

**Private & Confidential**

**Dreams plc**

Report and Financial Statements

Year Ended  
24 December 2008

Registered Number: 02189427

TUESDAY



\*PASBWBQZ\*

PC3

21/07/2009

1041

COMPANIES HOUSE

# **Dreams plc**

## **Annual report and financial statements for the year ended 24 December 2008**

---

### **Contents**

#### **Page:**

1	Company information
2	Report of the directors
5	Report of the independent auditors
6	Profit and loss account
7	Balance sheet
8	Notes to the financial statements

# Dreams plc

## Company information

---

**Board directors**

John Clare  
Rob Clark  
Greg Suthern  
Suzanne Taylor  
David Tracey  
Nick Worthington

**Secretary and registered office**

Rob Clark  
Dreams plc  
Knaves Beech  
High Wycombe  
Buckinghamshire  
HP10 9YU

**Company number**

2189427

**Auditors**

PricewaterhouseCoopers LLP  
The Atrium, 1 Harefield Road  
Uxbridge  
West London  
UB8 1EX

**Bankers**

Royal Bank of Scotland plc  
280 Bishopsgate  
London  
EC2M 4RB

**Solicitors**

Allen & Overy  
One Bishops Square  
London  
E1 6AD

# Dreams plc

## Report of the directors for the year ended 24 December 2008

The directors present their report together with the audited financial statements for the year ended 24 December 2008.

### 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.

### Change in ownership

The Company was acquired on 7 March 2008 by Exponent (Rainbow) SPV3 Limited. The ultimate controlling company is Exponent Private Equity LLP.

### Business review

The directors are pleased to report another year of controlled and profitable growth excluding one-off exceptional items. Turnover has increased by 16.5% to £194,384k in 2008, with operating profit before exceptional items increasing on a comparable basis by 19% to £13,510k (after adjusting for finance charges of £894k included in interest payable in 2007); excluding the reclassification the growth was 11%. The profit and loss account is set out on page 6 and shows the loss for the year after exceptional items. The loss for the year, after taxation, amounted to £(2,106)k (2007: profit £8,858k).

During the year the company opened 37 new stores and in addition the company acquired a further 3 stores with the acquisition of Peerless Furniture Limited, which ran the stores as Dreams franchises. These openings were offset by 7 store relocations, resulting in 33 net new stores in the year. Additional distribution space was created with the expansion of the Wednesbury Central Distribution facility and a new Home Delivery Depot (HDD) in Wednesbury. Manufacturing activity further increased with the introduction of a second shift at the Oldbury factory.

The business expansion has been funded through operating cash generation and an inter-company loan of £2,000k received on the acquisition of the company. During the year the company made early settlement repayments of £6,179k (2007: £558k) in respect of loans and hire purchase agreements.

The company has maintained healthy like for like growth alongside the opening of new stores. This growth has been sustained through investment in the brand, a wide selection of products and competitive product prices. The company has increased average transaction values during the year through a focus on providing value at the higher end of the range hierarchy, supplemented by added value from sales of ancillary products.

### Future developments

The directors expect the general level of activity to continue in the foreseeable future, supplemented by further store openings in both existing and newly established areas of the UK. Additional Home Delivery Depot's are planned in 2009 to support store expansion.

Further investment in the training academy is being established to support all retail training in an in-house programme.

### Key performance indicators

Operating profit on a comparable basis (pre exceptional and after adjusting for finance charges of £894k included in interest payable in 2007) as a percentage of sales has improved from 6.8% to 7.0% as the company improves efficiencies of administration and distribution overheads through continued expansion. Gross Profit margin has improved by 265bps as a result of a favourable product mix including increasing the supply of directly imported bedsteads and improved penetration of added value products.

Weekly financial and operational KPI's are reviewed by the Board to provide immediate focus on trends in operations, logistics, property and resources. Visibility and tight control of cash flow is an integral part of business planning recognising the material variances attributable to trading patterns, rent quarters and capital investment.

# Dreams plc

## Report of the directors for the year ended 24 December 2008 (*continued*)

---

### Risk management

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, which are constantly reviewed.

