corporation tax rate of 28%. Excluding these factors, the effective tax rate for the year was 31.8% of pre-tax profit.

Underlying EPS (excluding non-recurring items) on a fully diluted basis shows a rise of 5.3% to 13.7p. Our reported earnings per share are 12.2p on a fully diluted basis, 6.5% below last year.

IMPLEMENTATION OF IFRS

IFRS has been fully implemented by Dunelm and the three year record shown at the time of our IPO was on a consistent IFRS basis. The major impact of this change in accounting principles is that lease incentives are spread over the life of the lease rather than up to the first rent review (as under UK GAAP).

We published details of the transition to IFRS in our interim report last March. The same analysis is included in this document in Note 30 to the financial statements.

CAPITAL EXPENDITURE

The business has undertaken significant capital expenditure in recent years, including major investments in systems and technology infrastructure and the fit-out of the new distribution centre. The major part of these investments was already incurred by June 2006, so gross capital expenditure in the most recent financial year was reduced to £15.1m (previously £25.4m). This included one significant freehold store acquisition as well as the fit-out costs for the other new stores opened in the year.

WORKING CAPITAL

Stocks increased by £4.3m during the financial year mainly as a result of new store openings. Net working capital was slightly reduced compared with the start of the year.

CASH POSITION

The Group's profile of strong cash generation continued in the last financial year. Net cash generated from operations, after interest and tax, was £34.7m (an increase of 44.0%) and net debt at the year-end was £22.6m.

DIVIDEND

In addition to the special pre-IPO dividend of 25p per share, an interim dividend of 0.8p was paid in April 2007. It is proposed to pay a final dividend of 3.0p per share.

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:

	2006/07	2005/06
Like-for-like sales growth	+6.1%	–4.8%
Change in gross margin	+40bp	+100bp
Number of new store openings	4	5

KEY RISKS

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

STRATEGIC RISKS

Competition in the homewares market has strengthened in recent years. Further new entrants and/or new formats are anticipated. We will continue to monitor competitor activity and to modify our proposition if necessary.

The rate of consumer expenditure growth is uncertain and a prolonged downturn could have a significant effect on our business, as well as on many other retailers. We mitigate this risk by retaining the ability to react quickly to changes in customer demand and to adjust our offer accordingly.

Like all businesses, we face the risk of increased costs from compliance with new laws and regulations. In addition, changes to property regulation could have a particular impact on our opportunities for opening new stores. At present we are not aware of any significant forthcoming changes in the regulatory environment.

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.

OPERATIONAL RISKS

As with most major retailers, the business is heavily reliant on information systems and technology. A major IT incident would constitute a significant threat to the business, at least in the short term. We have a disaster recovery plan in place to provide business continuity in the event of such an occurrence.

Similarly, 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 mitigates 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.

FINANCIAL RISKS

The Group has a committed bank facility under a revolving loan agreement with Lloyds TSB Bank plc of £50m, and an uncommitted overdraft facility of £3m with Barclays Bank Plc. These facilities are considered to provide sufficient funding for the Group's operations. As at 30 June 2007, the total of committed bank facilities exceeded net debt by £27.4m.

With net debt of £22.6m at the year-end and on a declining trend, we do not consider our direct exposure to interest rate fluctuations to be significant.

Surplus funds are placed on deposit with counter parties approved by the Board. A credit rating of at least AAA is required.

DAVID STEAD
FINANCE DIRECTOR
19 September 2007

Directors

GEOFF COOPER
NON-EXECUTIVE CHAIRMAN
Geoff Cooper, aged 53, joined the Group in November 2004. Chairman of the Audit Committee and 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.

BILL ADDERLEY
FOUNDER AND
NON-EXECUTIVE DIRECTOR
Bill Adderley, aged 59, together with his wife Jean, founded the business in 1979. Bill led the development of the business for many years until moving to a non-executive role in 2002. Bill intends to remain as a Non-Executive Director until he reaches the age of 60 in 2008.

MARION SEARS
SENIOR INDEPENDENT
NON-EXECUTIVE DIRECTOR
Marion Sears, aged 44, joined the Group in July 2004. Chairman of the Remuneration and Nominations Committees and Member of the Audit Committee. She is Non-Executive Director of Zetar plc and Prelude Trust plc and is a member of PricewaterhouseCoopers Advisory Panel.

WILL ADDERLEY
CHIEF EXECUTIVE
Will Adderley, aged 35, 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.

DAVID STEAD
FINANCE DIRECTOR
David Stead, aged 49, 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.

SIMON EMENY
INDEPENDENT NON-EXECUTIVE
DIRECTOR
Simon Emeny, aged 41, joined the Group in June 2007. He is a member of the Audit, Remuneration and Nominations Committees. Simon is an Executive Director of Fuller Smith and Turner P.L.C. where he is responsible for the Fuller's Inns division.

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 Combined Code dated 2006, since the Group was floated on the London Stock Exchange on 24 October 2006.

Throughout the period from flotation to the end of the financial year the Group has complied with the Combined Code except as follows:

- Until the appointment of Simon Emeny, the Board comprised two Executive Directors and three Non-Executive Directors, however only one of these (Marion Sears) was independent within the meaning of the Combined Code. With the appointment of Simon Emeny there is now an equal number of Executive and independent Non-Executive Directors.
- Prior to the appointment of Simon Emeny, Board committees did not have the required number of independent Non-Executive Directors.
- The selection process leading to the appointment of Simon Emery did not make use of external consultants, as the Board did not believe that the cost would be justified. The Board conducted a wide-ranging review of potentially suitable candidates and, as a whole, participated in each step of the search and selection process.
- Geoff Cooper, Company Chairman, is also Chairman of the Audit Commitee. Given the balance of other independent Non-Executive Directors who sit on the committee this is not considered to result in the Chairman exercising undue influence over the committee.
- There has not been in place until recently a formal written process for reviewing and managing risk in the business. The Board has considered catastrophe risk and businesss continuity plans have been developed. A formal review process is now also under development.

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 and Committee meetings subsequent to flotation except that Bill Adderley was absent from two Board meetings.

There is a 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. In addition the Non-Executive Directors have the opportunity to meet at least once a year without the Chairman present as part of the appraisal 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 are Bill Adderley, Marion Sears and Simon Emeny. David Stead is an Executive Director.

The Senior Independent Director is Marion Sears.

The Board considers that Geoff Cooper was independent on appointment, and that Marion Sears and Simon Emeny are independent. Overall the Board considers that there is a good balance of Executive and Non-Executive Directors.

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

Corporate Governance report continued

BOARD COMMITTEES

The **Audit Committee** is chaired by Geoff Cooper, the other members are Marion Sears and Simon Emeny (from the time of his appointment). The Board considers that Geoff Cooper has recent and relevant financial experience by virtue of his professional qualification and his current executive role with Travis Perkins 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 April. The Finance Director usually attends 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;
- 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 interim results issued in March;
- decided that an internal audit function was not required in view of the adequacy of financial controls in place;
- confirmed the Group's policy for use of the auditors for non-audit advice;
- verified the independence of the auditors, and approved the scope of the audit plan and the audit fee;
- reviewed the business continuity plans in place; and
- tasked the executive management to develop a formal risk management process.

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

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

The committee has also 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 **Remuneration Committee** is chaired by Marion Sears, the other members are Geoff Cooper and Simon Emeny (since his appointment). 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 twice and:
- determined the pay reviews and incentive arrangements for Executive Directors; and
- approved conditional share awards to be made to Executive Directors under the Group's Long-term Incentive Plan.

Further details of the committee's activities are set out in the Remuneration Report on page 10.

The **Nominations Committee** is chaired by Marion Sears, the other members are Geoff Cooper and Simon Emeny (since his appointment).

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 AGM).

During the year the committee met three times. It led the search for an additional independent Non-Executive Director, culminating in the appointment of Simon Emeny.

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.

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.

RISK MANAGEMENT AND INTERNAL CONTROL

A formal process for reviewing and managing risk in the business has recently been developed. Prior to this, the Board has considered catastrophe risk and businesss continuity plans have been developed.

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.

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 AGM to meet with shareholders and answer their questions.

Remuneration report

The Directors present their Remuneration Report for the period ended 30 June 2007.

INTRODUCTION

The Remuneration Committee has prepared this report in accordance with the requirements of Schedule 7A to the Companies Act 1985, and the Listing Rules. The report and the Group's remuneration policy comply with the Combined 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 17.

NON-AUDITED INFORMATION

REMUNERATION COMMITTEE AND ADVISERS

During the year ended 30 June 2007, the Remuneration Committee was made up of two members, Marion Sears and Geoff Cooper. Marion Sears, who is the Senior Independent Non-Executive Director, chairs the committee and also acts as Secretary. Simon Emeny, a new independent Non-Executive Director appointed to the Board on 25 June 2007, also joined the Remuneration Committee from that date. 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.

The Remuneration Committee engaged Deloitte & Touche LLP to assist with the preparation of the scheme rules for the Long-Term Incentive Plan. Deloitte has not received a fee for any other service from the Group during the year.

CHANGES IN POLICY DURING THE YEAR

There have been no changes to remuneration policy since the IPO in October 2006. Accordingly, the remuneration structure described in the IPO prospectus remains in place.

During the year, the Remuneration Committee introduced two performance-based plans: an annual bonus plan and a long-term incentive plan (the LTIP). Before the Company's IPO, performance pay was not a substantial element of the remuneration policy. In accordance with governance guidelines and the requirements of the Combined Code, the Remuneration Committee implemented these two performance based plans to align the interests of investors and senior management. The annual bonus plan is short term and cash based. The LTIP is long-term and share based.

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.
- Long-Term Incentive Plan.

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

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 with similar market capitalisation. 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 now operates a discretionary cash bonus plan. Any bonus amounts determined to be payable are paid annually 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 maximum bonus payable is 60% of base salary. 24% of base salary is paid for achieving on-target EPS, subject to satisfactory performance against personal objectives. For the year ended 30 June 2007, EPS performance exceeded budget and, taking into account Executive Directors' performance against job objectives, the committee awarded an annual bonus to Will Adderley of £87,000 and to David Stead of £85,500.

LONG-TERM INCENTIVE PLAN

Participants in the LTIP are awarded nominal cost options at the start of the performance period. At the end of the three-year performance period, the awards will vest to the extent that the applicable performance targets are met. Grants will be made annually under the LTIP. Awards cannot be granted under the LTIP over ordinary shares in excess of 5% of the issued ordinary share capital in any rolling 10 year period. Awards over ordinary shares worth 120% of base salary were made to Will Adderley and David Stead on 22 March 2007. These will vest to the extent that the performance targets are met based on the Group's results for the year ending 30 June 2009.

The Remuneration Committee has chosen growth in fully diluted earnings per share (EPS) as the performance target for the initial awards under the LTIP. The committee believes that this measure is closely aligned to the drivers of growth of the business, and its growth will correspond to an increase in share price which is a key measure of long-term value for shareholders. The committee will meet after the three-year plan period results are available to determine whether performance conditions have been satisfied. No ordinary shares subject to an award will vest if the compound annual growth in fully diluted EPS is less than RPI + 5% and all of the ordinary shares subject to an award will vest if the compound annual growth in fully diluted EPS reaches RPI + 20%. The award will vest on a straight-line basis between those two points. There will be no retesting.

