

Company Registration No. 02275771

GPS (GREAT BRITAIN) LIMITED

**Annual Report and Financial Statements
For the Year ended 2 February 2019**

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GPS (GREAT BRITAIN) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS 2019

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GPS (GREAT BRITAIN) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS 2019

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

M. Abrahams
D. Edwards
D. Mireskandari

JOINT COMPANY SECRETARIES

L. Mertens
2 Folsom Street
San Francisco
CA 94105
USA

TMF Corporate Administration Services Limited
c/o TMF Group
20 Farringdon Street
London
EC4A 4EN

REGISTERED OFFICE

Nations House, 103 Wigmore Street
London, United Kingdom
W1U 1QS

BANKERS

HSBC Bank plc
129 New Bond Street
London
W1A 2JA

AUDITOR

Deloitte LLP
Statutory Auditor
Four Brindleyplace
B1 2HZ
Birmingham
United Kingdom

GPS (GREAT BRITAIN) LIMITED

STRATEGIC REPORT

The directors present their strategic report for the year ended 2 February 2019.

PRINCIPAL ACTIVITY

The principal activity of GPS (Great Britain) Limited (the "Company") is the operation of retail stores offering fine casual clothing. Turnover consists of retail sales for the Gap Specialty and Gap Outlet brands in the UK.

REVIEW OF THE BUSINESS

As shown in the Company's income statement on page 9, turnover decreased from £250.4m to £215.5m which is due to the closure of underperforming stores and decreases in comparative Key Performance Indicators (KPIs). Operating losses increased from £20.4m to £46.8m, due to lower gross margins. During the year, the Company opened 3 new stores, closed 8 underperforming stores, relocated 2 existing stores and converted 3 Gap Specialty stores to Gap Outlet stores being a net decrease in fleet size from 109 to 104. Gross profit margin decreased from 53.1% to 48.0%, and due to the reduction in overall sales, absolute gross profit fell by £29.5m.

The store portfolio is actively managed by senior management with regular reviews of store performance and regular reviews of lease expiry and break clauses to identify opportunities for exit or renegotiating of commitments. During the year 41 stores (2018: 1) were impaired totalling £9,513,000 (2018: £521,000) due to store performance.

As at 2 February 2019, the Company had net liabilities of £2,161,000 (2018: net assets £40,451,000) and cash of £5,629,000 (2018: £6,419,000).

The Company's performance is measured in a number of ways, including KPI's around the operational efficiency of retail stores. The Key Performance Indicators include:

- Store traffic – Customer footfall into store
- Comparable sales – Sales figures compared to prior year on a like for like basis
- Sales conversion – Percentage of store traffic that made a purchase
- Average unit retail price (AUR) – Average price of retail units sold to customers
- Average transaction value (ATV)- Average value per single transaction
- Average unit retail cost (AUC) – Average cost of the retail units sold to customers

The KPI's are presented by division.

Gap Specialty: Comparable sales are down -11% due to a decrease in traffic of -8% and ATV of -5% but this is offset by an increase in sales conversion of +1%. The decreased traffic drove a decrease in comparable unit sales of -7%. Gross margin % was down -5 percentage points vs last year and absolute margin was down -19%, due to increased AUC +5% plus a decrease in AUR -5%.

Gap Outlet: Comparable sales are down -7% driven by a decrease in traffic of -5%, sales conversion of -1%, units per transaction of -1% and ATV -2%. Gross margin % was down -4.9 percentage points vs last year mainly due to a -1% AUR combined with an AUC increase of +11%. Absolute margin was down -15% comparatively, with an overall unit sales comparative decrease of -7%.

Like much of the highstreet, at Gap brand traffic remains the biggest challenge. Both brands had increases in average unit cost due to a weaker Sterling against the US Dollar so gross margin has reduced.

Overall total UK retail sales were £215.5m (2018: £250.4m) down 13.9% against 2018.

GPS (GREAT BRITAIN) LIMITED

STRATEGIC REPORT (CONTINUED)

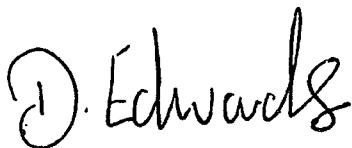
PRINCIPAL RISKS AND UNCERTAINTIES

The Company's business is sensitive to a number of factors that influence the levels of consumer spending, including political and economic conditions such as recessionary environments, the levels of disposable consumer income, consumer debt, interest rates and consumer confidence. Declines in consumer spending on apparel could have a material adverse effect on the Company's operating results.