The detailed Business Continuity Plan aims to ensure that the company continues to run with minimal disruption in the event of any potential incident. To minimise the threat of disruption at a major site, business operations are spread over a number of strategically positioned locations throughout the UK. A comprehensive business continuity plan is in place at the factory to protect the business from any major disruption.

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 inter-company funding, overdraft and short term operating cash generation. Payment terms from product suppliers ensure positive operating cash generation and risk from customer debt is low.

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 £nil (2007: £400k). The directors do not recommend the payment of a final dividend.

### Acquisition in the year

In December 2008 the company acquired Peerless Furniture Limited for a total consideration of £400k.

### Charitable and political contributions

During the year the company made charitable contributions of £22k (2007: £32k), principally to charities supporting work with disadvantaged children.

### Directors

The directors of the company during the year were:

Mike Clare (resigned 07/03/2008)  
Carol Clare (resigned 07/03/2008)  
John Clare (appointed 07/03/2008)  
Rob Clark  
Greg Suthern  
Suzanne Taylor  
David Tracey  
Nick Worthington

### 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 2008 are shown as 35 days (2007: 32 days).

# Dreams plc

## Report of the directors for the year ended 24 December 2008 (continued)

### 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 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 a staff liaison committee, weekly bulletins, monthly reviews, a quarterly company magazine and regular departmental briefings. In 2008, the company launched the Dreams Foundation Degree enabling staff to develop expertise in retail and gain wider business skills.

### Environment

The company is committed to supporting the environment and co-operates fully with relevant authorities to ensure that legal obligations are met. The company re-cycles plastic and cardboard packaging at its distribution facilities. At the end of 2007 the company invested almost £1million in bespoke bed shredding machines to enable the recycling of more bed components, reduce the physical volume of waste and place less reliance on landfill. Such efforts have been recognised with Dreams being awarded "Retail Recycling Champion 2008" award, beating off strong 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.

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.

PricewaterhouseCoopers LLP were appointed as auditors during the year and 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

Rob Clark  
Secretary



22 April 2009

# Dreams plc

## Report of the independent auditors

### INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DREAMS PLC

We have audited the financial statements of Dreams plc for the year ended 24 December 2008 which comprise the Profit and Loss Account, the Balance Sheet, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

#### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing 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). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

#### Basis of audit opinion

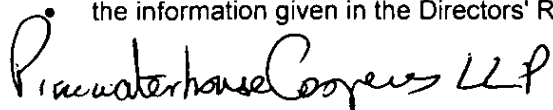
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments 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.

#### 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 2008 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.



PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
West London  
22 April 2009

# Dreams plc

## Profit and loss account for the year ended 24 December 2008

	Note	2008 £'000	2007 £'000
<b>Turnover (including exceptional items)</b>	2	194,384	166,772
Cost of sales before exceptional items		(70,665)	(65,001)
Exceptional items	3	(3,862)	-
Cost of sales		(74,527)	(65,001)
<b>Gross profit</b>		119,857	101,771
Distribution costs		(13,649)	(11,896)
Administrative expenses before exceptional items		(97,725)	(78,960)
Exceptional items	3	(12,387)	-
Administrative expenses		(110,112)	(78,960)
Other operating income	5	1,165	1,292
<b>Operating profit before exceptional items</b>		13,510	12,207
Exceptional items	3	(16,249)	-
<b>Operating (loss)/profit</b>	6	(2,739)	12,207
(Loss)/profit on disposal of tangible fixed assets	7	(61)	2,304
<b>(Loss)/profit on ordinary activities before interest</b>		(2,800)	14,511
Interest receivable and similar income	8	110	-
Interest payable and similar charges	9	(323)	(1,233)
<b>(Loss)/profit on ordinary activities before tax</b>		(3,013)	13,278
Tax on profit on ordinary activities	10	907	(4,420)
<b>Profit on ordinary activities after tax</b>	20,21	(2,106)	8,858

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.

There is no material difference between the loss on ordinary activities before taxation and the retained loss for the financial year stated above, and their historical cost equivalents.

The notes on pages 8 to 20 form part of these financial statements.



