2019

Annual Report & Accounts

cardfactory

Welcome to cardfactory

Card Factory is 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, in addition to offering customers a range of complementary products associated with card giving occasions.

Card Factory's mission is to help customers celebrate their life moments by providing a range of quality cards, wrap, dressings, party and gifting products at value prices. The Group principally operates through its nationwide chain of over 950 Card Factory stores, as well as through its transactional web sites: www.cardfactory.co.uk and www.gettingpersonal.co.uk.

Contents

2.4m
Customers per week

3bn
Cards sold since 2005

4000
New card designs in 2018

Financial Highlights

Group Revenue
£436.0m — Increase of 3.3%

Net New Store Openings
51 — Total UK and Ireland Store Estate 972

Like-for-like Store Sales[1]
-0.5%

Total Card Factory Like-for-like Sales[1]
-0.1%

Online Revenue
£20.4m — FY18: £20.4m

Underlying EBITDA[2]
£89.4m — Decrease of 4.9%

Underlying EBITDA Margin
20.5% — FY18: 22.3%

Operating Profit
£70.8m — Decrease of 6.2%

Operating Profit Margin
16.2% — FY18: 17.9%

Underlying Profit Before Tax
£74.6m — FY18: £80.5m

Statutory Profit Before Tax[3]
£66.6m — FY18: £72.6m

Leverage[4]
1.58x — FY18: 1.72x

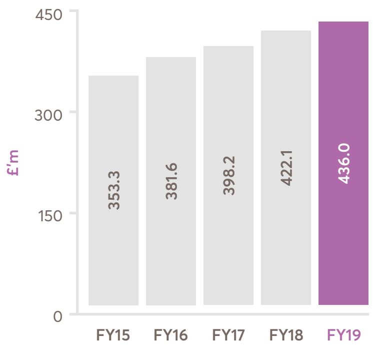
Total Ordinary Dividend[5]
9.3p — FY18: 9.3p

Special Dividend
5.0p — FY18: 15.0p

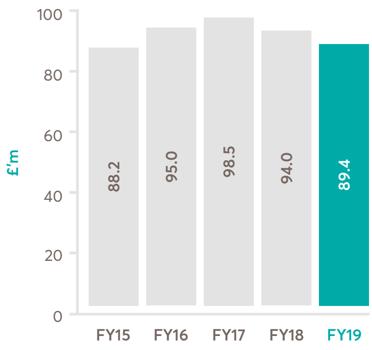
Underlying Basic EPS
17.6p — FY18: 18.9p

Basic EPS
15.0p — FY18: 17.1p

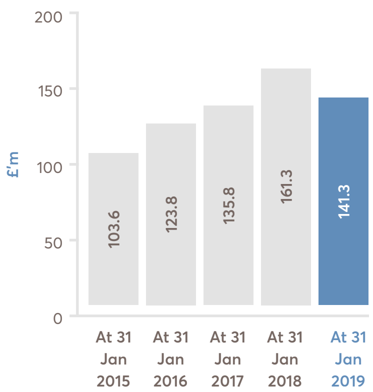
Revenue



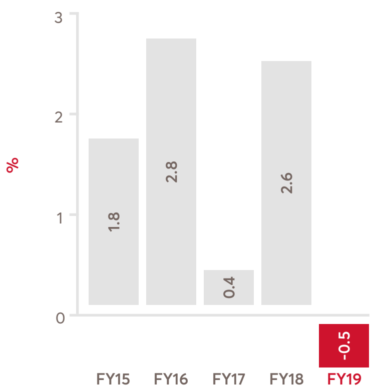
Underlying EBITDA



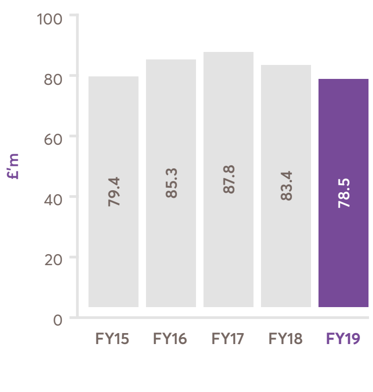
Net Debt



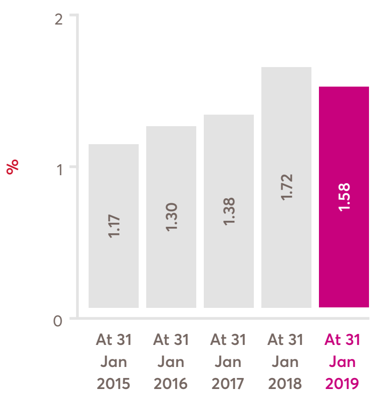
Store Like-for-like Sales



Underlying Operating Profit



Leverage Ratio



Notes
1. See page 12 for definition of like-for-like sales.
2. As defined in note 5 to the financial statements on page 99.
3. See note 3 to the financial statements on page 98 for details of non-underlying items.
4. Leverage is calculated as the ratio of net debt to underlying EBITDA for the previous 12 months.
5. Including recommended final dividend of 6.4p, subject to AGM approval.

Card Factory is the UK's leading specialist retailer of greeting cards, dressings and gifts.

Our Mission

Trusted for quality and value to help celebrate everyone's life moments

Our Vision

The customers' choice for cards, gifts, party and wrap, in-store and online

Our Values

We're part of the story | We're loyal | We're grafters | We're a little bit mad | We lead the way

Total Revenue

£436.0m

Total Colleagues

9,984

Total stores

972

Our four strategic pillars

Like-for-like Sales Growth

New Store Roll Out

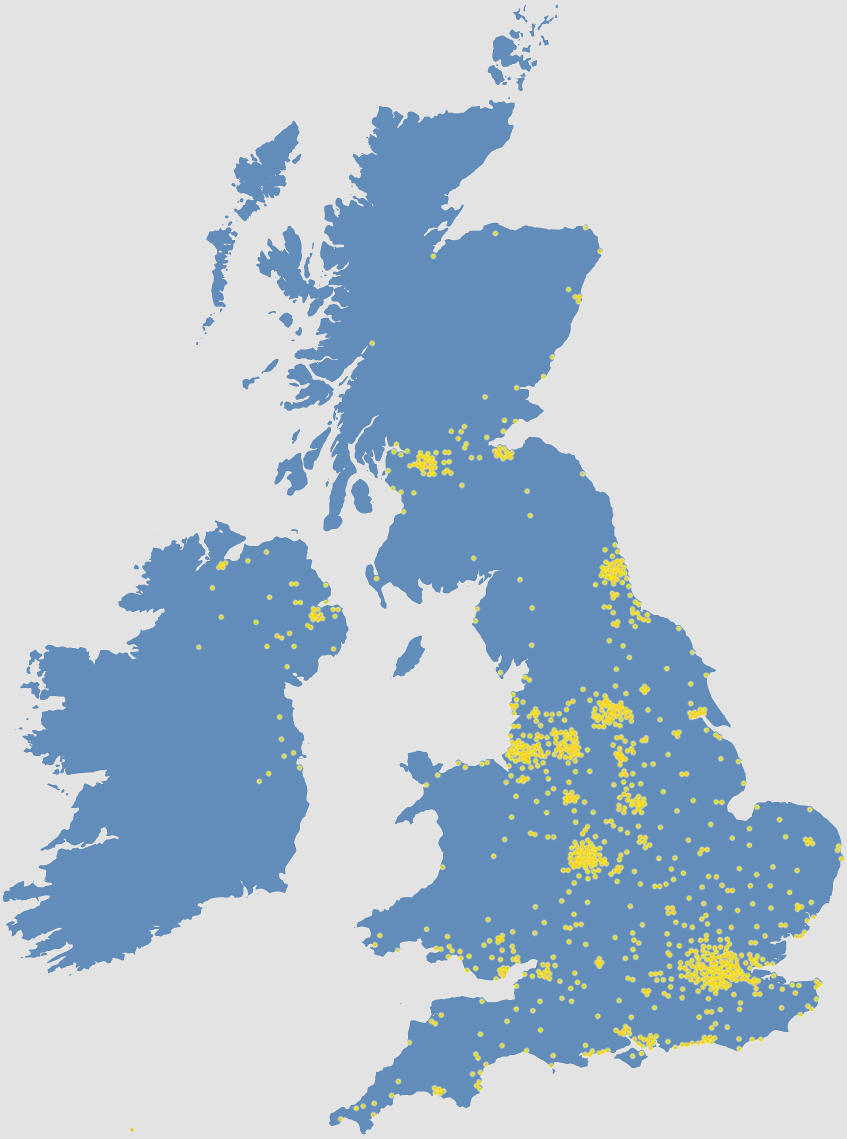
Business Efficiencies

Online Development

972 Stores

965 UK

7 Republic of Ireland



Cardfactory.co.uk

- Growing strongly
- New designs
- Greater choice
- Feefo Gold Trusted Service Award

Gettingpersonal.co.uk

- Personalised gifting
- Competitive market
- Challenging year
- New Digital Director driving customer experience

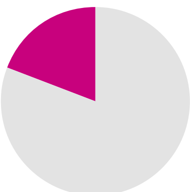
Market Overview

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 2.3% 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).

Estimated Card Factory market share by value



19.3%
£1.3 billion UK market value

Complementary non-card items

'Complementary non-card' items refer 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 and homewares);
- **Party products** (eg balloons and banners, badges and candles); and
- **Other complementary non-card products** (eg calendars, diaries and stamps).

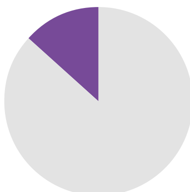
Estimated Card Factory market share by value

Less than 10%
£2–3 billion UK market value

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.

Estimated Card Factory market share by value

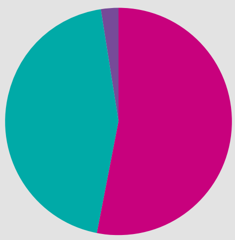


13.9%
£0.1 billion UK market value

Note: Card UK factory value share excludes online and is based on OC&C estimate of market size in 2017.

Share of FY19 revenue

Single Cards	Complementary Non-card	Christmas Boxed Cards
53.3%	44.4%	2.3%



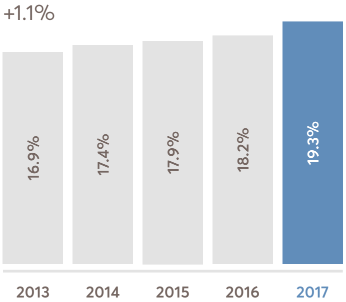
Card Factory UK Card Market Share

Card Factory has significantly grown its share of the UK greetings card market since formation in 1997. Based on the latest available market data from OC&C Strategy Consultants ('OC&C') for the 2017 calendar year, Card Factory is the market leader in terms of both value (19.3%) and volume (32.4%) for single greeting cards.

By Value

19.3%

+1.1%

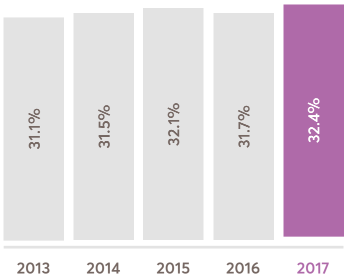


Source: OC&C March 2019

By Volume

32.4%

+0.7%



Source: OC&C March 2019

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 impulse purchases (eg ASDA, Tesco, Sainsbury's and Morrisons);
- **Others:** Including generalists (eg WH Smith and M&S), stationers, discount chains (eg B&M, Poundland, Home Bargains and Wilkinsons), the Post Office and hundreds of small independent retailers.

Market Trends

There is an ingrained culture of sending greeting cards in the UK, with estimates suggesting an average of approximately 23 cards sent per person each year, of which on average 17 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 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. As generations mature, they mostly continue to adopt the card purchasing behaviour of previous generations, but with an increase in the number of cards purchased by 18 to 34 year olds. This, when combined with both a growing and ageing UK population, is an encouraging indication of the ongoing sustainability of the card market in the UK – and is something we will continue to monitor.

Market Growth Rates

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

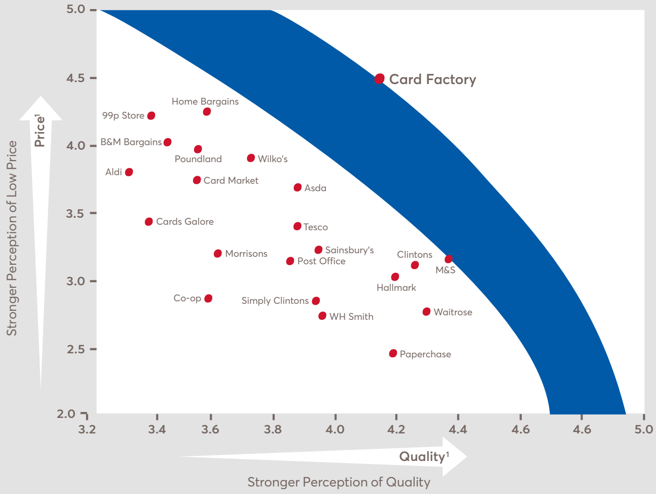
Volumes in the larger, core singles market have been in slight decline during this period, with only a slight shift to personalised single cards purchased online, notwithstanding very significant television advertising spend by the major players in this established market niche.

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.

Card Factory's positioning within the market has been sustained with clear blue water between us and our competitors, in terms of consumers' perception of the price and quality of our cards. In addition, the independent OC&C Retail Proposition Index, which evaluates value for money across retailers, has Card Factory positioned as number 1 for the fourth year running.

Consumer Perceptions of Greeting Cards Value for Money – 2019[1]

Average Rating On Scale 1–5



1. Weighted by volume of single cards purchased, main and secondary retailer ratings combined. Source: OC&C Consumer Survey (February 2019), OC&C analysis.

OC&C Retail Proposition Index Results – Value for Money

	2018	
1	Card Factory	(87.9)
2	Aldi	(87.4)
3	Poundland	(85.8)
4	Home Bargains	(84.8)
5	Farm Foods	(84.5)
6	Lidl	(84.3)
7	Primark	(83.6)
8	Wilko	(82.7)
9	B&M Bargains	(82.5)
10	Amazon	(81.5)

Business Model

Card Factory operates a unique vertically integrated business model which comprises:

- design
- sourcing
- printing
- warehousing
- distribution
- a large physical store network
- an online presence

The Group has developed and strengthened this model over the past decade investing over £50m in the process and building significant management expertise in all of these specialist areas. Vertical integration enables the Group to differentiate itself from its competitors by significantly reducing external costs and adding value to customers in terms of both price and quality underpinning the Group's mission.

Quality and value for all life's moments

Key Competitive Strengths

The Directors believe that the Group's unique model provides significant advantages 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;
- EXCLUSIVE 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, with further ambitions to bring further product sourcing back to the UK with investment in technology;
- 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 cost and execution risk to replicate.

Our Mission

Trusted for quality and value to help celebrate everyone's life moments

Our Vision

The customers' choice for cards, gifts, party and wrap, in-store and online

Our Values

We're part of the story
We're loyal
We're grafters
We're a little bit mad
We lead the way

Design

- 60 strong design team built over the past 12 years, creating over 85% of the Card Factory product portfolio
- Skills include specialists 3d design & packaging, an editorial & creative writing team, illustrators, designers and digital constructors
- Each year designing over 4000 new greeting cards, and over 1500 new complementary non-card products
- Extensive database of thousands of creative designs, captions and verses
- Emphasis placed on researching the latest trends to ensure Card Factory ranges are fit for our customer needs
- Insights from research into ever-changing family dynamics in the UK factored into retail proposition development

Sourcing

- Dedicated in-house sourcing team covering wide range of products
- Further plans to bring more card manufacturing back to the UK with further developments in automation
- Works closely with in-house design team to optimise margins
- Long-standing relationships with many third-party manufacturers, particularly in the Far East
- Internal quality control function supported by third-party supplier technical and ethical audits

Production

- Existing supplier acquired in 2009 and relocated to larger premises in 2011
- Well-invested, scalable facility based in Shipley, Yorkshire
- Currently producing over 240 million cards per annum for Card Factory
- Strategically positioned to grow capacity to c400 million cards in line with growth in anticipated store roll out and to support other strategic initiatives currently being trialled

Warehousing

- National distribution centre based in Wakefield, Yorkshire
- Over 360,000 sq ft of storage space
- Trialled voice picking during the year which has improved efficiency and accuracy of picking
- 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 950 stores, principally built from individual openings rather than acquisition
- High quality estate with only c1% of portfolio loss-making at store contribution level
- Ongoing 6-monthly review of all stores in the estate to ensure we maximise the profitability of all stores
- 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
- Successful Republic of Ireland trials with further opportunity around Dublin area and other major cities and towns

Merchandising

- Extensive range of card and complementary non-card products
- Space planning software implemented to maximise use of space and pound per linear foot
- 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

- Market entry through acquisition of Getting Personal in 2011 – innovating personalised gifts
- Card Factory transactional website growing strongly with expansion of product offering, range growth and improving customer experience
- Focus on multi-channel proposition

1992

Business started

1997

First store opens

2005

All creative design brought in-house

Over 200 stores now open

2009

Acquired print facility 'Printcraft'

Over 400 stores now open

2013

Moved into Century House

Over 650 stores now open

2014

Company floated on Stock Exchange

2003

Ventured into Scotland, Wales & the South of England

Acquired warehouse facility

2010

Handed reins over to management team

2011

Purchased gettingpersonal.co.uk

Over 550 stores now open

2018

Over 900 stores across the UK

£1,289,533 donated to charity

Story to be continued

Over 950 stores now open

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:

- improving and evolving our existing card ranges and designs to support the continued growth of our market share. In developing our everyday ranges we are ensuring that the customer always has an unrivalled choice of cards from our entry price point to our new everyday premium ranges for all their occasions;
- developing our complementary non-card ranges to grow our ABV, with customers able to find not only the card but associated wrap, party products and gifts for every occasion;
- extending our card and gift ranges across more occasions ensuring that our customers can find an appropriate greeting or range to celebrate their life moments; and
- building on the progress we have made during the year with our retailing disciplines, especially around store standards and improving in-store navigation, which has been acknowledged by customers as making Card Factory a much better shopping experience.

