



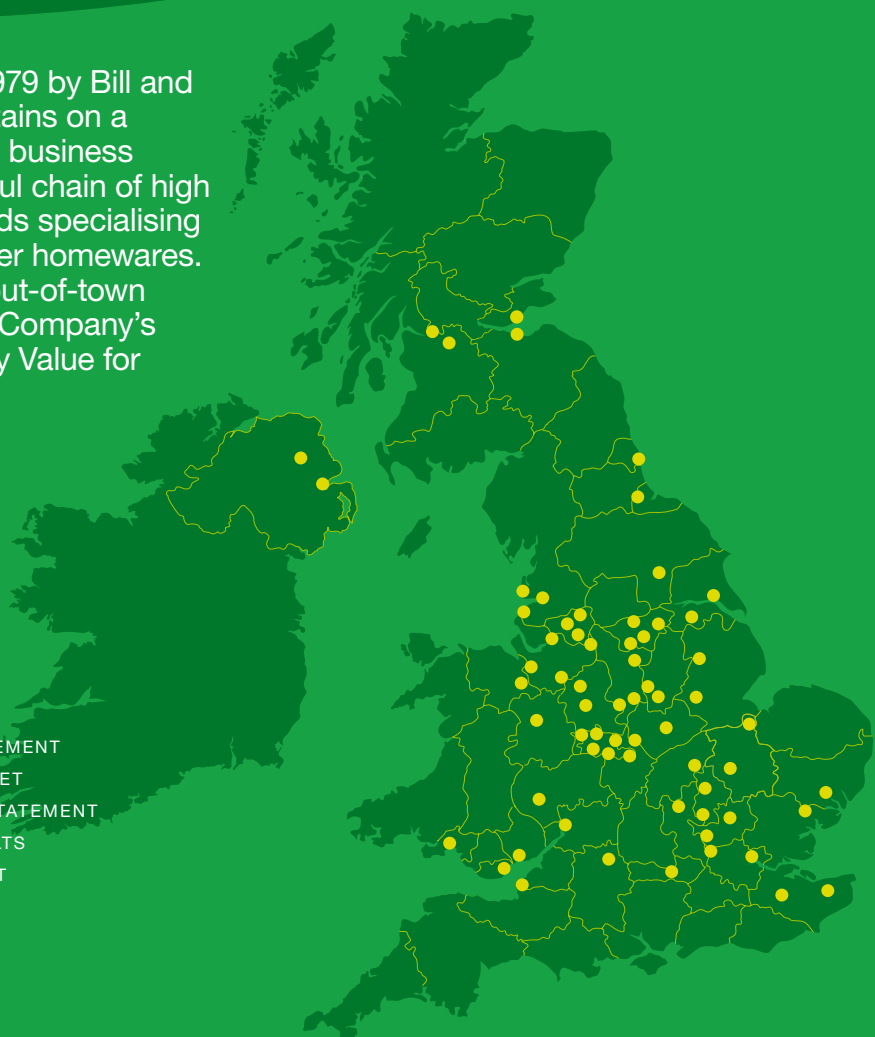
simply value for money...

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

Dunelm was founded in 1979 by Bill and Jean Adderley, selling curtains on a Leicester market stall. The business developed into a successful chain of high street shops in the Midlands specialising in soft furnishings and other homewares. Today the major focus is out-of-town retailing – always with the Company’s original principle of ‘Simply Value for Money’ firmly in mind.

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Chairman's statement | Geoff Cooper



simply delivering...

As we report our first set of interim results as a listed company I would like to welcome all our new shareholders to Dunelm.

£178m

Sales up 13.2%
to £178.4m
(2005: £157.6m)

5.0%

Like-for-like sales
increase of 5.0%

9.2%

Underlying operating profit
up 9.2% to £23.7m*(£19.7m
after non-recurring costs)

£21.9m

Underlying profit before
tax*(£17.9m after non-
recurring costs)

We successfully floated the Company in October last year and we have been very pleased by the reception from investors both at the time of the IPO and in the months since. The purpose of the IPO was and is to support the business in delivering its long-term growth objectives.

