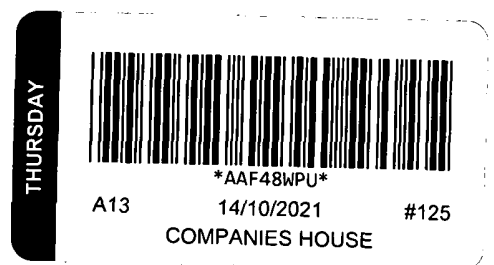


Company Registration No. 04550309

Massimo Dutti U.K. Limited

Annual Report and Financial Statements

for the year ended 31 January 2021



Massimo Dutti U.K. Limited

Annual Report and financial statements for the year ended 31 January 2021

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Massimo Dutti U.K. Limited

Annual Report and financial statements for the year ended 31 January 2021

Officers and professional advisers

Directors

Jorge Perez Marcote
Jose Manuel Romay de la Colina
Eliseo Oroza Rodriguez

Secretary

Athenaeum Secretaries Limited
25 Moorgate
London
EC2R 6AY
United Kingdom

Registered Office

Lumina House
89 New Bond Street
London
W1S 1DA
United Kingdom

Auditor

Deloitte LLP
Statutory Auditor
London
United Kingdom

Massimo Dutti U.K. Limited

Strategic report

Review of the business and Key performance indicators

Strategy for the business

In line with the strategy of the parent company INDITEX S.A., the directors' main objective in the United Kingdom for the year ended 31 January 2021 was to expand its fully integrated platform underpinned by the key strategic pillars of store & online integration, digitalisation and sustainability. Developing this long-term strategy will strengthen the Company's profitability by focusing on sales growth, while keeping operating expenses under tight control, in order to increase operating margins as a result.

The directors intend to continue with this strategy for the foreseeable future.

Trading

The Company operates its own directly operated stores in the UK. The principal activity of the company is the retail of fashion clothing, footwear and accessories. At 31 January 2021, Massimo Dutti U.K. Limited consisted of 12 stores (2020: 13). The company also sells online to UK customers.

The COVID-19 pandemic and the measures to combat it adopted by the authorities have had a significant impact on the Company's activity and results for the year ended 31 January 2021 in the market. Mandated store closures, limitations on capacity and travel restrictions have led to a decrease in the Company's earnings and profitability, which were partially offset by an increase in e-commerce operations together with responsible cost management decisions. However, this could not compensate the significant losses reported by the brick and mortar stores.

Total sales for the Company were £29.3m (2020: £51.5m), a decrease of 43% compared to the prior year. During the financial year the cost of sales also declined by 43% which had a corresponding effect on the Company's profitability. The Company's merchandise is exclusively purchased from Group undertakings in Spain.

Selling and distribution costs decreased by 23% compared to the prior year, reflecting the Company's active cost management to minimise the impact of the results following the COVID-19 sales restrictions.

The company has absorbed one store in the year (2020: Nil).

New Stores and Future Developments

The Company did not open any new store during the financial year (2020: none).

Barring any unforeseen circumstances, the directors plan to open further stores as soon as suitable opportunities arise and for the company to increase profitability as a result of the continuing increase in sales.

Principal risks and uncertainties

INDITEX S.A. has implemented a risk management system that directs control activities towards preventing the relevant risks, providing an appropriate level of guarantees to shareholders, other stakeholders and the market in general. Massimo Dutti U.K. Limited is fully integrated within this structure and is required to identify and mitigate risks locally on a regular basis.

The principal risk to the business remains difficult and unpredictable market conditions. As a fashion and lifestyle company every new season confronts Massimo Dutti U.K. Limited with the risk of how new collections will be received by customers. The Company's business model is mitigating this risk, as decision making processes in respect of design, manufacture, distribution and sales is subordinated to information on the tastes of customers. This is especially significant in the area of design, as the models put on the market are the fruit of creative work which has been enriched by the analysis of the reaction of customers to the options present in the stores and their comments on what they would like to find there.

