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Dreams PLC

Report and Financial Statements

Year Ended

24 December 2005



BDO

BDO Stoy Hayward
Chartered Accountants

Dreams PLC

Annual report and financial statements for the year ended 24 December 2005

Contents

Page:

1	Chairman's statement
3	Report of the directors
6	Report of the independent auditors
8	Profit and loss account
9	Note of historical cost profits and losses
10	Balance sheet
11	Cash flow statement
12	Notes forming part of the financial statements

Dreams PLC

Company information

Board directors

Mike Clare
Carol Clare
Rob Clark
Richard Mawer
Greg Southern
Nick Worthington

Associate directors

Stephen Broomhead
Graham Edwards
Martin England
Lee Felton
Peter Hillman
Nick Knight
Arran Last
Steve Leahy
Martin Muffitt
Charles Pearmine
Simon Terry

Secretary and registered office

Simon Terry
Dreams Plc
Knaves Beech
High Wycombe
Buckinghamshire
HP10 9YU.

Company number

2189427

Auditors

BDO Stoy Hayward LLP
8 Baker Street
London
W1U 3LL.

Bankers

Royal Bank of Scotland Plc
280 Bishopsgate
London
EC2M 4RB.

Solicitors

Clarks
Great Western House
Station Road
Reading
Berkshire
RG1 1JX.

Dreams PLC

Chairman's statement for the year ended 24 December 2005

"2005 was a particularly turbulent year for retail in general, with a noticeable downturn in consumer confidence on the back of ever increasing costs, however I am delighted that Dreams has bucked the trend and is able to report another record breaking year.

This has been a strong year of growth for Dreams with turnover, market share and profit all significantly up on 2004. We have also substantially improved our infrastructure, to cope with our exciting future plans and developments."

Results

The company made a profit before tax and interest of £6.4 million, a 42% increase on 2004. Turnover was up by 20% to £107.6 million, driven from both impressive like for like sales and new store openings.

Growth

A total of 20 new stores were opened across the country from Waterlooville in the south to Nottingham in the north. These were predominantly retail park sites (with a few prominent high street/edge of town stores) in line with our expansion strategy. All of the new stores opened in existing regions within our core territory enabling us to benefit from critical mass, especially important for marketing and logistics.

Our programme of refurbishments continued throughout the year with several stores being brought up to the new Dreams standards. We also installed 21 mezzanine floors within new and existing stores to increase the sales area and further enhance our reputation of having the largest choice of beds in Britain.

Our strategy of expansion through organic branch growth rather than acquisition continued in 2005. As stated previously we will always assess any potential acquisitions, and we do not rule out alternative routes for growth if they make sound commercial sense.

Logistics

Dreams distribution facilities and supply chain has never been stronger. Our network of seven Home Delivery Depots (2005 saw the relocation of Enfield to a new 80,000 sq ft site) as well as our Central Distribution hub in Wednesbury are now working much more efficiently. The extra complexity of increased direct imports has been integrated smoothly ensuring the right bed is always delivered to the right location at the right time.

People

Any business is only as good as its people, and I remain extremely proud of the 'Dream Team' and all they have produced. We are investing more in our staff than ever before, with improved training and development top of the list as we look to grow our own superstars of the future. The desire to promote from within (where possible) has, I'm sure, helped Dreams to retain a family focused atmosphere with a true entrepreneurial spirit from a 'Dream Team' who really care. I would like to thank my fellow directors, the management and all our employees for their commitment and dedication throughout the year.

Business Partners

No business is an island and we continue to work closely with all our business partners to ensure mutual benefit. Our manufacturing suppliers have been supportive of our growth and we have continued to forge excellent working relationships in all areas of our supply chain. We are very grateful to our service suppliers of all sizes for the important part they have played in Dreams continued success.

Dreams PLC

Chairman's statement for the year ended 24 December 2005 (*Continued*)

New Development

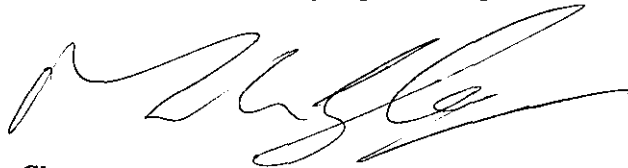
As a rapidly growing company one thing is always constant at Dreams, and that's change. This year was no exception with many new and exciting developments (both internal and external) in how we do business. A prime example is the launch of our new e-commerce website. Not exactly an early adopter of this sales channel, but a well planned and delivered web site has increased sales and helped drive additional footfall into our stores through an integrated store locator. Contract Sales to hotels (and other similar business sectors) are also growing fast as we capitalise on this significant B2B market place.