That we are able to report a robust set of maiden interim results, and significant strategic progress during the period, is a particular credit to the management team who have remained fully focused on the business despite the increase in workload created by the IPO process.

In the first half, we achieved total sales growth of 13.2%, and like-for-like sales growth of 5.0%. This represents a good performance given the relatively subdued prevailing market conditions. At the same time, we have continued to make progress with our plans to expand Dunelm's presence beyond our traditional territory of the Midlands and the North West, have further developed our specialist homewares offering, and have taken important steps forward in our physical and IT infrastructure.

The Directors have approved an interim dividend of 0.8p per share, which reflects the period since flotation. This will be payable on 25 April to shareholders on the register at the close of business on 10 April.

As indicated at the time of the IPO, the Company intends to operate a progressive dividend policy, with dividend cover in the range 2.5 to 3.0 times.

We have achieved a great deal during the period and, as well as the management, I would like to thank all Dunelm employees for their significant contribution to our continued success. Following the IPO we have introduced an Employee Share Save Scheme, allowing our staff to share in the benefits of Dunelm's continued growth and aligning their interests with those of our shareholders.

The period under review has been an exciting one for Dunelm. We are in a strong position to drive the next stage of growth for the benefit of the business and its shareholders, and we look to the future with considerable confidence.

Geoff Cooper
Chairman
7 March 2007

*excludes non-recurring costs of transfer to new warehouse (£1.0m) and IPO (£3.0m)



1. Strong trading performance in the first half

2. Total of six new stores anticipated this financial year

Simply value for money...

Dunelm's trading strategy is to offer customers everyday good value and unrivalled choice across a wide range of homewares, with knowledgeable and friendly staff and in convenient locations. This is reflected in our customer promise to offer 'Simply Value For Money'.

The homewares market remained relatively subdued in 2006. For Dunelm, trading began to pick up from August and our like-for-like sales growth was consistently strong from that point onwards.

FINANCIALS

During the period, sales grew by 13.2% to £178.4m (2005: £157.6m), with a like-for-like increase of 5.0%.

Product gross margins continued to increase in the period and were up by 0.4 percentage points, one of the contributory factors being the continuing strength of sterling against the US dollar.

Underlying operating profit rose by 9.2% to £23.7m (2005: £21.7m). Underlying operating profit comprises reported operating profit, adjusted by adding back non-recurring costs in respect of the IPO (£3.0m) and the transition to our new central warehouse (£1.0m).

We have previously indicated that operating costs would increase as a result of changes in the business – specifically, occupancy of the new warehouse has incurred rental costs from July 2006 and we have been incurring amortisation charges from our new IT investments since April 2006.

These new operating costs amounted to £1.5m in the first half and are charged in full within operating profit.

Trading performance in our business tends to be weighted in favour of the first half of the financial year. This is because sales in like-for-like stores tend to be a little higher in the first half (52% of the total in the last financial year), with costs evenly spread; and buying margin tends to be lower in the second half, as this includes the majority of our winter and summer sale activity.

One of the core strengths of Dunelm is our low cost operating model. This is reflected in our underlying operating margin of 13.3% in the first half, which we believe is in the top tier of UK retailers.

Reported profit before tax was £17.9m, compared to £22.1m in the equivalent period last year. This reduction was anticipated at the time of the IPO. In addition to the non-recurring costs relating to the IPO and warehouse transition (£4.0m) referred to above, it reflects:

- non-comparable financing costs in the period arising from the Group's new capital structure (£0.8m)
- foreign exchange loss arising mainly from forward contracts and dollar cash balances which became devalued as the dollar fell further against sterling (£1.0m).

