



**Card  
Factory**



Card Factory plc  
Annual Report  
& Accounts  
**2016**

# Company Overview

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Welcome to

## Card Factory

**The UK's leading specialist retailer of greeting cards, dressings and gifts**

Card Factory focuses on the value and mid-market segments of the UK's large and resilient greeting cards market, and also offers a wide range of other quality products, including small gifts and gift dressings, at affordable prices.

The Group principally operates through its nationwide chain of over 800 Card Factory stores, as well as through its online offerings: [www.gettingpersonal.co.uk](http://www.gettingpersonal.co.uk) and [www.cardfactory.co.uk](http://www.cardfactory.co.uk).

Card Factory commenced operations in 1997 with just one store and has expanded its store estate primarily through organic growth into a market-leading value retailer with a nationwide presence.

The Group's stores are in a wide range of locations including on high streets in small towns through to major cities, shopping centre developments, out-of-town retail parks and factory outlet centres.

Since 2005, Card Factory has developed a vertically integrated business model with an in-house design team, an in-house printing facility and central warehousing capacity of over 360,000 sq. ft. This model differentiates the Group from its competitors by significantly reducing costs and adding value to customers in terms of both price and quality.

The Group's clear strategy is focused on four pillars of growth:

### Four pillars of growth

**Like-for-like sales growth**

**New store roll out**

**Business efficiencies**

**Online development**

**Consistently strong cash generation and shareholder returns**

## GROUP REVENUE

**£381.6m**

Increase of +8.0%

## NET NEW STORE OPENINGS

**50**

Total store estate 814

## LIKE-FOR-LIKE STORE SALES

**+2.8%**

Positive LFLs every year since formation

## ONLINE REVENUE

**£19.2m**

Increase of 22.8%

## UNDERLYING EBITDA<sup>1</sup>

**£95.0m**

Increase of +7.7%

## UNDERLYING EBITDA MARGIN

**24.9%**

FY15: 25.0%

## UNDERLYING PROFIT BEFORE TAX

**£82.0m**

FY15: £65.5m

## STATUTORY PROFIT BEFORE TAX<sup>2</sup>

**£83.7m**

FY15: £42.7m

## LEVERAGE

**1.30x**

FY15: 1.17x

## TOTAL ORDINARY DIVIDEND<sup>3</sup>

**8.5p**

Increase of 25.0%

## SPECIAL DIVIDEND

**15.0p**

FY15: Nil

### Notes

1. As defined in note 5 to the financial statements on page 91.
2. Reflects pre-IPO financing charges and non-underlying expenses principally relating to charges associated with the IPO and senior debt refinancing.
3. Including recommended final dividend of 6.0p, subject to AGM approval

## Contents

### Strategic Report

- 2 Market Overview
- 4 Business Model
- 8 Our Four Pillar Strategy
- 10 Chairman's Statement
- 12 Chief Executive Officer's Review
- 16 Chief Financial Officer's Review
- 21 Principal Risks and Uncertainties
- 24 Corporate Social Responsibility Report

### Governance

- 30 Directors and Officers
- 33 Chairman's Letter – Corporate Governance
- 34 Corporate Governance Report
- 44 Chairman's Letter – Audit and Risk Committee
- 45 Audit and Risk Committee Report
- 48 Chairman's Letter – Remuneration Committee
- 50 Directors' Remuneration Report
- 67 Chairman's Letter – Nomination Committee
- 68 Nomination Committee Report
- 69 Directors' Report
- 73 Statement of Directors' Responsibilities

### Financials

- 74 Independent Auditor's Report
- 78 Consolidated Income Statement
- 79 Consolidated Statement of Comprehensive Income
- 80 Consolidated Statement of Financial Position
- 81 Consolidated Statement of Changes in Equity
- 82 Consolidated Cash Flow Statement
- 83 Notes to the Financial Statements
- 108 Parent Company Balance Sheet
- 109 Parent Company Statement of Changes in Equity
- 110 Parent Company Cash Flow Statement
- 111 Notes to the Parent Company Financial Statements

### Company Information

- 119 Advisers and Contacts
- 120 Notes

# Market Overview

## Introduction

The revenue generated from the physical store network represents c95% of Group revenue and can be analysed into three principal areas:

### Single cards

Single cards comprise individual cards for everyday occasions (eg birthdays, anniversaries, weddings, thank you, get well soon, good luck, congratulations, sympathy and new baby cards) and seasonal occasions (eg Christmas, Mother's Day, Father's Day, Valentine's Day, Easter, thank you teacher, graduation and exam congratulations). Within the singles segment, approximately 3.5% by volume relates to personalised physical cards sold online, with an element of personalisation as part of the purchase (eg to add the recipient's name or a photograph).



### Non-card items

'Non-card' refers to a wide variety of adjacent product categories that customers have a high propensity to purchase on the same occasions as greeting cards, including:

- **gift dressings** (eg gift wrap, gift bags, gift boxes, gift tags, bows and ribbons);
- **small gifts** (eg soft toys, ceramics, glassware, candles, picture frames, homewares);
- **party products** (eg balloons, banners, badges and candles); and
- **other non-card products** (eg calendars, diaries, stamps).

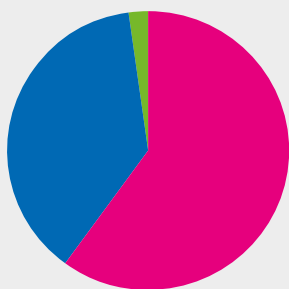


### Christmas boxed cards

Christmas boxed cards are boxes of multiple cards purchased at Christmas, typically sent to a wider group of relatives, friends and colleagues and are often associated with a charity.



### Share of FY16 revenue



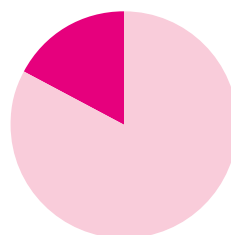
Single cards  
**56.4%**

Non-card  
**41.3%**

Christmas boxed cards  
**2.3%**

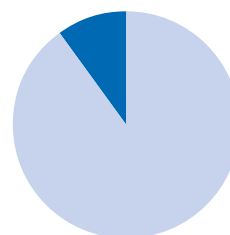
### Estimated Card Factory market share by value

Single cards  
**18.5%**



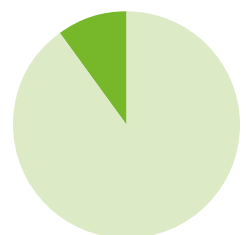
**£1.3 billion**  
UK market value

Non-card items  
**less than 10%**



**£2 billion**  
UK market value

Christmas boxed cards  
**9.6%**



**£0.1 billion**  
UK market value

Note: Card Factory value share excludes online and is based on OC&C estimate of market size in 2014.

## Market trends

There is an ingrained culture of sending greeting cards in the UK, with estimates suggesting an average of approximately 30 cards sent per adult each year, of which on average 20 are single greeting cards.

Card purchasing is occasion-driven, focused around key events (eg birthdays, anniversaries and seasons such as Christmas). A person's age, gender and stage of life are major drivers of their propensity to purchase greeting cards, with purchasing levels significantly higher in older consumers and those with families. The evidence suggests that card purchasing behaviour is broadly stable within generations which, with both a growing and ageing UK population, is expected to help support future card purchasing levels in the UK.

## Competitive environment

The greeting cards market is highly fragmented, with a wide range of retailers selling greeting cards, including:

- **Specialist chains:** Represent a destination location for greeting cards (eg Card Factory, Clintons, Hallmark, Paperchase, Scribbler and Cards Galore);
- **Grocers:** Primarily capture convenience and distressed purchases (eg ASDA, Tesco and Sainsbury's); and
- **Others:** Including generalists (eg WH Smith and M&S), stationers, discount chains (eg Poundland, Home Bargains and Wilkinsons), the Post Office and hundreds of small independent retailers.

## Market growth rates

The overall card market has proved to be robust and resilient throughout the past decade with steady consistent annual growth in value.

Volumes in the larger, core singles market have been broadly flat during this period, with only a very slight shift to personalised single cards purchased online notwithstanding very significant television advertising spend by the major players in this established market niche.

The small Christmas boxed cards segment of the market has declined over recent years and this is thought to be due, in part, to significant increases in stamp prices over the period and lower levels of emotional attachment to Christmas boxed cards than to other greeting cards.

### Consumer Perception



Source: OC&C Online Consumer Survey (March 2016)

### OC&C

#### Retail Proposition Index

December 2015

#### WINNER VALUE FOR MONEY

##### 1 Card Factory

- Home Bargains
- Amazon
- Aldi
- eBay
- Farm Foods
- Wilko
- Lidl
- Ikea
- B&M Bargains

#### WINNER LOW PRICES

##### 1 Card Factory

- Poundworld
- Primark
- 99p Stores
- Home Bargains
- Poundland
- Aldi
- B&M Bargains
- Farm Foods
- Lidl

# Business Model

Card Factory operates a unique vertically integrated business model which comprises design, sourcing, printing, warehousing, distribution, a large physical store network and an online presence.

The Group has developed and strengthened this model since it was first established in 2005, investing over £50m in the process and building significant management expertise in all of these specialist areas, beyond the traditional retail operations.

This deep vertical integration enables the Group to differentiate itself from its competitors by significantly reducing costs and adding value to customers in terms of both price and quality, underpinning the Group's motto:

**“Compare the quality, compare the price”**

## Key competitive strengths

The Directors believe that this unique model provides significant advantages to the Group, including:

- enabling Card Factory to offer its clearly differentiated value proposition of quality products at affordable prices while maintaining strong margins;
- providing Card Factory with control over the quality, design and merchandising of its products, with the ability to act directly on customer preferences;
- exclusivity of design – the vast majority of Card Factory's products are exclusive to Card Factory;
- economies of scale (eg with regard to the size of card print runs) that have been built up over a significant period of time;
- greater security of supply chain and enhanced visibility of stock, allowing the Group to react more dynamically to market trends;
- enhanced financial flexibility through better working capital management;
- benefits from the significant investment in design capabilities (including the artwork and verses required to support the range of designs), production and warehousing infrastructure, staff and retail stores;
- a management team with the diverse experience and expertise required to operate a deeply vertically integrated retail business as opposed to a pure retail model; and
- an integrated business model that would involve significant execution risk to replicate.



**1997**

OPENED FIRST STORE  
IN WAKEFIELD,  
YORKSHIRE



**2003**

ACQUIRED  
WAREHOUSE AND  
DISTRIBUTION  
FACILITY



**2005**

ACQUIRED DESIGN  
STUDIO



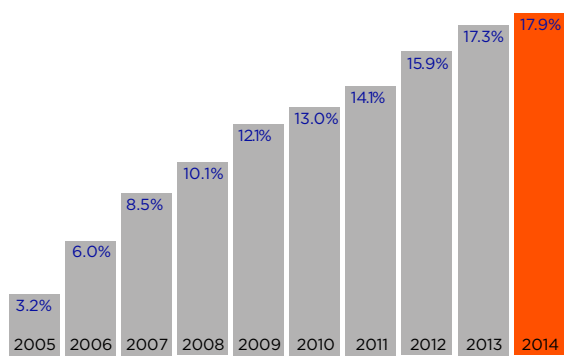
**2009**

ACQUIRED PRINT  
FACILITY 'PRINTCRAFT'

Card Factory has consistently and significantly grown its share of the UK greetings card market since formation in 1997. As the charts below highlight, this is particularly apparent in the period from 2005, the year the Group acquired a design studio and commenced the journey of vertical integration. Based on the latest available market data from OC&C Strategy Consultants ('OC&C') for the 2014 calendar year, Card Factory is the market leader in terms of both value (17.9%) and volume (28.6%):

## UK Card Market Value Share (%)

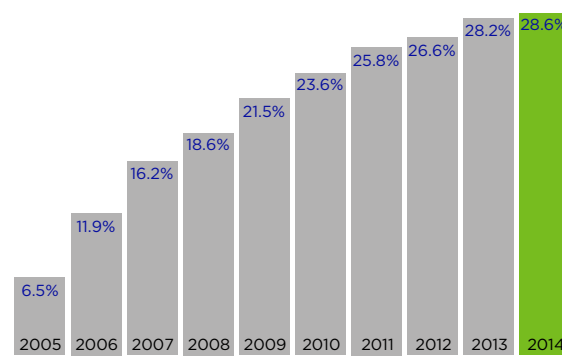
17.9%



Source: OC&C March 2016

## UK Card Market Volume Share (%)

28.6%



Source: OC&C March 2016



**2011**

ACQUIRED GETTING PERSONAL; RELOCATED AND EXPANDED PRINTCRAFT



**2013**

OPENED NEW HEAD OFFICE



**2014**

FLOTATION ON THE LONDON STOCK EXCHANGE



**2015**

RELAUNCHED NEW CARD FACTORY WEBSITE

# Business Model continued

## Design

- Strong team built gradually since 2005, now designing almost all Card Factory store products
- Broad skill set including illustrators, verse writers, packaging specialists, editorial, technical constructors and designers
- Typically redesign over 4,000 cards and hundreds of non-card items each year
- Extensive database of thousands of creative designs, captions and verses



## Sourcing

- Dedicated in-house sourcing team covering wide range of non-card products
- Close links with in-house design team to ensure designing and sourcing to an acceptable margin
- Long-standing relationships with many third-party manufacturers, particularly in the Far East
- Internal quality control function supported by third-party supplier audits



## Printing

- Existing supplier acquired in 2009 and relocated to larger premises in 2011
- Well-invested, scalable facility based in Shipley, Yorkshire with limited further expansion capex
- Currently producing over 200 million cards per annum for Card Factory store network
- Strategically positioned to grow capacity to c400 million cards in line with growth in anticipated store roll out and further share gains



## Warehousing

- National distribution centre based in Wakefield, Yorkshire
- Over 360,000 sq ft of storage space
- Supplemented by other local, third-party storage, principally for seasonal peak requirements
- Supported by Microsoft AX ERP system implemented in 2009





## Distribution

- Outbound distribution performed by third-party logistic partners
- Small fleet of own vehicles for specific deliveries
- Frequent store replenishment to support high store sales densities
- Limited proportion of products shipped direct to store (eg helium gas canisters, postage stamps)



## Store network

- Nationwide network of over 800 stores, principally built from individual openings rather than acquisition
- High quality estate – less than 1% of portfolio loss-making at store contribution level
- Versatile, high returns model operating successfully in a wide range of locations and demographic areas
- Detailed target location database supports estimated total estate of up to 1,200 stores in the UK and Republic of Ireland



## Merchandising

- Extensive range of card and non-card products
- Highly differentiated retail proposition offering quality products at a fraction of the price of the Group's principal competitors
- Transparent pricing builds trust with customers
- Consistently high net promoter scores



## Online

- Complementary area of growth
- Relatively new entrant in a small but fast-growing market niche
- Market entry through acquisition of Getting Personal in 2011 – predominantly personalised gifts
- Recent relaunch of Card Factory transactional website



# Our Four Pillar Strategy

## Like-for-like sales growth

The Group has a strong track record of consistently delivering like-for-like sales growth and growing average basket value ('ABV'). The Board's strategy is to continue this track record, whilst maintaining the core value proposition, by:

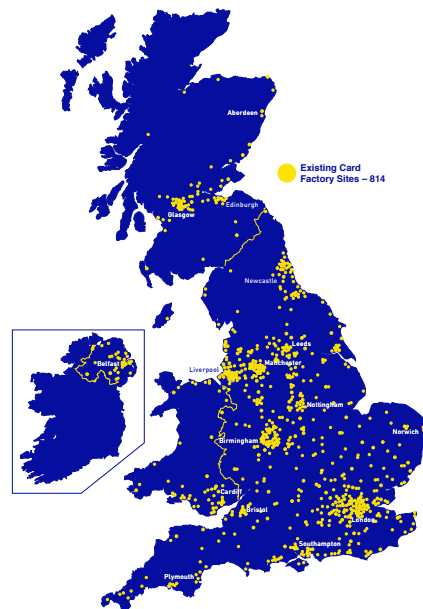
- continuing to improve overall product quality and range for both card and non-card products developed by its established design team;
- further developing the Group's in-store merchandising and pricing architecture to increase the number of items sold per basket and/or to encourage customers to trade up to higher priced items; and
- leveraging the recent investment in electronic point of sale ('EPOS') to provide more granular sales data for analysis of customer purchasing trends, thereby assisting in increasing items sold per basket, for example through identifying and stocking non-card products that are more likely to be purchased alongside greeting cards.

The Group also expects to benefit from ongoing revenue growth as recent store openings continue to grow their share of the local market in line with the typical maturity curve of four to six years. At the point of maturity, annual sales in individual stores are typically 30% to 40% higher than in the first year post-opening.



## New store roll out

The Group intends to expand its store portfolio organically from its existing store estate to up to 1,200 stores in total (a figure supported by external analysis undertaken by OC&C), including up to approximately 100 potential new stores in the Republic of Ireland. The Board intends to continue this future roll out at a similar rate to the Group's historical rate of organic store openings of c50 net new stores per annum.



Target locations for all of these new stores have already been identified and these locations, together with other potential locations, are kept under regular review. Although these new opportunities are expected to have, on average, lower sales potential than the average of the Group's existing store locations, primarily due to the new stores typically being in lower footfall locations than the average of the Group's existing stores, the Directors believe these new stores will nevertheless enhance EBITDA and will continue the trend of delivering a strong return on capital.

Management undertakes a formalised appraisal process for new location opportunities which includes an assessment of potential store sales and profitability, the results of which are stored in a database of new store opportunities which is continually updated and refreshed.

## Business efficiencies

Card Factory has a long-established culture of strong cost control and a consistent track record of delivering best-in-class margins. The Board will continue to pursue business efficiency initiatives to further improve the business and its competitive position.

The Group aims to maintain and, where possible, enhance its gross margins through continuous improvement in the supply chain process. In particular, the Group intends to continue to diversify its range of suppliers (to reduce reliance on key suppliers) and further develop direct sourcing relationships with manufacturers.

Similarly, the Group aims to protect and, where possible, enhance operating margins through the continued strong control of operating costs, including: the management of overall employee costs; negotiation of improved rental terms upon the expiry and renewal of existing leases; and tight control over other costs and expenses.

As the Group continues to grow like-for-like sales and proceed with its new store roll out, the business will continue to leverage the growing economies of scale when negotiating contracts with suppliers and manufacturers.

Since 2010, in anticipation of planned long-term growth, the Group has invested heavily in its infrastructure, including:

- a new EPOS system to provide more granular sales data;
- expansion of Printcraft as part of a 10 year capital expenditure plan following its relocation to larger premises in 2011;
- the relocation of Getting Personal's personalised gift production facility to Printcraft in 2013; and
- investment in the Central Distribution Centre and Group head office completed in 2013.

The Group will continue to leverage the benefits of these recent significant investments over the medium term.

## Online development

The Group's online operations are currently focused on Getting Personal, acquired in 2011. Sales of personalised gifts represent the vast majority of the revenue generated from its website [www.gettingpersonal.co.uk](http://www.gettingpersonal.co.uk).



The Directors believe there are opportunities to further grow the Group's sales in this complementary segment through further product development (eg changes to existing product ranges and new product ranges), enhancements to the website (including the mobile offering) and improved marketing.

While the personalised online segment of the greeting cards market remains small, according to OC&C representing just 6.6% of the total single cards market, by value, and 3.5%, by volume, in 2014, the Directors believe it provides an opportunity for growth.

During the year the Card Factory transactional website was relaunched on the responsive technology platform developed by the team at Getting Personal. We continue to enhance, test and evolve our online proposition and product offering on this second site and, in the second half of the year, introduced a wider selection of personalised cards and gifts, including a small range of photo upload products.

The Directors believe that the Group is well placed to capture a greater share of this growing segment of the market.

# Chairman's Statement



**“... there remains a significant opportunity to further grow our market share”**

**Geoff Cooper**  
Chairman

I am delighted to report that Card Factory has had another very strong year and continued to deliver on all aspects of its successful four pillar strategy:

- growing like-for-like sales in existing stores;
- rolling out profitable new stores;
- focusing on delivering business efficiencies; and
- increasing penetration of the complementary online market.

Card Factory continues to build on its position as the UK's market-leading specialist retailer of greeting cards, dressings and gifts and there remains a significant opportunity to further grow our market share.

The Group continues to generate best-in-class margins and excellent free cash flow, benefiting significantly from its unique vertically integrated business model. This continuing strong performance has enabled the Board to recommend an increase of 33.3% in the final dividend to 6.0p per share (FY15: 4.5p per share). Subject to approval by shareholders at our forthcoming AGM, this would result in an increase of 25.0% in the total ordinary dividend for the year to 8.5p per share (FY15: 6.8p per share), giving a dividend cover of 2.25 times earnings. This is in addition to the 15.0p per share special dividend paid in November 2015.

As a public company we have an opportunity to widen share ownership across our employee base. This is an important aspect of stakeholder engagement and we were delighted that over 17% of all eligible employees chose to join the SAYE share scheme which was launched during the year.

In January we announced the appointment of Karen Hubbard to the Board as CEO Designate, with effect from 22 February 2016. Karen will succeed Richard

Hayes as CEO of Card Factory in mid-April. Richard has been with the Group since 2003, serving as Managing Director and CEO since 2008. He had recently made the Board aware of his wish to step down once a suitable successor had been identified. He will retire from the Board and leave the Group at the end of June 2016, having ensured a smooth transition over a four-month period.

Richard has led Card Factory with enormous success. Since he joined the senior management team in 2003 the Group has grown from a 40 store discount chain to a vertically integrated high margin value retailer with over 800 stores and two transactional websites. Having led the business through an MBO, the 2014 IPO and its first two years as a listed company, it is fully understandable that he now wants to retire. We are extremely grateful for all he has done and, when he steps down, it will be with our very best wishes.

Karen, who has previously held senior positions in B&M, Asda and BP, has a huge amount of relevant experience in value retailing, both through store estates and multi-channel. She has a great deal of energy and ambition for the business. The Board is confident that Karen is the right person to take on the mantle from Richard to deliver the significant growth potential of the Group.

In summary, the Group has continued to deliver the strategy which the Board set out at the time of IPO almost two years ago. I am confident that this track record of success will continue in the years ahead.

**Geoff Cooper**  
Chairman  
4 April 2016



**“... over 17% of all eligible employees chose to join the SAYE share scheme”**



# Chief Executive Officer's Review



**“... I believe that our retail offering and market position will be further strengthened in the years ahead”**

**Richard Hayes**  
Chief Executive Officer

## Overview

Card Factory has had another record year, generating strong growth in both revenues and profits, and delivering in all areas of our proven four pillar strategy:

### 1. Continue to grow like-for-like sales in existing stores

The Group's consistent like-for-like ('LFL') sales performance continued with annual LFL store growth of +2.8% (FY15: +1.8%), towards the upper end of the historic 5 year range of +1.4% to +3.2%. We continue to target annual LFLs in line with this historic range.

This strong performance was driven by a number of factors, including further improvements in the quality and range of our card and non-card offerings, benefits of our new EPOS system, new merchandising initiatives and further market share gains as stores mature.

The performance of the diverse non-card category, which typically has a lower gross margin than the card category, continues to be particularly strong. Our Design Studio has significantly improved the quality of our non-card category over the past five years, generating incremental sales and increasing non-card sales mix from 35.3% in FY12 to 41.3% in FY16. We expect this gradual trend to continue as we further develop and enhance our non-card offering.

As referred to below, we have started to refine and develop the multi-channel offering of the Card Factory fascia from a very low base. Including sales from the recently relaunched Card Factory transactional website, the total LFL for the Card Factory fascia increased by +3.0% (FY15: +1.8%). We believe that there is considerable potential to leverage the existing loyal and established store customer base.

### 2. Continue to roll out profitable new stores

The Group's established new store roll out programme continues to be an important driver of sales growth for the business.

In the year under review, 50 net new stores were opened (FY15: 51), bringing the total estate to 814 stores at the year end. During the year 10 stores were closed (FY15: 5) and 6 stores were relocated (FY15: 9). The overall quality of our new store openings and their performance to date continues to be in line with our expectations. The quality of our retail estate remains high. Of our stores open for over one year, only five (less than 1% of the estate) were loss making, and their aggregate loss was only £0.1m at store contribution level.

We have a strong pipeline of additional new store opportunities and remain confident of opening a total of approximately 50 net new stores in the new financial year.

### 3. Continue to focus on delivering business efficiencies

The Group continues to consistently deliver one of the best operating profit margins in the retail sector and we remain focused on delivering further business efficiencies and economies of scale.

A key aspect of our strategy has been to ensure that this margin focus does not compromise our value proposition, particularly when faced with cost headwinds. We believe that this approach is in the best long-term interests of the Company and shareholders. As referred to in the Chief Financial Officer's Review, we anticipate that the current significant cost pressures facing our sector, in particular foreign exchange rates and the new National Living Wage, will slightly reduce our operating margin percentage in FY17, post mitigation. We have a number of business efficiency projects underway and, given our market leading position, unique vertically integrated model and superior margin structure, we believe that we are better placed than most to manage such costs pressures. Indeed, our strategic response to such cost pressures often, in our view, strengthens our competitive position in the market.

We continue to leverage our investment in EPOS and our increased ability to analyse more granular sales data has contributed to the strong LFL performance in FY16. The new system is now deployed in approximately 60% of stores and, given the characteristics of our retail estate, we can use this data to improve the performance of the whole estate. In order to optimise the benefits of this system, we have recently commissioned an independent detailed review of a potential software upgrade to enable further system improvements and efficiencies. We expect the conclusions to be available later this year. In the meantime, we continue to deploy the current version in all new stores.

### 4. Increase penetration of the complementary online market

Our online operations have had another strong year with total Group online revenues growing by 22.8% to £19.2m (FY15: £15.7m).

Getting Personal, which currently represents the majority of the Group's online operations, grew revenue by 17.5%, having delivered 23.1% growth in FY15. EBITDA increased by 46.7% to £4.1m (FY15: £2.8m). Over the last two years, Getting Personal has therefore grown revenue by 44.6% and EBITDA by 145.8% – an excellent performance. We continue to target double digit revenue growth at Getting Personal albeit we expect this to be at a lower level than that achieved in the past two years given these much tougher comparatives.

The new Card Factory transactional website continues to progress well, having been relaunched during the year on the responsive technology platform developed by the team at Getting Personal. We continue to enhance, test and evolve our online proposition and product offering and, in the second half of the year, introduced a wider selection of personalised cards and gifts, including a small range of photo upload products. Whilst this initial trial range is much smaller than that of more established online competitors, our new offering of personalised cards and gifts has been well received by customers. Taken together with a more user-friendly website, this contributed to annual revenue growth of approximately 500% to £1.0m (FY15: £0.17m), despite very limited marketing support. We have now started to increase the promotion of this new online offering in Card Factory stores and whilst annual revenue remains small relative to the size of the Group, with over 100 million in-store customer transactions each year and a loyal customer base, we are optimistic that this channel has significant growth potential over the medium term.

# Chief Executive Officer's Review continued

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## Management and employees

As announced in January, Karen Hubbard has been appointed as my successor and we welcome her to the Group. Karen and I have worked closely together over recent weeks as part of a managed transition plan. I am confident that I leave the Group in good hands.

We have also continued to invest in the wider team with some newly created roles at more senior levels in existing functions (for example, Head of Loss Prevention and a Marketing Director at Getting Personal).

We will continue to strengthen all aspects of the business and invest in the wider team in support of our medium-term growth plans.

## Summary and outlook

As I enter the final few weeks of my tenure as CEO, it is pleasing to be able to announce another set of record results. We remain confident in the Group's future prospects, and in its ability to continue to grow sales profitably over the medium term. Our clear value proposition, underpinned by our unique vertically integrated model, remains highly differentiated and I believe that our retail offering and market position will be further strengthened in the years ahead.

I am fortunate to have had the opportunity to lead Card Factory through an exciting period of growth and change. It is a very strong business, with a great team of experienced people at Executive level and right across the business, and I know they will give Karen every support as she takes the business further forward. I wish them all the very best for the future.

Finally, I would again like to thank my Board colleagues, management team and all our employees for their support and commitment over many years and also Dean and Janet Hoyle, the founders of the business, who entrusted me with the leadership of their then family business in 2008. Together we have all contributed to growing Card Factory from a small chain of discount stores to a vertically integrated high margin value retailer with over 800 stores nationwide and two transactional websites.

We should all be proud of what we have achieved together over a number of years in building Card Factory to the position of clear market leader – proud but not complacent.

**Richard Hayes**

Chief Executive Officer

4 April 2016





**“Our clear value proposition, underpinned by our unique vertically integrated model, remains highly differentiated”**



# Chief Financial Officer's Review



**“We believe that there is significant potential for further returns of surplus cash to shareholders”**

**Darren Bryant**  
Chief Financial Officer

The 'FY16' accounting period refers to the year ended 31 January 2016 and the comparative period 'FY15' refers to the year ended 31 January 2015.

## Revenue

Total Group revenue during the year grew by 8.0% to £381.6m (FY15: £353.3m), a similar growth rate to the prior year, with both of the Group's businesses contributing to this increase:

	<b>FY16</b> £'m	FY15 £'m	Increase
Card Factory	<b>363.4</b>	337.8	7.6%
Getting Personal	<b>18.2</b>	15.5	17.5%
<b>Group</b>	<b>381.6</b>	353.3	8.0%

Strong growth in like-for-like ('LFL') sales was delivered across all retail channels:

	<b>FY16</b>	FY15
Card Factory stores	<b>+2.8%</b>	+1.8%
Card Factory online	<b>+497.7%</b>	+84.0%
Card Factory combined	<b>+3.0%</b>	+1.8%
Getting Personal	<b>+17.5%</b>	+23.1%
Total online combined	<b>+22.8%</b>	+23.5%

Single cards, Christmas boxed cards and non-card products all contributed to the LFL sales growth in Card Factory stores, with a particularly strong performance in non-card as a number of new ranges were introduced into store. As a consequence, there was a continuation of the marginal mix shift to non-card, the full year mix being 56.4% single cards (FY15: 57.9%), 41.3% non-card (FY15: 39.9%) and 2.3% Christmas boxed cards (FY15: 2.2%). We expect this trend to continue as we further improve our non-card offering.

Revenue from the new, reinvigorated Card Factory transactional website grew by approximately 500% from less than £0.2m in FY15 to £1m in FY16.

Getting Personal revenue growth was particularly strong in the first half, as a number of prior year strategic initiatives continued to bear fruit. As expected, revenue growth in the second half, whilst still strong and double digit, was lower than the first half given the much tougher comparatives in that period.

A total of 50 net new stores were added during the year (FY15: 51).

## Operating costs

Cost of sales and operating expenses continued to be well controlled and can be analysed as follows:

	FY16		FY15		Increase
	£'m	% of revenue	£'m	% of revenue	
Cost of goods sold	<b>120.1</b>	<b>31.5%</b>	110.3	31.2%	8.9%
Store wages	<b>62.2</b>	<b>16.3%</b>	57.3	16.2%	8.6%
Store property costs	<b>60.3</b>	<b>15.8%</b>	56.7	16.1%	6.2%
Other direct expenses	<b>16.6</b>	<b>4.3%</b>	15.7	4.4%	6.4%
<b>Cost of sales</b>	<b>259.2</b>	<b>67.9%</b>	240.0	67.9%	8.0%
<b>Operating expenses*</b>	<b>27.4</b>	<b>7.2%</b>	25.1	7.1%	9.1%

\* excluding depreciation and amortisation

The overall ratio of cost of sales to revenue remained flat at 67.9% on an underlying basis (FY15: 67.9%) with the following movements in sub-categories:

- **Cost of goods sold:** principally comprises cost of raw materials, production costs, finished goods purchased from third-party suppliers, import duty, freight costs, carriage costs and warehouse wages. The small increase in this cost ratio, as also seen in the first half of the year, principally reflects foreign exchange movements, the ongoing shift in sales mix to lower margin Card Factory non-card product and the strong LFL performance at Getting Personal, offset in part by improvements in underlying product margins. As highlighted previously and discussed in more detail below, foreign exchange margin pressure remains an area of concern for FY17 given the recent significant depreciation of Sterling versus the US Dollar.
- **Store wages:** includes wages and salaries (including bonuses) for store based staff, together with national insurance, pension contributions, overtime, holiday and sick pay. This cost increased as new stores opened but remained broadly flat as a ratio of revenue. As highlighted in the interim results, the new National Living Wage ('NLW') will place pressure on this cost ratio in FY17 and beyond. We estimate that, in each year over the next five years, the implementation of NLW will increase store wages by approximately £2.5m per annum (based on the current store estate), over and above the cost increase we were anticipating from the National Minimum Wage. We have identified initiatives to mitigate approximately £1m of the FY17 increase and we are targeting a similar level of mitigation in future years. Subject to LFL sales growth, we therefore anticipate a small annual increase in this cost ratio over the medium term.
- **Store property costs:** consists principally of store rents (net of rental incentives), business rates and service charges. This cost has also increased in absolute terms as new stores have been opened but has reduced slightly as a ratio of revenue. A number of the Group's existing stores remain on leases taken out before the recession when the property market was stronger and the Company's covenant was weaker. The improvement in this cost ratio reflects changes to these factors for both new stores and breaks and expiries on existing leases as well as the impact of positive LFL sales. We believe that there remains an opportunity for further savings as these older leases come up for renewal over the coming years.
- **Other direct expenses:** includes store opening costs, store utility costs, waste disposal, store maintenance, point of sale costs and marketing costs. This cost category is largely variable in respect of existing stores and increases with new store openings. The ratio of other direct expenses to revenue has improved marginally to 4.3% from 4.4% as a result of economies of scale and various business efficiency initiatives.

Operating expenses (excluding depreciation and amortisation) include items such as head office remuneration, costs relating to regional and area managers, design studio costs and insurance together with other central overheads and administration costs. The Group has continued to invest in central infrastructure and people, in recent years, to support the ongoing planned growth; we expect this trend to continue.

# Chief Financial Officer's Review continued

Total operating expenses (excluding depreciation and amortisation) increased by 9.1% to £27.4m (FY15: £25.1m). Following our IPO in May 2014, this cost category has included the incremental operating costs incurred as a result of being a public company, including the non-cash share based payment charge in relation to LTIPs (introduced on IPO) and the new SAYE scheme (introduced during FY16). The total share based payment charge for the year, including NI, was £1.6m (FY15: £0.6m). Given the 3 year vesting period of such schemes, this non-cash share based payment charge is expected to increase in FY17, the third year to which these charges have applied following our IPO in May 2014.

Depreciation and amortisation increased from £8.8m to £9.7m reflecting the continuing capital investment in the Group.

## Foreign exchange

With slightly over half of the Group's annual cost of goods sold expense relating to products sourced in US Dollars, the Group takes a prudent but flexible approach to hedging the risk of exchange rate fluctuations.

