

2189 420

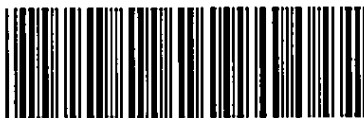
**Dreams plc**

Report and Financial Statements

Year Ended

24 December 2006

SATURDAY



\*AZ0KHOWU\*

A45

21/04/2007

693

COMPANIES HOUSE



**BDO Stoy Hayward**  
Chartered Accountants

**Dreams plc**

**Annual report and financial statements for the year ended 24 December 2006**

---

**Contents**

**Page:**

1	Company information
2	Chairman's statement
4	Report of the directors
7	Report of the independent auditors
9	Profit and loss account
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 Suthern  
Nick Worthington

**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**

Shoosmiths  
Russell House,  
1550 Parkway  
Solent Business Park  
Fareham  
Hampshire  
PO15 7AG

## **Dreams plc**

### **Chairman's statement for the year ended 24 December 2006**

---

*"In 2006 Dreams further strengthened its position as Britain's Leading Bed Specialist, following the acquisition of eight branches in Scotland. Six branches were opened in North West England, along with 15 new branches within our existing territories, a further branch in Scotland and an additional franchise in Northern Ireland. This growth enabled Dreams to surpass the double milestone of 150 stores and £150m of gross sales.*

*This growth has definitely not been at any price, as profits have grown significantly faster than sales in what has continued to be a challenging market for retailers of large ticket goods."*

#### **Results**

The company made an operating profit before tax of £7.1m, a 38% increase on 2005. Turnover was up by 22% to £131.5m, driven from impressive like for like increases in sales orders, along with the introduction of new product lines and new store openings.

#### **Growth**

Our aggressive retail growth programme took the Company into new territories during the second half of the year, with stores opening across both Scotland and North West England. The total of 31 branch openings included 15 in the Midlands and South as part of our strategy to maintain our market leading position in the bed specialist market within these areas. The move into Scotland followed the first multi-site acquisition for Dreams resulting from the purchase of eight trading sites from Off to Bed Limited. We quickly capitalised on this foothold by negotiating a freehold store in Stirling during December. Overall, Dreams added 245,000 square feet of retail selling space during 2006, an increase of 27% from the start of the year.

The expansion of sites has been supported by the introduction of exciting new product lines into the business. 2006 saw growth of 143% on key "sleep" (bedding/pillows) product lines and the introduction of ready assembled bedroom furniture.

#### **Logistics**

Such expansion requires appropriate logistical support and therefore, two new Home Delivery Depots (HDD's) were opened in Warrington and Glasgow, adding an extra 110,000 square feet of distribution space. This space is sufficient not only to support the stores opened in 2006, but it also facilitates the future expansion of the retail stores within these geographical areas. Dreams now has over half a million square feet of distribution space and with a target ratio of 1 foot to every 3 feet of retail space the business is well placed to support Dreams' expansion plans for 2007 and beyond. Customer service cannot be compromised and the continued investment in our Distribution and Supply Chain functions underlines Dreams' commitment to always exceed our customers' expectations.

#### **Production**

In 2006 it quickly became apparent that our production capacities were insufficient to meet the increasing demand for our Factory Direct Mattresses. By the summer we had located a suitable site in Oldbury and a freehold building was acquired, modified, equipped and was in full production by October. By the end of the year we had disposed of our previous manufacturing site in Perry Barr and production levels in the new Dreams Bed Factory had increased by several thousand pieces per month. We were able to transfer all of the existing Perry Barr production team, supplemented by new recruits ably led by our newly promoted Production Director, John Jones.

I am proud of the fact that the Dreams Bed Factory is the largest new furniture manufacturing facility opened in the UK in recent years. The site is fronted by our brand new retail superstore and underpins Dreams as a leading employer in the West Midlands, not just in retail but also in distribution and manufacturing.

