

**Company Registration No. 03720778**

**GAP (UK HOLDINGS) LIMITED**

**Annual Report and Financial Statements**

**For the Year ended 1 February 2020**



# **GAP (UK HOLDINGS) LIMITED**

## **ANNUAL REPORT AND FINANCIAL STATEMENTS 2020**

### **CONTENTS**

	<b>Page</b>
<b>Officers and professional advisers</b>	<b>1</b>
<b>Strategic Report</b>	<b>2</b>
<b>Directors' Report</b>	<b>6</b>
<b>Directors' Responsibilities Statement</b>	<b>9</b>
<b>Independent Auditor's Report</b>	<b>10</b>
<b>Income Statement</b>	<b>12</b>
<b>Statement of Comprehensive Income</b>	<b>13</b>
<b>Statement of Financial Position</b>	<b>14</b>
<b>Statement of Changes in Equity</b>	<b>15</b>
<b>Notes to the Financial Statements</b>	<b>17</b>

# **GAP (UK HOLDINGS) LIMITED**

## **ANNUAL REPORT AND FINANCIAL STATEMENTS 2020**

### **OFFICERS AND PROFESSIONAL ADVISERS**

#### **DIRECTORS**

N. Groom  
L. Mertens  
N. Osborne

#### **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 4AB

#### **REGISTERED OFFICE**

2<sup>nd</sup> Floor Nations House,  
103 Wigmore Street  
London, United Kingdom  
W1U 1QS

#### **BANKERS**

HSBC plc  
129 New Bond Street  
London  
W1A 2JA

#### **AUDITOR**

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

## **GAP (UK HOLDINGS) LIMITED**

### **STRATEGIC REPORT**

The directors present their strategic report for the year ended 1 February 2020.

#### **PRINCIPAL ACTIVITIES**

The principal activity of Gap (UK Holdings) Limited ("the Company") is acting as the regional merchandise purchasing company with shareholdings in European and Asian subsidiaries.

#### **REVIEW OF THE BUSINESS**

On 20 October 2020 The Gap, Inc. announced it was starting a strategic review of options for the Gap business in Europe. One of the options being explored is the possible closure of our company-operated Gap stores in Europe in July 2021. In addition, The Gap, Inc. is reviewing options for the warehouse and distribution model and our Gap and Banana Republic company-operated e-commerce in Europe. A possible outcome is the closure of the distribution center in Rugby. During the review, The Gap, Inc. will consider transferring elements of the business to interested third parties as part of a proposed partnership model expansion. Whilst the decision to undertake a review commenced on 20 October 2020, no decisions have been made with regards to the future outcome. The outcome of the review will not directly impact the company's principal activity but it may potentially impact how it operates.

The Company is the regional merchandise purchasing company for retail and e-commerce operations and global franchise operations for The Gap, Inc. For retail sales in European and Asian countries, the Company has entered into Merchandise Purchase agreements with affiliated companies in each jurisdiction. For e-commerce and franchise operations, the Company has entered into Merchandise Purchase agreements with Gap Europe Limited or GPS Strategic Alliances LLC. Both the level of business and the financial position at the end of the financial year were in line with the directors' expectations.

Turnover comprises of merchandise sales to related parties and totalled \$361.3m (2019: \$403.1m). On a consistent currency basis, retail sales denominated in foreign currency dropped by \$52.3m on which there was an FX gain of \$10.6m (due to the GBP:USD rate). US Dollar denominated franchise sales increased by \$0.2m during the year as key franchise markets remained stable. The operating loss of \$90.8m (2019: restated \$60.4m) is due to impairment of the investments in GPS (Great Britain) Limited of \$49.5m (2019: restated \$65.8m) and Gap (France) SAS of \$40.3m (2019: \$0.1m).

The impairment in GPS (Great Britain) Limited is a result of the current and long term predicted performance of this subsidiary, which has made losses in recent years. A "value in use", discounted cash flow method and a fair value method were calculated to establish the recoverable amount of the investment. Additionally, due to the ongoing losses resulting in negative net assets in Gap (France) SAS, the company was recapitalised according to French law through a debt to equity swap of €36m. Given the continuing negative net assets of Gap (France) SAS, the investment was subsequently impaired.

As at 1 February 2020, the Company had net assets of \$32,158,000 (2019: restated net assets \$129,716,000) and had cash and cash equivalents of \$6,748,000 (2019: \$16,669,000).

The Company's main key performance indicator is to measure sorter pack accuracy ensuring packages include the right items. The target for pack accuracy across the year is 98.3%. Errors can include an extra item, missing item, wrong invoice or missing invoice. In the year, sorter pack accuracy was 98.9% (2019: 98.7%), which indicates continued focus on inventory accuracy to retail entities.

#### **PRINCIPAL RISKS AND UNCERTAINTIES**

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 customer 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 European and Asian casual apparel market.

## STRATEGIC REPORT (CONTINUED)

### BREXIT

Following 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, changes in tariffs and duties, 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.

### COVID-19

In addition to the risks noted above, many of the principal risks prior to the pandemic remain the same in substance but have been amplified by the current events – for example, our ability to effectively respond to Brexit. It is important to note that, in many respects, the impact of Covid-19 has the characteristics of an emerging risk as well as changing the principal risk profile today, as future events, and their impact on our business and the global community we work within, cannot be determined with any certainty. We will therefore continue to monitor and respond to further changes as needed in the months ahead. As a consequence, the nature and magnitude of the ongoing events will continue to change the risk profile in currently unknown ways.

### SECTION 172

The following statement sets out how the directors have, in performing their duties over the course of the year, had regard to the matters set out in Section 172(1) (a) to (f) of the Companies Act 2006. In particular, their duty to promote the success of the Company over the long term for the benefit of its members as a whole.

#### Long term plan – Path to profitability

The board's decisions and strategy are aimed towards providing a path to profitability for all the stakeholders of the company, which is built on five goals;

- **People;** focus on diversity and inclusion through communicating our intent and engaging our employees. Evolving and evaluating talent.
- **Brand;** focus on the fact we do more than just sell clothes, through action on social responsibility and sustainability. A commitment to high and consistent standards across all brands. Living the brand values.
- **Customer;** focus on putting the customer at the centre of everything we do, monitored through KPIs and customer retention and loyalty programs.
- **Product;** focus on big ideas, with breath and depth of assortments and improving product yield.
- **Financials;** focus on delivering results with improvement in 'sales over traffic' and closing unprofitable stores.

