Zara Home UK Limited

Directors' report and financial statements

Registered number 4906026

For the year ended 31 January 2012

Contents

Directors' report

The directors present their report and the audited financial statements for the financial year ended 31 January 2012

Business review

Company structure

Zara Home UK Ltd (the Company) is a wholly owned subsidiary of INDITEX S A , which is listed on the Spanish Stock Exchange The Company purchases finished goods exclusively from group companies

Trading

The Company operates its own directly operated stores in the UK The principal activity of the company is the retail of soft furnishing and home decoration items At 31 January 2012, Zara Home UK Ltd consisted of 9 stores (2011 7) The Company opened two new stores during the financial year, in Richmond on 1 September 2011 and in Hampstead (London) on 26 January 2012

Total sales for the Company were £8 8m (2011 £8 0m) an increase of 10 0% compared to the prior year

The gross margin improved to 62 6% of sales for the financial year ending 31 January 2012 compared to 62 3% in prior year, reflecting a better inventory management, but also the use of sourcing in proximity, as well as exceptional factors such as currency – the Company s merchandise is exclusively purchased from Group undertakings in Spain

Total operating expenses increased by 9 6% compared to the prior year This increase includes the impact of changing the tangible fixed assets useful life in line with Group policy

The business remains open to risks and uncertainties prevalent in the retail environment, including the levels of consumer spending and currency fluctuations

New stores

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

Results and dividends

The audited financial statements for the year ended 31 January 2012 are set out on pages 5 to 14

The Loss before taxation for the year ended 31 January 2012 was £191k (2011 loss £226k)

The directors do not recommend the payment of a dividend (2011 nil)

Directors and directors' interests

The directors who held office during the financial year were as follows

Eva Maria CARDENAS BOTAS

Vicente CORTIZAS GONZALEZ CRIADO

Jose Manuel ROMAY DE LA COLINA

Directors' report (continued)

Disabled employees

Applications for employment for disabled persons are always fully considered, bearing in mind the aptitudes 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

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 the group magazine distributed quarterly

Payments to suppliers

The company is responsible for agreeing the terms and conditions under which business transactions with suppliers are conducted It is company policy that payments to suppliers are made in accordance with these terms, provided that the supplier is also complying with all the relevant terms and conditions Payment terms with suppliers including intercompany suppliers, are 30 days (2011 30 days)

Disclosure of information to auditors

The directors who held office at the date of approval of this directors report confirm that, so far as they are each aware there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

By order of the board

Jose Manuel Romay de la Colina
Director

120 Regent Street
London
W1B 5FE

25 May 2012

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

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 judgments 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

Independent auditor's report to the members of Zara Home UK Limited

We have audited the financial statements of Zara Home UK Ltd for the year ended 31 January 2012 which comprise the Profit and Loss Account the Balance Sheet and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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 auditors' 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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www frc org uk/apb/scope/private cfm

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 January 2012 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you 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

Richard Ackland (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square
London
E14 5GL
United Kingdom

25 May 2012

Profit and loss account

For the year ended 31 January 2012

	Note	**2011 £'000**	2011 £ 000
Turnover		**8,797**	7,999
Cost of sales		**(3,288)**	(3,015)
Gross profit		**5,509**	4,984
Selling and distribution costs		**(5,494)**	(4,991)
Administrative expenses		**(365)**	(295)
Other operating income		**153**	78
Operating Loss		**(197)**	(224)
Interest receivable and similar income	*5*	**9**	1
Interest payable and similar charges	*6*	**(3)**	(3)
Loss on ordinary activities before taxation	*2*	**(191)**	(226)
Tax (charge)/credit on profit on ordinary activities	*7*	**(37)**	282
(Loss)/Profit for the financial year	*15*	**(228)**	56

All amounts relate to continuing activities

There are no recognised gains or losses other than the amounts stated above

The accompanying notes are an integral part of these statements

Balance sheet
At 31 January 2012

	Note	2012 £'000	2012 £'000	2011 £ 000	2011 £ 000
Fixed assets					
Tangible assets	8		**2,688**		2,184
Current assets					
Stocks	9	**860**		578	
Debtors	10	**726**		843	
Cash at bank and in hand		**369**		316	
Current asset investment	11	**230**		825	
		2,185		2,562	
Creditors amounts falling due within one year	12	**(1,730)**		(1,375)	
Net current assets			**455**		1,187
Total assets less current liabilities			**3,143**		3,371
Net assets			**3,143**		3,371
Capital and reserves					
Called up share capital	14		**4,900**		4 900
Profit and loss account	15		**(1,757)**		(1,529)
Shareholder's funds	16		**3,143**		3,371

The accompanying notes are an integral part of these statements

These financial statements were approved by the board of directors on 25 May 2012 and were signed on its behalf by