The Group's Treasury Policy is formally approved by the Board and reviewed regularly. The current policy requires forward cover to be in place for at least 50% of the next 12 months US Dollar requirement, calculated on a rolling basis. The policy permits a maximum of 40% of each financial year's anticipated total requirement to be hedged via structured options, with the balance typically being hedged via vanilla forwards. The Group has used structured options and similar instruments to good effect for a number of years. The Board views such instruments, structured appropriately, to be commercially attractive as part of a balanced portfolio approach to exchange rate management, even if from a technical accounting perspective, they may not be deemed to meet the IFRS hedge effectiveness test.

At the date of this announcement, cover is in place for 68% of the anticipated FY17 US Dollar cash requirement (assuming all structured options are exercisable, which would be the case with Sterling above \$1.3425) at an average rate in line with our standard budget rate of \$1.60 but marginally below that achieved in FY16. As Sterling currently remains significantly below levels achieved historically, we expect foreign exchange margin pressure to remain an area of concern for FY17 and possibly beyond, with particular uncertainty arising from the debate around and potential outcome of the EU referendum.

## Underlying EBITDA and operating profit

The underlying EBITDA margin of the Group remained broadly flat at 24.9% (FY15: 25.0%), reflecting incremental operating costs incurred following the May 2014 flotation, principally share based payment charges, offset by the benefits of business efficiencies. Excluding share based payment charges, underlying EBITDA margins improved slightly.

Both of the Group's retail brands, Card Factory and Getting Personal, performed well, with the EBITDA margin of Getting Personal improving considerably with increasing economies of scale:

	FY16 £'m	FY15 £'m	Increase/ (Decrease)
<b>Underlying EBITDA</b>			
Card Factory	<b>90.9</b>	85.4	+6.4%
Getting Personal	<b>4.1</b>	2.8	+46.7%
Group	<b>95.0</b>	88.2	+7.7%
<b>Underlying EBITDA margin</b>			
Card Factory	<b>25.0%</b>	25.3%	-0.3ppts
Getting Personal	<b>22.4%</b>	18.0%	+4.4ppts
Group	<b>24.9%</b>	25.0%	-0.1ppts

The Group's underlying operating margin was also broadly flat at 22.4% (FY15: 22.5%), despite the higher depreciation charge referred to above. Excluding share based payment charges, underlying operating margins improved slightly.

Looking forward to FY17, we anticipate that our margins will be adversely impacted by the aforementioned cost headwinds, together with the anticipated increase in share based payment charges relating to subsequent LTIP awards and the proposed 2016 SAYE scheme. A number of business efficiency initiatives are underway and we will continue to pursue other business efficiency projects and cost mitigation initiatives where appropriate. Given the best-in-class margins generated by our unique vertically integrated model, compared to our principal competitors we believe that the impact on our overall margins will be relatively low.

## Debt refinancing

As announced in our interim results in September, in anticipation of the special dividend paid to shareholders in November, we amended and extended our existing £200m debt facility. This facility, put in place prior to IPO last year, consisted of a 5 year, £180m senior debt facility and a £20m revolving credit facility ('RCF'). The new 5 year facility agreement consists of a £200m RCF, thereby providing greater flexibility and balance sheet efficiency. The new facility also includes an additional £100m accordion. As part of this refinancing process, the margin payable under the new facility has reduced by between 0.25% and 0.75%, depending on the leverage within the Group.

The fees and expenses of this debt refinancing, which totalled £1.0m, have been capitalised and will be amortised to the Income Statement over the five year term of the new RCF in accordance with accounting standards. Debt costs capitalised in relation to the previous senior debt facility of £1.8m have been written-off as a non-underlying item.

The new RCF is subject to a margin ratchet dependent upon leverage levels, with margins ranging between 1.00% (up to 1.25 times historic EBITDA) and 2.00% (at 2.0 times historic EBITDA and above), with additional intermediate steps in margin within this leverage range.

### Net financing expense

Net financing expense, excluding non-underlying items relating to the aforementioned debt refinancing, decreased by 76.1% to £3.3m (FY15: £13.9m). The prior year included approximately four months with the pre-IPO capital structure with higher levels of leverage, a significant proportion of accrued loan note interest and a higher weighted average interest cost. The FY16 expense also benefited from the debt refinancing completed in June.

### Profit before tax

Underlying profit before tax for the financial year amounted to £82.0m (FY15: £65.5m), an increase of 25.2%.

As reported previously, as a consequence of the IPO and refinancing completed during FY15, statutory profit before tax for that year differed materially from the underlying results. The table below reconciles underlying profit before tax to the statutory profit before tax for both financial years:

	FY16 £'m	FY15 £'m
Underlying profit before tax	<b>82.0</b>	65.5
Gains/(losses) on derivatives not designated as a hedge	<b>3.8</b>	(0.1)
IPO costs	-	(3.8)
Residual management equity share based payment	-	(11.2)
Refinanced debt issue cost amortisation	<b>(1.8)</b>	(7.7)
Other	<b>(0.3)</b>	-
<b>Statutory profit before tax</b>	<b>83.7</b>	42.7

Further detail on the non-underlying reconciling items is set out in note 3 of the financial statements on page 90.

### Tax

The tax charge for the year was 20.7% of profit before tax, compared with 22.3% in the prior year. This reflects the reduction in the headline rate of corporation tax from 21.3% to 20.2% and the treatment of certain non-recurring IPO costs in FY15.

### Earnings per share

Basic and diluted underlying earnings per share for the year was 19.1p (FY15: 16.3p), an increase of 17.2%. After the non-underlying items described above, basic and diluted underlying earnings per share for the year was 19.5p (FY15: 10.6p), an increase of 84.0%.

### Capital expenditure

Capital expenditure in the year amounted to £11.6m (FY15: £10.1m) of which £2.4m (FY15: £2.6m) related to the EPOS conversion project.

The Board anticipates that, in the coming year, total capital expenditure will amount to approximately £12m in line with previous guidance.

### Strong financial position

The Group remains highly cash generative, driven by its strong operating margins, limited working capital absorption and the relatively low capital expenditure requirements of its expansion programme.

Cash conversion, calculated as operating cash flow (being underlying EBITDA less capex and underlying working capital movements) divided by underlying EBITDA remained strong at 81.2% (FY15: 89.8%). The slight decrease from prior year reflects marginally higher capex and inventory increases from a combination of new store openings, higher Christmas carry over and the timing of purchases given the earlier Mother's Day in 2016.

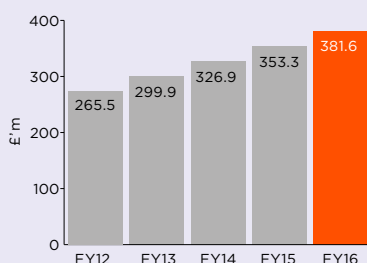
As at 31 January 2016, net debt (excluding debt issue costs of £0.9m) amounted to £123.8m, analysed as follows:

	FY16 £'m	FY15 £'m
<b>Borrowings</b>		
Current liabilities	<b>0.1</b>	14.5
Non-current liabilities	<b>134.1</b>	155.9
<b>Total borrowings</b>	<b>134.2</b>	170.4
Add: debt costs capitalised	<b>0.9</b>	2.2
Gross debt	<b>135.1</b>	172.6
Less cash	<b>(11.3)</b>	(69.0)
<b>Net debt</b>	<b>123.8</b>	103.6

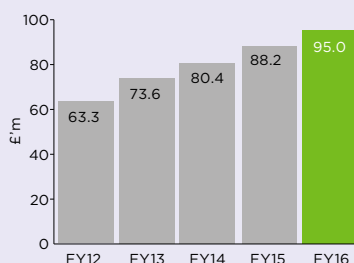
Net debt at the year end represented 1.30 times underlying EBITDA (FY15: 1.17x), the increase in part reflecting the payment of ordinary and special dividends totalling £82.8m, as detailed below.

# Chief Financial Officer's Review continued

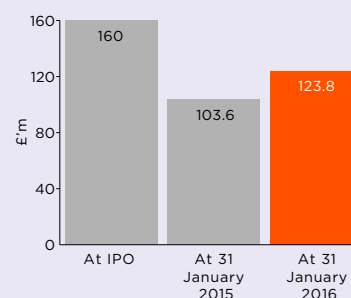
## Turnover



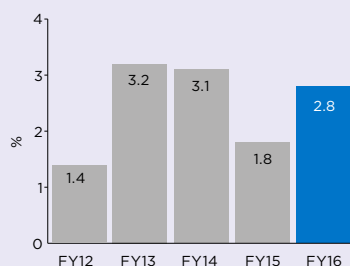
## EBITDA



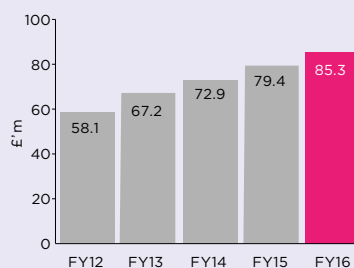
## Net Debt



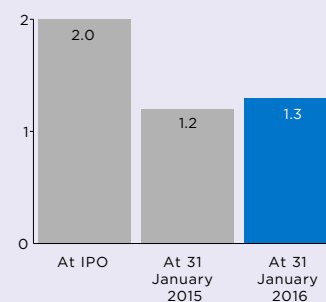
## Store Like-for-Likes



## Operating Profit



## Leverage Ratio



## Dividends and capital structure

As stated at the time of the IPO, we expect to maintain a progressive dividend policy which reflects the Company's strong earnings potential and cash generative characteristics, while allowing us to retain sufficient capital to fund ongoing operating requirements and invest in the Company's long-term growth plans.

For the year ended 31 January 2016, the Board is recommending an increase in the final ordinary dividend of 33.3% to 6.0p per share (FY15: 4.5p), giving a total ordinary dividend for the year of 8.5p per share, an increase of 25.0% (FY15: 6.8p) and dividend cover of 2.25 times underlying earnings per share.

The final dividend will, subject to shareholders' approval at the Company's Annual General Meeting on 24 May 2016, be paid on 10 June to shareholders on the register on 6 May.

As previously announced, over the medium term the Board expects to maintain leverage broadly in the range of 1.0 to 2.0 times net debt to underlying historic LTM EBITDA. Whilst this leverage ratio will typically vary during the financial year, the Board's current intention is to maintain average leverage around the mid point of this range. To the extent there is surplus cash within the business, the Board expects to return this to shareholders. The Board will consider the most appropriate method of returning such surplus cash from time to time, taking into account, amongst other things, views of shareholders and the liquidity of the shares.

In line with this strategy, a special dividend of 15.0 pence per share, equating to a return of £51.1m, was paid to shareholders in November. We believe that there is significant potential for further returns of surplus cash to shareholders in line with our stated policy.

**Darren Bryant**  
Chief Financial Officer  
4 April 2016

# Principal Risks and Uncertainties

Good risk management is an integral and fundamental part of planning and achieving the Group's strategic objectives. The Board and the senior management team are collectively responsible for managing risks and uncertainties across the Group. In determining the Group's risk appetite and how risks are managed, the Board, Audit and Risk Committee and the senior management team look to ensure an appropriate balance is achieved which enables the Group to achieve its strategic and operational objectives and facilitates the long-term success of the Group.

The Group's Audit and Risk Committee is responsible for reviewing the Group's risk management framework and ensuring that it enables the Committee and the Board to carry out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

The Board reviews the Group's most significant risks at least twice a year, in addition to periodically challenging the Executive Directors in relation to any specific concerns and as to what they consider to be the risks which would 'keep them awake at night'. Further details of our risk management framework are set out in the Corporate Governance Report on page 41.

The principal risks and uncertainties facing the Group are set out below, together with details of how these are currently mitigated:

Risk Type	Description	Mitigation
Market	The Group generates almost all of its revenue from the sale of greeting cards, dressings and gifts, which may be subject to changing customer tastes and trends. Additionally, there is a risk that the Group may not be able to effectively predict and respond to changing consumer demands and market trends.	<ul style="list-style-type: none"> <li>Regular consumer surveys and market research.</li> <li>Continuous investment in our in-house design and buying teams.</li> <li>Designs continuously refreshed through key trading seasons.</li> <li>Detailed sales analysis guides design and purchasing decisions.</li> <li>Vertically integrated model helps the Group position itself to respond to changes in its markets.</li> </ul>
Competition	Our sector is highly competitive, with competition on product choice and quality, store location and design, inventory, price and customer service. We compete with a wide range of retailers (including new entrants) and some of our competitors, particularly supermarkets, general merchandise discounters and stationery retailers, may have greater market presence, name recognition, financial resources and purchasing economies of scale, any of which could give them a competitive advantage.	<ul style="list-style-type: none"> <li>In-house design and print operations help maintain and improve the quality and value of our offering.</li> <li>Strong focus on innovation and product development helps refresh and strengthen our proposition each year.</li> <li>All key elements of competitor activity, including new store openings and market entrants, closely monitored with selective localised pricing strategies used to protect the Group's competitive position.</li> <li>Continuous review of individual store performance and customer trends.</li> <li>Regular consumer surveys and market research.</li> <li>Sustained investment in the assets, systems and people supporting our vertically integrated model which underpins our competitive position.</li> </ul>
Our Brands	The 'Card Factory' and 'Getting Personal' brands are important assets. If we are unable to protect our brands, our reputation is damaged or we fail to sustain our appeal to our customers, our sales and future prospects could be affected.	<ul style="list-style-type: none"> <li>Regular reviews of customer trends and competitor activity.</li> <li>Consumer surveys address brand perception.</li> <li>Development of our dedicated quality control function that works with our design, purchasing and print teams and third-party suppliers to ensure product quality and safety.</li> <li>Rigorous protection of our intellectual property.</li> </ul>
Business Strategy	Our strategy has been developed with the aim of achieving long-term value for our shareholders. The Board recognises that if the strategy and vision for the business are not properly developed, communicated or delivered there could be an adverse impact on the Group.	<ul style="list-style-type: none"> <li>Implementation of and performance against strategy are regularly reviewed at Board and senior management team level.</li> <li>Business objectives set in the context of our four pillar strategy in communications with key personnel.</li> <li>Competitor analysis, consumer research and sales data used to bring focus to the development of our retail proposition.</li> </ul>

# Principal Risks and Uncertainties continued

Risk Type	Description	Mitigation
Store Portfolio Expansion	Sales and profits growth depend on our ability to find good locations for new stores. Competition for store sites and acquiring them on acceptable terms are key to us achieving our strategy. Supporting this growing portfolio through our operational infrastructure, financial systems and managerial controls and procedures is critical to the Group's success.	<ul style="list-style-type: none"> <li>Established database of new store opportunities updated regularly.</li> <li>Formalised appraisal process for new location opportunities.</li> <li>Commercial analysis conducted on new stores to assess potential sales and profitability taking into account the number of other Card Factory and competitor stores in close proximity.</li> <li>Commercial developments monitored in the real estate market and our strategy is adjusted where a change may adversely affect a store's potential profitability.</li> <li>Group's operational capabilities support the current portfolio expansion strategy in the UK.</li> </ul>
Sourcing/ Supply Chain	Third-parties, including many in the Far East, supply nearly all of our non-card products, our handcrafted greeting cards and certain raw materials. If they fail to satisfy orders it may affect the business or result in us having to seek alternative suppliers, who may not be able to fulfil our needs. We are also exposed to changes in supplier dynamics and increases in raw material prices. Our supplier profile means we are subject to the risks of manufacturing and importing of goods from overseas including freight costs and duty as well as supply interruption and reputational risk arising from supplier labour practices.	<ul style="list-style-type: none"> <li>Strong relationships with key suppliers.</li> <li>Continuously developing and broadening supplier base providing greater flexibility and reducing reliance on particular suppliers.</li> <li>Periodic inspections and third-party facilitated technical audits of factories operated by major suppliers with clear actions where weaknesses are identified.</li> <li>Sedex membership ('the Supplier Ethics Data Exchange') combined with a programme of standalone ethical audits of key suppliers initiated during the year.</li> <li>Dedicated product quality control function.</li> <li>During 2015, both Sportswift Limited (which trades as 'Card Factory') and Printcraft Limited, obtained Forest Stewardship Council ('FSC') certification.</li> </ul>
Key Personnel	The Group's strategy and long-term success depend on our ability to: manage the succession of our CEO and support the CEO Designate, sustain and develop our senior management team and employees; to build our teams where this supports our growth; and to plan for, support and manage senior management succession.	<ul style="list-style-type: none"> <li>Remuneration policy (set out in the Directors' Remuneration Report on pages 51 to 59) designed to incentivise senior management and promote the long-term success of the Group.</li> <li>Delivery of the Group's strategic objectives and business performance are central to the policy with remuneration structured to align the interests of the senior management team and shareholders.</li> <li>CEO succession plan implemented with senior management succession plans to be developed.</li> <li>Comprehensive tailored induction and handover programme in place for CEO Designate with support from the CEO, CFO and the rest of the Board and senior management team.</li> </ul>
Finance and Treasury	Our funding arrangements and the fact that we source the majority of our non-card merchandise, as well as handmade cards and certain raw materials, from suppliers in the Far East mean that a lack of appropriate levels of covenant headroom and/or cash resources in the Group, or significant variations in interest or exchange rates, could have an impact on our operations and performance. The CFO's Review on page 18 sets out in further detail the risk to the Group of recent exchange rate fluctuations.	<ul style="list-style-type: none"> <li>Current financing arrangements and Group cash generation continue to provide the Group with appropriate financial support and cash resources for the delivery of its strategy.</li> <li>Treasury management processes and policy in place to govern cash management and manage exposure to foreign exchange and interest rate fluctuations.</li> <li>Foreign exchange and interest rate hedging contracts pre-approved directly by the CFO and communicated to the Board monthly.</li> <li>Further details of the Group's financial position are described in the CFO's Review on pages 19 and 20 and the Group's viability statement is on page 71 of the Directors' Report.</li> </ul>



Risk Type	Description	Mitigation
Business Continuity	<p>Any major disruption to any of the parts of our vertically integrated business model, in particular to our printing facility, Printcraft, and our design studio, could severely affect our ability to supply our stores.</p> <p>Disruption to any of these functions could also force us to use third-party providers which could be expensive and on onerous terms.</p>	<ul style="list-style-type: none"> <li>• Business Continuity Plan ('BCP') continues to be developed.</li> <li>• BCP development to be supplemented by periodic review and scenario testing which will allow the plan to evolve ensuring it meets the continuing needs of the business.</li> <li>• Stock held across multiple locations to mitigate the risk of a catastrophic event at any one of our storage facilities.</li> <li>• The Group also maintains appropriate business interruption insurance cover.</li> </ul>
Compliance	<p>The Group is subject to legislation and regulations in areas including corporate governance, the listing and trading of our shares, employment (including that relating to the introduction of the new National Living Wage), product quality, trading, the environment, health and safety, bribery and data protection.</p> <p>Any failure to comply with these could lead to penalties, fines, damages, claims or reputational damage which could impact the financial performance of the business.</p>	<ul style="list-style-type: none"> <li>• Policies and procedures are in place governing behaviours in all key areas, some which address mandatory requirements and others adopted voluntarily.</li> <li>• Senior management team members manage compliance of the Group's key operational teams with escalation and disciplinary action where needed.</li> <li>• Group's General Counsel and Company Secretary oversees and co-ordinates compliance in the Group with the support of external advisers. Senior management team members liaise with him to ensure issues are identified and managed.</li> <li>• Impact of new legislation on the Group is monitored with changes implemented where required, eg Consumer Rights 2015.</li> <li>• Further details of the estimated impact of the new National Living Wage on the Group and the proposed mitigation of this are set out in the CFO's Review on page 17.</li> </ul>
Information Technology	<p>Reliable and efficient IT systems, including those supporting our retail operations (both physical and online), our head office function and our in-house design and printing operations, are important to the Group. Failure to adequately develop and maintain these or any prolonged system performance problems could seriously affect our ability to implement the Group's strategy and to carry on the business.</p>	<ul style="list-style-type: none"> <li>• Continuing investment in people and systems.</li> <li>• Deloitte LLP have been appointed to provide internal audit services with their main focus during the first two years of their appointment being on the Group's use of technology and the structure and capability of its IT team.</li> <li>• Deloitte's consultancy division supporting the Group with the implementation of specific technology projects.</li> <li>• IT strategy and governance form part of the Audit and Risk Committee's remit for review.</li> <li>• Principal IT risks are documented and agreed service levels for recovery of key business systems are in place.</li> </ul>
Online	<p>The Group's online presence, via our Getting Personal and Card Factory transactional websites, remains relatively new to the business. Our websites operate in a very competitive market with relatively low barriers to entry. If they do not evolve to account for changing customer tastes and the different devices being used by customers to make online purchases, they may not deliver the anticipated revenue growth. This may also affect our reputation and customer perception of our brands.</p>	<ul style="list-style-type: none"> <li>• Continued investment in offering via in-house web development team.</li> <li>• Card Factory transactional website (<a href="http://www.cardfactory.co.uk">www.cardfactory.co.uk</a>) was relaunched in April 2015 on a new platform.</li> <li>• A Marketing Director has joined the Group and will focus on the development and promotion of our online proposition.</li> </ul>

# Corporate Social Responsibility Report

## OUR AIMS

At Card Factory we are committed to delivering excellent value and quality products to our customers – the lifeblood of our business. We understand the importance of showing our customers that we take our corporate and social responsibility ('CSR') seriously.

Our aim is to embed CSR within our culture, to use it to guide management and employee behaviour and to have clear responsibility and accountability for our CSR strategy.

We do not have a separate CSR function as it is intrinsically important in every role. The Board has overall responsibility for our CSR policies and how we manage and monitor performance.

Our CSR activity focuses on the following key topics:

- Customers
- Manufacturing and Sourcing
- Environment
- Health and Safety
- Employees
- Community

## CUSTOMERS

Our business is built on providing great products, service and value to our customers.

Key achievements during the year were:

- Card Factory's transactional website ([www.cardfactory.co.uk](http://www.cardfactory.co.uk)) was relaunched with a more responsive platform and now offers a wide selection of products including personalised cards and gifts, giving customers more choice and an enhanced browsing experience across all devices;
- a continued redesign of existing card ranges and launch of new ranges, both everyday and seasonal, supported by further investment in our design team. This ensures our customers continue to have a great choice of products;
- introduction of new non-card product ranges across our store network, increasing customer choice and refreshing and diversifying our range;
- continued investment in new fixtures and fittings across our store network enabling us to better showcase some of our new and existing products to customers;
- roll out of our investment in LED lighting across the store network, enhancing customer experience in store;
- implementation of responses to the 'Tell Card Factory' surveys we encourage our customers to complete;

- development of people and systems in our customer services team. All members of the customer services team are working to achieve NVQs in customer service and new software is being used for tracking all customer queries, making sure we address them and learn from customer feedback; and
- finishing first for both 'value for money' and 'low prices' in the OC&C Retail Proposition Index 2015.

Development of our customer proposition continues to underpin our position as the UK's leading specialist greeting card retailer – a position we intend to keep.

## MANUFACTURING AND SOURCING

We are proud that the majority of cards sold in our stores are designed and manufactured by us in Yorkshire in the UK. The balance of cards and other products are sourced from a broad and growing supplier base throughout the UK, Europe and the Far East, principally China.

Our supplier factory auditing programme gives us reasonable assurance that we are trading with suppliers that operate in a manner that conforms to applicable laws and that systems and controls are in place to mitigate risk. These audits are undertaken using third-party specialists with a consistent audit programme in place to allow us to ensure suppliers are correctly assessed.

All suppliers outside the EU where purchases exceed £50,000 per annum have combined technical and ethical audits in place, commissioned by the Group and undertaken by recognised third parties. Retained suppliers have either an assessed rating in excess of 85%, or where below this a detailed corrective action plan is in place for non-material issues to allow trade to continue. When issues are either material or not resolved within 3 months we cease trading with a supplier.

As part of the Group's commitment to developing its supplier audit programme, more detailed dedicated ethical audits of suppliers have begun taking place and are being prioritised by the value of annual purchases by the Group.

We have been a member of Sedex, a large and recognised membership organisation which shares ethical trade data with members, since 2013 and we actively encourage our current or prospective suppliers to join this organisation, if not already members.

The audits we commission and the information provided through our Sedex membership helps us to monitor human rights issues through our supply chain and is further supported with periodic factory visits by our sourcing team. Our dedicated ethical audit programme will further supplement this work.

We work with our suppliers to ensure that our products are produced to all applicable standards, appropriate product safety testing takes place, and associated labelling is undertaken. We ask all our suppliers to sign our supplier compliance manual before trading commences, and we have continued to strengthen our quality assurance and inspection operations, utilising third-party partners in the Far East to complement our own team.

In our UK manufacturing operations, appropriate due diligence is undertaken to ensure, so far as practicable, that we comply with the EU Timber Regulations ('EUTR'). We have also continued to develop the level of controls over paper-based materials within our products, sourced from the Far East, to replicate the level of due diligence we undertake within our own manufacturing facilities with those of third-party suppliers.

During 2015, both our main trading subsidiary, Sportswift Limited (which trades as 'Card Factory'), and our UK manufacturing operation, Printcraft Limited, obtained FSC certification. This will assist in providing a more robust and simplified supply chain over which to comply, so far as practicable, with the EUTR and demonstrating the transparency we have over our sourcing of paper-based materials from sustainable sources.

We are committed to working with our key third-party suppliers to ensure that products on sale in our stores are manufactured using FSC certified material. Our long-term goal is that, so far as possible, all paper-based products sold in our stores are produced using FSC certified material by 2020, actively developing and promoting a policy to maximise the use of wood fibres from forestry operations certified by the FSC within our supply chain.

In our day-to-day operations we also seek to ensure that all paper and paper board materials classified as waste are separated and recycled.

## ENVIRONMENT

We recognise our operations impact the environment and the policies we adopt are important to our business and its stakeholders. Our objective is to reduce our impact on the environment, from material sourcing to customer use and disposal, across the following key topics:

### Waste recycling

We recognise the impact waste generated from our activities has on the communities we operate in. We proactively look to reduce the level of waste generated and maximise the proportion of waste that is recycled.

We continue to educate our staff to maximise the level of waste that can be recycled and minimise the number of collections required to reduce the associated carbon footprint of waste collection and movement and to minimise store waste sent to landfill.

Our distribution centres in Wakefield operate a recycling programme to ensure all plastic and cardboard materials are bailed on site and removed for recycling.

### Packaging

We use a third-party consultancy to ensure we meet the requirements of the UK Packaging Waste Regulations and purchase the appropriate level of packaging recovery notes ('PRNs').

The majority of our products offered for sale are designed in-house which affords us the opportunity to reduce packaging waste for both products and transit packaging. We continually seek to improve this, and this also helps us to reduce container and road transport costs.

### Energy

We analyse electricity usage across our store portfolio to better understand how we can reduce the consumption of electricity, supplemented by an energy audit carried out under ESOS (see below). We continue to focus on:

#### Installation of smart meters

This year we have continued to install smart meters into our existing and new stores to allow us to measure electricity usage on a half-hourly basis. This enables us to reduce electricity usage by:

- tackling behaviour in stores, for example, monitoring unnecessary use of air conditioning and heating or when lights are left on in stores after they have closed;
- identifying areas which use electricity within stores and producing plans to target areas of excess usage. For example, there may be legacy equipment we inherit when we open a store that is not fit for our purposes or which is located in parts of a store that no longer need it; and
- performing electrical audits to assess heavy consumption stores and consider where savings can be made, with close attention to lighting and heating installations in the back-of-house areas.

#### Installation of LED lighting

During the year, we have retro-fitted energy-efficient LED lighting in 70 of our pre-existing stores and installed LED lighting in all of the 64 stores we have fitted out (FY15: 70 stores in total). In the 70 existing stores, for which we have comparative data, we have reduced electricity usage by an average of 43%.

# Corporate Social Responsibility Report continued

In addition to the cost efficiency of LED lighting, the customer experience in store is enhanced given the nature of the lighting and the reduction in heat emitted.

## Fuel efficiency

We invest to improve fuel efficiency and reduce the number of miles travelled as part of our commitment to reducing energy consumption.

We operate a fleet of company cars and vans in which we aim to include, as far as practicable, more fuel-efficient vehicles and for which we monitor fuel consumption.

With our third-party distribution partners, we have actively taken steps to reduce miles travelled for store deliveries from our national distribution centre in Wakefield. By working in partnership with our carriers and making changes to our business processes, we are now sorting a large proportion of our deliveries destined for the northern parts of the United Kingdom and Scotland so that they are processed through northern distribution hubs.

## ESOS

The Energy Savings Opportunity Scheme or ESOS is new EU legislation that has introduced a mandatory programme of energy audits for some businesses. With the support of external consultants, we carried out the initial audit within the required time frame. The audit and accompanying reports assessed the energy performance of our operations and made recommendations for cost efficient energy efficiency savings. The recommendations will supplement the measures we already take to assess and reduce energy consumption.

## Greenhouse Gas ('GHG') emissions

### Greenhouse Gas Statement for the Group

GHG emissions for the Group for the year ended 31 January 2016, in tonnes of carbon dioxide equivalent ('tCO<sub>2</sub>e'), were:

Source	tCO <sub>2</sub> e	%
Fuel combustion (stationary)	95	0.4%
Fuel combustion (mobile)	1,230	5.3%
Fugitive emissions (F-gas)	157	0.7%
Purchased electricity	21,515	93.6%
<b>TOTAL</b>	<b>22,997</b>	

### Annual comparison and emissions intensity

tCO <sub>2</sub> e	2014-15	2015-16	change
Total emissions	23,970	22,997	-4%
Emissions intensity*	67.8	60.3	-11%

\*expressed in tCO<sub>2</sub>e per £m turnover

## Methodology and emission factors

These emissions were calculated using the methodology set out in the updated greenhouse

gas reporting guidance, Environmental Reporting Guidelines (ref. PB 13944), issued by the Department for Environment Food and Rural Affairs in June 2013. Further details of the methodology applied in calculating these emissions can be found on Card Factory's investor website ([www.cardfactoryinvestors.com](http://www.cardfactoryinvestors.com)).

## HEALTH AND SAFETY

The health and safety of all our employees, customers, contractors, visitors and members of the public is of paramount importance to the Group.

All employees are responsible for ensuring that stores and other working environments are safe and operated without significant risk. Health and safety is incorporated into our day-to-day practices and we support this through training programmes.

Whilst the Board has ultimate responsibility for health and safety, it is managed on a day-to-day basis by our Compliance and Safety team, who liaise with line managers in all parts of the business to ensure compliance with our policies and that all staff receive appropriate training, tailored to support their specific roles.

The Compliance and Safety team also analyses trends and takes a pro-active approach to managing health and safety practices.

Compliance and Safety meetings are held regularly throughout the year and are attended by members of the senior management team, as well as by representatives from key operational teams. The overriding objective of the decisions taken at these meetings is to make our stores and workplaces safe places for customers, employees and visitors alike.

Additional training has been a focus during the year, aimed at reinforcing basic health and safety practices which, in turn, has improved our visibility of near misses and enabled us to take further mitigation measures.

This year the Group has invested further in:

- transport management - training has been delivered to drivers to improve driver safety and legal compliance, and members of the Compliance and Safety team have received formal transport management qualifications from the Road Haulage Association, acquiring the Certificate of Professional Competence for Transport Managers (Road Haulage); and
- mechanical aids - software has been installed to support the operation of forklift trucks in our distribution centre and provide management information to enable better planning of safety improvements.

The Board receives regular reports and updates on health and safety matters throughout the Group including details of any incidents and remedial actions.

## EMPLOYEES

Card Factory's employees are critical to its success. We employ more than 7,000 (FY15: 6,500) permanent staff. During the important Christmas trading period this number increased to more than 13,000 (FY15: 12,000) when taking into account temporary seasonal workers.

The commitment of our employees is fundamental to our growth and enables us to consistently deliver great value and service to our customers. We want our employees to feel valued and to see themselves as part of the Card Factory family. Highly engaged and well trained employees contribute significantly more to the Group. In supporting this the Group has, during the last year:

- introduced an all employee 'save as you earn' ('SAYE') share scheme enabling eligible employees to save to buy shares in the Company at a discounted rate;
- launched a pilot of a new learning management system ('SPARK') that can deliver e-learning modules directly to all our stores and across the Group, supporting employee development and allowing us to track completion rates for specific modules;
- invested in additional training for head office and distribution centre employees; and
- hosted Summer and Christmas social events for its employees.

We fully support the development and progression of our employees throughout the business. There are many examples of employees who, initially joining us as retail assistants in stores, have now progressed to store manager or roles at head office which benefit from their shop floor and customer facing know-how.

We are an equal opportunities employer; our policy is to recruit, develop, promote, support and retain skilled and motivated people regardless of disability, race, religion or belief, sex, sexual orientation, gender identification, marital status or age.

At the end of the financial period the percentage breakdown of male and female employees across the Group was as follows:

	% Male		% Female	
	FY16	FY15	FY16	FY15
Board	<b>83</b>	83	<b>17</b>	17
Senior management team	<b>89</b>	89	<b>11</b>	11
All employees	<b>20</b>	18	<b>80</b>	82

We regularly communicate with our employees in a variety of ways including:

- weekly retail news bulletins, providing operational instructions to all of our stores on matters including products, layouts and displays; online message

boards communicating key operational messages to all stores via our intranet;

- regional and area managers' regular planning and review meetings for all of the key trading periods with subsequent cascading of key messages to store employees;
- store manager visits to head office to discuss and review Card Factory's retail proposition;
- Card FACTually, a periodic newsletter which contains a message from the CEO and takes a more light-hearted look at the business. It includes details of the community and charity events we are involved in and aims to celebrate and share achievements and successes by employees;
- Board and senior management team members regularly visit stores to assess the retail proposition and get feedback from employees and customers, particularly during key trading periods; and
- visits to our Mock Shop, a representative Card Factory store at our head office which reflects the layout of a typical Card Factory store as it progresses through each trading season. This provides a visual representation of what we aim to achieve in our stores and also gives employees the opportunity to provide feedback on our retail proposition.

## COMMUNITY

We recognise the importance of being responsible members of the communities in which we work. We look to support charitable causes that can benefit from our growth.

Card Factory is proud to have been supporting Macmillan Cancer Support since 2006. Employees and customers at Card Factory take part in multiple fundraising events, ranging from loose change donations to the annual National Bear Raffle in our stores, as well as the sale of Macmillan Christmas cards. For a number of years, a group of employees from across our business have also competed in the Great North Run attracting sponsorship from colleagues, friends and relatives.

To date we have raised nearly £4 million and we intend to continue this successful partnership with Macmillan, whose valuable work helps to ensure that no one faces cancer alone.

In addition to the money we raise for Macmillan, we are currently considering which charitable causes will benefit from the profits we generate from the sale of plastic carrier bags in England, following the introduction of the 5p carrier bag charge in October 2015. We will provide an update on this in next year's Annual Report.



**WE ARE  
MACMILLAN.  
CANCER SUPPORT**

**Card Factory**



# Card Factory is proud to have been supporting Macmillan Cancer Support since 2006

TOTAL RAISED TO DATE:

# £3,985,683

## An incredible partnership!

“Macmillan Cancer Support thanks the staff and customers of Card Factory for their incredible fundraising activities which continue to help us ensure that no one faces cancer alone.”