## **People**

By the end of the year the total number of Dreams' employees exceeded 1,200, with over 600 employed in the retail branches. To support our staff, who are the most important part of our business, we recruited Suzanne Taylor our new Resources Director to oversee both Human Resources and Production. One of Suzanne's early initiatives was to open the 'Academy of Dreams' at our Central Distribution facility in Wednesbury. This bespoke training centre is designed to ensure our retail employees are the best in the industry, with residential courses to train and develop our staff. In 2007 the Academy will be expanded further to encompass training courses for employees from all areas of the business.

## **Business Partners**

Dreams' manufacturing expansion has not been at the expense of our existing suppliers. Our continued and substantial growth is more than sufficient to provide capacity for both our own factory and continued growth for our loyal suppliers. I am personally involved with several industry wide organisations that are constantly striving to find improvements to the UK furniture supply chain to move products quickly and more efficiently to our customers, we appreciate the help of all our suppliers in this regard. We are also very appreciative of the support that our professional advisors and service suppliers have given us throughout the year.

## **New Development and the Environment**

In 2006 the Company invested over £10m in capital projects, including new production facilities, IT systems, vehicles and improvements to stores. The Board's commitment to expanding the business is clear and we will continue to invest in 2007.

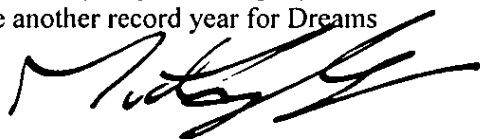
In addition, throughout 2007 we will implement projects designed to improve the environmental aspects of the business, such as further development of our recycling initiatives and alternative forms of energy production.

We have already started introducing our own fleet of LGV vehicles during 2007. With their larger capacity trailers they will ensure that we have less vehicles on the road yet still enable us to satisfy the demands of our rapidly expanding business. We are also adopting the use of recycled materials throughout the business and with the purchase of two brand new bed recycling machines will actively be encouraging customers to recycle their old beds by promoting our unique and award winning Old Bed Collection service.

## **Outlook**

We have planned significant expansion to many of our Delivery Depots in 2007 that will enable us to hold more stock, offer a faster delivery service and generally have greater control over the distribution of products to our customers.

At Dreams we are not used to "resting on our laurels" and we don't intend to start in 2007. There are a number of exciting new initiatives and projects that are already underway - most of which are expected to be completed by the summer. Our impressive like for like sales increases have continued into 2007, supported by strong trading from all of the new branches opened in the last quarter of 2006. Four new branches have already been opened in the first quarter of this year and we plan to open around twenty more before the year end. Margins have already improved slightly and with a robust infrastructure in place to support the business, 2007 promises to be another record year for Dreams.



Mike Clare  
Chairman & Chief Executive  
10 April 2007

**Report of the directors for the year ended 24 December 2006**

---

The directors present their report together with the audited financial statements for the year ended 24 December 2006

**Principal activities**

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

**Business review and financial risk management**

The profit and loss account is set out on page 9 and shows the profit for the year. The profit for the year, after taxation, amounted to £4,554k (2005 £3,339k)

The directors are pleased to report another year of controlled and profitable growth. Turnover has increased by 22% to £131,488k in 2006, with profit before tax increasing by 38% to £7,065k

During the year the company opened 30 new branches, along with 1 new franchise branch in Northern Ireland. These openings were offset by 5 branch closures, 4 of which were relocations. During the year 2 home delivery depots have been opened as a direct result of the business expansion into Scotland and North West England. The company also relocated its manufacturing operations to a substantially larger freehold factory in Oldbury in the West Midlands with a resultant increase in production levels.

The business expansion has been funded through operating cash generation, along with a long term bank loan for £2m to fund the purchase of a freehold building. In early 2007 the business purchased a freehold retail site in Scotland for £1.5m, to be funded by a further £1m long term loan.

Although the retail market for large durable goods has been challenging over the last two years, the company has maintained like for like growth alongside the growth in the number of branches. This growth has been sustained through a continued investment in advertising, a wide selection of products, competitive product prices and value for money. The company has increased average transaction values during the year through focus on providing value in the mid range of products, supplemented by added value from sales of accessory products. The directors expect the general level of activity to continue in the foreseeable future, supplemented by further branch openings in Scotland and North West England.