# Dreams plc

## Balance sheet at 24 December 2008

	Note	2008 £'000	2008 £'000	2007 £'000	2007 £'000
<b>Fixed assets</b>					
Tangible assets	12		39,947		34,533
Investments	13		400		-
<b>Current assets</b>					
Stocks	14	19,071		17,302	
Debtors	15	13,672		13,070	
Cash at bank and in hand		65		1,518	
		32,808		31,890	
<b>Creditors: amounts falling due within one year</b>	16	(36,615)		(32,157)	
<b>Net current liabilities</b>			(3,807)		(267)
<b>Total assets less current liabilities</b>			36,540		34,266
<b>Creditors: amounts falling due after more than one year</b>	17		(8,162)		(12,441)
<b>Provision for liabilities and charges</b>	18		(1,200)		(541)
			27,178		21,284
<b>Capital and reserves</b>					
Called up share capital	19		52		50
Profit and loss account	20		27,126		21,234
<b>Shareholders' funds</b>	21		27,178		21,284

The financial statements were approved by the Board of Directors and authorised for issue on 22 April 2009

  
Nick Worthington  
Chief Executive

The notes on pages 8 to 20 form part of these financial statements.

# Dreams plc

## Notes forming part of the financial statements for the year ended 24 December 2008

### 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. The company's accounting policy for revenue recognition is to recognise a sale when an order is delivered to the customer.

Commission receivable from guarantees is recognised in line with turnover recognition on sales of associated product.

Commission income from franchises is accounted for as other income and is recognised at the point at which the service is provided. Turnover in respect of product sales to franchises is recognised as turnover at the point of delivery.

#### *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
Trailers	-	10% straight line
Fixtures and fittings	-	20% reducing balance
Computer equipment	-	33% straight line

#### *Investments*

Investments are stated at cost less provision for impairment.

#### *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.

During the year the company reviewed its valuation method and now adjusts for manufacturing profit and retrospective discounts held in stock at the year end. The impact of applying the revised method was £995k included in cost of sales in the year (2007: £1,051k), resulting in an exceptional charge to the profit and loss account of £1,051k (see note 3).

# Dreams plc

## Notes forming part of the financial statements for the year ended 24 December 2008 (continued)

---

### Accounting policies (continued)

#### *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, with any differences taken to the profit and loss account. US dollars are purchased in advance, primarily by way of forward contracts.

#### *Share based compensation*

During 2008, the company operated an equity settled, share based compensation plan being options to acquire shares. The fair value of the options on the date of grant is recognised as an expense. The total amount expensed is determined by reference to the fair value of the options granted, which has been considered to be the market value of the shares on the day of exercise since the grant date and exercise date were proximate.

#### *Point of sale materials*

During the year the company elected to expense all point of sale promotional materials which were previously capitalised. The impact of this is to reduce prepayments and profits by £600k (2007: £600k). The Directors consider this better reflects the economic life of these items.

#### *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 participates in a defined contribution money purchase scheme, the assets of which are held as units in an independently administered fund.

# Dreams plc

## Notes forming part of the financial statements for the year ended 24 December 2008 (continued)

### *Related party transactions*

Under FRS 8 'Related Party Disclosures' the company has taken advantage of the exemption from disclosing related party transactions for subsidiary undertakings 90% or more of whose voting rights are controlled within the group and whose parent produces publicly available accounts. Accordingly, transactions with group companies are not disclosed separately.

### *Cash flow statement*

Under FRS 1 (revised 1996) 'Cash Flow Statements', subsidiary undertakings are not required to present a cash flow statement where 90% or more of the voting rights are controlled within a group, provided that consolidated financial statements in which those subsidiary undertakings are included are publicly available. Accordingly, the company has not produced a cash flow statement, as its cash flows are included in the financial statements of the ultimate parent company Exponent (Rainbow) SPV1 Limited (see note 26).

### *Group accounting*

The company is exempt under section 228 of the Companies Act 1985 from the requirement to prepare consolidated financial statements as it and its subsidiary undertaking are included by full consolidation in the publicly available consolidated financial statements of its immediate parent, Exponent (Rainbow) SPV 3 Limited, registered number 06475768.