During the year, as the Board made decisions implementing our strategy, the different interests of our stakeholder groups, and the impact of key decisions upon them, were considered.

#### Customers

Putting the customer at the centre of everything we do is crucial to the Board's strategy. This year, we have focused on our customers by offering iconic American style with emphasis on key areas being denim, women's and kids & baby wear. Testing a first price, right price approach in some stores, adjusting our store fleet and improving our online services to better serve customers in line with how they want to shop. Our values guide for customer engagement:

Our Mantra: Individuality

Our Message: Inclusivity

Our Inspiration: Creativity

Our Execution: Simplicity

Our Outlook: Optimism

Our Commitment: Doing Good

Our brand goals continue to put the customer at the centre of everything we do. To help deliver this, our consumer insights and decisions support teams are continuously researching customer behaviour to inform the decisions we make across the Company.

# **GAP (UK HOLDINGS) LIMITED**

## **STRATEGIC REPORT (CONTINUED)**

### **SECTION 172 (CONTINUED)**

#### **Employees**

Employees attend regular updates on the business performance and discussions on future objectives, both in the local markets and Globally, that impact them on a day-to-day and how the financial and economic factors affect the performance of the company. Employees are encouraged in these forums to contribute and their views are considered. In addition, employees can provide feedback anonymously through an “employee opinion survey” and a “great boss survey” both of which provide actionable insight in to improving our employee journey. They continue to show that our employees care about the company and feel empowered to make a difference in the roles that they do, and that Gap continues to provide an inclusive and diverse place to work.

This has been recognised externally with Gap UK being ranked 15<sup>th</sup> in 2020 by the “Great places to work” organisation and the 2019 Everywoman in Retail Awards recognising two Gap employees for excellence in their areas.

#### **Suppliers**

Our key supplier partnerships are an important part of being able to operate within the apparel industry, most notably our merchandise logistics. The board is briefed on latest logistic challenges and the changing nature of global logistics which can impact on the Company strategy. The Company aims to keep strong relationships with suppliers and balance the need to obtain value for money, whilst keeping high standards. This is achieved through trust and good communications with our suppliers. Our priorities to our suppliers are prompt and accurate payment allowing mutually beneficial growth, this is validated by our payment practice reporting, which indicates that 0.01% of invoices are paid outside of agreed terms in the last 6 months.

#### **Gap Group Shareholders and intercompany suppliers**

Engagement with our intercompany shareholders and suppliers is, as with our third-party suppliers, a mutually beneficial process, occurring through a range of teams across the business from inventory to marketing and from treasury to corporate control. Communication with the shareholder is via the monthly budgets and forecasts, the long-range plans and the quarterly close pack. The strategy is always long-term growth for the benefit of all our group companies. Our aim is sustainable, profitable growth over the longer term.

#### **Local communities**

We believe that businesses and communities need to work together to thrive, so we focus our community programs on areas that align with our business expertise. As such Gap has partnered with the Princes Trust in the UK and The Gap, Inc Foundation, empowers women around the world through its P.A.C.E program. In addition, Gap supports personal charitable donations with matching funds raised, doubling employees volunteer efforts.

The women of P.A.C.E.

Launched in 2007, our innovative Personal Advancement & Career Enhancement (P.A.C.E.) program was initially created to support women in the global apparel industry. Although women represent the majority of the sector’s workforce, relatively few have the opportunity to advance to management positions, and many lack access to the education and skills training they need to support their personal and professional growth.

We developed P.A.C.E. to give these women the foundational life skills, technical training and support that will help them advance in the workplace and in their personal lives, as documented in the program’s evaluation results. We began delivering P.A.C.E. in our vendors’ facilities in 2007 and expanded the program to community settings in 2013 to unlock new possibilities for women and adolescent girls.

#### **Environmental impact**

Today, we’re working harder than ever to make our business more sustainable by setting bold goals, designing new programs and partnering with others to change our industry for the better.

Great products are created with sustainability at their core by ethically sourcing and using more sustainable raw materials to make our clothes.

We are constantly innovating and working to design our products using more sustainable raw materials and concentrate our business decisions with preferred vendors to drive positive impact on a larger scale to create long-term progress.

**STRATEGIC REPORT (CONTINUED)**

**SECTION 172 (CONTINUED)**

**Maintain reputation for high standards of business conduct**

The Gap, Inc. was founded on the principle of conducting our business in a responsible, honest and ethical manner. For us, good corporate governance means going beyond compliance. It means taking a leadership role in instituting and maintaining practices that represent strong business ethics and ensuring we communicate consistently with our shareholders, customers and neighbours around the world.

The Gap Inc. Board recognises the importance of operating a robust corporate governance framework, and this is applied throughout the global business in all Gap subsidiaries, by the Global Integrity team. Further details of The Gap, Inc. Governance committee can be found on The Gap, Inc. website.

At the core of every aspect of our business is our deep commitment to integrity. The Global Integrity team supports directors and employees to make ethical business decisions by overseeing the Code of Business Conduct (COBC) program and the annual Principles of Integrity (POI) compliance training.

Our COBC is our guide to making smart, ethical business decisions in every situation, no matter where we work in the Company. From avoiding conflicts of interest to keeping company information safe, the COBC provides clear guidance for upholding Gap standards. All employees agree to abide by the COBC.

**The need to act fairly between members of the company**

The Company has just one class of share in issue, held solely by another group company. As such there is no disadvantage between shareholders as they benefit from the same rights, as set out in the Company's articles of association and the Companies Act 2006. The Board recognises its legal and regulatory duties and does not take any decisions or actions that would disadvantage the shareholder position.

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



N. Groom  
Director

Date: 18 November 2020

## **GAP (UK HOLDINGS) LIMITED**

### **DIRECTORS' REPORT**

The directors present their Annual Report and the audited financial statements for the year ended 1 February 2020. Comparative figures are for the year ended 2 February 2019.

#### **DIVIDENDS**

No interim dividend has been paid during the year (2019: \$nil) to its sole shareholder, Gap (RHC) B.V. The directors do not propose a final dividend for the year (2019: \$nil) and no dividend was proposed after the year end. The loss after tax for the year of \$90,771,000 (2019: restated loss after tax of \$60,652,000) has been transferred to Capital and Reserves.