Other main external risks include the business environment (capacity to follow and offer a response to the evolutions of the Company's target market – demographic changes, changes in consumption habits), regulations (commercial, tax, custom, labour regulations), image and reputation. In order to reduce the exposure to business environment risks, the Company carries out a viability research of each store, considering less favourable scenarios, and subsequently monitors whether the expected figures are met or not.

Massimo Dutti U.K. Limited

Strategic report (continued)

Under the European Union Withdrawal Act 2018, the UK ceased to be a member of the European Union on 31 January 2020. This has been followed by a transition period, which ended on 31 December 2020. With the end of the transition period and the agreed UK-EU trade deal new rules came into effect on 1 January 2021. Based on a comprehensive analysis the Company implemented all necessary measures to minimize the risks affecting operating processes, such as supply chains or labour related issues. Furthermore relevant administrative procedures have been designed and set-up to ensure compliance with the new required regulations.

The Coronavirus (COVID-19) outbreak has materially affected the operating activities of the Company. Although the risk of a pandemic remains, the Company's strategy regarding store & online integration will support the business significantly in managing the challenges of a health crisis. The strategic focus on developing fully integrated platforms allows the Company to respond in a fast and efficient way to changing circumstances driven by a pandemic.

Finally, internal risks were identified in respect of Human Resources (motivation and loyalty, turnover, recruitment and dependence on key personnel), technology and information systems, on which the Company is deploying a set of actions to anticipate any issue.

People

Sales growth in a competitive market would not be achieved without the energy and dedication of our management and staff, offering customers a pleasant shopping experience, driving sales and providing a high level of service. Headcount during the year has decreased compared to prior year with 158 full time equivalents (2020: 195).

Approved by the Board of Directors
and signed on behalf of the Board

Jose Manuel Romay de la Cofina
Director

23 July 2021

Massimo Dutti U.K. Limited

Directors' report

The directors present their annual report together with the audited financial statements and auditor's report for the year ended 31 January 2021. Disclosures of future developments are outlined in the Strategic Report on page 2 and 3.

Results and dividends

The audited financial statements for the year are set out on pages 11 to 25. The loss before taxation for the year was £2,130k (2020: profit £3,488k).

The directors do not recommend any payment of dividend in 2021 (2020: £2,000k).

Directors

The directors who held office throughout the year were as follows:

Jorge Perez Marcote

Ramon Rubio Patricio (resigned 30 June 2020)

Jose Manuel Romay de la Colina

Eliseo Oroza Rodriguez (appointed 30 June 2020)

Risk Management

The Company is part of the INDITEX group and has delegated certain of its key financial risk management tasks to the corporate Treasury department. The Company's activities expose mainly to a liquidity and cash flow risk. However, considering the positive operating cash flow and the loan agreement with a fellow group undertaking which is due for repayment by 31 January 2024, the risk is considered to be mitigated.

The principal risks affecting the company and the policies implemented to manage these are outlined in the Strategic Report on page 2 and 3.

Going Concern

No material uncertainties related to events or conditions that may cast significant doubt about the ability of the Company to continue as a going concern have been identified by the directors.

Although the results of the financial year ended 31 January 2021 have been significantly affected by the pandemic, the Company's long-term business plan remains in effect as the pandemic is considered to be a temporary situation that does not alter its long-term expectations. Accordingly, during the year, the Company has continued to implement the integrated model of store and online sales based on three key strategic lines: digitalization, integration of store and online, and sustainability. As a consequence, these annual financial statements have been prepared on a going concern basis, in the absence of doubts as to the Company's ability to continue its operations.

The Company is expected to continue to generate positive operating cash flows on its own account for the foreseeable future, being at least 12 month from the date of signing these financial statements.

Disabled employees

Applications for employment for disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Massimo Dutti U.K. Limited

Directors' report (continued)

Employee consultation

The company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the company. This is achieved through formal and informal meetings, as well as through our employee website and App for smartphone devices, which are regularly updated.

Indemnity of Directors

To the extent permitted by the Companies Acts, the Company may indemnify any Director or former Director of the Company against any liability. The Company has a liability insurance policy for directors and officers that covers, according to its terms and conditions, the liability of directors or former directors in the performance of their duties.

Auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006. Deloitte LLP have expressed their willingness to be reappointed for another term and appropriate arrangements are being made for them to be deemed reappointed as auditor in absence of a forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board

José Manuel Romay de la Cóniga
Director

23 July 2021

Massimo Dutti U.K. Limited

Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the financial statements unless they are satisfied that they 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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

Independent auditor's report to the members of Massimo Dutti U.K. Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Massimo Dutti U.K. LIMITED (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 January 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the related notes 1 to 17.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report

Independent auditor's report to the members of Massimo Dutti U.K. Limited (continued)

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Independent auditor's report to the members of Massimo Dutti U.K. Limited (continued)

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included environmental regulations and Governmental legislations.

We discussed among the audit engagement team including relevant internal specialists such as tax regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud or non-compliance with laws and regulations in the following areas, and our specific procedures performed to address it are described below:

- Inaccurate and incomplete disclosures within the Financial Statements surrounding the income received from the Government in respect of the Coronavirus Job Retention Scheme. This is driven by the complexity of the claim, and the public interest in the income claimed increasing the underlying risk. Audit procedures have been completed around assessing the eligibility of the claim and recalculations of the income claimed on a sample of employees. All required documentation, outlined by the HMRC regulation, has been inspected for all samples. In addition, we have traced through to the HMRC portal and the bank statements to ensure completeness of the claim and the receipt of the income. The year end receivable balance has been recalculated and compared to actuals.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance and reviewing correspondence with HMRC.

Independent auditor's report to the members of Massimo Dutti U.K. Limited (continued)

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

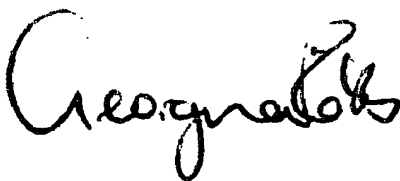
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Georgina Robb FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

23 July 2021

Massimo Dutti U.K. Limited

Statement of comprehensive income For the year ended 31 January 2021

| | Notes | 2021 £'000 | 2020 £'000 |
|---------------------------------------|-------|---------------|---------------|
| Turnover | 3 | 29,275 | 51,525 |
| Cost of sales | | (13,079) | (22,749) |
| Gross profit | | 16,196 | 28,776 |
| Selling and distribution costs | | (18,858) | (24,643) |
| Administrative expenses | | (2,767) | (2,955) |
| Other operating income | | 3,297 | 2,340 |
| Operating (loss)/ Profit | | (2,132) | 3,518 |
| Net finance income/(charge) | 7 | 2 | (30) |
| (Loss)/ Profit before taxation | 4 | (2,130) | 3,488 |
| Tax credit/(charge) on (loss)/ Profit | 8 | 274 | (750) |
| (Loss)/ Profit | | (1,856) | 2,738 |

There is no other comprehensive income in either year other than the amounts stated above. All results are derived from continuing operations. The accompanying notes are an integral part of these statements.