## **2 Turnover**

Turnover is attributable to retail and trade sales of beds and associated products, along with the provision of services and activities wholly within the United Kingdom, recognised on a delivered basis. Turnover includes net revenue in respect of the sale of guarantees.

## **3 Exceptional items**

Exceptional items are as follows:

	<b>2008</b>	<b>2007</b>
	<b>£'000</b>	<b>£'000</b>
<b>Cost of sales</b>		
Stock revaluation	2,476	-
Accounting policy alignment	1,386	-
<b>Administrative expenses</b>		
Restructuring and redundancy costs of on-going business	155	-
Fair value charge in respect of share options granted	9,022	-
Permanent diminution in asset values	2,754	-
Provision for onerous contract	456	-
	<b>16,249</b>	<b>-</b>

In order to assist in understanding the Company's results for the year, and in view of the materiality of exceptional items to the current year's results, the directors believe that it is appropriate to show separately the operating profit of the Company before exceptional items on the face of the profit and loss account as additional information.

The exceptional pre-tax charge of £16,249k includes the fair value cost and associated taxes on exercise of the company share options granted. In addition, management reappraised the carrying value of current assets, including the valuation of stock with adjustments to reflect internal manufacturing profit and retrospective rebates and a provision for in-transit stock.

# Dreams plc

## Notes forming part of the financial statements for the year ended 24 December 2008 (continued)

### 4a Employees

	2008 £'000	2007 £'000
Staff costs consist of:		
Wages and salaries	37,542	32,098
Social security costs	3,770	3,204
Costs of employee share option schemes	9,022	-
Other pension costs	80	74
	<u>50,414</u>	<u>35,376</u>

On 6 March 2008 the company granted 1,869 options to acquire ordinary shares at an exercise price of £1 in the Company to certain employees which immediately vested. The options did not have any performance conditions attached and were exercised on 7 March 2008. There were no options outstanding at the year end (2007: nil). The weighted average share price at the date of exercise was £4,280.

The expense to the Company was £9,022k including Employers NI payable and this has been included in the employee costs note 4a. The fair value of the options used in arriving at this charge was based on the market value at which the shares were subsequently sold on 7 March 2008.

	2008 Number	2007 Number
The average number of full time employees, including directors, during the year was:		
Sales	737	608
Head Office	223	217
Logistics and Production	532	478
	<u>1,492</u>	<u>1,303</u>

The pensions charge for the year was £80k (2007: £74k) and the amount in creditors at the end of the year was £14k (2007: £13k).

### 4b Directors

	2008 £'000	2007 £'000
Directors' remuneration consists of:		
Aggregate emoluments	<u>971</u>	<u>980</u>

During the year retirement benefits were accruing for 3 directors (2007: 3) in respect of defined contribution pension schemes. Company payments made to defined contribution pension schemes for the directors during the year were £15k (2007: £12k). The highest paid director received remuneration (including salary and benefits in kind) of £206k (2007: £231k), with pension contributions of £6k (2007: £nil). Share options were awarded to five qualifying directors including the highest paid director during the year under incentive schemes, all of which were exercised during the year.

# Dreams plc

## Notes forming part of the financial statements for the year ended 24 December 2008 (continued)

<b>5 Other operating income</b>	<b>2008 £'000</b>	<b>2007 £'000</b>
Franchise commissions	657	613
Release of surrender premium received	357	463
Rental income	151	216
	<u>1,165</u>	<u>1,292</u>
 <b>6a Operating loss</b>	 <b>2008 £'000</b>	 <b>2007 £'000</b>
This has been arrived at after charging:		
Depreciation of tangible fixed assets - owned by the company	5,495	4,233
- held under finance leases	-	319
Operating lease rentals - land and buildings	20,663	16,965
Auditors' remuneration - audit services	95	100
Auditors' remuneration - taxation	28	17
	<u></u>	<u></u>
 <b>6b Operating loss – auditors remuneration</b>	 <b>2008 £'000</b>	 <b>2007 £'000</b>
Fees payable to auditors for:		
Audit of the Company – PricewaterhouseCoopers LLP	85	100
Other audit related services – PricewaterhouseCoopers LLP	10	-
Tax service – PricewaterhouseCoopers LLP	23	17
Other tax related services – BDO Stoy Hayward	5	-
	<u>123</u>	<u>117</u>
 <b>7 (Loss)/profit on tangible fixed assets</b>	 <b>2008 £'000</b>	 <b>2007 £'000</b>
(Loss)/profit on disposal of tangible fixed assets	(124)	531
Profit on surrender of leases	63	1,773
	<u>(61)</u>	<u>2,304</u>