Operating profit as a percentage of sales has improved from 1.7% to 5.7% as the company improves efficiencies of administration overheads through continued expansion. Gross Profit margin has improved by 2% as the company has increased the supply of directly imported bedsteads and headboards, along with the increased production of mattresses from the new factory.

The company's product sourcing strategy exposes it to the financial risks of changes in foreign currency exchange rates, in particular the US Dollar. The company uses foreign exchange forward contracts to minimise the risk against business plans over a 12 month projected period.

The company has no significant concentration of supply risk, with exposure spread over a large number of suppliers and credit insurers. In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the company uses a mixture of long term debt secured against freehold property and short term operating cash generation. Payment terms from retail customers and to product suppliers ensure a positive operating cash generation and risk from customer debt is low.

The company's principal financial assets are in fixed assets and stock and the operating cash generation results in net current liabilities at the balance sheet date. The directors are confident that this is consistent with other businesses of this nature and that it does not represent a significant risk.

## **Dreams plc**

### **Report of the directors for the year ended 24 December 2006 (continued)**

---

The company will continue to campaign for monthly rental payments on property leases, a policy which will lessen short term spikes in operating cash requirements and reduce operating cash risks within the business. The company monitors cash flow as part of its day to day control procedures with a monthly review by the Board to ensure that adequate facilities are available to be drawn upon as necessary.

#### **Dividends**

During the year, the company paid interim dividends of £400k (2005 £400k). The directors do not recommend the payment of a final dividend.

#### **Charitable and political contributions**

During the year the company committed to charitable contributions of £29k (2005 £27k), principally to charities supporting work with disadvantaged children.

#### **Directors**

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

		<b>Ordinary shares of £1 each</b>	
		<b>2006</b>	<b>2005</b>
Mike Clare		47,500	47,500
Carol Clare		2,500	2,500
Nick Worthington		-	-
Richard Mawer		-	-
Greg Suthern		-	-
Rob Clark	(appointed 6 March 2006)	-	-

#### **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 2006 are shown as 29 days (2005 30 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 people irrespective of sex, age, religion or disability, 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, a quarterly company magazine 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.

## **Dreams plc**

### **Report of the directors for the year ended 24 December 2006 (continued)**

---

from its home delivery depots. Such efforts have been recognised with Dreams being awarded the Retail Recycling Award for 2006, beating off strong competition from major UK blue-chip companies.

The company has plans to make significant investments into improving the disposal process for its old bed collection service. The company is investing in equipment to enable the recycling of more bed components, reduce physical volume and place less reliance on landfill. By providing this service the company also reduces reliance for disposal through domestic waste sites. The company is also investing in higher volume trailers, this will reduce the total number of vehicles required to fulfil the supply chain requirements of the business by at least 25%, thus reducing emissions by a similar percentage.

#### **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.

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.

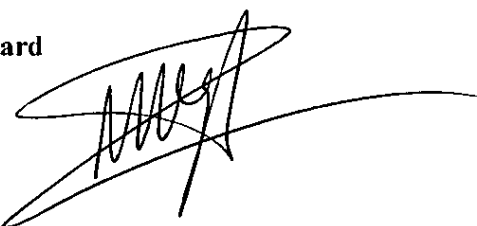
#### **Auditors**

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

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  
10 April 2007





**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 2006 on pages 9 to 24 which comprise the profit and loss account, the balance sheet, the cash flow statement 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 International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the 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 mis-statements 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 mis-statement, 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 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements



**BDO STOY HAYWARD LLP**

*Chartered Accountants  
and Registered Auditors*  
London

10 April 2007

**Dreams plc****Profit and loss account for the year ended 24 December 2006**

	<b>Note</b>	<b>2006 £'000</b>	<b>2005 £'000</b>
<b>Turnover</b>	2	131,488	107,600
Cost of sales		(53,470)	(45,889)
<b>Gross profit</b>		78,018	61,711
Distribution costs		(10,098)	(8,411)
Administrative expenses		(61,886)	(51,853)
Other operating income		1,465	1,744
Exceptional write off of old stock	5	-	(940)
Exceptional write off of old debtors	5	-	(418)
<b>Operating profit</b>	6	7,499	1,833
Profit on disposal of properties		785	4,614
<b>Profit on ordinary activities before interest</b>		8,284	6,447
Interest payable	7	(1,219)	(1,314)
<b>Profit on ordinary activities before tax</b>		7,065	5,133
Tax on profit on ordinary activities	8	(2,511)	(1,794)
<b>Profit on ordinary activities after tax</b>	18	4,554	3,339

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****Balance sheet at 24 December 2006**

	Note	2006 £'000	2006 £'000	2005 £'000	2005 £'000
<b>Fixed assets</b>					
Tangible assets	10		30,658		25,626
<b>Current assets</b>					
Stocks	11	13,233		10,782	
Debtors	12	10,589		5,022	
Cash in hand		1,259		25	
		<u>25,081</u>		<u>15,829</u>	
<b>Creditors: amounts falling due within one year</b>	13	<u>30,271</u>		<u>21,397</u>	
<b>Net current liabilities</b>			(5,190)		(5,568)
<b>Total assets less current liabilities</b>			25,468		20,058
<b>Creditors: amounts falling due after more than one year</b>	14		12,060		10,802
<b>Provision for liabilities and charges</b>					
Deferred tax	15		582		584
			<u>12,826</u>		<u>8,672</u>
<b>Capital and reserves</b>					
Called up share capital	16		50		50
Profit and loss account	17		12,776		8,622
<b>Shareholders' funds – all equity</b>	18		<u>12,826</u>		<u>8,672</u>

The financial statements were approved by the Board and authorised for issue on 10 April 2007

  
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 2006**

	<b>Note</b>	<b>2006 £'000</b>	<b>2005 £'000</b>
<b>Net cash inflow from operating activities</b>	22	14,126	1,358
Returns on investments and servicing of finance	23	(1,198)	(1,418)
Tax		(500)	(665)
Capital (expenditure) / receipts and financial investment	23	(8,172)	8,413
Equity dividends paid		(400)	(400)
		<hr/>	<hr/>
<b>Cash inflow before financing</b>		3,856	7,288
Financing	23	61	(8,907)
		<hr/>	<hr/>
<b>Increase / (Decrease) in cash</b>		<u>3,917</u>	<u>(1,619)</u>
<b>Reconciliation of net cash flow to movement in net debt</b>			
Increase / (Decrease) in cash in the year	24	3,917	(1,619)
Cash (inflow) / outflow from increase in debt and lease financing		(61)	8,907
		<hr/>	<hr/>
Change in net debt resulting from cash flows		3,856	7,288
Inception of hire purchase agreements		-	(2,523)
		<hr/>	<hr/>
Movement in net debt in the year		3,856	4,765
Net debt at 25 December 2005	24	(11,598)	(16,363)
		<hr/>	<hr/>
Net debt at 24 December 2006	24	<u>(7,742)</u>	<u>(11,598)</u>

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 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	- 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.

### *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 tax*

Provision is made in full for all tax deferred in respect of timing differences that have originated but not reversed by the balance sheet date, except for gains on disposal of fixed assets which will be rolled over into replacement assets. No provision is made for tax 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 2006 (continued)

#### 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 retail and trade sales of beds along with associated products, services and activities within the United Kingdom, recognised on a delivered basis. All turnover arose within the United Kingdom.