OTHER SHARE OPTIONS

In 2003 and 2004 David Stead was granted options over a total of 600,000 shares under the Approved and Executive share option schemes. In December 2006 David exercised 400,000 options including all those held under the Approved scheme. He continues to hold 200,000 options under the Executive scheme. The Remuneration Committee does not intend to make any further option grants to Executive Directors under these schemes.

Following IPO, the Group introduced 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 Board as a whole. The Non-Executive Directors do not receive bonuses or participate in any incentive plans. They are paid annual fees but do not receive additional fees for time spent on a committee of the Board. All Non-Executives have letters of appointment, detailed in the table opposite.

SERVICE CONTRACTS

It is the Group's policy that service contracts for Executive Directors have no fixed term, that the notice period for termination is not greater than 12 months and that payments on termination are restricted to a maximum of the value of salary for the notice period.

The notice period to terminate Will Adderley's service contract is 12 months from either party. The notice period to terminate David Stead's service contract is six months from either party, with the notice period increasing by one month for each year of employment in excess of one year, up to a maximum of 12 months notice (which will be reached in September 2009). In accordance with the Group's policy, payments on termination are restricted to 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 CONTRACT	UNEXPIRED TERM	NOTICE PERIOD
Will Adderley	28.09.06	n/a	12 months
David Stead	15.09.03	n/a	10 months
Geoff Cooper	08.10.04	37 months	3 months
Bill Adderley	02.10.06	24 months	1 month
Marion Sears	22.07.04	34 months	1 month
Simon Emeny	25.06.07	35 months	1 month

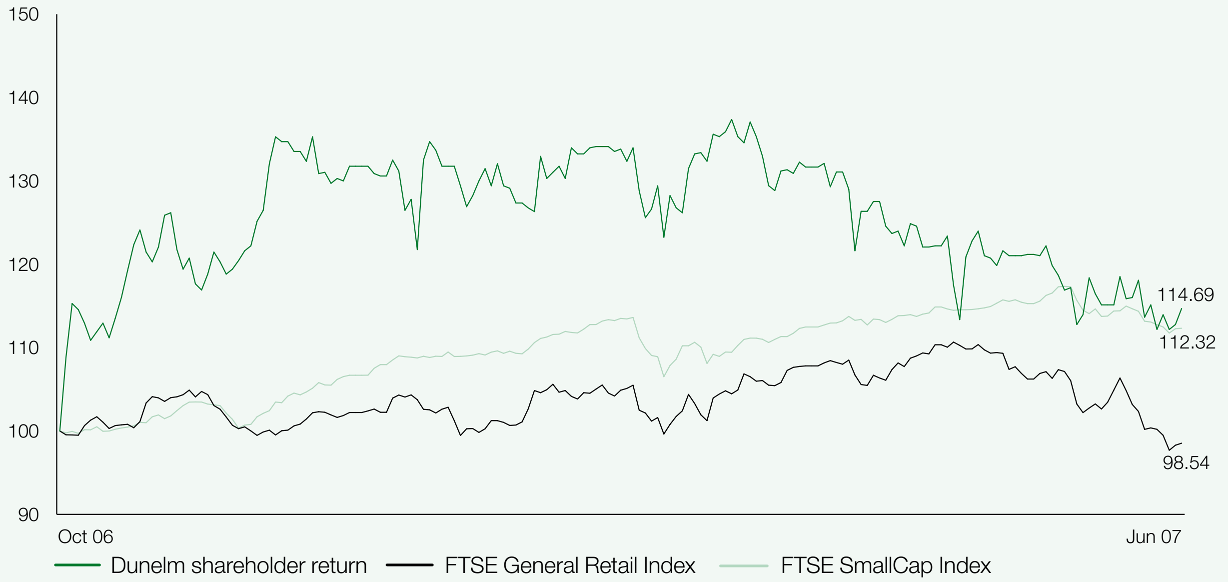
RETIREMENT PLANS

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 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 FTSE SmallCap Index. The Remuneration Committee has chosen these two indices for comparisator 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.

DUNELM SHARE PRICE PERFORMANCE SINCE FLOTATION



The shares traded in the range 169.5p to 235.5p during the year, and stood at 196p at 30 June 2007.

AUDITED INFORMATION

DETAILS OF DIRECTORS' REMUNERATION

Details of individual Directors' remuneration received during the year ended 30 June 2007 are as follows:

	BASE SALARY OR FEES £'000	VEHICLE ALLOWANCE £'000	TAXABLE BENEFITS £'000	CONTRIBUTION TO PERSONAL PENSION £'000	ANNUAL BONUS £'000	**2007 TOTAL £'000**	2006 TOTAL £'000
Executive Directors							
Will Adderley	290	10	1	waived	87	**388**	309
David Stead	190	10	waived	18	86	**304**	313
Non-Executive Directors							
Bill Adderley	3	–	–	–	–	**3**	0
Geoff Cooper	75	–	–	–	–	**75**	70
Marion Sears	25	–	–	–	–	**25**	20
Total	583	20	1	18	173	**795**	712

Bill Adderley received no fees prior to flotation. From October 2006 he receives a gross annual fee of £5,000 which is donated to charity at his direction by the Group.

Will Adderley has waived pension contributions totalling £17,850 and David Stead has waived other taxable benefits totalling approximately £1,000.

Simon Emeny was appointed to the Board on 25 June 2007. His gross annual fee is £25,000 payable with effect from 1 July 2007.

DIRECTORS' INTERESTS IN SHARE OPTIONS

The Directors' beneficial interests in options granted under the long-term incentive scheme are as follows:

DIRECTOR	SHARE OPTIONS AT 1 JULY 2006	SHARE OPTIONS AT 1 JULY 2007	AWARDS GRANTED	END OF PERFORMANCE PERIOD	NUMBER OF OPTIONS AWARDED	MARKET PRICE OF SHARES AT DATE OF AWARD	CONDITIONS RELATING TO PERFORMANCE
Will Adderley	–	151,304	LTIP	30 June 2009	151,304	227p	EPS
David Stead	–	99,130	LTIP	30 June 2009	99,130	227p	EPS

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

DIRECTOR	TYPE OF OPTION	SHARES UNDER OPTION AT 1 JULY 2006	**SHARES UNDER OPTION AT 30 JUNE 2007**	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	GSOP	–	**–**	–	–	–	–	–	–	–
	Executive	–	**–**	–	–	–	–	–	–	–
	SAYE	–	**–**	–	–	–	–	–	–	–
David Stead	GSOP	69,200	**–**	–	69,200	–	43p	223p	–	–
	Executive	330,800	**–**	–	330,800	–	43p	223p	–	–
	Executive	200,000	**200,000**	–	–	–	46p	–	Sep 2007	Sep 2014
	SAYE	–	**6,176**	6,176	–	–	153p	–	Jan 2010	Jun 2010
Geoff Cooper	Executive	152,200	**–**	–	152,200	–	46p	192p	–	–
Marion Sears	Executive	65,200	**–**	–	65,200	–	46p	192p	–	–

Gains made on exercise of options during the year were: David Stead: £710,076; Geoff Cooper: £222,212; Marion Sears: £95,192.

APPROVAL

This report was approved by the Board of Directors on 19 September 2007 and signed on its behalf by:

Marion Sears

MARION SEARS

CHAIRMAN OF REMUNERATION COMMITTEE

19 September 2007

Directors' report and business review

The Directors present their report together with the audited financial statements for the year ended 30 June 2007. Together with certain information in the reports from the Chief Executive and the Finance Director on pages 2 to 5 above which are incorporated into this report by reference, this report satisfies the requirements of the Companies Act 1985 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 2 to 3.

RESULTS AND DIVIDENDS

The consolidated profit for the year after taxation was £24.6m (2006: £26.2m). The results are discussed in greater detail in the Finance Director's review on pages 4 and 5.

A final dividend of 3.0p per share (2006: nil) is proposed in respect of the year ended 30 June 2007 to add to interim dividends of 25p per share paid on 5 October 2006 and 0.8p per share paid on 25 April 2007 (2006: 3.7p per share). The final dividend will be paid on 30 November to shareholders on the register at 16 November

DIRECTORS

Details of the Directors in office at the year end are set out on page 6. They include Simon Emeny who was appointed to the Board as a Non-Executive Director on 25 June 2007.

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

	AT 30 JUNE 2007 1P ORDINARY SHARES	AT 1 JULY 2006 ORDINARY £1 SHARES*
W Adderley	**83,670,000**	1,750,000
WL Adderley	**50,000,000**	250,000
D Stead	**230,085**	–
G Cooper	**181,611**	–
M Sears	**100,000**	–
S Emeny	**5,000**	–

* The nominal value of ordinary shares was £1 each as at 1 July 2006. These were subdivided into ordinary shares of 1p each on 2 October 2006. The comparative table shown here includes ordinary shares as if they had always been in 1p denominations.

W Adderley's shareholding includes 8,670,000 shares held by his wife (75,000,000 (assuming 1p shares) at 1 July 2006).

There were no changes in the Directors' shareholdings between the year end and 19 September 2007.

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

Geoff Cooper and Bill Adderley are retiring by rotation at the 2007 Annual General Meeting and will be offering themselves for re-election. Simon Emeny, who was appointed by the Board during the year, will be resigning at the Annual General Meeting and will be offering himself for election. Biographical details of these Directors are set out on page 6 and details of their service contracts are in the Remuneration Report on page 11.

SHARE CAPITAL AND SUBSTANTIAL SHAREHOLDERS

The Company has only one class of shares, ordinary shares of 1p each. The ordinary shares of £1 each were sub-divided into ordinary shares of 1p each on 2 October 2006. Outstanding share options were adjusted accordingly.

The issued share capital of the Company has increased during the year due to the exercise of share options by the Directors. Details are set out in the Remuneration Report on page 12.

At 11 September 2007 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
W Adderley	**83,670,000**	**41.7**
WL Adderley	**50,000,000**	**24.9**
AXA S.A.	**10,109,872**	**5.0**
Aegon UK PLC	**7,959,536**	**4.0**

EMPLOYEE INVOLVEMENT

The Group is an equal opportunities employer. It recognises the social and statutory duties to employ disabled persons and pursues a policy of providing, wherever possible, the same employment opportunities to all persons regardless of disability, race, religion, gender, colour, nationality, sex, sexual orientation 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.

DISABLED EMPLOYEES

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.

PAYMENT POLICY AND AVERAGE PAYMENT PERIOD

Whilst it does not follow any published code or standard, the Group's and Company's policy concerning the payment of suppliers is to agree terms of payment at the start of business with each supplier or to ensure the supplier is made aware of the Group's standard payment terms. The number of days' purchases outstanding for payment at 30 June 2007 was 26 days (2006: 26 days).

CORPORATE SOCIAL RESPONSIBILITY

The Group recognises its duty to behave responsibly to all stakeholders. The Board places particular emphasis on the health and safety of customers and employees; on ethical sourcing; on environmental issues; and on charitable contributions.

The Chief Executive is required to report to the Board monthly on health and safety matters. All serious accidents (i.e. those which are reportable under legislation) are investigated and corrective action taken, e.g. additional training, where necessary. The Group's Health and Safety Officer also plays a key role in ensuring that stores and other business premises remain safe places of work for staff, and safe places for customers to visit.

The Group has a firm policy on ethical sourcing which all suppliers are required to sign up to. Independent audits of suppliers' facilities, particularly in the Far East are carried out on a regular basis.