Massimo Dutti U.K. Limited

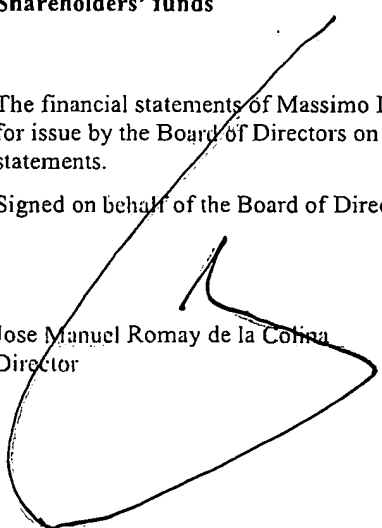
Balance sheet As at 31 January 2021

| | Notes | 2021 £'000 | 2020 £'000 |
|---|-------|----------------|----------------|
| Fixed assets | | | |
| Tangible assets | 9 | 4,206 | 6,705 |
| Current assets | | | |
| Stocks | 10 | 3,402 | 2,694 |
| Debtors | 11 | 2,998 | 3,249 |
| Cash at bank and in hand | | 1,467 | 2,171 |
| | | <u>7,867</u> | <u>8,114</u> |
| Creditors: amounts falling due within one year | 12 | <u>(4,013)</u> | <u>(4,903)</u> |
| Net current assets | | <u>3,854</u> | <u>3,211</u> |
| Total assets less current liabilities | | <u>8,060</u> | <u>9,916</u> |
| Net assets | | <u>8,060</u> | <u>9,916</u> |
| Capital and reserves | | | |
| Called up share capital | 15 | 8,800 | 8,800 |
| Profit and loss account | 15 | <u>(740)</u> | <u>1,116</u> |
| Shareholders' funds | | <u>8,060</u> | <u>9,916</u> |

The financial statements of Massimo Dutti U.K. Limited, registered number 04550309 were approved and authorised for issue by the Board of Directors on 23 July 2021. The accompanying notes are an integral part of these statements.

Signed on behalf of the Board of Directors

Jose Manuel Romay de la Cofina
Director



Massimo Dutti U.K. Limited

Statement of changes in equity For the year ended 31 January 2021

| | Called up share capital £'000 | Profit and loss account £'000 | Total £'000 |
|-----------------------------|--|--|------------------------|
| At 1 February 2019 | 8,800 | 378 | 9,178 |
| Total profit for the period | - | 2,738 | 2,738 |
| Dividends paid | - | (2,000) | (2,000) |
| At 31 January 2020 | <u>8,800</u> | <u>1,116</u> | <u>9,916</u> |
| | | | |
| Total loss for the period | - | (1,856) | (1,856) |
| At 31 January 2021 | <u>8,800</u> | <u>(740)</u> | <u>8,060</u> |

The accompanying notes are an integral part of these statements.

Massimo Dutti U.K. Limited

Notes to the financial statements For the year ended 31 January 2021

1. Accounting policies

The principal accounting policies are summarised below and have been applied consistently throughout the year and the preceding year.

General information and basis of preparation

Massimo Dutti U.K. Limited is a private company, limited by shares, incorporated in England and Wales under the Companies Act 2006. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the strategic report on pages 2 to 3.

The financial statements have been prepared under the historical cost convention, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

Massimo Dutti U.K. Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements. The company is consolidated in the financial statements of its parent, Industria de Diseño Textil, S.A. (Inditex, S.A.). Exemptions have been taken in these separate company financial statements in relation to presentation of a cash flow statement, intra-group transactions and remuneration of key management personnel.

The functional currency of Massimo Dutti U.K. Limited is considered to be pounds sterling because that is the currency of the primary economic environment in which the company operates.

The use of the going concern basis of accounting is appropriate because there are no material uncertainties related to events or conditions that may cast significant doubt about the ability of the company to continue as a going concern. As set out in the Director's report the directors continue to monitor and assess the potential impact of Covid-19 and still believe the going concern basis to be appropriate.

Fixed assets, depreciation and impairment

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives.

The estimated useful economic lives of tangible fixed assets are as follows:

| | |
|---|------------|
| Leasehold property, furniture and fittings, store equipment | 10.5 years |
| Computer and office equipment | 5 years |
| Other fixed assets | 3 years |

Fixed assets additions for new stores are held in a in course of construction category until the date the store commences trading, at which point the asset is reclassified to the relevant category. There is no depreciation charge against the assets held in the in course of construction category. Depreciation is charged against the assets from the date a new store commences trading. Other pre-opening costs are expensed as they are incurred. Leasehold property includes the costs to acquire a store and improvements made to the structure of the store before it commences trading.

Massimo Dutti U.K. Limited

Notes to the financial statements (continued)

For the year ended 31 January 2021

1. Accounting policies (continued)

Fixed assets, depreciation and impairment (continued)

Long life assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable for all stores which have been trading for more than 3 years. When such events or changes in circumstances indicate the asset may not be recoverable, the company estimates the future cash flows expected to result from the use of assets and their eventual disposition. If the sum of such expected discounted future cash flows is less than the carrying amount of the assets, an impairment loss is recognised for the amount by which the assets net book value exceeds its fair market value. If on the contrary the sum of such expected discounted future cash flows is greater than the carrying amount of the assets, any previously recognised impairment loss is reversed.