## 3 Employees

	2006 £'000	2005 £'000
Staff costs consist of		
Wages and salaries	24,736	20,738
Social security costs	2,506	2,099
Other pension costs	71	61
	<hr/>	<hr/>
	27,313	22,898
	<hr/>	<hr/>

## Dreams plc

### Notes forming part of the financial statements for the year ended 24 December 2006 (*continued*)

#### Employees (*continued*)

	2006 Number	2005 Number
The average number of full time employees, including directors, during the year was		
Sales	493	383
Head Office	181	154
Logistics and Production	377	336
	<u>1,051</u>	<u>873</u>

The pensions charge for the year was £71k (2005 £61k) and the amount in creditors at the end of the year was £7k (2005 £7k)

#### 4 Directors

	2006 £'000	2005 £'000
Directors' remuneration consists of		
Aggregate emoluments	<u>1,016</u>	<u>794</u>

During the year retirement benefits were accruing to 3 directors (2005 4) in respect of money purchase pension schemes. Company payments made to money purchase pension schemes for the directors during the year were £15k (2005 £12k). The highest paid director received remuneration (including salary and benefits in kind) of £242k (2005 £234k).

#### 5 Exceptional write off of old stock/old debtors

During the prior year, as a result of the investment, upgrade and fundamental change of software which was initially implemented during 2005 and continued into 2006, overstatements of stock of £940k and debtors of £418k were realised and are highlighted in the accounts.



**Dreams plc****Notes forming part of the financial statements for the year ended 24 December 2006 (continued)****6 Operating profit**

	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
This has been arrived at after charging		
Depreciation of tangible fixed assets - owned by the company	3,482	2,685
- held under finance leases	443	332
Operating lease rentals - land and buildings	13,277	10,297
Auditors' remuneration	60	54
Auditors' remuneration - non audit	15	13
	<u>          </u>	<u>          </u>

**7 Interest payable**

	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
Bank loans and overdrafts	425	797
Retail finance interest	665	299
Finance leases and hire purchase contracts	129	218
	<u>          </u>	<u>          </u>
	1,219	1,314
	<u>          </u>	<u>          </u>

**8 Tax on profit from ordinary activities**

	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
<i>Current tax</i>		
UK corporation tax on profits for the year	2,513	1,745
Adjustment in respect of prior years	-	(113)
	<u>          </u>	<u>          </u>
Total current tax	2,513	1,632
<i>Deferred tax</i>		
Accelerated capital allowances	(24)	162
Origination of timing differences	22	-
	<u>          </u>	<u>          </u>
Total deferred tax (note 15)	(2)	162
	<u>          </u>	<u>          </u>
Tax on profit from ordinary activities	2,511	1,794
	<u>          </u>	<u>          </u>

**Dreams plc****Notes forming part of the financial statements for the year ended 24 December 2006 (continued)****Tax on profit from ordinary activities (continued)**

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

	<b>2006</b> <b>£'000</b>	<b>2005</b> <b>£'000</b>
Profit on ordinary activities before tax	7,065	5,133
Profit on ordinary activities at the standard rate of corporation tax in the UK of 30% (2005 30%)	2,120	1,540
Effects of		
Expenses not deductible for tax purposes	13	77
Depreciation on non-qualifying assets	415	-
Capital allowances in (excess) / deficit of depreciation	(11)	264
Loss on disposal of fixed assets (qualifying)	35	-
Profit on disposal of fixed assets (non-qualifying)	(255)	(1,413)
Chargeable gains	196	1,277
Over provision in respect of previous years	-	(113)
Current tax charge for year	2,513	1,632

**9 Dividends**

	<b>2006</b> <b>£'000</b>	<b>2005</b> <b>£'000</b>
Total interim dividends paid of 800 pence per share (2005 800 pence)	400	400

10 Tangible assets

	Land and buildings £'000	Motor vehicles £'000	Fixtures, fittings and equipment £'000	Total £'000
<i>Cost or valuation</i>				
At 25 December 2005	12,588	2,530	18,053	33,171
Additions	4,666	629	5,121	10,416
Disposals	(1,286)	(142)	(411)	(1,839)
	<hr/>	<hr/>	<hr/>	<hr/>
At 24 December 2006	15,968	3,017	22,763	41,748
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>				
At 25 December 2005	526	1,163	5,856	7,545
Charge for the year	254	382	3,289	3,925
On disposals	(102)	(86)	(192)	(380)
	<hr/>	<hr/>	<hr/>	<hr/>
At 24 December 2006	678	1,459	8,953	11,090
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>				
At 24 December 2006	15,290	1,558	13,810	30,658
	<hr/>	<hr/>	<hr/>	<hr/>
At 24 December 2005	12,062	1,367	12,197	25,626
	<hr/>	<hr/>	<hr/>	<hr/>