Sharon Cottam - Partnership Manager, Macmillan Cancer Support

# Directors and Officers

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## Geoff Cooper

Non-Executive Chairman

Geoff joined the Board and became Chairman of the Group in April 2014. Geoff has over 20 years' experience of serving on boards of UK public companies, in particular as Chief Executive of Travis Perkins plc from March 2005 until December 2013 and as a Director and Non-Executive Chairman of Dunelm Group plc between 2004 and 2015. Geoff is also a Director and Non-Executive Chairman of Bourne Leisure and an adviser to Charterhouse Capital Partners LLP. He is a chartered management accountant and had a career in management consultancy before joining Gateway (subsequently Somerfield plc) as Finance Director in 1990. In 1994, he became Finance Director of UniChem plc, subsequently Alliance UniChem plc (which later became part of Alliance Boots plc), where he was appointed Deputy Chief Executive in 2001.

**Other current commitments:** Non-Executive Chairman of Bourne Leisure Holdings Ltd. Adviser to Charterhouse Capital Partners LLP.

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## Richard Hayes

Chief Executive Officer

Richard was appointed Managing Director in 2008 (subsequently renamed Chief Executive Officer in 2010), prior to which he held the positions of Finance Director and Commercial Director of the Group. He was appointed to the Board of Card Factory plc on 30 April 2014. During his time at the Company, Richard has been actively involved in, and since 2008 has overseen, the Group growing from a 40-store discount chain to a vertically integrated value retailer with over 800 stores and two transactional websites. Richard led the 2010 MBO and oversaw the continued growth under Charterhouse's ownership leading ultimately to the Group's successful IPO in 2014. Before he joined the Group in 2003, Richard spent 19 years at RBS working mainly in the Corporate Division. As previously announced, Richard will step down from his position in mid-April 2016 and retire from the Group at the end of June 2016.

**Other current commitments:** None.

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## Karen Hubbard

Chief Executive Officer Designate

Karen was appointed to the Board of Card Factory plc with effect from 22 February 2016 and will formally succeed Richard Hayes as Chief Executive Officer of the Group in mid-April. Before joining the Group, Karen served as Chief Operating Officer of B&M European Value Retail S.A., the fast growing multi-price value retailer, where she was responsible for retail operations, distribution and logistics, supply chain, IT, HR, marketing and store development. From 2009 to 2014, she held a number of senior roles at ASDA, latterly Executive Director Property, Format Development and Multi-Channel. Karen previously spent 14 years in BP's retail operations, initially in Australia before moving to the UK in 2004 where she became UK Convenience Retail Director, responsible for BP's own retail estate across all formats including Connect/Simply Food, Motorway, Express and the franchise channel.

**Other current commitments:** None.

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## Darren Bryant

Chief Financial Officer

Darren was appointed Group Finance Director in June 2009 (subsequently renamed Chief Financial Officer in 2010) having previously been a Partner at PwC LLP. He was appointed to the Board of Card Factory plc on 30 April 2014. Darren spent over 17 years at PwC, principally in the London Corporate Finance division, where he advised on a wide range of private company, private equity and public company transactions. He also spent two years on secondment at The Panel on Takeovers & Mergers in the late 1990s where he regulated a large number of public company transactions. Darren is a Fellow of the Institute of Chartered Accountants in England and Wales and holds a First Class MEng degree in Electrical & Electronic Engineering with Business Studies from Imperial College London.

**Other current commitments:** None.



## Octavia Morley

Senior Independent Non-Executive Director

Octavia joined the Board as Senior Independent Non-Executive Director in April 2014. Octavia has nine years' experience of serving on boards of UK public companies. She served on the board of John Menzies plc as a Non-Executive Director between 2006 and 2015. Octavia was previously the Chief Executive of Oka Direct Limited and the Managing Director of Crew Clothing Co. Limited. She also served as Chief Executive Officer, and latterly as Chairman of LighterLife UK Limited until December 2009, has held positions as Commercial Director of Woolworths plc between 2003 and 2005 and as Managing Director of e-commerce at Asda Stores Limited and Buying and Merchandising Director at Laura Ashley plc.

**Other current commitments:** Non-Executive Director of Ascensos Limited.



## David Stead

Independent Non-Executive Director

David Stead joined the Board as an Independent Non-Executive Director in April 2014. He has over 15 years' experience as a Director of companies in the UK retail sector. David was most recently Chief Financial Officer of Dunelm Group plc from September 2003 until his retirement from that role at the end of 2015. Prior to that, David served as Finance Director for Boots The Chemists and Boots Healthcare International between 1991 and 2003. David is a chartered accountant, having spent the early part of his career with KPMG.

**Other current commitments:** Honorary Member of Council, University of Birmingham.

## Directors and Officers continued



### Paul McCrudden

Independent Non-Executive Director

Paul joined the Board as an Independent Non-Executive Director in December 2014. Paul is currently EMEA Head of Content Marketing at Twitter and prior to that was Head of Social Media at advertising agency AMV BBDO. In his earlier career Paul was Account Director at Imagination (a creative brand agency) and a Consultant in New Technologies at Accenture. Paul also served as Chairman of the board of trustees at Hoipolloi, a film and theatre production company funded by the Arts Council England.

**Other current commitments:** EMEA Head of Content Marketing at Twitter.



### Shiv Sibal

Company Secretary and General Counsel

Shiv joined the Company as General Counsel and Company Secretary in May 2014. Shiv is an experienced corporate finance lawyer with more than 14 years' experience in the legal sector. Prior to joining the Company, Shiv was a corporate partner with Bond Dickinson focused on supporting public companies with IPOs, equity fundraisings, mergers and acquisitions, governance and their continuing regulatory obligations. Prior to joining, Shiv also spent more than eight years working for Pinsent Masons having trained at Nabarro.

**Other current commitments:** None.

Graeme Coulthard was a Non-Executive Director of Card Factory plc during the financial period up until 3 February 2015.

### Board committees

Audit and Risk Committee*	Remuneration Committee	Nomination Committee
David Stead (Chairman)	Octavia Morley (Chairman)	Geoff Cooper (Chairman)
Octavia Morley	Geoff Cooper	Octavia Morley
Paul McCrudden	David Stead	David Stead
	Paul McCrudden	Paul McCrudden

\* Geoff Cooper was a member of the Audit & Risk Committee during the year until 24 February 2015.

# Chairman's Letter – Corporate Governance



**Geoff Cooper**  
Chairman

Dear Shareholder

The Board recognises, understands and is committed to high standards of governance and ensuring that it provides effective leadership and sets the tone for the Group. We see good governance as an integral part of the way the business is run and how we make decisions that ensure the long-term progression and success of the Group.

Our activities during the year have been focused on enabling the Group, through its senior management team, to continue to deliver on each element of its four pillars growth strategy which has driven its success in the period up to and since its IPO. We've ensured that achieving these ambitions is managed within a framework of controls and processes where appropriate levels of risks can be taken to help the business succeed and where the views of all relevant stakeholders are taken into account. As part of this, the Board recognises the importance of striking the right balance between hearing the collective view of the Executive Directors and allowing independent input from the rest of the Board.

Although the recent changes to the UK Corporate Governance Code have given the Board more to consider during the year, we are confident that the way in which the Group integrates governance into its day-to-day management of the business, provides a solid foundation for it to evolve its processes and controls to address these changes.

Through the Nomination Committee (whose report is set out on page 68) the Board has committed a considerable amount of time during the year to ensuring appropriate succession planning is either in place or in development for the Executive Directors and this has proved invaluable given the recently announced appointment, following a comprehensive search and selection process, of Karen Hubbard to succeed Richard Hayes as the Group's Chief Executive Officer.

The membership and roles of each of the Board Committees are detailed in separate sections of this report together with the individual reports on their activities during the year.

At our Annual General Meeting ('AGM') this year, all of our Directors will be seeking reappointment. As previously announced, Richard Hayes will be stepping down from his role as the Group's Chief Executive Officer in mid-April 2016 and, following a handover period, will retire from the Group at the end of June 2016. I would like to take this opportunity to thank Richard for being such an effective leader of the Group during his time here and wish him well for the future.

I look forward to welcoming shareholders at the Company's AGM in May.

Yours sincerely

**Geoff Cooper**  
Chairman

4 April 2016

# Corporate Governance Report

## LEADERSHIP AND APPROACH

The Board is committed to the highest standards of corporate governance. The Board understands the importance of its leadership on governance in setting the culture and values that are instilled within the business and which will allow it to achieve its long-term strategic goals whilst successfully managing and lowering risks for our shareholders.

We believe that good governance is demonstrated by applying corporate governance principles and guidelines in a way that reflects the nature of our business. By doing this we believe we strengthen our ability to develop a governance culture in the business that sits alongside the entrepreneurial spirit that has enabled it to develop into the business it is today.

## KEY GOVERNANCE ACTIVITIES

Key activities during the year were:

- through the Nomination Committee, planning the succession of our current Chief Executive Officer, Richard Hayes, and appointing Karen Hubbard to succeed him;
- carrying out a detailed review of the Group's strategy and putting in place clear actions for development over the coming year;
- reviewing the performance and objectives of the business in each of the four pillars of its growth strategy;
- a detailed review of the Group's capital structure and dividend policy as reported on in more detail in the Chief Financial Officer's Review in the Strategy Report on page 20;
- completing an internal performance evaluation of the Board, its individual members and the Board Committees and agreeing objectives and areas for future development;
- an interim review of the matters being considered by the Board during the year as well as planning the Board's agenda for the year ahead;
- a full review of the matters currently reserved for the Board ensuring they reflect the nature of the business and how it is managed on a day-to-day basis;
- inviting external speakers from a range of backgrounds to Board meetings to share their business insights, experience and also their views on the prevailing macroeconomic environment and its impact on retailers;
- as previously noted, Graeme Coulthard resigned as a Non-Executive Director following the significant reduction in the shareholding of the Charterhouse Funds (which subsequently sold all of their remaining shares in the Company); and
- following the appointment of Paul McCrudden, Geoff Cooper stood down as a member of the Audit and Risk Committee.

Since the year end Karen Hubbard has joined the Board and will formally become the Group's Chief Executive Officer in mid-April 2016.

## CODE COMPLIANCE

Save as set out in the paragraphs below, the Board has complied with and intends to continue to comply with the requirements of the UK Corporate Governance Code published in September 2014 by the Financial Reporting Council ('the UK Corporate Governance Code' or 'the Code') a copy of which can be obtained from [www.frc.org.uk](http://www.frc.org.uk). The Company will report to its shareholders on its compliance with the UK Corporate Governance Code in accordance with the Listing Rules ('LRs').

## ROLE OF THE BOARD

The strategy for the growth of the business is determined by the Board in a manner that both facilitates the development and growth of the Group over the long-term in the interests of its shareholders, and recognises the importance of our duties to colleagues, customers, the community in which we operate and the interests of our other stakeholders all of which have been central to the development of the business and its culture to date.

In addition to setting strategy, the Board takes overall responsibility for measuring the Group's progress towards this and ensures that the exercise of its control and decision-making powers are aligned with its strategic direction.

## BOARD COMPOSITION, BALANCE AND INDEPENDENCE

The Board currently comprises seven members.

The Code recommends that at least half the board of directors of a UK listed company, excluding the Chairman, should comprise Non-Executive Directors determined by the Board to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, the director's judgement.

Following the appointment of Karen Hubbard to the Board as Chief Executive Officer Designate on 22 February 2016, the Company does not technically comply with this recommendation as, at the date of this report, the Board consists of the Non-Executive Chairman, three Independent Non-Executive Directors and three Executive Directors. This non-compliance is only temporary and to allow for an orderly handover to Karen following her appointment. As previously noted, Richard Hayes will retire from the Board and the Group at the end of June 2016 following which the constitution of the Board will again comply with the Code.

As previously announced, Graeme Coulthard, who was considered by the Board to be non-independent under the Code, resigned from the Board on 3 February 2015. Graeme was appointed under the terms of the Relationship Agreement between the Company and the Charterhouse Funds ('Charterhouse') which terminated following a sale by Charterhouse of some of its shares in the Company. Further details of the Relationship Agreement are set out in the Directors' Report on page 70).

The Board considers all of the current Non-Executive Directors as independent Non-Executive Directors (within the meaning of the Code) and free from any business or other relationships that are likely to interfere with the exercise of their independent judgement.

Although the Board remains small relative to some other similar premium listed companies, the preference is for it to remain this way to ensure it continues to be an effective and efficient decision-making body that supports the Group's growth. This will be kept under review to ensure the Board has an appropriate balance of skills and experience to support its exercise of its duties.

#### Chairman – Geoff Cooper

The Code recommends that, on appointment, the chairman of a company with a premium listing on the Official List should meet the independence criteria set out in the Code.

On appointment, the Board considered Geoff Cooper to be independent but his appointment is subject to the terms of a letter of appointment dated 30 April 2014 under which, as part of his remuneration, Geoff was given the option to invest £330,000 in the Company by means of an acquisition of ordinary shares as part of, or alongside, the offer of shares conducted in conjunction with the Company's IPO at the offer price of 225p per share ('the Offer Price'). Geoff took up this offer at the time of the IPO and agreed to acquire 146,666 ordinary shares and this has entitled him, on each of the second and third anniversaries of the date of the completion of the IPO, to make further investments of £330,000 in the Company by purchasing a further 146,666 ordinary shares at the Offer Price. Geoff's entitlement to make such purchases is conditional upon and subject to his remaining as Chairman of the Company on the relevant dates.

As Charterhouse (through the Charterhouse Funds) have now sold all of their shares in the Company, Geoff Cooper's potential conflict of interest (that was authorised by the Board) by virtue of his role as an adviser to them has ceased.

Notwithstanding Geoff Cooper's share options and his prior role as an adviser to Charterhouse, the Board considered Geoff to be independent on appointment.

#### Senior Independent Director – Octavia Morley

The Code recommends that the board of directors of a company with a premium listing should appoint one of the Non-Executive Directors as a Senior Independent Director to provide a sounding board for the Chairman and to serve as an intermediary for the other Directors when necessary. The Senior Independent Director should be available to shareholders if they have concerns, when contact through the normal channels of the Chief Executive Officer has failed to resolve, or for which such contact is inappropriate. Octavia Morley has been appointed as the Senior Independent Director of the Company and has considerable experience of acting as an Independent Non-Executive Director having been an Independent Non-Executive Director of John Menzies plc between 2006 and 2015.

#### BOARD RESPONSIBILITY

The Company has a clear division of responsibilities between the Non-Executive Chairman and the Chief Executive Officer. In general terms, the Non-Executive Chairman is responsible for running the Board and the Chief Executive is responsible for running the Group's business on a day-to-day basis.

This clear division of responsibilities, when taken together with the schedule of matters which the Board has reserved for its own consideration, ensures that no one person has unlimited and unchecked power to make decisions that may have a material impact on the Group as a whole. During the year, the Board carried out a review of the matters reserved for the Board ensuring they best reflect the nature of the business and how it is managed on a day-to-day basis. A copy of these is available on Card Factory's investor website ([www.cardfactoryinvestors.com](http://www.cardfactoryinvestors.com)) and, on request, from the Company Secretary.

# Corporate Governance Report continued

## BOARD ATTENDANCE

During the year, the Board held ten scheduled meetings and various Board Committee meetings were also held with attendance as follows:

Director	Role	Board Meetings (10 meetings)	Remuneration Committee (2 meetings)	Audit and Risk Committee (4 meetings)	Nomination Committee (2 meetings)
Geoff Cooper	Non-Executive Chairman and Chair of Nomination Committee	10	2	-	2
Octavia Morley	Senior Independent Director and Chair of Remuneration Committee	10	2	4	2
David Stead	Independent Non-Executive Director and Chair of Audit and Risk Committee	10	2	4	2
Paul McCrudden	Independent Non-Executive Director	10	2	4	2
Graeme Coulthard*	Non-Executive Director	-	-	-	-
Richard Hayes	Chief Executive Officer	10	-	-	-
Darren Bryant	Chief Financial Officer	10	-	-	-

\* Graeme Coulthard resigned on 3 February 2015 and did not attend any Board meetings during the year.

## BOARD ACTIVITIES AND EFFECTIVENESS

Board meetings are structured to ensure they focus on key strategic and operational matters that are affecting the business and examples of those matters considered by the Board during the year are set out below. Additionally, the Board considers any decisions that are within the matters reserved for the Board.

The Board had in place a schedule of matters that were discussed during the year and a similar schedule is in place detailing matters for discussion at Board meetings in the current financial year.

As part of its normal planning, the Board puts these schedules in place in advance of each financial year and they include regular reports from the Chief Executive Officer and the Chief Financial Officer on the operational and financial performance of the Group together with regular feedback from the Non-Executive Chairman and the Non-Executive Directors on their engagement with the business. They also include a rolling agenda of other key strategic, operational, governance and risk topics, as well as presentations from senior management team members which ensure that the Group's Non-Executive Directors remain informed of key developments within the Group. This is regularly updated to ensure the Board is responsive to the strategic and operational issues affecting the business.

The key topics discussed by the Board during the year were:

Strategy	Performance	Governance
Review of Group's EPOS system	Annual results	Group business continuity plan
Group IT structure and resource	Sales analysis including key seasons	Governance and legal updates
Product and strategic initiatives	Competitor activity review	Principal risks review
Foreign exchange strategy	Review of store rollout programme	Review of reserved matters
Group's capital structure	Group IT projects update	Investor relations updates
Online marketing strategy	Card Factory website review	Board and Committee planner
Business efficiencies		Human Resources
Republic of Ireland		Health and safety
SAYE 2016 grant		Board evaluation
National living wage		

All Directors receive papers in advance of Board meetings including regular reports from the senior management team covering the parts of the business they are responsible for and which monitor achievement against the Group's key performance indicators, both financial and strategic.

To aid efficient decision-making, a standard summary report has been developed for material matters requiring Board approval that includes management's clear recommendation on the matters being addressed.

The Board measures the time spent on strategy, governance and performance at each meeting. Over the year, the majority of our time was spent on strategy, followed by performance and governance, which the Board considers to be appropriate.

Minutes of all Board and Committee meetings are taken by the Company Secretary and circulated for approval. The minutes record actions, decisions and deadlines arising out of the topics discussed and a rolling list of key actions accompanies the minutes for each Board meeting. This enables the Board to monitor the progress with each action by those responsible on a regular basis.

#### External speakers

During the year, the Board also invited several external speakers to attend our Board meetings as lunch guests. These sessions, whilst relatively informal, allowed the Board to benefit from the business insights and experience of our guests as well as their views on the prevailing macroeconomic environment and its impact on retailers. The Board intends to continue with this programme of speakers during the coming year.

#### Board strategy day

In addition to its scheduled Board meetings, the Board held a separate strategy discussion in July 2015 at which it considered each element of the Group's four growth pillars and agreed a schedule of actions that should be addressed with clear accountability and timetables in place for each. Where relevant, those actions have been incorporated within the Board's rolling agenda for Board meetings during the current year to ensure the Board has the opportunity to review and provide comment on the senior management team's progress and to ensure appropriate steps are being taken to mitigate against the risk of not continuously developing our strategy.

#### INVESTOR RELATIONS

The Board recognises the importance of explaining financial results and key strategic and operational developments in the business to the Company's shareholders and understanding any shareholder concerns. The Board regularly communicates and meets with shareholders and analysts and the Board will continue to adopt this approach.

The Chief Executive Officer and Chief Financial Officer have overall responsibility for investor relations. They are currently supported by the Company's retained financial PR advisers, MHP Communications, and its corporate brokers, UBS, who help organise presentations and visits to the Group's operations and stores for analysts and shareholders. Although the Group has chosen not to appoint a dedicated investor relations person, this is something the Board will keep under review.

The formal reporting of the Group's full and half-yearly results has been and will continue to be a combination of presentations, group calls and meetings and one-to-one meetings in a variety of locations where we have shareholders. The Chief Executive Officer and Chief Financial Officer have and will continue to report back to the Board after any investor related events and also ensure that the Board is kept regularly informed of feedback from analysts and shareholders. The Group's brokers also provide feedback after the full and half-year results announcements and, as appropriate, other investor related events to inform the Board about investor views.

All the Non-Executive Directors and, in particular, the Chairman and Senior Independent Director are available to meet with major shareholders, if they wish to raise issues separately from the arrangements described above.

The Company will also communicate with shareholders through the AGM, at which the Chairman will give an account of the progress of the business over the last year and a review of current issues, and will provide the opportunity for shareholders to ask questions. All Directors will be available at the AGM.

Card Factory's investor website is also updated with news and information including this Annual Report and Accounts which sets out our strategy and performance together with our plans for future growth ([www.cardfactoryinvestors.com](http://www.cardfactoryinvestors.com)).

#### SIGNIFICANT SHAREHOLDERS

Details of the Group's significant shareholders and of shareholder voting rights are set out in the Directors' Report on page 70.

# Corporate Governance Report continued

## NON-EXECUTIVE DIRECTOR MEETINGS

The Chairman and the other Non-Executive Directors met three times in the year without Executive Directors being present and they intend to continue to meet regularly to ensure that any concerns can be raised and discussed outside formal Board meetings. On two of these occasions, the Senior Independent Director and the other Non-Executive Directors continued the meeting without the Chairman to review his performance.

The Chairman and the other Non-Executive Directors regularly have informal meetings with the Executive Directors and other members of the senior management team in the business, often at a store location or at the Group's head office.

## BOARD COMMITTEES

The Board has three committees: an Audit and Risk Committee, a Nomination Committee and a Remuneration Committee. If the need should arise, the Board may set up additional committees.

### Audit and Risk Committee

The Audit and Risk Committee assists the Board in discharging its responsibilities with regard to:

- financial reporting;
- external and internal audits and controls, including reviewing and monitoring the integrity of the Group's annual and interim financial statements;
- reviewing and monitoring the extent of the non-audit work undertaken by external auditors;
- advising on the appointment of external auditors;
- overseeing the Group's relationship with its external auditors;
- reviewing the effectiveness of the external audit process;
- reviewing the effectiveness of the Group's internal control review function and risk management systems; and
- whistleblowing and fraud detection.

The ultimate responsibility for reviewing and approving the Annual Report and Accounts and the half-yearly reports remains with the Board. The Audit and Risk Committee will give due consideration to laws and regulations, the provisions of the Code and the requirements of the Listing Rules.

The Code recommends that an Audit Committee should comprise of at least three members who are Independent Non-Executive Directors, and that at least one member should have recent and relevant financial experience. The Audit and Risk Committee is currently chaired by David Stead, and its other members are Octavia Morley and Paul McCrudden. The Directors consider that David Stead has recent and relevant financial experience.

The Audit and Risk Committee met four times during the year and, in future, will meet no fewer than three times a year.

The Audit and Risk Committee has taken appropriate steps to ensure that the Company's Auditor is independent of the Company and obtained written confirmation from the Company's Auditor that it complies with guidelines on independence issued by the relevant accountancy and auditing bodies.

The Audit and Risk Committee has access to sufficient resources to carry out its duties, including the services of the Group General Counsel and Company Secretary and the Group's loss prevention team. In addition, Deloitte LLP, have been appointed to provide additional internal audit services to the Group. Independent external legal and professional advice can also be taken by the Audit and Risk Committee if it believes it necessary to do so.

The Audit and Risk Committee chair will be available at Annual General Meetings of the Company to respond to questions from shareholders on the activities of the Audit and Risk Committee during the year; a report on which is set out on page 45 of the Governance section of this report.

The Audit and Risk Committee's terms of reference, which are available on request from the Company Secretary and are published on Card Factory's investor website ([www.cardfactoryinvestors.com](http://www.cardfactoryinvestors.com)), comply with the Code.

### Remuneration Committee

The Remuneration Committee assists the Board in determining its responsibilities in relation to remuneration, including:

- making recommendations to the Board on the Company's policy on executive remuneration;
- setting the over-arching principles, parameters and governance framework of the Group's remuneration policy; and
- determining the individual remuneration and benefits package of each of the Company's Executive Directors, its Company Secretary and other members of the Group's senior management team.



The Remuneration Committee also ensures compliance with the Code in relation to remuneration and is responsible for preparing an annual remuneration report for approval by the Company's members at its AGM.

Non-Executive Directors' and the Chairman's fees are determined by the full Board.

The Code provides that a Remuneration Committee should comprise of at least three members who are Independent Non-Executive Directors, free from any relationship or circumstance which may, could or would be likely to, or appear to, affect their judgement and that a Chairman of the Board of Directors may also be a member provided he is considered independent on appointment. The Remuneration Committee is chaired by Octavia Morley, and its other members are Geoff Cooper, David Stead and Paul McCrudden.

The Remuneration Committee met twice during the year and, in future, will meet not less than twice a year.

The Board and the Remuneration Committee have employed Kepler (a brand of Mercer), a consulting agency which specialises in executive remuneration, to advise and assist in connection with the Group's executive remuneration arrangements and its reporting obligations. Kepler do not provide any other services to the Group.

A report on the Remuneration Committee's activities during the year is set out on page 48 of the Governance section of this report.

The Remuneration Committee's terms of reference, which are available on request from the Company Secretary and are published on Card Factory's investor website ([www.cardfactoryinvestors.com](http://www.cardfactoryinvestors.com)), comply with the Code.

#### **Nomination Committee**

The Nomination Committee assists the Board in discharging its responsibilities relating to the composition and make-up of the Board and any committees of the Board. It is also responsible for periodically reviewing the Board's structure and identifying potential candidates to be appointed as Directors or committee members as the need may arise. The Nomination Committee is responsible for evaluating the balance of skills, knowledge and experience and the size, structure and composition of the Board and committees of the Board, retirements and appointments of additional and replacement directors and committee members and will make appropriate recommendations to the Board on such matters.

The Code recommends that a majority of the members of a Nomination Committee should be Independent Non-Executive Directors. The Nomination Committee is chaired by Geoff Cooper, and its other members are Octavia Morley, David Stead and Paul McCrudden. The Directors therefore believe that the Company is in compliance with the Code. The Nomination Committee met twice during the year and, in future, will meet not less than once a year. A report on the activities of the Nomination Committee during the year is set out on page 68 of the Governance section of this report.

The Nomination Committee's terms of reference, which are available on request from the Company Secretary and are published on Card Factory's investor website ([www.cardfactoryinvestors.com](http://www.cardfactoryinvestors.com)), comply with the Code.

#### **TRAINING AND INDUCTION**

It is important to the Board that all Directors have the ability to influence and challenge appropriately so that the Board and the Group, as a whole, can maximise the benefit they derive from their business knowledge and experience.

New Directors receive a full, formal and tailored induction on joining the Board, including meeting other members of the Board, the senior management team, other key members of staff and the Group's advisers. The induction includes visits to the Group's stores, head office, its design studio, Printcraft (the Group's print facility) and the headquarters of its online subsidiary, Getting Personal ([www.gettingpersonal.co.uk](http://www.gettingpersonal.co.uk)).

Since joining in February 2016, Karen Hubbard has been through an extensive tailored induction plan and has taken the opportunity to work in store during a key trading period.

Throughout the year, all of the Non-Executive Directors have continued to visit stores both informally and together with members of the senior management team and feedback is given at the following Board meeting.

New Directors are also given the opportunity to review information about the Group including Board and Committee papers and strategy documentation which they may find useful in preparing for their role.

The Group's Company Secretary and General Counsel periodically reports to the Board on any new legal, regulatory and governance developments that affect the Group and, where necessary, actions are agreed.

Please see the Directors' biographies on pages 30 to 32 for details of the skills and experience of each Director.

# Corporate Governance Report continued

## BOARD EVALUATION

As intended, the Board conducted its first full internal evaluation during the year which was led by the Chairman and facilitated by the Company Secretary. Each Board member and the Company Secretary was asked to complete a detailed questionnaire that required them to give their assessment of the effectiveness of the Chairman, individual Directors, the standing committees of the Board, the Company Secretary and the Board as a whole. The key objectives the Board set itself for the coming year are summarised below:

Subject	Objective
Succession planning	Having successfully managed the succession of our Chief Executive Officer, to develop a wider succession plan for the senior management team.
Board planning	Develop the Board's agenda to focus, more directly, on the Group's four strategic growth pillars and to allow more creative thinking time.
Values and culture	Define, articulate and embed the values and culture of the business.
Board information	To set specific goals for delivery of Board information in terms of presentation, quantity and timing.

Board evaluation will continue to be conducted on an annual basis and the Board will, every third year, as required by the Code, engage with an external agency to assist in the process.

## CONFLICTS OF INTEREST

The Companies Act 2006 allows the Board of a public company to authorise conflicts and potential conflicts of interest of individual Directors where the Articles of Association of the company contain an enabling provision. The Company's Articles of Association give the Board this authority subject to the following safeguards:

- Directors who have an interest in matters under discussion at a Board meeting must declare that interest and abstain from voting; and
- only Directors who have no interest in the matter being considered are able to approve a conflict of interest and, in taking that decision, the Directors must act in a way they consider, in good faith, would be most likely to promote the success of the Company.

The Directors are able to impose limits or conditions when giving authorisation if they feel this is appropriate. All Directors are required to disclose any actual or potential conflicts to the Board and there are no current matters disclosed that are considered by the Board to give rise to a conflict of interest.

All conflicts are considered by the Board and any authorisations given are recorded in the Board minutes and reviewed annually by the Board. The Board considers that its procedures to approve conflicts of interest and potential conflicts of interest are operating effectively.

## APPOINTMENT AND REMOVAL OF DIRECTORS

All Directors have service agreements or letters of appointment in place and the details of their terms are set out in the Directors' Remuneration Report on pages 56 to 58. The service agreements and letters of appointment are available for inspection at the Company's registered office during normal business hours.

The Articles of Association of the Company provide that a Director may be appointed by ordinary resolution of the Company's shareholders in general meeting, or by the Board so long as the Director stands down and offers him or herself for election at the next AGM of the Company. The Articles also provide that each Director must stand down and offer him or herself for re-election by shareholders at the AGM at least every 3 years. The Code recommends that directors of companies in the FTSE 350 index should be subject to annual re-election. The Company intends to comply with this recommendation.

Directors may be removed by a special resolution of shareholders, or by an ordinary resolution of which special notice has been given in accordance with the Companies Act 2006. The Articles of Association of the Company also provide that the office of a Director shall be vacated if he is prohibited by law from being a Director, or is bankrupt; and that the Board may resolve that his or her office be vacated if he or she is of unsound mind or is absent from Board meetings without consent for six months or more. A Director may also resign from the Board. The Nomination Committee makes recommendations to the Board on the appointment and removal of Directors.

In accordance with the Code, all Directors will retire from the Board and offer themselves for re-election at the AGM.

## POWERS OF DIRECTORS

The business of the Company is managed by the Board, which may exercise all of the powers of the Company, subject to the requirements of the Companies Act 2006, the Articles of Association of the Company and any special resolution of the Company. As stated above, the Board has adopted internal delegations of authority in accordance with the Code and these set out matters which are reserved to the Board or committees and the powers and duties of the Chairman and the Chief Executive Officer respectively.

At the Annual General Meetings of the Company, the Board will seek authority to issue shares and to buy back and reissue shares. Any shares bought back would either be held in treasury, cancelled or sold in accordance with the provisions of the Companies Act 2006. For further details see the Notice of Annual General Meeting which accompanies this report.

### ADVICE, INDEMNITIES AND INSURANCE

All Directors have access to the advice and services of the Company Secretary. In addition, Directors may seek legal advice at the Group's cost if they consider it necessary in connection with their duties.

The Directors of the Company, and the Company's subsidiaries, have the benefit of a third-party indemnity provision, as defined by section 236 of the Companies Act 2006, in the Company's Articles of Association. In addition, Directors and Officers of the Company and its subsidiaries are covered by Directors' and Officers' liability insurance as well as prospectus liability insurance which provides cover for liabilities incurred by Directors in the performance of their duties or powers in connection with the issue of the Prospectus in relation to the IPO. Until his resignation on 3 February 2015, Graeme Coulthard (Non-Executive Director) had the benefit of these policies. No amount was paid under any of these indemnities or insurances during the year other than the applicable insurance premiums.

### ARTICLES OF ASSOCIATION

The Company's Articles of Association can only be amended by a special resolution of its shareholders in a general meeting, in accordance with the Companies Act 2006.

### GOVERNANCE AND RISK

The Board, as a whole, takes overall responsibility for ensuring that the Company has a continuous process in place to identify, evaluate and manage any significant risks that may affect the achievement of the Group's strategic and operational objectives. Given the nature of our business and our operating model, we do not have a separate risk committee. Our Audit and Risk Committee oversees our risk management framework as part of its activities and ensures that it enables the Committee and the Board to carry out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

The key elements of the process which have been established by the Group to identify, evaluate and manage any significant risks are as follows:

- the Board and the senior management team take a leadership role in managing risk within the business and look to embed the principles of sound risk management in the teams they are responsible for managing;
- responsibility for monitoring and managing specific risks, which are assessed in terms of impact and likelihood, identified in the Group's risk register on a day-to-day basis is given to the relevant members of the Group's senior management team who are then responsible for ensuring we take appropriate actions to mitigate against these risks and for providing updates to the Group's Executive Directors and the rest of the senior management team;
- in the event there is a change in their assessment of the impact the risk may have on the Group or they identify a new risk which the Group may face, the Group's risk register is updated accordingly;
- the Audit and Risk Committee regularly reviews the Group's risk register and gives detailed consideration to those risks which have been identified as principal risks affecting the Group and the actions being taken and processes in place to mitigate them as well as providing regular and rigorous challenge to the Executive Directors;
- the Board carries out a review of the principal risks affecting the Group twice a year as well as assessing whether the Group is striking an appropriate balance between its appetite for risk and the achievement of its strategic goals; and
- certain principal risks, for example, competitor activity and business strategy are, as part of the day-to-day management of the business, the subject of separate and regular detailed discussions at Board meetings and meetings of the senior management team.

The Board collectively recognise that the continuous robust assessment and control of risk are fundamental to the Group achieving its strategic and operational objectives and the Audit and Risk Committee seeks to ensure that the risk management framework evolves with the business and the trading environment in which the Group operates.

The risk management framework is designed to manage, rather than eliminate, the risk of failing to achieve strategic objectives and can provide only reasonable, and not absolute, assurance against material misstatement or loss.

# Corporate Governance Report continued

The Board and the Audit and Risk Committee have reviewed the effectiveness of the Group's risk management framework and the Company's risk register and their alignment with the Company's strategic objectives in accordance with the Code for the period ended 31 January 2016 and up to the date of approving the Annual Report and Accounts. The Board considered the principal risks and relevant mitigating actions and determined that they were acceptable for a retail business of the size and complexity as that operated by the Group.

## INTERNAL CONTROL AND AUDIT

Overall responsibility for the system of internal control and reviewing its effectiveness lies with the Board. In its day-to-day operations, the Group continuously assesses the performance of its internal controls and, where necessary, looks to enhance its control environments. As previously noted, the Group has also appointed Deloitte LLP to provide internal audit services to the Group and further detail of the scope of their work, the internal audit plan that has been put in place and how this will support our assessment of our controls and processes is set out in the report of the Audit and Risk Committee on page 46.