For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows, fair value can be based on the sale of similar assets, or other estimates of fair value, such as discounting estimated future cash flows. Considerable management judgement is necessary to estimate discounted future cash flows. Accordingly, actual outcome could vary significantly from such estimates.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Leases

Assets held under finance leases are capitalised as a tangible fixed assets at the fair value of the lease asset and are depreciated over the shorter of the lease terms and their useful lives. The leasehold incentives that existed at the date of transition to FRS 102 are recognised under old UK GAAP taking advantage of the transitional rules in FRS102. The outstanding future lease obligations are shown in creditors.

Operating lease rentals are charged on a straight-line basis to the profit and loss account as incurred over the period of the lease. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

The Company recognizes changes in lease payments arising from rent concessions that meet the criteria as specified in FRS 102.20.15D on a systematic basis over the periods that the change in lease payments is intended to compensate. This applies only to temporary rent concessions occurring as a direct consequence of the COVID-19 pandemic.

Pension costs

Employees are entitled to join personal defined contribution pension schemes, to which Massimo Dutti U.K. Limited and the employee make contributions. The amount charged to the profit and loss account in respect of pension costs is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are included as either accruals or prepayments in the balance sheet.

Stocks

Stocks are stated at the lower of cost estimated selling cost less costs to sell, which is equivalent to net realisable value. Cost is calculated using the FIFO (first-in, first-out) method.

Turnover

Turnover is recognised when the significant risks and rewards of ownership of the goods or services have passed to the buyer, it is probable that the economic benefit will flow to the company and the amount of revenue can be measured reliably. Turnover represents the amounts (excluding value added tax) derived from

Massimo Dutti U.K. Limited

Notes to the financial statements (continued)

For the year ended 31 January 2021

1. Accounting policies (continued)

Turnover (continued)

the provision of fashion goods to customers. Turnover is generated in the UK. The Company also sells gift vouchers to the public; turnover is recognised when vouchers are redeemed in stores.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the Company intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its total comprehensive income as stated in the financial statements that arise from the inclusion of income and expenditure in tax assessments in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only when, on the basis of all available evidence, it can be regarded as probable that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is not discounted.

Deferred tax assets and liabilities are offset only if the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority, or to realise the assets and settle the liabilities simultaneously, for each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Financial instruments

Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Financial assets and liabilities:

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Massimo Dutti U.K. Limited

Notes to the financial statements (continued) For the year ended 31 January 2021

1. Accounting policies (continued)

Financial instruments (continued)

Financial assets and liabilities are only offset in the statement of financial position when, and only when there exists a legally enforceable right to set off the recognised amounts and the company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Debt instruments which meet the following conditions of being 'basic' financial instruments as defined in paragraph 11.9 of FRS 102 are subsequently measured at amortised cost using the effective interest method.

Debt instruments that have no stated interest rate (and do not constitute financing transaction) and are classified as payable or receivable within one year are initially measured at an undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

Commitments to make and receive loans which meet the conditions mentioned above are measured at cost (which may be nil) less impairment.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the company transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the company, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

Government Grants

Government Grants are recognised based on the performance model. Following the criteria as specified in FRS 102.24.5B a grant is recognised in income if it does not impose specified future performance-related conditions on the Company and the grant proceeds are received or receivable or if the grant imposes specified future performance-related conditions on the Company it would be recognized in income only when the performance-related conditions are met. Grants received before the revenue recognition criteria are satisfied are recognised as a liability.

2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the accounting policies, which are described in note 1, the directors, are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The directors consider that there are no key sources of estimation uncertainty.