The Group has an Environmental Committee, chaired by the Chief Executive and including a number of senior managers, which reviews the environmental impact of business activities and sets targets for improvement. These cover the following specific areas:

- Increasing the proportion of waste which is recycled.
- Reducing the plastic element of product packaging.
- Reducing fuel consumption per carton delivered to stores.
- Reducing the volume of carrier bags used.
- Reducing energy consumption across all locations.

The Group's charity of the year in the last financial year was The Guide Dogs for the Blind Association. 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. The total value of donations made by the Group in the year ended 30 June 2007 was £32,000 (2006: £59,000). 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.

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 the 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.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on Monday 5 November 2007 at 3.00pm at The Hilton Hotel, Leicester. Special business at the Annual General Meeting will be:

- Requesting authority to issue shares to the value of the lesser of the unissued ordinary share capital of the Company, and one third of the issued ordinary share capital of the Company. At 19 September 2007 the unissued ordinary share capital covered by this authority constituted 66,872,466 ordinary shares, 33.3% of the issued share capital. This authority will lapse at the 2008 Annual General Meeting. The Directors have no present intention to exercise this authority except to issue shares pursuant to the Group's employee share schemes.
- Requesting authority to distribute ordinary shares to the value of £100,308 (10,030,870 ordinary shares), which constitutes 5% of the Company's issued share capital at 30 June 2007, without offering them to existing shareholders. This authority will lapse at the 2008 Annual General Meeting.
- Requesting that the Directors be authorised to buy up to 20,000,000 (approximately 10%) of ordinary 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 that the Company be permitted to supply all documents or information to shareholders by making them available on a website. If this resolution is passed, we will write to shareholders individually asking for their preference, and if they agree to this form of communication or do not reply within 28 days they will receive communications by this method going forward. Shareholders who wish to continue to receive communications in hard copy or who change their mind will be able to do so at no cost. These new arrangements are expected to be more environmentally friendly, save costs and improve communications with shareholders, without prejudicing those shareholders who wish to continue to receive hard copy documents.

The Notice of the Annual General Meeting is set out on pages 48 and 49.

AUDITORS

KPMG Audit Plc offer themselves for reappointment as auditors in accordance with section 385 of the Companies Act 1985.

BY ORDER OF THE BOARD

DAVID STEAD
COMPANY SECRETARY
19 September 2007

Statement of Directors' responsibilities in respect of 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 in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The Group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and the performance of the Group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The parent company financial statements are required by law to give a true and fair view of the state of affairs of the parent company.

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;
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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.

Independent Auditors' report to the members of Dunelm Group plc

We have audited the Group and parent company financial statements (the 'financial statements') of Dunelm Group plc for the 52 week period ended 30 June 2007 which comprise Consolidated Income Statement, the Consolidated and Parent Company Balance Sheets, the Consolidated Cash Flow, the Group Statement of Changes in Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU), and for preparing the parent company financial statements and the Directors' Remuneration Report in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 16.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement, the Chief Executive's Review and the Finance Director's Review that is cross referred from the Business Review section of the Directors' Report. In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

OPINION

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 30 June 2007 and of its profit for the 52 weeks then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the parent company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 30 June 2007;
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG AUDIT PLC
CHARTERED ACCOUNTANTS
Registered Auditor
Leicester
LE1 6LP
19 September 2007

Consolidated income statement

For the 52 weeks ended 30 June 2007

	NOTE	2007 £'000	2006 £'000
Revenue	1	**354,721**	315,187
Cost of sales		**(297,481)**	(264,599)
Gross profit		**57,240**	50,588
Administrative expenses ongoing	3	**(13,247)**	(12,438)
Administrative expenses non-recurring	3	**(3,178)**	–
Total administrative expenses		**(16,425)**	(12,438)
Operating profit		**40,815**	38,150
Analysed as:			
Operating profit before non-recurring items		**43,993**	38,150
Non-recurring items		**(3,178)**	–
Financial income	5	**503**	983
Financial expenses	5	**(3,492)**	(1,094)
Profit before taxation		**37,826**	38,039
Taxation	6	**(13,198)**	(11,839)
Profit for the period		**24,628**	26,200
Earnings per ordinary share – basic	8	**12.3p**	13.1p
Earnings per ordinary share – diluted	8	**12.2p**	13.0p
Dividend proposed per ordinary share	7	**3.0p**	–
Dividend paid per ordinary share	7	**25.8p**	3.7p

All activities relate to continuing operations. All profit is attributable to equity shareholders.

There were no gains or losses for the current or comparative periods other than those reported above.

Consolidated balance sheet

As at 30 June 2007

	NOTE	30 JUNE 2007 £'000	1 JULY 2006 £'000
Non-current assets			
Intangible assets	9	**3,668**	3,665
Property, plant and equipment	10	**67,064**	61,490
Deferred tax asset	12	**3,276**	2,272
Total non-current assets		**74,008**	67,427
Current assets			
Inventories	13	**60,657**	56,345
Trade and other receivables	14	**8,996**	10,024
Cash and cash equivalents	15	**17,368**	2,964
Assets held-for-sale		**–**	5,998
Total current assets		**87,021**	75,331
Total assets		**161,029**	142,758
Current liabilities			
Trade and other payables	16	**(51,464)**	(47,271)
Liability for current tax		**(6,310)**	(6,213)
Interest-bearing loans and borrowings	17	**(21)**	(150)
Provisions	18	**–**	(58)
Total current liabilities		**(57,795)**	(53,692)
Non-current liabilities			
Interest-bearing loans and borrowings	17	**(40,000)**	–
Total non-current liabilities		**(40,000)**	–
Total liabilities		**(97,795)**	(53,692)
Net assets		**63,234**	89,066
Equity			
Issued capital	20	**2,006**	2,000
Share premium		**267**	–
Retained earnings		**60,961**	87,066
Total equity attributable to equity holders of the parent		**63,234**	89,066

The financial statements on pages 18 to 41 were approved by the Board of Directors on 19 September 2007 and were signed on its behalf by:

WILL ADDERLEY
CHIEF EXECUTIVE

Consolidated cash flow statement

For the 52 weeks ended 30 June 2007

	NOTE	30 JUNE 2007 £'000	1 JULY 2006 £'000
Cash flows from operating activities	22	**49,300**	35,118
Interest paid		**(1,536)**	(57)
Interest received		**451**	983
Tax paid		**(13,468)**	(11,910)
Net cash generated from operating activities		**34,747**	24,134
Cash flows from investing activities			
Proceeds on disposal of property, plant and equipment		**7,200**	1
Acquisition of property, plant and equipment		**(14,130)**	(21,256)
Acquisition of intangible assets		**(996)**	(4,176)
Net cash utilised in investing activities		**(7,926)**	(25,431)
Cash flows from financing activities			
Proceeds from issue of share capital		**273**	–
Net funds raised from bank loan		**40,000**	–
Repayment of finance lease liability		**(150)**	(392)
Dividends paid		**(51,605)**	(7,400)
Net cash flows utilised in financing activities		**(11,482)**	(7,792)
Net increase/(decrease) in cash and cash equivalents		**15,339**	(9,089)
Foreign exchange revaluations		**(956)**	–
Cash and cash equivalents at the beginning of the period		**2,964**	12,053
Cash and cash equivalents at the end of the period	15, 23	**17,347**	2,964

Statement of changes in equity

For the 52 weeks ended 30 June 2007

	ISSUED SHARE CAPITAL £'000	SHARE PREMIUM £'000	RETAINED EARNINGS £'000	TOTAL EQUITY £'000
As at 3 July 2005	2,000	–	68,235	70,235
Total recognised income and expense	–	–	26,200	26,200
Share based payments	–	–	31	31
Dividends	–	–	(7,400)	(7,400)
As at 1 July 2006	2,000	–	87,066	89,066

	ISSUED SHARE CAPITAL £'000	SHARE PREMIUM £'000	RETAINED EARNINGS £'000	TOTAL EQUITY £'000
As at 2 July 2006	2,000	–	87,066	89,066
Total recognised income and expense	–	–	24,628	24,628
Issue of share capital	6	267	–	273
Share based payments	–	–	234	234
Deferred tax on share based payments	–	–	327	327
Corporation tax on share options exercised	–	–	311	311
Dividends	–	–	(51,605)	(51,605)
As at 30 June 2007	**2,006**	**267**	**60,961**	**63,234**

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'). The Company has elected to prepare its parent company financial statements in accordance with UK GAAP; these are presented on pages 42 and 43.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements and in preparing an opening IFRS balance sheet at 1 July 2006 for the purposes of the transition to Adopted IFRSs.

Dunelm Group plc ('the Company') and its subsidiary companies have previously prepared consolidated financial statements in accordance with UK Generally Accepted Accounting Practice ('UK GAAP'). Following admission to the London Stock Exchange, in common with all companies listed on European Union (EU) regulated markets, the Group is now required to prepare its financial statements in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRS').

The Group has adopted IFRS 1 from 3 July 2005 (the Group's date of transition to IFRS). IFRS 1 'First Time adoption of IFRS' establishes the transitional requirements for the preparation of financial information in accordance with IFRS for the first time. The general principle is to establish accounting policies under IFRS then to apply these retrospectively at the date of transition to determine the opening balance sheet. IFRS 1 permits a number of first time adoption exemptions, none of which are relevant to the Group.

The annual financial statements are prepared under the historical cost convention. In addition assets classified as held-for-sale are valued at the lower of net book value and fair value less costs to sell. The financial statements are prepared in pounds sterling, rounded to the nearest thousand.

USE OF ESTIMATES AND JUDGEMENTS

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

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

The Directors consider that there are no areas of judgement or uses of estimates which need to be highlighted.

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.

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments comprise forward contracts for foreign currencies. They are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the income statement.

Where a derivative financial instrument is used to hedge economically the foreign exchange exposure of a recognised monetary asset or liability, no hedge accounting is applied.

INTANGIBLE ASSETS

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

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.

LEASED ASSETS

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

DEPRECIATION

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 — 5 years
- leasehold improvements — over the period of the lease

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

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 expenditure incurred in acquiring the inventories and bringing them into the business. Net realisable value is the estimated selling price less cost to sell in the ordinary course of business.

CASH AND CASH EQUIVALENTS

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

ASSETS CLASSIFIED AS HELD-FOR-SALE

A non-current asset is classified as held-for-sale if its carrying amount will be recovered principally through sale rather than through continuing use, it is available for immediate sale and sale is highly probable within one year.

Assets held-for-sale are valued at the lower of net book value and fair value net of costs to sell.

BORROWINGS AND BORROWING COSTS

All loans and borrowings are recognised at fair value. 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.

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.

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 shorter of the full term of the lease and the first break clause that is controlled by the Group.

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.

FINANCE LEASES

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

FINANCING INCOME/EXPENSE

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

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.

IFRIC 8 'Scope of IFRS 2' became mandatory on 1 May 2006 and has been adopted in the Group's 2007 financial statements. The standard addresses accounting for share based payment transactions in which some or all of the goods or services received cannot be specifically identified. Its application has not had a significant impact on the Group accounts.

IFRIC 11 'Group and Treasury Share Transactions' is effective for periods commencing on or after 1 March 2007. This standard has been early adopted in the Group accounts, however its application has not had a significant effect on the Group accounts as it deals with accounting for share-based payments at the subsidiary level.