The Group's system of internal control can be summarised as follows:

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### Board

Take collective responsibility for internal controls  
Reserves certain matters for the Board  
Oversees the control framework and responsibility for it  
Approves key policies and procedures  
Monitors development of performance

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### Audit and Risk Committee

Oversees effectiveness of internal control framework  
Receives reports from external auditor  
Approves internal audit programme  
Receives reports generated through the internal audit programme

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### Senior management team

Responsible for operating within the control framework  
Reviews and monitors compliance with policies and procedures  
Recommends changes to controls where needed  
Monitors performance

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### Loss prevention team

Focus on cash losses and fraud in stores

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### Risk assessors/operational audit team

Reviews compliance with certain internal procedures in stores and at other locations

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### Co-sourced internal audit function

Deloitte LLP

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Specific elements of the current internal control framework include:

- a list of matters specifically reserved for Board approval;
- clear structures and accountabilities for colleagues, well understood policies and procedures, and budgeting and review processes all of which the Executive Directors are closely involved with;
- every member of the senior management team having clear responsibilities and operating within defined policies and procedures covering such areas as capital expenditure, treasury operations, financial targets, human resources management, customer service and health and safety;
- the Executive Directors and the senior management team monitoring compliance with these policies and procedures and, in addition, regularly reviewing performance against budget, analysis of variances, major business issues, key performance indicators and the accuracy of business forecasting; and
- a continuous review programme of store compliance by the loss prevention team (as regards financial procedures in stores), by risk assessors working in the health and safety team and by other teams within the Group.

During the year, certain other internal audit activities were carried out by internal teams, reporting to the Board and the Audit and Risk Committee. Topics covered included business continuity planning and the Group's IT governance, controls and team structure and some of these activities will also be the subject of review by Deloitte LLP in accordance with their internal audit plan.

The Audit and Risk Committee has responsibility for overseeing the Group's system of internal controls and of the internal audit programme and receives the report of the external auditor following the annual statutory audit.

The Board and the Audit Committee have monitored and reviewed the effectiveness of the Group's internal control systems in accordance with the Code for the period ended 31 January 2016 and up to the date of approving the Annual Report and Accounts and confirmed that they are satisfactory.

Please note that internal control systems such as this are designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute, assurance against material accounting misstatement or loss. Where any significant failures or weaknesses are identified from the systems of internal control, action is taken to remedy these.

### DISCLOSURES UNDER DTR 7.2.6R

The disclosures the Company is required to make pursuant to DTR 7.2.6R are contained in the Directors' Report on pages 69 to 71.

### SHARE DEALING CODE

The Company has a code of securities dealings in place in relation to the ordinary shares which is based on, and is at least as rigorous as, the Model Code as published in the Listing Rules. The code adopted applies to the Directors, members of the senior management team and to other relevant employees of the Company. We're considering the implications of the new EU Market Abuse Regulation (coming into force later this year) on our share dealing code and will report next year on any changes we have made to address these.

### ANTI-BRIBERY

The Company has implemented internal procedures and measures (including the provision of an Anti-Corruption and Bribery Policy) designed to ensure compliance by it and other members of the Group with the UK Bribery Act 2010 (as amended).

### WHISTLEBLOWING

The Group is committed to conducting its business with honesty and integrity, with high standards of corporate governance and in compliance with legislation and appropriate codes of practice. We expect all staff to maintain such high standards but recognise that all organisations face the risk of things going wrong from time to time, or of unknowingly harbouring illegal or unethical conduct.

We recognise that a culture of openness and accountability is essential in order to prevent such situations occurring, or to address them when they do occur. We maintain a whistleblowing policy that is designed to encourage colleagues to report such situations without fear of repercussions or recriminations provided that they are acting in good faith. By having early knowledge of any wrongdoing or illegal or unethical behaviour, we improve our ability to intervene and stop it. The policy sets out how any concerns can be raised and the response that can be expected from the Company and provides staff with the assurance that they can do this in complete confidence. We reinforced this message through a poster campaign during the year and the Audit and Risk Committee is notified of any whistleblowing reports.

This report was reviewed and approved by the Board on 4 April 2016.

**Geoff Cooper**

Chairman

4 April 2016

# Chairman's Letter – Audit and Risk Committee

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**David Stead**  
Chairman of the Audit and Risk Committee

Dear Shareholder

The Audit and Risk Committee plays an important role in ensuring that the interests of shareholders are properly protected by monitoring the activities and conduct of management and auditors.

Following the Group's IPO and the Committee's establishment in 2014, a clear agenda was put in place for the Committee to ensure that appropriate assurance could be given to shareholders as to the continuing effectiveness of the Group's internal controls, its financial and business reporting, and its framework for identifying and managing risk.

I am pleased to report that the Committee has made progress in a number of areas during the course of the year. In particular we have:

- continued to monitor the control structure of the Group that supports the Board's ability to make judgements about the Group's financial position and prospects;
- appointed Deloitte LLP to provide internal audit services to the Group, reviewed and agreed their detailed internal audit plan and received reports from their initial work;
- further developed our approach to risk management, ensuring that effective and robust risk management is an integral part of the Group's business planning and decision making processes with the principal risks being regularly reviewed by the senior management team and the Committee; and
- carried out a review of the Group's business resilience arrangements identifying areas for development and practical solutions that will support the continuing evolution of processes in this area.

More details are provided in the formal report of the Committee that follows, but the Directors recognise the importance of continuing to develop the work of the Committee to ensure that it remains aligned with the strategic goals of the Group whilst also continuing to satisfy the requirements of the Code.

I look forward to meeting shareholders at the AGM in May.

Yours sincerely

**David Stead**  
Chairman of the Audit and Risk Committee  
4 April 2016

# Audit and Risk Committee Report

This report provides details of the role of the Audit and Risk Committee and the work it has undertaken during the year.

## ROLE OF THE AUDIT AND RISK COMMITTEE

The principal responsibilities of the Committee, which has received delegated authority from the Board, are to:

- oversee the integrity of the Group's financial statements and public announcements relating to financial performance;
- oversee the Group's external audit process including its scope and the extent of the non-audit services provided by our auditor;
- monitor the effectiveness of financial controls;
- evaluate the process for identifying and managing risk throughout the Group; and
- ensure that the Annual Report and Accounts are fair, balanced and understandable.

A more detailed explanation of the Audit and Risk Committee's role is set out in the Corporate Governance Report on page 38. The Committee's terms of reference, which are published on Card Factory's investor website ([www.cardfactoryinvestors.com](http://www.cardfactoryinvestors.com)), comply with the UK Corporate Governance Code.

## MEMBERSHIP

The Audit and Risk Committee is chaired by David Stead, and its other members are Octavia Morley and Paul McCrudden. Geoff Cooper was also a member of the Committee until 24 February 2015.

As David Stead is a chartered accountant and was until recently the Chief Financial Officer of Dunelm Group plc, the Board considers that he has both recent and relevant financial experience in accordance with the requirements of the Code.

The Chief Executive Officer, the Chief Financial Officer, and the Chairman of the Board usually attend meetings of the Committee by invitation, along with a representative from our auditor, KPMG LLP and a representative from our internal audit services provider Deloitte LLP. The Company Secretary acts as secretary to the Committee.

## MEETINGS

The Committee met four times during the year with details of attendance at these meetings set out in the Corporate Governance Report on page 36.

## ROUTINE ACTIVITIES DURING THE YEAR

During the year, the work of the Committee has principally fallen under the following areas:

- a review of the integrity of the draft financial statements for the year ended January 2015, the appropriateness of accounting policies and going concern assumptions and considering the auditor's report regarding its findings on the annual results;

- a review of whether the Annual Report and Accounts for the year ended January 2015, taken as a whole, were fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's strategy, business model and performance;
- approval of the Group's half-year results published in September 2015;
- verifying the independence of the Group's auditor, approving their audit strategy and audit fee and setting performance expectations;
- a review of the systems and controls which the Group has in place to enable the Board to make proper judgements on a continuing basis as to the financial position and prospects of the Group;
- reviewing the Group's risk register in March and September with updates in the other Committee meetings on progress with actions;
- reviewing the Group's business resilience arrangements and identifying areas for development and practical solutions that will support the continuing evolution of the Group's processes in this area;
- monitoring the Group's compliance with its policy for use of our auditor for non-audit work;
- reviewing the Group's tax strategy (which covers all aspects of the Group's tax obligations and objectives and how it manages these and tax risk) and interactions with HMRC;
- monitoring the implementation of a reorganisation undertaken by the Group to simplify its corporate structure;
- reviewing and approving the internal audit plan prepared by Deloitte LLP following their appointment to provide certain internal audit services to the Group and the results of the initial projects undertaken by them; and
- reviewing fraud detection controls managed by the Group's loss prevention team (including developments in the Group's approach to managing compliance with these) and the reporting of incidents in accordance with the Group's whistleblowing policy.

## ACTIVITIES AFTER THE YEAR END

In the period following the year end, the Committee met once in March 2016 and reviewed the following:

- the Group's risk management framework, ensuring it enables the Directors to identify and carry out a robust assessment of the principal risks facing the Group including those that would threaten its business model, future performance, solvency or liquidity;
- the process undertaken by management to support the Group's viability statement (which is set out on page 71) including the choice of time period assessed and the choice of principal risks and combinations of risks modelled;

# Audit and Risk Committee Report continued

- the integrity of the draft financial statements for the year ended January 2016, including the appropriateness of accounting policies and going concern assumptions;
- the external auditor's report;
- the systems and controls which the Group has in place to enable the Board to make proper judgements on a continuing basis as to the financial position and prospects of the Group;
- whether this Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy;
- the Annual Report and Accounts for the year ended January 2016 and recommended them for approval; and
- the performance, effectiveness and qualifications of the external auditor and recommendation for their reappointment.

## SIGNIFICANT AREAS OF JUDGEMENT

Within its terms of reference, the Committee monitors the integrity of the Group's annual and half-year results, including a review of the significant financial reporting issues and judgements contained in them.

At its meeting in March 2016, the Committee: reviewed the Group's results for the financial year; considered a paper prepared by KPMG LLP, which included comments on significant reporting and accounting matters; and reviewed a paper from the Chief Financial Officer to support the Directors' going concern and viability statements.

The major accounting issues discussed by the Committee concerned:

- the existence and valuation of the Group's inventory; and
- the accounting relating to the Group's foreign exchange hedging instruments.

### Inventory

The Group holds significant volumes, and a broad range, of inventory. Certain of the Group's inventory procedures are manual in nature as are certain controls around inventory once it has left the Group's distribution centre and has been delivered to stores. In light of these manual procedures and controls, there is a heightened risk that a material misstatement could arise due to the volume or cost of inventory being incorrectly recorded.

The Group has a number of formal processes and procedures to assess the reasonableness of the inventory value presented in the Annual Report and Accounts. These include:

- full inventory counts twice yearly both in-store and in the Group's distribution centre;

- additional store counts of seasonal inventory at the end of the key trading seasons for the business;
- reviews of inventory levels by store; and
- detailed analytical review to assess the reasonableness of the inventory figure.

The Committee is satisfied that the judgements made by management are reasonable and that appropriate disclosures have been made in the Annual Report and Accounts.

### Accounting for foreign exchange hedging instruments

The business aims to hedge a significant proportion of planned foreign currency stock purchases. A number of forward hedges (including structured options) are in place and, where appropriate, hedge accounting is adopted by the Group.

Hedge accounting is by nature complex and is subject to documentary requirements and periodic effectiveness testing involving a degree of judgement. In order to ensure compliance with the requirements for hedge accounting the Group formally documents the designation of foreign currency hedges at the outset of each hedging relationship and hedge effectiveness is tested on a monthly basis. Forecast foreign currency requirements and the level of hedges in place are monitored on an ongoing basis.

The Committee is satisfied that accounting policies in respect of hedge accounting have been appropriately applied.

The Committee also confirmed to the Board that it considered the Annual Report and Accounts as a whole to be 'fair, balanced and understandable'.

## INTERNAL AUDIT

Following a competitive tender process, Deloitte LLP were appointed by the Committee in March 2015 to provide internal audit services for the Group. Their work will be focused on providing additional support to the Group in evaluating the effectiveness and robustness of its system of internal control and its approach to identifying and mitigating risks. All of the Group's other internal controls are currently managed and monitored by the Group's senior management team (including the Chief Executive Officer and the Chief Financial Officer).

At its meeting in June 2015, the Committee agreed an internal audit plan put forward by Deloitte. The plan had been prepared following interviews with members of the Group's senior management team and completion of an assurance mapping exercise including a review of the Group's risk register. The major focus of internal audit reviews for the years 2015/16 and 2016/17 is on the Group's use of technology.

## LOSS PREVENTION

The Group's loss prevention function that was established a number of years ago is primarily focused on cash fraud and loss prevention in Card Factory stores. The Committee receives regular reports from this function on investigations, outcomes and strategies that the Group adopts to address issues that arise.



## EXTERNAL AUDITOR

KPMG LLP have conducted the statutory audit for the financial year ended 31 January 2016 and they attended all four of the Committee meetings held during that year as well as the one held in March 2016. The Committee had the opportunity to meet privately with them during the period.

The fee paid to KPMG LLP for the statutory audit of the Group and Company financial statements and the audit of Group subsidiaries pursuant to legislation was £100,000. A breakdown of fees paid to KPMG LLP during the financial year is set out in note 4 to the financial statements on page 90.

Resolutions to reappoint KPMG LLP as auditor and to authorise the Directors to agree their remuneration will be put to shareholders at the AGM.

The regulatory requirements on mandatory audit tendering and rotation are continuing to evolve and the Committee will monitor developments in this area. Currently our policy is to tender the statutory audit at least every ten years. As KPMG LLP have been our auditor since 2011/12, this means that the next tender will be for the 2021/22 audit at the latest. We intend to invite at least one firm outside the 'Big Four' to participate in the tender process.

Whilst we have not now conducted a competitive tender for the audit for more than five years, the Committee and the Board continue to believe this is in the best interests of shareholders. KPMG LLP have, during their time as the Group's auditor, developed an extensive knowledge of the Group and they successfully supported the Group through its IPO in 2014. Given that the Group remains relatively new to the listed company environment, KPMG's knowledge and experience and the stability this provides is important to the Group as it continues through its initial years as a listed Group. In line with audit partner rotation requirements 2015/16 will be the last year for which the Independent Auditor's Report will be signed by the current KPMG LLP audit partner. The Chairman of the Audit and Risk Committee has met with the new audit partner.

We comply with the Competition and Markets Authority's Statutory Audit Services Order 2014.

The Group has no contractual arrangements (for example, within borrowing arrangements) that restrict its choice of auditor.

## USE OF AUDITORS FOR NON-AUDIT WORK

The Committee recognises that the use of audit firms for non-audit services can potentially give rise to conflicts of interest and is therefore a sensitive issue.

The Group has a formal policy regarding its use of audit firms for non-audit services, a copy of which is available on Card Factory's investor website ([www.cardfactoryinvestors.com](http://www.cardfactoryinvestors.com)). The Committee, in addition to being responsible for the oversight of our auditor on behalf of the Board, also has responsibility

for monitoring how this policy is implemented. Under the policy, our auditor is eligible for selection to provide non-audit services where it is in the Group's best interest for it to do this and it is best placed to deliver the required service in terms of quality and cost, taking into account their skills and experience. This is subject to the overriding principle that the auditor may not provide a service which:

- places them in a position to audit their own work;
- results in them making management decisions for the Group;
- creates a mutuality of interest; or
- puts them in the role of advocate for the Company or any member of the Group.

All work commissioned from our auditor is required to be sanctioned by the Chief Financial Officer, who consults with the Committee Chairman if the fee involved is significant or if there are any issues regarding independence, and the policy has built in levels of authority to control the awarding of non-audit work to the Company's auditor.

The Chief Financial Officer also provides the Committee with reports at each meeting on audit, audit related and non-audit expenditure, together with details of any material non-audit related assignments.

The aggregate fees paid to KPMG LLP for non-audit work during the year were £36,000 (equivalent to 36% of the audit fee). During the course of the year we have engaged KPMG LLP to provide tax advice, to perform an independent review of our half-year results, and for sundry additional assignments including advice in connection with the simplification of the Group's corporate structure. Full details are given in note 4 to the financial statements on page 90.

The Committee is satisfied that the overall levels of audit related and non-audit fees, and the nature of services provided, are not such as to compromise the objectivity and independence of our auditor.

The Committee acknowledges that the statutory regime in respect of the provision of non-audit services will change later this year and it will consider whether any changes are required to the Group's existing policy and report on these in next year's Annual Report and Accounts.

This report was reviewed and approved by the Committee on 4 April 2016.

## David Stead

Chairman of the Audit and Risk Committee  
4 April 2016

# Chairman's Letter – Remuneration Committee



**Octavia Morley**  
Chairman of the Remuneration Committee

Dear Shareholder

I am pleased to present our second Directors' Remuneration Report as a listed company, for the financial year ended 31 January 2016.

The Remuneration Committee continues to review all aspects of Executive Director remuneration at Card Factory against market practice for UK-listed companies and other retailers, and against the requirements of the UK Corporate Governance Code (or 'the Code'). The Committee has developed a remuneration policy which it believes is appropriate and balanced, supports the Company strategy to deliver shareholder value, and aligns executive and shareholder interests. Whilst the latest Code has moved away from saying that remuneration should 'attract, retain and motivate' the best executives, preferring to say that 'executive directors' remuneration should be designed to promote the long-term success of the company', this has always been the spirit of the Group's remuneration policy, and as such, no changes are being proposed to the policy this year.

I am pleased to welcome Karen Hubbard to the Board as CEO Designate, with effect from 22 February 2016. In the recruitment process, we have been mindful of our policy to ensure the total remuneration of any new Director is in the best interests of the Group and its shareholders, without overpaying. Karen's remuneration arrangements are therefore in line with the Group's approved remuneration policy, comprising a salary of £445,000 pa with annual bonus and LTIP opportunities in line with the current CEO's levels. Until Karen meets the shareholding requirement of 200% of salary, up to one third of any bonus earned will be mandatorily deferred in shares for three years. She will receive an annual pension contribution of £15,000. As part of her recruitment package, and in order that Karen was able to take up her position at a time to allow a suitable handover with the current CEO, the Committee approved a like-for-like buyout of her forfeited bonus, which was assessed to have a fair value of £130,000, with the time of payment matched to that of the forfeited award.

Richard Hayes will step down as CEO in mid-April and retire from the Board and leave the Group at the end of June, and will not receive an LTIP grant in 2016, although he will, to the extent that they vest based on performance, receive prorated LTIP awards at the normal vesting. He will be eligible to receive the bonus due for the financial year 2015/6, but will not be eligible to receive any time prorated bonus for performance for the financial year 2016/17. The Committee has exercised an available discretion for good leavers to disapply any holding period on vested LTIP awards, on the basis that his significant shareholding will continue to align his interests with that of other shareholders after he leaves the Board.

Other key remuneration decisions during the year have included:

- adjudicating salary increases for Executive Directors;
- awarding bonuses for the year ended 31 January 2016 at 79% of maximum, based on achievement of EBITDA targets and taking into account personal performance (assessed based on balanced achievement against the four pillars of the agreed growth strategy); and
- approving the terms of 2016 grant under our all-employee 'Save as you earn' ('SAYE') share scheme, the introduction of which was approved by our shareholders at last year's AGM and is intended to promote share ownership among our wider employee population.

At our next AGM, which will be held on 24 May 2016, the second section of this report, the Annual Report on Remuneration, which outlines the implementation of our remuneration policy for the forthcoming financial year, will be subject to an advisory vote. The first section, the Directors' Remuneration Policy, is unchanged (other than for minor changes to improve clarity), and will not be submitted for a vote, having been approved by shareholders at the Company's last AGM in 2015. This policy is proving an appropriate framework for motivating our Executive Directors to achieve the business objectives of the Group and driving the creation of long-term shareholder value. We will continue to review our remuneration arrangements to ensure they are in line with market best practice and we value all feedback from shareholders and hope to receive your support at the forthcoming AGM.

## Octavia Morley

Chairman of the Remuneration Committee

4 April 2016

# Directors' Remuneration Report

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## INTRODUCTION

This Directors' Remuneration Report is divided into three sections: the Letter from the Chair of the Remuneration Committee, set out on pages 48 to 49; the Directors' Remuneration Policy, set out on pages 51 to 58, and the Annual Report on Remuneration, set out on pages 59 to 66.

The Directors' Remuneration Policy sets out the policy which was approved by shareholders at the AGM on 27 May 2015, and remains unchanged, other than minor text changes to improve its clarity.

No payment may be paid to a Director or past Director unless it is consistent with the approved policy unless shareholder approval is sought. The exception to this is if the payment is made pursuant to a contractual obligation that was in force at 27 June 2012 (when the new regulations came into force).

The Annual Report on Remuneration sets out how the policy has been applied during the financial year being reported on and how it will be applied in the coming year. This report will be put to shareholders for approval at the AGM on 24 May 2016, although the vote is advisory.

This report complies with the provisions of the Companies Act 2006 and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, as well as the UK Corporate Governance Code and the Financial Conduct Authority's Listing Rules.

## DIRECTORS' REMUNERATION POLICY

This section provides Card Factory's Directors' Remuneration Policy ('the Policy') which was approved and came into effect at the 2015 AGM on 27 May 2015, and remains unchanged, other than minor text changes to improve its clarity.

Card Factory's policy for Executive Directors' remuneration is to provide a competitive package of fixed and variable pay. Fixed pay is set by reference to relevant companies to attract, motivate and retain the senior management team and to ensure a fair reward for each role. Variable pay is set to provide a competitive level of reward that aligns performance with the Group's long-term goals and shareholder interests.

### POLICY TABLE FOR EXECUTIVE DIRECTOR REMUNERATION

The key components of Executive Directors' remuneration are as follows:

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
<b>Fixed pay</b>			
<p><b>Base salary</b> To attract and retain talent by ensuring base salaries are competitive in the relevant talent market, and to reflect an executive's skills and experience</p>	<p>Base salaries are reviewed annually, with reference to scope of role, individual performance, experience, market competitiveness of total remuneration with reference to companies of a similar size and other retail companies, inflation and salary increases across the Group</p> <p>Increases will normally be effective 1 May</p>	<p>Whilst no maximum level of salary has been set by the Remuneration Committee, Executive Directors' salary increases will normally be in line with those for the wider employee population at Card Factory</p> <p>In certain circumstances (including, but not limited to, a material increase in job size or complexity, promotion, recruitment or development of the individual in the role, or a significant misalignment with market) the Committee has discretion to make appropriate adjustments to salary levels to ensure they remain fair and competitive</p>	Business and individual performance are considerations in setting base salary
<p><b>Pension</b> To provide post retirement benefits</p>	Executive Directors are entitled to receive the same auto enrolment defined contribution pension arrangements as other employees	<p>The maximum permitted by pensions auto enrolment legislation for the CEO and CFO</p> <p>New appointees may be offered pension arrangements based on market competitive contribution rates</p> <p>On appointment, the CEO Designate will receive a contribution to her personal pension of £15,000 pa</p>	None

# Directors' Remuneration Report continued

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
<p><b>Benefits</b> To provide Executive Directors with a reasonable level of benefits and to ensure overall remuneration is market competitive</p>	<p>Benefits currently include private medical insurance, life insurance, income protection, and the provision of a car or car allowance</p> <p>Where appropriate, other benefits may be offered, for example including, but not limited to, relocation allowances</p>	<p>Benefits' values vary by role and are reviewed periodically relative to market</p> <p>It is not practical to provide a maximum opportunity for benefits, as there may be factors outside of the Company's control which change the cost to the Company (eg increases in insurance premiums)</p> <p>The cost of providing benefits for the year under review are disclosed in the Annual Report on Remuneration</p>	
<p><b>Variable pay</b></p>			
<p><b>Annual bonus</b> To focus executives on delivery of year-on-year financial performance</p> <p>The ability to deliver a portion of bonuses in shares helps towards achieving an appropriate balance between year-on-year financial performance and longer-term value creation</p>	<p>Performance measures and targets are set at the start of the financial year by the Remuneration Committee</p> <p>At the end of the financial year, the Remuneration Committee determines the extent to which the targets have been achieved</p> <p>Awards are normally delivered in cash, but the Committee can decide that some or all of it will instead be paid in shares and deferred for up to three years. If participants have not met the shareholding requirement, up to one third of any bonus will be mandatorily deferred in shares for three years</p> <p>An additional benefit is provided in cash or shares equal to dividends that would have been paid over the vesting period on awards that vest</p> <p>The Committee has discretion to reduce the amount of any deferred bonus entitlement, or defer vesting of awards or make them subject to additional conditions, in the event of, for example, material misstatement, misconduct or reputational damage. In extreme cases, the Committee may further determine to claw back previous annual bonus payments for up to two years post-vesting</p>	<p>Up to 125% of salary</p>	<p>Performance is determined by the Committee on an annual basis by reference to financial measures (eg EBITDA) and personal performance</p> <p>The annual bonus for 2016/17 will be based on EBITDA performance with a personal performance underpin, as in 2015/16 (see further details in the Annual Report on Remuneration)</p> <p>For achievement of threshold performance, up to 15% of maximum bonus is earned</p> <p>In determining the bonus outcome the Committee also takes into account personal, business unit or Company performance and can reduce bonus awards accordingly</p> <p>The Committee retains discretion to introduce operational or strategic measures at the start of each year, to ensure alignment with the business priorities for the year. The weighting on financial measures will remain at least 80%</p>

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
<p><b>Long Term Incentive Plan ('LTIP')</b></p> <p>To align the interests of executives with shareholders in growing the value of the business over the long term</p>	<p>The Committee has the ability to grant annual awards of performance shares or nil-cost options</p> <p>Performance is measured over a three year period. Shares are then subject to an additional two year holding period (apart from any sold to pay tax), before being released to participants</p> <p>An additional benefit is provided in cash or shares equal to dividends that would have been paid over the vesting period on awards that vest</p> <p>The Committee have discretion to reduce unvested long-term incentive awards, defer vesting of awards or make them subject to additional conditions (including those awards in a holding period) in the event of, for example, material misstatement, misconduct or reputational damage. In extreme cases, the Committee may further determine to claw back vested LTIP awards for up to two years post-vesting</p>	<p>Up to 175% of salary face value at grant</p>	<p>Subject to continued employment, awards will vest on achievement of financial performance measures (eg EPS growth, return measures), measured over a three-year performance period</p> <p>Up to 25% of awards will vest for achievement of threshold performance, then increase on a straight-line basis to full vesting for achieving stretch performance</p> <p>Measures used for LTIP awards in 2016/17 will be based on three year EPS growth with a returns underpin, as in 2015/16 (see further details in the Annual Report on Remuneration)</p>
<p><b>SAYE</b></p> <p>To encourage share ownership across the workforce</p>	<p>A UK tax-qualified scheme under which eligible employees (including Executive Directors) may save up to the maximum monthly savings limit (as determined by prevailing legislation) over a period of three or five years. They are granted an option to acquire shares at up to a 20% discount to the price on grant. The number of shares under option is that which can be acquired at that price using the proceeds of the savings</p>	<p>Savings are capped at the prevailing HMRC limit at the time eligible employees are invited to participate, or such lower limit as determined by the Remuneration Committee</p>	<p>None</p>
<p><b>Shareholding guidelines</b></p> <p>To encourage share ownership and ensure alignment of executive interests with those of shareholders</p>	<p>Requirement to build up and maintain a beneficial holding of shares in the Company defined as a % of salary</p>	<p>Details of the current guidelines and Executive Director shareholdings are included in the Annual Report on Remuneration</p>	<p>None</p>

# Directors' Remuneration Report continued

## NOTES TO THE POLICY TABLE

This Policy is unchanged in substance since approval at the last AGM on 27 May 2015. Minor text changes have been made to ensure this Policy report remains clear for the reader along with other minor changes to provide additional clarity. These include:

- updates to the Policy table above to reflect 2016/17 incentive performance measures and pension arrangements in 2016/17 for the CEO Designate;
- updated service contract details on page 56 to reflect changes in Board membership and notice periods;
- updated scenario charts on page 55 to reflect appointment of CEO Designate and latest salaries; and
- updated statement on differences in remuneration policy operated for other employees on page 54.

Equity plans shall be operated in accordance with the relevant rules as amended from time to time in accordance with those rules, and within the limits of the Policy.

### Performance measure selection and approach to target setting

The measures used in the annual bonus are selected annually to reflect the Company's main strategic objectives for the year. Performance targets are set to be stretching but achievable, taking into account the Company's strategic priorities and the economic environment in which the Company operates. Financial targets are set taking into account a range of reference points including the Group's strategic and operating plan. The Committee considers carefully the appropriate financial conditions to attach to the annual bonus and the financial targets to attach to long-term incentive awards to ensure they continue to be: (i) relevant to our strategic objectives; (ii) mindful of risk management; and (iii) fair by being suitably stretching whilst realistic. The Remuneration Committee's rationale for the use of specific performance measures is included in the Annual Report on Remuneration.

### Discretion

The Remuneration Committee reviews formulaic incentive outcomes and may adjust these within the limits of the relevant plan to ensure alignment of pay with the underlying performance of the business. The Remuneration Committee also has the discretion to make adjustments to the calculation of short- and long-term performance measures in specific circumstances and within the limits of applicable plan rules. Such circumstances include: changes in accounting standards, major corporate events such as rights issues, share buybacks, special dividends, corporate restructurings, mergers, acquisitions and disposals.

### Differences in remuneration policy operated for other employees

The policy and practice with regard to the remuneration of the senior management team below the Board is consistent with that for the Executive Directors. The senior management team generally participate in the same long-term incentives as the Executive Directors with similar performance measures applied.

The Policy for our Executive Directors is considered with the remuneration philosophy and principles that underpin remuneration for the wider Group in mind. The remuneration arrangements for other employees reflect the seniority of each role. As a result, the levels and structure of remuneration for different groups of employees will differ from the Policy for executives as set out above, but with the common intention that remuneration arrangements for all groups might reasonably be considered to be fair.

All employees, including the current Executive Directors (other than the CEO Designate, who on appointment, will receive a contribution to her personal pension of £15,000 pa), are eligible to participate in the same pension scheme (as the relevant legislation provides) with the same maximum contribution, and permanent employees will be eligible to participate (subject to certain eligibility criteria) in the UK tax-qualified SAYE scheme on identical terms.

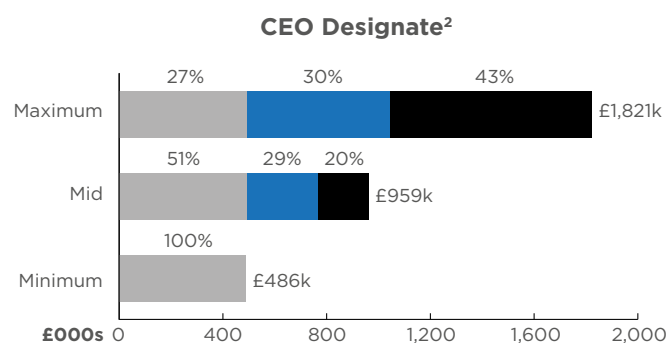
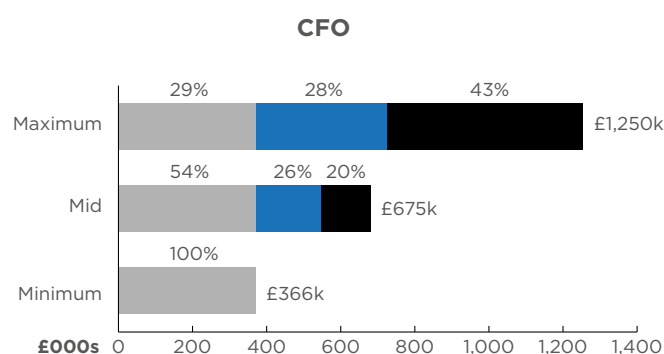
### Other

In addition to the above elements of remuneration, any commitment made prior to, but due to be fulfilled after, the approval at the 27 May 2015 AGM and implementation of the Policy detailed in this report will be honoured, including arrangements put in place prior to an individual becoming a Director. The Committee also retains discretion to make non-significant changes to the policy without reverting to shareholders (for example, for regulatory, tax, legislative or administrative purposes).



## PERFORMANCE SCENARIOS

The graphs below provide estimates of the potential future reward opportunities for Executive Directors, and the potential split between the different elements of remuneration under three different performance scenarios; 'Minimum', 'Mid' and 'Maximum'.



1) Richard Hayes will retire from the Board in mid-April, and will not receive an LTIP grant in 2016 or be eligible to receive a bonus for performance for the financial year 2016/17.

2) Karen Hubbard joined the Board as CEO Designate on 22 February 2016. The opposite chart illustrates her potential future reward opportunities assuming she was in the role for the full financial year.

■ Fixed Pay  
■ Annual Bonus  
■ LTIP

Potential reward opportunities illustrated above are in line with the existing Policy, applied to the base salaries that will be in force on 1 May 2016. The projected value of LTIP amounts assumes LTIP grants at the maximum level and excludes the impact of share price movement or dividend accrual.

In illustrating potential reward opportunities the following assumptions are made:

	Fixed pay	Annual bonus	LTIP
<b>Minimum</b>	Salary as at 1 May 2016	No annual bonus payable	Threshold not achieved (0%)
<b>Mid</b>	Pension contribution is currently 1% of qualifying band earnings for the CEO (the CFO has opted out of the pension scheme). CEO Designate will receive a contribution of £15,000 pa to her personal pension	On-target annual bonus payable (50% of maximum)	Performance warrants threshold vesting (25% of maximum)
<b>Maximum</b>		Maximum annual bonus payable	Performance warrants full vesting
	Benefits for the most recent financial year		

# Directors' Remuneration Report continued

## APPROACH TO REMUNERATION FOR NEW DIRECTOR APPOINTMENTS

In determining appropriate remuneration for a new Director, the Committee will take into consideration all relevant factors to ensure that arrangements are in the best interests of both Card Factory and its shareholders, and will be mindful not to overpay on recruitment. In the cases of hiring or appointing a new Executive Director, the Remuneration Committee may make use of all the existing components of remuneration, and remuneration arrangements will normally be in line with those outlined in the future Policy table above, as follows:

Component	Approach	Maximum opportunity
<b>Base salary</b>	The base salaries of new appointees will be determined based on the experience and skills of the individual, internal relativities, relevant market data and their current basic salary	n/a
<b>Pension</b>	New appointees may be offered pension arrangements based on market competitive contribution rates	n/a
<b>Benefits</b>	New appointees will be eligible to receive benefits in line with the Policy which may include (but are not limited to) the provision of a company car or car allowance, relocation allowances	n/a
<b>Annual bonus</b>	The structure described in the Policy table will apply to new appointees with the relevant maximum being prorated to reflect the proportion of employment over the year	125% of salary
<b>LTIP</b>	New appointees will be granted awards under the LTIP on similar terms as other executives, as described in the Policy table	175% of salary
<b>SAYE</b>	New appointees will be invited to participate in the all-employee SAYE scheme on identical terms as other eligible employees	Savings are capped at the prevailing HMRC limit at the time employees are invited to participate

The Committee may make an award in respect of a new appointment to 'buy out' incentive arrangements forfeited on leaving a previous employer. In doing so, the Committee will take account of relevant factors including any performance conditions attached to these awards, the likelihood of those conditions being met and the proportion of the vesting period remaining. The total fair value of any such 'buy out' incentive arrangements will not exceed that of awards forfeited on leaving the previous employer, and time to vesting will be matched.