Massimo Dutti U.K. Limited

Notes to the financial statements (continued) For the year ended 31 January 2021

2. Critical accounting judgements and key sources of estimation uncertainty (continued)

Critical judgements in applying the accounting policies

The following are the critical judgements, apart from those involving estimations, that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Impairment of assets

The Company periodically assesses the possible existence of objective evidence that there are indications that its non-current assets might have become impaired in order to determine whether their recoverable amount is lower than their carrying amount (impairment loss). The recoverable amount has been determined based upon a value in use calculation. Cash flow projections were used in this calculation. Based on the historical performance of the brand in the UK and in other European markets, management have assessed cash flows until expiry of the lease. The estimated cash flows are extrapolated to the period not covered by the business plan using a growth rate and expense structure that are similar to those of the last year of the business plan in the remaining term of the leases. Further information on the general, systematic procedure for carrying out these impairment tests INDITEX, S.A. has developed can be found in the consolidated financial statements of the group (see note 17).

Reversals of impairment losses on non-current assets are recognised with a credit to depreciation, up to the limit of the carrying amount that the asset would have had, net of depreciation had the impairment loss never been recognised, solely in cases in which, once the internal and external factors have been assessed, it can be concluded that the indications of impairment that led to the recognition of the impairment losses have ceased to exist or have been partially reduced.

3. Turnover

The whole of the revenue is attributable to the principal activity of the company, being the provision of fashion retail goods and arises solely in the United Kingdom.

Massimo Dutti U.K. Limited

Notes to the financial statements (continued) For the year ended 31 January 2021

4. Profit before taxation

| | 2021 £'000 | 2020 £'000 |
|--|---------------|---------------|
| Profit before taxation is stated after charging/(crediting): | | |
| Auditor's remuneration: | | |
| Fees payable to the company's auditor for the audit of the company's annual financial statements | 11 | 10 |
| Non audit services | 1 | 1 |
| Depreciation of tangible fixed assets | 1,297 | 1,466 |
| Loss on disposal of tangible fixed assets | 467 | - |
| Impairment of tangible fixed assets – new charge | 1,162 | 360 |
| Impairment of tangible fixed assets – reversal | (360) | - |
| Impairment of stock released | 152 | (47) |
| Government grants towards personnel costs | (1,123) | - |
| Operating lease rentals | 7,710 | 7,770 |

During the financial year ending 31 January 2021 the government created a Coronavirus Job Retention Scheme to help protect jobs amid the COVID-19 lockdowns. The Company participated in this scheme, reflecting the majority of store employees being on furlough throughout the repetitive lockdowns. This did not prevent the brick and mortar activity of the Company to report losses for the period, whilst the average number of persons employed by the company in the market remained broadly stable. As per 31 January 2021 the conditions as specified in FRS 102.24 have been fulfilled and the corresponding income has been recognised under other income.

5. Remuneration of directors

All directors are paid by a fellow group undertaking. They have received no remuneration for their services to Massimo Dutti U.K. Limited (2020: £ nil).

6. Staff numbers and costs

The average number of persons employed by the company (including directors) during the year remained broadly stable considering that one store has been absorbed. Analysed by category, was as follows:

| | Number of employees | |
|----------------|---------------------|-------------|
| | 2021 No. | 2020 No. |
| Sales | 152 | 188 |
| Administration | 6 | 7 |
| | <u>158</u> | <u>195</u> |

Massimo Dutti U.K. Limited

Notes to the financial statements (continued) For the year ended 31 January 2021

6. Staff numbers and costs (continued)

The aggregate payroll costs of these persons were as follows:

| | 2021 £'000 | 2020 £'000 |
|-----------------------|---------------|---------------|
| Wages and salaries | 3,650 | 5,008 |
| Social security costs | 325 | 394 |
| Pension costs | 98 | 112 |
| | <u>4,073</u> | <u>5,514</u> |

The pension costs above relate to the amounts charged to the profit and loss account in relation to the defined contribution retirement benefit schemes.