BDO Stoy Hayward resigned as auditors on 7 March 2008. Deloitte were appointed as auditors on 7 March 2008 and resigned on 14 April 2008. The fees payable to BDO Stoy Hayward were in respect of the preparation of the 2007 tax computation. The fees payable to PricewaterhouseCoopers LLP in respect of other audit related services were in relation to the acquisition of Peerless Furniture Limited during the year (see note 24).

# Dreams plc

## Notes forming part of the financial statements for the year ended 24 December 2008 (continued)

### 8 Interest receivable and similar income

	2008 £'000	2007 £'000
Bank interest	110	-
	<u>110</u>	<u>-</u>

### 9 Interest payable and similar charges

	2008 £'000	2007 £'000
Bank loans and overdrafts	321	325
Retail finance charges	-	894
Finance leases and hire purchase contracts	2	14
	<u>323</u>	<u>1,233</u>

Retail finance charges are now included in administrative expenses in 2008 to better recognise the nature of the expenditure.

### 10 Tax on profit from ordinary activities

	2008 £'000	2007 £'000
<i>Current tax</i>		
UK corporation tax on profits for the year	-	4,308
Adjustment in respect of prior years	-	153
	<u>-</u>	<u>4,461</u>
<i>Deferred tax</i>		
Current year (asset)/liability	(907)	118
Origination of timing differences	-	13
Adjustment in respect of prior years	-	(143)
Adjustment in respect of change in tax rate	-	(29)
	<u>(907)</u>	<u>(41)</u>
Total deferred tax (note 18)	(907)	(41)
	<u>(907)</u>	<u>4,420</u>

# Dreams plc

## Notes forming part of the financial statements for the year ended 24 December 2008 (*continued*)

### 10 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:

	2008 £'000	2007 £'000
(Loss)/profit on ordinary activities before tax	(3,013)	13,278
(Loss)/profit on ordinary activities at the standard rate of corporation tax in the UK of 28.5% (2007: 30%)	(858)	3,984
Effects of:		
Expenses not deductible for tax purposes	586	(95)
Depreciation on non-qualifying assets	-	501
Capital allowances in excess of depreciation	1,030	(108)
Short term timing differences	(124)	-
Profit on disposal of fixed assets (non-qualifying)	-	(700)
Chargeable gains	-	726
Under provision in respect of previous years	-	153
Group relief claimed but not paid	(634)	
Current tax charge for year	-	4,461

### 11 Dividends

	2008 £'000	2007 £'000
Total interim dividends paid of nil pence per share (2007: 800 pence)	-	400



# Dreams plc

Notes forming part of the financial statements  
for the year ended 24 December 2008 (*continued*)

## 12 Tangible assets

	Land and buildings £'000	Motor vehicles £'000	Fixtures, fittings and equipment £'000	Total £'000
<i>Cost or valuation</i>				
At 25 December 2007	16,484	4,610	28,713	49,807
Additions	719	826	9,559	11,104
Disposals	(47)	(404)	(319)	(770)
	<hr/>	<hr/>	<hr/>	<hr/>
At 24 December 2008	17,156	5,032	37,953	60,141
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>				
At 25 December 2007	1,015	1,740	12,519	15,274
Charge for the year	387	655	4,453	5,495
On disposals	(17)	(319)	(239)	(575)
	<hr/>	<hr/>	<hr/>	<hr/>
At 24 December 2008	1,385	2,076	16,733	20,194
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>				
At 24 December 2008	15,771	2,956	21,220	39,947
	<hr/>	<hr/>	<hr/>	<hr/>
At 24 December 2007	15,469	2,870	16,194	34,533
	<hr/>	<hr/>	<hr/>	<hr/>

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

	2008 £'000	2007 £'000
Motor vehicles	-	-
Fixtures, fittings and equipment	-	348
	<hr/>	<hr/>
	-	348
	<hr/>	<hr/>

As at 24 December 2008, £12,434k (2007: £12,607k) 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 2008 (continued)

### 13 Investments

	2008 £'000	2007 £'000
Investments	400	-
	<u>400</u>	<u>-</u>

Investments in Group undertakings are stated at cost. On 24 December 2008, the Company acquired 100% of the shareholding of Peerless Furniture Limited, a company incorporated in England and Wales (note 24).