The principal risk facing the business is the ability to gauge the fashion tastes of its customers and to provide merchandise that satisfies customer demand in a timely manner. The Company will continue to improve its core business by creating the right product and store experience, retaining and developing the best talent in the industry, and examining the organisational structure to ensure that it effectively supports the business and meets customer needs. Opportunities will continue to be sought to maximise profitability and market share in the UK casual apparel market.

Following Brexit and the ongoing political changes, there remain a number of uncertainties about how the UK will exit the European Market. As a result, the impact to which operations and financial performance will be affected in the longer term will only become clear as details are confirmed. Internal review of the business processes has considered the probable consequences that Brexit may have, and concluded that it does not raise any new principal risks. However, it does have the potential to impact our existing risks e.g. exchange rates, regulatory changes and general economic uncertainty. As part of the Company's risk management process, these risks will continue to be actively monitored throughout the Brexit negotiations.

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

A handwritten signature in black ink, appearing to read 'D. Edwards', is written over a horizontal line.

D. Edwards

Director

Date: 21 October 2019

GPS (GREAT BRITAIN) LIMITED

DIRECTORS' REPORT

The directors present their Annual Report and the audited financial statements for the year ended 2 February 2019. Comparative figures are for the year ended 3 February 2018.

DIVIDENDS

The directors did not propose an interim dividend to its sole shareholder, Gap (UK Holdings) Limited (2018: £nil).

The directors do not propose a final dividend for the year (2018: £nil) and no dividend was proposed after the year end. The retained loss of £43,287,000 (2018: loss of £19,878,000) has been transferred to Capital and Reserves.

DIRECTORS

The directors of the Company, during the year and changes since year end, are listed below:

D. Edwards	(UK citizen)
D. Mireskandari	(UK citizen)
M. Abrahams (Appointed 05 April 2018)	(US citizen)
D. Bazzano (Resigned 05 April 2018)	(US citizen)

DIRECTORS' INTERESTS

None of the directors had any notifiable interest in the share capital of the Company as defined by the Companies Act 2006 as at 2 February 2019.

EMPLOYEES

Management holds quarterly meetings with employee representatives to discuss sales, financial position and prospects, to encourage employee involvement and to make them aware of the Company performance. Opportunity is given to employees at these meetings to ask questions of senior executives about matters that concern them.

Applications for employment by 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 their employment with the Company continues and that appropriate training is arranged. It is the Company's policy that the training, career development and promotion of disabled persons, as far as possible, be identical to that of other employees.

CREDITORS' PAYMENT POLICY

The policies that the Company followed for the payment of creditors in the financial year were:

- for those suppliers that offer prompt payment discounts, payment is made in accordance with those terms; and
- for other suppliers, payment is made 28 days from the end of the month (2018: 28 days).

FINANCIAL RISK MANAGEMENT

The Company's Treasury Department seeks to reduce financial risk, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. It operates within policies and procedures approved by the Board of Directors of The Gap, Inc. (the "Ultimate Parent company"), which include strict controls on the use of financial instruments in managing the Company's risk. The Company does not undertake any trading activity in financial instruments.

Liquidity risk

The Company's activities expose it to liquidity risk. In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Company uses short term financing which is made available from group companies.

Foreign exchange rate risk

The Company is exposed to foreign exchange risk as transactions with other companies within the Gap group and external parties can be denominated in currencies other than GBP (most notably the US Dollar). This will be affected by the evolving Brexit situation.

The Company's risk management policy is to use forward contracts to economically hedge its market risk exposure associated with foreign currency exchange rate fluctuations for economic transactions denominated in foreign currencies. The fair values are provided by the financial institutions for which the Company entered into contracts.

GPS (GREAT BRITAIN) LIMITED

DIRECTORS' REPORT (CONTINUED)

Capital risk

The Company manages its capital to ensure it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of debt and equity. The capital structure of the Company consists of cash and short-term deposits and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the Statement of Changes in Equity on page 11.

CAPITAL CONTRIBUTION RESERVE

The Company's capital account increased by £675,000 (2018: £628,000) in relation to share based payments awarded to employees (note 16).

GOING CONCERN

The Company's business activities, together with the factors likely to affect its future development and financial position are set out within the Strategic Report. In addition, within the Directors' Report there are details of the Company's financial risks that the Directors have highlighted to the business.

As the Company is part of a larger group it participates in the group's centralised treasury arrangement and so shares banking arrangements with its parent and fellow subsidiaries. The Company is in a net current liabilities position, but is expected to continue to be able to obtain finance via intercompany loans to continue to operate for the foreseeable future. In completing this analysis, the Directors have considered the ability of the GAP group to provide such finance. The Directors are not aware of any material uncertainties related to events or conditions that may cause significant doubt upon the Company's ability to continue as a going concern. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

POLITICAL DONATIONS

No donations were made for political purposes (2018: £nil).