We have recently reviewed our policy towards foreign currency management. Since only a relatively small proportion of our purchases are made directly in dollars, we have decided that we will not

pursue an active hedging strategy for the time being. Therefore, we do not intend to take out forward currency contracts beyond those currently outstanding, all of which will expire by June 2007.

Profit after tax reflects the projected full year effective tax rate of 34.2%, driven by disallowable IPO costs. Disregarding IPO costs, the projected effective rate is 31.8%.

Underlying earnings per share (ie before non-recurring costs) were 7.7p.

Dunelm is a highly cash generative business. Cash generated from operations was £16.5m. This includes not only funding the non-recurring costs, but also increased stock levels to ensure continuity of supply during the period of transitioning to the new central warehouse, as detailed further below.

Net debt at the period end was £42.5m. In January 2007 we repaid, ahead of schedule, £10m of the Group's £50m revolving loan facility.

In our IPO prospectus, we included a three year financial record under IFRS accounting principles and policies. This interim statement has been prepared on the same basis. We are also required to provide an analysis of the impacts of the transition to IFRS. Such analysis is shown on pages 11 to 19.

STRATEGY

At the time of IPO, we laid out our strategy for growth under four key headings. We have made encouraging progress in all of these:

3. Continually improving our customer offer

NEW STORE OPENINGS

During the period we opened new stores in Stevenage (freehold) and Colchester (leasehold) and relocated our Swansea store to a new (and larger) freehold unit. We therefore ended the period with 83 stores, of which 66 are out of town superstores. Customer response has been very positive at all three locations and the stores have traded in line with expectations.

The availability of good sites, and our ability to secure these, remains key to our growth, and we have recently strengthened and expanded our property team. We anticipate achieving four further superstore openings in this financial year including Bradford and Perth.

We have a strong pipeline for next financial year, with two new superstore locations already committed and several others in advanced negotiations.

SPECIALIST OFFER

Our 'Simply Value For Money' proposition remains at the heart of all we do, and we are constantly striving to improve the offer for customers.

Recently, for example, we have reached an agreement with Dorma, a long-standing supplier, for them to provide exclusive designs of Dorma-branded bed linen. We have also continued to increase our depth of range, for example introducing more products into our kitchen offer and even adding to our plain dye bed linen range. In response to specific customer demand we have extended our range of storage products.

Equally, we are prepared to act quickly if a part of our offer is not performing satisfactorily. We have identified that the dynamics of the bed market are significantly different from furnishings and accessories; accordingly, we have recently withdrawn from selling beds in our stores.

4. Good start to trading in the second half

Another key part of our specialist proposition is value added service. We continue to offer customers a variety of options to have curtains and blinds made to their specifications; and we have introduced a home measuring service in several parts of the country to assist further with complex purchases.

INFRASTRUCTURE

From the beginning of July, our new warehouse facility at Stoke became operational. This is a leasehold unit with 250,000 sq ft of floor space. The Stoke facility will shortly become our sole central warehouse, although for a temporary period we have been continuing to use our previous warehouse at Burton as an additional bulk storage location.

We will close the Burton warehouse in the current trading period and seek to realise value from the freehold.

Whilst developing our Stoke operation, our over-riding priority has been to ensure continuity of supply to our shops. In achieving this we took the decision to invest substantially in extra central stock levels. This is a temporary situation and stocks will be managed down over the coming months, but it has ensured that the transfer has been completed smoothly and stock availability has remained good throughout.

In addition, we have continued to invest in our IT infrastructure, following the successful initial implementation of core SAP modules in early 2006. During the period we rolled out more elements of SAP stock management functionality across the business. This process is expected to be largely completed by the end of the current financial year.

The combination of the new warehouse and upgraded IT systems gives us an infrastructure capable of supporting the business through the next phase of its growth. The availability of improved

management information will also help us to manage stock levels more tightly going forward.