### 14 Stocks

	2008 £'000	2007 £'000
Finished goods and goods for resale	18,264	16,504
Raw materials and consumables	807	798
	<u>19,071</u>	<u>17,302</u>

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

### 15 Debtors

	2008 £'000	2007 £'000
(a) Due within one year:		
Trade debtors	1,617	1,017
Prepayments	7,394	12,053
Inter-company	4,295	-
	<u>13,306</u>	<u>13,070</u>
(b) Due after one year:		
Deferred taxation	366	-
	<u>366</u>	<u>-</u>
Total debtors	<u>13,672</u>	<u>13,070</u>

# Dreams plc

## Notes forming part of the financial statements for the year ended 24 December 2008 (continued)

### 16 Creditors: amounts falling due within one year

	2008 £'000	2007 £'000
Bank loans (secured, see note 17)	-	858
Overdraft (secured, see note 17)	3,028	-
Obligations under finance leases and hire purchase contracts	-	123
Trade creditors	20,740	20,691
Corporation tax	-	2,048
Inter-company	2,000	-
Other taxes and social security	4,387	2,598
Deposits received in advance of delivery	838	1,342
Accruals and deferred income	5,622	4,497
	<hr/> 36,615	<hr/> 32,157

### 17 Creditors: amounts falling due after more than one year

	2008 £'000	2007 £'000
Bank loans	-	5,198
Obligations under finance leases and hire purchase contracts	-	-
Accruals and deferred income	5,963	5,044
Corporation tax	2,199	2,199
	<hr/> 8,162	<hr/> 12,441

The corporation tax due in more than one year relates to the capital gains tax payable on the sale of freehold and leasehold properties from 2005 to 2008. 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:

	2008 £'000	2007 £'000
Between one and two years:		
Bank loans	-	858
Accruals and deferred income	2,225	1,959
	<hr/>	<hr/>
Between two and five years:		
Bank loans	-	2,574
Accruals and deferred income	3,046	2,250
	<hr/>	<hr/>
Over five years:		
Bank loans	-	1,766
Accruals and deferred income	692	835
Corporation tax	2,199	2,199
	<hr/>	<hr/>

The bank loan was repaid on 10 March 2008.

The company's overdraft amounting to £3,028k (2007: nil) is repayable on demand and is secured by a debenture dated 7 March 2008 over the Group undertakings and all property and assets present and future including goodwill, book debts, un-called capital, buildings, fixtures and fittings, fixed plant and machinery.

# Dreams plc

## Notes forming part of the financial statements for the year ended 24 December 2008 (continued)

### 18 Provisions for liabilities and charges

	Deferred Tax provision £'000	Ten year guarantee £'000	Onerous contract £'000	Total £'000
25 December 2007	541	-	-	541
Charged to the profit & loss account	(907)	744	871	708
Utilised during the year	-	-	(415)	(415)
Transferred to deferred tax asset (note 15b)	366	-	-	366
	<hr/>	<hr/>	<hr/>	<hr/>
At 24 December 2008	-	744	456	1,200
	<hr/>	<hr/>	<hr/>	<hr/>

#### Onerous contract

During 2007 the company entered into a binding commitment to purchase products from a supplier with a cost of £871k. The net realisable value of these products is estimated at £nil. The provision is expected to be fully utilised by 24 December 2009 on receipt of the remaining goods not yet delivered.

#### Ten year guarantee

The provision for ten year guarantee was settled by cash in full post the balance sheet date.