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 and this continues to be the case as we approach 1,000 stores.

The Group defines Card Factory store like-for-like ('LFL') sales as the year-on-year growth in sales for Card Factory stores which have been opened for a full year, calculated on a calendar week basis. The reported LFL sales figure excludes sales:

- made via the Card Factory website, www.cardfactory.co.uk;
- made via the separately branded personalised card and gift website, www.gettingpersonal.co.uk;
- by Printcraft, the Group's printing division, to external third-party customers; and
- from stores closed for all or part of the relevant period (or the prior year comparable period).

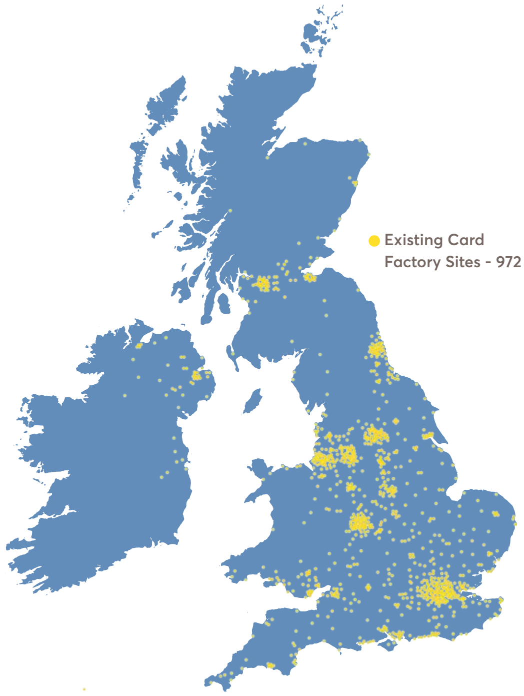
Card Factory stores are included in the reported LFL figures for each week of trading completed after having been open for a full 52 weeks, as compared to the same relevant week in the previous period.

Total Card Factory LFLs are reported including the impact of the Card Factory website.

The Group defines Getting Personal LFL sales as the year-on-year growth in sales for the Getting Personal website, calculated on a calendar week basis.

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, including further stores in the Republic of Ireland. The Group intends to continue this future roll out at a similar rate to the Group's historical rate of organic store openings of around 50 net new stores per annum provided the necessary returns can be achieved.



Target locations for all of these new stores have already been identified and these, 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. Following the success of our trial stores, the Group believes the Republic of Ireland also represents a good opportunity for further store expansion as part of our target of 1,200 stores.

The Group has a structured appraisal process in place for new location opportunities, including 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. In addition, we regularly review the performance of the whole estate with every store in the Group having a strategic plan in terms of whether we intend to renew, downsize, upsize or relocate on the expiry of the lease.

Business efficiencies

Card Factory has consistently delivered 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 and our ability to source further product through our vertically integrated model in the UK.

Similarly, the Group aims to protect and, where possible, enhance operating margins through the 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 and progress with its new store roll out programme, we will continue to leverage the growing economies of scale when negotiating contracts with suppliers and manufacturers.

Leveraging infrastructure

In anticipation of planned long-term growth, the Group has, over a number of years, invested heavily in its infrastructure, including:

- an EPOS system and contactless payment across all of our stores that will both improve the speed of service and customer experience and provide more granular sales data that will help us develop our proposition and grow sales;
- expansion of Printcraft and investment in margin-enhancing technologies as part of a 10-year capital expenditure plan following its relocation to larger premises;
- the relocation of Getting Personal's personalised gift production facility to Printcraft; and
- investment in our central distribution centre technology to improve efficiencies.

The Group will continue to leverage the benefits of these significant investments over the medium term as well as continually evaluating the benefit of further investment to support the long-term strategy of the business. The CEO's review on page 18 outlines some of the additional investments the Group is currently considering.

Online

The Group's online operations currently comprise Card Factory's transactional website and Getting Personal.

cardfactory.co.uk

Card Factory Online now has an established dedicated team supporting its future growth and significantly enhanced product ranges which are resonating well with customers. We continue to evaluate, enhance, test and evolve our online platform, with strategic direction from our new Group Digital Director, to ensure we move towards a market-leading mobile optimised solution. During the year, we introduced a much wider selection of personalised cards and gifts as well as enhancing the selection of non-personalised products that customers would usually have to go to one of our stores to purchase.

gettingpersonal.co.uk

Sales of personalised gifts represent the vast majority of the revenue generated from Getting Personal's website www.gettingpersonal.co.uk. In spite of a challenging year, 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 mobile optimisation) 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 2.3%, by volume, in 2017, the Directors believe it provides an opportunity for growth.

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

Chairman's Statement

> Card Factory performed robustly in FY19 with like-for-like sales flat in a challenging consumer environment, whilst profits were impacted by headwinds from foreign exchange and national living wage.

Paul Moody
Chairman

Whilst this year marked the fifth anniversary of our IPO, the year also marked the 21st anniversary of the Company's formation. Having started life as a local family-owned discounter, the Group has developed into a market leading, high margin, national, value retailer with over 950 stores and two websites. During the last 21 years, the Group has demonstrated an ability to increase market share and generate significant profit, resulting in strong returns for shareholders. The Board's objective is to continue to build on this strong track record in the years ahead.

The Group remains focused on its successful four pillar growth strategy, underpinned by its unique vertically integrated model, which provides significant competitive advantage. This is of particular value in the current, challenging consumer environment. In our Chief Executive Officer's report, Karen provides an update on the Group's current strategic priorities. The Board is excited by the opportunities, both strategic and operational, that Karen and her team are exploring to improve further an already very successful business.

Since August 2018, in recognition that we are approaching our 1,200 UK store target, we have been conducting a strategic review of how we can expand the ways in which customers access the Card Factory brand both at home and in new markets, and we are currently undergoing a number of trials to test these potential new sales channels.

The Board remains mindful of the continuing risk to the business from the range of uncertain Brexit developments and outcomes, including volatility in the strength of Sterling versus the US dollar and the threat of supply chain disruption due to delays at UK ports. The short-to-medium term risk of FX volatility is addressed by our existing currency hedging policy and we have alleviated the supply chain risk by increasing our inventory levels.

The Board has maintained the total ordinary dividend for the year at 9.3p per share, reflecting our strong cash generation in a challenging consumer environment and our confidence in the future prospects of the business. This is in addition to the 5.0p per share special dividend paid in December 2018. In line with our stated capital policy, we currently expect to make a further return of surplus cash to shareholders towards the end of the current financial year, and further information is included in our CFO's review.

Paul Moody
Chairman

15 April 2019

During the last 21 years, the Group has demonstrated an ability to increase market share and generate significant profit, resulting in strong returns for shareholders

Paul Moody

> Card Factory produced a robust performance in FY19 despite poor high street footfall and a challenging consumer environment.

Karen Hubbard
Chief Executive Officer

OVERVIEW

I am pleased to report that Card Factory produced a robust performance in FY19 despite poor high street footfall and a challenging consumer environment. Like-for-like sales were flat for the year, with record volume and sales performances across the year in most seasonal periods and our highest ever sales day in Card Factory's history during the Christmas trading period, whilst sales in everyday cards were more subdued. We continue to grow our market share in single and boxed greeting cards by both volume and value.

Our unique business model, with its integrated supply chain, together with continued investment in technologies, allows us to provide an unrivalled offer to our customers whilst generating attractive gross margins. We utilised insights and efficiencies gained through our EPOS system to make informed decisions regarding product redesign and ranging. We see further opportunities to continue to grow sales, deliver cost efficiencies and improve our market share.

The cardfactory.co.uk online business continued to grow strongly as we expanded our product offering, which is resonating well with customers, whilst the gettingpersonal.co.uk performance was disappointing, impacted by an increase in cost of customer acquisition and aggressive competitor discounting.

Whilst margins were impacted by the prevailing foreign exchange and national living wage headwinds already identified, these combined pressures are easing and the margin impact has been well managed as we continue to deliver best in class EBITDA margins. We have developed a robust programme of business efficiencies to ensure we maintain margins.

Cash flow generation in the period remained strong with a focus on returning surplus cash to shareholders.

Whilst our four pillar strategy has driven our store and online growth, we are exploring additional opportunities in alternative sales channels and have conducted a number of trials in the year to test these in the UK and internationally.

MARKET UPDATE

The latest independent research, produced by OC&C in March 2019, has confirmed that a number of important and established market trends that were highlighted at the time of our IPO in 2014 remain as valid today:

- the market for single greeting cards is well established, robust and resilient; it continues to show modest growth in value terms, despite a slight decline in volume, as expected. The number of cards purchased by 18–34 year olds has also increased consistently for the last four years;
- Card Factory further increased its market share in single greeting cards to 32.4% by volume and 19.3% by value;
- 62% of card buyers have shopped in Card Factory in the last 12 months, with 82% of all visits planned;
- there continues to be no meaningful shift to digital greeting cards, with fewer customers than ever suggesting that they are replacing a physical card with a digital greeting;
- there has been continued significant growth in seasonal events such as Valentine's Day and Thank You Teacher;
- the online personalised and non-personalised card segment remains an attractive niche for Card Factory where we have made good progress and delivered growth, albeit this still represents a relatively small proportion of the market at 4.6%;
- 50% of Card Factory store customers are unaware of the Card Factory online business, representing a massive opportunity to exploit; and
- Card Factory continues to maintain significant clear blue water versus its competitors in terms of the consumer's perception of value and quality.

During the year we were recognised as the 10th most popular retail brand by YouGov and the 26th most famous brand, showing the continued strength and recognition of the Card Factory proposition. In addition, we were recognised as the leading value brand in the OC&C value proposition index for the fourth year running.

STRATEGIC PERFORMANCE

We continue to make good progress against our four established strategic pillars:

1. Like-for-like ('LFL') sales growth

Card Factory stores delivered like-for-like sales in the year of -0.5% (FY18: +2.6%) reflecting lower levels of high street footfall and consumer confidence, as seen across the general retail sector. Including cardfactory.co.uk, LFL sales from the Card Factory fascia were -0.1% (FY18: +2.9%), showing the increasing impact of online growth.

In the second half of the year, we extended our premium ranges that have been successful in seasons, into our male and female everyday ranges, which has proved very popular. We merchandised these extra special ranges at £1.49 and £1.79 into our core racks in every store, holding our entry price point at 59p, providing customers with more choice and ensuring that they could find the right card for the recipient at Card Factory value.

Our EPOS data has enabled us to focus our unique in-house design studio on redesigning underperforming lines, rather than redesigning by rotation.

For everyday cards in FY20, we will continue to focus on introducing new styles and designs, whilst preserving our value offer. Our focus remains on maintaining the gap in both price and quality compared to the competition.

In our complementary non-card offering, our design and buying teams developed a number of new ranges, including a broader selection of wedding gifts, new gift bags and boxes and new trend-led designs. This design and innovation has been well received by our customers and is reflected in Card Factory's transaction volumes outperforming the footfall declines seen on the high street. Our non-card ranges continue to perform strongly as incremental purchases to our card ranges, further increasing our average basket value. In addition to new designs, we introduced more promotional activity focused on driving sell-through of existing stock, whilst still achieving targeted margin and providing our customers with more choice and even better value. This, combined with offering customers gift cards and stamps, ensured we continue to provide them a compelling one stop shop for their card and gifting needs.

For the year as a whole, the proportion of sales from non-card items increased to 44.4% (FY18: 44.0%).

Looking forward, we intend to maximise LFL growth through: (i) ensuring we leverage our design studio to continue to innovate across both our card and complementary non-card ranges; and (ii) focusing on retail disciplines, with greater availability through improved stock management, better space and merchandising planning, a greater focus on customer service and operational standards, and the removal of tasks from store colleagues to enable them to focus on helping our customers.

We continue to make good progress with our Card Factory website, cardfactory.co.uk, which performed strongly during the year. We remain confident that further progress within the online market is possible, with further strategic investment planned in FY20 to enable click and collect and in-store ordering, to take increased market share of the online channel and leverage the number of customers in our stores that have never shopped the Card Factory brand online.

2. New store roll out

Our internal property team has yet again enabled us to achieve our target net new store openings for this year. We opened 51 net new stores in FY19 across a variety of retail locations including high streets, shopping centres and retail parks, providing the opportunity for more customers to experience the proposition in areas where they did not previously have easy access to a Card Factory store. In total we had 965 UK stores (31 January 2018: 915), with a further seven stores in the Republic of Ireland (31 January 2018: six), at the end of the financial year. The quality of our estate remains very strong: of our stores open for over one year, only c1% were loss-making.

Looking forward, we have a strong pipeline of potential new stores, including a number of opportunities in retail parks, a segment of the market where we are seeking to increase our presence; however there will continue to be a blended mix of different retail locations. Given the success of our trial stores in the Republic of Ireland, we will look to open further stores this financial year, having now developed a greater understanding of the market and customer. The plan for the year ahead is to open around 50 net new stores (including stores in the Republic of Ireland); however we will only open new stores if they meet the necessary return thresholds.

As well as assessing new store opportunities, we are very mindful of the ongoing high street challenges and have introduced a half-yearly review of all stores in the portfolio to agree the strategy for each, in terms of potential opportunities to upsize, downsize, co-locate or relocate. This helps to ensure the whole of the estate is well positioned for our customers and the level of footfall. In addition, we agree relatively short-term leases to ensure we have the flexibility to adapt to the changes on the high street.

We continue to monitor developments across our competitors and the broader retail space to ensure that we are well positioned to take advantage of property opportunities that may materialise. Opening new stores remains appropriate for Card Factory in the medium term to bring our offer to parts of the UK and the Republic of Ireland where customers don't have access to our quality and value proposition.

Across both geographies, we continue to target a cost-effective estate of 1,200 stores, capable of driving strong returns whilst maintaining the quality inherent in the Card Factory brand.

3. Business efficiencies

The Group has consistently delivered best in class operating profit margins. In order to continue achieving this, whilst offering our customers value, we have to maintain the most efficient cost base.

As identified in last year's preliminary results announcements, we anticipated some, albeit reducing, cost pressures in the year, in particular foreign exchange and national living wage costs. To mitigate these we introduced a multi-year programme of cost efficiencies. This year every one of those areas delivered their expected efficiencies and provided us with a solid platform for ongoing efficiency and lean operation.

The key business efficiency areas are identified below:

1. in ensuring we maintain high margins, we continue to focus on vertical integration, driving improvements in our product quality through better and more efficient production techniques, which has enabled us to further enhance our competitive position and reduce our unit costs of production;
2. better buying and sourcing in a tough commodity market through which we made further improvements in our product margin;
3. we delivered significant improvements in our supply chain enabling us to reduce our distribution costs through innovations such as voice picking, warehouse consolidation and improved warehouse productivity. This is part of a multi-year programme of supply chain improvement;
4. improved operational productivity through the removal of tasks that took our colleagues off the shop floor and simplified store operations. There are some significant ongoing programmes of in-store efficiency to enable better focus on the customer and make it easier for our colleagues; and
5. we continued a programme of cost efficiency, in areas such as targeted rent savings at lease renewal, driving down operating costs across the business and Loss Prevention delivering targeted reductions in stock and cash loss.

These programmes continue in FY20.

4. Online development

We have two transactional websites – cardfactory.co.uk and gettingpersonal.co.uk – and a Group Digital Director who is dedicated to the strategy and growth of these channels.