#### **DIRECTORS**

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

N. Groom - (UK citizen)  
E. Gardiner - (Resigned 26 July 2020) - (UK citizen)  
L. Mertens - (US citizen)  
N. Osborne – (Appointed 25 August 2020) - (US citizen)

#### **DIRECTORS' INTERESTS**

None of the directors had any notifiable interests in the share capital of the Company as defined by the Companies Act 2006 as at 1 February 2020 (2019: none).

#### **CORPORATE GOVERNANCE ARRANGEMENTS**

Management recognise the importance of operating a robust corporate governance framework, and this is applied throughout the business, by the Global Integrity team. Instilling and maintaining practices that represent strong business ethics, with a deep commitment to integrity at its core. The Global Integrity team supports directors and employees to make ethical business decisions by overseeing the Code of Business Conduct (COBC) program and the annual Principles of Integrity (POI) compliance training. Supporting ethical business decisions and provide clear guidance for upholding Gap standards. Further details are included in the Section 127 report.

#### **BUSINESS RELATIONSHIPS**

Management consider the Company's business relationships with suppliers and customers as strategically important. See further details on its relationships with all key stakeholders in the Section 172 report.

#### **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 (2019: 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 establish policies to ensure cash assets are invested safely. It operates within policies and procedures approved by the Board of Directors of The Gap, Inc. ("Ultimate Parent") which includes 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, for speculative purposes.

##### **Foreign exchange rate risk**

The Company is exposed to foreign exchange risk on its investments and on transactions with Gap group companies and external parties that are denominated in currencies other than the US dollar (most notably in GBP and Euro). This will be affected by the evolving Brexit situation. The Company's risk management policy is to use forward contracts to hedge its market risk exposure associated with foreign currency exchange rate fluctuations for merchandise sales denominated in foreign currencies.



# **GAP (UK HOLDINGS) LIMITED**

## **DIRECTORS' REPORT (CONTINUED)**

### **FINANCIAL RISK MANAGEMENT (CONTINUED)**

#### **Credit risk**

The Company's principal financial assets are amounts owed by fellow subsidiary undertakings. The principal credit risk is in respect of these debtors. This risk is mitigated because fellow subsidiary undertakings are supported by the Ultimate Parent company.

#### **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 and long term financing which is made available from group companies.

#### **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 15.

### **CAPITAL CONTRIBUTION**

The capital contribution represents share based payments made to employees of the Company of \$57,000 and amounts invested by Gap (RHC) B.V. in Gap (UK Holdings) Limited in relation to share based payments of \$878,000 made to employees of GPS (Great Britain) Ltd, \$98,000 made to employees of Gap (France) SAS and \$133,000 to employees of Gap Europe Limited. In turn, Gap (UK Holdings) Limited invested the same amount in GPS (Great Britain) Ltd, Gap (France) SAS and Gap Europe Limited (note 11).

### **IMPAIRMENT OF INVESTMENTS**

During the year, the Company impaired its investments by \$89,844,000 (2019: restated \$65,891,000). At the year end investment review, GPS (Great Britain) Ltd was impaired by \$49,545,000 (2019: restated \$65,810,000) and the investment in Gap (France) SAS was impaired by \$40,299,000 (2019: \$81,000) due to continued losses. This review reflects the directors' assessment of the recoverable amount of both investments.

### **GOING CONCERN**

On 20 October 2020 The Gap, Inc. announced it was starting a strategic review of options for the Gap business in Europe. One of the options being explored is the possible closure of our company-operated Gap stores in the United Kingdom in July 2021. In addition, The Gap, Inc. is reviewing options for the warehouse and distribution model and our Gap and Banana Republic company-operated e-commerce in Europe. A possible outcome is the closure of the distribution center in Rugby. During the review, The Gap, Inc. will consider transferring elements of the business to interested third parties as part of a proposed partnership model expansion. The strategic review may impact the mix of sales made by GUKHL however its trade, as the regional merchandise purchasing company for European and Asian Franchise partnerships will continue, as the business shifts its model to deliver modern American optimism to its customers, through growth in franchise partnerships in key markets. The Company will explore logistics service providers to optimize operational efficiency for our franchise partners, optimise cost and maximise profitability.

Despite the announcement of this strategic review, the directors have ascertained that The Gap, Inc. (Ultimate Parent company) currently intends and has the ability to continue its financial support to the Company (either directly or through another Gap company) for a period of 12 months from signing the statutory financial statements. As at 1 February 2020, the Ultimate Parent company had \$1.4billion in cash and cash equivalents. Additionally, the Company has no third-party debt.

Covid-19 is a risk to going concern as it has adversely impacted results for 2020 significantly, hence planning exercises on the 2020/21 budget have considered scenarios such as further lockdowns and decreased demand. Operations teams have focused on reducing, wherever possible, known expenditure and commitments in order to conserve liquidity in the near/medium term. Covid-19 will continue to be a risk in to 2021/22 and is being considered in future forecasts and planning exercises. The directors have the continued support from the Gap Group in such scenarios.

The directors believe the Company is well placed to manage business risks successfully despite the current uncertain economic outlook and will continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and financial statements, due to the continued financial support from The Gap, Inc.

**DIRECTORS' REPORT (CONTINUED)**

**POLITICAL DONATIONS**

No donations were made for political purposes (2019: £nil).

**FUTURE DEVELOPMENTS AND EVENTS AFTER THE REPORTING PERIOD DATE**

The effects related to Covid-19 have no impact on the determination of the results nor on the equity of the Company's financial statements for the year ended 1 February 2020 as this is a non adjusting post balance sheet event. There have been no events that have occurred since 1 February 2020, 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.

The effects related to the announcement of the strategic review of the European business (see Review of Business section in the Strategic Report) have no impact on the determination of the results nor on the equity of the Company's financial statements for the year ended 1 February 2020 as this is a post balance sheet "Non adjusting event".

**EMPLOYEE ENGAGEMENT**

Management holds quarterly meetings with employee representatives to discuss sales, financial position and prospects, to encourage employee involvement and to make them aware of Company performance. Opportunity is given to employees at these meetings to ask questions of senior executives about matters that concern them. Further details are included in the Section 172 report.

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.

**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 them 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

NC-

N. Groom  
Director

Date: 18 November 2020

## **GAP (UK HOLDINGS) 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 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 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.