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

	2006 £'000	2005 £'000
Motor vehicles	154	548
Fixtures, fittings and equipment	992	1,790
	<hr/>	<hr/>
	1,146	2,338
	<hr/>	<hr/>

As at 24 December 2006, £12,779k (2005 £10,074k) included within the net book value of land and buildings relates to freehold land and buildings

**Dreams plc****Notes forming part of the financial statements for the year ended 24 December 2006 (continued)****11 Stocks**

	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
Finished goods and goods for resale	13,233	10,782

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

**12 Debtors**

	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
Due within one year		
Trade debtors	837	954
Corporation tax	517	17
Prepayments	9,235	4,051
	<u>10,589</u>	<u>5,022</u>

**13 Creditors: amounts falling due within one year**

	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
Bank loans (secured, see note 14)	1,253	658
Overdraft (secured, see note 14)	595	3,278
Obligations under finance leases and hire purchase contracts	877	1,722
Trade creditors	18,081	8,566
Corporation tax	2,317	-
Other taxes and social security	1,818	3,474
Deposits received in advance of delivery	1,164	1,139
Accruals and deferred income	4,166	2,560
	<u>30,271</u>	<u>21,397</u>

## **Dreams plc**

**Notes forming part of the financial statements for the year ended 24 December 2006 *(continued)***

---

### **25 Related party transactions**

During the year, the company sold goods to a value of £147k (2005 £116k) 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 £24k (2005 £16k). This balance has been paid subsequent to the year end.

### **26 Controlling party**

The company was controlled throughout the reported years by Mike Clare, a director, by virtue of his 95% shareholding.

**Dreams plc**

**Notes forming part of the financial statements for the year ended 24 December 2006 (continued)**

**14 Creditors: amounts falling due after more than one year**

	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
Bank loans	6,131	4,989
Obligations under finance leases and hire purchase contracts	145	976
Accruals and deferred income	4,311	3,560
Corporation tax	1,473	1,277
	<u>12,060</u>	<u>10,802</u>

The corporation tax due in more than one year relates to the capital gains tax payable on the sale of the freehold properties in 2005 and 2006. 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.

Included within the above are amounts falling due as follows

	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
Between one and two years		
Bank loans	858	657
Accruals and deferred income	1,639	1,406
	<u>2,497</u>	<u>2,063</u>
Between two and five years		
Bank loans	2,574	2,632
Accruals and deferred income	2,657	2,089
	<u>5,231</u>	<u>4,721</u>
Over five years		
Bank loans	2,699	1,700
Accruals and deferred income	15	65
	<u>2,714</u>	<u>1,765</u>

The bank loans are repayable by monthly and quarterly 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 £7,980k (2005: £8,925k) 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

	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
Between one and two years	145	850
Between two and five years	-	126
	<u>145</u>	<u>976</u>

# **Dreams plc**

Notes forming part of the financial statements for the year ended 24 December 2006 (*continued*)

## **15 Provisions for liabilities and charges**

	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
<i>Deferred taxation</i>		
At 25 December	584	422
(Credit) / Charge for the year (note 8)	(2)	162
	<hr/>	<hr/>
At 24 December	582	584
	<hr/> <hr/>	<hr/> <hr/>

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

	<b>Provided</b>	<b>Unprovided</b>	<b>Provided</b>	<b>Unprovided</b>
	<b>2006</b>	<b>2006</b>	<b>2005</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Accelerated capital allowances	560	-	584	-
Other timing differences	22	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	582	-	584	-
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