The www.cardfactory.co.uk offer has continued to grow strongly over the last year. The team delivered sales growth of 56% (FY18: 67%), through focusing on four key areas – product design, range growth, improving the customer experience and growing our customer base.

Our online proposition is resonating well with customers. Through listening to their feedback and analysing trading patterns, we have expanded our ranges and offered increased newness in design and choice to help our customer celebrate their life moments. We continue to test new propositions to understand what is of most appeal to our existing and new customers.

As our customers' shopping habits evolve and consumer expectations around convenience increase, we will continue to develop the online offer into a multi-channel proposition. In order to attract more customers to our website, we know we need to continue to improve the customer experience and the way in which our customers can interact with us both online and in store and this is a key opportunity which we will be developing in FY20. We see material growth opportunities in this area.

The www.gettingpersonal.co.uk business has continued to face challenges. Whilst this remains a relatively small part of the Group in terms of both sales and profit contribution, its financial performance in the year was disappointing with sales decreasing by 8.4%. Lower conversion rates with the shift to mobile, increasing costs of customer acquisition and a competitive discounting-led landscape have all impacted the business. There is increased focus on how we evolve other sales channels and move the business away from pay per click as a key driver of customer acquisition, with further efforts being targeted on customer retention and lifetime value of customers. However, EBITDA performance of £1.2m (FY18: £2.9m) was below our expectations.

Looking ahead, the key focus across both online channels will be implementing a new and better digital marketing approach; improving the experience on our websites; and further innovating our personalised and non-personalised product ranges.

ONGOING INVESTMENT TO DRIVE SHAREHOLDER VALUE

We have continued to invest in our infrastructure to support the long-term strategy of the business where we can see opportunity for the business to grow sales further, improve product margins or be more cost-efficient. We now have the annualisation of EPOS data, with all stores on the same EPOS platform, which is giving us much more insight into product performance and the impact of redesigns and refreshed ranges.

In FY20, we are looking to improve further our stock management including the use of auto replenishment for stores which will reduce missed sales from stock availability, whilst at the same time reducing stock holdings. Furthermore, with the availability of line item detail from our EPOS data, we have greater visibility of stock loss by store to ensure that we are more effectively targeting the losses in stores and driving better stock management.

Further development of our vertically integrated model remains an important part of our investment strategy to ensure our industry leading margins are maintained regardless of any cost inflation impact, with a focus on how we can move even more to our in-house production, for improved margins and greater control over our supply chain.

We have also invested in our cardfactory.co.uk online business's marketing team and various support centre functions to ensure that we have the right infrastructure, talent and capacity to drive online growth during the forthcoming year. In FY20, we will replatform the business onto a full multi-channel solution towards the end of the year, with the full cost included within the FY20 capex plan, details of which are in the CFO's review. This will provide a much improved customer experience. It will also enable us to introduce click and collect, in-store ordering and wider range availability to our in-store customers which should drive further footfall and increase average spend and opportunistic purchases in store.

The Board will continue to assess further incremental investment across the Group, especially in relation to new revenue channels, on a case by case basis, taking into account the scale, likelihood and timing of anticipated returns. This ongoing, controlled investment will ensure that we continue to deliver on the four pillar strategy and provide strong returns to our shareholders over the medium term.

RETAIL COLLEAGUES AND PERFORMANCE CULTURE

In the year we continued to develop our organisational capability, with the ongoing leadership and management development programmes such as 'Raise the bar' and the nationwide expansion of our 'Retail ACardemy' that we introduced in the last few years. We are also in the process of implementing a new HR system and time and attendance system which will ensure more efficient processes and further business efficiencies in-store with improved hours' management.

Our aim is to create a performance culture with focused objectives that not only support the delivery of our strategy but develop our colleagues and provide a pipeline of future leaders from within the business.

We also want to ensure that our frontline colleagues who represent Card Factory to our customers are engaged and respected for the job that they do. Achieving our employee engagement ambitions will ensure that all of our teams remain trained and motivated to continue to deliver quality and value to our customers and the best possible service and experience in-store.

CUSTOMER ENGAGEMENT AND EXPERIENCE

Across the business we are looking to drive a culture of improved customer engagement. Our entire management team and many of our support centre colleagues worked in our stores, serving customers in our busiest weeks of the Christmas and other seasonal trading periods. This not only supported our store colleagues but also helped us to develop our understanding of what our customers expect and enabled us to ensure that everything we do improves the offer to our customers. We are renowned for leading the way in providing great quality and value for our customers and staying close to them in this way helps us to listen and then respond to their changing needs.

The improved navigational signage, making our stores easier to shop, has had great feedback from customers, especially during busy trading periods, in addition to helping our store colleagues to operate more efficiently. The speed of service in-store has also significantly improved with EPOS and contactless payment in all of our stores; however we recognise that, at key trading times, there is more we can do to improve the service we deliver to our customers. In support of this, we are evaluating how we can use new technology and make things simpler for our store colleagues by removing more tasks from stores, including how stock is delivered to store, and reduce administrative tasks utilising technology, giving them more time to provide great customer service.

THIRD PARTY TRIALS

We are currently assessing ways in which we can extend the Card Factory brand into other customer segments, channels and new markets to enable us to continue to grow our card volume. In the year we embarked on a number of small trials to test the opportunities available. Whilst it is early days, the trials have proven the power of the Card Factory brand and have demonstrated its ability to drive footfall into our retail partners.

Our trial with Aldi, the industry leading quality/value grocery retailer, whilst in its infancy, is seeing Card Factory ranges resonate well with Aldi customers in 112 trial stores and we have learned about our own capability to appeal to impulse card buyers through other sales channels, without cannibalising our own store sales.

In addition, we are considering international opportunities and announced in January that we have commenced a trial branded concession in a number of stores within an Australian retailer. The Australian market is the 3rd largest Greeting Card market in the World and we will continue to assess the opportunity there. We have also opened our first franchise trial in Jersey, with two further franchises opening in quarter 1 of FY20.

OUTLOOK

The greetings card market remains resilient and robust with encouraging trends amongst younger customers who are buying more cards. Within this market, I am confident in our ability to continue to grow Card Factory's market leading position. We continue to innovate and create new and unique product ranges that keep to our promise to provide quality and value for our customers.

I am excited by the online opportunity for cardfactory.co.uk as we look to replatform the website in FY20. This will enable us to offer a truly multi-channel proposition and leverage our store estate. We expect this to improve footfall in stores, by giving our customers access to a wider range of products and the flexibility of options such as click and collect and in-store ordering.

Our four pillar strategy continues to drive growth and now is the right time to explore other opportunities to extend our reach beyond 1,200 stores in the UK and the Republic of Ireland. We have already established a number of trials to explore the impulse purchase market in the UK and new sales channels outside of the UK and we are optimistic that we can leverage our industry leading position in these new channels.

We have a targeted programme of cost and operational efficiencies for FY20 and are confident we can build on this going forward. Whilst the new financial year is just two months old, we are satisfied with the start we have made and are particularly pleased with the record seasonal performances from Valentine's Day and Mother's Day.

I look forward to providing a further trading update at our AGM in June. As previously stated, EBITDA for the forthcoming year is anticipated to be broadly flat year-on-year (excluding the impact of IFRS 16) as we anticipate another challenging consumer environment due to external factors.

The Board, having considered, inter alia, the current debt position of the Company and trading and investment expectations for the year ahead, currently expects to declare a special dividend at the time of the Company's interim results. Any such dividend will be paid together with the interim dividend for the year and will be dependent on trading and other developments in the period from now until the time of the interim results.

Karen Hubbard
Chief Executive Officer

15 April 2019

Chief Financial Officer's Review

Subject to trading, the Board currently expects to declare a special dividend at the time of the Company's interim results.

Kris Lee

Chief Financial Officer

The 'FY19' accounting period refers to the year ended 31 January 2019 and the comparative period 'FY18' refers to the year ended 31 January 2018.

REVENUE

Total Group revenue during the year grew by 3.3% to £436.0m (FY18: £422.1m), driven by growth in the Card Factory store network:

	FY19 £'m	FY18 £'m	Increase/ (Decrease)
Card Factory	**419.7**	404.3	3.8%
Getting Personal	**16.3**	17.8	(8.4%)
Group	**436.0**	422.1	3.3%

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, 51 net new stores were opened, bringing the total UK estate to 972 stores at the year-end, including seven stores in the Republic of Ireland.

Like-for-like ('LFL') sales growth was broken down as follows by retail channels:

	FY19	FY18
Card Factory stores	**(0.5%)**	2.6%
Card Factory online	**56.3%**	67.5%
Card Factory combined	**(0.1%)**	2.9%
Getting Personal	**(8.4%)**	0.3%
Total online combined	**0.0%**	5.9%

Ongoing improvements to the depth, quality and merchandising of our complementary non-card product offering led to a continuation of the mix shift to this category. The full year mix for FY19 was 53.1% single cards (FY18: 53.7%), 44.6% non-card (FY18: 44.0%) and 2.3% Christmas boxed cards (FY18: 2.3%). We expect some continuation in this trend as we further improve our non-card offering to drive incremental sales and average basket value.

Revenue from the Card Factory transactional website grew by 56% (FY18: 67%).

Performance at Getting Personal continued to disappoint during FY19, with the sector impacted by heavy discounting and promotional activity. Given sales and EBITDA declines in two of the last three years, the Board has concluded that an impairment to the goodwill balance related to this business should be made. Further details are provided below. However, there is increased focus on how the business evolves and how it moves towards more profitable sales channels and away from pay per click customer acquisition.

UNDERLYING COST OF SALES AND OPERATING EXPENSES

Cost of sales and operating expenses (excluding the non-underlying items detailed below) can be analysed as follows:

	FY19		FY18		
	£'m	**% of revenue**	£'m	% of revenue	£ Increase/ (Decrease)
Underlying cost of goods sold	**142.1**	**32.6%**	138.0	32.7%	3.0%
Store wages	**80.8**	**18.5%**	74.9	17.7%	7.9%
Store property costs	**68.3**	**15.7%**	65.5	15.5%	4.3%
Other direct expenses	**21.3**	**4.9%**	18.6	4.4%	14.5%
Underlying cost of sales	**312.5**	**71.7%**	297.0	70.3%	5.2%
Underlying operating expenses*	**34.1**	**7.8%**	31.1	7.4%	9.6%

* excluding depreciation and amortisation

The overall ratio of cost of sales to revenue increased to 71.7% on an underlying basis (FY18: 70.3%). This increase was driven by the following movements in sub-categories and by the decline in LFL performance:

- **Underlying 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 reduction in this cost ratio was due to product sourcing improvements (both annualised from FY18 and new in FY19) more than compensating for the impact of foreign exchange headwinds and the product mix shift from card to complementary non-card, both of which had less effect on margin than in prior year. The effective sterling-US dollar exchange rate for FY19 was c$1.35 compared to c$1.38 in FY18. The rate in FY20 is anticipated to be in line with FY19, though this remains subject to any significant shift in the exchange rate impacting the structured trades that form part of the hedging portfolio.
- **Store wages:** includes wages and salaries (including bonuses) for store-based staff, together with national insurance, apprenticeship levy, pension contributions, overtime, holiday and sick pay. As reported with the interim results, this cost increased as expected as new stores were opened and pay increases awarded, including the impact of the national living wage. However, this headwind was mitigated in part by the successful delivery of in-store task reduction initiatives and improved management of store hours.
- **Store property costs:** consists principally of store rents (net of rental incentives), business rates and service charges. As reported at the interim stage, this cost increased in absolute terms as new stores were opened and as a ratio of revenue increased slightly due to LFL performance. We continue to target improvements in our overall rent roll as we reach break points or expiries on existing leases and expect cash savings of c£0.4m in FY20.
- **Other direct expenses:** includes store opening costs, store utility costs, waste disposal, store maintenance, point of sale costs, bank charges and pay per click expenditure. 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 increased – as expected – from 4.4% to 4.9% due to an increasing proportion of debit/credit card transactions and increased merchant fees thereon, one-off point of sale cost increases, a rise in electricity costs, and online marketing costs in Getting Personal, mitigated in part by business efficiencies such as savings from the LED lighting roll out. The Board anticipates some additional cost pressures for FY20 arising from card transaction fees, as our proportion of card payments increases, and further electricity cost growth.
- **Underlying operating expenses:** includes items such as support centre remuneration, regional and area managers of the store estate, 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 planned growth and operational improvements; whilst this investment in infrastructure is largely complete there was an element of cost annualisation in FY19. Total operating expenses (excluding depreciation and amortisation) increased by 9.6% to £34.1m (FY18: £31.1m) representing an increase from 7.4% to 7.8% as a percentage of revenue.

Depreciation and amortisation remained broadly in line with prior year at £10.9m (FY18: £10.6m).

FOREIGN EXCHANGE

With approximately half of its annual cost of goods sold expense relating to products paid for in US dollars, the Group takes a prudent but flexible approach to hedging the risk of exchange rate fluctuations. The Board adopts the policy of using a combination of vanilla forwards and structured options to hedge this exposure. The Group has used structured options and similar instruments to good effect for a number of years and the Board continues to view such instruments to be commercially attractive as part of a balanced portfolio approach to exchange rate management, even if cash flow hedge accounting may not be permitted in some instances.

The continuing uncertainty caused by Brexit is of particular concern to the Group, not least because of the increased volatility in the strength of sterling against the US dollar. The business is well hedged in the short-to-medium term, but not immune to the longer term effects of Brexit on currency movements.

At the date of this announcement, cover is in place for almost all of the anticipated FY20 US dollar cash requirement with approximately two-thirds covered by vanilla forwards and the balance under structured options. The effective P&L rate for FY20 is anticipated to be c$1.35 (FY19: $1.35), though this remains subject to any significant shift in Sterling impacting the structured trades that form part of the hedging portfolio. Cover is in place for approximately two-thirds of the anticipated FY21 US dollar requirement at an average rate of c$1.35, predominantly through vanilla forwards with a proportion of structured options.

UNDERLYING EBITDA

The Underlying EBITDA margin of the Group decreased to 20.5% (FY18: 22.3%) impacted by LFL sales and Getting Personal's performance as described above. The business faced c£7m of cost headwinds, which we were able to mitigate in full through various business efficiency initiatives.

	FY19 £'m	FY18 £'m	Increase/ (Decrease)
Underlying EBITDA			
Card Factory	**88.2**	91.1	(3.2%)
Getting Personal	**1.2**	2.9	(58.6%)
Group	**89.4**	94.0	(4.9%)
Underlying EBITDA margin			
Card Factory	**21.0%**	22.5%	(1.5ppts)
Getting Personal	**7.4%**	16.4%	(9.0ppts)
Group	**20.5%**	22.3%	(1.8ppts)

The Group's underlying operating margin similarly decreased to 18.0% (FY18: 19.7%).

Group EBITDA increased to £93.6m (FY18: £86.1m).

Looking forward to FY20, the retail sector continues to face well-publicised cost headwinds, from national living wage increases in particular. Given its best in class margins, generated by a unique vertically integrated model, the Board believes that the business is very well placed to manage this ongoing cost pressure over the medium term and, as in previous years, a number of new business efficiency initiatives are underway.

Alongside the operational investment, which annualised in FY19, we are also continuing to invest across the Group, including further improvement of our customer proposition and ongoing investment in our digital and IT capabilities and infrastructure, in order to enable the delivery of long-term sustainable growth.

Based on our current revenue targets and subject to any unexpected product mix shift or significant exchange rate fluctuations, we anticipate that, after cost growth mitigation, our FY20 EBITDA will be broadly in line with that achieved in FY19, excluding the impact of IFRS 16 (see note 30 to the financial statements on page 115).

NET FINANCING EXPENSE

Net financing expense, excluding non-underlying items, increased to £3.9m (FY18: £2.9m), which was driven by a c9% increase in average debt levels and an increase in the average effective interest rate.

PROFIT BEFORE TAX

Underlying profit before tax for the financial year amounted to £74.6m (FY18: £80.5m), a decrease of 7.3%. Whilst, overall profit before tax for the financial year amounted to £66.6m (FY18: £72.6m).

The table below reconciles underlying profit before tax to the statutory profit before tax for both financial years:

	FY19 £'m	FY18 £'m
Underlying profit before tax	**74.6**	80.5
Non-underlying items:		
Cost of sales		
Gain/(loss) on foreign currency derivative financial instruments not designated as a hedge	**4.2**	(7.6)
Operating expenses		
Impairment of goodwill (*see below)	**(11.9)**	–
Other non-underlying operating expenses	**–**	(0.3)
Net finance expense		
Refinanced debt issue cost amortisation	**(0.3)**	–
Statutory profit before tax	**66.6**	72.6

* The Board deemed it necessary to undertake a review of the Getting Personal CGU (as defined in the notes to the financial statements) after sales and profitability declines in two of the last three years provided an indication of impairment. The Board concluded that its latest assessment of the CGU's recoverable amount requires an impairment loss of £11.9m to be recognised. There is no resulting impact on cash.