FUTURE EVENTS AND EVENTS AFTER THE REPORTING PERIOD

As part of the continuous review of the store portfolio by Management, since the year end one store has closed at a lease break and one store has been converted from Gap Speciality to Gap Outlet.

There are no events that have occurred since 2 February 2019 which would make the present financial position substantially different from that shown in the statement of financial position at that date or would require adjustment to or disclosure in the annual financial statements, nor are there any future events that require disclosure.

DISCLOSURE OF INFORMATION TO AUDITOR

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

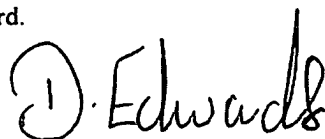
- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's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

AUDITOR

The Company has resolved to dispense with the appointment of the auditor annually in accordance with Section 386 of the Companies Act 1985. This election was in force immediately before 1 October 2007; therefore Deloitte LLP is deemed to continue in office as auditor.

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



D. Edwards - Director

Date: 21 October 2019

GPS (GREAT BRITAIN) 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 judgment 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.

GPS (GREAT BRITAIN) LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GPS (GREAT BRITAIN) LIMITED

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of GPS (Great Britain) Limited (the "Company"):

- give a true and fair view of the state of the Company's affairs as at 2 February 2019 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 income statement;
- the statement of financial position;
- the statement of changes in equity; and
- the related notes 1 to 22.

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

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. 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.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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 respect of these matters.

GPS (GREAT BRITAIN) LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GPS (GREAT BRITAIN) LIMITED

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.

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.



Jane Whitlock (Senior Statutory Auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Birmingham, United Kingdom

Date: 29 October 2019

GPS (GREAT BRITAIN) LIMITED

COMPANY REGISTRATION NO.02275771

INCOME STATEMENT**For the Year ended 2 February 2019**

	Note	Year ended 2 February 2019 £'000	Year ended 3 February 2018 £'000
TURNOVER	3	215,486	250,363
Cost of sales		<u>(112,076)</u>	<u>(117,420)</u>
GROSS PROFIT		103,410	132,943
Other operating income		545	233
Administrative expenses		<u>(150,792)</u>	<u>(153,544)</u>
OPERATING LOSS		(46,837)	(20,368)
Interest receivable and similar income	5	30	211
Interest payable and similar expenses	6	<u>(345)</u>	<u>(366)</u>
LOSS BEFORE TAXATION	7	(47,152)	(20,523)
Tax credit on loss	8	<u>3,865</u>	<u>645</u>
LOSS FOR THE FINANCIAL YEAR		<u>(43,287)</u>	<u>(19,878)</u>

All results derive from continuing operations.

All gains and losses are recognised in the income statement for the financial year. Accordingly, no statement of total other comprehensive income is given.

GPS (GREAT BRITAIN) LIMITED

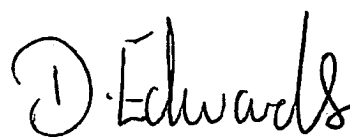
COMPANY REGISTRATION NO.02275771

STATEMENT OF FINANCIAL POSITION**As at 2 February 2019**

	Note	2 February 2019 £'000	3 February 2018 £'000
FIXED ASSETS			
Tangible fixed assets	9	55,303	65,767
CURRENT ASSETS			
Inventory	10	18,242	16,712
Debtors	11	18,674	16,530
Cash at bank and in hand		<u>5,629</u>	<u>6,419</u>
		42,545	39,661
CREDITORS: amounts falling due within one year	13	<u>(99,435)</u>	<u>(64,224)</u>
NET CURRENT LIABILITIES		<u>(56,890)</u>	<u>(24,563)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		(1,587)	41,204
Provisions	14	<u>(574)</u>	<u>(753)</u>
NET (LIABILITIES)/ASSETS		<u>(2,161)</u>	<u>40,451</u>
CAPITAL AND RESERVES			
Called up share capital	15	872	872
Share premium account		55,555	55,555
Capital reserve		29,988	29,988
Capital contribution reserve		19,791	19,116
Profit and loss account		<u>(108,367)</u>	<u>(65,080)</u>
SHAREHOLDERS' FUNDS		<u>(2,161)</u>	<u>40,451</u>

These financial statements were approved by the Board of Directors and authorised for issue on 21 October 2019.

Signed on behalf of the Board of Directors.