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

ADOPTED IFRIC AND IFRIC NOT YET APPLIED

The following adopted IFRSs and International Financial Reporting Interpretations Committee ('IFRIC') were available for early application but have not been applied by the Group in these financial statements:

IFRS 7 'Financial Instruments: Disclosure' is applicable for years commencing on or after 1 January 2007. The application of IFRS 7 in 2007 would not have affected the Balance Sheet or Income Statements as the standard is concerned only with disclosures. The Group plans to adopt IFRS 7 in 2008.

IFRIC 10 'Interim Financial Reporting and Impairment' prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the Group's 2008 financial statements, and will apply to goodwill, investments in equity instruments and financial assets carried at cost prospectively from the date that the Group first applied the measurement criteria of IAS 36 and IAS 39 respectively (i.e. 1 July 2006). The adoption is not expected to have any impact on the consolidated financial statements.

Notes to the annual financial statements

1 SEGMENTAL REPORTING

The Group has only one class of business, retail of homewares, and operates entirely in the UK market.

2 OPERATING PROFIT

	2007 £'000	2006 £'000
Operating profit is stated after charging/(crediting) the following items:		
Inventories		
Cost of inventories included in cost of sales	**198,537**	177,798
Write down of inventories	**2,228**	954
Amortisation of intangible assets	**1,742**	511
Depreciation of property, plant and equipment		
Owned	**7,543**	7,615
Leased	**243**	182
Operating lease rentals		
Land and buildings	**16,785**	15,947
Plant and machinery	**1,061**	927
Loss/(profit) on disposal of properties	**(1,130)**	3

The analysis of auditors' remuneration is as follows:

	2007 £'000	2006 £'000
Fees payable to the Company's auditors for the audit of the parent and consolidated annual accounts	**17**	2
Fees payable to the Company's auditors and their associates for other services to the Group		
– the audit of the Company's subsidiaries pursuant to legislation	**58**	57
– tax compliance	**15**	13
– other tax services	**16**	27
– corporate finance transaction services	**416**	–
– all other services	**18**	15

3 ADMINISTRATIVE EXPENSES

	2007 £'000	2006 £'000
Ongoing	**13,247**	12,438
Non-recurring		
IPO	**2,997**	–
Warehouse transition	**1,297**	–
Profit on sale of former warehouse	**(1,116)**	–
	16,425	12,438

Administrative expenses relate to central support functions and do not include any selling or distribution expenses.

Non-recurring expenses have been specifically identified because of their non-recurring nature within the business. The Group believes that this categorisation aids the understanding of the underlying results of the business.

4 EMPLOYEE NUMBERS AND COSTS

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

	2007 NUMBER OF HEADS	2007 FULL TIME EQUIVALENTS	2006 NUMBER OF HEADS	2006 FULL TIME EQUIVALENTS
Selling	**4,808**	**3,198**	4,781	3,174
Distribution	**213**	**206**	120	120
Administration	**142**	**139**	115	112
	5,163	**3,543**	5,016	3,406

The aggregate remuneration of all employees including Directors comprises:

	2007 £'000	2006 £'000
Wages and salaries including bonuses and termination benefits	**42,323**	37,941
Social security costs	**2,766**	2,202
Share-based payment expense (note 21)	**234**	31
Defined contribution pension costs	**114**	74
	45,437	40,248

Details of Directors' remuneration, share options, long-term incentive schemes and pension entitlements are disclosed in the Directors' Remuneration Report on pages 10 to 12.

5 FINANCIAL INCOME AND EXPENSE

	2007 £'000	2006 £'000
Finance income		
Interest on bank deposits	**503**	791
Realised foreign exchange gains	**–**	192
	503	983
Finance expenses		
Bank borrowings and overdraft	**(2,113)**	(57)
Foreign exchange losses	**(1,379)**	(1,037)
	(3,492)	(1,094)
Net finance expense	**(2,989)**	(111)

6 TAXATION

	2007 £'000	2006 £'000
Current taxation		
UK corporation tax charge for the period	**12,957**	12,306
Adjustments in respect of prior periods	**918**	(75)
	13,875	12,231
Deferred taxation		
Origination of timing differences	**26**	(345)
Adjustment in respect of prior periods	**(914)**	(47)
Tax rate differential	**211**	–
	(677)	(392)
Total taxation expense in the income statement	**13,198**	11,839

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

	2007 £'000	2006 £'000
Profit before tax	**37,826**	38,039
UK corporation tax at standard rate of 30% (2006: 30%)	**11,348**	11,412
Factors affecting the charge in the period:		
Non-deductible expenses	**953**	35
Ineligible depreciation	**845**	821
Lease incentive deductions	**(184)**	(307)
Adjustments to tax charge in respect of prior years	**4**	(122)
Profit on disposal in excess of capital gain	**21**	–
Tax rate differential	**211**	–
	13,198	11,839

The taxation charge for the period as a percentage of profit before tax is 34.9%. This is affected by the IPO costs, which are non-deductible for corporation tax purposes; and by the recalculation of the deferred tax asset to reflect the future corporation tax rate of 28%. Excluding these factors, the effective tax rate would have been 31.8% for the year.

7 DIVIDENDS

All dividends relate to the 1p ordinary shares.

	2007 £'000	2006 £'000
Interim for the period ended 30 June 2007 – paid 25p	**(50,000)**	–
Interim for the period ended 30 June 2007 – paid 0.8p	**(1,605)**	–
Interim for the period ended 1 July 2006 – paid 3.7p	**–**	(7,400)
	(51,605)	(7,400)

The Directors are proposing a final dividend of 3.0p per ordinary share for the period ended 30 June 2007 which equates to £6.0 million. The dividend will be paid on 30 November 2007 to shareholders on the register at the close of business on 16 November 2007.

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 30 JUNE 2007 £'000	52 WEEKS ENDED 1 JULY 2006 £'000
Weighted average number of shares in issue during the period	**200,363**	200,000
Impact of share options	**2,324**	1,508
Number of shares for diluted earnings per share	**202,687**	201,508

In addition to standard earnings per share, an underlying earnings per share calculation is provided below which excludes non-recurring costs and income (net of tax). The earnings used for the standard and underlying calculations, together with the resultant earnings per share, are shown below:

	52 WEEKS ENDED 30 JUNE 2007 £'000	52 WEEKS ENDED 1 JULY 2006 £'000
Profit for the period	**24,628**	26,200
Non-recurring items (net of tax)	**3,109**	–
Profit for the period excluding non-recurring items	**27,737**	26,200
Basic earnings per share – standard	**12.3p**	13.1p
Basic earnings per share – underlying	**13.8p**	13.1p
Fully diluted earnings per share – standard	**12.2p**	13.0p
Fully diluted earnings per share – underlying	**13.7p**	13.0p

9 INTANGIBLE ASSETS

	SOFTWARE DEVELOPMENT AND LICENCES £'000
Cost	
At 2 July 2006	4,176
Additions	996
Transfers from tangible fixed assets	749
At 30 June 2007	**5,921**
Amortisation	
At 2 July 2006	511
Charge for financial period	1,742
At 30 June 2007	**2,253**
Net book value	
At 2 July 2006	3,665
At 30 June 2007	**3,668**

9 INTANGIBLE ASSETS CONTINUED

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

	SOFTWARE DEVELOPMENT AND LICENCES £'000
Cost	
At 3 July 2005	–
Additions	4,176
At 1 July 2006	4,176
Amortisation	
At 3 July 2005	–
Charge for financial period	511
At 1 July 2006	511
Net book value	
At 3 July 2005	–
At 1 July 2006	3,665

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 2 July 2006	29,421	28,188	52	281	24,770	82,712
Additions	7,082	4,846	35	–	2,167	14,130
Transfers to intangible assets	–	11	–	–	(760)	(749)
Disposals	–	(10)	–	(160)	(17)	(187)
At 30 June 2007	**36,503**	**33,035**	**87**	**121**	**26,160**	**95,906**
Depreciation						
At 2 July 2006	1,170	4,804	13	281	14,954	21,222
Charge for financial period	483	2,307	16	–	4,980	7,786
On disposals	19	(10)	–	(160)	(15)	(166)
At 30 June 2007	**1,672**	**7,101**	**29**	**121**	**19,919**	**28,842**
Net book value						
At 2 July 2006	28,251	23,384	39	–	9,816	61,490
At 30 June 2007	**34,831**	**25,934**	**58**	**–**	**6,241**	**67,064**
Cost						
At 3 July 2005	24,939	21,737	49	447	21,249	68,421
Additions	10,780	6,464	3	–	4,004	21,251
Transfers to assets held for re-sale	(6,298)	–	–	–	(483)	(6,781)
Disposals	–	(13)	–	(166)	–	(179)
At 1 July 2006	29,421	28,188	52	281	24,770	82,712
Depreciation						
At 3 July 2005	1,184	2,899	–	418	9,870	14,371
Charge for financial period	386	1,905	13	27	5,466	7,797
Transfers to assets held for re-sale	(400)	–	–	–	(382)	(782)
On disposals	–	–	–	(164)	–	(164)
At 1 July 2006	1,170	4,804	13	281	14,954	21,222
Net book value						
At 3 July 2005	23,755	18,838	49	29	11,379	54,050
At 1 July 2006	28,251	23,384	39	–	9,816	61,490

10 PROPERTY, PLANT AND EQUIPMENT CONTINUED

Included in the total net book value of fixtures and fittings is £nil (2006: £236,000) in respect of assets held under hire purchase contracts. Depreciation for the year on these assets was £236,000 (2006: £174,000).

Included in the net book value of motor vehicles is £nil (2006: £7,000) in respect of assets held under hire purchase contracts. Depreciation for the year on these assets was £7,000 (2006: £8,000).

11 ASSETS HELD FOR SALE

	2007 £'000	2006 £'000
Assets held for sale	**–**	5,998

The Group's former distribution centre at Burton on Trent was reclassified to assets held for re-sale at 1 July 2006 because it was being actively marketed at that time. The sale of the property completed during the year ended 30 June 2007 and realised a gain of £1,116,000.

12 DEFERRED TAX

Deferred tax is calculated in full on temporary differences under the liability method using a taxation rate of 28% (2006: 30%).

Deferred taxation assets and liabilities are attributable to the following:

	ASSETS		LIABILITIES		NET	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Property, plant and equipment	**–**	–	**(547)**	(543)	**(547)**	(543)
Other timing differences	**3,441**	2,815	**–**	–	**3,441**	2,815
Share based payments	**382**	–	**–**	–	**382**	–
	3,823	2,815	**(547)**	(543)	**3,276**	2,272

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

	2007 £'000	2006 £'000
Asset at 2 July 2006/3 July 2005	**2,272**	1,879
Income statement credit	**677**	393
Recognised directly in reserves	**327**	–
Asset at 30 June 2007/1 July 2006	**3,276**	2,272

A number of changes to the UK corporation tax system have been enacted in the Finance Act 2007 and the effect is to reduce the deferred tax asset recognised as at 30 June 2007 by £234,000. The decrease in deferred tax is due to the reduction in the standard corporation tax rate from 30% to 28% from 1 April 2008.