Further detail on the other non-underlying reconciling items is set out in note 1.

ACCOUNTING FOR LEASES

IFRS 16: Leases becomes effective for the first time in the next financial year, ending 31 January 2020. It requires entities to apply a single lessee accounting model, with lessees recognising right-of-use-assets and lease liabilities on balance sheet for all applicable leases. In addition, the nature of expenses related to those leases will change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for the right-of-use assets and an interest expense relating to lease liabilities. Whilst the cash flow profiles of such operating lease arrangements will not change, EBITDA profitability will improve significantly as a result. The Group intends to adopt the standard's full retrospective approach, the currently anticipated financial statement impact from which is set out in note 30 on page 115.

TAX

The tax charge for the year increased to 22.8% of profit before tax (FY18: 19.7%). The underlying tax charge (excluding the impairment of goodwill) reduced to 19.4% of profit before tax (FY18: 19.6%).

EARNINGS PER SHARE

Basic and diluted underlying earnings per share for the year were 17.6p (FY18: 18.9p), a decrease of 7.1%. After the non-underlying items described above, basic and diluted underlying earnings per share for the year were 15.0p (FY18: 17.1p), a decrease of 12.0%.

CAPITAL EXPENDITURE

Capital expenditure in the year amounted to £12.1m (FY18: £13.1m), including strategic investments of £4.7m, principally in relation to commercial initiatives in store, EPOS and vertical integration.

The Board anticipates capital expenditure for FY20 to be c£18m, including (i) further investment in the business's vertically integrated supply chain equating to c£6.0m, with the replacement of one of two digital printing presses, replacing card finishing machines and installing new robotic technology reducing manufacturing unit costs; (ii) investment in a new cardfactory.co.uk platform, including enabling click and collect from Card Factory stores; and (iii) investment in new warehouse technology.

STRONG FINANCIAL POSITION

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

Cash conversion, calculated as Underlying EBITDA less capex and underlying working capital movements divided by Underlying EBITDA, increased to 96.5% (FY18: 85.3%). This increase reflects a short-term favourable working capital timing difference as at 31 January 2019.

Whilst the Group has limited exposure to the possible risks and uncertainties in relation to trading arrangements, customs agreements, tariffs etc. post Brexit, it is concerned about the potential for border disruption at UK ports and the impact this might have on supply chain and product availability. As such, the business has taken the opportunity to build up its inventory levels in recent months and expects to maintain increased inventory levels until this risk diminishes. In addition, and as discussed above, the Group seeks to mitigate its exposure to sterling volatility via its hedging policy.

As at 31 January 2019, net debt (excluding debt issue costs of £1.3m) amounted to £141.3m, analysed as follows:

	FY19 £'m	FY18 £'m
Borrowings		
Current liabilities	**0.1**	14.9
Non-current liabilities	**143.7**	149.6
Total borrowings	**143.8**	164.5
Add: debt costs capitalised	**1.3**	0.4
Gross debt	**145.1**	164.9
Less cash	**(3.8)**	(3.6)
Net debt	**141.3**	161.3

Net debt at the year-end represented 1.58 times Underlying EBITDA (FY18: 1.72 times); notwithstanding the short-term working capital timing difference, leverage was in line with previous guidance.

During the year, the Group extended its £200m RCF, which now terminates on 31 October 2023. The facility also has an additional £100m accordion and attracts the same rate of interest for leverage levels in line with the Group's capital structure policy.

DIVIDENDS AND CAPITAL STRUCTURE

Dividends

Since IPO, the Board has adopted a progressive ordinary dividend policy for the Company, reflecting its strong earnings potential and cash flow characteristics, while allowing it to retain sufficient capital to fund ongoing operating requirements and to invest in the Company's long-term growth and profitability.

It remains the Board's intention, subject to, inter alia, available distributable profits, to pay annual ordinary dividends based on a targeted ordinary dividend cover of between 1.5 and 2.5 times the Company's underlying consolidated post-tax profit. Over the short-to-medium term, we expect to be at around the middle of the cover range.

Reflecting the Board's ongoing confidence in the Company's prospects, the Board is recommending to shareholders a final dividend of 6.4p per ordinary share, to give a total ordinary dividend for the year of 9.3p per ordinary share. Including this recommended dividend, and the special dividend of 5p per share paid in December 2018, total dividends for FY18 and FY19 can be summarised as follows:

	FY19 £'m	FY18 £'m
Interim dividend	2.9p	2.9p
Final dividend (recommended FY19)	6.4p	6.4p
Total ordinary dividend	9.3p	9.3p
Ordinary dividend cover	1.89x	2.03x
Special dividend	5.0p	15.0p
Total dividend	14.3p	24.3p

Capital structure and additional shareholder returns

As stated at the time of the IPO, the Board is focused on maintaining a capital structure that is conservative yet efficient in terms of providing long-term returns to shareholders. The Board has considered further the capital structure of the Group and continues to recognise the benefits of financial leverage, whilst also wanting to ensure that the Company has sufficient flexibility to invest in the growth of the business. The Board also notes the underlying leverage of the Group given its lease portfolio, although the Board believes that the Company's average break period for its portfolio is shorter than that of its peers.

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 EBITDA, excluding the impact of IFRS 16 (see note 30 to the financial statements on page 115). It should be noted that net debt at the half and full year period ends is lower than intra year peaks, reflecting usual trading patterns and working capital movements.

In line with this, over the short-to-medium term, the Board currently expects to target year-end net debt/Underlying EBITDA of approximately 1.7 times, excluding the impact of IFRS 16 (see note 30 to the financial statements on page 115). Reflecting the highly cash generative nature of the business, absent any material investments, the Board expects to generate surplus cash which it will return to shareholders; currently the Board expects to return surplus cash on an annual basis.

SPECIAL DIVIDEND

In line with the above, the Board has considered, inter alia, the current debt position of the Company and trading and investment expectations for the year ahead. Taking these into account, the Board currently expects to declare a special dividend at the time of the Company's interim results, paid together with the interim dividend for the year. Any such dividend will be dependent on trading and other developments in the period from now until the time of the interim results.

Including the impact of this special dividend, the Board currently expects FY20 year-end net debt/Underlying EBITDA in the current financial year to be in line with the above stated target, excluding the impact of IFRS 16 (see note 30 to the financial statements on page 115).

Kris Lee
Chief Financial Officer

15 April 2019

Principal Risks and Uncertainties

Good risk management is an integral part of business 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 48.

The principal risks and uncertainties facing the Group are set out below, together with details of how these are currently mitigated and if they have changed since last year.

Risk Type	Description	Mitigation
Our market Since 2018 ↑	The Group continues to generate most of its revenue from the sale of greeting cards, dressings, balloons and gifts. Although the Group has a proven track record of understanding our customers, trends and tastes can change quickly and we may not be able to effectively predict and respond to this which could affect our sales, performance and reputation.	• Increased the scope of customer and market research to support wider understanding of customer trends and to help us capture greater volume of card sales. • Commercial and Studio Directors working closely together to drive quality and value proposition and product innovation. • Investment in new platform for cardfactory.co.uk to support development of multi-channel offer responding to changing shopping habits and grow our customer base. • Structured, data-led, programme of redesigning categories on a rolling basis ensuring 'newness' in our ranges. • More granular sales data driving purchasing decisions. • Continuous investment in vertical integration supporting our ability to respond to changes in its markets.
Increasing competition Since 2018 ↑	National value retailers and supermarkets continue to aggressively compete, particularly during key seasons. Product choice and quality, store location and design, inventory, price and customer service remain key to differentiating our offering. As we've evolved, our competitor group has widened and many of them enjoy strong brand recognition, financial resources, flexible retail space, purchasing economies of scale, more mature multi-channel capability and pricing flexibility, any of which could give them a competitive advantage.	• Closely monitor competitor activity. • Increased scope of our market research. • Our design and print capability helps innovate, differentiate and improve the quality and value of our products. • Significant additional investment in our vertically integrated model underpins our competitive position. • Invested in new platform for cardfactory.co.uk. • Rigorous store selection process and performance reviews. • Strategic trials commenced to address competitive challenges and capture share of convenience market.

Risk Type	Description	Mitigation
Protecting and promoting our brands Since 2018 ⟷	'Card Factory' and 'Getting Personal' are the Group's key brand assets. Protecting and enhancing them underpins our reputation. If we are unable to protect them or if we fail to sustain our appeal to our customers, our reputation and our sales and future prospects could be jeopardised.	• Rigorous protection of our intellectual property and guidance and education for design teams. • Significant investments in colleague development programmes to underpin our 'customer first' approach. • Comprehensive store performance review programme in place to identify opportunities for improvement. • Widened scope of our customer and market research to understand brand perception. • Our design and print capability supports product innovation and differentiates us. • Further development and investment in processes that ensure product quality, safety and ethical production. Includes moving to a 'no audit no order' policy for all new suppliers.
Evolving our strategy Since 2018 ↑	Recent, well-publicised, examples of challenges for retailers, including the impact of widespread high street footfall decline, have emphasised the importance of evolving our strategy to reflect current market dynamics and customer shopping habits. The Group's current strategy aims to achieve long-term value for our shareholders in a balanced way, reflecting the interests of all key stakeholders. If the strategy and vision for the business are not developed, communicated or delivered, performance could suffer.	• Strategic trials commenced to address competitive challenges and capture share of convenience and impulse markets. • The Board and senior management team take responsibility for the development and implementation of strategy. • Annual Board and senior management team strategy reviews took place during the year. • Business objectives are set in the context of our four pillar strategy and aligned with our Mission, Vision and Values. • A now, well-established, management team provide the capacity and capability to deliver and develop our strategy. • Strategy is communicated at our Engage Conference and cascaded throughout the business. • Performance measures in place and monitored for all key operational programmes underpinning delivery of our strategy.
Managing our supply chain Since 2018 ⟷	Third parties, including many in the Far East, supply nearly all of our complementary non-card products, handcrafted greeting cards and certain raw materials. If they fail to satisfy orders it may affect the business or result in us having to find alternative suppliers. 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.	• Maintain strong relationships with key suppliers increasingly with regular face-to-face meetings. • Continuously diversifying supplier base providing greater flexibility and reducing reliance on individual suppliers. • Third-party facilitated technical and ethical audits programme in place with a 'no audit no order' policy implemented for new suppliers. • Sedex membership ('the Supplier Ethics Data Exchange'). • Further development and investment in processes that ensure product quality, safety and ethical production. • 'Top down bottom up' roll out of supplier terms across our key suppliers and all new suppliers. • Formally assessed impact of changes in tariffs in light of Brexit. • Forward purchased stock to mitigate potential inbound delays at ports as a result of Brexit.

Principal Risks and Uncertainties continued

Risk Type	Description	Mitigation
Developing our culture and leadership Since 2018 ↔	Retaining and developing the culture and people which have been the foundation of the Group's success is critical to the Group's future growth. Leadership changes in recent years across the whole of the senior management team have emphasised the challenge and importance of retaining management cohesion and showing leadership.	• Effective leadership is one of the elements measured in determining part of the CEO's and CFO's annual bonuses. • Annual colleague engagement survey captured feedback on leadership and culture with action plans implemented to address specific issues. • Employee forums created to provide further voice on culture and leadership. • Pulse survey carried out to measure the impact of management change on specific teams. • Group's leadership principles have been cascaded throughout the business • The Group's Mission, Vision and Values now embedded across the Group.
Loss of key personnel Since 2018 ↔	The Group's strategy and long-term success depend on our ability to: implement succession plans for the senior management team; develop our colleagues; and invest in our teams to ensure we have the capacity and capability to grow. The failure to retain and develop our colleagues will harm our future prospects and result in increased costs for the business.	• Focus on developing pipeline of future leaders with talent mapping and Talent Breakfasts in place. • Development programmes established to support future leaders. • Leadership principles defined and cascaded. • Senior management team now well established. • Group's remuneration policy (set out in the Directors' Remuneration Report on pages 57 to 63) designed to ensure management incentives reflect the business, its strategic objectives and support the long-term success of the Group for the benefit of all stakeholders. • Managing succession planning and integrating new team members are elements measured in determining part of the CEO's and CFO's annual bonuses.
Managing change Since 2018 ↑	The Group is continuing to implement significant change across the systems and processes that underpin its growth and efficiency. The speed and management of these changes introduces a risk of management overload and 'business as usual' activities could be compromised. In addition, the evolution of our strategy presents a risk that our ambition outweighs our current capacity to manage the change that goes with this.	• Significant investment in programme management capability supporting key change projects eg new platform for cardfactory.co.uk. • New Digital Director appointed to lead the digitalisation of the business. • The Company's new Chairman has significant experience of managing change and strategy evolution. • Key business programmes aligned with strategic objectives in our Four Pillars. • Board receives regular progress updates throughout key business programmes to enable support and challenge. • New Central Operations Director appointed to lead several key retail change projects.

Risk Type	Description	Mitigation
Finance and treasury Since 2018 ↑	Our financing arrangements and the fact that we source most of our products from 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 21 sets out in further detail the risk to the Group of exchange rate fluctuations.	• Comprehensive costs tracking, including regular cost-centre reviews, in place under our Business Efficiencies pillar. • Adequacy of current financing and cash flow and their ability to support delivery of Group strategy regularly monitored by the CFO. • Treasury management processes and policy in place to manage cash and exposure to foreign exchange and interest rate fluctuations including Brexit-related volatility. • Treasury strategy reviewed and approved annually by the Board with periodic consultation between the CFO and the Audit and Risk Committee Chairman. • Foreign exchange and interest rate hedging contracts pre-approved directly by the CFO and communicated to the Board monthly. • Further details of the Group's financial position are described in the CFO's Review on pages 20 to 23 and the Group's viability statement is on pages 75 and 76 of the Directors' Report.
Business continuity Since 2018 ↔	Significant disruption to any part of our vertically integrated business model, in particular to our printing facility, Printcraft, our distribution centre or our design studio, could severely affect our ability to supply our stores and could force us to use third parties which could be expensive and on onerous terms.	• IT resilience review carried out in 2018 to assess Group-wide back-up arrangements. Recommendations being implemented over the next year. • The Group's crisis management plan is in place with training to be rolled out over the next year. • Information security specific crisis management plan developed for testing. • Multiple scenario crisis management exercise scheduled to be held during the year. • Stock held across multiple locations to mitigate the risk of a catastrophic event at any one of our storage facilities. • The Group also maintains appropriate business interruption insurance cover.
Compliance Since 2018 ↔	Legal and regulatory compliance requirements continue to grow including: Modern Slavery Act, GDPR, Gender Pay Gap reporting, Payment Practices and National Living and Minimum Wage. Compliance is time-intensive and costly and failure to comply could lead to claims, penalties, damages, fines or reputational damage which, in some cases, are very material and could significantly impact the financial performance of the business.	• Group's General Counsel and Company Secretary oversees compliance with support from external advisers. Senior management team members liaise with him to identify and manage issues. • Key legislation trackers are in place with the Audit and Risk Committee regularly updated. • GDPR compliance programme in place and monitored. • Ethical trading and anti-slavery policy adopted by the Board and rolled-out. • Senior management team members manage compliance of the Group's key operational teams with escalation and disciplinary action where needed. • Policies and procedures governing behaviours in all key areas, some addressing mandatory requirements and others adopted voluntarily.

Risk Type	Description	Mitigation
Information technology Since 2018 ⟷	Reliable, efficient and resilient IT systems across the Group, and particularly those supporting our retail operations and vertically integrated model are critical to our success. Failure to develop and maintain these or any prolonged system performance problems or cyber-attack could seriously affect our ability to implement the Group's strategy and to carry on the business and could render us liable to significant fines and reputational damage.	• IT resilience review carried out in 2018 to assess effectiveness of Group-wide back-up arrangements. Recommendations being implemented over the next year. • Review being conducted with external support to ensure IT strategy evolves with business strategy. • Formal IT governance process embedded and managed by IT steering group that prioritises and sanctions all material IT projects and aligns with strategic objectives. • Continued with scheduled investment in IT infrastructure enhancing cyber security. • Key IT risks are documented and agreed service levels for recovery of key business systems are in place.
Online development Since 2018 ⟷	The Group's trading websites, www.cardfactory.co.uk and www.gettingpersonal.co.uk are developing and important parts of the business and part of our Online strategic pillar. They operate in very competitive markets with low barriers to entry. If we do not evolve our Online offering, meet customers' expectations and shopping preferences they may not deliver the anticipated revenue growth. This may also affect our reputation and customer perception of our brands.	• Approved investment in new platform for cardfactory.co.uk to launch in late 2019. • Expanded product ranges and increased newness in designs. • Continue to innovate and test new propositions to understand customer appetite. • Appointed Group Digital Director to drive technology innovation, user experience and service. • New management team at Getting Personal. • In-house Design Studio online team driving differentiation and product innovation.