## **16 Share capital**

### **Authorised**

	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>Number</b>	<b>Number</b>	<b>£'000</b>	<b>£'000</b>
Ordinary shares of £1 each	100,000	100,000	100	100
	<hr/>	<hr/>	<hr/>	<hr/>

### **Allotted, called up and fully paid**

	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>Number</b>	<b>Number</b>	<b>£'000</b>	<b>£'000</b>
Ordinary shares of £1 each	50,000	50,000	50	50
	<hr/>	<hr/>	<hr/>	<hr/>

## **Dreams plc**

### **Notes forming part of the financial statements for the year ended 24 December 2006 (continued)**

#### **17 Reserves**

	<b>Profit and loss account £'000</b>
At 25 December 2005	8,622
Profit for year before dividends	4,554
Dividends	(400)
	<hr/>
At 24 December 2006	12,776
	<hr/>

#### **18 Reconciliation of movement in shareholders' funds**

	<b>2006 £'000</b>	<b>2005 £'000</b>
Profit for the year	4,554	3,339
Dividends	(400)	(400)
	<hr/>	<hr/>
	4,154	2,939
Opening shareholders' funds	8,672	5,733
	<hr/>	<hr/>
Closing shareholders' funds	12,826	8,672
	<hr/>	<hr/>

#### **19 Subsequent events**

On 15 January 2007 the company completed the purchase of a freehold property in Stirling, Scotland for £1,500k

#### **20 Contingent liabilities**

The company has guaranteed the rents of franchisees amounting to the sum of £306k (2005 £330k) 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. Between 5 October and 22 December, the company entered into forward exchange contracts to buy a total of US\$3,500k at rates between US\$1.88:£1 and US\$1.96:£1, with maturity dates between 29 December 2006 and 13 April 2007.



**21 Commitments under operating leases**

As at 24 December 2006, the company had annual commitments under non-cancellable operating leases as set out below

	<b>2006</b>	<b>2005</b>
	<b>Land and</b>	<b>Land and</b>
	<b>buildings</b>	<b>buildings</b>
	<b>£'000</b>	<b>£'000</b>
Operating leases which expire.		
Within one year	359	192
In two to five years	727	117
Over five years	16,612	13,296
	<hr/>	<hr/>
	17,698	13,605
	<hr/>	<hr/>

**22 Reconciliation of operating profit to net cash inflow from operating activities**

	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
Operating profit	7,499	1,833
Depreciation of tangible fixed assets	3,925	3,017
Increase in stocks	(2,451)	(417)
(Increase) / Decrease in debtors	(5,067)	2,075
Increase / (Decrease) in creditors	10,220	(5,150)
	<hr/>	<hr/>
Net cash inflow from operations	14,126	1,358
	<hr/>	<hr/>

Notes forming part of the financial statements for the year ended 24 December 2006 (continued)

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

	2006 £'000	2005 £'000
<b>Returns on investments and servicing of finance</b>		
Bank and other interest paid	(1,069)	(1,200)
Finance lease and hire purchase interest	(129)	(218)
Net cash outflow from returns on investments and servicing of finance	(1,198)	(1,418)
<b>Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	(10,416)	(3,900)
Sale of tangible fixed assets	2,244	12,313
Net cash (outflow) / inflow from capital expenditure and financial investment	(8,172)	8,413
<b>Financing</b>		
New secured loans	4,000	-
Repayment of loans	(2,263)	(7,020)
Capital repayments under finance lease	(1,676)	(1,887)
Net cash inflow / (outflow) from financing	61	(8,907)

24 Analysis of changes in net debt

	At 25 December 2005 £'000	Cash flow £'000	At 24 December 2006 £'000
Cash at bank and in hand	25	1,234	1,259
Bank overdraft	(3,278)	2,683	(595)
	(3,253)	3,917	664
<b>Debt</b>			
Debts due within one year	(658)	(595)	(1,253)
Debts falling due after more than one year	(4,989)	(1,142)	(6,131)
Finance leases	(2,698)	1,676	(1,022)
Net debt	(11,598)	3,856	(7,742)