Jose Manuel Romay de la Colina
Director

Company's registered number 4906026

Notes
(Forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items, which are considered material in relation to the company's financial statements except as noted below

Basis of preparation

The financial statements have been prepared in accordance with applicable UK accounting standards and under the historical cost accounting rules

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that its ultimate parent company INDITEX, S A , which is incorporated in Spain, prepares a cash flow statement

As a wholly owned subsidiary undertaking of INDITEX, S A , the company has taken advantage of the exemption in Financial Reporting Standard No 8 Related party disclosures" from disclosing transactions with other wholly owned members of the group headed by INDITEX, S A There were no transactions with non-wholly owned group undertakings in the year ended 31 January 2012 (2011 nil)

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

The financial statements have been prepared on the going concern basis which the directors believe to be appropriate for the following reasons The company is dependent for its working capital on funds provided to it by INDITEX S A , the company's ultimate holding undertaking INDITEX S A has provided the company with an undertaking that for at least 12 months from the date of approval of these financial statements it will continue to make available such funds as are needed by the company and in particular will not seek repayment of the amounts currently made available This should enable the company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment

Fixed assets and depreciation

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 were changed from 1 February 2011 as follows

Leasehold property	the greater of the lease term or 9 years (formerly 10 years)
Computer and office equipment	the greater of the lease term or 5 years (formerly 4 years)
Furniture and fittings	the greater of the lease term or 9 years (formerly 10 years)
Store equipment	the greater of the lease term or 9 years (formerly 8 years)

This change reflects the average useful economic lives seen by INDITEX Group companies based on historical data of worldwide operations

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

Long lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable for 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

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

Notes *(continued)*

1 Accounting policies *(continued)*

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 acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors Operating lease rentals are charged 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 period to the first rent review date on which the rent is first expected to be adjusted to the prevailing market rate

Pension costs

Employees are entitled to join personal defined contribution pension schemes, to which Zara Home UK 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 and net realisable value Net realisable value is based on estimated normal selling price less further costs expected to be incurred to sale

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

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 results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements

A net deferred tax asset is regarded as recoverable and therefore recognised only when on the basis of all available evidence it can be regarded as more likely than not 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 average 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

Turnover

Revenue 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 the provision of goods to customers net of discounts

The Company sells gift vouchers to the public Turnover is recognised when vouchers are redeemed in stores

Notes *(continued)*

2 Profit on ordinary activities before taxation

	2012 £'000	2011 £ 000
Profit on ordinary activities before taxation is stated after charging		
Auditors' remuneration		
Audit fees	12	12
Other services	1	1
Depreciation of tangible fixed assets	488	461
Loss on Disposal of tangible fixed assets	121	-
Impairment of tangible fixed assets – new impairment charge	316	411
Impairment of tangible fixed assets – reversal of prior year impairment	(13)	-
Operating lease rentals		
Property	1,554	1,380
Store equipment	3	3

3 Remuneration of directors

All directors are paid by a fellow group undertaking They have received no remuneration for their services to Zara Home UK Ltd (2011 nil)

4 Staff numbers and costs

The average number of persons employed by the company during the financial period analysed by category was as follows

	Number of employees 2012	Number of employees 2011
Sales	77	55
Administration	2	3
	79	58

Number of sales employees relate to full time equivalents

The aggregate payroll costs of these persons were as follows

	2012 £'000	2011 £ 000
Wages and salaries	1,199	1 143
Social security costs	102	93
Other pension costs	11	5
	1,312	1 241

Notes *(continued)*

5 Interest receivable and similar income

	2012 £'000	2011 £'000
Receivable from banks	5	1
Foreign exchange differences	4	-
	9	1

6 Interest payable and similar charges

	2012 £'000	2011 £'000
On bank loans and overdrafts	3	2
Foreign exchange differences	-	1
	3	3

7 Taxation

Analysis of charge in period

	2012 £'000	2011 £'000
Current tax		
UK corporation tax – current year	(3)	-
UK corporation tax – adjustments in respect of prior year	4	-
Total current tax	1	-
Deferred tax (see note 13)		
Origination and reversal of timing differences	(46)	(103)
Adjustments in respect of prior years	4	22
Adjustments in respect of change of tax rate	20	14
Tax losses (recognised)/utilised during the year	58	(215)
Total deferred tax	36	(282)
Tax charge/(credit) on loss on ordinary activities	37	(282)

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

Notes *(continued)*

7 Taxation *(continued)*

	2012 £'000	2011 £ 000
Current tax reconciliation		
Loss on ordinary activities before tax	**(191)**	(226)
Current tax at 26% (2011 28%)	**(50)**	(63)
Effects of		
Capital allowances for period less than depreciation	**46**	103
Depreciation on non qualifying assets	**59**	65
Adjustment in respect of prior year	**4**	22
Tax losses utilised	**(58)**	(127)
Total current tax charge	**1**	-