Corporate Social Responsibility Report

OUR AIMS

Card Factory is committed to providing quality and value to our customers – the lifeblood of our business. In achieving this we recognise and understand the importance of showing all of our stakeholders how we take our corporate and social responsibility ('CSR') seriously.

Our aim is for CSR to be embedded within our culture; for it to guide management and employee behaviour; and to have clear responsibility and accountability both for our CSR strategy and for the actions necessary to execute it.

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

Our CSR activity is focused on the following key topics:

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

CUSTOMERS

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

Key achievements during the year were:

- opening 50 net new stores in the UK, 1 new store in the Republic of Ireland and a franchise store in Jersey, introducing the brand into new areas;
- implementing our new brand and mission across our store estate and online;
- launching over 4000 new designs, in store and online, across cards, gifting and dressings online to give our customers greater choice;
- investment in fixtures, navigation and point-of-sales across our store estate to improve merchandising and customer experience;
- contactless payment being live across all of our stores, helping us to serve customers faster and improve customer experience;
- an increased focus and investment on customer insight, ensuring we continue to listen to our customers, to develop our service and proposition;
- improving our online convenience offer, providing customers with a broad range of delivery options to meet the needs of our customer; and
- developing the customer's online journey making it easier and quicker to shop, add to their basket and checkout.

Awards

YouGov 7th most popular brand in retail; and

Feefo Gold Service award winner for online service.

The continued development of our products and service, both of which contribute to our retail proposition and customer experience continue 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. The balance of cards and other products are sourced from a broad supplier base throughout the UK, Europe and the Far East, principally China.

Supplier auditing

We continue to develop our supplier factory auditing programme to ensure it provides reasonable assurance that we are trading with suppliers that operate ethically, and who also produce good quality safe products that comply with all relevant laws and standards. We carry out audits using third-party specialists to ensure consistency in assessment.

We do not place orders with any new suppliers until they have successfully satisfied our onboarding process and we have received satisfactory technical and ethical audit results. Where existing suppliers are outside of the EU and our purchases from them in the last financial year exceeded £50,000, we require separate ethical and technical audits commissioned by us to have been completed before we make any further orders.

Ethical audits

The ethical audits we commission use criteria, SA8000, which is an auditable certification standard developed by Social Accountability International. It encourages organisations to develop, maintain, and apply socially satisfactory practices in the supply chain. The SA8000 standard is the most recognised social certification standard for factories and organisations worldwide. The audit scope includes: child labour, forced labour and disciplinary practices, health and safety, discrimination, freedom of association, collective bargaining, working hours, remuneration and the environment.

Ethical audit results are categorised as either 'Satisfactory', 'Needs Improvement' or 'Needs Major Improvement'. If an audit indicates a supplier 'Needs Major Improvement' we will seek to ensure that an appropriate corrective action plan is put in place by the supplier and that the relevant member of our buying team is informed so that no further orders are placed with that supplier until a re-audit has been carried out and an acceptable result has been achieved.

In exceptional circumstances, where an unsatisfactory audit result occurs and the supplier concerned has an order in progress, the matter is brought to the attention of a senior member of the supply chain team so we can decide how to proceed. In certain instances this has resulted in financial loss where an order is cancelled or refused on the results of such an audit to ensure we maintain integrity over our supply chain.

Technical audits

The technical audits we commission focus on a supplier's capacity to produce the number of goods we require safely, in accordance with our specifications and all relevant standards including those relating to labelling. Technical audit results are expressed as a percentage and, if the result is 95% or lower, a corrective action plan is sought for the non-compliances found in the audit and a suitable timeframe is agreed with the supplier and monitored. If the original audit result is less than 75%, a re-audit is arranged after evidence of corrective actions has been received. If we are not satisfied with the results of the re-audit we will not make any further orders with that supplier until the issues are rectified.

Trading companies

We continue to use trading companies in the Far East who source certain products on our behalf but retain the commercial relationship with their manufacturers. We are focused on materially reducing the number of trading companies we partner with and have reduced the numbers from in excess of 100 partners to less than 35 partners. We are continuing to develop our audit programme to ensure we have greater transparency over this part of our supply chain and have begun to commission confidential audits of the manufacturers our trading companies use. These audits preserve the identity of the manufacturers but provide us with assurance that they operate ethically and are capable of producing safe, high quality products in the quantities we require.

Through this process we aim to minimise the number of relationships we have with trading companies, simplify our supply chain and improve transparency.

We ask all of our suppliers to comply with our supplier compliance manual 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.

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 help us to monitor human rights issues through our supply chain and we support this with periodic visits to the factories of key suppliers by our sourcing team. The continued investment in our sourcing team during the year gives us capacity to support greater scrutiny of supplier practices.

We publish our annual compliance statement in accordance with the Modern Slavery Act 2015. A copy of the statement is available on our transactional website (www.cardfactory.co.uk) and on our investor relations website (www.cardfactoryinvestors.com). Within our statement we outline the processes we currently have in place and the steps we intend to take to develop our supply chain management procedures and to give assurance to our stakeholders that we take our commitment seriously.

Paper-based products

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.

Our main trading subsidiary, Sportswift Limited (which trades as 'Card Factory'), and our UK manufacturing operation, Printcraft Limited, are both FSC (Forest Stewardship Council) certified. This has and will continue to assist in providing a more robust and simplified supply chain over which to comply, so far as practicable, with EUTR and in 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 and wood-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. From 2019 we are actively seeking to promote the use of the FSC certification mark on the products we sell.

RECYCLING

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 and this is supported by our waste management services provider who only uses landfill as a final resort once all other disposal methods have been exhausted. To further support recycling we have started to retail cards with specific finishes that allow them to be 100% recycled. Our first range went on sale in January 2019.

SINGLE PLASTIC BAGS AND PLASTIC CARD PACKAGING

In recent years we have taken steps to reduce the level of single-use plastic bags used and target a year-on-year reduction of 10% in the use of such bags through supporting the sale of reusable bags.

There has been much publicity of the individual wrapping of greeting cards in the industry. We are proud that the majority of our cards are not wrapped. The individual handmade cards are wrapped, primarily to protect the product and we continue to review how we can further reduce the overall level of plastic waste.

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 that 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 teams 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.

All of our store locations have the facility to recycle paper, cardboard and plastic-based materials (which constitute a very large proportion of store waste) either through the use of dry mixed recycling containers (in which 95% of waste deposited must be recyclable) or waste containers which allow more specific separation of materials (with the latter mainly being in shopping centres with centrally managed facilities).

Our distribution centres in Wakefield also 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.

The majority of the products we sell 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

Electricity is the main form of energy we consume and we analyse consumption across our entire estate, including our distribution centres, our manufacturing facility and our stores. Where possible, we look for opportunities to reduce our consumption and reduce wastage by introducing new procedures or making use of available technology. As we have previously reported, this work was supplemented by an energy audit carried out under ESOS. The second round of ESOS will be reported on in December 2019.

Operationally, we have continued to focus on monitoring electricity usage.

We will continue to utilise the energy usage data we receive to support our store colleagues in reducing energy waste and consumption. This will be further supported by an e-learning module which will go out to all stores demonstrating the importance of energy conservation and the impact this has on the company and the wider environment. In addition, we'll continue to review and perform electrical audits to ensure the equipment we use or inherit is energy efficient.

All of the new stores we open have LED lighting and energy efficient equipment installed and we continue to explore new technology to further reduce our in-store consumption.

We have also carried out a replacement program changing the lighting in the warehouses to LED which further saves energy and improves the lighting levels within the working environment.

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.

Greenhouse gas ('GHG') emissions

Greenhouse gas statement for the Group

GHG emissions for the Group for the year ended 31 January 2019, in tonnes of carbon dioxide equivalent ('tCO_2e'), were:

Source	tCO_2e	%
Fuel combustion (stationary)	56.5	0.5
Fuel combustion (mobile)	676.7	5.7
Fugitive emissions (F-gas)	93.9	0.8
Purchased electricity	11,033.4	93.0
TOTAL	11,860.5	

Annual comparison and emissions intensity

tCO_2e	2018-19	2017-18	Reduction
Total emissions	11,861	16,071	26.1%
Emissions intensity*	27.2	38.1	28.6%

* Expressed in tCO_2e 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).

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 colleagues 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, including colleague induction, supported and reinforced through our training programmes which help to mitigate health and safety risks.

Whilst the Board has ultimate responsibility for health and safety, it is managed on a day-to-day basis by our compliance and safety teams. The Compliance and Safety (Retail) Team now reports to the Central Operations Director and the Compliance and Safety (Warehouse and Support Centre) Team reports to the Supply Chain Director. This provides the opportunity to build stronger relationships with the teams they support.

Both teams continue to liaise with line managers in all parts of the business to ensure compliance with our policies and procedures and ensure that all colleagues receive appropriate training. The two teams work together using their collective knowledge and expertise to ensure our operations remain safe.

Compliance and safety meetings are held regularly throughout the year and are attended by representatives from key operational teams with appropriate escalation to the senior management team where material issues or risks arise. The overriding objective of the decisions taken at these meetings is to make our stores and workplaces safe places for customers, colleagues and visitors alike.

The compliance and safety team also analyses trends and takes a proactive approach to managing health and safety practices. It then liaises with colleagues throughout the business to improve the standard of health and safety.

Additionally, our activities during the year have sought to develop how we collaborate and communicate across the Group in addressing health and safety matters and to streamline processes and procedures.

Key activities and developments during the year included:

- Compliance and Safety (Retail) moved across from Retail Operations to Central Operations to improve levels of focus and support;
- development and deployment of new Health and Safety Training Modules on our new Athena training platform;
- replacing paper-based training modules and deploying refresher online training modules to all retail colleagues;
- ongoing team development, supporting colleagues through their NEBOSH training and rolling out Safety, Health and Environment Apprenticeships; and
- significant recognition for our Compliance and Safety Apprentice who has been nominated for the Everywoman in Retail Rising Star Award.

The Board receives reports on health and safety matters across the Group including details of any material incidents and remedial actions.

COLLEAGUES

Our colleagues across the Group are critical to our ability to deliver the great products and customer service which underpin our success.

We employ more than 7,000 permanent colleagues. During the Christmas trading period, colleague numbers increased to more than 13,000 across the Group, taking into account temporary seasonal workers. We introduced an online recruitment system last year and, again this year, managers said that it made recruiting our seasonal colleagues very straightforward.

The focus during the past year has been on reducing our labour turnover in stores by continuing to develop a strong talent pipeline of store management, developing our leaders across the group so all of our colleagues feel they get what they need from their manager and engaging more with teams' right across the business.

During the year we also relaunched our online learning system (LMS) Athena. Athena was initially launched in stores to provide our seasonal retail colleagues a modern and engaging onboarding process. Athena will be rolled out across the Group throughout the year to enable all of our colleagues to access the online training and development modules.

Key activities during the last year have been:

- an overhaul of our recruitment and onboarding processes in Retail, increasing the retention of our seasonal colleagues to 89% over the peak trading period;
- a considerable focus on development – aCardemy, apprenticeships and management development, laying the foundations for the future and recognising and rewarding the talents of our colleagues;
- establishing employee forums across the Group;
- publishing our Gender Pay Gap report with our 'mean' figures substantially below the national average;
- rolling out 'unconscious bias' training to our retail and warehouse management teams;
- launching our first colleague recognition awards, the 'Flitter Awards', rewarding colleagues across the Group who live our values; and
- the growth of 'mycardfactory' to include voluntary benefits for our colleagues including products to support wellness and financial wellbeing.

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

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

	% Male		% Female	
	FY19	FY18	FY19	FY18
Board	71	71	29	29
Senior management team	71	62	29	38
All employees	19	21	81	79

We improved our communication and engagement channels this year which resulted in a rise in the Group's engagement score.

We engage with our colleagues through our:

- annual engagement survey 'Be Heard' which all colleagues participate in;
- direct communication programme to our CEO 'Tell Karen' which enables colleagues to share their thoughts on how we can grow the business and ways we can provide our customers with a great service;
- weekly bulletins which inform colleagues of everything from 'chat' and social news, charity events to operational information;
- television screens and video content. All office and warehouse locations have large screens so colleagues can see and read up-to-date information; and
- regular Regional and Area Manager meetings to ensure that our retail field leaders, as well as our store managers, have the opportunity to hear and discuss key messages.

We also held our annual conference 'Engage' where we cascaded the plan and performance measures for the year to 150 managers with all colleagues receiving a cascade of the key messages and the 'Golden Quarter Conference' to communicate the plan and the products for the Christmas trading period.

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

The Card Factory Foundation has three funds:

Match Fund

through which the Foundation provides match funding of the money raised by our Colleagues for charitable causes.

Helping Hand

through which the Foundation provides help in a time of need when Colleagues are facing hardship following a life changing event.

Community Fund

through which the Foundation provides grant funding to local projects, charitable causes and welfare needs to benefit the communities where we operate.

Founded in February 2018, the Card Factory Foundation are custodians of the money raised from the sale of the plastic carrier bags sold in our stores, since February 2018 the foundation has donated **£190,078** to charitable causes.

We believe that the structure of the Foundation will enable the Group to continue donating to good causes that would otherwise miss out, as well as helping large established charities.

"Everyone wants to continue supporting the big charities but the ability to support things that are local and more personal to our Colleagues makes a real difference."

Chris Beck, Chairman, Card Factory Foundation

MACMILLAN CANCER SUPPORT

Card Factory is proud to have been supporting Macmillan Cancer Support since 2006. Colleagues and customers at Card Factory take part in multiple fundraising events throughout the year, ranging from loose change donations to the annual National Bear Raffle in our stores, as well as the sale of Macmillan Father's Day cards and Christmas cards.

During the year we raised **£704,063.98** for Macmillan which is an incredible achievement and we intend to continue this very successful partnership with Macmillan.

£5,879,697.96

raised to date in support of Macmillan Cancer Support since 2006.

> **"We would like to take this opportunity to thank everyone for their amazing support of our partnership so far. Your continued support has allowed us to help people living with cancer live life as fully as they can by providing physical, financial and emotional support. Thank you once again from everyone at Macmillan Cancer Support – you are amazing."**

Sharon Cottam, Partnership Manager, Macmillan Cancer Support

The Group also donated £125,000 each to the British Heart Foundation, Alzheimer's Society and the NSPCC, the charities chosen by our Colleagues and we intend to continue supporting these incredible charitable causes.

"

We are delighted that Card Factory have chosen to unite against dementia and continue supporting Alzheimer's Society. So many of us have first-hand experience of dementia and know how devastating the condition can be. We would like to take this opportunity to say a huge thank you to Card Factory and its customers for supporting us in this way."

Sian Meech, Corporate Account Manager, Alzheimer's Society

"

The BHF are delighted to be working with Card Factory. Heart and circulatory diseases still kill 1 in 4 in the UK, they cause heartbreak on every street. We'd like to thank Card Factory and all their customers who support us in our aim to beat heartbreak forever."

Sarah Miller, Corporate Partnership Manager, British Heart Foundation

"

I can't thank Card Factory enough. With Card Factory's ongoing help we can continue our fight for every childhood, all the money raised will be going towards vital services – protecting children today and preventing abuse tomorrow."

Tim Bradshaw, Regional Corporate Fundraising Manger, NSPCC

We support 'Make-A-Wish Ireland' as our official charity partner for our Republic of Ireland stores and we intend to continue working with 'Make-A-Wish Ireland' to enable them to continuing granting the wishes of children living with life-threatening medical conditions.


I ♥ SPOONING WITH YOU
TO THE One I Love ON VALENTINE'S DAY
ALL OF ME LOVES ALL OF YOU


MAKE EVERY DAY A RAINBOW AND Unicorns KINDA DAY
HAIR CRACKER


TOOT-TOOT
BRUMMM
VROOOM
HAPPY BIRTHDAY


Just a little something for someone special
For a fabulous Sister
Let's Party


MOCKTAILS
PURPLE RAIN
DELICIOUSLY SCENTED
CANDLES


HAPPY BIRTHDAY
BYE BYE EYESIGHT!
HELLO BIFOCALS!
HERE'S TO PERFECT DAYS
DID SOMEONE SAY CAKE?