## **GAP (UK HOLDINGS) LIMITED**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GAP (UK HOLDINGS) LIMITED (CONTINUED)**

#### **Report on the audit of the financial statements**

##### **Opinion**

In our opinion the financial statements of Gap (UK Holdings) Limited (the "Company"):

- give a true and fair view of the state of the Company's affairs as at 1 February 2020 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 comprehensive income;
- 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.

## **GAP (UK HOLDINGS) LIMITED**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GAP (UK HOLDINGS) LIMITED (CONTINUED)**

#### **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](http://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: 20 November 2020

**GAP (UK HOLDINGS) LIMITED**

COMPANY REGISTRATION NO. 03720778

**INCOME STATEMENT****For the Year ended 1 February 2020**

		<b>Year ended 1 February 2020 \$'000</b>	<b>Year ended 2 February 2019 (Restated) \$'000</b>
<b>TURNOVER</b>	4	361,349	403,066
Cost of sales		(345,089)	(380,532)
<b>GROSS PROFIT</b>		16,260	22,534
Other operating income	5	11,033	12,817
Administrative expenses		(28,256)	(29,840)
Impairment of investments	11	(89,844)	(65,891)
<b>OPERATING LOSS</b>		(90,807)	(60,380)
Interest receivable and similar income	6	7,041	4,281
Interest payable and similar expenses	7	(7,128)	(4,007)
<b>LOSS BEFORE TAXATION</b>	8	(90,894)	(60,106)
Tax on loss	10	123	(546)
<b>LOSS FOR THE FINANCIAL YEAR</b>		<u>(90,771)</u>	<u>(60,652)</u>

All results derive from continuing operations.

**GAP (UK HOLDINGS) LIMITED**

COMPANY REGISTRATION NO. 03720778

**STATEMENT OF COMPREHENSIVE INCOME**  
**For the Year ended 1 February 2020**

	Note	Year ended 1 February 2020 \$'000	Year ended 2 February 2019 (Restated) \$'000
<b>Loss for the financial year</b>		<u>(90,771)</u>	<u>(60,652)</u>
Cash flow hedges			
Net gain arising during the year	18	3,207	20,859
Less: (gain)/loss reclassified to income statement	18	(12,789)	2,541
Deferred tax credit/(charge) on derivative instruments	10	<u>1,629</u>	<u>(3,978)</u>
<b>Other comprehensive (expense) / income</b>		<u>(7,953)</u>	<u>19,422</u>
<b>Total comprehensive expense</b>		<u>(98,724)</u>	<u>(41,230)</u>

# GAP (UK HOLDINGS) LIMITED

Company Registration No. 03720778

## STATEMENT OF FINANCIAL POSITION As at 1 February 2020

	Note	1 February 2020 \$'000	2 February 2019 (Restated) \$'000
<b>FIXED ASSETS</b>			
Investments	11	4,839	53,373
<b>CURRENT ASSETS</b>			
Inventory	12	54,813	65,443
Debtors	13	190,920	181,891
Cash at bank and in hand		6,748	16,669
		<u>252,481</u>	<u>264,003</u>
<b>CREDITORS: amounts falling due within one year</b>	15	(225,162)	(186,440)
Deferred tax liability recoverable within one year	14	-	(1,220)
		<u>27,319</u>	<u>76,343</u>
<b>NET CURRENT ASSETS</b>			
		<u>27,319</u>	<u>76,343</u>
<b>TOTAL ASSETS LESS LIABILITIES, BEING NET ASSETS</b>		<u>32,158</u>	<u>129,716</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	16	31	31
Capital reserve		340,553	340,553
Capital contribution reserve		35,374	34,208
Translation reserve		(16,500)	(16,500)
Cash flow hedge reserve		(1,757)	6,196
Profit and loss account		(325,543)	(234,772)
		<u>32,158</u>	<u>129,716</u>
<b>SHAREHOLDERS' FUNDS</b>		<u>32,158</u>	<u>129,716</u>

These financial statements were approved by the Board of Directors and authorised for issue on 18 November 2020.

Signed on behalf of the Board of Directors

NC

N. Groom

Director



# GAP (UK HOLDINGS) LIMITED

## STATEMENT OF CHANGES IN EQUITY For the year ended 1 February 2020

	Notes	Share capital \$'000	Capital reserve \$'000	Capital contribution reserve \$'000	Translation reserve \$'000	Cash flow hedge reserve \$'000	Profit and loss account \$'000	Total \$'000
As at 3 February 2018 – as originally stated		31	340,553	33,060	(16,500)	(13,226)	(168,945)	174,973
Restatement	3	-	-	-	-	-	(5,175)	(5,175)
As at 3 February 2018 (Restated)		31	340,553	33,060	(16,500)	(13,226)	(174,120)	169,798
Loss for financial year – as originally stated		-	-	-	-	-	(49,394)	(49,394)
Restatement	3	-	-	-	-	-	(11,258)	(11,258)
Loss for financial year (Restated)		-	-	-	-	-	(60,652)	(60,652)
<b>Other comprehensive income/(expense)</b>								
Change in fair value related to hedges	18	-	-	-	-	23,400	-	23,400
Change in deferred tax on derivative instruments	10	-	-	-	-	(3,978)	-	(3,978)
<b>Total comprehensive income/(expense)</b>		-	-	-	-	19,422	(60,652)	(41,230)
Capital contribution		-	-	1,148	-	-	-	1,148
As at 2 February 2019 (Restated)		31	340,553	34,208	(16,500)	6,196	(234,772)	129,716
Loss for financial year		-	-	-	-	-	(90,771)	(90,771)
<b>Other comprehensive income/(expense)</b>								
Change in fair value related to hedges	18	-	-	-	-	(9,582)	-	(9,582)
Change in deferred tax on derivative instruments	10	-	-	-	-	1,629	-	1,629
<b>Total comprehensive income/(expense)</b>		-	-	-	-	(7,953)	(90,771)	(98,724)
Capital contribution		-	-	1,166	-	-	-	1,166
As at 1 February 2020		31	340,553	35,374	(16,500)	(1,757)	(325,543)	32,158

The Company's other reserves are as follows:

The capital reserve represents capital contributions from The Gap, Inc. (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 and its subsidiaries. The Company's capital account was increased by \$1,166,000 (2019: \$1,148,000) which represents share based payments made to employees of the Company for \$57,000, and amounts invested by Gap (RHC) B.V. in Gap (UK Holdings) Limited in relation to share based payments of \$878,000 made to employees of GPS (Great Britain) Ltd, \$98,000 made to employees of Gap (France) SAS and \$133,000 to employees of Gap Europe Limited. In turn, Gap (UK Holdings) Limited invested the same amount in GPS (Great Britain) Ltd, Gap (France) SAS and Gap Europe Limited (note 11).