LONGER TERM OPPORTUNITIES

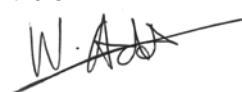
Whilst the current business model will remain the main growth driver of the business, we continue to explore other avenues for growth. In particular, we have continued to expand our online store following the launch of our transactional website in January 2006. The range of products available online has been increased to over 5,000. We saw a substantial increase in sales through the site in the run-up to Christmas, but our online business remains a very small part of the total at this stage. We will continue to invest prudently in this new channel.

OUTLOOK

Trading in the second half has started well, with sales for the 9 weeks to 3 March up 10.0%, and up 4.1% on a like-for-like basis (albeit against soft comparatives). Comparatives continue to be reasonably soft for the remainder of the current financial year.

Given current performance and market conditions, we remain confident of being able to meet our expectations for the year as a whole. Clearly, however, confidence needs to be tempered by the risk of demand being impacted by macro-economic factors.

We continue to have a very clear focus on our customers and our offer. Putting this with our strong management team and a determination to grow, we continue to work towards our long-term target of 150 superstores across the UK.



Will Adderley
Chief Executive Officer
7 March 2007

Consolidated income statement

For the 26 weeks ended 30 December 2006

	NOTE	26 WEEKS ENDED 30 DECEMBER 2006 £'000	26 WEEKS ENDED 31 DECEMBER 2005 £'000	52 WEEKS ENDED 1 JULY 2006 £'000
Revenue	2	178,434	157,551	315,187
Cost of sales		(147,424)	(129,954)	(264,599)
Gross profit		31,010	27,597	50,588
Administrative expenses ongoing		(7,317)	(5,894)	(12,438)
Administrative expenses non recurring (relating to IPO and warehouse transition)		(4,015)	–	–
Total administrative expenses		(11,332)	(5,894)	(12,438)
Other operating income		28	16	–
EBITDA* (before non recurring costs)		28,661	25,387	46,475
Non recurring costs		(4,015)	–	–
Depreciation and amortisation		(4,940)	(3,668)	(8,325)
Operating profit		19,706	21,719	38,150
Financial income		103	510	808
Financial expenses		(1,947)	(133)	(919)
Profit before taxation		17,862	22,096	38,039
Taxation	3	(6,108)	(6,871)	(11,839)
Profit for the period		11,754	15,225	26,200
Earnings per share – basic	5	5.9p	7.6p	13.1p
Earnings per share – diluted	5	5.8p	7.6p	13.0p
Dividend proposed per share	6	0.8p	–	–
Dividend paid per share	6	25.0p	–	3.7p

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

* Earnings before interest, tax, depreciation and amortisation.

Consolidated balance sheet

As at 30 December 2006

	30 DECEMBER 2006 £'000	31 DECEMBER 2005 £'000	1 JULY 2006 £'000
Non current assets			
Intangible assets	3,893	2,130	3,665
Property, plant and equipment	67,392	60,787	61,490
Deferred tax asset	3,037	2,522	2,815
Total non-current assets	74,322	65,439	67,970
Current assets			
Inventories	66,471	50,194	56,345
Trade and other receivables	11,336	8,817	10,024
Cash and cash equivalents	7,551	19,769	2,964
Assets held for sale	5,998	–	5,998
Total current assets	91,356	78,780	75,331
Total assets	165,678	144,219	143,301
Current liabilities			
Interest-bearing loans and borrowings	(67)	(309)	(150)
Trade and other payables	(63,641)	(57,748)	(53,484)
Provisions	(36)	(112)	(58)
Total current liabilities	(63,744)	(58,169)	(53,692)
Non current liabilities			
Interest-bearing loans and borrowings	(50,000)	–	–
Deferred tax liabilities	(806)	(575)	(543)
Total non current liabilities	(50,806)	(575)	(543)
Total liabilities	(114,550)	(58,744)	(54,235)
Net assets	51,128	85,475	89,066
Equity			
Issued capital	2,006	2,000	2,000
Share premium	267	–	–
Retained earnings	48,855	83,475	87,066
Total equity attributable to equity holders of the parent	51,128	85,475	89,066