The rate of UK corporation tax that was enacted at the balance sheet date was 26% Subsequently, the UK government announced that the UK corporation tax rate will reduce further to 25% on 1 April 2012 It is expected that the corporation tax rate will change to 23% over the following three years There are no other factors that may significantly affect future tax charges

Deferred tax assets and liabilities on all timing differences have been calculated at 25% being the rate of UK corporation tax that was announced to be effective from 1 April 2012 Based on current capital expenditure plans, the company expects to continue to be able to claim capital allowances in excess of depreciation in future years

8 Tangible fixed assets

	Leasehold property £'000	Computer and office equipment £'000	Furniture and fittings £'000	Store equipment £'000	Total £'000
Cost					
At beginning of financial year	2,176	44	1 173	1,006	4 399
Additions	547	44	277	548	1 416
Disposals	-	-	(192)	(42)	(234)
At end of financial year	2 723	88	1 258	1 512	5 581
Depreciation & impairment					
At beginning of financial year	1 028	33	659	495	2 215
Charged	248	8	123	109	488
Disposals	-	-	(87)	(26)	(113)
Impairment charge	156	4	20	123	303
At end of financial period	1 432	45	715	701	2 893
Net book value					
At 31 January 2012	**1,291**	**43**	**543**	**811**	**2,688**
At 31 January 2011	1 148	11	514	511	2 184

Notes *(continued)*

8 Tangible fixed assets (continued)

The impairment losses represent the difference between the carrying amount of the fixed assets and their recoverable amount The recoverable amount has been determined based upon a value in use calculation Cash flow projections for the next 10 years, discounted at 5 3%, 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 to year 10 No growth has been assumed after 5 years Sensitivity analysis reviewed by management with respect to a higher discount rate of 8% would have a minimal impact on the underlying impairment

9 Stocks

	2012	2011
	£'000	£'000
Finished goods and goods for resale	**860**	578

Stock consists of soft furnishing and home decoration items for resale

10 Debtors

	2012	2011
	£'000	£'000
Amounts owed from group undertakings	**29**	11
Other debtors	**33**	16
Prepayments and accrued income	**418**	534
Deferred taxation (see note 13)	**246**	282
	726	843

11 Current asset investment

	2012	2011
	£'000	£'000
Current asset investment	**230**	825

Current asset investment is an AAA Liquidity Fund account

12 Creditors: amounts falling due within one year

	2012	2011
	£'000	£'000
Trade creditors	**214**	47
Amounts owed to group undertakings	**698**	591
Taxation and social security	**266**	263
Accruals and deferred income	**552**	474
	1,730	1,375

Notes *(continued)*

13 Deferred tax

	2012 £'000	2011 £'000
Deferred tax at the beginning of year	(282)	-
Origination and reversal of timing differences	(46)	(103)
Tax losses (recognised)/utilised during the year	58	(215)
Adjustment in respect of change of tax rate	20	14
Adjustment in respect of prior year	4	22
Deferred tax (asset) at the end of the year	(246)	(282)

The elements of deferred taxation are as follows

	2012 £'000	2011 £'000
Capital allowances in excess of depreciation	63	111
Tax losses carried forward	(309)	(393)
Net deferred tax (asset)	(246)	(282)

14 Called up share capital

	2012 £'000	2011 £'000
Authorised, allotted, called up and fully paid		
4,900,000 ordinary shares of £1 each	4,900	4,900

15 Reserves

	Profit and loss account £'000
At beginning of year	(1,529)
Loss for the year	(228)
At end of the year	(1,757)

Notes *(continued)*

16 Reconciliation of movements in shareholder's funds

	2012 £'000	2011 £'000
Retained profit/(loss) for the financial year	**(228)**	56
Net (reduction)/addition to shareholder's funds	**(228)**	56
Opening shareholder's funds	**3,371**	3,315
Closing shareholder's funds	**3,143**	3,371

17 Commitments

Annual commitments under non-cancellable operating leases are as follows

	2012 £'000	2011 £'000
Land and building operating leases which expire		
Within one year	**-**	-
In the second to fifth years inclusive	**1,317**	964
More than five years	**511**	511

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

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

The directors regard Industria de Diseño Textil S A (INDITEX S A) registered in Spain, as the ultimate parent company and the ultimate controlling party

The parent company of the largest consolidated group of which the company is a member and for which group financial statements are drawn up is INDITEX S A

The parent company of the smallest consolidated group of which the company is a member and for which group financial statements are drawn up is Zara Home España S A

Copies of consolidated financial statements of INDITEX S A are available from Registro Mercantil La Coruña Spain