## **GAP (UK HOLDINGS) LIMITED**

### **STATEMENT OF CHANGES IN EQUITY** **For the year ended 1 February 2020**

The translation reserve was created when the functional currency of the Company changed from GBP to USD in 2012.

The cash flow hedge reserve represents the cumulative portion on gains and losses on hedging instruments deemed effective in hedging foreign exchange risk in firm commitments or highly probable forecast transactions. Amounts accumulated in this reserve are reclassified to the income statement in the periods in which the hedged item affects profit or loss or when the hedging relationship ends. The movement on the hedging reserve of \$7,953,000 during the year, represents gains on the mark to market derivative financial instruments of \$3,207,000 less amounts reclassified to the income statement of \$12,789,000 and a deferred tax credit of \$1,629,000.

The profit and loss reserve represents the cumulative profits or losses. No interim dividend has been paid during the year (2019: \$nil) to its sole shareholder, Gap (RHC) B.V. The directors do not propose a final dividend for the year (2019: \$nil) and no dividend was proposed after the year end.

# **GAP (UK HOLDINGS) LIMITED**

Company Registration No. 03720778

## **NOTES TO THE FINANCIAL STATEMENTS** **For the year ended 1 February 2020**

### **1. ACCOUNTING POLICIES**

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and to the preceding 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 2<sup>nd</sup> Floor Nations House, 103 Wigmore Street, London, United Kingdom, W1U 1QS. The nature of the Company's operations and its principal activities are set out in the strategic report on page 2-5.

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with 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 periods beginning on or after 1 January 2019. The Company applies the recognition and measurement provisions of IFRS 9 Financial Instruments, (previously IAS 39), hedge accounting in accordance with IAS 39 and the presentation & disclosure requirements of Sections 11 and 12, as there is no material difference in disclosure for the Company.

The functional currency of the Company is considered to be the US Dollar 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, share based payments.

The Company meets the definition under the Companies Act 2006 of a qualifying entity and has therefore taken advantage of the disclosure exemptions available in not preparing group consolidated financial statements.

#### **Turnover**

Turnover comprises amounts receivable in respect of goods supplied to Gap group companies, net of Value Added Tax (VAT) and discounts. Turnover is recognised when the risks and rewards of owning the goods has passed to the applicable group company upon despatch.

Royalty income is recognised quarterly at 4% of sales of the retail entities in the UK and French markets. Other operating income represents Gap brand royalty income received less a royalty fee payable of 0.5% to the trademark owner in accordance with the substance of the relevant agreement.

#### **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 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. 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.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**For the year ended 1 February 2020**

**1. ACCOUNTING POLICIES (CONTINUED)**

**Financial assets and liabilities (continued)**

*(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 pricing models based on current market rates.

*(iii) Hedge accounting*

The Company designates certain derivatives as hedging instruments in cash flow hedges.

At the inception of the hedge relationship, the Company documents the economic relationship between the hedging instrument and the hedged item, along with its risk management objectives and clear identification of the risk in the hedged item that is being hedged by the hedging instrument. Furthermore, at the inception of the hedge the Company determines, and documents causes for hedge ineffectiveness.

Note 18 sets out details of the fair values of the derivative instruments used for hedging purposes.

**Cash flow hedges**

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to the income statement in the periods in which the hedged item affects profit or loss.

Hedge accounting is discontinued when the Company revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time is reclassified to the income statement when the hedged item is recognised as a profit or loss. When a forecast transaction is probable not to occur, any gain or loss that was recognised in other comprehensive income is reclassified immediately to the income statement.

**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 periods 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.

## **GAP (UK HOLDINGS) LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**For the year ended 1 February 2020**

#### **1. ACCOUNTING POLICIES (CONTINUED)**

##### **Taxation (continued)**

Deferred tax liabilities are recognised for timing differences arising from investments in subsidiaries and associates, except where the Company is able to control the reversal of the timing difference and it is probable that it will not reverse in the foreseeable future.

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.

Where items recognised in other comprehensive income or equity are chargeable to or deductible for tax purposes, the resulting current or deferred tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income.

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.

##### **Investments**

Investments are stated at cost less any provision for impairment.

##### **Impairment**

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

Investments are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an investment may not be recoverable. Events that result in an impairment review include performance of subsidiaries. The recoverable amount of an asset is defined as the higher of the fair value less costs to sell and its value in use.

Fair value less costs to sell (FVLCS) is the amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable and willing parties, less the costs to sell. Fair value measurement has been obtained by third party valuations and use of internal experts. Reliance has been placed on these external and internal pieces of evidence.

Value in use, or (VIU), is the net present value of the future cash flows expected to be derived from the continuing use of an existing asset and its disposal at the end of its economical useful life. VIU therefore reflects the company's view using company-specific valuation parameters. Cash flow projections are based on reasonable and supportable assumptions that represent management's best estimate of economic conditions. The projections are based on management's most recently approved financial budgets and forecasts.

##### **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.

##### **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 principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

## **GAP (UK HOLDINGS) LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**For the year ended 1 February 2020**

#### **1. ACCOUNTING POLICIES (CONTINUED)**

##### **Foreign currency translation**

The functional currency and therefore presentational currency is deemed to be US Dollar, due to the majority of transactions undertaken being denominated in US Dollar. Normal trading activities transacted in foreign currencies are translated to US Dollar at the exchange rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into US Dollar at the rates of exchange ruling at the statement of financial position date or, where appropriate, at a contracted rate of exchange where the transaction is to be settled at a contracted rate. 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.