13 INVENTORIES

	2007 £'000	2006 £'000
Goods for resale	**60,657**	56,345

14 TRADE AND OTHER RECEIVABLES

	2007 £'000	2006 £'000
Trade receivables	**169**	68
Other receivables	**2,232**	2,564
Prepayments and accrued income	**6,595**	7,392
	8,996	10,024

Notes to the annual financial statements continued

15 CASH AND CASH EQUIVALENTS

	2007 £'000	2006 £'000
Cash at bank and in hand	**17,347**	2,964

Cash and cash equivalents include the following for the purpose of the cash flow statement:		
Cash at bank and in hand	**17,368**	2,964
Bank overdraft	**(21)**	–
	17,347	2,964

16 TRADE AND OTHER PAYABLES

	2007 £'000	2006 £'000
Trade payables	**22,354**	24,352
Accruals and deferred income	**22,510**	20,068
Other taxation and social security	**6,468**	1,895
Foreign currency derivatives	**–**	862
Other creditors	**132**	94
	51,464	47,271

17 INTEREST BEARING LOANS AND BORROWINGS

	2007 £'000	2006 £'000
Bank overdraft	**21**	–
Finance lease liabilities	**–**	150
Bank loan	**40,000**	–
	40,021	150

The Group has a £3m bank overdraft facility which is repayable on demand.

On 26 September 2006 the Group entered into a £50m revolving credit facility which is repayable in full on 26 September 2010. The facility is sub-divided into two elements: a £40m facility and a £10m facility. The £40m facility was fully drawn down as at 30 June 2007 whilst the £10m facility was not utilised at that date.

Interest is payable on the £40m at the rate of LIBOR plus 0.35% and on the £10m at a rate of LIBOR plus 0.45%.

The facility is guaranteed by the parent company and its subsidiaries.

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:

	2007 TOTAL £'000	2007 FLOATING RATE £'000	2007 FIXED RATE £'000	EFFECTIVE INTEREST RATE %	2006 TOTAL £'000	2006 FLOATING RATE £'000	2006 FIXED RATE £'000	EFFECTIVE INTEREST RATE %
Revolving bank loan	**40,000**	**–**	**40,000**	**5.86**	–	–	–	–
Overdraft	**21**	**21**	**–**	**6.04**	–	–	–	–
Finance lease liabilities	**–**	**–**	**–**	**–**	150	–	150	10.17
	40,021	**21**	**40,000**	**5.86**	150	–	150	10.17

All liabilities are denominated in sterling.

The floating rate on the overdraft is linked to Bank of England 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.

The fixed rate of interest on the bank loan varies between 5.70% and 6.31% because the rate is linked to LIBOR plus a margin of 0.35% and tranches of the loan were drawn down at different times therefore fixed to different LIBOR rates.

17 INTEREST BEARING LOANS AND BORROWINGS CONTINUED

Financial assets consist of £17,368,000 (2006: £2,964,000) cash at bank; any interest earned is at normal commercial rates.

The finance lease liability existing at 1 July 2006 was all due within one year. The Group considers there to be no material differences between the fair value of the finance leases and their carrying value.

18 PROVISIONS

The provision of £58,000 brought forward at 2 July 2006 related to one onerous lease held by Dunelm (Soft Furnishings) Limited. The provision was fully utilised during the year and the lease expired in June 2007.

19 FINANCIAL INSTRUMENTS AND RISK

INTEREST RATE RISK

The Group's bank borrowings incur variable interest rate charges linked to LIBOR. The Directors do not consider that future changes in interest rates are likely to cause a material direct impact on profitability, as explained in the Finance Director's Report on page 5.

FOREIGN CURRENCY RISK

The Group is exposed to foreign currency risk on purchases denominated in US dollars. These amounted to approximately 7% of the total purchases in the year ended 30 June 2007.

In previous years the Group has protected itself from future foreign exchange fluctuations through a combination of forward currency contracts and holding actual dollar balances. As at 30 June 2007 the Group had no outstanding foreign currency contracts but held dollar balances of $22 million, expected to cover the majority of dollar purchases in the next financial year. For the future it is the Group's intention to purchase foreign currency at spot rates as and when required for actual foreign currency payments.

EMBEDDED DERIVATIVES

The Group has four property leases under which rent reviews are subject to a cap.

FAIR VALUES

Most financial assets and liabilities are included in the balance sheet at their fair value. Generally this is equivalent to the carrying value although the fair value of forward exchange contracts held at 1 July 2006 was assessed based on listed market prices.

Finance lease liabilities are included in the balance sheet at carrying amount. The Group considers there to be no material differences between the fair value of the finance leases and their carrying value.

Cash and borrowings are carried at amortised cost. There is no material difference between fair value and amortised cost.

20 SHARE CAPITAL

	NUMBER OF ORDINARY SHARES OF 1P EACH (2006: £1) 2007	2006
In issue at the start of the period	**200,000,000**	2,000,000
Issued during the period in respect of share option schemes	**617,400**	–
In issue at the end of the period	**200,617,400**	2,000,000

Proceeds received in relation to shares issued during the period were £273,404 (2006: £nil).

	2007 NUMBER OF SHARES	2007 £'000	2006 NUMBER OF SHARES	2006 £'000
Ordinary shares of 1p each (2006: £1):				
Authorised	**500,000,000**	**5,000**	5,000,000	5,000
Allotted, called up and fully paid	**200,617,400**	**2,006**	2,000,000	2,000

On 2 October 2006 the Company's share capital was sub-divided from 2,000,000 £1 ordinary shares in issue to 200,000,000 1p ordinary shares. Outstanding share options were adjusted correspondingly.

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

For the purpose of the annual financial statements, all calculations of earnings per share and all dividends are expressed as if the new share denomination had always been in place.

21 SHARE BASED PAYMENTS

As at 30 June 2007, 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 no exercisable options as at 30 June 2007.

a DUNELM GROUP SHARE OPTION PLAN

The GSOP was established in December 2003. Options have a vesting period of three years from date of grant and a maximum life of ten years. All options granted prior to IPO have an exercise price equal to the market value as agreed with HMRC at date of grant; 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	SEPTEMBER 2005
Fair value at measurement date	7.00p	6.25p
Share price	n/a	n/a
Exercise price	62.10p	57.00p
Expected volatility (weighted average volatility used in modelling – based on historical volatility of comparable quoted companies)	35.0%	35.0%
Option life (weighted average life used in modelling)	3 years	3 years
Expected dividends	8.7%	8.7%
Risk-free interest rate	4.8%	4.8%

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

	WEIGHTED AVERAGE EXERCISE PRICE 2007	**NUMBER OF SHARES UNDER OPTION 2007**	WEIGHTED AVERAGE EXERCISE PRICE 2006	NUMBER OF SHARES UNDER OPTION 2006
Outstanding at beginning of year	**46.13**	**1,507,700**	45.24	1,393,700
Granted during year	**62.10**	**225,400**	57.00	359,600
Forfeited during year	**57.00**	**(87,700)**	57.00	(245,600)
Exercised during year	**44.28**	**(617,400)**	–	–
Outstanding at end of year	**49.81**	**1,028,000**	46.13	1,507,700

b DUNELM GROUP SAVINGS RELATED SHARE OPTION PLAN

The Sharesave scheme was established at the time of IPO and is open to all staff with eligible length of service. One grant has been made under the scheme, in November 2006. Options may be exercised under the scheme on completion of the three year savings contract. There is provision for early exercise in certain circumstances such as death, disability, redundancy and retirement.

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

	NOVEMBER 2006
Fair value at measurement date	69.06p
Share price	202.00p
Exercise price	153.00p
Expected volatility (weighted average volatility used in modelling – based on historical volatility of comparable quoted companies)	30.0%
Option life (weighted average life used in modelling)	3.5 years
Expected dividends	2.5%
Risk-free interest rate	4.8%

The total number of options outstanding under the Sharesave at 30 June 2007 was 1,045,846.

21 SHARE BASED PAYMENTS CONTINUED

c LONG-TERM INCENTIVE PLAN

The LTIP was approved by the Board prior to IPO enabling the Group to award shares to particular individuals, normally in the form of nominal cost options and subject to performance conditions. The LTIP is administered by the Remuneration Committee. One grant has been made to date, to the Executive Directors only, and is exercisable in September 2009 depending on the level of growth in Group EPS relative to RPI.

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:

Share price at date of grant	229.00p
Discount factor, based on dividend yield of 3.0% to vesting date	0.913
Fair value of option	209.00p

The total number of options outstanding under the LTIP at 30 June 2007 was 250,434.

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

	2007 £'000	2006 £'000
Group Share Option Plan	**28**	31
Sharesave	**136**	–
LTIP	**70**	–
Total	**234**	31

22 CASH FLOWS FROM OPERATING ACTIVITIES

	2007 £'000	2006 £'000
Profit before tax	**37,826**	38,039
Adjusted for:		
Net financing costs	**2,989**	111
Operating profit	**40,815**	38,150
Depreciation and amortisation	**9,529**	8,325
Loss/(profit) on disposal of property, plant and equipment	**(1,130)**	3
Operating cash flows before movements in working capital	**49,214**	46,478
(Increase) in inventories	**(4,312)**	(11,224)
(Increase)/decrease in debtors	**1,028**	(2,636)
Increase in creditors	**4,480**	2,523
Net movement in working capital	**1,196**	(11,337)
(Decrease) in provisions	**(58)**	(54)
Share based payments expense	**234**	31
Foreign exchange losses	**(1,286)**	–
Cash flows from operating activities	**49,300**	35,118

Notes to the annual financial statements continued

23 ANALYSIS OF MOVEMENT IN NET DEBT

IAS 7 'Cash Flow Statements' does not require the disclosure of a net debt reconciliation. The Group has shown this reconciliation to assist in the interpretation of the financial statements. Net debt is defined as cash at bank less loan and overdraft balances.

	AT 2 JULY 2006 £'000	CASH FLOW £'000	OTHER NON CASH CHANGES £'000	**AT 30 JUNE 2007 £'000**
Cash at bank and in hand	2,964	14,404	–	**17,368**
Bank overdrafts	–	(21)	–	**(21)**
	2,964	14,383	–	**17,347**
Debt due within one year	(150)	150	–	**–**
Debt due after one year	–	(40,000)	–	**(40,000)**
Net debt	2,814	(25,467)	–	**(22,653)**

24 COMMITMENTS

As at 30 June 2007 the Group had entered into capital contracts amounting to £7.2 million. The equivalent figure as at 1 July 2006 was £1.4 million.

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

	2007 MOTOR VEHICLES £'000	**2007 LAND AND BUILDINGS £'000**	**2007 PLANT AND MACHINERY £'000**	2006 MOTOR VEHICLES £'000	2006 LAND AND BUILDINGS £'000	2006 PLANT AND MACHINERY £'000
Within one year	**216**	**18,799**	**216**	260	17,423	82
In the second to fifth year inclusive	**78**	**71,092**	**454**	294	65,861	195
After five years	**–**	**107,966**	**–**	–	114,184	1
	294	**197,857**	**670**	554	197,468	278

The Group has 72 operating leases in respect of properties. These leases run for periods of up to 21 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.

25 CONTINGENT LIABILITIES

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

26 RELATED PARTIES

The Group has a related party relationship with its subsidiaries and with its Directors and executive officers.

Directors of the Company and their immediate relatives control 66.9% of the voting shares of the Company.

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.