Consolidated cash flow statement

For the 26 weeks ended 30 December 2006

	26 WEEKS ENDED 30 DECEMBER 2006 £'000	26 WEEKS ENDED 31 DECEMBER 2005 £'000	52 WEEKS ENDED 1 JULY 2006 £'000
Cash flows from operating activities			
Profit before taxation	17,862	22,096	38,039
Adjusted for:			
Finance income	(103)	(510)	(808)
Finance costs	1,947	133	919
Depreciation and amortisation	4,940	3,668	8,325
Share based payment expense	35	15	31
Loss/(profit) on disposal of property, plant and equipment	(6)	17	3
Operating cash flows before movement in working capital	24,675	25,419	46,509
(Increase) in stocks	(10,126)	(5,072)	(11,224)
(Increase) in debtors	(1,312)	(1,288)	(2,636)
Increase in creditors	8,771	5,505	2,523
(Decrease) in provisions	(22)	(32)	(54)
Cash generated from operations	21,986	24,532	35,118
Interest paid	(141)	(3)	(57)
Interest received	113	437	983
Tax paid	(5,497)	(4,444)	(11,910)
Net cash generated from operating activities	16,461	20,522	24,134
Cash flows from investing activities			
Proceeds on disposal of property, plant and equipment	6	6	1
Acquisition of property plant and equipment	(10,750)	(10,759)	(21,256)
Acquisition of intangible assets	(317)	(1,799)	(4,176)
Net cash utilised in investing activities	(11,061)	(12,552)	(25,431)
Cash flows from financing activities			
Proceeds from the issue of share capital	273	–	–
Proceeds from new bank loan	50,000	–	–
Repayment of finance lease liabilities	(83)	(256)	(392)
(Loss)/gain on foreign exchange	(1,003)	2	–
Dividends paid	(50,000)	–	(7,400)
Net cash utilised in financing activities	(813)	(254)	(7,792)
Net increase/(decrease) in cash and cash equivalents	4,587	7,716	(9,089)
Cash and cash equivalents at the beginning of the period	2,964	12,053	12,053
Cash and cash equivalents at the end of the period	7,551	19,769	2,964

Notes to the interim results

1 BASIS OF PREPARATION

Dunelm Group plc ('the Company') and its subsidiary companies ('the Group') 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 within the European Union ('EU'), 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 will therefore prepare consolidated financial statements for the 52 weeks ending 30 June 2007 under Adopted IFRS. The interim statement for the 26 weeks ended 30 December 2006 has been prepared in accordance with the recognition and measurement principles of Adopted IFRS. The Group's date of transition to IFRS is 3 July 2005, being the start of the period which has been presented as comparative information.

The Adopted IFRSs that will be effective in the annual financial statements for the 52 weeks ending 30 June 2007 are still subject to change and to additional interpretations and therefore cannot be determined with certainty. Accordingly, the accounting policies for that period will be determined only when the financial statements are prepared for the 52 weeks ending 30 June 2007.

The comparative figures for the 52 weeks ended 1 July 2006 do not constitute statutory accounts for the purposes of section 240 of the Companies Act 1985. A copy of the statutory accounts for the 52 weeks ended 1 July 2006, prepared under UK GAAP, has been delivered to the Registrar of Companies and contained an unqualified auditors' report which made no statement under sections 237(2) or (3) of the Companies Act 1985.

The Group has adopted IFRS 1 from 3 July 2005. 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.

An explanation of how the transition to Adopted IFRS has affected the reported financial position and results is provided below, including reconciliations of the Group's balance sheet and consolidated income statement for the interim period to 31 December 2005, the 52 weeks ended 1 July 2006 and the transition balance sheet as at 3 July 2005.

The implementation of Adopted IFRS represents an accounting change only and does not affect the operations or cash flows of the Group.