##### **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.

##### **Going Concern**

On 20 October 2020 The Gap, Inc. announced it was starting a strategic review of options for the Gap business in Europe. One of the options being explored is the possible closure of our company-operated Gap stores in the United Kingdom in July 2021. In addition, The Gap, Inc. is reviewing options for the warehouse and distribution model and our Gap and Banana Republic company-operated e-commerce in Europe. A possible outcome is the closure of the distribution center in Rugby. During the review, The Gap, Inc. will consider transferring elements of the business to interested third parties as part of a proposed partnership model expansion. The strategic review may impact the mix of sales made by the Company however its trade, as the regional merchandise purchasing company for European and Asian Franchise partnerships will continue, as the business shifts its model to deliver modern American optimism to its customers, through growth in franchise partnerships in key markets. The Company will explore logistics service providers to optimize operational efficiency for our franchise partners, optimise cost and maximise profitability.

Despite the announcement of this strategic review, the directors have ascertained that The Gap, Inc. (Ultimate Parent company) currently intends and has the ability to continue its financial support to the Company (either directly or through another Gap company) for a period of 12 months from signing the statutory financial statements. As at 1 February 2020, the Ultimate Parent company had \$1.4billion in cash and cash equivalents. Additionally, the Company has no third-party debt.

Covid-19 is a risk to going concern as it has adversely impacted results for 2020 significantly, hence planning exercises on the 2020/21 budget have considered scenarios such as further lockdowns and decreased demand. Operations teams have focused on reducing, wherever possible, known expenditure and commitments in order to conserve liquidity in the near/medium term. Covid-19 will continue to be a risk in to 2021/22 and is being considered in future forecasts and planning exercises. The directors have the continued support from the Gap Group in such scenarios.

The directors believe the Company is well placed to manage business risks successfully despite the current uncertain economic outlook and will continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and financial statements, due to the continued financial support from The Gap, Inc.

##### **Share based payments**

The Company has applied the requirements of FRS 102 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 Ultimate Parent company on a straight-line basis over the vesting period, based on the group's estimate of shares that will eventually vest. Fair value 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 estimate, for the effects of non-transferability and behavioural considerations.

## GAP (UK HOLDINGS) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 1 February 2020

#### 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.

##### Inventory

In making its judgement, management has considered the guidance set out in FRS 102 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.

##### Sources of estimation uncertainty

##### Investments

Investments are stated at cost less any provision for impairment. The director's assessment of the recoverable amounts takes into account factors such as future trading performance and the fair value of assets which are held at their historic cost (see note 11).

#### 3. RESTATEMENT OF FINANCIAL STATEMENTS

The Company's 2019 income statement and opening profit and loss account have been restated for the effect of impairment in the investment of its subsidiaries.

Directors assessed the investments held by the Company in the current year and found that the investment in GPS (Great Britain) Ltd requires writing down to nil. During the assessment, it was identified that \$16,433,000 should be recorded as relating to prior years and therefore the figures have been restated accordingly. This was due to the value of properties within the subsidiary previously incorporating factors specific to the entity, namely assumptions relating to sale and leaseback based valuations.

The restated 2019 balances are detailed below;

\$000's	Previously audited 2019 balances	Restatement	Restated 2019 balances
Opening Profit & Loss account	(168,945)	(5,175)	(174,120)
Opening investment	123,385	(5,175)	118,210
2019 Income statement Impairment	54,633	11,258	65,891
Closing Profit & Loss account	(218,339)	(16,433)	(234,772)
Closing investment	69,806	(16,433)	53,373

## GAP (UK HOLDINGS) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 1 February 2020

#### 4. TURNOVER

Turnover consists of Gap and Banana Republic merchandise sales excluding Value Added Tax "VAT" to GPS (Great Britain) Ltd, Gap (France) SAS, Gap (Italy) S.r.l., Gap Stores (Ireland) Limited, Gap Europe Limited, GPS Strategic Alliances LLC, Gap Taiwan Limited and Gap Limited. Sale of goods is recognised on despatch.

	2020 \$'000	2019 \$'000
<b>Turnover:</b>		
United Kingdom (Retail)	123,394	150,530
Rest of Europe (Retail)	52,861	63,605
Far East (Retail)	40,982	42,555
United Kingdom (Franchise)	76,235	66,758
Rest of the World (Franchise)	22,318	30,588
United Kingdom (Online)	45,559	49,030
	<u>361,349</u>	<u>403,066</u>

#### 5. OTHER OPERATING INCOME

Other operating income in the current year represents Gap brand royalty fees paid by GPS (Great Britain) Limited and Gap (France) SAS less a royalty fee of 0.5% payable to Gap (ITM) Inc. The royalty licence fee is 4% of sales in the current year.

	2020 \$'000	2019 \$'000
<b>Royalty income</b>		
Royalty fees from GPS (Great Britain) Ltd & Gap (France) SAS	12,609	14,648
Long term intangible charge	(1,576)	(1,831)
	<u>11,033</u>	<u>12,817</u>

The Company has the rights to the Cost Sharing Agreement and a Marketing Intangibles Licence Agreement with The Gap, Inc. and Gap (ITM) Inc. to obtain certain rights to use and commercially utilise the marks and marketing intellectual property in connection with the sale of Gap brand products and the provision of Gap brand services in specified territories in Europe. The agreements require the Company to make payments for these rights over the term of the agreements based on a predetermined formula.

#### 6. INTEREST RECEIVABLE AND SIMILAR INCOME

	2020 \$'000	2019 \$'000
Bank interest receivable	134	105
Interest receivable from group undertakings	2,766	957
Foreign exchange gain	4,141	3,219
	<u>7,041</u>	<u>4,281</u>



# GAP (UK HOLDINGS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) For the year ended 1 February 2020

### 7. INTEREST PAYABLE AND SIMILAR EXPENSES

	2020 \$'000	2019 \$'000
Interest payable to group undertakings	(7,128)	(4,007)
	<u>(7,128)</u>	<u>(4,007)</u>

### 8. LOSS BEFORE TAXATION

Loss before taxation is stated after (crediting)/charging:

Foreign exchange gains set out in note 6.

Fees payable to the Company's auditor for the audit of the Company's financial statements amounts to £27,800 (2019: £26,015). This amount relates solely to the Company's audit and there are no non-audit fees. No services were provided pursuant to contingent fee arrangements.

During the year, the Company impaired its investments by \$89,844,000 (2019: restated \$65,891,000). At the year end investment review, GPS (Great Britain) Ltd was impaired by \$49,545,000 (2019: restated \$65,810,000) and the investment in Gap (France) SAS was impaired by \$40,299,000 (2019: \$81,000) due to continued losses. This review reflects the directors' assessment of the recoverable amount of both investments.