D. Edwards
Director

GPS (GREAT BRITAIN) LIMITED

STATEMENT OF CHANGES IN EQUITY For the year ended 2 February 2019

	Called-up share Capital £'000	Share premium account £'000	Capital reserve £'000	Capital contribution reserve £'000	Profit & loss account £'000	Total £'000
As at 28 January 2017	872	55,555	29,988	18,488	(45,202)	59,701
Loss for the year	-	-	-	-	(19,878)	(19,878)
Capital contribution	-	-	-	628	-	628
As at 3 February 2018	872	55,555	29,988	19,116	(65,080)	40,451
Loss for the year	-	-	-	-	(43,287)	(43,287)
Capital contribution	-	-	-	675	-	675
As at 2 February 2019	872	55,555	29,988	19,791	(108,367)	(2,161)

The Company's other reserves are as follows:

The share premium reserve contains the premium arising on the issue of equity shares, net of issue expenses.

The capital reserve represents capital contributions from The Gap, Inc. (the Ultimate Parent company).

The capital contribution reserve represents capital contributions from The Gap, Inc. in relation to share based payments awarded to employees of the Company. The Company's capital account was increased by £675,000 (2018: £628,000) in relation to share based payments awarded to employees (note 16).

The profit and loss reserve represents the cumulative profits or losses. No interim dividend has been paid during the year (2018: \$nil) to its sole shareholder, Gap (UK Holdings) Limited. The directors do not propose a final dividend for the year (2018: \$nil) and no dividend was proposed after the year end.

GPS (GREAT BRITAIN) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the Year ended 2 February 2019

1. ACCOUNTING POLICIES

The principle accounting policies are summarised below. They have all been applied consistently throughout the year and to the proceeding year.

General information and basis of accounting

The Company is a private company limited by shares, incorporated and registered in England and Wales under the Companies Act 2006. The address of the registered office is Nations House, 103 Wigmore Street, London, UK, W1U 1QS. 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, modified to include certain items at fair value, and in accordance with The Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. The Company has applied the amendments to FRS102 issued by the FRC in December 2017 prior to their mandatory effective date of accounting period beginning on or after 1 January 2019.

The functional currency of the Company is considered to be the Great British Pound (GBP) because that is the currency of the primary economic environment in which the Company operates.

The Company 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 financial statements. Exemptions have been taken in relation to presentation of a cash flow statement, financial instruments, related party transactions, remuneration of key management personnel and share based payments.

Turnover

Turnover comprises amounts receivable in respect of goods supplied to third party customers, net of Value Added Tax (VAT), discounts and a sales return provision. Turnover is recognised when the risks and rewards of owning the goods has passed to the customers, which is generally at the point of sale.

Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation net of any provision for impairment. Depreciation is not provided on freehold land. On other tangible fixed assets depreciation is provided in equal annual instalments over the useful lives of the assets and is calculated on the cost of the assets less any provision for impairment in value. Construction costs are transferred once complete to the respective fixed asset account. Construction costs are not depreciated until this transfer is made.

The estimated useful lives are as follows:

Short leasehold buildings:	-	life of the lease (usually 10-15 years)
Leasehold improvements:	-	shorter of 15 years or the term of the lease
Fixtures and fittings:	-	3 - 10 years

Impairment

If there is objective evidence of impairment, an impairment loss is recognised in the income statement as described below.

Fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Events that result in an impairment review include decisions to close a store, headquarter facility or distribution centre, or a significant decrease in the operating performance of the fixed asset. For store assets that are identified as potentially being impaired, if the undiscounted future cash flows of the fixed assets are less than the carrying value, the Company recognises a loss equal to the difference between the carrying value and the asset's fair value. The fair value of the Company's fixed assets is evaluated using the discounted future cash flows of the assets based upon a rate that approximates the Company's weighted-average cost of capital. Judgements of future cash flows are based upon experience, knowledge and third-party advice or market data. However, these judgements can be affected by factors such as future store profitability, real estate demand and economic conditions that can be difficult to predict.

GPS (GREAT BRITAIN) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 2 February 2019

1. ACCOUNTING POLICIES (Continued)

Inventory

Inventory is stated at the lower of cost or net realisable value. Cost is defined as the aggregate cost of finished merchandise purchased from suppliers and associated handling costs. Cost is calculated using the weighted average cost method (WAC). Net realisable value is based on normal selling price, less further costs expected to be incurred to completion and disposal.

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 substantively enacted by the statement of financial position date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the statement of financial position 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 statement of financial position 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 years different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, 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 using the tax rates and laws that have been enacted or substantively enacted by the statement of financial position date that are expected to apply to the reversal of the timing difference.

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.