Outlook and Current Trading

There has been a noticeable improvement in consumer confidence, with signs of the housing market beginning to reawaken. Dreams have grown market share, improved our systems and infrastructure and consequently are fitter and stronger than ever before.

Sales in the first quarter of 2006 have been very encouraging with positive like for likes and sales well above budget and target. This has been achieved with increases in both average transactional values and gross margins.

We now have a new and stronger corporate structure, which includes Nick Worthington as Managing Director, Rob Clark as Commercial Director, plus a dynamic team of Associate Directors. A true 'Dream Team' with the initiative and drive to continually improve and grow the business.



Mike Clare
Chairman & Chief Executive

27 April 2006

Dreams PLC

Report of the directors for the year ended 24 December 2005

The directors present their report together with the audited financial statements for the year ended 24 December 2005, (2004 – 25 December). The directors have elected to prepare accounts to the 24 December to better represent the end of the trading quarter for the business. It is the intention of the directors to prepare accounts for future years to this date.

Results and dividends

The profit and loss account is set out on page 8 and shows the profit for the year. The profit for the year, after taxation, amounted to £ 3,339,000 (2004 - £2,543,000).

During the year, the company paid interim dividends of £400,000 (2004 - £400,000). The directors do not recommend the payment of a final dividend.

Principal activities and trading review

The company's principal activity during the year was the retail sale of beds along with associated products, services and activities within the United Kingdom.

The directors are pleased to report another year of controlled and profitable growth. Turnover has increased by 20 % to £107,600,000 in 2005. Profit before tax has increased by 37 % to £ 5,133,000 in 2005.

Charitable and political contributions

During the year the company made charitable contributions of £27,000 (2004 - £25,000).

Directors

The directors of the company during the year and their beneficial interests were:

	Ordinary shares of £1 each	
	2005	2004
Mike Clare	47,500	47,500
Carol Clare	2,500	2,500
Nick Worthington	-	-
Richard Mawer	-	-
Greg Suthern	-	-
Harvey Ainley (appointed 8 June 2005, resigned 24 November 2005)	-	-

Subsequent to the year end, Rob Clark was appointed as a director of the company on 6 March 2006.

Dreams PLC

Report of the directors for the year ended 24 December 2005 (*Continued*)

Company's policy for payment of creditors

It is the company's policy to pay all creditors on or before the date when the amounts fall due for payment. Due to the availability of settlement discounts which are offered for prompt payment of invoices, the majority of invoices from manufacturers are paid promptly to take advantage of this.

Creditors days at 24 December 2005 are shown as 30 days (2004 - 54 days).

Employment policy

The company does not discriminate against anyone on any grounds. The sole criterion for selection or promotion is the suitability of the applicant for the job. It is the policy of the company to provide employment to disabled and aged people of whatever sex, age or religion, whenever the demands of the company and the abilities of the individual will allow. Appropriate levels of training and development are available for all levels and categories of staff.

The company is committed to keeping its employees informed of the developments within the business. This is achieved through many different channels, including our staff liaison committee, weekly bulletins, monthly reviews and regular departmental briefings.

Environment

Dreams are committed to supporting all environmental matters and co-operates fully with relevant authorities to ensure that legal obligations are met. The company re-cycles plastic and cardboard packaging at its home delivery depots. Such efforts have been recognised with Dreams being awarded the Retail Recycling Award for 2005, beating off stiff competition from major UK blue-chip companies.

Directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

Dreams PLC

Report of the directors for the year ended 24 December 2005 (*Continued*)

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

BDO Stoy Hayward LLP have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

By order of the Board



Nick Worthington
Managing Director

27 April 2006

Dreams PLC

Report of the independent auditors

Independent Auditors Report to the shareholders of Dreams PLC

We have audited the financial statements of Dreams PLC for the year ended 24 December 2005 on pages 8 to 24 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow statement, the Note of historical cost profits and losses and the related notes. These financial statements have been prepared under the accounting policies set out on pages 12 and 13.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the *Chairman's Statement and Directors' Report* are not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

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

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

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

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

Dreams PLC

Report of the independent auditors (*Continued*)

Opinion

In our opinion

- the financial statements give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 24 December 2005 and of its profit for the year then ended; and
- the financial statements have been properly prepared in accordance with Companies Act 1985.