### 9. EMPLOYEE INFORMATION

	2020 \$'000	2019 \$'000
<b>Employee costs during the year:</b>		
Wages and salaries	4,628	3,968
Social security costs	420	306
Pension contributions	142	127
	<u>5,190</u>	<u>4,401</u>

The directors did not receive any remuneration in respect of services to the Company during the year (2019: \$nil). 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. The monthly average number of persons employed in administration by the Company during the year was 2 (2019: 3) however the total cost includes a merchandiser employee cost, allocated from The Gap, Inc. which is an EU dedicated resource, reclassified to the company.

# GAP (UK HOLDINGS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 1 February 2020

### 10. TAX ON LOSS

	2020	2019
	\$'000	Restated \$'000
The tax credit/(charge) charge comprises:		
<i>Current tax on loss</i>		
Tax charge for the year	(299)	(1,114)
Adjustments in respect of previous years	(63)	568
Total current tax	<u>(362)</u>	<u>(546)</u>
<i>Deferred tax (see note 14)</i>		
Origination and reversal of timing differences	501	-
Adjustments in respect of previous years	37	-
Effect of changes in tax rates	(53)	-
Total deferred tax	<u>485</u>	<u>-</u>
Tax credit/(charge) on loss	<u>123</u>	<u>(546)</u>
<b>Equity</b>		
Deferred tax credit/(charge) on derivative instruments	<u>1,629</u>	<u>(3,978)</u>

In the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020. As the proposal to keep the rate at 19% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. It is likely the overall effect on the current and deferred tax would not be material to the financial statements.

#### Factors affecting the tax charge for the current year

The current tax credit/(charge) for the year is lower (2019: lower) than the standard rate of corporation tax in the UK which is 19% (2019: 19%). The Company has no material unprovided deferred tax.

	2020	2019
	\$'000	Restated \$'000
<b>Tax reconciliation</b>		
(Loss) before tax	<u>(90,894)</u>	<u>(60,106)</u>
Tax at 19% (2019: 19%)	17,270	11,420
<b>Effects of:</b>		
Expenses not deductible for tax purposes	(17,070)	(12,520)
Share based payments	2	(11)
Derivative instruments	(-)	(3)
Adjustments to tax charge in respect of previous years	(26)	568
Tax rate changes	(53)	-
Total tax credit/(charge)	<u>123</u>	<u>(546)</u>

## GAP (UK HOLDINGS) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) For the year ended 1 February 2020

#### 11. INVESTMENTS

The Company has investments in affiliates in Europe and Asia. All investments are accounted for on a cost basis. The investments consist of the following:

Subsidiary Investments	Country	Activity	Holding	Share class	2020 \$'000	2019 Restated \$'000
Gap (France) SAS	France	Retail of casual clothing	100%	Ordinary	-	-
GPS (Great Britain) Ltd.	Great Britain	Retail of casual clothing	100%	Ordinary	-	48,667
Gap Stores (Ireland) Ltd	Ireland	Retail of casual clothing	100%	Ordinary	127	127
Gap Europe Limited	Great Britain	Retail of casual clothing	100%	Ordinary	4,712	4,579
Gap Taiwan Limited	Taiwan	Retail of casual clothing	100%	Ordinary	-	-
<b>Investments at cost</b>					<b>4,839</b>	<b>53,373</b>

#### Subsidiary Investments

#### Registered Office

Gap (France) SAS	49-53 Avenue des Champs Elysées, 75008 Paris, France
GPS (Great Britain) Ltd.	Nations House, 103 Wigmore Street, London, W1U 1QS, UK
Gap Stores (Ireland) Ltd	Ten Earlsfort Terrace, Dublin 2, D02 T380, Ireland
Gap Europe Limited	Nations House, 103 Wigmore Street, London, W1U 1QS, UK
Gap Taiwan Limited	1F, No12 Songshou Rd, XinYi District, Taipei, Taiwan

	<b>Total \$'000</b>
Investments at 3 February 2019 – cost and net book value - Restated	53,373
Investment for share based payments (statement of changes in equity)	1,109
Gap (France) SAS capital injection	40,201
Impairment of investments	(89,844)
Investments at 1 February 2020 – cost and net book value	<b>4,839</b>

During the year, the Company impaired its investments by \$89,844,000 (2019: Restated \$65,891,000). At the year end investment review, GPS (Great Britain) Ltd was impaired by \$49,545,000 (2019: Restated \$65,810,000) and the investment in Gap (France) SAS was impaired by \$40,299,000 (2019: \$81,000) due to continued losses. This review reflects the directors' assessment of the recoverable amount of both investments.

Impairment of the investments is subject to exchange rate volatility since the valuations supporting the investments are denominated in either GBP or Euro currency. The impairments are based on the exchange rates prevailing at the year end (GBP/USD 1.320 and EUR/USD 1.109).

Directors assessed the investments held by the Company in the current year and found that the investment in GPS (Great Britain) Ltd requires writing down to nil. During the assessment, consideration was given to impairments made in prior years and concluded that \$16,433,000 should be correctly recorded as relating to prior years and therefore the prior year figures have been restated accordingly.

## GAP (UK HOLDINGS) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 1 February 2020

#### 12. INVENTORY

	2020 \$'000	2019 \$'000
Finished goods	54,813	65,443

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

#### 13. DEBTORS

	2020 \$'000	2019 \$'000
Other debtors	1,069	515
Amounts due from fellow subsidiary undertakings	188,346	173,078
Purchased derivatives	611	8,298
Deferred tax ( <i>see note 14</i> )	894	-
	190,920	181,891

An unsecured revolving loan note was entered into with GPS (Great Britain) Ltd on 22 August 2019 in respect of an aggregate principal amount not to exceed £180,000,000. As at 1 February 2020, £71,140,195 (2019: £10,513,701) was drawn down and is included within amounts due from fellow subsidiary undertakings. The interest rate is set at 1-month London Interbank Offered Rate (LIBOR), plus 215 basis points ("bps").