Pension scheme arrangements

Retirement benefits for employees are provided by defined contribution schemes which are funded by contributions from the Company and employees. Payments are made either to pension trusts that are financially separate from the Company or to insurance companies. These payments are charged against the profits of the year in which they become payable.

Foreign currency translation

Normal trading activities transacted in foreign currencies are translated into GBP at the exchange rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into GBP at the rates of exchange ruling at the statement of financial position date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is reported as an exchange gain or loss in the income statement.

Leases

Operating lease rentals are charged on a straight-line basis to the income statement in equal amounts over the lease term. Premiums payable, rent free periods, stepped rents and capital contributions receivable on entering an operating lease are included within accruals and deferred income and released to income on a straight-line basis over the lease term. There are a number of leases which contain an element of contingent rent or are wholly based on contingent rent. The contingent rent is based on a percentage of turnover as defined in the individual lease agreements.

GPS (GREAT BRITAIN) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 2 February 2019

1. ACCOUNTING POLICIES (Continued)

Foreign exchange rate risk

The Company is exposed to foreign exchange risk as transactions with other companies within the Gap group and external parties can be denominated in currencies other than GBP (most notably the US Dollar), although the primary trading transactions, being the purchase and sale of merchandise, are made in GBP, reducing the foreign exchange rate risk.

Interest income

Interest income is recognised when it is probable that economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest income is accrued on a time basis by reference to the principle outstanding and at the effective interest rate applicable, which is the rate that exactly discounts future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Financial instruments

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

Financial liabilities are classified according to the substance of the contractual arrangements entered into.

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 income statement, 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.

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.

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.

(i) Derivative financial instruments

The Company uses derivative financial instruments to reduce exposure to foreign exchange risk and interest rate movements. The Company does not hold or issue derivative financial instruments for speculative purposes.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately, unless the derivative is designated as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The gain or loss will be classified within the income statement line item for which the underlying risk of the derivative instrument corresponds.

(ii) Fair value measurement

The fair value of derivative financial instruments is determined using the notional amount based on current market rates.

GPS (GREAT BRITAIN) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 2 February 2019

1. ACCOUNTING POLICIES (Continued)

Share based payments

The Company has applied the requirements of FRS102 Section 26 "Share based payments". Equity-settled share-based incentives are provided to Company employees under the employee share option, executive share awards and share purchase schemes in The Gap, Inc. Equity-settled share based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed in the parent company on a straight-line basis over the vesting period, based on the group's evaluation of shares that will eventually vest. Fair value of stock options is measured by use of the Black-Scholes-Merton pricing model. The expected life used in the model has been adjusted, based on management's best judgement, for the effects of non-transferability and behavioural considerations.

Going concern

The Company's business activities, together with the factors likely to affect its future development and financial position are set out within the Strategic Report. In addition, within the Directors' Report there are details of the Company's financial risks that the Directors have highlighted to the business.

As the Company is part of a larger group it participates in the group's centralised treasury arrangement and so shares banking arrangements with its parent and fellow subsidiaries. The Company is in a net current liabilities position, but is expected to continue to be able to obtain finance via intercompany loans to continue to operate for the foreseeable future. In completing this analysis, the Directors have considered the ability of the GAP group to provide such finance. The Directors are not aware of any material uncertainties related to events or conditions that may cause significant doubt upon the Company's ability to continue as a going concern. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the Year ended 2 February 2019

2. CRITICAL ACCOUNTING JUDGEMENTS & KEY SOURCES OF ESTIMATION & UNCERTAINTY

In the application of the Company's 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.

Critical judgements in applying the Company's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), 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.

Store impairment

In making its judgement, management has considered the guidance set out in FRS102 Section 27 "Impairment of Assets" and, in particular, the forecast future cashflows expected to be generated by each store.

Inventory

In making its judgement, management has considered the guidance set out in FRS102 Section 13 "Inventories" and, in particular whether it is stated at the lower of cost or net realisable value based on normal selling prices, less further costs expected to be incurred.

Deferred tax

Unrelieved tax losses and other deferred tax assets are not recognised, on the basis of current results. Management believes that in the short term it is unlikely that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Sources of estimation uncertainty

Useful economic life of tangible fixed assets - the actual lives of the assets and residual value are assessed annually and may vary depending on a number of factors, such as asset life cycles. Residual value assessments includes issues such as future market conditions, the remaining life of the asset and disposal values.

3. TURNOVER

Turnover consists of Gap Specialty, Gap Outlet and Banana Republic brand retail sales made to customers in the United Kingdom by the Company. All turnover derives from and is destined for the United Kingdom and is derived from the sale of goods.