Stanley


WITH LOVE

Directors and Officers

Paul Moody

Non-Executive Chairman

Paul joined the Board as Chairman of the Company with effect from 19 October 2018. Paul has extensive experience in the consumer sector having spent almost 20 years at Britvic plc, one of the leading branded soft drinks businesses in Europe, including 8 years as CEO.

In February 2016 Paul was appointed as Chairman of 4imprint Group plc, the leading direct marketer of promotional products in the US, Canada and UK. Paul has been a Non-Executive Director at Pets at Home Group plc since March 2014 and is Chair of their Remuneration Committee.

Paul was also Chairman of Johnson Service Group plc between May 2014 and August 2018.

Paul is the Chair of the Nomination Committee and a member of the Remuneration Committee.

External appointments:

Non-Executive Chairman of 4imprint Group plc and Non-Executive Director at Pets at Home Group plc.

Date joined Card Factory:

19 October 2018

Karen Hubbard

Chief Executive Officer

Karen was appointed to the Board of the Company with effect from 22 February 2016. 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 of 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.

External appointments:

None.

Date joined Card Factory:

22 February 2016

Kris Lee

Chief Financial Officer

Kris was appointed to the Board of the Company with effect from 3 July 2017. Kris has more than 20 years' finance experience and, immediately before joining the Group, Kris served as Finance Director of the Edinburgh Woollen Mill Group (EWM). In addition to being responsible for EWM's finance team, Kris oversaw EWM's significant M&A programme including the acquisitions of the Edinburgh Woollen Mill, Peacocks, Austin Reed, Country Casuals, Viyella and Jaeger brands. Prior to EWM, Kris held senior finance roles in a number of businesses including Brighthouse, Phones4U, JD Sports, all:sports, BMI Healthcare, 20:20 Mobile Logistics, Barclays and 3663 Distribution. Kris is a Chartered Accountant and holds a BA (Hons) in Accountancy Studies.

External appointments:

None.

Date joined Card Factory:

3 July 2017

Octavia Morley

Senior Independent Non-Executive Director

Octavia joined the Board as Senior Independent Non-Executive Director in April 2014 and has extensive experience of serving on boards of UK public companies. Octavia is a Non-Executive Director of Crest Nicholson Holdings plc and 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.

External appointments:

Independent Non-Executive Director of Crest Nicholson Holdings plc, Chairman of The Spicers-Officeteam Group Limited and Non-Executive Director of Ascensos Limited.

Date joined Card Factory:

30 April 2014

David Stead

Independent Non-Executive Director

David Stead joined the Board as an Independent Non-Executive Director in April 2014. He is an experienced Director of companies in the UK retail sector. David was the Chief Financial Officer of Dunelm Group plc from 2003 to 2015 and Interim Chief Financial Officer in 2018. David is also the Senior Independent Non-Executive Director of Joules Group plc and a Non-Executive Director of Majestic Wine plc. Prior to his role at Dunelm, 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.

External appointments:

Non-Executive Director of Majestic Wine plc, Senior Independent Non-Executive Director of Joules Group plc and Honorary Member of Council, University of Birmingham.

Date joined Card Factory:

30 April 2014

Paul McCrudden

Independent Non-Executive Director

Paul joined the Board as an Independent Non-Executive Director in December 2014. Paul is a marketing consultant, currently at Eventbrite running UK, Ireland and Benelux markets as an interim role. Prior to this, Paul was Global Head of Live Marketing at Twitter, a board director at advertising agency AMV BBDO, and spent his earlier career at Imagination and Accenture specialising in innovation and new technologies. Paul is an advisor to the National Trust, and previously served as Chairman of the board of trustees at Hoipolloi, an arts organisation funded by the Arts Council England.

External appointments:

Regional Advisory Board, National Trust.

Date joined Card Factory:

1 December 2014

Roger Whiteside OBE

Independent Non-Executive Director

Roger joined the Board as an Independent Non-Executive Director in December 2017. Roger is currently Chief Executive of Greggs plc, the UK's leading bakery food-on-the-go retailer. Prior to this, Roger served as Chief Executive of both the Thresher Group off-licence chain and Punch Taverns as well as having been a founding member and Joint Managing Director of Ocado. These roles followed a 20-year career with Marks and Spencer where he ultimately led its food business.

External appointments:

Chief Executive Officer of Greggs plc and member of the Women's Business Council.

Date joined Card Factory:

4 December 2017

Shiv Sibal

Company Secretary and General Counsel

Shiv joined the Company as General Counsel and Company Secretary in April 2014. Shiv is an experienced corporate finance lawyer with more than 16 years' experience in the legal sector. Prior to joining the Company, Shiv was a corporate partner with international law firm Womble Bond Dickinson LLP 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 8 years working for international law firm Pinsent Masons LLP in their corporate team.

External appointments:

None.

Date joined Card Factory:

30 April 2014

Board Committees

Audit and Risk Committee	Remuneration Committee	Nomination Committee
David Stead (Chairman)	Octavia Morley (Chairman)	Paul Moody (Chairman)
Octavia Morley	Paul Moody	Octavia Morley
Paul McCrudden	David Stead	David Stead
Roger Whiteside	Paul McCrudden	Paul McCrudden
	Roger Whiteside	Roger Whiteside

Chairman's Letter – Corporate Governance

Paul Moody
Chairman

During the last year, the Board has focused on supporting the business in trading robustly through a challenging consumer environment whilst staying true to its mission to help customers celebrate their life moments. This mission directs our strategy and the Board is committed to ensuring this evolves and adapts to changing consumer needs whilst capitalising on opportunities to grow our market share and leverage the strength of the Card Factory brand.

Additionally, the Board recognises the importance of managing change. During the year, I was appointed as Chairman, succeeding our retiring Chairman Geoff Cooper. Geoff led the Board as the Group implemented its strategy in the period since IPO. As Chairman, I will use my leadership experience and knowledge to ensure the Board effectively governs and supports the business as it looks to the future, taking into account the interests of all key stakeholders.

During the year, the Board have considered the implications of changes in the regulatory environment in which we operate, particularly as regards the significant change in structure of the UK Corporate Governance Code and the regulator's expectations of companies in demonstrating compliance. We are putting in place processes and structures to support this but are confident that many of the practices are already implicit within the way the Group is currently managed.

We've given particular focus to the need for the Remuneration and Nomination Committees to take greater responsibility for and to listen to the workforce beyond the Executive Directors and the senior management team and will be updating the Committees' terms of reference appropriately.

As a Board, we've evaluated our performance internally not just reflecting on the year past but on how we can ensure the Board continues to operate effectively in the future and at the appropriate level to support our CEO's execution and development of the Group's strategy. Further details of the review and the key objectives we agreed are set out in the report below.

We will continue to look for opportunities to improve while continuing to operate with our belief that pragmatic application of corporate governance principles and guidelines in a way that enhances or protects the value of the business should be the core component of the Board's decision-making processes.

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.

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

Yours sincerely

Paul Moody
Chairman

15 April 2019

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 instilled in the business, and in the achievement of long-term strategic goals, whilst successfully managing risks for our shareholders.

We believe that good governance is demonstrated by applying corporate governance principles and guidelines in a way that enhances or protects the value of the business. This ensures a pragmatic governance culture sits alongside the entrepreneurial spirit which has enabled Card Factory to develop into the business it is today.

KEY GOVERNANCE ACTIVITIES

Key activities during the year were:

- managing and supporting the induction of our Chairman, Paul Moody, who formally succeeded Geoff Cooper on 19 October 2018;
- continuing to support our Chief Executive Officer, Karen Hubbard, in both her development of the Group's longer-term strategy and her reflection and refinement of the Group's current strategy taking into account the opportunities, risks and challenges the Group faces over the short to medium term;
- through the Remuneration Committee, supporting the implementation of the new Remuneration Policy following shareholder approval at the AGM on 31 May 2018;
- continuing to support Karen and Kris with the development of the wider management team and a structure for identifying and developing future leaders from within the Group;
- continuing to review the objectives and performance of the business in each of the four pillars of its growth strategy and monitoring progress with the key business projects implemented during the year;
- reviewing the Group's risk register and supporting Karen and Kris with the implementation of internal controls to mitigate identified risks of the Group;
- regularly evaluating the Board's current agenda during the year as well as planning for the year ahead; and
- 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.

CODE COMPLIANCE

The Board has complied with and intends to continue to comply with the requirements of the UK Corporate Governance Code published in September 2016 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. 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 facilitates the development and growth of the Group over the long term in the interests of its shareholders. We believe this requires the Company to recognise the importance of our duties to colleagues, customers, the community in which we operate and the interests of our other key stakeholders.

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. The constitution of the Company's Board complies with the Code's recommendation.

Paul Moody was appointed to the Board as Chairman with effect from 19 October 2018, succeeding Geoff Cooper who retired with effect from 18 October 2018. Paul's appointment supports the Board's continuing commitment to ensure it has the appropriate balance of skills and experience to support its exercise of its duties and that succession planning extends to the Board itself.

The Board remains relatively small but is confident that, as currently constituted, it continues to be an effective and efficient decision-making body that supports the Group's strategy and growth. This is kept under constant review together with succession planning for the Board as a whole.

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.

Chairman – Paul Moody

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 Paul Moody to be independent and his appointment is subject to the terms of a letter of appointment dated 15 October 2018.

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, which 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. A copy of the matters reserved for the Board is available on Card Factory's investor website (www.cardfactoryinvestors.com) and, on request, from the Company Secretary.

BOARD ATTENDANCE

During the year, the Board held 10 scheduled meetings and various Board Committee meetings were also held with attendance as follows:

Director	Role	Board Meetings (10 meetings)	Remuneration Committee (3 meetings)	Audit and Risk Committee (3 meetings)	Nomination Committee (7 meetings)
Geoff Cooper	Non-Executive Chairman and Chair of Nomination Committee[1]	7	2	–	–
Paul Moody	Non-Executive Chairman and Chair of Nomination Committee[1]	3	1	–	–
Octavia Morley	Senior Independent Director and Chair of Remuneration Committee	10	3	3	7
David Stead	Independent Non-Executive Director and Chair of Audit and Risk Committee	10	3	3	7
Paul McCrudden	Independent Non-Executive Director	10	3	3	7
Roger Whiteside	Independent Non-Executive Director	9	3	3	–
Karen Hubbard	Chief Executive Officer	10	–	–	–
Kristian Lee	Chief Financial Officer	10	–	–	–

1 Geoff Cooper retired from the Board on 18 October 2018. Paul Moody joined the Board 19 October 2018. Roger Whiteside was unable to attend the June 2018 Board meeting. Unless otherwise noted, all Directors have attended all relevant Board and Committee meetings during their appointment

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 topics reviewed 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 for the current financial year. As part of 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 updates on key business programmes and periodic presentations from senior management team members. These ensure that the Group's Non-Executive Directors remain informed of key developments within the Group. The Board regularly reflects on this rolling agenda to ensure it is responding to the strategic and operational challenges faced by the business.

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

Strategy	Performance	Governance
Group strategy	Annual results	Board evaluation
Group budget	Interim results	Treasury policy
Commercial and Product strategy	Regular trading updates	Governance and legal updates
Supply Chain strategy	Key project updates	Board decisions review
HR strategy and engagement	Regularly tracking four pillars	NED reports
Vertical Integration initiatives	EPOS review	Principal risks review
Brand review	ROI performance review	Investor relations updates
Online strategy	Competitor updates	Board and Committee planner
SAYE 2019 grant	Property review	Modern Slavery Act statement
	Retail operations review	Health and safety review

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. As part of these papers, the Board also now receives progress updates on key business programmes together with a document which tracks progress within each of the four pillars of our strategy.

To aid efficient decision-making, we use a standard form Board decision paper for material matters requiring Board approval that includes management's clear recommendation on the decisions being taken.

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 actions accompanies the minutes for each Board meeting which enables the Board to regularly monitor the progress.

External speakers

During the year, the Board continued to invite external speakers to our Board meetings as lunch guests. These sessions, whilst relatively informal, provided valuable business insights and experience from our guests together with 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 with a focus on insights that will support the Board's strategic planning.

Board strategy day

The Board held its annual strategy day in July 2018, at which it reviewed each element of the Group's four growth pillars together with longer-term strategic opportunities. Key actions from that day are reflected in management's planning for the business with the Board having the opportunity to review progress with key strategic projects throughout the year.

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 of 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 financial PR advisers and its joint corporate brokers, UBS and Investec, who help organise presentations and visits to the Group's operations and stores for analysts and shareholders.

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 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. In addition, the Chairman and the Non-Executive Directors regularly join the Executive Directors at these investor-related events and occasionally meet with shareholders separately to discuss the Group's approach to governance and other governance developments which affect the Group. 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, setting out our strategy and performance together with our plans for future growth (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 75.

NON-EXECUTIVE DIRECTOR MEETINGS

The Chairman and the other Non-Executive Directors met on three separate occasions 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 one of these occasions, the Senior Independent Director and the other Non-Executive Directors continued the meeting without the Chairman to discuss his performance and succession planning.

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 support centre.

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 controls and risk management systems; and
- whistleblowing and loss prevention.

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 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, Paul McCrudden and Roger Whiteside. The Directors consider that David Stead has recent and relevant financial experience.

The Audit and Risk Committee met three times during the year and, in future, will meet no fewer than three times per 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. Independent external legal and professional advice can also be taken by the Audit and Risk Committee if it believes it is 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 pages 50 to 53 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), 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 at least three members who are Independent Non-Executive Directors, free from any relationship or circumstance which may or would be likely to, or appear to, affect their judgement and that the 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 Paul Moody, David Stead, Paul McCrudden and Roger Whiteside. Geoff Cooper was a member until his retirement on 18 October 2018.

The Remuneration Committee met three times during the year. In future, it will meet not less than twice a year.

The Board and the Remuneration Committee have employed Korn Ferry Hay Group (Korn Ferry), a professional services business which specialises in executive remuneration, to advise and assist in connection with the Group's executive remuneration arrangements and its reporting obligations. Korn Ferry do not provide any other services to the Group.

A report on the Remuneration Committee's activities during the year is set out on pages 54 to 70 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), 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 Paul Moody and its other members are Octavia Morley, David Stead, Paul McCrudden and Roger Whiteside. The Directors therefore believe that the Company is in compliance with the Code.
The Nomination Committee met seven times during the year, which is considerably more than in prior years, with these additional meetings being required to manage the succession of Geoff Cooper as Chairman. In future, the Committee will meet not less than once a year. A report on the activities of the Nomination Committee during the year is set out on pages 71 to 73 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), 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 team members and the Group's advisers. The induction includes visits to the Group's stores, support centre, its design studio, Printcraft (the Group's print facility) and the headquarters of its online subsidiary, Getting Personal (www.gettingpersonal.co.uk).

Since joining in October 2018, Paul Moody has been through a tailored induction programme, details of which are set out in the Nomination Committee Report on pages 72 and 73.

Throughout the year, all of the Non-Executive Directors have continued to visit all of the Group's operations, both for scheduled Board meetings and informally with members of the senior management team. Feedback on visits is given at subsequent Board meetings.

Additionally, the Non-Executive Directors have continued their informal 'buddying up' visits with members of the senior management team to build on their day-to-day knowledge of specific areas of the business and support the team in sustaining and developing our strategy.

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 regularly 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 38 to 40 for details of the skills and experience of each Director.

BOARD EVALUATION

As required by the Code, the Board conducted an internal evaluation during the year which was led by the Chairman and the Company Secretary. This evaluation reflected on the findings of the externally facilitated evaluation carried out last year (a detailed summary of which was included in last year's Annual Report and Accounts) and the Board's performance against the objectives it set itself. In addition, the Board identified the following high-priority objectives for the current year that will underpin the continuing effective functioning of the Board:

- establishing a compelling articulation of the Group's longer-term growth strategy;
- reviewing and refining the Group's approach to investor communications to ensure an inclusive and efficient process with appropriate rigour and challenge; and
- appropriately aligning the information provided to the Board with that used by the Group's senior management team to support consistent and effective challenge of the matters being reported on; and

Board evaluation will continue to be conducted on an annual basis and the Board will, every third year, as required by the Code, conduct an externally facilitated evaluation, with the next one of these to take place in the financial year ending 31 January 2021.

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 54 to 70. 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 complies 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 election or re-election (as appropriate) 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 AGM 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 retirement on 18 October 2018, Geoff Cooper (former Chairman) 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 and robust 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;
- specific risks are recorded in the Group's risk register and assessed in terms of impact and likelihood;
- responsibility for monitoring and managing these risks on a day-to-day basis is given to the relevant members of the Group's senior management team and they provide regular 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 or likelihood of the risk or they identify a new risk which the Group may face, the Group's risk register is updated to reflect this;
- 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 as a whole 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 recognises 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.