In cases of appointing a new Executive Director by way of internal promotion, the approach will be consistent with the policy for external appointees detailed above (save for 'buy outs'). Where an individual has contractual commitments made prior to their promotion to the Board, the Company will continue to honour these arrangements. Measures used for below Board employees may be different from those used for Executive Directors to tailor incentives to a particular division, role or individual.

In recruiting a new Non-Executive Director, the Remuneration Committee will use the Policy as set out in the table on page 58.

## SERVICE CONTRACTS AND EXIT PAYMENT POLICY

### Executive Directors

The Committee sets notice periods for the Executive Directors of no more than 12 months. The Executive Directors may be put on garden leave during their notice period (for up to six months), and the Company can elect to terminate their employment by making a payment in lieu of notice equivalent to basic salary and benefits (including pension contributions). Executive Directors' service contracts are available to view at the Company's registered office and at the forthcoming AGM.

Executive Director	Date of service contract	Notice period
Richard Hayes	30 April 2014	12 months
Darren Bryant	30 April 2014	9 months*
Karen Hubbard	5 January 2016	9 months

\* Darren Bryant's notice period was changed in January 2016 to address the concern of certain shareholders regarding the length of notice periods for Executive Directors and also to align it with the notice period for Karen Hubbard.

If employment is terminated by the Company, the departing Executive Director may have a legal entitlement (under statute or otherwise) to additional amounts, which would need to be met. In addition, the Committee may:

- settle any claims by or on behalf of the Executive Director in return for making an appropriate payment; and
- contribute to the legal fees incurred by the Executive Director in connection with the termination of employment, where the Company wishes to enter into a settlement agreement (as provided for below) and the individual must seek independent legal advice.

In certain circumstances, the Committee may approve new contractual arrangements with departing Executive Directors including (but not limited to) settlement, confidentiality, outplacement services, restrictive covenants and/or consultancy arrangements. These will be used sparingly and only entered into where the Committee believes that it is in the best interests of the Company and its shareholders to do so.

The Company's policy on termination payments is to consider the circumstances on a case-by-case basis, taking into account the executive's contractual terms, the circumstances of termination and any duty to mitigate. The table below summarises how incentives are typically treated in different circumstances:

Plan	Scenario	Timing of vesting	Calculation of vesting/payment
<b>Annual bonus</b>	Default treatment	No bonus is paid	n/a
	Death, injury, ill-health or disability, retirement, or any other reason the Committee may determine	Normal payment date, although the Committee has discretion to accelerate	The Committee will determine the bonus outcome based on circumstances and the date of leaving. Performance against targets is typically assessed at the end of the year in the normal way and any resulting bonus will be prorated for time served during the year
	Change of control	Ordinarily accrued bonuses will rollover into the new entity, however, the Committee has discretion to allow a bonus to be paid immediately on a change of control	Where the Committee determines that a bonus is payable, performance against targets will be assessed at the point of change of control and any resulting bonus will be prorated for time served up to the point of change of control. If bonus targets are not met, no bonus will be payable
<b>Shares deferred as part of annual bonus</b>	Default treatment	Awards lapse	n/a
	Death, injury, ill-health or disability, retirement, or any other reason the Committee may determine	Normal vesting date, although the Committee has discretion to accelerate	Awards are not prorated
	Change control	Immediately	Awards are not prorated
<b>LTIP</b>	Default treatment	Awards lapse	n/a
	Death, injury or disability, redundancy, retirement, the sale of the employing company or business out of the Group or any other reason as the Committee may determine	Normal vesting date, although the Committee has discretion to accelerate	Any outstanding awards will normally be prorated for time and performance conditions will be measured over the normal performance period (unless awards are accelerated)
	Change of control	Immediately	Any outstanding awards will be prorated for time and performance up to the point of the change of control
<b>SAYE</b>	Treated in line with HMRC rules		

# Directors' Remuneration Report continued

## Non-Executive Directors

The Chairman and Non-Executive Directors were appointed on the dates set out in the table below. Their letters of appointment set out the terms of their appointment and are available for inspection at the Group's registered office and at the AGM. Appointments are initially for three years (subject to annual re-election at the AGM) and unless agreed by the Board, they may not remain in office for a period longer than six years, or two terms in office, whichever is shorter. The Chairman and the Non-Executive Directors may resign from their positions but must serve the Board six and one months' written notice respectively.

Non-Executive Director <sup>1</sup>	Letter of appointment date	Expiry of current term
Geoff Cooper	30 April 2014	30 April 2017
Octavia Morley	30 April 2014	30 April 2017
David Stead	30 April 2014	30 April 2017
Paul McCrudden	1 December 2014	1 December 2017

1. Graeme Coulthard was a Non-Executive Director of the Card Factory plc up until 3 February 2015.

Other than the one-off option grant awarded to the Chairman pre-IPO in May 2014 in connection with his appointment (as detailed on page 62 of the Annual Report on Remuneration), Non-Executive Directors are not eligible to participate in the annual bonus or any equity schemes, do not receive any additional pension or benefits on top of the fees disclosed on page 62, and are not entitled to a termination payment.

## CONSIDERATION OF EMPLOYEE REMUNERATION AND EMPLOYMENT CONDITIONS IN GROUP

The Committee considers the remuneration and employment conditions elsewhere in the Group when determining remuneration for Executive Directors. The Committee does not currently consult specifically with employees on the executive remuneration Policy, but will keep this policy under review.

## CONSIDERATION OF SHAREHOLDER VIEWS

When determining remuneration, the Committee takes into account the guidelines of shareholder bodies and shareholders' views. The Committee is open to feedback from shareholders on remuneration policy and arrangements, and commits to undergoing consultation in advance of any significant changes to remuneration policy. The Committee continues to monitor trends and developments in corporate governance and market practice to ensure the structure of the executive remuneration remains appropriate.

## EXTERNAL DIRECTORSHIPS

The Committee acknowledges that Executive Directors may be invited to become Independent Non-Executive Directors of other quoted companies which have no business relationship with the Company and that these duties can broaden their experience and knowledge to the benefit of the Company.

Executive Directors are permitted to accept such appointments with the prior approval of the Chairman. Approval will only be given where the appointment does not present a conflict of interest with the Group's activities and the wider exposure gained will be beneficial to the development of the individual. Where fees are payable in respect of such appointments, these would be retained by the Executive Director.

## POLICY TABLE FOR NON-EXECUTIVE DIRECTOR REMUNERATION

The key components of Non-Executive Directors' remuneration are as follows:

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
<b>Non-Executive Directors' fees</b> To attract Directors with the appropriate skills and experience, and to reflect the time commitment in preparing for and attending meetings, the duties and responsibilities of the role and the contribution expected from the Non-Executive Directors	Annual fee for Chairman and Non-Executive Directors  Additional fees paid for additional roles or time commitment, eg chairing Board Committees  Non-Executive Directors do not participate in any incentive schemes or receive any other benefits (other than nominal travel expenses)	Any increases to NED fees will be considered as a result of the outcome of a review process and taking into account wider market factors, eg inflation  The maximum aggregate annual fee for all directors provided in the Company's Articles of Association is £1,000,000 pa  Further details of current fees are included in the Annual Report on Remuneration	Performance of the Board as a whole will be reviewed regularly as part of a Board evaluation process

## ANNUAL REPORT ON REMUNERATION

This is the Annual Report on Remuneration for the financial year ended 31 January 2016. This report sets out how the Policy has been applied in the financial year being reported on, and how it will be applied in the coming year.

### REMUNERATION COMMITTEE MEMBERSHIP AND ADVISERS

The Remuneration Committee consists of three Independent Non-Executive Directors: Octavia Morley (Chairman), David Stead and Paul McCrudden, and the Non-Executive Chairman, Geoff Cooper. A more detailed explanation of the Remuneration Committee's role is set out in the Corporate Governance Report on pages 38 and 39 and a copy of its terms of reference, which comply with the UK Corporate Governance Code, are available on Card Factory's investor relations website ([www.cardfactoryinvestors.com](http://www.cardfactoryinvestors.com)).

The Committee fulfils its duties with a combination of both formal meetings and informal consultation with relevant parties internally. Its principal external advisers are Kepler, a brand of Mercer, who were appointed by the Committee, and who also provide remuneration advice to the Company. Kepler, and its parent company Mercer, do not provide any other services to the Company. Kepler is a signatory to the Code of Conduct for Remuneration Consultants in the UK, details of which can be found on the Remuneration Consultants Group's website at [www.remunerationconsultantsgroup.com](http://www.remunerationconsultantsgroup.com). Accordingly, the Committee is satisfied that the advice received from Kepler is objective and independent. Fees paid to Kepler for the financial year were £6,000 which were charged on the basis of time and materials.

### COMMITTEE ACTIVITIES

During 2015/16, the Committee met to consider the following remuneration matters:

- the remuneration package for the CEO Designate;
- 2015 grants of LTIP awards;
- to agree proposed salary reviews and bonuses for the Executive Directors and members of the senior management team for 2015/16; and
- to formally approve the Directors' Remuneration Report set out in this Annual Report.

### SINGLE FIGURE OF TOTAL REMUNERATION FOR EXECUTIVE DIRECTORS - AUDITED

The table below sets out a single figure for the total remuneration received by each Executive Director employed by the Company during the period for the year ended 31 January 2016 and the prior year:

	Richard Hayes		Darren Bryant	
	2015/16	2014/15	2015/16	2014/15
Salary <sup>1</sup>	<b>£456,750</b>	£414,000	<b>£345,100</b>	£323,850
Pension benefit	<b>£365</b>	£360	-	-
Taxable benefits <sup>2</sup>	<b>£35,355</b>	£33,373	<b>£8,000</b>	£8,000
Non-taxable benefits <sup>3</sup>	<b>£5,526</b>	£3,130	<b>£3,847</b>	£1,829
Annual bonus <sup>4</sup>	<b>£453,263</b>	£433,510	<b>£273,972</b>	£411,800
Share award <sup>5</sup>	<b>n/a</b>	n/a	<b>n/a</b>	£4,200,000
LTIP <sup>6</sup>	<b>n/a</b>	n/a	<b>n/a</b>	n/a
SAYE <sup>7</sup>	<b>£459</b>	n/a	<b>£1,148</b>	n/a
<b>Total</b>	<b>£951,718</b>	£884,373	<b>£632,067</b>	£4,945,479

1. In addition to the remuneration received by the Executive Directors from the Company, the table above includes the remuneration the Executive Directors received from CF Topco Limited, the Group's holding company prior to the IPO, in the period from 1 February 2014 to 16 April 2014.

2. Taxable benefits include: car or car allowance (Richard Hayes 2015/16: £25,652, 2014/15: £24,498, Darren Bryant: £8,000 allowance); fuel allowance (Richard Hayes 2015/16: £7,977, 2014/15: £7,558); and family private medical insurance.

3. Both Richard Hayes and Darren Bryant are members of the Group Life Assurance Scheme. The amounts stated relate to insurance premiums paid by the Group.

4. Annual bonus paid for performance over the relevant financial year. Annual bonus was paid in cash only. Further details on performance criteria, achievement and resulting awards for the financial year ended 31 January 2016 can be found on page 60. In the financial year ended 31 January 2015, Darren Bryant received a bonus in connection with the completion of IPO.

5. As disclosed in the prospectus published by the Company in connection with the IPO, in 2014/15 a share based payment arose during the year in favour of Darren Bryant relating to management entitlements under the investment agreement that was in place between the shareholders of the Company prior to the IPO. Immediately after completion of the IPO, 1,875,000 ordinary shares were issued and allotted to Darren Bryant for the nominal value of 1p per ordinary share. The IPO offer price was 225p per share.

6. No LTIP awards vested during the reported periods.

7. Embedded value of SAYE options at grant. There are no performance conditions.

# Directors' Remuneration Report continued

## SALARY

During the year the Remuneration Committee reviewed the salary of the Chief Financial Officer who was awarded an increase of 2%. Given that Richard Hayes will retire from the Board and leave the Group in June 2016, his salary has not been reviewed. The salaries of the Executive Directors are, with effect from 1 May 2016 (or from appointment on 22 February 2016 for Karen Hubbard), as follows:

Executive Director	1 May 2016	1 May 2015
Richard Hayes	<b>£459,000</b>	£459,000
Darren Bryant	<b>£353,736</b>	£346,800
Karen Hubbard	<b>£445,000</b>	n/a

## EXECUTIVE DIRECTORS' PENSION ARRANGEMENTS

The CEO and CFO participate in the same defined contribution pension scheme as other employees in line with auto enrolment legislation. Pension contributions for Richard Hayes in 2015/16 were 1% of qualifying band earnings. Darren Bryant opted-out of the auto enrolment pension arrangements and no pension contributions were made for him for the year under review. For 2016/17, the Executive Directors will continue to receive pension contributions in line with the Policy, albeit the CEO Designate will receive a contribution to her personal pension of £15,000 pa.

## ANNUAL BONUS

The Group operates an annual performance related bonus scheme for a number of the senior management team including Executive Directors. Bonus opportunities for 2015/16 were 125% of salary for Richard Hayes and 100% of salary for Darren Bryant. Annual bonus awards granted to Executive Directors' in respect of 2015/16 were as follows:

Executive Director	Bonus <sup>1</sup>
Richard Hayes	£453,263
Darren Bryant	£273,972

1. All bonuses will be paid in cash.

The awards in respect of 2015/16 were based on EBITDA and subject to a personal performance underpin. Personal performance is assessed based on balanced achievement against the four pillars of the agreed growth strategy (see pages 8 and 9 of the Strategic Report), to ensure the foundations for future growth are laid, as well as delivering in the current year. The EBITDA performance targets for the year were:

Performance level	2015/16 EBITDA target	Percentage of maximum bonus awarded
Threshold	<b>£92.7m</b>	15%
Maximum	<b>£95.7m</b>	100%

For levels of performance between the points set out in the tables, vesting would be determined on a straight-line, pro rata basis. No bonus is awarded for performance below the threshold. The range between threshold and maximum has been drawn relatively tightly in line with the relative consistency of business performance. In the financial year ended 31 January 2016, Card Factory achieved EBITDA of £95.0m. The Committee assessed the personal performance underpin to have been achieved based on balanced achievement against the four pillars of the agreed growth strategy, and as such, annual bonuses were awarded at 79% of maximum.

## ANNUAL BONUS FOR 2016/17

For the financial year ending 31 January 2017, the Committee will operate the annual bonus using the same measures as were used in 2015/16. The EBITDA targets have been set by the Committee and will require Executive Directors to deliver significant stretch performance. Given the close link between these targets and Card Factory's competitive strategy, EBITDA targets are considered commercially sensitive but will be published in the following year's Annual Report on Remuneration, subject to them no longer being considered commercially sensitive.

Karen Hubbard will be eligible to participate in the annual bonus for 2016/17, with any bonus awarded at the end of the year prorated to reflect the portion of the financial year served. Richard Hayes will not be eligible to participate in this annual bonus.

The use of an EBITDA performance measure, in the opinion of the Committee, focuses management on strong annual financial performance and is heavily dependent on the Company's success in achieving its short and long-term strategic goals. The overall assessment of personal performance, assessed based on balanced achievement against the four pillars of the agreed growth strategy, helps ensure that the Executives' behaviours support longer-term value creation.

## LONG TERM INCENTIVE PLAN ('LTIP') - AUDITED

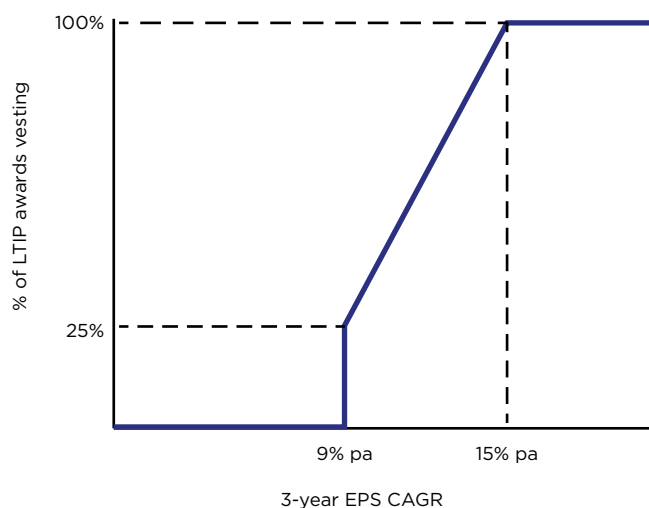
### Grants of awards under the LTIP in 2015

Awards under the LTIP were granted to the Executive Directors on 1 April 2015. Awards were made over shares worth 175% of basic salary for Richard Hayes and 150% of salary for Darren Bryant. Awards that vest (after any sales required to pay tax and social security contributions) will be subject to a 2-year holding period.

Executive	Number of LTIP shares awarded	Face/maximum value of awards at grant date <sup>1</sup>	% of award vesting at threshold and (Maximum)	Performance period
Richard Hayes	283,579	£787,500	25% (100%)	1.2.15-31.1.18
Darren Bryant	183,651	£510,000	25% (100%)	1.2.15-31.1.18

1. Based on the average middle market quotation of a share in the capital of the Company for the three months prior to the date of award, 1 April 2015, of 277.7p.

### 2015 LTIP vesting schedule



The primary performance targets attached to those awards, based on annual EPS growth over three financial years starting with that in which the award is granted, are illustrated in the chart above. In addition, for awards to vest, the Remuneration Committee needs to be satisfied that the Company's return on capital has been broadly consistent with historic levels.

The use of an EPS growth performance measure, in the opinion of the Committee, focuses management on continued strong financial performance and is heavily dependent on the Company's success in achieving its strategic goals. The Committee believes that a returns underpin appropriately reinforces the need to focus on returns for shareholders and encourages capital discipline.

# Directors' Remuneration Report continued

## LTIP awards in 2016

For 2016, the Committee intends to grant LTIP awards to Executive Directors in line with the Policy using the same performance measures as were used in 2015 (see page 61). In accordance with the Policy, the Remuneration Committee will review the corresponding targets ahead of the 2016 grant to ensure they are appropriately stretching over the performance period and deliver strong earnings growth and capital returns, whilst being mindful of the potential cost pressures facing the sector over the three year period. Awards will be made over shares worth 175% of basic salary for Karen Hubbard and 150% of salary for Darren Bryant, and details of the awards will be set out in next year's report and at the time of their grant. Given his retirement in June, Richard Hayes will not receive an LTIP award in 2016.

## SAYE

Awards under the HMRC-approved SAYE were granted to all participating employees on 26 June 2015. Options were granted at a discount of 20% to the share price on grant, and vest after 3 years subject to continued employment.

Executive	Number of SAYE options awarded	Face/maximum value of awards at grant date <sup>1</sup>	% Of award vesting at threshold and (Maximum)	Performance period
Richard Hayes	1,241	£4,058	n/a	n/a
Darren Bryant	3,103	£10,147	n/a	n/a

1. Based on the share price on the date of award, 26 June 2015, of 327p.

## NON-EXECUTIVE DIRECTOR FEES

The fees payable to the Chairman and Non-Executive Directors take into account general economic and market conditions, time commitment and responsibility, and the remuneration of Non-Executive Directors in similar positions in comparable UK-listed companies. Changes are generally effective from 1 May. No increases were made in the year under review and none are proposed for the current year.

	2016/17	2015/16
<b>Base fees</b>		
Chairman	<b>£125,000</b>	£125,000
Senior Independent Director	<b>£49,000</b>	£49,000
Non-Executive Director	<b>£45,000</b>	£45,000
<b>Additional fees</b>		
Chair of the Remuneration Committee	<b>£8,000</b>	£8,000
Chair of the Audit and Risk Committee	<b>£8,000</b>	£8,000

## SINGLE FIGURE OF TOTAL REMUNERATION FOR NON-EXECUTIVE DIRECTORS - AUDITED

The table below sets out a single figure for the total remuneration received by each Non-Executive Director for the year ended 31 January 2016.

Non-Executive Director	Base fee		Additional fees		Other		Total	
	2015/16	2014/15 <sup>3</sup>	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15
Geoff Cooper <sup>1</sup>	<b>£125,000</b>	£125,000	<b>£0</b>	£0	<b>£0</b>	£219,999	<b>£125,000</b>	£344,999
Graeme Coulthard <sup>2</sup>	<b>£0</b>	£43,739	<b>£0</b>	£0	<b>£0</b>	£0	<b>£0</b>	£43,739
Octavia Morley	<b>£49,000</b>	£40,833	<b>£8,000</b>	£6,667	<b>£0</b>	£0	<b>£57,000</b>	£47,500
David Stead	<b>£45,000</b>	£37,500	<b>£8,000</b>	£6,667	<b>£0</b>	£0	<b>£53,000</b>	£44,167
Paul McCrudden	<b>£45,000</b>	£7,500	<b>£0</b>	£0	<b>£0</b>	£0	<b>£45,000</b>	£7,500

- As disclosed in last year's report, in connection with his appointment, Geoff Cooper was given the option to invest £330,000 in the Company by means of an acquisition of ordinary shares as part of, or alongside, the offer of shares conducted in conjunction with the IPO at the offer price of 225p per share. Geoff took up this offer at the time of the IPO in May 2014 and agreed to acquire 146,666 ordinary shares and this has entitled him, on each of the second and third anniversaries of the date of the completion of the IPO, to make further investments of £330,000 in the Company by purchasing a further 146,666 ordinary shares at the offer price. Geoff's entitlement to make such purchases is conditional upon and subject to his remaining as Chairman of the Company on the relevant dates. It is not intended to offer the Chairman or Non-Executive Directors participation in similar arrangements in the future. These options are valued in the table above based on the embedded value at the year end.
- Graeme Coulthard's fees were paid directly to Charterhouse and Graeme resigned from his position as a Non-Executive Director with effect from 3 February 2015. The table above includes fees for 2014/15 paid to Graeme Coulthard by CF Topco Limited, the Group's holding company prior to the IPO, in the period from 1 February 2014 to 16 April 2014.
- Payments made to Geoff Cooper, Octavia Morley and David Stead in 2014/15 include payments made for work undertaken in the period preceding the completion of the IPO.



## PAYMENTS FOR LOSS OF OFFICE

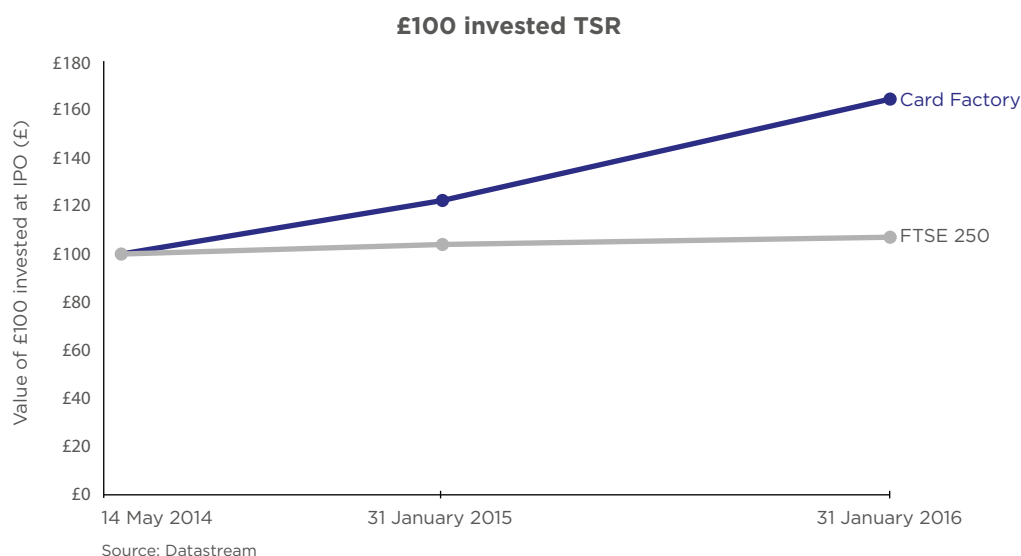
No exit payments were made during the year.

## PAYMENTS TO PREVIOUS DIRECTORS

No payments were made to past Directors in the year.

## HISTORICAL PERFORMANCE GRAPH AND CEO SINGLE FIGURE OF REMUNERATION

The graph below illustrates the total shareholder return performance of Card Factory against the FTSE 250 over the period since the Group listed on 20 May 2014. The FTSE 250 has been chosen as it is a recognised broad equity market index of which the Group is a member.



### Richard Hayes

	2015/16	2014/15
Single figure of remuneration (£'000)	951	884
Annual bonus outcome (% of max)	79%	77%
LTIP vesting (% of max)	n/a	n/a

## INCREASE IN CEO CASH REMUNERATION, 2014/15 TO 2015/16

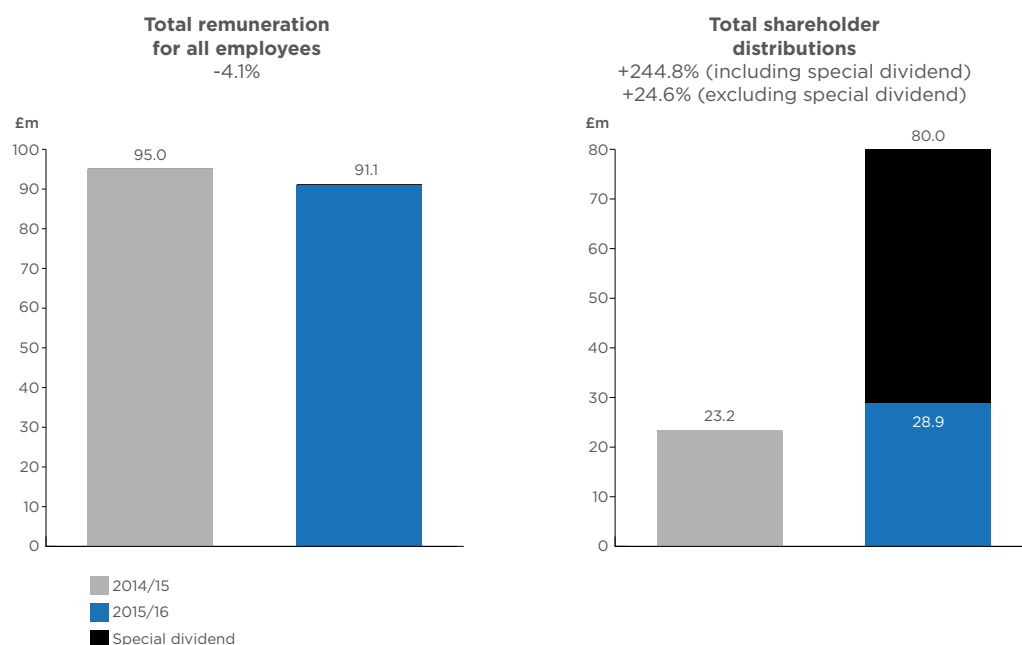
	Increase in CEO pay over the year	Average increase across all employees <sup>1</sup>
Salary	10.3%	2.5%
Taxable benefits	5.9%	-%
Annual variable	4.6%	6.0%

1. Permanent store employees (representing c.90% of all permanent employees).

# Directors' Remuneration Report continued

## DISTRIBUTION STATEMENT

The charts below illustrate the year-on-year change in total remuneration for all employees and total shareholder distributions.



## STATEMENT OF SHAREHOLDER VOTING

The following table shows the results of the shareholder votes on the 2015 Directors' Remuneration Policy and Annual Report on Remuneration at the 2015 Annual General Meeting on 27 May 2015:

	Remuneration Policy		Remuneration Report	
	Total number of votes	% of votes cast	Total number of votes	% of votes cast
For (including discretionary)	284,523,755	98.32%	286,235,489	99.37%
Against	4,872,781	1.68%	1,821,367	0.63%
Total votes cast (excluding withheld votes)	289,396,536	100%	288,056,856	100%
Total votes withheld <sup>1</sup>	102,680	-	1,442,360	-
Total votes cast (including withheld votes)	289,499,216	-	289,499,216	-

1. A withheld vote is not a vote in law and is not counted in the calculation of the proportion of votes cast for and against a resolution.

## DIRECTORS' SHAREHOLDINGS AND INTEREST IN SHARES

Card Factory's Chief Executive Officer and Chief Financial Officer each own significant shareholdings in the Company. The Committee sets shareholding guidelines for Executive Directors. The current guideline is to build and maintain, over time, a personal (and/or spousal) holding of shares in the Company equivalent in value to at least 150% of the Executive Director's annual base salary (200% for the CEO). Both the Chief Executive Officer and the Chief Financial Officer currently significantly exceed this requirement. The Chief Executive Officer Designate joined the Company on 22 February 2016 and does not currently hold any shares. The guidelines also state that an Executive Director is expected to (i) retain at least half of vested LTIP shares, after the sale of sufficient shares to cover tax and national insurance contributions triggered by the exercise (and associated dealing costs); and (ii) defer one third of any earned net bonus into shares for three years, until the guideline level is achieved.

Director	Owned outright <sup>1</sup>	Shares held		Options held		Current shareholding (% of salary/fee <sup>3</sup> )	Shareholding requirement (% of salary/fee)	Guideline met?
		Unvested and not subject to performance	Unvested and subject to performance	Vested but not exercised	Unvested and subject to continued employment			
<b>Executive Directors</b>								
Richard Hayes	11,644,781	0	633,579	0	1,241	8,854%	200%	Yes
Darren Bryant	5,676,087	0	410,317	0	3,103	5,712%	150%	Yes
Karen Hubbard	0	0	0	0	0	0	200%	No
<b>Non-Executive Directors</b>								
Geoff Cooper	146,666	0	0	0	293,332	323%		
Graeme Coulthard <sup>2</sup>	0	0	0	0	0	0%	n/a	
Octavia Morley	13,333	0	0	0	0	82%		
David Stead	22,222	0	0	0	0	146%		
Paul McCrudden	0	0	0	0	0	0%		

1. Including shares owned by connected persons.

2. Graeme Coulthard resigned as a Director on 3 February 2015. Graeme is a partner at Charterhouse Capital Partners LLP ('Charterhouse') and, at the time of his resignation, the various funds through which Charterhouse held its shares in the Company held, in aggregate, 60,609,953 ordinary shares.

3. Calculated using the closing share price of the Company on 29 January 2016 of 349p.

As previously announced, Richard Hayes and Darren Bryant (and their connected persons) together with certain members of the Group's senior management team each sold 20% of their holdings in the Company's shares on 19 June 2015. The shares were sold to institutional shareholders by way of a placing at a price of 330 pence per share.

There have been no changes in the numbers of shares owned by the Directors and their connected persons between the end of the year and the date of this report.

# Directors' Remuneration Report continued

## DETAILS OF DIRECTORS' INTERESTS IN SHARES IN INCENTIVE PLANS

	Date of grant	Share price at grant	Exercise price	Number of shares awarded	Face value at grant	Performance period	Exercise period
<b>Richard Hayes</b>							
LTIP	20.5.14	225p	n/a	350,000	£787,500	1.2.14-31.1.17	n/a
	1.4.15	277.7p <sup>1</sup>	n/a	283,579	£787,500	1.2.15-31.1.18	n/a
SAYE	26.6.15	327p	290p	1,241	£4,058	n/a	1.8.18-31.1.19
<b>Darren Bryant</b>							
LTIP	20.5.14	225p	n/a	226,666	£510,000	1.2.14-31.1.17	n/a
	1.4.15	277.7p <sup>1</sup>	n/a	183,651	£510,000	1.2.15-31.1.18	n/a
SAYE	26.6.15	327p	290p	3,103	£10,147	n/a	1.8.18-31.1.19
<b>Geoff Cooper</b>							
Pre-IPO options <sup>2</sup>	20.5.14	225p	225p	293,332	£660,000	n/a	20.5.16 and 20.5.17

1. Based on the average middle market quotation of a share in the capital of the Company for the three months prior to the date of award, 1 April 2015, of 277.7p.
2. In connection with his appointment, Geoff Cooper was given the option to invest £330,000 in the Company by means of an acquisition of ordinary shares as part of, or alongside, the offer of shares conducted in conjunction with the IPO at the offer price of 225p per share. Geoff took up this offer at the time of the IPO and agreed to acquire 146,666 ordinary shares and this has entitled him, on each of the second and third anniversaries of the date of the completion of the IPO, to make further investments of £330,000 in the Company by purchasing a further 146,666 ordinary shares at the offer price. Geoff's entitlement to make such purchases is conditional upon and subject to his remaining as Chairman of the Company on the relevant dates. It is not intended to offer the Chairman or Non-Executive Directors participation in similar arrangements in the future.

Approved by the Board of Card Factory plc on 4 April 2016 and signed on its behalf by

**Octavia Morley**

Chairman of the Remuneration Committee

4 April 2016

# Chairman's Letter – Nomination Committee



**Geoff Cooper**  
Chairman of the Nomination Committee

Dear Shareholder

The main focus of the Nomination Committee over the last year has been the initiation of a succession planning process, and dealing with the highest impact outcome from that process – the succession of our Chief Executive Officer.

Richard Hayes, who has been with the Company for 13 years including the last 7 as CEO, informed the Board during 2015 of his wish to retire at some point, once a suitable successor was identified.

Whilst the Company is fortunate in having a long serving, high quality executive team, the succession planning process revealed there were no internal candidates for the CEO role. A professional search firm was consequently appointed. Their brief was to identify and approach experienced retail candidates with the skills and experience to:

- continue to drive our existing four pillar strategy;
- help identify longer-term opportunities available; and
- lead our strong team and develop their capabilities and careers.

The search firm undertook a rigorous, balanced and thorough search process and the Committee was further assisted in its work by Darren Bryant, our Chief Financial Officer, who was also fully involved in the selection and interviewing process.

We also directed the search firm that at every stage, from desk research to final shortlist, without compromising the quality of candidates, we wanted as far as possible to ensure men and women were equally represented. As shareholders will now be aware, Karen Hubbard, formerly Chief Operating Officer of a value-orientated general retailer, with experience in supermarkets and convenience stores, was appointed Chief Executive Officer Designate in January 2016, and will take over from Richard in April 2016.

Looking forwards, the Nomination Committee's priority will be to extend the succession planning process so that it covers all key roles in our senior management team.

Yours sincerely

**Geoff Cooper**  
Chairman of the Nomination Committee  
4 April 2016

# Nomination Committee Report

This report provides details of the role of the Nomination Committee, the work it has undertaken during the year and details of how it intends to carry out its responsibilities going forwards.