Disclosures relating to the Group Board are set out in the Remuneration Report on pages 10 to 12. The remuneration of the key management personnel (executive team excluding Group Directors) of the Group is set out below:

	2007 £'000	2006 £'000
Salaries and other short term benefits	**801**	584
Post employment benefits	**11**	12
Share based payments	**16**	8
	828	604

26 RELATED PARTIES CONTINUED

From time to time the Group makes purchases on behalf of Bill Adderley and sells cars 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 is as below:

	2007 £'000	2006 £'000
Inventory purchases	**13**	6

All cars sold to Bill Adderley during the period were fully depreciated; proceeds of £3,000 were received.

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 are trivial or domestic in nature.

All transactions were at arm's length.

27 SHARES IN SUBSIDIARIES

The Company's principal operating subsidiaries are:

Dunelm (Soft Furnishings) Limited
Dunelm Estates Limited

Both companies are registered and incorporated in the UK and are 100% owned and controlled by Dunelm Group plc.

28 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.

29 SUBSEQUENT EVENTS

There are no material post balance sheet events.

30 EXPLANATION OF TRANSITION TO IFRS

INTRODUCTION

This is the first year that the Group has presented its financial statements under IFRS.

The accounting policies set out on pages 22 to 25 have been applied in preparing the financial statements for the year ended 30 June 2007, the comparative information presented in these financial statements for the year ended 1 July 2006 and in the preparation of the opening balance sheet at 3 July 2005 (the transition date).

In preparing its opening balance sheet, the Group has adjusted amounts previously reported in financial statements prepared in accordance with UK GAAP. An explanation of how the transition from UK GAAP to IFRS has affected the Group's financial position, financial performance and cash flows is set out in the following tables and notes.

In summary the impact of adopting IFRS on the accounts for the year ended 30 June 2007 is as follows:

IMPACT ON INCOME STATEMENT	£'000
UK GAAP profit before taxation	**37,788**
Lease incentives: change in the period over which the benefit is recognised	(824)
Fair value of derivatives in relation to foreign exchange contracts	862
IFRS profit before tax	**37,826**
Taxation	(13,198)
IFRS profit after tax	**24,628**

IMPACT ON NET ASSETS	£'000
UK GAAP net assets	70,017
Lease incentives: change in the period over which the benefit is recognised	(9,414)
Deferred tax	2,631
IFRS net assets	**63,234**

30 EXPLANATION OF TRANSITION TO IFRS CONTINUED

EXPLANATIONS OF SIGNIFICANT DIFFERENCES BETWEEN UK GAAP AND IFRS WHICH AFFECT THE GROUP

The most significant changes in the Group's accounting policies and presentation as a result of the adoption of IFRS are set out below:

a LEASES (IAS 17)

Under UK GAAP, operating lease incentives (principally premiums received and rent free periods) were recognised in the profit and loss account over the period to the first rent review. In accordance with IAS 17, lease incentives are now recognised in the income statement over the shorter of the full term of the lease and the first break clause that is controlled by the Company. As a result there will be a reduction in reported profits and an increase in liabilities (deferred income).

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.

b SHARE-BASED PAYMENTS (IFRS 2)

Under IFRS 2, the charge recognised in the income statement for share options, long-term incentive plans and other share-based payments will be based on the 'fair value' of the awards, calculated using an option pricing model. This contrasts to UK GAAP, where the charge recognised was based on the 'intrinsic value' of awards, being the difference between the market value of the shares at the date of the award and the option exercise price. Since this was typically nil the UK GAAP charge was nil.

The Group has applied the fair value model to all grants of equity instruments that had not vested as at 3 July 2005.

For equity-settled share-based payments, the fair value determined at the date of grant is expensed through the income statement on a straight-line basis over the vesting period, based on the Group's estimate of the number of shares that will eventually vest. Fair value is measured by use of a binomial model.

c CASH FLOW STATEMENTS (IAS 7)

Under Adopted IFRS, cash flows are classified by three types of activity; operating, investing and financing. Cash includes cash equivalents but this has not had an impact on the Group's reported results. These headings are different to those used under UK GAAP and there are therefore reclassifications within the cash flow statement.

d FINANCIAL INSTRUMENTS, RECOGNITION AND MEASUREMENT (IAS 39)

Under Adopted IFRS foreign exchange forward contracts are recognised at their initial fair value and subsequently re-measured to fair value at future balance sheet dates. Changes in fair value are taken to the income statement in the period in which they arise. This differs to UK GAAP where no values were attributed to the contracts. Therefore under Adopted IFRS where an asset is recognised, profit will be increased and where a liability is recognised profit will be reduced.

e INCOME TAX (IAS 12)

IAS 12 takes a balance sheet approach to deferred tax whereby deferred tax is recognised in the balance sheet by applying the appropriate tax rate to the temporary differences arising between the carrying value of assets and liabilities and their tax base. This contrasts to UK GAAP (FRS 19), which considers timing differences arising in the profit and loss account. Adjustments made to the financial statements on the transition to Adopted IFRS typically result in related adjustments to deferred tax, particularly with regard to lease incentives.

In accordance with IAS 12, deferred tax assets and liabilities have been netted off within the balance sheet.

f FOREIGN EXCHANGE DISCLOSURES

Presentation adjustments have been made for foreign exchange gains and losses which were previously recognised in cost of sales under UK GAAP but which may be classified as financial income/expenses under Adopted IFRS.

30 EXPLANATION OF TRANSITION TO IFRS CONTINUED

RECONCILIATION BETWEEN UK GAAP AND IFRS FIGURES

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 1 JULY 2006

	AS PREVIOUSLY REPORTED UNDER UK GAAP £'000	FIXED RENT REVIEWS £'000	PROPERTY LEASE INCENTIVES £'000	FORWARD EXCHANGE CONTRACTS £'000	SHARE BASED PAYMENTS £'000	OTHER £'000	IFRS £'000
Revenue	**315,187**	**–**		**–**	**–**	**–**	**315,187**
Cost of sales	(263,543)	(170)	(694)	–	–	(192)	(264,599)
Gross profit	**51,644**	**(170)**	**(694)**	**–**	**–**	**(192)**	**50,588**
Administrative expenses	(12,407)	–	–	–	(31)	–	(12,438)
Other operating income	–	–	–	–	–	–	–
Operating profit	**39,237**	**(170)**	**(694)**	**–**	**(31)**	**(192)**	**38,150**
Financial income	790	–	–	(174)	–	192	808
Financial expenses	(57)	–	–	(862)	–	–	(919)
Profit before tax	**39,970**	**(170)**	**(694)**	**(1,036)**	**(31)**	**–**	**38,039**
Taxation	(12,411)	51	209	312	–	–	(11,839)
Profit for the period	**27,559**	**(119)**	**(485)**	**(724)**	**(31)**	**–**	**26,200**

30 EXPLANATION OF TRANSITION TO IFRS CONTINUED

RECONCILIATION BETWEEN UK GAAP AND IFRS FIGURES

CONSOLIDATED BALANCE SHEET
AS AT 1 JULY 2006

	AS PREVIOUSLY REPORTED UNDER UK GAAP £'000	FIXED RENT REVIEWS £'000	PROPERTY LEASE INCENTIVES £'000	FORWARD EXCHANGE CONTRACTS £'000	SHARE BASED PAYMENTS £'000	OTHER £'000	IFRS £'000
Non-current assets							
Intangible assets	3,665	–	–	–	–	–	3,665
Property, plant and equipment	61,490	–	–	–	–	–	61,490
Deferred tax – net	–	199	2,378	259	–	(564)	2,272
Total non-current assets	**65,155**	**199**	**2,378**	**259**	**–**	**(564)**	**67,427**
Current assets							
Inventories	56,345	–	–	–	–	–	56,345
Trade and other receivables	10,024	–	–	–	–	–	10,024
Cash and cash equivalents	2,964	–	–	–	–	–	2,964
Assets held-for-sale	5,998	–	–	–	–	–	5,998
Total current assets	**75,331**	**–**	**–**	**–**	**–**	**–**	**75,331**
Total assets	**140,486**	**199**	**2,378**	**259**	**–**	**(564)**	**142,758**
Current liabilities							
Interest bearing loans and borrowings	(150)	–	–	–	–	–	(150)
Liability for current tax	(6,213)	–	–	–	–	–	(6,213)
Trade and other payables	(37,822)	(662)	(7,925)	(862)	–	–	(47,271)
Provisions	(58)	–	–	–	–	–	(58)
Total current liabilities	**(44,243)**	**(662)**	**(7,925)**	**(862)**	**–**	**–**	**(53,692)**
Non-current liabilities							
Interest bearing loans and borrowings	–	–	–	–	–	–	–
Deferred tax liabilities	(543)	–	–	–	–	543	–
Total non-current liabilities	**(543)**	**–**	**–**	**–**	**–**	**543**	**–**
Total liabilities	**(44,786)**	**(662)**	**(7,925)**	**(862)**	**–**	**543**	**(53,692)**
Net assets	**95,700**	**(463)**	**(5,547)**	**(603)**	**–**	**(21)**	**89,066**
Equity							
Issued capital	2,000	–	–	–	–	–	2,000
Retained earnings	93,700	(463)	(5,547)	(603)	–	(21)	87,066
Total equity attributable to equity holders of the parent	**95,700**	**(463)**	**(5,547)**	**(603)**	**–**	**(21)**	**89,066**

30 EXPLANATION OF TRANSITION TO IFRS CONTINUED

RECONCILIATION BETWEEN UK GAAP AND IFRS FIGURES

CONSOLIDATED BALANCE SHEET
AS AT 3 JULY 2005

	AS PREVIOUSLY REPORTED UNDER UK GAAP £'000	FIXED RENT REVIEWS £'000	PROPERTY LEASE INCENTIVES £'000	FORWARD EXCHANGE CONTRACTS £'000	SHARE BASED PAYMENTS £'000	OTHER £'000	IFRS £'000
Non-current assets							
Intangible assets	–	–	–	–	–	–	–
Property, plant and equipment	54,050	–	–	–	–	–	54,050
Deferred tax – net	–	148	2,171	(53)	–	(387)	1,879
Total non-current assets	**54,050**	**148**	**2,171**	**(53)**	**–**	**(387)**	**55,929**
Current assets							
Inventories	45,121	–	–	–	–	–	45,121
Trade and other receivables	7,388	–	–	175	–	–	7,563
Cash and cash equivalents	12,053	–	–	–	–	–	12,053
Assets held-for-sale	–	–	–	–	–	–	–
Total current assets	**64,562**	**–**	**–**	**175**	**–**	**–**	**64,737**
Total assets	**118,612**	**148**	**2,171**	**122**	**–**	**(387)**	**120,666**
Current liabilities							
Interest bearing loans and borrowings	(469)	–	–	–	–	–	(469)
Liability for income tax	(5,889)	–	–	–	–	–	(5,889)
Trade and other payables	(36,130)	(492)	(7,234)	–	–	–	(43,856)
Provisions	(144)	–	–	–	–	–	(144)
Total current liabilities	**(42,632)**	**(492)**	**(7,234)**	**–**	**–**	**–**	**(50,358)**
Non-current liabilities							
Interest bearing loans and borrowings	(73)	–	–	–	–	–	(73)
Deferred tax liabilities	(366)	–	–	–	–	366	–
Total non-current liabilities	**(439)**	**–**	**–**	**–**	**–**	**366**	**(73)**
Total liabilities	**(43,071)**	**(492)**	**(7,234)**	**–**	**–**	**366**	**(50,431)**
Net assets	**75,541**	**(344)**	**(5,063)**	**122**	**–**	**(21)**	**70,235**
Equity							
Issued capital	2,000	–	–	–	–	–	2,000
Retained earnings	73,541	(344)	(5,063)	122	–	(21)	68,235
Total equity attributable to equity holders of the parent	**75,541**	**(344)**	**(5,063)**	**122**	**–**	**(21)**	**70,235**

Parent company accounts under UK GAAP
Balance Sheet
As at 30 June 2007

	NOTE	2007 £'000	RESTATED 2006 £'000
Fixed assets			
Investment in subsidiary	4	**2,163**	2,008
		2,163	2,008
Current assets			
Deferred tax	5	**23**	12
Debtors	6	**85,800**	78,906
		85,823	78,918
Creditors: amounts falling due within one year	7	**(713)**	(526)
Net current assets		**85,110**	78,392
Total assets less current liabilities		**87,273**	80,400
Creditors: amounts falling due after more than one year	8	**(40,000)**	–
Net assets		**47,273**	80,400
Capital and reserves			
Called up share capital	9,10	**2,006**	2,000
Share premium account	9,10	**267**	–
Profit and loss account	10	**44,837**	78,392
Non distributable reserves	10	**163**	8
Equity shareholders' funds	10	**47,273**	80,400

The financial statements on pages 42 to 47 were approved by the Board of Directors on 19 September 2007 and were signed on its behalf by:

DAVID STEAD
DIRECTOR
19 September 2007

Accounting policies – parent company accounts

BASIS OF PREPARATION
The Company has elected to prepare its financial statements under UK GAAP.