#### Deferred taxation

The deferred tax asset (2007: liability of £(541)k) comprises:

	2008 £'000	2007 £'000
<i>Deferred taxation</i>		
At 25 December	541	582
Credit for the year (note 10)	(907)	(41)
Transfer to debtors (note 15b)	366	-
	<hr/>	<hr/>
At 24 December	-	541
	<hr/>	<hr/>

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

	Provided 2008 £'000	Un-provided 2008 £'000	Provided 2007 £'000	Un-provided 2007 £'000
Accelerated capital allowances	(308)	-	722	-
Other timing differences	(58)	-	(181)	-
	<hr/>	<hr/>	<hr/>	<hr/>
	(366)	-	541	-
	<hr/>	<hr/>	<hr/>	<hr/>

# Dreams plc

## Notes forming part of the financial statements for the year ended 24 December 2008 (*continued*)

### 19 Share capital

	Authorised			
	2008 Number	2007 Number	2008 £'000	2007 £'000
Ordinary shares of £1 each	100,000	100,000	100	100
	<hr/>	<hr/>	<hr/>	<hr/>
	Allotted, called up and fully paid			
	2008 Number	2007 Number	2008 £'000	2007 £'000
Ordinary shares of £1 each	51,869	50,000	52	50
	<hr/>	<hr/>	<hr/>	<hr/>

During the year 1,869 Ordinary shares of £1 each were issued under an exercise of share options.

### 20 Reserves

	Profit and loss account £'000
At 25 December 2007	21,234
(Loss) for the year	(2,106)
Fair value credit in respect of share options granted	7,998
	<hr/>
At 24 December 2008	27,126
	<hr/>

### 21 Reconciliation of movement in shareholders' funds

	2008 £'000	2007 £'000
(Loss)/Profit for the year	(2,106)	8,858
Dividends	-	(400)
Fair value credit in respect of share options granted	7,998	-
Share issue	2	-
	<hr/>	<hr/>
	5,894	8,458
Opening shareholders' funds	21,284	12,826
	<hr/>	<hr/>
Closing shareholders' funds	27,178	21,284
	<hr/>	<hr/>

# Dreams plc

## Notes forming part of the financial statements for the year ended 24 December 2008 (continued)

### 22 Contingent liabilities

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. During the year, the company entered into forward exchange contracts to buy a total of US\$17.8m at rates between US\$1.62:£1 and US\$1.98:£1, with maturity dates between 12 January 2009 and 15 September 2009.

The fair value gain on these contracts at 24 December 2008 was £1.7m.

The company is a participant in a group banking arrangement and is party to a joint and several guarantee in respect of the group's borrowings. At the 24 December 2008 the group had drawn bank loans of £72.2m net of related amortised fees, which are secured by a debenture dated 7 March 2008 over all the assets and undertakings of the group.

### 23 Commitments under operating leases

As at 24 December 2008, the company had annual commitments under non-cancellable operating leases as set out below:

	2008 Land and buildings £'000	2007 Land and buildings £'000
Operating leases which expire:		
Within one year	446	79
In two to five years	1,850	1,348
Over five years	23,135	18,812
	<hr/>	<hr/>
	25,431	20,239
	<hr/>	<hr/>

### 24 Acquisitions

On 24 December 2008, the Company purchased Peerless Furniture Limited for a total consideration of £400k, satisfied by the payment of £400k of cash in respect of the provisional net book value of assets acquired of £86k. Prior to the acquisition the company earned £396k included in other income relating to franchise income from Peerless Furniture Limited.

### 25 Related party transactions

The company has taken advantage of the exemption contained within FRS 8 "Related Party Transactions" not to disclose related party transactions with other members of its group of companies, which are at least 90% owned.

### 26 Ultimate Controlling Party

The immediate parent undertaking and the smallest parent to consolidate the group is Exponent (Rainbow) SPV 3 Limited, registered number 06475768.

The company is exempt under section 228 of the Companies Act 1985 from the requirement to prepare consolidated financial statements as it and its subsidiary undertaking are included by full consolidation in the publicly available consolidated financial statements of its immediate parent, Exponent (Rainbow) SPV 3 Limited, registered number 06475768.

The ultimate controlling party of the Company is Exponent Private Equity LLP on behalf of the funds under its management.