BDO STOY HAYWARD LLP

*Chartered Accountants
and Registered Auditors*
London

27 April 2006

Dreams PLC

Profit and loss account for the year ended 24 December 2005

	Note	24 December 2005 £'000	25 December 2004 £'000
Turnover	2	107,600	89,676
Cost of sales		(45,889)	(40,583)
Gross profit		61,711	49,093
Distribution costs		(8,411)	(6,626)
Administrative expenses		(51,853)	(38,976)
Other operating income		1,744	755
Operating profit before exceptional operating costs		3,191	4,246
Exceptional write off of old stock	5	(940)	-
Exceptional write off of old debtors	5	(418)	-
Operating profit	6	1,833	4,246
Profit on disposal of properties	10	4,614	278
Profit on ordinary activities before interest		6,447	4,524
Interest payable	7	(1,314)	(776)
Profit on ordinary activities before taxation		5,133	3,748
Tax on profit on ordinary activities	8	(1,794)	(1,205)
Profit on ordinary activities after taxation	18	3,339	2,543
Dividends – on equity shares	9	(400)	(400)
Retained Profit for the financial year	17,18	2,939	2,143
Retained profit brought forward as previously stated		5,341	3,198
Retained profit carried forward		8,280	5,341

All amounts relate to continuing activities.

The company has no recognised gains or losses other than the results for the year as set out above.

The notes on pages 12 to 24 form part of these financial statements.

Dreams PLC

Note of historical cost profits and losses for the year ended 24 December 2005

	24 December 2005 £'000	25 December 2004 £'000
Note of historical cost profits and losses		
Reported profit on ordinary activities before taxation	5,133	3,748
Realisation of property revaluation gains of previous years	323	19
	<hr/>	<hr/>
Historical cost profit on ordinary activities before taxation	5,456	3,767
	<hr/>	<hr/>
Retained historical cost profit for the year after taxation and dividends	3,262	2,162
	<hr/>	<hr/>

The notes on pages 12 to 24 form part of these financial statements.

Dreams PLC

Balance sheet at 24 December 2005

		At 24 December		At 25 December	
	Note	2005	2005	2004	2004
		£'000	£'000	£'000	£'000
Fixed assets					
Tangible assets	10		25,626		29,763
Current assets					
Stocks	11	10,782		10,365	
Debtors	12	5,022		7,080	
Cash in hand		25		32	
		15,829		17,477	
Creditors: amounts falling due within one year	13	21,397		26,403	
Net current liabilities			(5,568)		(8,926)
Total assets less current liabilities			20,058		20,837
Creditors: amounts falling due after more than one year	14		10,802		14,682
Provision for liabilities and charges					
Deferred taxation	15		584		422
			8,672		5,733
Capital and reserves					
Called up share capital	16		50		50
Revaluation reserve	17		-		323
Profit and loss account	17		8,622		5,360
Shareholders' funds – all equity	18		8,672		5,733

The financial statements were approved by the Board on 27 April 2006


Mike Clare
Chairman & Chief Executive

The notes on pages 12 to 24 form part of these financial statements.

Dreams PLC

Cash flow statement for the year ended 24 December 2005

	Note	24 December 2005 £'000	25 December 2004 £'000
Net cash inflow from operating activities	21	1,358	13,019
Returns on investments and servicing of finance	22	(1,418)	(776)
Taxation		(665)	(900)
Capital receipts / (expenditure) and financial investment	22	8,413	(19,106)
Equity dividends paid		(400)	(400)
Cash inflow / (outflow) before financing		7,288	(8,163)
Financing	22	(8,907)	9,726
(Decrease) / increase in cash		(1,619)	1,563

Reconciliation of net cash flow to movement in net debt

	Note	24 December 2005 £'000	25 December 2004 £'000
(Decrease) / Increase in cash in the year	23	(1,619)	1,563
Cash outflow / (inflow) from increase in debt and lease financing		8,907	(9,759)
Change in net debt resulting from cash flows		7,288	(8,196)
Inception of hire purchase agreements	23	(2,523)	(2,885)
Movement in net debt in the year		4,765	(11,081)
Net debt at 26 December 2004	23	(16,363)	(5,282)
Net debt at 24 December 2005	23	(11,598)	(16,363)

The notes on pages 12 to 24 form part of these financial statements.