The interim statements are prepared under the historical cost convention except for share based payments and derivative financial instruments which are stated at their fair value. 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 accounting policies that have been used in the preparation of the Interim Results are detailed on pages 13 to 15.

The presentation of the interim 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 experiences and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

2 SEGMENTAL REPORTING

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

3 TAXATION

The taxation charge for the interim period has been calculated on the basis of the estimated effective tax rate for the full year of 34.2%, or 31.8% excluding non-deductible one off IPO costs of £3.0 million (26 weeks ended 31 December 2005: 31.1% based on full year actual effective rate). The estimated underlying effective rate excluding IPO costs is higher than the actual rate for financial year 2006 due to increased ineligible depreciation and a reduction in non taxable tenant to tenant lease incentives.

Notes to the interim results continued

4 SHARE CAPITAL

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.

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

5 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:

	26 WEEKS ENDED 30 DECEMBER 2006 000	26 WEEKS ENDED 31 DECEMBER 2005 000	52 WEEKS ENDED 1 JULY 2006 000
Weighted average number of shares in issue during the period	200,108	200,000	200,000
Impact of share options	2,285	1,508	1,508
Number of shares for diluted earnings per share	202,393	201,508	201,508

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

	26 WEEKS ENDED 30 DECEMBER 2006 £'000	26 WEEKS ENDED 31 DECEMBER 2005 £'000	52 WEEKS ENDED 1 JULY 2006 £'000
Profit for the period	11,754	15,225	26,200
Non recurring costs (net of tax)	3,700	–	–
Profit for the period excluding one off costs	15,454	15,225	26,200
Basic earnings per share – standard	5.9p	7.6p	13.1p
Basic earnings per share – adjusted	7.7p	7.6p	13.1p

6 DIVIDENDS

On 2 October 2006 the Group declared an interim dividend of 25p per share. This was paid on 5 October 2006.

The directors have approved a second interim dividend of 0.8p per ordinary share which equates to £1.6 million. The dividend will be paid on 25 April 2007 to shareholders on the share register at the close of business on 10 April 2007.

No dividend was paid during the 26 week period ended 31 December 2005.

Notes to the interim results continued

7 ANALYSIS OF MOVEMENT IN RESERVES

	SHARE CAPITAL £'000	SHARE PREMIUM £'000	RETAINED EARNINGS £'000	TOTAL EQUITY £'000
As at 2 July 2005	2,000	–	68,235	70,235
Profit for the period	–	–	15,225	15,225
Employee share option scheme	–	–	15	15
Dividends paid	–	–	–	–
As at 31 December 2005	2,000	–	83,475	85,475
Profit for the period	–	–	10,975	10,975
Employee share option scheme	–	–	16	16
Dividends paid	–	–	(7,400)	(7,400)
As at 1 July 2006	2,000	–	87,066	89,066
Profit for the period	–	–	11,754	11,754
Shares issued	6	267	–	273
Employee share option scheme	–	–	35	35
Dividends paid	–	–	(50,000)	(50,000)
As at 30 December 2006	2,006	267	48,855	51,128

8 ANNOUNCEMENT

The interim report was approved by the Board on 7 March 2007 and copies are available from the registered office at Fosse Way, Syston, Leicester, LE7 1NF or from the website at www.dunelm-mill.co.uk

Independent review report by KPMG Audit Plc to Dunelm Group plc

INTRODUCTION

We have been engaged by the company to review the financial information set out on pages 4 to 9 and we have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Listing Rules of the Financial Services Authority. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

DIRECTORS' RESPONSIBILITIES

The interim report, including the financial information contained therein, is the responsibility of and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual financial statements except where any changes, and the reasons for them, are disclosed.

As disclosed in note 1 to the financial information, the next annual financial statements of the Group will be prepared in accordance with IFRSs as adopted by the European Union. The accounting policies that have been adopted in preparing the financial information are consistent with those that the directors currently intend to use in the next annual financial statements. There is, however, a possibility that the directors may determine that some changes to these policies are necessary when preparing the full annual financial statements for the first time in accordance with those IFRSs as adopted by the European Union.