## ROLE OF THE NOMINATION COMMITTEE

The purpose of the Committee is to assist the Board by keeping the composition of the Board under review and by conducting a rigorous and transparent process when new appointments to the Board are made.

A more detailed explanation of the Nomination Committee's role is set out in the Corporate Governance Report on page 39 and the Committee's terms of reference, which are published on Card Factory's investor website ([www.cardfactoryinvestors.com](http://www.cardfactoryinvestors.com)), comply with the UK Corporate Governance Code.

## MEMBERSHIP

The Nomination Committee is chaired by Geoff Cooper, and its other members are Octavia Morley, David Stead and Paul McCrudden.

The Chief Executive Officer and the Chief Financial Officer attended the two meetings held this year by invitation as well as participating in the discussions held by the Committee during the process leading up to Karen Hubbard's appointment. The Company Secretary acts as secretary to the Committee.

## MEETINGS

As currently constituted, the Committee met twice during the year with details of attendance set out in the Corporate Governance Report on page 36.

## COMMITTEE ACTIVITY IN 2015/16

The Committee's main activity during the year, as described in more detail in the introductory letter to this report, was to initiate a thorough process for the recruitment of a new Chief Executive. The process was brought to successful conclusion with the appointment of Karen Hubbard in January.

## COMMITTEE'S FOCUS FOR THE FUTURE

The Nomination Committee's priority over the coming year will be to continue to develop and extend the succession planning process so that it covers all key roles in our senior executive team.

In addressing this, the Board understands and acknowledges that its succession planning policy will:

- focus on the needs of the business over the medium to longer term and the importance of maintaining the appropriate balance of skills and experience across both the executive management team and among the Non-Executive Directors; and
- recognise that the Group's best interests are served by ensuring that the individuals who lead the Group represent a range of skills, experiences, backgrounds and perspectives, including gender but who at all times are most suitable people for their roles.

## GENDER AND ETHNIC DIVERSITY

Our policy is that the Board should always be of mixed gender and ethnically diverse, but we feel that quotas are not appropriate as they are likely to lead to compromised decisions on Board membership, quality and size.

We will, however, seek to ensure that specific effort is made to bring forward female candidates and those from a range of ethnic backgrounds for Board appointments and we will monitor the Group's approach to people development to ensure that it continues to enable talented individuals, from both genders and from all ethnic groups, to enjoy career progression activities within the Group.

Details of the gender balance within the Group are set out in the Corporate Social Responsibility report on page 27.

## BOARD EVALUATION

As intended, the Board conducted its first full internal evaluation during the year which was led by the Chairman and facilitated by the Company Secretary. Further details are set out in the Corporate Governance Report on page 40. Board evaluation will continue to be conducted on an annual basis and the Board will, every third year, as required by the UK Corporate Governance Code, engage with an external agency to assist in the process.

## TENURE AND RE-ELECTION OF DIRECTORS

In accordance with the UK Corporate Governance Code, Karen Hubbard will seek election and all the other Directors will seek re-election at the next AGM on 24 May 2016.

This report was reviewed and approved by the Board on 4 April 2016.

**Geoff Cooper**

Chairman of the Nomination Committee  
4 April 2016

# Directors' Report

The Directors present their report together with the audited financial statements for the year ended 31 January 2016.

## INTRODUCTION

This section of the Annual Report and Accounts includes additional information required to be disclosed under the Companies Act 2006 ('the Companies Act'), the UK Corporate Governance Code 2014 ('the Code' or 'the UK Corporate Governance Code'), the Disclosure and Transparency Rules ('the DTRs') and the Listing Rules ('the Listing Rules') of the Financial Conduct Authority.

Some of the information we are required to include in the Directors' Report is included in other sections of this Annual Report and Accounts and is referred to below. Where reference is made to these other sections, they are incorporated into this report by reference.

## INCORPORATION, LISTING AND STRUCTURE

The Company was incorporated and registered in England and Wales on 17 April 2014 under the Companies Act with registration number 9002747.

The entire issued ordinary share capital of the Company is admitted to the premium listing segment of the Official List of the Financial Conduct Authority and to trading on the London Stock Exchange plc's main market for listed securities. The liability of the members of the Company is limited.

The Company is domiciled in the United Kingdom and its registered office is at Century House, Brunel Road, Wakefield 41 Industrial Estate, Wakefield, West Yorkshire WF2 0XG. The telephone number of the Company's registered office is +44 1924 839150.

## STRATEGIC REPORT

The Strategic Report, which was approved by the Board on 4 April 2016 and is set out on pages 2 to 29, contains a fair review of the Group's business, a description of the principal risks and uncertainties facing the Group and an indication of the likely future developments in the business of the Group.

The review is intended to be a balanced and comprehensive analysis of the development and performance of the Group's business during the financial year and the position of the Group's business at the end of that year. The report includes, to the extent necessary for an understanding of the development, performance or position of the Group's business, analysis using financial key performance indicators.

The Strategic Report also includes the main trends and factors likely to affect the future development performance and position of the Group's business. It also includes information about environmental matters, the Group's employees and social and community issues.

This Directors' Report should be read in conjunction with the Strategic Report, which also contains details of the principal activities of the Group during the year. When taken together, the Strategic Report and this Directors' Report constitute the management report for the purposes of DTR 4.1.8R.

## RESULTS AND DIVIDENDS

The consolidated profit for the Group for the year after taxation was £66.4m (FY15: £33.2m). The results are discussed in greater detail in the Chief Financial Officer's Review on pages 16 to 20.

A final dividend of 6.0 pence per share (FY15: 4.5 pence) is proposed in respect of the period ended 31 January 2016 to add to an interim dividend of 2.5 pence per share (FY15: 2.3 pence) paid on 27 November 2015. The final dividend will, subject to shareholders' approval at the AGM on 24 May 2016, be paid on 10 June 2016 to shareholders on the register on 6 May 2016.

## SPECIAL DIVIDEND

A special dividend of 15 pence per share was paid to shareholders on 27 November 2015.

## POST YEAR END EVENTS

As previously stated, our current CEO, Richard Hayes, will step down from his role in mid-April 2016 and, following a handover period, retire from the Group at the end of June 2016. Karen Hubbard was appointed to the Board as CEO Designate with effect from 22 February 2016 and will formally take over as CEO of the Group in mid-April 2016.

There were no other significant post year end events.

## SHARE CAPITAL, SHAREHOLDERS AND RESTRICTIONS ON TRANSFERS OF SHARES

The Company has only one class of shares, ordinary shares of 1p each.

Further details of the Company's share capital, including changes in the issued share capital in the year under review are set out in note 19 to the financial statements which form part of this report on page 99. There have been no further changes in the Company's share capital between the end of the financial year under review and the date of the approval of this report.

Details of awards outstanding under share based incentive schemes are given in note 25 to the financial statements which form part of this report on pages 104 and 105. Details of the share based incentive schemes in place are provided in the Directors' Remuneration Report on pages 50 to 66.

The rights and obligations attaching to the ordinary share capital of the Company are contained within the Company's Articles of Association (Articles) which were adopted on 17 April 2014.

# Directors' Report continued

The Articles do not contain any restrictions on the transfer of ordinary shares in the Company other than the usual restrictions applicable where any amount is unpaid on a share. Certain restrictions are also imposed by laws and regulations (such as insider trading and marketing requirements relating to close periods) and requirements of the Listing Rules whereby Directors and certain employees of the Company require approval of the Company in order to deal in the Company's shares.

## SHAREHOLDER AND VOTING RIGHTS

All members who hold ordinary shares are entitled to attend and vote at the AGM. On a show of hands at a general meeting every member present in person shall have one vote and on a poll, every member present in person or by proxy shall have one vote for every ordinary share held. No shareholder holds ordinary shares carrying special rights relating to the control of the Company.

As previously noted, the relationship agreement ('Relationship Agreement') that was entered into on 15 May 2014 between the Company and the Charterhouse Funds (being CCP IX LP No.1, CCP IX LP No.2 and CCP IX Co-investment LP) that governed and regulated the relationship between the Charterhouse Funds and the Company following the completion of the IPO was terminated as a result of the Charterhouse Funds (and any members of their group) ceasing to own in aggregate an interest, direct or indirect, of at least 20% or more of the issued ordinary shares in the Company. Until its termination, the Board believes that the Company and, so far as the Company is aware, the Charterhouse Funds complied with the Independence provisions in the Relationship Agreement.

## SUBSTANTIAL SHAREHOLDERS

At 4 April 2016 the following had notified the Company of a disclosable interest in 3% or more of the nominal value of the Company's ordinary shares:

Shareholder	Number of ordinary shares	Percentage of share capital
Invesco Perpetual Asset Management Ltd	91,934,374	27.0
Artemis Investment Management LLP	37,908,425	11.1
Old Mutual Global Investors	34,228,157	10.0
Stuart Middleton	18,035,477	5.3
JP Morgan Asset Management	14,513,414	4.3
Majedie Asset Management	13,686,200	4.0
Kames Capital	11,652,913	3.4
Richard Hayes	11,644,781	3.4

## CHANGE OF CONTROL

There are no agreements between the Company and its Directors or employees providing for additional compensation for loss of office or employment (whether through resignation, redundancy or otherwise) that occurs because of a takeover bid.

The only significant agreement to which the Company is a party that takes effect, alters or terminates upon a change of control of the Company following a takeover bid, and the effect thereof, is the Company's committed bank facility dated 17 April 2014 (as amended and restated on 24 June 2015) which contains a provision such that, in the event of a change of control the facility may be cancelled and all outstanding amounts, together with accrued interest, will become repayable on the date falling 30 days following written notice being given by the lenders that the facility has been cancelled.

## TRANSACTIONS WITH RELATED PARTIES

The only material transactions with related parties during the year were those transactions detailed in note 28 on page 106 of the Annual Report and Accounts.

## DIRECTORS

The Directors of the Company and their biographies are set out on pages 30 to 32. Details of changes to the Board during the period are set out in the Corporate Governance Report on pages 34 and 35. Details of how Directors are appointed and/or removed are set out in the Corporate Governance Report on page 40.

## POWERS OF DIRECTORS

Specific powers of the Directors in relation to shares and the Company's Articles of Association are referred to in the Corporate Governance Report on pages 40 and 41.

## DIRECTORS' INDEMNITIES AND INSURANCE

Information relating to Directors' indemnities and the Directors and Officers liability insurance the Company has purchased is set out in the Corporate Governance Report on page 41.

## EMPLOYEES

Information relating to employees of the Group is set out in the Corporate Social Responsibility Report on page 27.

Share incentive schemes in which employees participate are described in the Directors' Remuneration Report on page 53 and in note 25 to the financial statements on pages 104 and 105.

## HEALTH AND SAFETY

An overview of health and safety is provided in the Corporate Social Responsibility Report on page 26.

## GREENHOUSE GAS EMISSIONS

The Corporate Social Responsibility Report on page 26 sets out the greenhouse gas emissions disclosures required by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

## POLITICAL DONATIONS

The Group has not made any political donations in the past and does not intend to make any in the future.



## TREASURY AND RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Group's approach to treasury and financial risk management is explained in the Principal Risks and Uncertainties section on page 22. In that section, beginning on page 21, there is also a list of the principal risks and uncertainties that affect or are likely to affect the Group. The financial position of the Group, its cash flow, liquidity position and borrowing facilities are described in the Chief Financial Officer's Review on pages 16 to 20.

### TAX

The Group pays corporation tax on its operations in the United Kingdom and does not operate in any tax havens, or use any tax avoidance schemes.

### GOING CONCERN

Taking into account current and anticipated trading performance, current and anticipated levels of borrowings and the availability of borrowing facilities and exposures to and management of the financial risks detailed in the Strategic Report on pages 2 to 23, the Board is of the opinion that, at the time of approval of these financial statements, there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the period outlined in the viability statement below. Accordingly, the financial statements continue to be prepared on a going concern basis.

### LONGER-TERM VIABILITY

In accordance with the UK Corporate Governance Code, the Directors have assessed the viability of the Group over the three years to 31 January 2019. This assessment has been made taking into account the Group's current position, plans and principal risks and uncertainties described in the Strategic Report on pages 2 to 23.

The Directors have determined that a three year period to 31 January 2019 is an appropriate period over which to provide its viability statement. This is the period reviewed by the Board in its strategic planning process.

In making this statement, the Board has carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

The Board has reviewed the Group's detailed three year strategic plan, a process it undertakes on an annual basis, including an assessment of key operational and financial assumptions. The output of this plan is also used to analyse forecast debt and covenant headroom and includes a review of sensitivities to business as usual risks. These risks include the consideration of factors which could impact forecast sales levels (for example, like-for-like sales, new store openings and online growth rates) and factors which could impact profitability (for example, foreign exchange rates and property costs). The results take into account the availability and likely effectiveness of mitigating actions that could be taken to avoid or reduce the impact or occurrence of the underlying risks. The scenarios modelled represent more extreme circumstances than the Group has ever experienced.

Whilst this review does not consider all of the risks that the Group might face, the Directors consider that this stress-testing based assessment of the Group's prospects is reasonable in the circumstances of the inherent uncertainty involved.

The Board also considers cash flow forecasts, the availability of financing and the Group's plans to return surplus cash to shareholders. The Group remains highly cash generative and has significant headroom on all of the covenants in its committed banking facility which expires in 2020. In assessing potential returns of surplus cash to shareholders, the Board will take into account, inter alia, expected cash generation, the actual and projected leverage ratio and the ongoing capital requirements of the business. Such returns of surplus cash are therefore discretionary and within the control of the Board.

Based on this assessment, the Directors confirm that they have a reasonable expectation that the Company and the Group will be able to continue in operation and meet their liabilities as they fall due in the period to 31 January 2019.

# Directors' Report continued

## **DISCLOSURE OF INFORMATION AND APPOINTMENT OF AUDITORS**

So far as each Director is aware, there is no relevant audit information of which the Company's Auditor is unaware and the Directors have taken all the steps which they ought to have taken as Directors 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 Section 418 of the Companies Act. On behalf of the Board, the Audit and Risk Committee has reviewed the effectiveness, performance, independence and objectivity of the existing external Auditor, KPMG LLP, for the year ended 31 January 2016 and concluded that the external Auditor was in all respects effective. KPMG LLP has expressed its willingness to continue in office as Auditor. Accordingly, and in accordance with Section 489 of the Companies Act, resolutions to reappoint KPMG LLP as Auditor and to authorise the Directors to determine its remuneration will be proposed at the forthcoming AGM of the Company.

## **INFORMATION REGARDING FORWARD-LOOKING STATEMENTS**

The reports and financial statements contained in this Annual Report and Accounts contain certain forward-looking statements with respect to the financial condition, results of operations, and businesses of Card Factory plc. These statements and forecasts involve risk, uncertainty and assumptions because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. Nothing in this Annual Report and Accounts should be construed as a profit forecast.

## **ANNUAL GENERAL MEETING**

The Annual General Meeting of the Company will be held at 11.00am on 24 May 2016 at the offices of Linklaters LLP, One Silk Street, London EC2Y 8HQ. A formal notice of meeting, explanatory circular and a form of proxy will accompany this Annual Report and Accounts.

## **RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE ANNUAL REPORT AND ACCOUNTS**

This statement is set out on page 73.

## **APPROVAL OF THE ANNUAL REPORT**

The Strategic Report and the Corporate Governance Report were approved by the Board on 4 April 2016.

Approved by the Board and signed on its behalf by

**Shiv Sibal**  
Company Secretary  
4 April 2016

# Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Parent Company financial statements on the same basis.

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 Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE ANNUAL REPORT AND ACCOUNTS

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

**Richard Hayes**  
Chief Executive Officer  
4 April 2016

**Darren Bryant**  
Chief Financial Officer

# Independent Auditor's Report to the Members of Card Factory plc

Opinions and conclusions arising from our audit.

## 1 OUR OPINION ON THE FINANCIAL STATEMENTS IS UNMODIFIED

We have audited the financial statements of Card Factory plc for the year ended 31 January 2016 set out on pages 78 to 118. In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 January 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

## 2 OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit are listed below (in decreasing order of significance).

### **Inventory £50.4m (FY15: £41.5m), Risk vs FY15 ◀▶**

Refer to page 46 (Audit and Risk Committee Report), page 89 (accounting policy) and page 96 (financial disclosures).

#### ***The risk:***

Due to the nature of the business there is a high volume of items held in inventory. Elements of the costing calculations for both store and warehouse stock are manual in nature as are certain controls around store inventory. These controls include stock counts and review of stock levels by store. Due to the significant volume of stock items and the broad product range there is a risk that a material misstatement could arise due to the volume of store stock or cost of inventory being incorrectly recorded.

#### ***Our response:***

In this area, our procedures included:

- attendance at a sample of store inventory counts to assess the design, implementation and homogeneity of the store stock count procedures. A sample of stock quantities submitted by stores as part of the store inventory counts were agreed to the Directors' stock listing. We also attended the warehouse inventory count for a sample of inventory lines to test the operating effectiveness of the warehouse stock count control and whether the quantities were stated correctly;
- reconciliation of total stock by comparing the results of store and warehouse counts adjusted for provisioning and other stock related adjustments to the accounting values booked for store and warehouse stock adjusted for shrinkage. We recalculated and sought supporting documentation for each of these inputs and critically assessed the Directors' assumptions around shrinkage percentages to ensure that the basis of calculation was appropriate;
- comparing the actual store stock levels, on a store by store basis, to our expectations, based on our understanding of the business, taking into consideration store size and the nature of the inventory. Where we found the level of stock was not in line with our expectations we evaluated the characteristics specific to the store to assess whether this supported the stock level held;
- review of sales immediately pre and post year end to assess whether there had been significant fluctuations which would indicate an issue over stores stock existence;
- testing over a sample of inventory lines to assess whether all elements of the costs attributed to them had been accurately input into the costing calculations;
- testing the cost inputs by obtaining supporting documentation and re-performing standard cost calculations; and
- assessing whether the disclosures in relation to inventory were appropriate.

### Foreign exchange hedging, Risk vs FY15 ◀▶

Refer to page 46 (Audit and Risk Committee Report), pages 86 to 88 (accounting policy) and page 103 (financial disclosures).

#### **The risk:**

The Group commercially hedges a high proportion of foreign currency stock purchases. A combination of instruments are used, primarily foreign exchange forwards and forward contracts with embedded options. Where appropriate, hedge accounting is adopted by the Group. Due to the degree of judgement and estimation in determining forecast cash flows there is a risk that the assumptions made in the prospective effectiveness testing are inappropriate, which would lead to the presentation of the fair value movement on the financial instruments in equity being incorrect.

#### **Our response:**

In this area, our procedures included:

- assessing whether the controls in place around foreign exchange hedging are sufficient, appropriate and operate effectively by assessing whether effectiveness testing has been carried out prospectively and retrospectively on a monthly basis;
- agreeing all existing foreign exchange forward contracts at the year end to the hedge documentation prepared at the inception of the contract and assessing whether the criteria for hedge accounting has been met;
- obtaining and considering the Directors' assessment of prospective and retrospective hedge effectiveness for the foreign exchange forward contracts outstanding at the year end and reperforming the calculation at the year end to assess their accuracy;
- assessing the historical accuracy of forecast foreign currency purchases to assess the reliability of the Group's forecasting;
- evaluating whether the ineffective portion of the hedges have been charged to the income statement in line with accounting policies;
- agreeing the mark to market value of the forward contract to third-party confirmation for all contracts outstanding at the year end and recalculating a sample of mark to market valuations, assisted by our own valuation specialist; and
- assessing the adequacy of the financial instrument disclosures in the financial statements.

In our audit report for the year ended 31 January 2015 we included IPO accounting and disclosures as one of the risks of material misstatement that had the greatest effect on our audit. We considered this risk not to be significant in the current year as this related to the 2014 listing of the Group on the London Stock Exchange and was therefore a one-off occurrence.

### 3 OUR APPLICATION OF MATERIALITY AND AN OVERVIEW OF THE SCOPE OF OUR AUDIT

The materiality for the Group financial statements as a whole has been set at £4.0m determined by reference to a benchmark of Group profit before taxation, normalised to exclude non-recurring items of £1.7m as disclosed in note 3 on page 90, of £82.0m of which it represents 5%.

We report to the Audit and Risk Committee any corrected and uncorrected identified misstatements exceeding £50,000 in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's three reporting components we subjected one to an audit for Group reporting purposes. The other two were not individually financially significant enough to require an audit for Group reporting purposes and neither presented with specific individual risks that needed to be addressed. On those two components we conducted reviews of financial information including enquiry which provided further coverage of the Group's results. These procedures covered 100% of total Group revenue; 100% of Group profit before taxation and 100% of total Group assets.

# Independent Auditor's Report to the Members of Card Factory plc continued

## **4 OUR OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006 IS UNMODIFIED**

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- 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 information given in the Corporate Governance Statement set out on pages 34 to 43 in the Corporate Governance Report with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

## **5 WE HAVE NOTHING TO REPORT ON THE DISCLOSURES OF PRINCIPAL RISKS**

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the Directors' statement of longer-term viability on page 71, concerning the principal risks, their management, and, based on that, the Directors' assessment and expectations of the Group's continuing in operation over the three years to 31 January 2019; or
- the disclosures in note 1 of the financial statements concerning the use of the going concern basis of accounting.

## **6 WE HAVE NOTHING TO REPORT IN RESPECT OF THE MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION**

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the Annual Report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the Audit and Risk Committee Report does not appropriately address matters communicated by us to the Audit and Risk Committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited 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; or
- a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the Directors' statements, set out on page 71, in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Statement on page 34 relating to the Company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

## SCOPE AND RESPONSIBILITIES

As explained more fully in the Directors' Responsibilities Statement set out on page 73, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate). This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at [www.kpmg.com/uk/auditscopeukco2014a](http://www.kpmg.com/uk/auditscopeukco2014a), which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Chris Hearld (Senior Statutory Auditor)  
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants  
1 Sovereign Square  
Sovereign Street  
Leeds  
LS1 4DA

4 April 2016

# Consolidated Income Statement

## FOR THE YEAR ENDED 31 JANUARY 2016

	Note	2016			2015		
		Underlying £'m	Non-underlying (note 3) £'m	Total £'m	Underlying £'m	Non-underlying (note 3) £'m	Total £'m
<b>Revenue</b>		<b>381.6</b>	<b>-</b>	<b>381.6</b>	353.3	-	353.3
Cost of sales		<b>(259.2)</b>	<b>3.9</b>	<b>(255.3)</b>	(240.0)	(0.1)	(240.1)
<b>Gross profit/(loss)</b>		<b>122.4</b>	<b>3.9</b>	<b>126.3</b>	113.3	(0.1)	113.2
Operating expenses		<b>(37.1)</b>	<b>(0.3)</b>	<b>(37.4)</b>	(33.9)	(15.0)	(48.9)
<b>Operating profit/(loss)</b>	4	<b>85.3</b>	<b>3.6</b>	<b>88.9</b>	79.4	(15.1)	64.3
Financial income	7	<b>0.3</b>	<b>-</b>	<b>0.3</b>	0.3	-	0.3
Financial expense	7	<b>(3.6)</b>	<b>(1.9)</b>	<b>(5.5)</b>	(14.2)	(7.7)	(21.9)
<b>Net financing expense</b>		<b>(3.3)</b>	<b>(1.9)</b>	<b>(5.2)</b>	(13.9)	(7.7)	(21.6)
<b>Profit/(loss) before tax</b>		<b>82.0</b>	<b>1.7</b>	<b>83.7</b>	65.5	(22.8)	42.7
Taxation	8	<b>(17.0)</b>	<b>(0.3)</b>	<b>(17.3)</b>	(14.4)	4.9	(9.5)
<b>Profit/(loss) for the year</b>		<b>65.0</b>	<b>1.4</b>	<b>66.4</b>	51.1	(17.9)	33.2
<b>Earnings per share</b>		<b>pence</b>		<b>pence</b>	pence		pence
- Basic and diluted	10	<b>19.1</b>		<b>19.5</b>	16.3		10.6

All activities relate to continuing operations.



# Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 JANUARY 2016

	2016 £'m	2015 £'m
<b>Profit for the year</b>	<b>66.4</b>	33.2
Items that are or may be recycled subsequently into profit or loss:		
Effective portion of changes in fair value of cash flow hedges	<b>0.7</b>	7.0
Net change in fair value of cash flow hedges recycled to profit or loss	<b>(3.1)</b>	0.2
Tax relating to components of other comprehensive income (note 13)	<b>0.5</b>	(1.4)
<b>Other comprehensive (expense)/income for the period, net of income tax</b>	<b>(1.9)</b>	5.8
<b>Total comprehensive income for the period attributable to equity shareholders of the parent</b>	<b>64.5</b>	39.0

# Consolidated Statement of Financial Position

AS AT 31 JANUARY 2016

	Note	2016 £'m	2015 £'m
<b>Non-current assets</b>			
Intangible assets	11	<b>331.0</b>	331.0
Property, plant and equipment	12	<b>39.9</b>	38.2
Deferred tax assets	13	<b>0.2</b>	0.2
Other receivables	15	<b>1.0</b>	1.2
Derivative financial instruments	24	<b>1.8</b>	-
		<b>373.9</b>	370.6
<b>Current assets</b>			
Inventories	14	<b>50.4</b>	41.5
Trade and other receivables	15	<b>17.0</b>	17.7
Derivative financial instruments	24	<b>3.5</b>	5.8
Cash and cash equivalents	16	<b>11.3</b>	69.0
		<b>82.2</b>	134.0
<b>Total assets</b>		<b>456.1</b>	504.6
<b>Current liabilities</b>			
Borrowings	17	<b>(0.1)</b>	(14.5)
Trade and other payables	18	<b>(35.8)</b>	(35.3)
Tax payable		<b>(8.8)</b>	(5.2)
Derivative financial instruments	24	<b>(0.2)</b>	(0.1)
		<b>(44.9)</b>	(55.1)
<b>Non-current liabilities</b>			
Borrowings	17	<b>(134.1)</b>	(155.9)
Trade and other payables	18	<b>(11.4)</b>	(10.7)
		<b>(145.5)</b>	(166.6)
<b>Total liabilities</b>		<b>(190.4)</b>	(221.7)
<b>Net assets</b>		<b>265.7</b>	282.9
<b>Equity</b>			
Share capital	19	<b>3.4</b>	3.4
Share premium	19	<b>201.6</b>	201.6
Hedging reserve		<b>3.1</b>	5.0
Reverse acquisition reserve		<b>(0.5)</b>	(0.5)
Merger reserve		<b>2.7</b>	2.7
Retained earnings		<b>55.4</b>	70.7
<b>Equity attributable to equity holders of the parent</b>		<b>265.7</b>	282.9

The financial statements on pages 78 to 107 were approved by the Board of Directors on 4 April 2016 and were signed on its behalf by:

**Darren Bryant**  
Chief Financial Officer

# Consolidated Statement of Changes in Equity

## FOR THE YEAR ENDED 31 JANUARY 2016

	Share capital £'m	Share premium £'m	Hedging reserve £'m	Reverse acquisition reserve £'m	Merger reserve £'m	Retained earnings £'m	Total equity £'m
<b>At 1 February 2014</b>	2.5	-	(0.8)	(0.5)	2.7	27.2	31.1
<b>Total comprehensive income for the year</b>							
Profit or loss	-	-	-	-	-	33.2	33.2
Other comprehensive income	-	-	5.8	-	-	-	5.8
	-	-	5.8	-	-	33.2	39.0
<b>Transactions with owners, recorded directly in equity</b>							
Issue of shares - net of issue costs (note 19)	0.9	201.6	-	-	-	-	202.5
Share based payment charges (note 25)	-	-	-	-	-	10.3	10.3
<b>Total contributions by and distributions to owners</b>	0.9	201.6	-	-	-	10.3	212.8
<b>At 31 January 2015</b>	3.4	201.6	5.0	(0.5)	2.7	70.7	282.9
<b>Total comprehensive income for the year</b>							
Profit or loss	-	-	-	-	-	66.4	66.4
Other comprehensive income	-	-	(1.9)	-	-	-	(1.9)
	-	-	(1.9)	-	-	66.4	64.5
<b>Transactions with owners, recorded directly in equity</b>							
Share based payment charges (note 25)	-	-	-	-	-	1.3	1.3
Taxation on share based payments recognised in equity (note 13)	-	-	-	-	-	0.1	0.1
Dividends (note 9)	-	-	-	-	-	(83.1)	(83.1)
<b>Total contributions by and distributions to owners</b>	-	-	-	-	-	(81.7)	(81.7)
<b>At 31 January 2016</b>	3.4	201.6	3.1	(0.5)	2.7	55.4	265.7

# Consolidated Cash Flow Statement

## FOR THE YEAR ENDED 31 JANUARY 2016

	Note	2016 £'m	2015 £'m
<b>Cash inflow from operating activities</b>	20	<b>92.2</b>	84.9
Corporation tax paid		<b>(13.0)</b>	(9.6)
<b>Net cash inflow from operating activities</b>		<b>79.2</b>	75.3
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	12	<b>(10.5)</b>	(9.2)
Purchase of intangible assets	11	<b>(1.1)</b>	(0.9)
Payment of deferred consideration		<b>(0.8)</b>	(0.8)
Proceeds from sale of property, plant and equipment		<b>0.1</b>	-
Interest received		<b>0.3</b>	0.3
<b>Net cash outflow from investing activities</b>		<b>(12.0)</b>	(10.6)
<b>Cash flows from financing activities</b>			
Proceeds from bank borrowings		<b>144.2</b>	177.4
Purchase of interest rate caps		<b>(0.5)</b>	-
Interest paid		<b>(3.3)</b>	(8.6)
Repayment of borrowings		<b>(182.5)</b>	(293.6)
Payment of finance lease liabilities		-	(0.1)
Proceeds from new shares issued		-	88.5
Dividends paid		<b>(82.8)</b>	-
<b>Net cash outflow from financing activities</b>		<b>(124.9)</b>	(36.4)
Net (decrease)/increase in cash and cash equivalents		<b>(57.7)</b>	28.3
Cash and cash equivalents at the beginning of the year		<b>69.0</b>	40.7
<b>Closing cash and cash equivalents</b>	16	<b>11.3</b>	69.0

# Notes to the Financial Statements

## 1 ACCOUNTING POLICIES

### General information

Card Factory plc ('the Company') is a public limited company incorporated in the United Kingdom. The Company is domiciled in the United Kingdom and its registered office is Century House, Brunel Road, 41 Industrial Estate, Wakefield WF2 0XG.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group').

### Basis of preparation

The Group financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ('EU IFRS') and with those parts of the Companies Act 2006 applicable to companies reporting under EU IFRS.

The financial statements have been prepared on a going concern basis under the historical cost convention, as modified for the subsequent measurement of derivative financial instruments.

### *Impact of the Group restructure prior to the Initial Public Offering*

On 20 May 2014, Card Factory plc was admitted to trading on the London Stock Exchange. In preparation for the Initial Public Offering, the Group was restructured. On 30 April 2014 Card Factory plc (formerly CF Listco Limited, incorporated on 17 April 2014 for the purpose of the restructure) acquired 100% of the share capital of CF Topco Limited in a share for share exchange, thereby inserting Card Factory plc as the Parent Company of the Group. The shareholders of CF Topco Limited became 100% owners of the enlarged share capital of Card Factory plc.

The principles of reverse acquisition accounting under IFRS 3 Business Combinations have been applied to the comparative period ended 31 January 2015. By applying the principles of reverse acquisition accounting, the comparative period is presented as if Card Factory plc had always owned CF Topco Limited.

Full details of the reverse acquisition accounting applied were described in the financial statements for the year ended 31 January 2015.

### Significant judgements and estimates

The preparation of financial statements in conformity with EU IFRS requires the use of judgements, estimates and assumptions that affect the application of the Group's accounting policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Areas subject to significant judgement, assumption or estimation are detailed below:

#### *Inventory*

The Group holds significant volumes, and a broad range of inventory. Certain of the Group's inventory procedures are manual in nature. The Group provides against the carrying value of inventories where it is anticipated the amount realised may be below the cost recognised. The provision is calculated based on historical experience.

#### *Foreign currency hedge accounting*

Where appropriate, hedge accounting is adopted by the Group. Due to the degree of judgement and estimation in determining forecast cash flows there is a risk that the assumptions made in the effectiveness testing are inappropriate.

# Notes to the Financial Statements continued

## 1 ACCOUNTING POLICIES CONTINUED

### Going concern

Taking into account current and anticipated trading performance, current and anticipated levels of borrowings and the availability of borrowing facilities and exposures to and management of the financial risks detailed in the Strategic Report on pages 2 to 23, the Board is of the opinion that, at the time of approval of these financial statements, there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the period outlined in the viability statement on page 71. Accordingly, the financial statements continue to be prepared on a going concern basis.

The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Chief Financial Officer's Review on pages 16 to 20. In addition, notes 23 and 24 to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

### Principal accounting policies

The principal accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements.

### EU Endorsed International Financial Reporting Standards effective in the year

The following new and amended standards, adopted in the current financial year, had no significant impact on the financial statements.

- Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)
- Annual Improvements to IFRSs 2010-2012 cycle
- Annual Improvements to IFRSs 2011-2013 cycle

### EU Endorsed International Financial Reporting Standards in issue but not yet effective

The Directors considered the impact on the Group of EU endorsed, new and revised accounting standards, interpretations or amendments. The following revised accounting standards are currently endorsed but effective for periods beginning on or after 1 January 2016. None are expected to have a significant impact on the financial statements.

- Agriculture: Bearer plants (Amendments to IAS 16 and IAS 41)
- Clarification of acceptable methods of depreciation (Amendments to IAS 16 and IAS 38)
- Accounting for acquisitions of interest in joint operations (Amendments to IFRS 11)
- Annual Improvements to IFRSs 2012-2014 cycle
- Equity method in separate financial statements (Amendments to IAS 27)
- Investment entities: applying the consolidation exception (Amendments to IAS 28, IFRS 10 and IFRS 12)

The future impact on the financial statements of new standards and amendments awaiting EU endorsement is currently being assessed. New standards awaiting EU endorsement include IFRS 9 'financial instruments', IFRS 16 'leases' and IFRS 15 'revenue from contracts with customers'.

### Basis of consolidation

#### *Subsidiaries*

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to direct the activities that affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. Intercompany transactions and balances between Group companies are eliminated upon consolidation.

#### *Business combinations*

Subject to the transitional relief in IFRS 1, all business combinations are accounted for by applying the acquisition method. Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as the fair value of the consideration transferred less the fair value of identifiable assets acquired and liabilities assumed. Any contingent consideration payable is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration are recognised in profit or loss. Costs related to the acquisition are expensed to the income statement as incurred.

### **Acquisitions prior to 1 February 2011 (date of transition to IFRS)**

IFRS 1 grants certain exemptions from the full requirements of IFRS in the transition period. The Group and Company elected not to restate business combinations that took place prior to 1 February 2011. In respect of acquisitions prior to the transition date, goodwill is included at 1 February 2011 on the basis of its deemed cost at that date, which represents the amount recorded under UK GAAP.