1 Accounting policies

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of freehold land and buildings and are in accordance with applicable accounting standards. The following principal accounting policies have been applied:

Turnover

Turnover included in the financial statements comprises, the value of goods and services delivered by the company, exclusive of value added tax.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is not charged on freehold land. Depreciation on other tangible fixed assets is provided at rates calculated to write off the cost of those assets, less their estimated residual value, over their expected useful lives on the following bases:

Freehold buildings	- 2% straight line
Leasehold premises and improvements	- over the term of the lease
Motor vehicles	- 25% reducing balance
Fixtures and fittings	- 20% reducing balance
Computer equipment	- 33% straight line

Revaluation of tangible fixed assets

As permitted by the transitional provisions of FRS 15 Tangible Fixed Assets the company has elected not to adopt a policy of revaluation of tangible fixed assets. The company will retain the book value of land and buildings, previously revalued in 1999 and will not update that valuation.

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost is based on the cost of purchase on a first in, first out basis. Net realisable value is based on estimated selling price less additional costs of disposal.

Deferred taxation

Provision is made in full for all taxation deferred in respect of timing differences that have originated but not reversed by the balance sheet date, except for timing differences arising on revaluations of fixed assets which are not intended to be sold and gains on disposal of fixed assets which will be rolled over into replacement assets. No provision is made for taxation on permanent differences.

Deferred tax assets are recognised to the extent that it is more likely than not that they will be recovered. Deferred tax balances are not discounted.

Foreign currency

Foreign currency transactions are translated at the rates ruling when they occurred. Foreign currency monetary assets are translated at the rate of exchange ruling at the balance sheet date. Any differences are taken to the profit and loss account.

Dreams PLC

Notes forming part of the financial statements for the year ended 24 December 2005 (Continued)

1 Accounting policies (Continued)

Finance leases and hire purchase

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible fixed assets. Assets acquired by finance lease are depreciated over the shorter of the lease term and their useful lives. Assets acquired by hire purchase are depreciated over their useful lives. Finance leases and hire purchase contracts are those where substantially all of the benefits and risks of ownership are assumed by the company. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the profit and loss account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

Operating leases

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged to the profit and loss account as incurred. In the case of the lease of buildings, any benefits received and receivable, including rent free periods, are spread on a straight line basis over the period from the date that trading started to the next review date.

Pensions

The company operates a defined contribution pension scheme, which is available to staff according to their seniority and length of service with the company. The pension charge represents the amounts payable by the company to the fund in respect of the year.

2 Turnover

Turnover is attributable to the retail sale of beds along with associated products, services and activities within the United Kingdom. All turnover arose within the United Kingdom.

3 Employees

	24 December 2005 £'000	25 December 2004 £'000
Staff costs consist of:		
Wages and salaries	20,738	16,318
Social security costs	2,099	1,649
Other pension costs	61	67
	<hr/>	<hr/>
	22,898	18,034
	<hr/>	<hr/>

Dreams PLC

Notes forming part of the financial statements for the year ended 24 December 2005 (Continued)

3 Employees (Continued)

	24 December 2005 Number	25 December 2004 Number
The average number of employees, including directors, during the year was:		
Sales and administration	554	470
Distribution	319	191
	<hr/>	<hr/>
	873	661
	<hr/>	<hr/>

The pensions charge for the year was £61,000 (2004 - £67,000) and the amount in creditors at the end of the year was £7,000 (2004 - £5,000).

4 Directors

	24 December 2005 £'000	25 December 2004 £'000
Directors' remuneration consists of:		
Aggregate emoluments	794	600
	<hr/>	<hr/>

During the year retirement benefits were accruing to 4 directors (2004 - 3) in respect of money purchase pension schemes. Company payments made to money purchase pension schemes for the directors during the year were £12,000 (2004 - £7,000). The highest paid director received remuneration (including salary and benefits in kind) of £234,000 (2004 - £230,000).

5 Exceptional write off of old stock / old debtors

As a result of the investment, upgrade and fundamental change of software which was initially implemented during 2004 and continued into 2005, overstatements of stock of £940,000 and debtors of £418,000 were realised and are highlighted in the accounts.