The accounts of the Company are prepared under the historical cost convention, in accordance with the Companies Act 1985, applicable accounting standards and specifically in accordance with the accounting policies set out below.

A consolidated cash flow statement has been included in the Dunelm Group plc consolidated accounts. The Company has therefore taken advantage of the exemption under FRS 1 'Cash Flow Statements' not to produce a cash flow.

CHANGES IN ACCOUNTING POLICIES
The following accounting policies have been applied consistently in dealing with items which are considered to be material in relation to the Company's financial statements, except as noted below.

In these financial statements the new standard FRS 20 'Share-based Payments' has been adopted for the first time.

The accounting policy under this new standard is set out below together with an indication of the effect of its adoption. The corresponding amounts in these financial statements have been restated in accordance with the new policy.

The effect of adopting this policy is to reduce the 2007 operating profits by £79,000 (2006: £23,000) and to reduce the taxation charge by £11,000 (2006: £12,000) thus reducing 2007 profit after tax by £68,000 (2006: £11,000). The impact on the balance sheet is to increase the net assets at 30 June 2007 by £11,000 (2006: £12,000).

UITF 41 'Scope of FRS 20 Share Based Payments' became mandatory on 1 May 2006 and has been adopted in the Company's 2007 financial statements. The standard addresses accounting for share based payment transactions in which some or all of the goods or services received cannot be specifically identified. As the Company has granted options over its own shares to employees of its subsidiaries, and the subsidiaries receive employee services with no consideration payable, the Company has recognised an increase in cost of investment equal to the value of the share based payment expense arising in the accounts of its subsidiaries. The impact on the balance sheet of adopting this policy was to increase net assets by £155,000 in 2007 (2006: £8,000).

UITF 44 'Group and Treasury Share Transactions' is effective for periods commencing on or after 1 March 2007. It deals with accounting for share based payments at the subsidiary level. This standard has been adopted early in the Company financial statements and requires the subsidiary to account for the transactions as equity settled as the parent is granting the shares to the employees of the subsidiary. The impact on the balance sheet of adopting this policy was nil.

INVESTMENTS
Investments in subsidiary undertakings are stated at the cost of the investment.

EQUITY DIVIDENDS
Equity dividends are recognised in the Company's financial statements in the period in which the dividends are approved by the shareholders. Interim equity dividends are recognised in the period in which they are paid.

SHARE BASED PAYMENTS
The Company issues equity settled share-based payments to certain employees and directors.

As permitted by FRS 20 the Company has applied the requirements of this standard to all share-based payment awards granted after 7 November 2002.

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

TAXATION
Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account 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 taxation has been recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more tax in the future, or a right to pay less tax in the future.

An asset is not recognised to the extent that the transfer of economic benefit in the future is not certain. Deferred tax has not been discounted.

Notes to the parent company accounts

1 PROFIT AND LOSS ACCOUNT
The Company made a profit before dividends payable of £17,970,000 (2006: £40,914,000). The Directors have taken advantage of the exemption available under section 230 Companies Act 1985 and have not presented a profit and loss account for the Company alone.

2 EMPLOYEE COSTS
The Company has no employees other than the two Directors. Full details of the Directors' remuneration and interest are set out in the Directors' Remuneration Report on pages 10 to 12.

3 DIVIDENDS

	2007 £'000	2006 £'000
Equity – 1p ordinary		
Interim for the period ended 30 June 2007 – paid 25p	**(50,000)**	–
Interim for the period ended 30 June 2007 – paid 0.8p	**(1,605)**	–
Final for the period ended 1 July 2006 – paid 3.7p	**–**	(7,400)
	(51,605)	(7,400)

The Directors are proposing a final dividend of 3.0p per ordinary share for the period ended 30 June 2007 which equates to £6.0m. The dividend will be paid on 30 November 2007 based on shareholders on the register at the close of business on 16 November 2007.

4 INVESTMENTS
Shares in subsidiary undertakings.

	£'000
At 2 July 2006 – as previously reported	2,000
Share based payments	8
As at 2 July 2006 – restated	2,008
Share based payments	155
As at 30 June 2007	**2,163**

The increase in investments has arisen due to the adoption of UITF 41 'Scope of FRS 20 Share Based Payments' which requires that a parent company recognises 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. The corresponding entry is taken to non-distributable reserves.

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 are registered and operate in England and Wales.

5 DEFERRED TAX ASSETS

	OTHER TEMPORARY DIFFERENCES £'000
As at 3 July 2005	–
Income statement credit	12
As at 1 July 2006	12
Income statement credit	11
As at 30 June 2007	**23**

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.

A number of changes to the UK corporation tax system have been enacted in the Finance Act 2007 and the effect is to reduce the deferred tax asset recognised as at 30 June 2007 by £1,000. The decrease in deferred tax is due to the reduction in corporation tax rate from 30% to 28% from 1 April 2008.

6 DEBTORS

	2007 £'000	2006 £'000
Amounts owed by subsidiary undertakings	**85,771**	78,501
Prepayments and accrued income	**29**	405
	85,800	78,906

7 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2007 £'000	2006 £'000
Corporation tax	**10**	391
Accruals and deferred income	**682**	135
Bank overdraft	**21**	–
	713	526

8 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2007 £'000	2006 £'000
Bank loans	**40,000**	–

On 26 September 2006 the Group entered into a £50m revolving credit facility which is repayable in full on 26 September 2010. The facility is sub divided into two elements: a £40m facility and a £10m facility.

Interest is payable on the £40m facility at the rate of LIBOR plus 0.35% and on the £10m facility at a rate of LIBOR plus 0.45%.

The facility is guaranteed by the parent company and its subsidiaries.

9 SHARE CAPITAL

	NUMBER OF ORDINARY SHARES OF 1P EACH (2006: £1)	
	2007	2006
In issue at the start of the period	**200,000,000**	2,000,000
Issued during the period in respect of share options	**617,400**	–
In issue at the end of the period	**200,617,400**	2,000,000

Proceeds received in relation to shares issued during the period were £273,404 (2006: £nil).

Notes to the parent company accounts continued

	2007 NUMBER OF SHARES	2007 £'000	2006 NUMBER OF SHARES	2006 £'000
Ordinary shares of 1p each (2006: £1)				
Authorised	**500,000,000**	**5,000**	5,000,000	5,000
Allotted, called up and fully paid	**200,617,400**	**2,006**	2,000,000	2,000

On 2 October 2006 the Company's share capital was sub-divided from 2,000,000 £1 ordinary shares in issue to 200,000,000 1p ordinary shares. Outstanding share options were adjusted correspondingly.

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

For the purpose of the annual financial statements, all calculations of earnings per share and all dividends are expressed as if the new share denomination had always been in place.

10 MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	NON DISTRIBUTABLE £'000	SHARE CAPITAL £'000	SHARE PREMIUM £'000	RETAINED EARNINGS £'000	TOTAL £'000
As at 3 July 2005	–	2,000	–	44,855	46,855
Profit for the period	–	–	–	40,914	40,914
Share based payments	8	–	–	23	31
Dividends	–	–	–	(7,400)	(7,400)
As at 1 July 2006 – restated	8	2,000	–	78,392	80,400

	NON DISTRIBUTABLE £'000	SHARE CAPITAL £'000	SHARE PREMIUM £'000	RETAINED EARNINGS £'000	TOTAL £'000
As at 2 July 2006 – restated	8	2,000	–	78,392	80,400
Profit for the period	–	–	–	17,971	17,971
Issue of new share capital	–	6	267	–	273
Share based payments	155	–	–	79	234
Dividends	–	–	–	(51,605)	(51,605)
As at 30 June 2007	**163**	**2,006**	**267**	**44,837**	**47,273**

The non distributable reserve has arisen due to the adoption of UITF 41 'Scope of FRS 20 Share Based Payments' which requires that a parent company recognises 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. The corresponding entry is taken to non distributable reserves.

11 SHARE BASED PAYMENTS

As at 30 June 2007, 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 30 June 2007.

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.

11 SHARE BASED PAYMENTS CONTINUED

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

	AUGUST 2006	SEPTEMBER 2005
Fair value at measurement date	7.00p	6.25p
Share price	n/a	n/a
Exercise price	62.10p	57.00p
Expected volatility (weighted average volatility used in modelling – based on historical volatility of comparable quoted companies)	35.0%	35.0%
Option life (weighted average life used in modelling)	3 years	3 years
Expected dividends	8.7%	8.7%
Risk-free interest rate	4.8%	4.8%

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

	WEIGHTED AVERAGE EXERCISE PRICE 2007	**NUMBER OF SHARES UNDER OPTION 2007**	WEIGHTED AVERAGE EXERCISE PRICE 2006	NUMBER OF SHARES UNDER OPTION 2006
Outstanding at beginning of year	**44.70**	**817,400**	44.70	817,400
Granted during year	**–**	**–**	–	–
Forfeited during year	**–**	**–**	–	–
Exercised during year	**44.28**	**(617,400)**	–	–
Outstanding at end of year	**46.00**	**200,000**	44.70	817,400

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 and subject to performance conditions. The LTIP is administered by the Remuneration Committee. One grant has been made to date, to the Executive Directors only, and is exercisable in September 2009 depending on the level of growth in Group EPS relative to RPI.

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:

Share price at date of grant	229.00p
Discount factor, based on dividend yield of 3.0% to vesting date	0.913
Fair value of option	209.00p

The total number of options outstanding under the LTIP at 30 June 2007 was 250,434.

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

	2007 £'000	2006 £'000
Group Share Option Plan	**9**	23
LTIP	**70**	–
Total	**79**	23

12 CONTINGENT LIABILITY

The Company and certain subsidiaries have given joint and several guarentees 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.

13 RELATED PARTY DISCLOSURE

Under FRS 8 'Related Party Disclosures' the Company is exempt from disclosing related party transactions with entities over which it has 90% or more control.