### **Revenue**

Revenue represents the fair value of amounts receivable for goods sold to customers and is stated net of value added tax and returns. Revenue is recognised at the point goods are sold or delivered and the risks and rewards are deemed to have been transferred to the customer. Revenue is attributable to the retail sale of cards, dressings and gifts in the UK.

### **Financing income and expense**

Finance expense comprises interest charges and losses on interest rate derivative financial instruments. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset.

Finance income comprises interest income and gains on interest rate derivative financial instruments.

Interest income and interest charges are recognised in profit or loss as it accrues, using the effective interest method. The effective interest method takes into account fees, commissions or other incremental transaction costs integral to the yield.

### **Foreign currencies**

#### **Functional and presentation currency**

The consolidated financial statements are presented in pounds Sterling, which is the functional currency of the Company and all subsidiary entities.

#### **Transactions and balances**

Transactions in foreign currencies are recorded at the exchange rate on the transaction date. All foreign currency transactions relate to inventory purchases. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement within cost of sales, except when deferred in other comprehensive income as qualifying cash flow hedges. Foreign currency gains and losses are reported on a net basis.

### **Taxation**

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity or through other comprehensive income, in which case it is recognised in equity or other comprehensive income respectively.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

# Notes to the Financial Statements continued

## 1 ACCOUNTING POLICIES CONTINUED

### Underlying profit and earnings

The Group has chosen to present an underlying profit and earnings measure. The Group believes that underlying profit and earnings provides additional useful information for shareholders. Underlying earnings is not a recognised profit measure under EU IFRS and may not be directly comparable with 'adjusted' profit measures reported by other companies. The reported non-underlying adjustments are as follows:

#### ***Net fair value remeasurement gains and losses on derivative financial instruments***

The Group utilises foreign currency derivative contracts to manage the foreign exchange risk on US Dollar denominated purchases and interest rate derivative contracts to manage the risk on floating interest rate bank borrowings. Fair value gains and losses on such instruments are recognised in the income statement to the extent they are not hedge accounted under IAS 39. Such gains and losses relate to future cash flows. In accordance with the commercial reasoning for entering into the agreements, these gains/losses are deemed not representative of the underlying financial performance in the year and presented as non-underlying items. Any gains or losses on maturity of such instruments are presented within underlying profit to the extent the gain or loss is not recognised in the hedging reserve.

#### ***IPO costs***

In May 2014, Card Factory plc floated on the London Stock Exchange. Non-recurring IPO related costs in the prior year totalled £5.3 million of which £3.8 million was charged to the income statement and £1.5 million was recognised within share premium as costs directly related to the issue of new shares.

#### ***Residual management equity share based payment***

On admission to the London Stock Exchange, shares with a fair value of £9.8 million were issued at nominal value in relation to residual management equity as detailed in the IPO prospectus. Employer national insurance of £1.4 million was incurred on the issue of the shares. These non-recurring share based payments are presented as a non-underlying item in the prior year income statement.

#### ***Other non-underlying operating expenses***

In January 2016, Card Factory plc announced the retirement and succession of the Chief Executive Officer. Costs attributable to the recruitment of the new CEO are presented as a non-underlying item.

#### ***Refinanced debt issue cost amortisation***

Debt issue costs totalling £1.8 million were expensed to the income statement in the period on completion of an amended and extended borrowing facility on 26 June 2015. This expense relates to costs that were not yet amortised in relation to the 30 May 2014 refinancing and is presented as a non-underlying item.

Loan issue costs totalling £7.7 million were expensed to the income statement in the year ended 31 January 2015 on the repayment and refinancing of previous borrowing facilities on 30 May 2014. This expense relates to costs that were not yet amortised in relation to a previous borrowing facility and is presented as a non-underlying item in the prior year. See note 21 for details of net debt movements.

### Dividends

Dividends are recognised as a liability in the period in which they are approved such that the Company is obliged to pay the dividend.

### Financial instruments

#### ***Financial assets***

The Group classifies all its non-derivative financial assets as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group has no intention of trading these loans and receivables. Subsequent to initial recognition at fair value less transaction costs, these assets are carried at amortised cost using the effective interest method, subject to impairment.

Derivative financial assets are categorised as fair value through profit or loss ('FVTPL') and classified as held for trading, unless accounted for as an effective hedging instrument.



### **Financial liabilities**

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

Non-derivative financial liabilities are initially recognised at fair value, less any transaction costs and subsequently stated at amortised cost using the effective interest method except for derivatives and contingent consideration. Derivatives are categorised as FVTPL and classified as held for trading, unless accounted for as an effective hedging instrument. Contingent consideration on business combinations is designated as FVTPL.

### **Non-derivative financial instruments**

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, borrowings and trade and other payables.

#### **Trade and other receivables**

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

#### **Cash and cash equivalents**

Cash and cash equivalents comprise cash in hand, at bank and on short-term deposit of less than three months. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

#### **Trade and other payables**

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

#### **Borrowings**

Borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortised cost using the effective interest method.

### **Impairment of financial assets**

Financial assets are assessed for objective evidence of impairment at the balance sheet date. Where there is objective evidence that an impairment loss exists, impairment provisions are made to reduce the carrying value of financial assets to the present value of estimated future cash flows.

### **Derivative financial instruments**

The Group utilises foreign currency derivative contracts and US Dollar denominated cash balances to manage the foreign exchange risk on US Dollar denominated purchases and interest rate derivative contracts to manage the risk on floating interest rate bank borrowings.

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately within profit or loss except to the extent the instrument has been designated an effective hedging arrangement. Gains and losses in respect of foreign currency derivative contracts are recognised within cost of sales. Gains and losses in respect of interest rate derivative contracts are recognised within finance income or expense.

#### **Cash flow hedges**

In accordance with IAS 39 Financial Instruments: Recognition and Measurement, derivative financial instruments are eligible for cash flow hedge accounting where the following conditions are met:

- at the inception of the hedge there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge;
- the hedge is expected to be highly effective in achieving offsetting changes in cash flows attributable to the hedged risk, consistent with the originally documented risk management strategy;
- the forecast transaction that is the subject of the hedge is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss;
- the effectiveness of the hedge can be reliably measured; and
- the hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

# Notes to the Financial Statements continued

## 1 ACCOUNTING POLICIES CONTINUED

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in profit or loss. Foreign currency cash held in the short period between derivative maturity and payment of the hedged cash flow is designated as part of the hedging relationship whereby gains and losses on retranslation of the foreign currency cash are recognised in the hedging reserve.

The cumulative gain or loss is removed from other comprehensive income ('OCI') and recognised in profit or loss in the same period or periods during which the hedged forecast transaction, or a resulting asset or liability affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in OCI and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in OCI is recognised in profit or loss immediately.

### Fair value estimation

The techniques applied in determining the fair values of financial assets and liabilities are disclosed in note 24.

### Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives as follows:

- buildings 25–50 years
- leasehold improvements shorter of 5 years and lease term
- plant and equipment 3–10 years
- fixtures and fittings 5 years
- motor vehicles 4 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

### Intangible assets and goodwill

#### **Goodwill**

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment.

#### **Software**

Computer software is carried at cost less accumulated amortisation and any provision for impairment. Costs relating to development of computer software are capitalised if the recognition criteria of IAS38 'Intangible Assets' are met or expensed as incurred otherwise.

#### **Other intangible assets**

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and less accumulated impairment losses. Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

#### **Amortisation**

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful life of software is 3–5 years.

### Impairment of non-financial assets

The carrying values of non-financial assets are reviewed for impairment where there is an indication of impairment. If an impairment loss arises, the asset value is adjusted to its estimated recoverable amount and the impairment loss is recognised in the income statement. Goodwill is reviewed for impairment at the balance sheet date and whenever an indication of impairment is identified.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories, production costs and other costs in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

### Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

### Merger reserve

On 30 April 2014 Card Factory plc acquired 100% of the share capital of CF Topco Limited in a share for share exchange, thereby inserting Card Factory plc as the Parent Company of the Group. The shareholders of CF Topco Limited became 100% owners of the enlarged share capital of Card Factory plc. The premium arising on the issue of shares is recognised in the merger reserve.

### Share based payments

The Company issues equity-settled share based payments to employees through the Card Factory Long Term Incentive Plan ('LTIP') and the Card Factory SAYE Scheme ('SAYE'), see note 25 for further details. The cost of equity-settled share awards is measured as the fair value of the award at the grant date using the Black-Scholes model.

The cost of the awards is expensed to the income statement, together with a corresponding adjustment to equity, on a straight line basis over the vesting period of the award. The total income statement charge is based on the Group's estimate of the number of share awards that will eventually vest in accordance with the vesting conditions. The awards do not include market-based vesting conditions. At each balance sheet date, the Group revises its estimate of the number of awards that are expected to vest. Any revision to estimates is recognised in the income statement, with a corresponding adjustment to equity.

### Operating leases

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives are recognised in the income statement over the term of the lease as an integral part of the total lease expense.

## 2 SEGMENTAL REPORTING

The Group has two operating segments trading under the names Card Factory and Getting Personal. Card Factory retails greeting cards, dressing and gifts in the UK through an extensive store network. Getting Personal is an online retailer of personalised cards and gifts. Getting Personal does not meet the quantitative thresholds of a reportable segment as defined in IFRS 8. Consequently the results of the Group are presented as a single reportable segment. Revenues outside of the UK are not significant at less than £0.1million.

The Chief Operating Decision Maker is the Board of Directors. Internal management reports are reviewed by the Board of Directors on a monthly basis. Performance of segments is assessed based on a number of financial and non-financial KPIs including EBITDA as defined in note 5 of the financial statements and profit before tax.

### Major customers

Group revenue is derived from high volume, low value retail sales and is therefore not dependent on any major customer.

# Notes to the Financial Statements continued

## 3 NON-UNDERLYING ITEMS

	2016 £'m	2015 £'m
<b>Cost of sales</b>		
Profit/(loss) on foreign currency derivative financial instruments not designated as a hedge (note 24)	<b>3.9</b>	(0.1)
<b>Operating expenses</b>		
IPO costs	-	(3.8)
Residual management equity share based payment (note 25)	-	(11.2)
Other non-underlying operating expenses	<b>(0.3)</b>	-
	<b>(0.3)</b>	(15.0)
<b>Net finance expense</b>		
Refinanced debt issue cost amortisation (note 7)	<b>(1.8)</b>	(7.7)
Loss on interest rate derivative financial instruments not designated as a hedge (note 24)	<b>(0.1)</b>	-
	<b>(1.9)</b>	(7.7)

Further details of the non-underlying items are included in the principal accounting policies (note 1).

## 4 OPERATING PROFIT

Operating profit is stated after charging/(crediting) the following items:

	2016 £'m	2015 £'m
Staff costs (note 6)	<b>91.1</b>	95.0
Depreciation expense (note 12)		
– owned fixed assets	<b>8.6</b>	7.7
Amortisation expense (note 11)	<b>1.1</b>	1.1
Operating lease rentals:		
– land and buildings	<b>36.0</b>	34.6
– plant, equipment and vehicles	<b>0.4</b>	0.5
Loss on disposal of fixed assets	<b>0.1</b>	-
Foreign exchange gain	<b>(4.0)</b>	-

The total fees payable by the Group to KPMG LLP and their associates during the period was as follows:

	2016 £'000	2015 £'000
Audit of the Company's and the consolidated financial statements	<b>11</b>	11
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the Company	<b>89</b>	89
Half-year review	<b>7</b>	7
Audit related assurance services	-	8
Taxation compliance services	<b>13</b>	13
Other tax advisory services	<b>6</b>	10
Other assurance services	<b>10</b>	-
<b>Total fees excluding IPO related fees</b>	<b>136</b>	138
IPO related fees	-	434
<b>Total fees</b>	<b>136</b>	572

## 5 UNDERLYING EBITDA

Underlying earnings before interest, tax, depreciation and amortisation ('EBITDA') represents underlying profit for the period before net finance expense, taxation, depreciation and amortisation.

	2016 £'m	2015 £'m
<b>Underlying operating profit</b>	<b>85.3</b>	79.4
Depreciation and amortisation	9.7	8.8
<b>Underlying EBITDA</b>	<b>95.0</b>	88.2

## 6 STAFF NUMBERS AND COSTS

The average number of people employed by the Group (including Directors) during the year, analysed by category, was as follows:

	2016 Number	2015 Number
Management and administration	321	289
Operations	9,220	8,908
	<b>9,541</b>	9,197

The aggregate payroll costs of all employees including Directors were as follows:

	2016 £'m	2015 £'m
Employee wages and salaries	81.1	76.4
Equity-settled share based payment expense	1.3	10.3
Social security costs	4.5	5.4
Defined contribution pension costs	0.3	0.3
<b>Total employee costs</b>	<b>87.2</b>	92.4
Agency labour costs	3.9	2.6
<b>Total staff costs</b>	<b>91.1</b>	95.0

### *Key management personnel*

The key management personnel of the Group comprise the Card Factory plc Board of Directors and the Operational Board. Key management personnel compensation is as follows:

	2016 £'m	2015 £'m
Salaries and short-term benefits	3.4	3.4
Equity-settled share based payment expense	0.9	8.8
Social security costs	0.6	1.7
Defined contribution pension costs	-	-
	<b>4.9</b>	13.9

Further details of Directors' remuneration are disclosed in the Directors' Remuneration Report on pages 50 to 66.

# Notes to the Financial Statements continued

## 7 FINANCE INCOME AND EXPENSE

	2016 £'m	2015 £'m
<b>Finance income</b>		
Bank interest received	<b>(0.3)</b>	(0.3)
<b>Finance expense</b>		
Interest on bank loans and overdrafts	<b>3.3</b>	8.5
Amortisation of loan issue costs	<b>2.1</b>	9.0
Interest on loan notes	<b>-</b>	4.3
Fair value loss on interest rate derivative contracts	<b>0.1</b>	-
Interest on deferred consideration	<b>-</b>	0.1
	<b>5.5</b>	21.9
<b>Net finance expense</b>	<b>5.2</b>	21.6

Amortisation of loan issue costs include £1.8 million (2015: £7.7 million) in relation to previous loan facilities, expensed to the income statement on replacement with a new facility and presented as non-underlying, see note 3.

## 8 TAXATION

### Recognised in the income statement

	2016 £'m	2015 £'m
<b>Current tax expense</b>		
Current year	<b>16.8</b>	10.6
Adjustments in respect of prior periods	<b>(0.1)</b>	(0.7)
	<b>16.7</b>	9.9
<b>Deferred tax credit</b>		
Origination and reversal of temporary differences	<b>0.5</b>	(0.5)
Adjustments in respect of prior periods	<b>0.1</b>	0.1
	<b>0.6</b>	(0.4)
<b>Total income tax expense</b>	<b>17.3</b>	9.5

The effective tax rate of 20.7% (2015: 22.3%) is higher than the standard rate of corporation tax in the UK. The tax charge is reconciled to the standard rate of UK corporation tax as follows:

	2016 £'m	2015 £'m
<b>Profit before tax</b>	<b>83.7</b>	42.7
Tax at the standard UK corporation tax rate of 20.16% (2015: 21.32%)	<b>16.9</b>	9.1
Tax effects of:		
Expenses not deductible for tax purposes	<b>0.4</b>	1.1
Non-taxable income	<b>-</b>	(0.1)
Adjustments in respect of prior periods	<b>-</b>	(0.6)
<b>Total income tax expense</b>	<b>17.3</b>	9.5

## 9 DIVIDENDS

The Board is recommending a final dividend in respect of the financial year ended 31 January 2016 of 6.0 pence per share (2015: 4.5 pence per share), resulting in a total final dividend of £20.4 million (2015: £15.4 million). The dividend will, subject to shareholders' approval at the Annual General Meeting on 24 May 2016, be paid on 10 June 2016 to shareholders on the register at the close of business on 6 May 2015. No liability is recorded in the financial statements in respect of this final dividend as it was not approved at the balance sheet date.

Dividends paid in the year:	Pence per share	2016 £'m	2015 £'m
Special dividend for the year ended 31 January 2016	15.0p	<b>51.1</b>	-
Interim dividend for the year ended 31 January 2016	2.5p	<b>8.5</b>	-
Final dividend for the year ended 31 January 2015	4.5p	<b>15.4</b>	-
Interim dividend for the year ended 31 January 2015	2.3p	<b>7.8</b>	-
		<b>82.8</b>	-

Dividends totalling £82.8 million were paid in the year with a further £0.3 million accrued in relation to share based long-term incentive schemes.

## 10 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period.

Diluted earnings per share is based on the weighted average number of shares in issue for the period, adjusted for the dilutive effect of potential ordinary shares. Potential ordinary shares represent employee share incentive awards and save as you earn share options.

The Group has chosen to present an alternative earnings per share measure, with profit adjusted for non-underlying items to reflect the Group's underlying profit for the year. Underlying earnings is not a recognised profit measure under IFRS and may not be directly comparable with 'adjusted' profit measures used by other companies.

	2016 (Number)	2015 (Number)
Weighted average number of shares in issue	<b>340,696,235</b>	312,568,527
Weighted average number of dilutive share options	<b>478,006</b>	15,919
Weighted average number of shares for diluted earnings per share	<b>341,174,241</b>	312,584,446
	£'m	£'m
Profit for the financial year	<b>66.4</b>	33.2
Non-underlying items	<b>(1.4)</b>	17.9
Total underlying profit for underlying earnings per share	<b>65.0</b>	51.1
	pence	pence
Basic earnings per share	<b>19.5</b>	10.6
Diluted earnings per share	<b>19.5</b>	10.6
Underlying basic earnings per share	<b>19.1</b>	16.3
Underlying diluted earnings per share	<b>19.1</b>	16.3

# Notes to the Financial Statements continued

## 11 INTANGIBLE ASSETS

	Goodwill £'m	Software £'m	Total £'m
<b>Cost</b>			
At 1 February 2015	328.2	6.3	334.5
Additions	-	1.1	1.1
Disposals	-	(0.1)	(0.1)
At 31 January 2016	328.2	7.3	335.5
<b>Amortisation</b>			
At 1 February 2015	-	3.5	3.5
Provided in the period	-	1.1	1.1
Disposals	-	(0.1)	(0.1)
At 31 January 2016	-	4.5	4.5
<b>Net book value</b>			
<b>At 31 January 2016</b>	<b>328.2</b>	<b>2.8</b>	<b>331.0</b>
At 31 January 2015	328.2	2.8	331.0

<b>Cost</b>			
At 1 February 2014	328.2	5.4	333.6
Additions	-	0.9	0.9
At 31 January 2015	328.2	6.3	334.5
<b>Amortisation</b>			
At 1 February 2014	-	2.4	2.4
Provided in the period	-	1.1	1.1
At 31 January 2015	-	3.5	3.5
<b>Net book value</b>			
At 31 January 2015	328.2	2.8	331.0
At 31 January 2014	328.2	3.0	331.2

### Impairment testing

For the purposes of impairment testing, goodwill has been allocated to the Group's cash generating units as follows:

	2016 £'m	2015 £'m
Card Factory	<b>313.8</b>	313.8
Getting Personal	<b>14.4</b>	14.4

The recoverable amount has been determined based on value-in-use calculations. Value-in-use calculations are based on 5 year management forecasts and operating cash flows with a 2% (2015: 2%) terminal growth rate applied thereafter, representing management's estimate of the long term growth rate of the sector. The key assumptions on which operating cash flows are based include sales growth and operating costs. The values assigned to each of these assumptions were determined based on historical performance of the Group and expected future trends. The forecast cash flows are discounted at a pre-tax discount rate of 10% (2015: 10%). No impairment loss was identified in the current year (2015: £nil). The valuations indicate sufficient headroom such that a reasonably possible change to key assumptions would not result in an impairment of the related goodwill.



## 12 PROPERTY, PLANT AND EQUIPMENT

	Freehold property £'m	Leasehold improvements £'m	Plant, equipment, fixtures & vehicles £'m	Total £'m
<b>Cost</b>				
At 1 February 2015	17.0	29.0	41.4	87.4
Additions	0.3	3.9	6.3	10.5
Disposals	-	(4.1)	(4.0)	(8.1)
At 31 January 2016	17.3	28.8	43.7	89.8
<b>Depreciation</b>				
At 1 February 2015	1.6	21.8	25.8	49.2
Provided in the period	0.3	2.9	5.4	8.6
Disposals	-	(4.0)	(3.9)	(7.9)
At 31 January 2016	1.9	20.7	27.3	49.9
<b>Net book value</b>				
<b>At 31 January 2016</b>	<b>15.4</b>	<b>8.1</b>	<b>16.4</b>	<b>39.9</b>
At 31 January 2015	15.4	7.2	15.6	38.2
<b>Cost</b>				
At 1 February 2014	16.7	26.1	35.6	78.4
Additions	0.3	2.9	6.0	9.2
Disposals	-	-	(0.2)	(0.2)
At 31 January 2015	17.0	29.0	41.4	87.4
<b>Depreciation</b>				
At 1 February 2014	1.3	19.2	21.2	41.7
Provided in the period	0.3	2.6	4.8	7.7
Disposals	-	-	(0.2)	(0.2)
At 31 January 2015	1.6	21.8	25.8	49.2
<b>Net book value</b>				
At 31 January 2015	15.4	7.2	15.6	38.2
At 31 January 2014	15.4	6.9	14.4	36.7

Disposals in the year include £6.9m cost and accumulated depreciation relating to assets at £nil net book value which have been previously disposed, identified following a review of the fixed asset register. There has been no net financial impact of this review.

# Notes to the Financial Statements continued

## 13 DEFERRED TAX ASSETS AND LIABILITIES

Movement in deferred tax during the year:

	Fixed assets £'m	Share based payments £'m	Derivative financial instruments and hedge accounting £'m	Leases £'m	Other timing differences £'m	Total £'m
At 1 February 2014	0.1	-	0.2	0.8	0.1	1.2
Credit/charge to income statement	0.2	0.2	0.1	0.1	(0.2)	0.4
Charge to other comprehensive income	-	-	(1.4)	-	-	(1.4)
At 31 January 2015	0.3	0.2	(1.1)	0.9	(0.1)	0.2
(Charge)/credit to income statement	(0.3)	0.3	(0.1)	(0.9)	0.4	(0.6)
Credit to other comprehensive income	-	-	0.5	-	-	0.5
Credit to equity	-	0.1	-	-	-	0.1
<b>At 31 January 2016</b>	<b>-</b>	<b>0.6</b>	<b>(0.7)</b>	<b>-</b>	<b>0.3</b>	<b>0.2</b>

Deferred tax assets and liabilities are offset to the extent they are levied by the same tax authority and the Group has a legally enforceable right to make or receive a single payment. Deferred tax assets and liabilities are offset as follows:

	2016 £'m	2015 £'m
Deferred tax assets	<b>0.8</b>	2.9
Deferred tax liabilities	<b>(0.6)</b>	(2.7)
Net deferred tax asset	<b>0.2</b>	0.2

Reductions in the corporation tax rate to 19% from 1 April 2017 and 18% from 1 April 2020 were substantively enacted on 26 October 2015. Deferred tax assets in respect of timing differences are expected to be recoverable against future taxable profits and are recognised according to the rate when the timing differences are expected to reverse.

## 14 INVENTORIES

	2016 £'m	2015 £'m
Finished goods	<b>50.0</b>	41.1
Work in progress	<b>0.4</b>	0.4
	<b>50.4</b>	41.5

The cost of inventories recognised as an expense and charged to cost of sales in the year was £105.1 million (2015: £96.4 million).

**15 TRADE AND OTHER RECEIVABLES**

	2016 £'m	2015 £'m
<b>Current</b>		
Trade receivables	0.3	0.2
Other receivables	0.9	3.0
Prepaid property costs	13.0	11.6
Other prepayments and accrued income	2.8	2.9
	<b>17.0</b>	17.7
<b>Non-current</b>		
Prepaid property costs	1.0	1.2

Non-current prepaid property costs relate to lease premiums and fees released to the income statement over the period of the lease.

Other receivables include £0.5 million (2015: £2.7 million) US Dollar denominated deposits paid on inventory purchases.

**16 CASH AND CASH EQUIVALENTS**

	2016 £'m	2015 £'m
Cash at bank and in hand	11.3	69.0

Included in cash and cash equivalents are £nil (2015: £20.0 million) short-term deposits, accessible at notice periods not exceeding three months.

The Group's cash and cash equivalents are denominated in the following currencies:

	2016 £'m	2015 £'m
Sterling	2.8	68.2
US Dollars	8.5	0.8
	<b>11.3</b>	69.0

**17 BORROWINGS**

	2016 £'m	2015 £'m
<b>Current liabilities</b>		
Bank loans and accrued interest	0.1	14.5
<b>Non-current liabilities</b>		
Bank loans	134.1	155.9

# Notes to the Financial Statements continued

## 17 BORROWINGS CONTINUED

### Bank loans

Bank borrowings are summarised as follows:

	Liability £'m	Interest rate %	Interest margin ratchet range %	Repayment terms
<b>31 January 2016</b>				
Unsecured bank loan	135.0	1.00 + 3M LIBOR	1.00–2.00	£200m RCF. The facility terminates in June 2020
Accrued interest	0.1			
Debt issue costs	(0.9)			
	<b>134.2</b>			
<b>31 January 2015</b>				
Unsecured bank loan	172.5	2.00 + 3M LIBOR	1.50–2.50	£7.5m bi-annual instalments. The facility was due to terminate in April 2019
Accrued interest	0.1			
Debt issue costs	(2.2)			
	<b>170.4</b>			

In June 2015 the Group amended and extended the existing bank borrowing facility to a £200 million revolving credit facility ('RCF') terminating 26 June 2020 with an additional £100 million accordion. Borrowings under the revised facility attract interest at LIBOR plus a margin in the range 1.0% to 2.0%, subject to a leverage ratchet (LIBOR plus 1.00% at 31 January 2016). The facilities are subject to financial covenants typical to an arrangement of this nature.

At the balance sheet date the Group had utilised a further £0.3 million (2015: £0.8 million) of the RCF in relation to letters of credit. The Group utilises letters of credit to facilitate contracts with certain third-party suppliers.

Contractual cash flows of financial liabilities are disclosed in note 23.

## 18 TRADE AND OTHER PAYABLES

	2016 £'m	2015 £'m
<b>Current</b>		
Trade payables	<b>13.6</b>	13.4
Other taxation and social security	<b>3.1</b>	4.3
Deferred consideration	<b>-</b>	0.8
Property accruals and deferred income	<b>6.0</b>	5.5
Other accruals and deferred income	<b>13.1</b>	11.3
	<b>35.8</b>	35.3
<b>Non-current</b>		
Property accruals and deferred income	<b>11.4</b>	10.7

Property deferred income relates to lease incentives recognised in the income statement over the period of the lease.

The Group has net US Dollar denominated trade and other payables of £4.0 million (2015: £5.7 million).

## 19 SHARE CAPITAL AND SHARE PREMIUM

	2016 (Number)	2015 (Number)
<b>Share capital</b>		
Allotted, called up and fully paid ordinary shares of one pence:		
At the start of the period	<b>340,696,235</b>	245,635,000
Issued in settlement of shareholder loan notes	-	50,686,235
Issue of residual management equity	-	4,375,000
Issued on IPO	-	40,000,000
At the end of the period	<b>340,696,235</b>	340,696,235

	£'m	£'m
<b>Share capital</b>		
At the start of the period	<b>3.4</b>	2.5
Issued in settlement of shareholder loan notes	-	0.5
Issue of residual management equity	-	-
Issued on IPO	-	0.4
At the end of the period	<b>3.4</b>	3.4

	£'m	£'m
<b>Share premium</b>		
At the start of the period	<b>201.6</b>	-
Issued in settlement of shareholder loan notes	-	113.5
Issued on IPO	-	89.6
Share issue costs	-	(1.5)
At the end of the period	<b>201.6</b>	201.6

## 20 NOTES TO THE CASH FLOW STATEMENT

Reconciliation of operating profit to cash generated from operations:

	2016 £'m	2015 £'m
<b>Profit before tax</b>	<b>83.7</b>	42.7
Net finance expense	<b>5.2</b>	21.6
<b>Operating profit</b>	<b>88.9</b>	64.3
Adjusted for:		
Depreciation and amortisation	<b>9.7</b>	8.8
Loss on disposal of fixed assets	<b>0.1</b>	-
Cash flow hedging foreign currency gains	<b>2.4</b>	0.4
Share based payments charge	<b>1.3</b>	10.3
<b>Operating cash flows before changes in working capital</b>	<b>102.4</b>	83.8
(Increase)/decrease in receivables	<b>(3.0)</b>	0.7
Increase in inventories	<b>(8.9)</b>	(2.2)
Increase in payables	<b>1.7</b>	2.6
<b>Cash inflow from operating activities</b>	<b>92.2</b>	84.9

# Notes to the Financial Statements continued

## 21 ANALYSIS OF NET DEBT

	At 1 February 2015 £'m	Cash flow £'m	Non-cash changes £'m	At 31 January 2016 £'m
Unsecured bank loans	(170.4)	38.3	(2.1)	<b>(134.2)</b>
Cash and cash equivalents	69.0	(57.7)	-	<b>11.3</b>
<b>Total net debt</b>	<b>(101.4)</b>	<b>(19.4)</b>	<b>(2.1)</b>	<b>(122.9)</b>

	At 1 February 2014 £'m	Cash flow £'m	Non-cash changes £'m	At 31 January 2015 £'m
Unsecured bank loans	(277.8)	116.2	(8.8)	(170.4)
Loan notes and accrued interest	(109.7)	-	109.7	-
Finance leases	(0.1)	0.1	-	-
<b>Total borrowings</b>	<b>(387.6)</b>	<b>116.3</b>	<b>100.9</b>	<b>(170.4)</b>
Cash and cash equivalents	40.7	28.3	-	69.0
<b>Total net debt</b>	<b>(346.9)</b>	<b>144.6</b>	<b>100.9</b>	<b>(101.4)</b>

In May 2014, prior to the IPO, the Group issued shares at market value in full settlement of £114.0 million loan notes and accrued interest.

In May 2014 the Group re-financed secured bank borrowings, utilising retained cash and proceeds from the IPO to reduce bank debt to £180 million with a £20 million RCF for working capital purposes.

In June 2015 the Group amended and extended the existing bank borrowing facility to a £200 million RCF terminating 26 June 2020 with an additional £100 million accordion. Borrowings under the revised facility attract interest at LIBOR plus a margin in the range 1.0% to 2.0%, subject to a leverage ratchet (LIBOR plus 1.00% at 31 January 2016). The facilities are subject to financial covenants typical to an arrangement of this nature.

## 22 OPERATING LEASE COMMITMENTS

Future minimum rentals payable under non-cancellable operating leases:

	2016 £'m	2015 £'m
Aggregate future minimum lease payments:		
Within one year	<b>38.0</b>	36.4
Within one to two years	<b>34.6</b>	33.1
Within two to three years	<b>29.6</b>	29.4
Within three to four year	<b>23.9</b>	24.2
Within four to five years	<b>17.6</b>	18.6
Within five to ten years	<b>27.6</b>	32.1
Within eleven to fifteen years	<b>0.8</b>	0.7
	<b>172.1</b>	174.5

The Group enters into non-cancellable operating leases, primarily in respect of retail stores. The majority of the Group's operating leases provide for their renewal by mutual agreement at the expiry of the lease term. Certain leases have a break clause, enforceable at the discretion of the Group. The Group also leases the majority of its motor vehicle fleet, a small amount of equipment and an element of its warehousing requirements.

## 23 FINANCIAL RISK MANAGEMENT

The principal financial risks faced by the Group are liquidity, foreign currency, interest rate and counterparty credit risk.

The Board have overall responsibility for managing risks and uncertainties across the Group. The principal financial risks and uncertainties and the actions taken to mitigate them are reviewed on an on-going basis. Further details of

the Group's approach to managing risk are included in the Principal Risks and Uncertainties section of the Strategic Report on pages 21 to 23 and in the Corporate Governance Report on pages 34 to 43.

### Liquidity risk

The Group generates significant operational cash inflows and can draw down on immediate request against a £200 million revolving credit facility. At the balance sheet date the Group had undrawn RCF facilities of £70.2 million. Cash flow forecasts are prepared to assist management in identifying future liquidity requirements.

Long term bank funding is subject to certain agreed financial covenants. The risk of a breach of these covenants is mitigated by regular financial forecasting, detailed covenant modelling and monitoring of covenant compliance. As at 31 January 2016, the Group had adequate headroom against all of its financial covenants. Further details on Group borrowings are set out in note 17 of the financial statements.

The table below analyses the contractual cash flows of the Group's non-derivative financial liabilities as at the balance sheet date. The amounts disclosed in the tables are the contractual undiscounted cash flows, inclusive of interest, stated at balance sheet date interest rates in respect of floating interest rate liabilities.

	Less than one year £'m	One to two years £'m	Two to five years £'m	More than five years £'m	Total £'m
<b>At 31 January 2016</b>					
Unsecured bank loans	<b>0.1</b>	-	<b>135.0</b>	-	<b>135.1</b>
Trade and other payables	<b>32.7</b>	-	-	-	<b>32.7</b>
	<b>32.8</b>	-	<b>135.0</b>	-	<b>167.8</b>
<b>At 31 January 2015</b>					
Unsecured bank loans	19.3	19.0	150.0	-	188.3
Trade and other payables	31.7	-	-	-	31.7
Deferred consideration	0.8	-	-	-	0.8
	51.8	19.0	150.0	-	220.8

The table below analyses the contractual cash flows of the Group's derivative financial instruments as at the balance sheet date. The amounts disclosed represent the total contractual undiscounted cash flows at the balance sheet date exchange and interest rates.

	Less than one year £'m	One to two years £'m	Two to five years £'m	More than five years £'m	Total £'m
<b>At 31 January 2016</b>					
Foreign exchange contracts					
- Inflow	<b>47.0</b>	<b>29.5</b>	<b>7.0</b>	-	<b>83.5</b>
- Outflow	<b>(41.8)</b>	<b>(25.9)</b>	<b>(6.1)</b>	-	<b>(73.8)</b>
Interest rate contracts					
- Outflow	<b>(0.2)</b>	<b>(0.1)</b>	<b>(0.1)</b>	-	<b>(0.4)</b>
<b>At 31 January 2015</b>					
Foreign exchange contracts					
- Inflow	63.7	-	-	-	63.7
- Outflow	(58.2)	-	-	-	(58.2)
Interest rate contracts					
- Outflow	(0.2)	-	-	-	(0.2)

### Foreign currency risk

A significant proportion of the Group's retail products are procured from overseas suppliers denominated in US Dollars. Current Group policy requires forward cover to be in place for at least 50% of the next 12 months' rolling US Dollar requirement using foreign exchange derivative contracts and US Dollar denominated cash balances. The policy permits a maximum of 40% of each financial year's US Dollar requirement to be covered by structured options and similar instruments.