Dreams PLC**Notes forming part of the financial statements for the year ended 24 December 2005 (Continued)****6 Operating profit**

	24 December 2005 £'000	25 December 2004 £'000
This has been arrived at after charging:		
Depreciation of tangible fixed assets - owned by the company	2,685	1,696
- held under finance leases	332	259
Operating lease rentals - land and buildings	10,297	7,749
Auditors' remuneration	54	34
Auditors' remuneration - non audit	13	27
	<u> </u>	<u> </u>

7 Interest payable

	24 December 2005 £'000	25 December 2004 £'000
Bank loans and overdrafts	797	579
Retail finance interest	299	115
Finance leases and hire purchase contracts	218	82
	<u> </u>	<u> </u>
	<u>1,314</u>	<u>776</u>

Dreams PLC

Notes forming part of the financial statements for the year ended 24 December 2005 (Continued)

8 Taxation on profit from ordinary activities

	24 December 2005 £'000	25 December 2004 £'000
<i>Current tax</i>		
UK corporation tax on profits for the year	1,745	1,248
Adjustment in respect of previous years	(113)	(185)
	<hr/>	<hr/>
Total current tax	1,632	1,063
<i>Deferred tax</i>		
Accelerated capital allowances (note 15)	162	142
	<hr/>	<hr/>
Total deferred tax	162	142
	<hr/>	<hr/>
Taxation on profit from ordinary activities	1,794	1,205
	<hr/>	<hr/>

The tax assessed for the year differs from the standard rate of corporation tax in the UK. The differences are explained below:

	24 December 2005 £'000	25 December 2004 £'000
Profit on ordinary activities before tax	5,133	3,748
	<hr/>	<hr/>
Profit on ordinary activities at the standard rate of corporation tax in the UK of 30 % (2004 – 30%)	1,540	1,125
Effects of:		
Expenses not deductible for tax purposes	77	265
Depreciation in excess of/(less than) capital allowances	264	(142)
Profit on disposal of fixed assets	(1,413)	-
Chargeable gains on sale of freehold buildings	1,277	-
Adjustments to tax charge in respect of prior periods	(113)	(185)
	<hr/>	<hr/>
Current tax charge for year	1,632	1,063
	<hr/>	<hr/>

Dreams PLC

Notes forming part of the financial statements for the year ended 24 December 2005 (Continued)

9 Dividends

	24 December 2005 £'000	25 December 2004 £'000
Total interim dividends paid of 800 pence per share (2004 - 800 pence)	400	400

10 Tangible assets

	Land and buildings £'000	Motor vehicles £'000	Furniture, fittings and equipment £'000	Total £'000
<i>Cost or valuation</i>				
At 26 December 2004	19,862	2,037	12,650	34,549
Additions	548	591	5,440	6,579
Disposals	(7,822)	(98)	(37)	(7,957)
At 24 December 2005	12,588	2,530	18,053	33,171
<i>Depreciation</i>				
At 26 December 2004	506	893	3,387	4,786
Charge for the year	189	337	2,491	3,017
On disposals	(169)	(67)	(22)	(258)
At 24 December 2005	526	1,163	5,856	7,545
<i>Net book value</i>				
At 24 December 2005	12,062	1,367	12,197	25,626
At 25 December 2004	19,356	1,144	9,263	29,763

The net book values of assets held under finance leases or hire purchase contracts, included above, are as follows:

	at 24 December 2005 £'000	at 25 December 2004 £'000
Motor vehicles	810	517
Furniture, fittings and equipment	1,027	1,114
	1,837	1,631

Dreams PLC

Notes forming part of the financial statements for the year ended 24 December 2005 (Continued)

10 Tangible assets (Continued)

Included in land and buildings is freehold land at valuation of £nil (2004 - £7,215,000) which is not depreciated. As at 24 December 2005, £11,280,000 (2004 - £18,827,000) and £785,000 (2004 - £529,000) included within the net book value of land and buildings relates to freehold and short leasehold land and buildings respectively.

Freehold property at Mitcham was valued at £995,000 in March 1999. This property was sold during the year, along with the property at Wednesbury, whilst at the same time entering into long term operating leases on both of these properties. These transactions generated net gains against book value of £4,649,000 shown within the total profit on disposal of properties of £4,614,000 (2004 - £278,000). At the previous year end, unprovided tax on the revaluation of Mitcham amounted to £61,000 (note 15), the property subsequently being disposed of during 2005.