REVIEW WORK PERFORMED

We conducted our review in accordance with guidance contained in Bulletin 1999/4 *Review of interim financial information* issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

REVIEW CONCLUSION

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the 26 weeks ended 30 December 2006.



KPMG AUDIT PLC

Chartered Accountants
1 Waterloo Way
Leicester
LE1 6LP

7 March 2007

Transition to International Financial Reporting Standards

Transition to International Financial Reporting Standards

INTRODUCTION

The interim results have been prepared in accordance with the accounting policies on pages 12 to 15.

Pages 12 to 15 explain the differences between UK GAAP and IFRS for the Group and contain reconciliations of the Group's balance sheet and consolidated income statement for the 26 week period ended 31 December 2005, the financial statements for the 52 week period ended 2 July 2006 and opening balance sheet at 3 July 2005 (the Group's date of transition).

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:

1 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 will now be 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.

2 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 is a contrast 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.

3 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.

4 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.

5 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.

6 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.

Transition to International Financial Reporting Standards continued

IFRS ACCOUNTING POLICIES

The following notes detail the accounting policies that the Group has applied to its interim financial results for the period ended 30 December 2006.

The Accounting Standards adopted by the European Union (EU) that will be effective in the annual financial statements for the year ending 30 June 2007 are still subject to change and additional interpretation and therefore cannot be determined with certainty. Accordingly, the accounting policies for this accounting period will be determined finally only when the annual financial statements are prepared for the year ending 30 June 2007.

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 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 written off over three years from date of implementation.

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.

Transition to International Financial Reporting Standards continued

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, if significant, is reassessed annually.

CURRENT ASSETS

TRADE AND OTHER RECEIVABLES

Trade and other receivables are stated net of impairment provisions.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them into the business. Net realisable value is the estimated selling price 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.

Borrowings are classed as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve 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 its recoverable amount. Impairment losses are recognised in the income statement.

Transition to International Financial Reporting Standards continued

PROVISIONS

A provision is recognised in the balance sheet when the Group has a present 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 6 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 two 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 has been measured using the binomial model, taking into account the terms and conditions upon which the options were granted.

DIVIDENDS

Dividends are recognised as a liability in the period in which they are approved.

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 is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and 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.

Restatement of financial information to IFRS

CONSOLIDATED INCOME STATEMENT

FOR THE 52 WEEKS 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	FOREIGN EXCHANGE £'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

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	–	199	2,378	259	–	(21)	2,815
Total non current assets	65,155	199	2,378	259	–	(21)	67,970
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	–	(21)	143,301
Current liabilities							
Interest bearing loans and borrowings	(150)	–	–	–	–	–	(150)
Trade and other payables	(44,035)	(662)	(7,925)	(862)	–	–	(53,484)
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)	–	–	(54,235)
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

Restatement of financial information to IFRS continued

CONSOLIDATED INCOME STATEMENT

FOR THE 52 WEEKS ENDED 31 DECEMBER 2005

	UK GAAP £'000	FIXED RENT REVIEWS £'000	PROPERTY LEASE INCENTIVES £'000	FORWARD EXCHANGE CONTRACTS £'000	SHARE BASED PAYMENTS £'000	FOREIGN EXCHANGE £'000	IFRS £'000
Revenue	157,551	–	–	–	–	–	157,551
Cost of sales	(129,534)	(95)	(396)	–	–	71	(129,954)
Gross profit	28,017	(95)	(396)	–	–	71	27,597
Administrative expenses	(5,792)	–	–	–	(15)	(87)	(5,894)
Other operating income	–	–	–	–	–	16	16
Operating profit	22,225	(95)	(396)	–	(15)	–	21,719
Financial income	436	–	–	74	–	–	510
Financial expenses	(26)	–	–	(107)	–	–	(133)
Profit before tax	22,635	(95)	(396)	(33)	(15)	–	22,096
Taxation	(7,028)	28	119	10	–	–	(6,871)
Profit for the period	15,607	(67)	(277)	(23)	(15)	–	15,225