An unsecured revolving loan note was entered into with Gap (France) SAS Limited on 24 August 2018 in respect of an aggregate principal amount not to exceed €45,000,000. As at 1 February 2020 €24,948,819 (2019: €43,779,736) was drawn down and is included within amounts due from fellow subsidiary undertakings. The interest rate is set at 1-month EURIBOR plus 356bps. On 29 May 2020, the unsecured revolving loan note was renewed with Gap (France) SAS Limited, which superseded the previous loan note. The loan note was in respect of an aggregate principal amount not to exceed €115,000,000. The interest rate is set at 3-month EURIBOR plus 345bps.

The Company's principal financial assets are amounts owed by fellow subsidiary undertakings which consist of trade balances that are repayable within one year. The remaining balance within amounts due from fellow subsidiary undertakings are unsecured, interest free and payable on demand. The principal credit risk is in respect of these balances and is mitigated because fellow subsidiary undertakings are supported by the Ultimate Parent company.

Purchased derivatives includes \$nil (2019: \$nil) falling due after more than one year.

# GAP (UK HOLDINGS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 1 February 2020

### 14. DEFERRED TAXATION

The Company has no material unprovided deferred tax, on which there is no expiry date. The deferred tax asset consists of:

	<b>\$'000</b>
Deferred tax liability at 2 February 2019	(1,220)
Charge for the year ( <i>see note 10</i> )	2,114
	<hr/>
Deferred tax asset at 1 February 2020 ( <i>see note 13</i> )	894
	<hr/>

The elements of deferred taxation are as follows:

	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Fixed asset timing differences	50	49
Derivative instruments	360	(1,269)
Change in basis adjustment	(13)	-
Loan relationships – non trading	497	-
	<hr/>	<hr/>
	894	(1,220)
	<hr/>	<hr/>

### 15. CREDITORS

	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Trade creditors	(37,574)	(47,412)
Amounts due to fellow subsidiary undertakings	(180,839)	(135,727)
Group relief payable	(299)	(1,109)
Accruals and deferred income	(410)	(435)
Taxation and social security	(12)	(11)
Purchased derivatives	(6,028)	(1,746)
	<hr/>	<hr/>
	(225,162)	(186,440)
	<hr/>	<hr/>

An unsecured revolving loan note was entered into with Gap International Sourcing (Holdings) Limited on 24 June 2019 in respect of an aggregate principal amount not to exceed \$340,000,000. As at 1 February 2020 \$170,929,720 (2019: \$130,516,396) was drawn down and is included within amounts due to fellow subsidiary undertakings. The interest rate is set at 1-month US London Interbank Offered Rate (US LIBOR), plus 230 basis points

The Company's principal financial liabilities are amounts due to fellow subsidiary undertakings which consist of trade balances that are repayable within one year. The remaining balance within amounts owed to fellow subsidiary undertakings are unsecured, interest free and repayable on demand, with no fixed repayment date. The principal credit risk is in respect of these balances and is mitigated because fellow subsidiary undertakings are supported by the Ultimate Parent company.

There are no Purchased derivatives (2019: \$nil) falling due after more than one year.

# GAP (UK HOLDINGS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 1 February 2020

### 16. CALLED UP SHARE CAPITAL

	2020 \$	2019 \$
<b>Called up, allotted and fully paid:</b>		
19,000 (2019: 19,000) ordinary shares of £1 each	30,698	30,698

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

### 17. 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. No share options available for distribution were brought forward and during the year no stock options were issued (2019: \$nil).

The total stock awards issued and charged to the income statement in the year was \$57,000 (2019: \$94,000).

### 18. DERIVATIVE FINANCIAL INSTRUMENTS

	2020 \$'000	2019 \$'000
<b>Derivatives that are cash flow and economic hedging instruments</b>		
<b>Net assets</b>		
Forward foreign currency contracts	611	8,298
<b>Net liabilities</b>		
Forward foreign currency contracts	(6,028)	(1,746)
	<u>(5,417)</u>	<u>6,552</u>

There are no Purchased derivatives (2019: \$nil) falling due after more than one year. Forward foreign currency contracts are valued using quoted forward exchange rates.

#### Forward foreign currency contracts

The following table details the forward foreign currency contracts outstanding as at the year end:

Outstanding contracts	Average contractual exchange rate (net)		Notional value (net)		Fair value (net)	
	2020 [rate]	2019 [rate]	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
EURO - less than 1 year	1.114	1.229	52,379	99,294	432	3,017
GBP - less than 1 year	1.271	1.352	169,173	202,886	(5,876)	3,545
TWD - less than 1 year	30.134	30.344	3,982	3,955	27	(10)
			<u>225,534</u>	<u>306,135</u>	<u>(5,417)</u>	<u>6,552</u>

## **GAP (UK HOLDINGS) LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**For the year ended 1 February 2020**

#### **18. DERIVATIVE FINANCIAL INSTRUMENTS (continued)**

The Company has entered contracts to supply goods to other group companies. The Company has entered into forward foreign currency contracts to hedge the exchange rate risk arising from these anticipated future transactions. The hedged cash flows are expected to occur and to affect profit or loss within the next 18 months.

Gains of \$3,207,000 (2019: Gains of \$20,859,000) were recognised in other comprehensive income, of which \$5,527,000 are relating to assets and \$2,320,000 are relating to liabilities. Gains of \$12,789,000 (2019: Losses of \$2,541,000) were reclassified to the income statement in the year, of which gains of \$12,915,000 are relating to assets and losses of \$126,000 are relating to liabilities.

#### **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 £142,000 in the year (2019: £127,000).

Pensions liabilities outstanding at the financial year end are £6,000 (2019: £8,000).

#### **20. ULTIMATE PARENT COMPANY**

As at the year end 1 February 2020, 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 1 February 2020, the immediate parent company is Gap (RHC) B.V., a company registered in the Netherlands. The financial statements of the immediate parent company may be obtained by writing to Gap (RHC) B.V., at the registered address of Herikerbergweg 238, Luna Arena, 1101CM, Amsterdam.

#### **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**

The effects related to the announcement of the strategic review of the European business (see Review of Business section in the Strategic Report) have no impact on the determination of the results nor on the equity of the Company's financial statements for the year ended 1 February 2020 as this is a post balance sheet "Non adjusting event".

The effects related to Covid-19 have no impact on the determination of the results nor on the equity of the Company's financial statements for the year ended 1 February 2020 as this is a non adjusting post balance sheet event. There have been no events that have occurred since 1 February 2020, 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.