If the land and buildings subject to revaluation had not been included at their revalued amount, they would have been included under historical cost at the appropriate year end as follows:

	at 25 December 2004 £'000
Cost of revalued properties	624
Accumulated depreciation	(37)
	<hr/>
	587
	<hr/>

11 Stocks

	at 24 December 2005 £'000	at 25 December 2004 £'000
Finished goods and goods for resale	10,782	10,365
	<hr/>	<hr/>

In the opinion of the directors there is no material difference between the replacement value of stock and the amounts stated above.

Dreams PLC**Notes forming part of the financial statements for the year ended 24 December 2005 (Continued)****12 Debtors**

	at 24 December 2005 £'000	at 25 December 2004 £'000
Due within one year:		
Trade debtors	954	1,963
Corporation Tax	17	-
Other taxes and social security recoverable	-	618
Prepayments	4,051	4,499
	<u>5,022</u>	<u>7,080</u>

13 Creditors: amounts falling due within one year

	at 24 December 2005 £'000	at 25 December 2004 £'000
Bank loans and overdraft (secured, see note 14)	3,936	2,993
Obligations under finance leases and hire purchase contracts	1,722	1,212
Trade creditors	8,566	16,659
Corporation tax	-	294
Other taxes and social security	3,474	604
Deposits received in advance of delivery	1,139	2,375
Accruals and deferred income	2,560	2,266
	<u>21,397</u>	<u>26,403</u>

14 Creditors: amounts falling due after more than one year

	at 24 December 2005 £'000	at 25 December 2004 £'000
Bank loans	4,989	11,342
Obligations under finance leases and hire purchase contracts	976	850
Accruals and deferred income	3,560	2,490
Corporation tax	1,277	-
	<u>10,802</u>	<u>14,682</u>

The corporation tax due in more than one year relates to the capital gains tax payable on the sale of the freehold properties disclosed in note 10. The directors intend to claim roll over relief which means that no tax will be payable in less than one year on the chargeable gain.

Dreams PLC

Notes forming part of the financial statements for the year ended 24 December 2005 (Continued)

14 Creditors: amounts falling due after more than one year (Continued)

	at 24 December 2005 £'000	at 25 December 2004 £'000
Included within the above are amounts falling due as follows:		
Between one and two years:		
Bank loans	657	1,358
Accruals and deferred income	1,406	786
Between two and five years:		
Bank loans	2,632	5,432
Accruals and deferred income	2,089	1,510
Over five years:		
Bank loans	1,700	4,552
Accruals and deferred income	65	194

The bank loan is repayable by monthly instalments over 10 years. The rate of interest charged on the loan is 1.25% above the bank base rate.

The company's bank loan and overdraft amounting to £8,925,000 (2004 - £14,334,000) are secured on the company's assets by a debenture dated 31 October 2003 and by a first mortgage over the company's freehold property.

Obligations under finance leases and hire purchase contracts, included above, are payable as follows:

	at 24 December 2005 £'000	at 25 December 2004 £'000
Between one and two years:	850	-
Between two and five years:	127	850

15 Provisions for liabilities and charges

	at 24 December 2005 £'000	at 25 December 2004 £'000
<i>Deferred taxation</i>		
At 26 December 2004	422	280
Charge for the year (note 8)	162	142
At 24 December 2005	584	422

Dreams PLC

Notes forming part of the financial statements for the year ended 24 December 2005 (Continued)

15 Provisions for liabilities and charges (Continued)

The provision for deferred taxation and the amounts not provided are as follows:

	Provided at 24 December 2005 £'000	Unprovided at 24 December 2005 £'000	Provided at 25 December 2004 £'000	Unprovided at 25 December 2004 £'000
Accelerated capital allowances	584	-	422	-
Revaluation of freehold property (note 10)	-	-	-	61
	<u>584</u>	<u>-</u>	<u>422</u>	<u>61</u>

16 Share capital

	Authorised			
	at 24 December 2005 Number	at 25 December 2004 Number	at 24 December 2005 £'000	at 25 December 2004 £'000
Ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>	<u>100</u>	<u>100</u>

	Allotted, called up and fully paid			
	at 24 December 2005 Number	at 25 December 2004 Number	at 24 December 2005 £'000	at 25 December 2004 £'000
Ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>	<u>50</u>	<u>50</u>