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 2019 and up to the date of approving the Annual Report and Accounts. The Board as a whole 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. Additionally, Deloitte LLP provided internal audit services to the Group until 31 December 2018. Further details of the scope of their work during the year and the Group's proposed approach to conducting internal audit reviews during the current year are set out in the report of the Audit and Risk Committee on pages 50 to 53.

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

Board

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

Audit and Risk Committee

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

Senior management team

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

Loss prevention team

Focuses on cash losses, theft and fraud in stores

Compliance and safety risk assessors

Reviews compliance with internal procedures that ensures good health and safety standards are observed

Internal audit function

Deloitte LLP (co-sourced until 31 December 2018)
Internal function from 01 January 2019 overseen by head of loss prevention

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.

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 as part of the annual statutory audit.

The Board and the Audit and Risk 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 2019 and up to the date of approving the Annual Report and Accounts and confirmed that they are satisfactory. 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 74 to 76.

SHARE DEALING CODE

The Company's share dealing code was adopted in 2016 and incorporates the requirements of the EU Market Abuse Regulation which came into force in 2016. The code adopted applies to the Directors, members of the senior management team and to other relevant employees of the Group.

ANTI-BRIBERY

The Company has implemented internal procedures, annual colleague training 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 colleagues 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 provide a whistleblowing line and 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 colleagues with the assurance that they can do this in complete confidence. Our loss prevention team, in its day-to-day activities, seeks to reinforce this message and, in addition, the Group periodically uses communication campaigns to supplement this. The Audit and Risk Committee is notified of any whistleblowing reports.

This report was reviewed and approved by the Board on 15 April 2019.

Paul Moody
Chairman

15 April 2019

Chairman's Letter – Audit and Risk Committee

David Stead

Chairman of the Audit and Risk Committee

Dear Shareholder

The Committee's activities during the year have focused on ensuring the Group's structures, processes and controls continue to evolve, to address the changing regulatory and governance environment.

Whilst the Committee has confidence in the Group's internal controls and its approach to managing risk, it recognises the importance of continuing to challenge management, not only to maintain these controls but to improve them in light of changing practice.

The Committee remains satisfied with the performance of KPMG LLP as our external auditor. However, we will continue to monitor this closely together with other developments affecting the auditing profession more generally, including Sir John Kingman's independent review of the Financial Reporting Council and his consideration of the current rules on audit procurement.

There are a number of significant developments in corporate reporting, some of which (IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers) have come into effect for the period being reported on and others which will take effect over the next financial year (including the new Corporate Governance Code and IFRS 16 Leases). The Committee has considered the impact of these, including the FRC's guidance on disclosure, and will continue to monitor the Group's approach to implementing these new standards.

The Committee will continue to ensure that its activities are focused on business issues that add to, or preserve value and that they remain aligned with the strategic goals of the Group whilst also continuing to satisfy the requirements of the new Corporate Governance Code.

The report that follows provides further detail on the Committee's activities during the year.

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

Yours sincerely

David Stead
Chairman of the Audit and Risk Committee

15 April 2019

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 45. The Committee's terms of reference, which are published on Card Factory's investor website (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, Paul McCrudden and Roger Whiteside.

As David Stead is a chartered accountant and was the Chief Financial Officer of Dunelm Group plc from 2003 to 2015, and Interim Chief Financial Officer in 2018, the Board considers that he has both recent and relevant financial experience in accordance with the requirements of the Code and that within the Committee as a whole there is significant experience of the retail sector in which the Group operates.

The Chief Executive Officer, the Chief Financial Officer and the Chairman of the Board usually attend meetings of the Committee by invitation, along with representatives from our auditor, KPMG LLP. In addition, subject matter experts engaged to support with internal audit reviews also attend the meetings of the Committee by invitation. The Company Secretary acts as secretary to the Committee.

MEETINGS

The Committee met three times during the year with details of attendance at these meetings set out in the Corporate Governance Report on page 43.

ROUTINE ACTIVITIES DURING THE YEAR

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

- reviewing the integrity of the draft financial statements for the year ended January 2018, the appropriateness of accounting policies and going concern assumptions and considering the auditor's report regarding its findings on the annual results;
- assessing whether the Annual Report and Accounts for the year ended January 2018, 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 statements published in September 2018;
- verifying the independence of the Group's auditor, approving their audit plan and audit fee and setting performance expectations;
- providing appropriate challenge to KPMG LLP on their actions in response to corporate failures, including ones in which their role as auditor is the subject of further investigation by regulatory authorities;
- reviewing the findings of, and the implementation of actions arising from, the internal audit projects undertaken during the year and agreeing the Group's approach to internal audit work going forward;
- reviewing 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;
- monitoring the Group's 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, the Committee and the Board;
- reviewing the Group's risk register in March and September;
- reviewing the Group's legal horizon scanner which sets out key future legislative changes that will affect the Group and how these are being addressed within the business;
- reviewing the work carried out by the Group's loss prevention team in detecting and preventing fraud and theft of cash and stock;
- reviewing the actions taken by the Group to address the issues raised by HM Revenue and Customs in their review of our compliance with national minimum wage legislation;
- monitoring the Group's compliance with its policy for use of our auditor for non-audit work;
- reviewing the Group's tax strategy and tax risk register; and
- with the support of KPMG LLP, monitoring developments in legislation, reporting and practice which affect matters for which the Committee is responsible.

ACTIVITIES AFTER THE YEAR-END

In the period following the year-end, the Committee met once in April 2019 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 pages 75 and 76) including the time period assessed and the principal risks and combinations of risks modelled;
- the integrity of the draft financial statements for the year ended January 2019, including the appropriateness of accounting policies (including the adoption of IFRS 9 and IFRS 15) 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, are fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy;
- the performance, effectiveness and qualifications of the external auditor and recommendation for their reappointment;
- the impact of the adoption of IFRS 16 (Leases) with effect from the financial year ending 31 January 2020 and the related anticipatory disclosures made in this Annual Report and Accounts; and
- the Company's policy on the use of auditors for non-audit services.

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 April 2019, 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 in the year under review; 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 treatment of 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;
- conducting a central reconciliation of store and warehouse stock; 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.

ASSESSMENT OF ANNUAL REPORT AND ACCOUNTS

The Committee confirmed to the Board that it considered this Annual Report and Accounts as a whole to be fair, balanced and understandable, to the extent possible whilst complying with all applicable legal, regulatory and reporting requirements.

INTERNAL AUDIT

The Group engaged Deloitte LLP to provide internal audit services during the year. The main areas covered by their work were:

- IT resilience – a comprehensive review of the resilience of the IT systems and applications that are important to the Group's operations. The review considered the maturity and effectiveness of the Group's current arrangements and identified opportunities to further enhance these and build additional resilience to further mitigate risks of business interruption, particularly at Getting Personal, Printcraft and within the Group's design studio;
- Accounts payable – Deloitte analysed our accounts payable data to identify potential duplicate payments and opportunities to reclaim under-recovered VAT and missed supplier credits; and
- Prior audits – monitoring progress with the outstanding actions from audits conducted in previous years including: right to work and payroll; supply chain and inventory management; and cyber security.

The programme of internal audit reviews for the current financial year will be overseen by the Group's head of loss prevention, with the support of relevant experts in each area. We will report on this work in next year's annual report.

LOSS PREVENTION

The loss prevention team, and its programme of activities, are now well embedded in the business. Direct engagement and regular communication with colleagues across the business are critical to the team's effectiveness and the team's core fraud and theft detection activities are supplemented by a programme of store audits, colleague education, training and development.

The Committee receives regular reports on the activities of the loss prevention team. The team's progress has been recognised externally in them being awarded the titles of 2018 Retail Risk Team and 2018 Retail Risk Director of the year at the retail industry Fraud Awards.

EXTERNAL AUDITOR

KPMG LLP have conducted the statutory audit for the financial year ended 31 January 2019 and they attended all three of the Committee meetings held during that year as well as the one held in April 2019. 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 £127,000. A breakdown of fees paid to KPMG LLP during the financial year is set out in note 4 to the financial statements on page 98.

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

Our current 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 eight years, the Committee and the Board continue to believe this is in the best interests of shareholders as KPMG LLP have developed an extensive knowledge of the Group. In line with audit partner rotation requirements, KPMG appointed a new audit partner to manage the Group's audit process from 2016/17.

KPMG LLP have attended all of the Committee meetings during the year and have separately met with the Committee Chairman.

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. The Group has a formal policy regarding its use of audit firms for non-audit services and 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.

KPMG LLP have confirmed that, as matter of policy, going forward they will no longer provide any of their FTSE 350 audit clients with non-audit services other than services closely related to the audit.

The aggregate fees paid to KPMG LLP for non-audit work during the year were £7,000 (equivalent to 6% of the audit fee). This related principally to services closely related to the audit. Full details are given in note 4 to the financial statements on page 98.

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. A copy of our current policy regarding the use of audit firms for non-audit services is available on Card Factory's investor website (www.cardfactoryinvestors.com).

This report was reviewed and approved by the Committee on 15 April 2019.

David Stead
Chairman of the Audit and Risk Committee

15 April 2019

Chairman's Letter – Remuneration Committee

Octavia Morley

Chairman of the Remuneration Committee

Dear Shareholder

I am pleased to present our Directors' Remuneration Report for the financial year ended 31 January 2019.

Following an extensive review of our remuneration policy ahead of last year's AGM, which resulted in a material change to our long-term incentive policy, there are no changes to the remuneration policy proposed at this year's AGM. During the year under review we continued to monitor developments in market practice, investor guidance and the regulatory regime, to assess whether the operation of the current policy remains appropriate in light of our business strategy and the retail environment in which we operate and we have concluded that no significant change is required.

SUMMARY OF THE REMUNERATION POLICY

We have designed the remuneration policy to be simple and strongly aligned to shareholders' interests. Salary, benefits and pension levels are relatively modest compared to other companies and there is a higher weighting to variable performance pay, with a significant share-based element. Our annual bonus plan is based on financial and strategic objectives and, to the extent the CEO or CFO have not reached their respective shareholding requirement, one third of any bonus earned is required to be invested in shares which must be held for at least three years. Last year we moved away from granting share awards based on the achievement of specific three-year performance targets to a simpler approach where much lower awards of 'Restricted Shares' are granted annually, which vest over a longer timeframe. Restricted Shares provide a longer-term strategic focus and, over time, generate significant employee shareholdings which creates a more direct alignment of long-term interests between executives and shareholders. The move to Restricted Shares also led to a reduction in maximum potential pay for Executive Directors.

HOW WE INTEND TO APPLY THE POLICY IN FY19/20

- We are proposing a 2% increase in base salary for our CEO and CFO with effect from 1 May 2019 to a salary of £486,127 and £327,726 respectively. This level of increase is in line with the average level of increase for the workforce. The new salaries retain a lower quartile market positioning.
- Pension entitlement will remain at just over 3% of base salary.
- The annual bonus will remain capped at 125% and 100% of base salary, respectively, for the Chief Executive and Chief Financial Officer. 80% of the annual bonus will continue to be based on stretching EBITDA targets. The remaining 20% will be determined by strategic objectives which will be stretching, clearly defined, measurable and disclosed retrospectively in our Annual Report on Remuneration. The inclusion of a strategic element enables the Committee to highlight the importance of the current strategic focus and objectives of the business and to reward steps in achieving this.
- Restricted Shares will be granted worth 87.5% of salary and 75% of salary for the Chief Executive and Chief Financial Officer, respectively, based on the face value of shares at the time of grant. In order for Restricted Shares to be capable of vesting, the Committee must be satisfied that business performance is robust and sustainable and that management has strengthened the business. In assessing performance, the Committee will consider financial and non-financial KPIs of the business as well as delivery against strategic priorities. To the extent it is not satisfied with performance the Committee may scale back the level of vested awards. There will be full Annual Report disclosure of the Committee's determination of the performance underpin.

PAYMENTS FOR PERFORMANCE IN FY18/19

The EBITDA performance for the year fell short of the stretching minimum performance hurdle so no annual bonus is payable under the EBITDA element of the bonus for performance for the year ended 31 January 2019. In spite of sales growth, driven largely by our new store opening programme, this has been another tough year for the high street and the Group, with the impact of continued significant cost headwinds. It is therefore right, in line with our rigorous approach to pay for performance, that there is no incentive payment for the EBITDA element in this year. In relation to the 20% based on strategic objectives, the CEO exceeded all four of her objectives resulting in an achievement of 100% of this element of her bonus. The Committee reduced this by 25% after being advised by the CEO that she did not consider a full pay-out of this element to be appropriate in light of bonus achievement across the wider workforce and EBITDA targets not being achieved. The CFO exceeded two of his four objectives resulting in an achievement of 50% of the maximum (10% of salary) of this element of the bonus. Full details are set out on pages 64 and 65 in the Directors' Remuneration Report.

The Chief Executive was granted an LTIP award on 30 September 2016, which was based on achieving EPS targets measured over the three financial years to 31 January 2019. Similarly, EPS performance fell short of the minimum performance threshold over this period and so the award lapsed.

Overall, the Committee considers that there has been an appropriate link between reward and performance and that discretion has not needed to be used.

CFO SALARY ADJUSTMENT

The Committee reviewed the CFO's performance during the year and awarded him a 2% salary increase to £321,300 effective from the first anniversary of his appointment date (being 3 July 2017). This was in addition to the 2% increase we are proposing in the current year.

BOARD CHANGES

Our Chairman Geoff Cooper retired from the Board on 18 October 2018 and we were delighted to welcome Paul Moody on 19 October 2018 as our new Chairman. Paul is also a member of this Committee.

SHAREHOLDER ENGAGEMENT AND CONSIDERATION OF THE NEW UK CORPORATE GOVERNANCE CODE

During the year, ahead of the 2018 AGM there was significant shareholder consultation in relation to the proposed remuneration policy and its application. We were delighted that 84.2% of our shareholders voted in favour of the new policy incorporating the move to Restricted Shares.

More generally, the Remuneration Committee continues to keep all aspects of senior executive remuneration under review against market and best practice for UK-listed companies and other retailers, investor guidelines and against the requirements of the UK Corporate Governance Code (or 'the Code'). Although we are not required to comply with the new 2018 Code until our next financial year, we are pleased that the structure of our current remuneration policy already complies with many of the new Code provisions and we will be reviewing those areas of our policy that do not comply with the new Code during the year.

At the AGM, which will be held on 5 June 2019, this Statement and the Annual Report on Remuneration, which outlines the payments made in respect of the financial year ended 31 January 2019 and the implementation of our remuneration policy for the forthcoming financial year, will be subject to an advisory vote. As shareholders approved our remuneration policy last year, we are not required to seek shareholder approval for the policy again until the 2021 AGM.

CONCLUSION

Following the significant changes to our policy at the 2018 AGM we are comfortable that the policy is operating as intended and provides an appropriate link between reward and performance.

I will attend the AGM to answer any questions shareholders may have and I look forward to your support on the resolution to approve the Annual Report on Remuneration.

Octavia Morley
Chairman of the Remuneration Committee

15 April 2019

Directors’ Remuneration Report

INTRODUCTION

This Directors’ Remuneration Report is divided into three sections, the Letter from the Chair of the Remuneration Committee, the Directors’ Remuneration Policy and the Annual Report on Remuneration.

The Directors’ Remuneration Policy section sets out the policy which was approved at the AGM on 31 May 2018 and took effect from that date.

The Letter from the Chair of the Committee and the Annual Report on Remuneration will be put to shareholders for approval at the AGM on 5 June 2019, although the vote is advisory.

DIRECTORS' REMUNERATION POLICY

This section on pages 57 to 63 inclusive describes the Directors' Remuneration Policy ('the Policy').

Card Factory's policy for Executive Directors' remuneration aims to provide a competitive package of fixed and performance linked pay, which supports the long-term strategic objectives of the business.