	2019 £'000	2018 £'000
Turnover:		
Gap Specialty	132,198	164,264
Gap Outlet	83,288	86,088
Banana Republic	-	11
	<hr/>	<hr/>
Total Turnover	215,486	250,363
	<hr/>	<hr/>

GPS (GREAT BRITAIN) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) For the Year ended 2 February 2019

4. EMPLOYEE INFORMATION

	2019 £'000	2018 £'000
Employee costs during the year:		
Wages and salaries	42,557	46,111
Social security costs	3,324	3,762
Pension contributions	911	805
	<u>46,792</u>	<u>50,678</u>

The monthly average number of persons employed by the Company during the year was:

	2019 No.	2018 No.
Sales and distribution	3,079	3,170
Administration	156	153
	<u>3,235</u>	<u>3,323</u>

Directors' remuneration in respect of services to the Company during the year was:

	2019 £'000	2018 £'000
Emoluments	382	383
Company contributions to defined contribution pension schemes	42	40
	<u>424</u>	<u>423</u>

This disclosure also represents remuneration for the highest paid director. The highest paid director is a member of the Company's defined contribution pension scheme. It is impractical to allocate remuneration in respect of directors' services directly to the Company in situations where they are remunerated by another group entity.

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	2019 £'000	2018 £'000
Bank interest receivable	30	24
Interest receivable from group undertakings	-	187
	<u>30</u>	<u>211</u>

GPS (GREAT BRITAIN) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) For the Year ended 2 February 2019

6. INTEREST PAYABLE AND SIMILAR EXPENSES

	2019 £'000	2018 £'000
Other interest payable	(19)	(1)
Interest payable to group undertakings	(326)	(365)
	<u>(345)</u>	<u>(366)</u>

7. LOSS BEFORE TAXATION

	2019 £'000	2018 £'000
Loss before taxation is stated after charging/(crediting):		
Auditor's remuneration*:		
Audit services	111	106
Other services	25	27
Foreign exchange loss/(gain)	134	(258)
Depreciation - tangible fixed assets	9,113	9,416
Rental charges under operating leases:		
Plant and machinery	346	441
Land and buildings	38,968	44,894
Loss on disposal of fixed assets	118	179
Store closure costs	1,183	1,848
Impairments to property, plant and equipment	9,513	521
Impairment of intercompany trading balance	-	706
	<u></u>	<u></u>

Auditor's remuneration does not include any services provided pursuant to contingent fee arrangements.

Store closure costs are costs incurred on lease exits such as debranding stores. Included within these costs is a net cost of £12k for lease losses in relation to the Banana Republic closure. The lease liability for this store remains with the Company until a new deal is negotiated. Also included is £0.6m of lease termination premiums for 2 stores.

Impairment to property, plant and equipment is the impairment of assets in underperforming stores and is included in administrative expenses.

Impairment of intercompany trading balances consists of and old debt due from Chinese group companies, which is at risk of not being repaid in the medium term and is included in administrative expenses.

GPS (GREAT BRITAIN) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) For the Year ended 2 February 2019

8. TAX ON LOSS

The tax credit comprises:	2019	2018
	£'000	£'000
<i>Current tax on loss</i>		
Tax credit for the year	3,543	637
Adjustments in respect of previous years	322	8
	<hr/>	<hr/>
Total current tax	3,865	645
<i>Deferred tax (see note 12)</i>		
Origination and reversal of timing differences	-	-
	<hr/>	<hr/>
Tax credit on loss	<u>3,865</u>	<u>645</u>

The Finance Act 2015 enacted legislation to reduce the main rate of corporation tax from 20% to 19% with effect from 1 April 2017 and Finance Act 2016 enacted legislation to reduce the rate to 17% from 1 April 2020. The deferred tax balances at 2 February 2019 have been re-measured accordingly.

Factors affecting the tax credit for the current year

The current tax credit for the year is lower (2018: lower) than the standard rate of corporation tax in the UK which is 19% (2018: 19.16%).