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2005

	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	2,130	–	–	–	–	–	2,130
Property, plant and equipment	60,787	–	–	–	–	–	60,787
Deferred tax	–	176	2,289	(42)	–	99	2,522
Total non current assets	62,917	176	2,289	(42)	–	99	65,439
Current assets							
Inventories	50,194	–	–	–	–	–	50,194
Trade and other receivables	8,676	–	–	141	–	–	8,817
Cash and cash equivalents	19,769	–	–	–	–	–	19,769
Assets held for sale	–	–	–	–	–	–	–
Total current assets	78,639	–	–	141	–	–	78,780
Total assets	141,556	176	2,289	99	–	99	144,219
Current liabilities							
Interest bearing loans and borrowings	(309)	–	–	–	–	–	(309)
Trade and other payables	(49,529)	(587)	(7,632)	–	–	–	(57,748)
Provisions	(112)	–	–	–	–	–	(112)
Total current liabilities	(49,950)	(587)	(7,632)	–	–	–	(58,169)
Non current liabilities							
Interest bearing loans and borrowings	–	–	–	–	–	–	–
Deferred tax liabilities	(455)	–	–	–	–	(120)	(575)
Total non current liabilities	(455)	–	–	–	–	(120)	(575)
Total liabilities	(50,405)	(587)	(7,632)	–	–	(120)	(58,744)
Net assets	91,151	(411)	(5,343)	99	–	(21)	85,475
Equity							
Issued capital	2,000	–	–	–	–	–	2,000
Retained earnings	89,151	(411)	(5,343)	99	–	(21)	83,475
Total equity attributable to equity holders of the parent	91,151	(411)	(5,343)	99	–	(21)	85,475

Restatement of financial information to IFRS continued

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	–	148	2,171	(53)	–	–	2,266
Total non current assets	54,050	148	2,171	(53)	–	–	56,316
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	–	–	121,053
Current liabilities							
Interest bearing loans and borrowings	(469)	–	–	–	–	–	(469)
Trade and other payables	(42,019)	(492)	(7,234)	–	–	–	(49,745)
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)	–	–	–	–	(21)	(387)
Total non current liabilities	(439)	–	–	–	–	(21)	(460)
Total liabilities	(43,071)	(492)	(7,234)	–	–	(21)	(50,818)
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

Restatement of financial information to IFRS continued

GROUP STATEMENT OF RECOGNISED INCOME AND EXPENSE

	26 WEEKS ENDED 1 JULY 2006 £'000	26 WEEKS ENDED 31 DECEMBER 2005 £'000
Share based payments	31	15
Net income recognised directly in reserves	31	15
Profit for the financial period	26,200	15,225
Total recognised income and expense for the period	26,231	15,240

ANALYSIS OF MOVEMENT IN RESERVES

	SHARE CAPITAL £'000	RETAINED EARNINGS £'000	TOTAL EQUITY £'000
As at 3 July 2005 (UK GAAP)	2,000	73,541	75,541
Rent reviews	–	(492)	(492)
Lease incentives	–	(7,234)	(7,234)
Forward contracts	–	175	175
Share based payments	–	–	–
Tax	–	2,245	2,245
As at 3 July 2005 restated (IFRS)	2,000	68,235	70,235
Profit for the period	–	15,225	15,225
Share based payments	–	15	15
Equity dividend	–	–	–
As at 31 December 2005	2,000	83,475	85,475
Profit for the period	–	10,975	10,975
Share based payments	–	16	16
Equity dividend	–	(7,400)	(7,400)
As at 1 July 2006	2,000	87,066	89,066

Notes





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