Notice of Annual General Meeting

Notice is hereby given that an Annual General Meeting of the Company will be held at The Hilton Hotel, Leicester on Monday 5 November 2007 at 3.00pm at which the following matters will be dealt with:

ORDINARY BUSINESS
To consider and if thought fit pass the following resolutions as ordinary resolutions:

1. That the Company's annual accounts for the financial year ended 30 June 2007 together with the Directors' Report, and the Auditors' Report on those accounts be received and adopted.

2. That Geoff Cooper, who is retiring by rotation in accordance with the Articles of Association of the Company, and being eligible, is offering himself for re-election, be re-appointed as a Non-Executive Director of the Company.

3. That Bill Adderley, who is retiring by rotation in accordance with the Articles of Association of the Company, and being eligible, is offering himself for re-election, be re-appointed as a Non-Executive Director of the Company.

4. That Simon Emeny, who is retiring in accordance with the Articles of Association of the Company, and being eligible, is offering himself for election, be and is hereby appointed as a Non-Executive Director of the Company.

5. To declare a final dividend on the ordinary shares of 3p per share in respect of the year ended 30 June 2007.

6. That KPMG Audit Plc be re-appointed as auditors to the Company and that the Directors be authorised to determine the auditors' remuneration.

7. That the Directors' Remuneration Report be approved.

SPECIAL BUSINESS
To consider and if thought fit pass the following resolutions of which the resolution number 8 will be proposed as an ordinary resolution and the resolutions numbered 9, 10 and 11 will be proposed as a special resolution:

8. That:
   (a) the Directors shall have unconditional authority to allot, grant options over, offer or otherwise deal with or dispose of any relevant securities (as defined in section 80(2) of the Companies Act 1985 (the 'Act')) of the Company up to an aggregate nominal amount of £668,724 to such persons at such times and generally on such terms and conditions as the Directors may determine;

   (b) this authority shall expire at the conclusion of the Annual General Meeting of the Company in 2008 unless previously renewed, varied or revoked, although the Directors may exercise this authority after this date in respect of an offer or agreement made while the authority was in force; and

   (c) this authority replaces all previous authorities made under Section 80 of the Act, without prejudice to any allotment of securities made pursuant to them.

9. That subject to the passing of ordinary resolution 8 above, the Directors be authorised pursuant to Section 95 of the Companies Act 1985 to allot equity securities (as defined in Section 94(2) to 94(3A) of the Companies Act 1985) wholly for cash pursuant to the authority conferred by the previous resolution as if Section 89(1) of the Companies Act 1985 did not apply to the allotment, provided that this power shall be limited to the allotment of equity securities:

   (a) where securities have been offered to holders of ordinary shares in the capital of the Company in proportion (as nearly as may be) to their existing holdings of ordinary shares subject to any exclusions or other arrangements that the Directors consider necessary or expedient to deal with:
   (i) fractional entitlements; and
   (ii) legal or practical problems under the law of, or the requirement of any recognised regulatory body or stock exchange in, any territory;

   (b) pursuant to acceptance of any scrip dividend offer; and

   (c) otherwise than pursuant to paragraphs (a) and (b) above for cash up to an aggregate nominal amount of £100,000.

   This authority will expire at the conclusion of the Annual General Meeting of the Company in 2008, although the Directors may exercise this authority after this date in respect of an offer or agreement made while the authority was in force.

   This authority applies in relation to a sale of shares which is an allotment of equity securities by virtue of section 94(3A) of the Act as if in the first paragraph of this resolution the words 'pursuant to the authority conferred by the previous resolution' were omitted.

10. That, in accordance with article 11 of the Company's Articles of Association, the Company be generally and unconditionally authorised to make market purchases (within the meaning of section 163(3) of the Companies Act 1985) of ordinary shares of 1p each in the capital of the Company ('ordinary shares') provided that:

(a) the maximum aggregate number of ordinary shares authorised to be purchased is the lesser of 20,000,000, being approximately 10% of issued ordinary share capital at 30 June 2007, and 10% of the Company's issued ordinary share capital at the date of passing of this resolution;

(b) the maximum price (not including expenses) which may be paid for each ordinary share is an amount equal to 105% of the average of the middle market quotations for an ordinary share, as derived from the London Stock Exchange Daily Official List, for the five business days immediately before the day on which the purchase is made; and

(c) the minimum price which may be paid for each ordinary share is 1p per share.

This authority shall, unless previously varied, revoked or renewed, expire at the conclusion of the next Annual General Meeting of the Company, except in relation to a purchase of ordinary shares the contract for which was concluded before such time and which will or may be executed wholly or partly after such time.

11. That the Company may send or supply any document that is required or authorised to be sent or supplied to a member or any other person by a provision of the Companies Acts (as defined in section 2 of the Companies Act 2006 ('the 2006 Act')), or pursuant to the Company's Articles of Association or any other rules or regulations to which the Company may be subject, by making it available on a website, and the provisions of Schedule 5 to the 2006 Act shall apply whether or not any document or information is required or authorised to be sent by the 2006 Act and this resolution shall supersede any provision in the Company's Articles of Association to the extent that it is inconsistent with this resolution.

By Order of the Board

DAVID STEAD
COMPANY SECRETARY
Fosse Way
Syston
Leicester
LE7 1NF
19 September 2007

Notes

1. The holders of the ordinary shares are entitled to attend and to speak at the Annual General Meeting and at any adjournment and to vote on all of the resolutions to be proposed at the meeting.
2. A member is entitled to attend and vote at the meeting (or at any adjournment) on any resolution and is entitled to appoint a proxy or proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.
3. The 'vote withheld' option is to enable shareholders to abstain on any particular resolution. This is not a vote in law and will not be counted in the votes 'for' or 'against' any resolution.
4. To be valid, a duly completed Form of Proxy must be sent by post, together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy), to Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6ZX so as to arrive not later than 48 working hours before the time fixed for the meeting or adjourned meeting or (in the case of a poll taken otherwise than at or on the same day as the meeting or adjourned meeting) for the taking of the poll at which it is to be used. A white Form of Proxy is enclosed. Completion and return of a Form of Proxy will not preclude a member from attending and voting in person at the meeting.
5. Pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995 or regulation 20 and schedule 4 of the Uncertificated Securities Regulations 2001, the time by which a person must be entered on the register of members of the Company in order to have the right to attend or vote at the meeting is 48 hours before the time fixed for the meeting. Changes to entries on the register of members after that time will be disregarded in determining the rights of any person to attend or vote at the meeting.
6. Copies of the Directors' service agreements with the Company and the register of Directors' interests will be available for inspection during normal business hours on each business day at the registered office of the Company from the date of this notice until the date of the meeting and also at the place of the meeting for 15 minutes prior to and during the meeting.
7. To appoint a proxy or to give or amend an instruction to a previously appointed proxy via the CREST system, the CREST message must be received by the issuer's agent (ID 7RA01) by 48 working hours before the time fixed for the Annual General Meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message. After this time any change of instructions to a proxy appointed through CREST should be communicated to the proxy by other means.

   CREST Personal Members or other CREST sponsored members and those CREST Members who have appointed voting service provider(s) should contact their CREST sponsor or voting service provider(s) for assistance with appointing proxies via CREST.

   For further information on CREST procedures, limitations and system timings, please refer to the CREST Manual. We may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Notes

Form of proxy – Dunelm Group plc

I/We...
(FULL NAME(S) IN BLOCK CAPITALS)

of ....

....
(ADDRESS IN BLOCK CAPITALS)
being member(s) of the above named Company, hereby appoint the Chairman of the meeting

or failing him...as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held at The Hilton Hotel, Leicester on Monday 5 November 2007 at 3.00 pm.

Please indicate with an 'X' in the space below how you wish your vote to be cast. If the form is returned without any indication as to how the proxy shall vote on any particular matter the proxy will vote as he or she thinks fit or abstains from voting at his or her discretion.

Signature .... Date...............................2007

	For	Vote Withheld	Against
ORDINARY BUSINESS			
1. To receive and approve the Directors' Report and the audited accounts for the period ended 30 June 2007 and the report of the auditors			
2. To re-elect Geoff Cooper as a Director			
3. To re-elect Bill Adderley as a Director			
4. To elect Simon Emeny as a Director			
5. To declare a dividend on the ordinary shares of 3p per share			
6. To re-appoint KPMG Audit Plc as auditors of the Company and to authorise the Directors to fix their remuneration			
7. To approve the Directors' Remuneration report			
SPECIAL BUSINESS			
8. To authorise the Company to renew its authority pursuant to section 80 of the Companies Act 1985 in accordance with Resolution 8 in the Notice of Annual General Meeting			
9. Subject to passing Resolution 8 to grant authority to the Company to allot shares pursuant to section 95 of the Companies Act 1985			
10. To authorise the purchase of ordinary shares in the Company up to a maximum of 10% of issued ordinary share capital in accordance with Resolution 10 in the Notice of Annual General Meeting			
11. To enable website communication with shareholders to be the default position			

Notes
1. If you wish to appoint some other person or persons please insert his/her/their name(s) and address(es), initial the insertion and strike out the words 'the Chairman of the meeting'.
2. Unless otherwise instructed above, the proxy will exercise his or her discretion both as to how he or she votes and as to whether or not he or she abstains from voting on any resolutions proposed at the meeting.
3. The 'vote withheld' option is to enable you to abstain on any particular resolution. This is not a vote in law and will not be counted in the votes 'for' and 'against' a particular resolution.
3. The proxy covers all shares held by a Member unless the Member indicates otherwise on this form. If more than one proxy is appointed, the number of shares covered by each proxy must be stated.
4. To be valid this form duly signed, together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy of such power or authority) must be deposited at the offices of the registrars no later than 48 hours before the time for holding the meeting.
5. In the case of a corporation this form must be under its Common Seal or otherwise executed in accordance with Section 36A Companies Act 1985 as amended or it must be signed by an officer or attorney duly authorised in writing.
6. Any alterations to this form must be initialled.
7. In the case of joint holders only one need sign but the names of all joint holders must be stated. The vote of the senior holder who tenders a vote shall be accepted to the exclusion of the votes of the other joint holders. For this purpose seniority shall be determined by the order in which names stand in the register of members.
8. Shares held in uncertificated form (i.e. in CREST) may be voted through the CREST Proxy Voting Service in accordance with the procedures set out in the CREST manual.

Second fold

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Advisers

Corporate Brokers and Financial Advisers	UBS Investment Bank 1 Finsbury Avenue London EC2M 2PP Tel: 020 7567 8000
	Landsbank Securities (UK) Ltd Beaufort House 15 St. Botolph Street London EC3A 7QR Tel: 020 7426 9000
Legal Advisers	Allen & Overy LLP One Bishops Square London E1 6AO Tel: 020 3088 0000
Auditors	KPMG Audit Plc 1 Waterloo Way Leicester LE1 6LP Tel: 0116 256 6000
Principal Bankers	Barclays Bank plc Midlands Corporate Banking PO Box 333 15 Colmore Row Birmingham B3 2WN Tel: 0845 755 5555
Registrars	Lloyds TSB Registrars The Causeway Worthing West Sussex BN99 6DA Tel: 0870 600 3970
Financial Public Relations	Hogarth Partnership Limited No. 1 London Bridge London SE1 9BG Tel: 020 7357 9477

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