7. Net finance charges

| | 2021 £'000 | 2020 £'000 |
|--|---------------|---------------|
| Interest receivable from banks | 6 | 11 |
| Interest payable to banks | (4) | (5) |
| Interest on loan from fellow group undertaking | - | (36) |
| | <u>2</u> | <u>(30)</u> |

8. Taxation

Analysis of credit/ charge in period

| | 2021 £'000 | 2020 £'000 |
|---|---------------|---------------|
| Current tax | | |
| UK corporation tax | (67) | 833 |
| Adjustments in respect of prior years | (6) | (2) |
| Total current tax | <u>(73)</u> | <u>831</u> |
| Deferred tax (see note 14) | | |
| Origination and reversal of timing differences | (202) | (81) |
| Adjustments in respect of prior years | 1 | - |
| Total deferred tax | <u>(201)</u> | <u>(81)</u> |
| Total tax (credit)/ charge on (loss)/profit on ordinary activities | <u>(274)</u> | <u>750</u> |

Massimo Dutti U.K. Limited

Notes to the financial statements (continued) For the year ended 31 January 2021

8. Taxation (continued)

The difference between the total tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the (loss)/profit before tax is as follows:

| | 2021 £'000 | 2020 £'000 |
|--|---------------|---------------|
| (Loss)/profit on ordinary activities before tax | (2,130) | 3,488 |
| Tax on (loss)/profit on ordinary activities at standard UK corporation tax rate of 19% (2020: 19%) | (405) | 663 |
| Effects of: | | |
| Depreciation on non-qualifying assets | 99 | 89 |
| Prior year adjustments | (6) | (2) |
| Loss on disposal of assets | 38 | - |
| Total tax (credit)/ charge | (274) | 750 |

The rate of UK corporation tax that was enacted at the balance sheet date was 19% (2020: 19%). The UK government has announced that this rate will remain in effect until 1 April 2023 and for financial years starting thereafter will increase to 25%.

Deferred tax assets and liabilities on all timing differences have been calculated at 19% (2020: 19%), being the rate of UK corporation tax that was enacted at the balance sheet date, including those expected to reverse in the year ended 31 January 2022.

Massimo Dutti U.K. Limited

Notes to the financial statements (continued) For the year ended 31 January 2021

9. Tangible fixed assets

| | Leasehold property £'000 | Computer and office equipment £'000 | Furniture and fittings £'000 | Store equipment £'000 | Total £'000 |
|------------------------------------|--------------------------------|--|---------------------------------------|-----------------------------|----------------|
| Cost | | | | | |
| At 1 February 2020 | 10,168 | 403 | 3,661 | 4,277 | 18,509 |
| Additions | 5 | 16 | 22 | 24 | 67 |
| Disposal | (795) | (20) | (201) | (81) | (1,097) |
| At 31 January 2021 | 9,378 | 399 | 3,482 | 4,220 | 17,479 |
| Depreciation and impairment | | | | | |
| At 1 February 2020 | 6,416 | 291 | 2,104 | 2,993 | 11,804 |
| Charge for the year | 675 | 51 | 281 | 290 | 1,297 |
| Disposal | (459) | (15) | (113) | (43) | (630) |
| Impairment charge | 803 | 9 | 251 | 99 | 1,162 |
| Impairment Reversal | (272) | (4) | (56) | (28) | (360) |
| At 31 January 2021 | 7,163 | 332 | 2,467 | 3,311 | 13,273 |
| Net book value | | | | | |
| At 31 January 2020 | 3,752 | 112 | 1,557 | 1,284 | 6,705 |
| At 31 January 2021 | 2,215 | 67 | 1,015 | 909 | 4,206 |

All amounts stated under Leasehold property are short leasehold.

10. Stocks

| | 2021 £'000 | 2020 £'000 |
|-------------------------------------|---------------|---------------|
| Finished goods and goods for resale | 3,402 | 2,694 |

Stock consists of fashion garments and accessories for resale. There are no material differences between the replacement cost of stock and the balance sheet amounts.

Massimo Dutti U.K. Limited

Notes to the financial statements (continued) For the year ended 31 January 2021

11. Debtors

| | 2021 £'000 | 2020 £'000 |
|--|---------------|---------------|
| Amounts due from fellow group undertakings | 450 | 423 |
| Other debtors | 645 | 235 |
| Prepayments and accrued income | 1,439 | 2,401 |
| Deferred tax (see note 14) | 391 | 190 |
| Corporation tax | 73 | - |
| | <u>2,998</u> | <u>3,249</u> |

All amounts are due within one year.