	2019	2018
	£'000	£'000
Current tax reconciliation		
(Loss) before tax	(47,152)	(20,523)
	<hr/>	<hr/>
Current tax at 19% (2018: 19.16%)	8,959	3,932
Effects of:		
Expenses not deductible for tax purposes	(1,527)	(950)
Income not taxable	127	-
Deferred tax not recognised	(3,900)	(2,306)
Chargeable gains	(117)	9
Adjustments in respect of prior years	322	8
Share based payments	1	(48)
	<hr/>	<hr/>
Total tax credit	<u>3,865</u>	<u>645</u>

GPS (GREAT BRITAIN) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) For the Year ended 2 February 2019

9. TANGIBLE FIXED ASSETS

	Freehold land £'000	Short leasehold buildings £'000	Construction in progress £'000	Leasehold improvements £'000	Fixtures and fittings £'000	Total £'000
Cost						
At 3 February 2018	10,714	18,420	266	138,309	57,940	225,649
Additions	-	-	8,205	-	-	8,205
Disposals	-	(757)	-	(8,491)	(2,757)	(12,005)
Category transfers	-	399	(6,143)	3,238	2,506	-
At 2 February 2019	10,714	18,062	2,328	133,056	57,689	221,849
Accumulated depreciation						
At 2 February 2018	-	14,541	-	94,778	50,563	159,882
Charge for the year	-	710	-	5,236	3,092	9,038
Impairment losses	-	2,096	-	6,232	1,185	9,513
Disposals	-	(706)	-	(8,442)	(2,739)	(11,887)
At 2 February 2019	-	16,641	-	97,804	52,101	166,546
Net book value						
At 2 February 2019	10,714	1,421	2,328	35,252	5,588	55,303
At 3 February 2018	10,714	3,879	266	43,531	7,377	65,767

Fixed assets are reviewed annually for impairment in accordance with accounting policies (note 1). During the year 41 stores (2018: 1) were impaired totalling £9,513,000 (2018: £521,000) due to poor store performance.

10. INVENTORY

	2019 £'000	2018 £'000
Finished goods	18,242	16,712

There are no material differences between the replacement cost of inventory and the statement of financial position amounts.

GPS (GREAT BRITAIN) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) For the Year ended 2 February 2019

11. DEBTORS

	2019 £'000	2018 £'000
Amounts due from fellow subsidiary undertakings	4,601	5,760
Other debtors	1,557	742
Group relief debtor	3,543	637
Prepayments and accrued income	8,973	9,391
	<u>18,674</u>	<u>16,530</u>

All debtors are due within one year.

Amounts due from fellow subsidiary undertakings are unsecured, interest free and payable on demand.

12. DEFERRED TAXATION

The Company has unprovided deferred tax assets amounting to £13,101,000 (2018: £9,846,000). There is no expiry on this deferred tax asset.

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2019 £'000	2018 £'000
Trade creditors	(3,478)	(2,946)
Amounts owed to fellow subsidiary undertakings	(74,590)	(37,211)
Other taxes and social security	(2,200)	(5,034)
Accruals and deferred income	(19,142)	(18,974)
Derivative financial liabilities	(25)	(59)
	<u>(99,435)</u>	<u>(64,224)</u>

An unsecured revolving loan note which is repayable on demand was entered into with Gap (UK Holdings) Limited on 27 January 2012. The loan note must not exceed an aggregate principal amount of £31,000,000 and as at 2 February 2019 £8,000,000 (2018: £nil) was drawn down and is included within amounts owed to fellow subsidiary undertakings. The interest rate is set at 1-month LIBOR, plus 100 bps.

An unsecured revolving loan note which is repayable on demand was entered into with Gap Europe Limited on 17 April 2015. The loan note must not exceed an aggregate principal amount of £15,000,000 and as at 2 February 2019 £15,000,000 (2018: £12,151,960) was drawn down and is included within amounts owed to fellow subsidiary undertakings. The interest rate is set at 1-month LIBOR, plus 120 bps.

The remaining balance within amounts owed to fellow subsidiary undertakings are unsecured, interest free and repayable on demand, with no fixed repayment date.

GPS (GREAT BRITAIN) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) For the Year ended 2 February 2019

14. PROVISION FOR LIABILITIES

	Lease Loss Provision £000
At 3 February 2018	(753)
Additional provision in the year	(393)
Utilisation of provision	572
At 2 February 2019	(574)

The lease loss provision relates to a Banana Republic store which closed on 27 January 2017. A sub-tenant is in situ for the remainder of the lease but the rental income doesn't cover the entire lease liability.

15. CALLED UP SHARE CAPITAL

	2019 £'000	2018 £'000
Called up, allotted and fully paid: 872,003 (2018: 872,003) ordinary shares of £1 each	872	872

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

16. SHARE BASED PAYMENTS

Key employees receive stock options and stock awards of The Gap, Inc. as part of their compensation package. Stock options are issued at the current share price and generally vest after 3-4 years with expiry generally being 10 years. The Compensation and Management Development Committee of the Board of Directors of The Gap, Inc. also grants stock awards in the form of performance units. One share of common stock is issued for each performance unit upon time-based vesting of the awards.