# Notes to the Financial Statements continued

## 23 FINANCIAL RISK MANAGEMENT CONTINUED

The table below analyses the sensitivity of the Group's US Dollar denominated financial instruments to a 10 cent movement in the USD to GBP exchange rate at the balance sheet date, holding all other assumptions constant.

	2016		2015	
	Impact on profit after tax £'m	Impact on cash flow hedging reserve £'m	Impact on profit after tax £'m	Impact on cash flow hedging reserve £'m
10 cent increase	<b>(3.4)</b>	<b>(1.0)</b>	-	(3.4)
10 cent decrease	<b>3.7</b>	<b>1.2</b>	-	3.8

### Interest rate risk

The Group's principal interest rate risk arises from long-term borrowings. Bank borrowings are denominated in Sterling and are borrowed at floating interest rates. The Group utilises interest rate derivative financial instruments to mitigate the interest rate risk on an element of these borrowing costs.

The table below shows the impact on the reported results of a 50 basis point increase or decrease in the interest rate for the year.

	2016		2015	
	Impact on profit after tax £'m	Impact on cash flow hedging reserve £'m	Impact on profit after tax £'m	Impact on cash flow hedging reserve £'m
50 basis point interest rate increase	-	<b>0.1</b>	(0.2)	(0.3)
50 basis point interest rate decrease	<b>0.1</b>	<b>(0.1)</b>	0.2	0.3

### Counterparty credit risk

The Group is exposed to counterparty credit risk on its holdings of cash and cash equivalents and derivative financial assets. To mitigate the risk, counterparties are limited to high credit-quality financial institutions and exposures are monitored on a monthly basis. Under the revised borrowing facility, Sterling cash balances are maintained at near zero to minimise interest expense on the RCF, thereby reducing counterparty credit risk on cash balances.

The Group is also exposed to counterparty credit risk in relation to payments in advance of goods to overseas suppliers. At 31 January 2016 this exposure amounted to £0.5 million (2015: £2.7 million). The Group utilises letters of credit for certain overseas suppliers, thereby reducing the total exposure to advance payments.

As a retail business the Group has minimal exposure to credit risk on trade receivables.

### Capital management

The Group's capital risk management policy is to maintain a capital structure that is conservative yet efficient in terms of providing long-term returns to shareholders.

The Group defines capital as equity attributable to the equity holders of the parent plus net debt. Net debt is shown in note 21.

The Group has a continued focus on free cash flow generation. The Board monitors a range of financial metrics together with banking covenant ratios, maintaining suitable headroom to ensure that the Group's financing requirements continue to be serviceable.

## 24 FINANCIAL INSTRUMENTS

### Fair value

Financial instruments carried at fair value are measured by reference to the following fair value hierarchy:

- Level 1: quoted prices in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).



Derivative financial instruments are carried at fair value and measured under a level 2 valuation method.

### Derivative financial instruments

The balance sheet date fair value of derivative financial instruments is as follows:

	2016 £'m	2015 £'m
<b>Derivative assets</b>		
<i>Non-current</i>		
Interest rate contracts	0.3	-
Foreign exchange contracts	1.5	-
	<b>1.8</b>	-
<i>Current</i>		
Foreign exchange contracts	3.5	5.8
<b>Derivative liabilities</b>		
<i>Current</i>		
Interest rate contracts	(0.2)	(0.1)

### Interest rate swap

At 31 January 2016 the Group held fixed for floating interest rate swaps and interest rate caps with notional principal amounts totalling £60.0 million for the period to October 2018, reducing to £20.0 million to October 2019 (2015: £100.0 million expiring October 2015), to hedge a portion of the variable interest rate risk on bank borrowings. Fair value movements of £0.1 million (2015: £nil) were expensed to the income statement as a non-underlying item within financial expense.

### Foreign exchange contracts

At 31 January 2016 the Group held a portfolio of foreign currency derivative contracts with notional principal amounts totalling £73.8 million at the contract rate (2015: £58.2 million) to mitigate the exchange risk on future US Dollar denominated trade purchases. Foreign currency derivative contracts with a notional value of £61.8 million (2015: £nil) were not designated as hedging relationships. Fair value movements in foreign currency derivatives are recognised in other comprehensive income to the extent the contract is part of an effective hedging relationship. Fair value movements of £3.9 million that do not form part of an effective hedging relationship have been credited to the income statement (2015: £0.1 million expensed) as a non-underlying item within cost of sales (see note 3).

### Classification of financial instruments

The table below shows the classification of financial assets and liabilities at the balance sheet date.

	Held for trading £'m	Cash flow hedging instruments £'m	Loans and receivables £'m	Other financial liabilities £'m
<b>At 31 January 2016</b>				
<b>Financial assets measured at fair value</b>				
Derivative financial instruments	3.7	1.6	-	-
<b>Financial assets not measured at fair value</b>				
Trade and other receivables	-	-	1.2	-
Cash and cash equivalents	-	-	11.3	-
<b>Financial liabilities measured at fair value</b>				
Derivative financial instruments	-	(0.2)	-	-
<b>Financial liabilities not measured at fair value</b>				
Unsecured bank loans	-	-	-	(134.2)
Trade and other payables	-	-	-	(32.7)
	<b>3.7</b>	<b>1.4</b>	<b>12.5</b>	<b>(166.9)</b>

# Notes to the Financial Statements continued

## 24 FINANCIAL INSTRUMENTS CONTINUED

	Held for trading £'m	Cash flow hedging instruments £'m	Loans and receivables £'m	Other financial liabilities £'m
<b>At 31 January 2015</b>				
<b>Financial assets measured at fair value</b>				
Derivative financial instruments	-	5.8	-	-
<b>Financial assets not measured at fair value</b>				
Trade and other receivables	-	-	3.2	-
Cash and cash equivalents	-	-	69.0	-
<b>Financial liabilities measured at fair value</b>				
Derivative financial instruments	-	(0.1)	-	-
<b>Financial liabilities not measured at fair value</b>				
Unsecured bank loans	-	-	-	(170.4)
Deferred consideration	-	-	-	(0.8)
Trade and other payables	-	-	-	(31.7)
	-	5.7	72.2	(202.9)

The fair values of financial instruments have been assessed as approximating to their carrying values.

Derivative financial instruments are utilised to mitigate foreign exchange risk on the requisition of inventory and interest rate risk on borrowings. The Group does not trade in derivative financial instruments. However, certain derivatives not designated as a hedging relationship are classified as held for trading for accounting purposes.

## 25 EQUITY SETTLED SHARE BASED PAYMENT ARRANGEMENTS

### Card Factory Long Term Incentive Plan ('LTIP')

The Company grants awards of shares to the Executive Directors, members of the senior management team and senior employees under the terms of the LTIP. Grants are made annually under the scheme subject to approval by the Board. The award comprises a right to receive free shares or nil cost options. The shares will be issued within 30 days, or as soon as practicable, after the vesting date. The grants awarded in favour of senior employees are subject to a three year vesting period. The grants awarded in favour of the Executive Directors and members of the senior management team are subject to a three year vesting period and include performance conditions. Further details on Executive Director LTIP awards are provided in the Directors' Remuneration Report on pages 50 to 66. All shares received on vesting of Executive Director and senior management awards are subject to a two year holding period (sale of shares is permitted to cover personal tax and social security contributions arising on the awards).

### Card Factory SAYE Scheme ('SAYE')

The SAYE scheme, established during the year, is open to all staff with eligible length of service. Grants are made annually under the scheme subject to approval by the Board. Options may be exercised under the scheme within six months of the completion of the three year savings contract. There is provision for early exercise in certain circumstances such as death, disability, redundancy and retirement.

### Other options awarded

Under his terms of appointment dated 30 April 2014, Geoff Cooper, the Company's Non-Executive Chairman, was granted the option to purchase £330,000 of ordinary shares as part of, or alongside, the IPO at the offer price (£2.25), £330,000 of ordinary shares at the offer price (£2.25) on the date falling two years after the date of admission to the London Stock Exchange and £330,000 at the offer price (£2.25) on the date falling three years after the date of admission. The entitlement to make such purchases is conditional upon and subject to Mr Cooper remaining as Chairman of the Company on such date.

## Reconciliation of outstanding awards

	LTIP		SAYE		Other options awarded	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at 1 February 2014	-	-	-	-	-	-
Granted during the year	1,092,222	£0.00	-	-	439,998	£2.25
Exercised during the year	-	-	-	-	(146,666)	£2.25
Forfeited during the year	(66,667)	£0.00	-	-	-	-
Outstanding at 31 January 2015	1,025,555	£0.00	-	-	293,332	£2.25
Granted during the year	895,747	£0.00	793,961	£2.90	-	-
Exercised during the year	-	-	-	-	-	-
Forfeited during the year	(54,015)	£0.00	(47,697)	£2.90	-	-
Outstanding at 31 January 2016	<b>1,867,287</b>	<b>£0.00</b>	<b>746,264</b>	<b>£2.90</b>	<b>293,332</b>	<b>£2.25</b>

No options were exercisable at 31 January 2016.

## Fair value of awards

The fair value of awards granted during the year has been measured using the Black-Scholes model assuming the inputs below.

	2016		2015			
	LTIP	SAYE	LTIP	Other options awarded		
				Award 1	Award 2	Award 3
Fair value at grant date	<b>£3.08</b>	<b>£0.53</b>	£2.25	£0.00	£0.33	£0.39
Share price at grant date	<b>£3.08</b>	<b>£3.27</b>	£2.25	£2.25	£2.25	£2.25
Exercise price	<b>£0.00</b>	<b>£2.90</b>	£0.00	£2.25	£2.25	£2.25
Expected volatility	<b>30%</b>	<b>30%</b>	30%	Nil*	30%	30%
Expected term	<b>3 years</b>	<b>3 years</b>	3 years	Nil*	2 years	3 years
Expected dividend yield	<b>N/A**</b>	<b>6.0%</b>	N/A**	Nil*	2.7%	2.7%
Risk free interest rate	<b>0.67%</b>	<b>0.92%</b>	1.18%	Nil*	0.82%	1.18%

\* Award 1 was exercisable immediately on IPO.

\*\* LTIP awards have a £nil exercise price and accrue dividend equivalents over the vesting period, consequently the fair value at grant date is equal to the grant date share price.

The expected volatility is based on historical volatility of a peer group of companies over a relevant period prior to the awards.

## Impact on the income statement

The total expense recognised in the income statement arising from share based payments is as follows:

	2016 £'m	2015 £'m
Residual management equity*	-	9.8
Card Factory LTIP	<b>1.2</b>	0.5
SAYE	<b>0.1</b>	-
	<b>1.3</b>	10.3

\* On admission to the London Stock Exchange, shares with a fair value of £9.8 million were issued at nominal value in relation to residual management equity as detailed in the IPO prospectus. Employer national insurance of £1.4 million was incurred on the issue of the shares. These non-recurring share based payments are presented as a non-underlying item in the prior year income statement (see note 3).

The amounts disclosed above do not include employer's national insurance costs.

# Notes to the Financial Statements continued

## 26 CAPITAL COMMITMENTS

There were capital commitments of £0.6 million at 31 January 2016 (2015: £0.1 million).

## 27 CONTINGENT LIABILITIES

There were no material contingent liabilities at 31 January 2016 (2015: £0.2 million in relation to deferred contingent consideration).

## 28 RELATED PARTY TRANSACTIONS

The Group has taken advantage of the exemptions contained within IAS 24 'Related Party Disclosures' from the requirement to disclose transactions between Group companies as these have been eliminated on consolidation.

### Transactions with key management personnel

The key management personnel of the Group comprise the Card Factory plc Board of Directors and the Operational Board. Disclosures relating to remuneration of key management personnel are included in note 6 of the financial statements. Further details of Directors' remuneration are set out in the Directors' Remuneration Report on pages 50 to 66. Directors of the Company and their immediate families control 5.1% of the ordinary shares of the Company.

There were no other related party transactions in the year.

### Related party transaction in the prior year

#### Settlement of shareholder loan notes

In May 2014, as detailed in the IPO prospectus, the Company issued 50.7 million ordinary shares at market value in full settlement of all outstanding 14% loan notes totalling £114.0 million. Included in the settlement of the loan notes were amounts due to related parties as follows:

	Charterhouse* £'m	Richard Hayes £'m	Darren Bryant £'m	Other key management personnel £'m	Non-related parties £'m	Total £'m
<b>Balance at 31 January 2014</b>	86.7	2.5	0.1	18.9	1.5	<b>109.7</b>
Interest accrued in the year	3.4	0.1	-**	0.7	0.1	<b>4.3</b>
Settled by shares in May 2014	(90.1)	(2.6)	(0.1)	(19.6)	(1.6)	<b>(114.0)</b>
<b>Balance at 31 January 2015</b>	-	-	-	-	-	<b>-</b>

\* Charterhouse General Partners (IX) Limited, as general partner of funds managed by it, has ceased to be a related party of the Group. Transactions with Charterhouse in the prior year are disclosed by virtue of their controlling interest prior to the IPO and representation on the Board of Directors prior to 3 February 2015. The total aggregate fee for Director services payable to Charterhouse in the prior year was £45,000 per annum (pre IPO: £40,000 per annum).

\*\* Actual figure £2,326.

### Residual management equity

In May 2014, as detailed in the IPO prospectus, the Company issued 4.375 million ordinary shares at nominal value in relation to residual management equity. Included in this amount were 1.875 million shares issued to Darren Bryant, Chief Financial Officer and 1.875 million shares to other key management personnel who are not Directors of Card Factory plc.

## 29 SUBSIDIARY UNDERTAKINGS

At 31 January 2016 the Group controlled 100% of the issued ordinary share capital of the following subsidiaries, all of which are registered in England and Wales, and all of which are included in the consolidated financial statements.

Subsidiary undertaking	Nature of business
CF Bidco Limited*	Intermediate holding company
Sportswift Limited	Sale of greeting cards and gifts
Printcraft Limited	Printers
Getting Personal Limited	Sale of personalised products and gifts
CF Topco Limited*	Dormant**
CF Interco Limited	Dormant**
Short Rhyme Limited	Dormant**
Heavy Distance Limited	Dormant**
Getting Personal Group Limited	Dormant**
Getting Personal (UK) Limited	Dormant**
Lupfaw 221 Limited	Dormant***
Sportswift Properties Limited	Dormant***
CF Midco Limited	Dormant
Century Cards Limited	Dormant
Rose Card Limited	Dormant
Celebration Cards Limited	Dormant
Sportswift Trading Limited	Dormant
CF Newco Limited	Dormant
321 Cards Limited	Dormant
Card Concepts Limited	Dormant
Excelsior Graphics Limited	Dormant
Card Factory Stores Limited	Dormant
Card Factory Retail Limited	Dormant
Card Factory Online Limited	Dormant
Card Factory Greetings Limited	Dormant

\* Shares held directly. All other subsidiaries shares are held indirectly through subsidiary undertakings.

\*\* Formerly intermediate holding company prior to a Group re-organisation undertaken in the year to simplify the Group structure.

\*\*\* Formerly inter-company property letting prior to a Group re-organisation undertaken in the year to simplify the Group structure.

# Parent Company Balance Sheet

## AS AT 31 JANUARY 2016

	Note	2016 £'m	2015 £'m
<b>Non-current assets</b>			
Investments	4	116.2	5.1
Deferred tax	5	0.3	0.1
		<b>116.5</b>	5.2
<b>Current assets</b>			
Trade and other receivables	6	162.6	333.3
		<b>279.1</b>	338.5
<b>Total assets</b>			
		<b>279.1</b>	338.5
<b>Current liabilities</b>			
Trade and other payables	7	(1.5)	(15.9)
		<b>277.6</b>	322.6
<b>Net assets</b>			
		<b>277.6</b>	322.6
<b>Equity</b>			
Share capital	8	3.4	3.4
Share premium	8	201.6	201.6
Merger reserve		2.7	2.7
Retained earnings		69.9	114.9
<b>Equity attributable to equity holders of the parent</b>		<b>277.6</b>	322.6

The financial statements on pages 108 to 118 were approved by the Board of Directors on 4 April 2016 and were signed on its behalf by:

**Darren Bryant**  
Chief Financial Officer

Company number 09002747

# Parent Company Statement of Changes in Equity

## FOR THE YEAR ENDED 31 JANUARY 2016

	Share capital £'m	Share premium £'m	Merger reserve £'m	Retained earnings £'m	Total equity £'m
<b>Total comprehensive income for the year</b>					
Profit or loss	-	-	-	104.6	104.6
<b>Transactions with owners, recorded directly in equity</b>					
Issue of shares – net of issue costs (note 8)	3.4	201.6	2.7	-	207.7
Share based payments	-	-	-	10.3	10.3
	3.4	201.6	2.7	10.3	218.0
<b>At 31 January 2015</b>	3.4	201.6	2.7	114.9	322.6
<b>Total comprehensive income for the year</b>					
Profit or loss	-	-	-	36.7	36.7
<b>Transactions with owners, recorded directly in equity</b>					
Share based payments	-	-	-	1.3	1.3
Taxation on share based payments recognised in equity	-	-	-	0.1	0.1
Dividends	-	-	-	(83.1)	(83.1)
	-	-	-	(81.7)	(81.7)
<b>At 31 January 2016</b>	<b>3.4</b>	<b>201.6</b>	<b>2.7</b>	<b>69.9</b>	<b>277.6</b>

# Parent Company Cash Flow Statement

## FOR THE YEAR ENDED 31 JANUARY 2016

	Note	2016 £'m	2015 £'m
<b>Cash inflow from operating activities</b>	12	<b>0.4</b>	2.1
Corporation tax paid		-	-
<b>Net cash inflow from operating activities</b>		<b>0.4</b>	2.1
<b>Cash flows from investing activities</b>			
Dividends received		<b>32.8</b>	103.7
Issue of loans to group undertakings		-	(198.7)
Repayment of loans by group undertakings		<b>156.4</b>	-
Interest received from group undertakings		<b>4.3</b>	4.4
Purchase of investments		<b>(111.1)</b>	-
<b>Net cash inflow/(outflow) from investing activities</b>		<b>82.4</b>	(90.6)
<b>Cash flows from financing activities</b>			
Proceeds from new shares issued		-	88.5
Dividends paid		<b>(82.8)</b>	-
<b>Net cash inflow from financing activities</b>		<b>(82.8)</b>	88.5
Net increase in cash and cash equivalents		-	-
Cash and cash equivalents on incorporation		-	-
<b>Closing cash and cash equivalents</b>		<b>-</b>	-



# Notes to the Parent Company

## Financial Statements

### 1 ACCOUNTING POLICIES

#### Basis of preparation

The Company financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('EU IFRS') and with those parts of the Companies Act 2006 applicable to companies reporting under EU IFRS.

The financial statements have been prepared under the historical cost convention.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

#### Principal accounting policies

The principal accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

#### Income statement

The Company made a profit after tax of £36.7 million for the year ended 31 January 2016 (2015: £104.6 million), including £32.8 million dividends received from subsidiary undertakings (2015: £103.7 million). As permitted by section 408 of the Companies Act 2006, the income statement of the Company is not presented as part of the financial statements.

#### Investments

Investments in subsidiary undertakings are held at cost less any provision for impairment.

#### Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

#### Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

#### Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

#### Merger reserve

On 30 April 2014 Card Factory plc acquired 100% of the share capital of CF Topco Limited in a share for share exchange, thereby inserting Card Factory plc as the Parent Company of the Group. The shareholders of CF Topco Limited became 100% owners of the enlarged share capital of Card Factory plc. The premium arising on the issue of shares is recognised in the merger reserve.

#### Share based payments

The Company issues equity-settled share based payments to employees through the Card Factory Long Term Incentive Plan ('LTIP') and the Card Factory SAYE Scheme ('SAYE'), see note 9 for further details. The cost of equity-settled share awards is measured as the fair value of the award at the grant date using the Black-Scholes model.

The cost of awards to employees of the Company is expensed to the income statement, together with a corresponding adjustment to equity, on a straight line basis over the vesting period of the award. The cost of awards to employees of subsidiary undertakings is recognised as a capital contribution, immediately reimbursed by the subsidiary. The total cost of the awards is based on the Group's estimate of the number of share awards that will eventually vest in accordance with the vesting conditions. The awards do not include market-based vesting conditions. At each balance sheet date, the Group revises its estimate of the number of awards that are expected to vest. Any revision to estimates is recognised in the income statement, with a corresponding adjustment to equity. The expense recognised in the Company income statement is subsequently charged to subsidiary entities to the extent that management services are provided to those subsidiary entities.

# Notes to the Parent Company

## Financial Statements continued

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### 1 ACCOUNTING POLICIES CONTINUED

#### Dividends

Dividends are recognised as a liability in the period in which they are approved such that the Company is obliged to pay the dividend.

#### Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity or through other comprehensive income, in which case it is recognised in equity or other comprehensive income respectively.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

#### New standards and interpretations

##### ***EU Endorsed International Financial Reporting Standards effective in the year***

The following new and amended standards, adopted in the current financial year, had no significant impact on the financial statements.

- Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)
- Annual Improvements to IFRSs 2010–2012 cycle
- Annual Improvements to IFRSs 2011–2013 cycle

##### ***EU Endorsed International Financial Reporting Standards in issue but not yet effective***

The Directors considered the impact on the Company of EU endorsed, new and revised accounting standards, interpretations or amendments. The following revised accounting standards are currently endorsed but effective for periods beginning on or after 1 January 2016. None are expected to have a significant impact on the financial statements.

- Agriculture: Bearer plants (Amendments to IAS 16 and IAS 41)
- Clarification of acceptable methods of depreciation (Amendments to IAS 16 and IAS 38)
- Accounting for acquisitions of interest in joint operations (Amendments to IFRS 11)
- Annual Improvements to IFRSs 2012–2014 cycle
- Equity method in separate financial statements (Amendments to IAS 27)
- Investment entities: applying the consolidation exception (Amendments to IAS 28, IFRS 10 and IFRS 12)

The future impact on the financial statements of new standards and amendments awaiting EU endorsement is currently being assessed. New standards awaiting EU endorsement include IFRS 9 'financial instruments', IFRS 16 'leases' and IFRS 15 'revenue from contracts with customers'.

### 2 EMPLOYEE COSTS

The Company has no employees other than the Board of Directors. Full details of Directors' remuneration are set out in the Directors' Remuneration Report on pages 50 to 66.

### 3 DIVIDENDS

The Board is recommending a final dividend in respect of the financial year ended 31 January 2016 of 6.0 pence per share (2015: 4.5 pence per share), resulting in a total final dividend of £20.4 million (2015: £15.4 million). The dividend will, subject to shareholders' approval at the Annual General Meeting on 24 May 2016, be paid on 10 June 2016 to shareholders on the register at the close of business on 6 May 2015. No liability is recorded in the financial statements in respect of this final dividend as it was not approved at the balance sheet date.

#### Dividends paid in the year:

	Pence per share	2016 £'m	2015 £'m
Special dividend for the year ended 31 January 2016	15.0p	<b>51.1</b>	-
Interim dividend for the year ended 31 January 2016	2.5p	<b>8.5</b>	-
Final dividend for the year ended 31 January 2015	4.5p	<b>15.4</b>	-
Interim dividend for the year ended 31 January 2015	2.3p	<b>7.8</b>	-
		<b>82.8</b>	-

Dividends totalling £82.8 million were paid in the year with a further £0.3 million accrued in relation to share based long-term incentive schemes.

### 4 INVESTMENTS IN SUBSIDIARIES

	£'m
At incorporation	-
Additions	5.1
<b>At 31 January 2015</b>	<b>5.1</b>
Additions	111.1
<b>At 31 January 2016</b>	<b>116.2</b>

Additions in the year comprise the acquisition of 100% of the issued ordinary share capital of CF Bidco Limited from CF Interco Limited, both 100% owned subsidiary entities, as part of a simplification of the Group structure.

The Directors' are satisfied that there is no indication of an impairment of the investment in subsidiaries.

# Notes to the Parent Company

## Financial Statements continued

### 4 INVESTMENTS IN SUBSIDIARIES CONTINUED

#### Subsidiary undertakings

At 31 January 2016 the Group controlled 100% of the issued ordinary share capital of the following subsidiaries, all of which are registered in England and Wales, and all of which are included in the consolidated financial statements.

Subsidiary undertaking	Nature of business
CF Bidco Limited*	Intermediate holding company
Sportswift Limited	Sale of greeting cards and gifts
Printcraft Limited	Printers
Getting Personal Limited	Sale of personalised products and gifts
CF Topco Limited*	Dormant**
CF Interco Limited	Dormant**
Short Rhyme Limited	Dormant**
Heavy Distance Limited	Dormant**
Getting Personal Group Limited	Dormant**
Getting Personal (UK) Limited	Dormant**
Lupfaw 221 Limited	Dormant***
Sportswift Properties Limited	Dormant***
CF Midco Limited	Dormant
Century Cards Limited	Dormant
Rose Card Limited	Dormant
Celebration Cards Limited	Dormant
Sportswift Trading Limited	Dormant
CF Newco Limited	Dormant
321 Cards Limited	Dormant
Card Concepts Limited	Dormant
Excelsior Graphics Limited	Dormant
Card Factory Stores Limited	Dormant
Card Factory Retail Limited	Dormant
Card Factory Online Limited	Dormant
Card Factory Greetings Limited	Dormant

\* Shares held directly. All other subsidiaries shares are held indirectly through subsidiary undertakings.

\*\* Formerly intermediate holding company prior to a Group re-organisation undertaken in the year to simplify the Group structure.

\*\*\* Formerly inter-company property letting prior to a Group re-organisation undertaken in the year to simplify the Group structure.

### 5 DEFERRED TAX ASSET

	2016 £'m	2015 £'m
Deferred tax assets in relation to share based payments	<b>0.3</b>	0.1

### 6 TRADE AND OTHER RECEIVABLES

	2016 £'m	2015 £'m
Amounts owed by Group undertakings	<b>162.5</b>	333.3
Prepayments and other debtors	<b>0.1</b>	-
	<b>162.6</b>	333.3

Amounts owed by Group undertakings are unsecured, repayable on demand and subject to an interest charge of 2% per annum (2015: 3% per annum).

## 7 TRADE AND OTHER PAYABLES

	2016 £'m	2015 £'m
Amounts owed to Group undertakings	-	14.9
Accruals	<b>1.5</b>	1.0
	<b>1.5</b>	15.9

Amounts owed to Group undertakings are unsecured, repayable on demand and subject to an interest charge of 2% per annum (2015: 3% per annum).

## 8 SHARE CAPITAL AND SHARE PREMIUM

	2016 (Number)	2015 (Number)
<b>Share capital</b>		
Allotted, called up and fully paid ordinary shares of one pence:		
At the start of the period	<b>340,696,235</b>	-
Issued on incorporation	-	100
Issued to acquire CF Topco Limited	-	245,634,900
Issued in settlement of shareholder loan notes	-	50,686,235
Issue of residual management equity	-	4,375,000
Issued on IPO	-	40,000,000
At the end of the period	<b>340,696,235</b>	340,696,235
	£'m	£'m

### Share capital

At the start of the period	<b>3.4</b>	-
Issued on incorporation	-	-
Issued to acquire CF Topco Limited	-	2.5
Issued in settlement of shareholder loan notes	-	0.5
Issue of residual management equity	-	-
Issued on IPO	-	0.4
At the end of the period	<b>3.4</b>	3.4
	£'m	£'m

### Share premium

At the start of the period	<b>201.6</b>	-
Issued in settlement of shareholder loan notes	-	113.5
Issued on IPO	-	89.6
Share issue costs	-	(1.5)
At the end of the period	<b>201.6</b>	201.6

## 9 EQUITY SETTLED SHARE BASED PAYMENT ARRANGEMENTS

### Card Factory Long Term Incentive Plan ('LTIP')

The Company grants awards of shares to the Executive Directors, members of the senior management team and senior employees under the terms of the LTIP. Grants are made annually under the scheme subject to approval by the Board. The award comprises a right to receive free shares or nil cost options. The shares will be issued within 30 days, or as soon as practicable, after the vesting date. The grants awarded in favour of senior employees are subject to a three year vesting period. The grants awarded in favour of the Executive Directors and members of the senior management team are subject to a three year vesting period and include performance conditions. Further details on Executive Director LTIP awards are provided in the Directors' Remuneration Report on pages 50 to 66. All shares received on vesting of Executive Director and senior management awards are subject to a two year holding period (sale of shares is permitted to cover personal tax and social security contributions arising on the awards).

# Notes to the Parent Company

## Financial Statements continued

### 9 EQUITY SETTLED SHARE BASED PAYMENT ARRANGEMENTS CONTINUED

#### Card Factory SAYE Scheme ('SAYE')

The SAYE scheme, established during the year, is open to all staff with eligible length of service. Grants are made annually under the scheme subject to approval by the Board. Options may be exercised under the scheme within six months of the completion of the three year savings contract. There is provision for early exercise in certain circumstances such as death, disability, redundancy and retirement.

#### Other options awarded

Under his terms of appointment dated 30 April 2014, Geoff Cooper, the Company's Non-Executive Chairman, was granted the option to purchase £330,000 of ordinary shares as part of, or alongside, the IPO at the offer price (£2.25), £330,000 of ordinary shares at the offer price (£2.25) on the date falling two years after the date of admission to the London Stock Exchange and £330,000 at the offer price (£2.25) on the date falling three years after the date of admission. The entitlement to make such purchases is conditional upon and subject to Mr Cooper remaining as Chairman of the Company on such date.

#### Reconciliation of outstanding awards

	LTIP		SAYE		Other options awarded	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at 1 February 2014	-	-	-	-	-	-
Granted during the year	1,092,222	£0.00	-	-	439,998	£2.25
Exercised during the year	-	-	-	-	(146,666)	£2.25
Forfeited during the year	(66,667)	£0.00	-	-	-	-
Outstanding at 31 January 2015	1,025,555	£0.00	-	-	293,332	£2.25
Granted during the year	895,747	£0.00	793,961	£2.90	-	-
Exercised during the year	-	-	-	-	-	-
Forfeited during the year	(54,015)	£0.00	(47,697)	£2.90	-	-
Outstanding at 31 January 2016	<b>1,867,287</b>	<b>£0.00</b>	<b>746,264</b>	<b>£2.90</b>	<b>293,332</b>	<b>£2.25</b>

No options were exercisable at 31 January 2016.

#### Fair value of awards

The fair value of awards granted during the year has been measured using the Black-Scholes model assuming the inputs below.

	2016		2015			
	LTIP	SAYE	LTIP	Award 1	Award 2	Award 3
Fair value at grant date	<b>£3.08</b>	<b>£0.53</b>	£2.25	£0.00	£0.33	£0.39
Share price at grant date	<b>£3.08</b>	<b>£3.27</b>	£2.25	£2.25	£2.25	£2.25
Exercise price	<b>£0.00</b>	<b>£2.90</b>	£0.00	£2.25	£2.25	£2.25
Expected volatility	<b>30%</b>	<b>30%</b>	30%	Nil*	30%	30%
Expected term	<b>3 years</b>	<b>3 years</b>	3 years	Nil*	2 years	3 years
Expected dividend yield	<b>N/A**</b>	<b>6.0%</b>	N/A**	Nil*	2.7%	2.7%
Risk free interest rate	<b>0.67%</b>	<b>0.92%</b>	1.18%	Nil*	0.82%	1.18%

\* Award 1 was exercisable immediately on IPO.

\*\* LTIP awards have a £nil exercise price and accrue dividend equivalents over the vesting period, consequently the fair value at grant date is equal to the grant date share price.

The expected volatility is based on historical volatility of a peer group of companies over a relevant period prior to the awards.

## Impact on the income statement

The total expense recognised in the income statement arising from share based payments is as follows:

	2016 £'m	2015 £'m
<b>Expense recognised in the Company income statement</b>		
Card Factory LTIP	0.7	0.3
Residual management equity*	-	4.2
	<b>0.7</b>	4.5
<b>Expense recognised in subsidiary income statements</b>		
Card Factory LTIP	0.5	0.2
Residual management equity*	-	5.6
SAYE	0.1	-
	<b>0.6</b>	5.8
<b>Total expense recognised in the Group income statement</b>	<b>1.3</b>	10.3

\* On admission to the London Stock Exchange, shares with a fair value of £9.8 million were issued at nominal value in relation to residual management equity as detailed in the IPO prospectus. Employer national insurance of £1.4 million was incurred on the issue of the shares. These non-recurring share based payments are presented as a non-underlying item in the prior year income statement (see note 3).

The amounts disclosed above do not include employer's national insurance costs.

The expense recognised in the Company income statement was subsequently charged to subsidiary entities to the extent that management services were provided to those subsidiary entities.

## 10 FINANCIAL RISK MANAGEMENT

The financial risk management strategy of the Company is consistent with the Group strategy detailed in note 23 of the Group financial statements. The Company is not exposed to foreign currency risk other than to the extent it impacts the trade of its subsidiary investments. Trade and other receivables principally comprise amounts due from Group undertakings and consequently credit risk is limited. Interest income and expense relate solely to amounts due to or from Group undertakings and interest rates are set by reference to Group borrowing costs.

## 11 FINANCIAL INSTRUMENTS

### Classification of financial instruments

Financial assets have all been classified as loans and receivables. Financial liabilities have all been classified as other financial liabilities.

### Maturity analysis

All financial instrument assets and liabilities fall due in less than one year.

### Fair values

The fair values of financial instruments have been assessed as approximating to their carrying values.

# Notes to the Parent Company

## Financial Statements continued

### 12 NOTES TO THE CASH FLOW STATEMENT

	2016 £'m	2015 £'m
Profit before tax	<b>36.7</b>	104.7
Dividends received	<b>(32.8)</b>	(103.7)
Net finance income	<b>(4.3)</b>	(4.4)
<b>Operating loss</b>	<b>(0.4)</b>	(3.4)
Adjusted for:		
Share based payment charge	<b>0.7</b>	4.5
<b>Operating cash flows before changes in working capital</b>	<b>0.3</b>	1.1
Increase in receivables	<b>(0.1)</b>	-
Increase in payables	<b>0.2</b>	1.0
<b>Cash inflow from operating activities</b>	<b>0.4</b>	2.1

### 13 RELATED PARTY TRANSACTIONS

Amounts due to and from Group undertakings are set out in notes 6 and 7 of the financial statements. Transactions between the Company and its subsidiaries were as follows:

	2016 £'m	2015 £'m
Management services	<b>3.2</b>	7.1
Interest receivable	<b>4.3</b>	4.4
Dividends received from Group undertakings	<b>32.8</b>	103.7
Shares issued in settlement of shareholder loan notes issued by subsidiaries	<b>-</b>	(114.0)
Funding from/(to) subsidiaries	<b>156.4</b>	(198.7)

#### Transactions with key management personnel

The key management personnel of the Company comprise the Card Factory plc Board of Directors. Disclosures relating to Directors' remuneration are set out in the Directors' Remuneration Report on pages 50 to 66. Directors of the Company control 5.1% of the ordinary shares of the Company.



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<sup>1</sup> Lines are open 8.30am to 5.30pm (UK time), Monday to Friday, excluding English public holidays

# Notes

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