Amounts owed by group undertakings are unsecured and repayable on normal commercial trade terms.

12. Creditors: amounts falling due within one year

| | 2021 £'000 | 2020 £'000 |
|------------------------------------|---------------|---------------|
| Trade creditors | 489 | 346 |
| Amounts due to group undertakings | 309 | 291 |
| Other taxation and social security | 65 | 657 |
| Accruals and deferred income | 3,150 | 3,223 |
| Corporation tax | - | 386 |
| | <u>4,013</u> | <u>4,903</u> |

Amounts owed to group undertakings are unsecured and repayable on normal commercial trade terms.

13. Deferred tax

| | 2021 £'000 | 2020 £'000 |
|---|---------------|---------------|
| Net deferred tax asset at the beginning of the year | 190 | 109 |
| Origination and reversal of timing differences | 202 | 81 |
| Prior year adjustments | (1) | - |
| | <u>391</u> | <u>190</u> |

During the year beginning 1 February 2021, the net reversal of deferred tax assets and liabilities is not expected to be significant.

Massimo Dutti U.K. Limited

Notes to the financial statements (continued) For the year ended 31 January 2021

13. Deferred tax (continued)

The elements of deferred taxation are as follows:

| | 2021 £'000 | 2020 £'000 |
|---|---------------|---------------|
| Capital allowances in arrears of depreciation | 391 | 190 |
| Net deferred tax asset at the end of the year | <u>391</u> | <u>190</u> |

The amount provided relates to differences between accumulated depreciation and capital allowances.

14. Called up share capital and reserves

| | 2021 £'000 | 2020 £'000 |
|--|---------------|---------------|
| Allotted, called up and fully paid 8,800,000 ordinary shares of £1 each | <u>8,800</u> | <u>8,800</u> |

The company has one class of ordinary shares which carry no right to fixed income.

The company's profit and loss reserve represents cumulative profits or losses, net of dividends paid.

15. Commitments

Total future minimum lease payments under non-cancellable operating leases are as follows:

| | 2021 £'000 | 2020 £'000 |
|-------------------------------------|---------------|---------------|
| Land and building operating leases: | | |
| Within one year | 20,163 | 9,627 |
| Between one and five years | 38,551 | 27,503 |
| More than five years | <u>-</u> | <u>1,117</u> |

Leases of land and buildings are typically subject to rent reviews at specified intervals and require that the lessee pay all insurance, maintenance and repair costs.

Massimo Dutti U.K. Limited

Notes to the financial statements (continued) For the year ended 31 January 2021

16. Ultimate parent company and parent undertaking of larger group of which the company is a member

The immediate parent company is Zara Holding BV, a company incorporated in the Netherlands. The ultimate parent company and controlling party is Pontegadea Inversiones, S.L. a company incorporated in Spain.

The parent undertaking of the smallest group of undertakings for which group financial statements are prepared and of which the company is a member is Industria de Diseño Textil, S.A. (Inditex, S.A.), a company incorporated in Spain and listed on the Madrid Stock Exchange. The parent undertaking of the largest group of undertakings for which group financial statements are prepared and of which the company is a member is Pontegadea Inversiones S.L, Avenida de la Diputación, 15142 Arteixo (A Coruña) Spain, a company incorporated in Spain which is managed independently of Industria de Diseño Textil, S.A. (Inditex, S.A.).

Copies of the group financial statements of Industria de Diseño Textil, S.A, Avenida de la Diputación, Edificio INDITEX, 15142 Arteixo (A Coruña) Spain are available from Registro Mercantil, La Coruña, Spain.

17. Related party transactions

During the year the company purchased goods for resale for £1,763,106 (2020: £2,176,553) from non-wholly owned group undertakings. At the balance sheet date the amount due to non-wholly owned group undertakings was £10,039 (2020: £19,259).

The directors of the Company have conducted a preliminary assessment of the current situation based on the best available information at the date of preparation of the financial statements. In this regard, although the Company closed its stores following the restrictions imposed by the authorities, these restrictions will foreseeably be lifted in the short term, and, therefore, the Company would be able to continue its operations normally.