17 Reserves

	Revaluation reserve	Profit and loss account
	£'000	£'000
At 26 December 2004	323	5,360
Retained profit for year	-	2,939
Transfer of revaluation reserve in respect of assets disposed	(323)	323
	<u>-</u>	<u>8,622</u>
At 24 December 2005	<u>-</u>	<u>8,622</u>

Dreams PLC

Notes forming part of the financial statements for the year ended 24 December 2005 (Continued)

18 Reconciliation of movement in shareholders' funds

	24 December 2005 £'000	25 December 2004 £'000
Profit for the year	3,339	2,543
Dividends	(400)	(400)
	<hr/>	<hr/>
	2,939	2,143
Opening shareholders' funds	5,733	3,590
	<hr/>	<hr/>
Closing shareholders' funds	8,672	5,733
	<hr/>	<hr/>

19 Contingent liabilities

The company has guaranteed the rents of franchisees amounting to the sum of £ 330,000 (2004 - £330,000) per annum.

Income in the company is in UK sterling, whereas certain expenditure is in US dollars. Therefore the directors have implemented a strategy to mitigate the risks associated with foreign exchange. On 24 November 2005 the company entered into forward exchange contracts to buy a total of US\$2,000,000 at a rate of US\$1.72:£1, with maturity dates between January and February 2006.

20 Commitments under operating leases

As at 24 December 2005, the company had annual commitments under non-cancellable operating leases as set out below:

	at 24 December 2005 Land and buildings £'000	at 25 December 2004 Land and buildings £'000
Operating leases which expire:		
Within one year	192	301
In two to five years	117	270
Over five years	13,296	9,675
	<hr/>	<hr/>
	13,605	10,246
	<hr/>	<hr/>

Dreams PLCNotes forming part of the financial statements for the year ended 24 December 2005 *(Continued)***21 Reconciliation of operating profit to net cash inflow from operating activities**

	24 December 2005 £'000	25 December 2004 £'000
Operating profit	1,833	4,246
Depreciation of tangible fixed assets	3,017	1,955
(Increase) in stocks	(417)	(4,194)
Decrease / (Increase) in debtors	2,075	(2,729)
(Decrease) / Increase in creditors	(5,150)	13,741
	<hr/>	<hr/>
Net cash inflow from operations	1,358	13,019
	<hr/>	<hr/>

22 Analysis of cash flows for heading netted in the cash flow statement

	24 December 2005 £'000	25 December 2004 £'000
Returns on investments and servicing of finance		
Bank and other interest paid	(1,200)	(694)
Finance lease and hire purchase interest	(218)	(82)
	<hr/>	<hr/>
Net cash outflow from returns on investments and servicing of finance	(1,418)	(776)
	<hr/>	<hr/>
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(3,900)	(20,102)
Sale of tangible fixed assets	12,313	996
	<hr/>	<hr/>
Net cash inflow / (outflow) from capital expenditure and financial investment	8,413	(19,106)
	<hr/>	<hr/>
Financing		
New secured loans	-	11,352
Repayment of loans	(7,020)	(583)
Capital repayments under finance lease	(1,887)	(1,043)
	<hr/>	<hr/>
Net cash (outflow) / inflow from financing	(8,907)	9,726
	<hr/>	<hr/>

Dreams PLC

Notes forming part of the financial statements for the year ended 24 December 2005 *(Continued)*

23 Analysis of changes in net debt

	At 26 December 2004 £'000	Cash flow £'000	Other non-cash changes £'000	At 24 December 2005 £'000
Cash at bank and in hand	33	(8)		25
Bank overdraft	(1,667)	(1,611)		(3,278)
	<u>(1,634)</u>	<u>(1,619)</u>		<u>(3,253)</u>
Debt:				
Debts due within one year	(1,325)	667		(658)
Debts falling due after more than one year	(11,342)	6,353		(4,989)
Finance leases	(2,062)	1,887	(2,523)	(2,698)
	<u>(16,363)</u>	<u>7,288</u>	<u>(2,523)</u>	<u>(11,598)</u>

24 Related party transactions

During the year, the company sold goods to a value of £116,000 (2004 - £41,000) to Island Dreams Limited. Mike and Carol Clare, who are directors of Dreams Plc, are also directors of Island Dreams Limited. The amount outstanding at the end of the year was £16,000 (2004 - £12,000). This balance has been paid subsequent to the year end.

25 Controlling party

The company was controlled throughout the current and previous year by Mike Clare, a director, by virtue of his 95% shareholding.