The total cost of options and awards charged to the income statement for the year ending 2 February 2019 was £675,000 (2018: £628,000), of which £650,000 (2018: £606,000) relates to stock awards issued.

The following table summarises stock option plan activity for all employee stock option plans of the Company:

	Shares Options No.	Weighted- Average Exercise Price \$
Balance at 28 January 2017	31,700	29.229
Granted – at market value	6,000	23.540
Exercised	-	-
Balance at 3 February 2018	37,700	28.324
Granted – at market value	5,300	32.230
Exercised	-	-
Balance at 2 February 2019	43,000	28.806

GPS (GREAT BRITAIN) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 2 February 2019

16. SHARE BASED PAYMENTS (Continued)

The weighted-average exercise price for stock options exercised during the year was \$nil (2018: \$nil). The weighted-average exercise price of the stock options granted during the year ended 2 February 2019 was \$32.230 (2018: \$23.540). The number of stock options exercisable at 2 February 2019 amount to 29,425 (2018: 24,875).

The following table summarises additional information about stock options outstanding:

Range of Exercise Prices (\$)	Number of Shares at 2 February 2019	Weighted-Average Remaining Contractual Life (in years)	Range of Exercise Prices (\$)	Number of Shares at 3 February 2018	Weighted-Average Remaining Contractual Life (in years)
21.79 – 23.07	6,000	2.11	21.79 – 23.07	11,500	2.63
23.54 – 25.09	17,000	4.23	23.54 – 25.09	11,500	6.71
30.18 – 36.45	13,800	7.34	30.18 – 36.45	8,500	7.23
41.27 – 41.27	3,100	6.12	41.27 – 41.27	3,100	7.11
42.20 – 42.20	3,100	5.12	42.20 – 42.20	3,100	6.12
11.77 – 42.20	43,000	5.13	11.77 – 42.20	37,700	5.57

The value of each option grant is evaluated on the date of grant using the Black-Scholes-Merton option pricing model with the following weighted-average assumptions:

	2019	2018
Dividend yield	3.1%	3.8%
Risk-free interest rate	2.5%	1.7%
Expected volatility	36.3%	38.2%
Expected life (in years)	3.9%	3.9%

Expected volatility has been derived based on the historical volatility of The Gap, Inc. shares for a period approximating the expected term and the implied volatility based on traded options of The Gap, Inc.'s stock. The expected life used in the model has been adjusted, based on management's best judgement, for the effects of non-transferability and behavioral considerations. Share based payments are recognised and measured based on a reasonable allocation of the expense within the group based on satisfaction of performance metrics.

17. CAPITAL COMMITMENTS

Future capital expenditures which have been contracted for but not yet provided in the financial statements amounted to £nil (2018: £nil).

GPS (GREAT BRITAIN) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) For the Year ended 2 February 2019

18. FINANCIAL COMMITMENTS

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

	Land and buildings		Other	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
- within one year	33,329	34,394	141	189
- between one and five years	96,610	108,946	54	226
- after five years	34,814	37,962	-	-
	<u>164,753</u>	<u>181,302</u>	<u>195</u>	<u>415</u>

19. PENSION COSTS

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to £911,000 in the year (2018: £805,000).

Pensions liabilities outstanding at the financial year end are £150,000 (2018: £104,000).

20. ULTIMATE PARENT COMPANY

As at the year end 2 February 2019, the ultimate parent company and controlling entity and the only company to prepare consolidated financial statements is The Gap, Inc., a company incorporated and registered in the United States of America. This is the smallest and largest group in which the Company's results are consolidated. The financial statements of the ultimate parent company may be obtained by writing to The Gap, Inc., at the registered address of Two Folsom Street, San Francisco, CA 94105 USA.

As at the year end 2 February 2019, the immediate parent company is Gap (UK Holdings) Limited, a company incorporated in Great Britain. The financial statements of the immediate parent company may be obtained by writing to Gap (UK Holdings) Limited, at the registered address of Nations House, 103 Wigmore Street, London, UK, W1U 1QS.

21. RELATED PARTY DISCLOSURES

The Company has taken advantage of the exemption granted by paragraph 33.1A of FRS 102 "Related Party Disclosures", not to disclose transactions with The Gap, Inc. or other wholly owned group companies.

22. EVENTS AFTER THE END OF THE REPORTING PERIOD

As part of the continuous review of the store portfolio by Management, since the year end one store has closed at a lease break and one store has been converted from Gap Speciality to Gap Outlet.

There are no events that have occurred since 2 February 2019 which would make the present financial position substantially different from that shown in the statement of financial position at that date or that would require adjustment to or disclosure in the annual financial statements.