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
FIXED PAY			
Base salary 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	Base salaries are reviewed annually, with reference to scope of role, individual performance, experience, market competitiveness of total remuneration, inflation and salary increases across the Group Increases will normally be effective 1 May	Whilst there is no maximum salary, Executive Directors' salary increases will normally be in line with the average percentage increase for the wider employee population 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	Business and individual performance are considerations in setting base salary
Pension To provide post-retirement benefits	Executive Directors may receive a company contribution into a pension plan or a cash allowance in lieu of pension	The maximum company contribution or cash allowance in lieu of pension is 5% of salary for current Directors	None
Benefits To provide Executive Directors with a reasonable level of benefits	Benefits include private medical insurance, life insurance, income protection, and the provision of a car or car allowance Where appropriate, other benefits may be offered, for example including, but not limited to, relocation allowances	There is no maximum opportunity for benefits, as there may be factors outside of the Company's control which change the cost to the Company (e.g. increases in insurance premiums) The cost of providing benefits for the year under review are disclosed in the Annual Report on Remuneration	

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
VARIABLE PAY			
Annual bonus To focus executives on delivery of year-on-year financial and non-financial performance The part of the bonus invested in shares helps towards achieving an appropriate balance between year-on-year financial performance and longer-term value creation and contributes to higher executive shareholdings	Bonus payments will be determined based on performance in a single financial year and payment may be made in cash or in shares If participants have not met the minimum shareholding requirement, one third of any bonus (after payment of tax) must be used to acquire shares in the Company which must be held for three years Robust clawback and malus provisions apply. The Committee has discretion to reduce the amount of any bonus potential, and require repayment of any bonus paid within two years of payment, in the event of material misstatement, error, misconduct or reputational damage	125% of salary	Performance measures and targets are set by the Committee and the Committee determines the extent to which the targets have been achieved at the year-end A majority of bonus will be based on financial measures The Committee may scale back the bonus if it considers the outcome is not representative of the underlying performance of the Company For achievement of threshold performance, up to 15% of maximum EBITDA element of the bonus is earned

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Restricted Shares To align the interests of executives with shareholders in growing the value of the business over the long term	The Committee may grant annual awards of Restricted Shares, structured as conditional awards or nil-cost options 50% of an award vests after three years, 25% after four and 25% after five years, subject to service All shares will be held for at least five years from grant (except for sales to meet tax on vesting). The holding period and vesting period will continue post cessation of employment to the extent that awards do not lapse on cessation An additional benefit is provided in cash or shares equal to dividends that would have been paid over the vesting period or holding period on awards that vest Robust clawback and malus provisions apply. The Committee has discretion to reduce the amount of any unvested award, and repayment of any vested award within two years of vesting, in the event of material misstatement, error, misconduct or reputational damage	87.5% of salary face value at grant	In order for Restricted Shares to be capable of vesting, the Committee must be satisfied that business performance is robust and sustainable and that management has strengthened the business over three financial years commencing with the year in which the award is made. In assessing performance, the Committee will consider financial and non-financial KPIs of the business as well as delivery against strategic priorities. To the extent it is not satisfied with performance the Committee may scale back the level of vested awards including to zero. Full disclosure of the Committee's assessment will be made in the Annual Report on Remuneration for the year in which the assessment is made
SAYE To encourage share ownership across the workforce	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 Participants 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 savings made.	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	None
Shareholding guidelines To encourage share ownership and ensure alignment of executive interests with those of shareholders	Requirement to build up and maintain a beneficial holding of shares in the Company defined as a % of salary	Details of the current guidelines and Executive Director shareholdings are included in the Annual Report on Remuneration	None

Performance measure selection and approach to target setting
The measures used in the annual bonus are selected to reflect the Company's main financial KPIs and other strategic objectives for the year. Performance targets are set to be stretching but achievable, considering 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.

Adjustments and use of Remuneration Committee discretion
The Remuneration Committee will review formulaic annual bonus outcomes and may adjust these to ensure alignment of pay with the underlying performance of the business. The Remuneration Committee may also adjust the calculation of short- and long-term performance measures for outstanding LTIP awards 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.

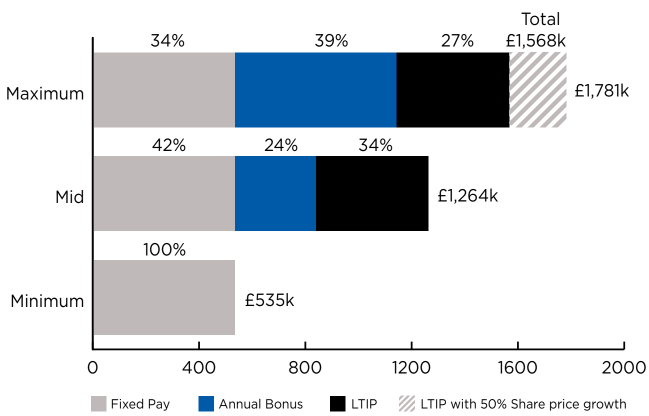
Differences in remuneration policy operated for other employees
The policy and practice with regard to the remuneration of the senior management team below the Board will be consistent with that for the Executive Directors. The senior management team will participate in the same annual bonus and will receive Restricted Shares awards alongside the Executive Directors.

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 are fair.

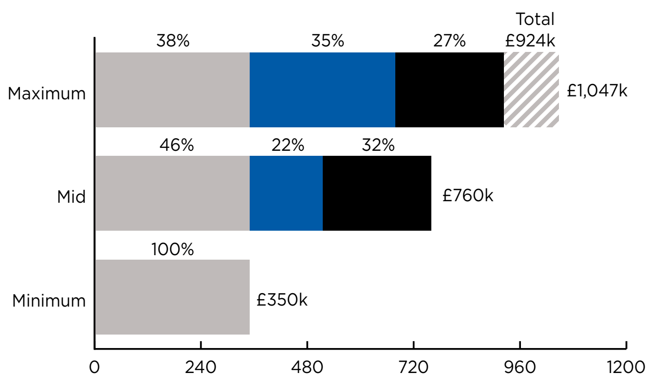
Other
In addition to the above elements of remuneration, any commitment made prior to but due to be fulfilled after the approval at the 2018 AGM, will be honoured, including arrangements put in place prior to an individual becoming a Director. The Committee also retains discretion to make non-significant 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'. The projected value for Restricted Shares excludes the impact of dividend accrual.

Chief Executive Officer



Chief Financial Officer



In illustrating potential reward opportunities, the following assumptions are made:

	Fixed pay	Annual bonus	Restricted Shares
Minimum	Salary as at 1 May 2019 The CEO and CFO each receive a contribution of just over 3% of base salary to their personal pensions Benefits paid for the most recent financial year	No annual bonus payable	An award of Restricted Shares worth 87.5% and 75% of base salary for the Chief Executive and Chief Financial Officer, respectively In the maximum scenario the chart additionally shows the value of the Restricted Shares and total remuneration, if the share price increases by 50%
Mid		On-target annual bonus payable (50% of maximum)	
Maximum		Maximum annual bonus payable of 125% and 100% of base salary for the Chief Executive and Chief Financial Officer, respectively	

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. The Remuneration Committee will seek to ensure that the remuneration arrangements will be in line with those outlined in the Policy table above, other than as follows:

Component	Approach	Maximum opportunity
Pension	New appointees may be offered pension arrangements based on market competitive contribution rates	5% of base salary or higher in exceptional circumstances
Annual bonus	In line with the policy, albeit with the relevant maximum normally being prorated to reflect the proportion of employment over the year	125% of salary

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 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 this report.

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). Any payment in lieu will be made on a monthly basis and subject to mitigation. 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
Karen Hubbard	5 January 2016	9 months
Kris Lee	19 April 2017	9 months

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, considering 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
Annual bonus	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
Shares acquired by Directors with annual bonus			Not applicable as shares are purchased and owned outright by the executive.
Restricted Shares	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 and holding period would normally continue to apply, although the Committee has discretion to accelerate vesting and remove the holding requirement in exceptional circumstances	Any outstanding awards will normally be prorated for service over the three financial years starting with the year in which the award is made and over which the underlying performance of the Company will be reviewed to determine vesting. The Committee may disapply time prorating in exceptional circumstances
SAYE	Treated in line with HMRC rules		

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	Letter of appointment date
Paul Moody	19 October 2018
Octavia Morley	30 April 2014
David Stead	30 April 2014
Paul McCrudden	1 December 2014
Roger Whiteside	27 November 2017

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 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 consider this company's approach in light of the new UK Corporate Governance Code requirements for broader stakeholder engagement.

CONSIDERATION OF SHAREHOLDER VIEWS

The Company is committed to engaging with significant investors on remuneration matters. More generally, when determining remuneration policy and its application, the Committee considers the guidelines of shareholder bodies and shareholders' views. The Committee is open to feedback from shareholders on remuneration policy and arrangements, and commits to consult in advance of any significant changes to remuneration policy or its operation. 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
Non-Executive Directors' fees 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 travel expenses, which may be grossed up for tax)	Any increases to NED fees will be considered following a thorough review process and considering 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	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 2019. 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.

TOTAL REMUNERATION PAID TO EXECUTIVE DIRECTORS – AUDITED

The table below sets out the total remuneration received by each Executive Director providing services to the Company during the period for the year ended 31 January 2019 and the prior year:

	Karen Hubbard		Kris Lee		Darren Bryant	
	2018/19	2017/18	**2018/19**	2017/18	**2018/19**	2017/18
Salary[1]	**£470,921**	£451,675	**£318,675**	£183,748	**n/a**	£176,901
Pension benefit	**£15,743**	£15,388	**£9,909**	£5,964	**n/a**	–
Taxable benefits[2]	**£24,963**	£24,871	**£8,370**	£4,882	**n/a**	£3,967
Non-taxable benefits[3]	**£8,153**	£3,542	**£4,096**	£2,066	**n/a**	£1,476
Annual bonus[4]	**£89,362**	–	**£32,130**	–	**n/a**	n/a
LTIP	**–**	n/a	**–**	n/a	**n/a**	–
SAYE[5]	**£1,677**	–	**£1,677**	n/a	**n/a**	n/a
Other[6]	**0**	–	**0**	£150,000	**n/a**	n/a
Total	**£610,819**	£495,476	**£374,857**	£346,660	**n/a**	£182,344

1. Kris Lee was appointed to the Board with effect from 3 July 2017. Darren Bryant retired from the Board on 31 July 2017. The Committee reviewed Kris Lee's performance during the year and awarded him a 2% salary increase to £321,300 effective from the first anniversary of his appointment date.
2. Taxable benefits comprise car or car allowance and family private medical insurance.
3. Karen Hubbard and Kris Lee (and formerly Darren Bryant) are members of the Group Life Assurance and Income Protection Schemes. The amounts stated relate to insurance premiums paid by the Group.
4. No annual bonus was payable for the year 2017/2018.
5. Embedded value of SAYE options at grant. There are no performance conditions.
6. As part of his recruitment package, and in order that Kris Lee was able to take up his position quickly, the Committee approved a like-for-like buyout of his forfeited bonus of £150,000.

ANNUAL BONUS PAYMENTS AND LINK TO PERFORMANCE

EBITDA (80% of bonus opportunity)

Bonus opportunities for 2018/19 were 125% of salary for Karen Hubbard and 100% of salary for Kris Lee.

The bonus was subject to achieving a range of EBITDA targets (80% of the opportunity) and Strategic Objectives (20%). The EBITDA performance targets for the year, performance against them and bonus payments against the EBITDA element were:

Performance level	2018/19 EBITDA target range	Percentage of EBITDA part of bonus available	EBITDA Performance achieved	Bonus payable for EBITDA part of bonus (% of maximum)
Threshold	**£92.0m**	15%	£89.4m	0%
Maximum	**£96.5m**	100%	–	–

Achievement against strategic objectives (20% of bonus opportunity)

The strategic objectives for the CEO were set at the start of the year and outlined in the last year's report. They have been reviewed in detail and all four objectives have been exceeded resulting in an achievement of 100% of this element of the bonus. These objectives and their over-achievement are considered by the Committee to be important strategic building blocks for the business. However, in consideration of both the level of bonus achievement across the wider workforce and the fact that the EBITDA targets were not achieved, Karen Hubbard advised the Committee that she considered that a full pay-out of this element of the bonus would not be appropriate. Accordingly, the Committee determined that this payment should be reduced by 25%. The specific outcomes for each objective were as follows:

Strategic objective	Link to strategy	Metric by which the objective is evaluated	Basis for determining performance	Outcome	Bonus achieved (% of maximum)
Strengthening our customer value proposition	Like for like sales	External research results compiled by OC&C	Improvement from last year's ratings for quality and price (4.0 and 4.4 out of 5 respectively)	The OC&C research confirmed that the customer value perception had improved over the year with ratings of 4.2 for quality and 4.5 for price as outlined on page 5 in the Strategic Report	100%
Delivering a step change in store productivity	Business Efficiency	Store cost savings vs. budgeted results	Achievement of greater than 50% over budget	The stretching target was achieved, with budgeted savings being exceeded by over 50%	100%
Delivering a future platform for Card Factory online	Online development	Card Factory online EBITDA performance vs. budgeted results	Delivering positive profit contribution to the group	CF online EBITDA was significantly ahead of budgeted expectations driven by sales growth of 56.3% and therefore the stretching target was over-achieved	100%
Generating performance through our leadership team, managing succession planning and integrating the new senior hires into the business to deliver positive results	Developing our people	Succession planning executed and externally facilitated leadership feedback	Improvement in key leadership measures year on year	Key roles within the leadership team have been recruited during the year, with succession for all key roles implemented. The externally facilitated leadership feedback confirmed improvement in all key measures	100%
				Total before voluntary reduction	**100%**

Similarly, the strategic objectives for the CFO were set at the start of the year and outlined in last year's report. They have been reviewed in detail and the Committee's assessment of the outcomes of the CFO's objectives confirmed that two of the four objectives have been exceeded, resulting in a payment of 50% of the maximum (10% of salary) of this element of the bonus. The specific outcomes for each objective were as follows:

Strategic objective	Link to strategy	Metric by which the objective is evaluated	Basis for determining performance	Outcome	Bonus achieved (% of maximum)
Delivery of the new store roll out programme	New stores	Average store profit contribution	Achievement of greater than 10% over budgeted contribution	The average store profit contribution for FY19 was significantly ahead of the stretching target	100%
Improving our working capital management	Business Efficiency	Working capital improvement	Stretching target for year on year improvement	The stretching target was not achieved	0%
Development and delivery of strategic trials and initiatives to drive future sales and profitability for the Group	Future strategic development	Successful implementation of new initiatives	Committee judgement based on the extent to which new trials are underway and delivering ahead of financial plans	New trials were delivered through the year with results ahead of targets demonstrating further future potential. Therefore this objective has been met	100%
Generating performance through our leadership team, managing succession planning and integrating the new senior hires into the business to deliver positive results	Developing our people	Externally facilitated leadership feedback	Improvement in key leadership measures year on year	Whilst the team has been strengthened and new senior hires have been recruited, the leadership measures did not reach required targets. Therefore this objective has not been achieved	0%
				Total	**50%**

GRANTS OF RESTRICTED SHARES 2018/19 – AUDITED

Awards of Restricted Shares were granted to the Executive Directors on 11 July 2018. Awards were made over shares worth 87.5% of basic salary for Karen Hubbard and 75% of salary for Kris Lee.

Executive Director	Number of Restricted Shares awarded	Face value of award value as a percentage of salary	Face/maximum value of Restricted Shares at grant date[1]	Measurement period for performance underpin
Karen Hubbard	194,778	87.5%	£417,021	1.2.18–31.1.21
Kris Lee	110,346	75.0%	£236,250	1.2.18–31.1.21

1. Based on the average share price for the three months prior to the date of award on 11 July 2018 of 214.1p.

For Restricted Shares to vest, the Committee must be satisfied that business performance over the three years commencing 1 February 2018 is robust and sustainable and that management has strengthened the business. In assessing performance, the Committee will consider financial and non-financial KPIs of the business as well as delivery against strategic priorities. To the extent it is not satisfied with performance the Committee may scale back the level of vested awards including to zero. There will be full disclosure in the Annual Report and Accounts of the Committee's determination of this 'performance underpin'.

The vesting of these Restricted Shares is subject to the satisfaction of performance underpin condition measured over the three financial years commencing 1 February 2018. Upon determination by the Company's Remuneration Committee of the satisfaction of the performance underpin condition, the Restricted Shares will vest as follows:

- 50% of the Restricted Shares on the third anniversary of the date of grant;
- 25% of the Restricted Shares on the fourth anniversary of the date of grant; and
- 25% of the Restricted Shares on the fifth anniversary of the date of grant.

100% of the vested Restricted Shares will be subject to a holding period which will normally end on the fifth anniversary of the date of grant.

2016 LTIP AWARD VESTING - AUDITED

Awards granted in 2016 under the LTIP were subject to the three-year EPS compound annual growth target of 5% pa to 10% pa with 25% vesting at threshold, and were subject to a return on capital underpin. EPS growth over the three-year period 1 February 2016 to 31 January 2019 was below the minimum vesting threshold, meaning none of these awards will vest.

SAYE - AUDITED

Awards under the HMRC-approved SAYE were granted to all participating employees on 3 July 2018. Options were granted at a discount of 20% to the share price on grant, and vest after three years subject to continued employment.

Executive Director	Number of SAYE options awarded	Face/Maximum Value of Awards at Grant Date[1]	% of Award Vesting at Threshold and (Maximum)	Performance Period
Karen Hubbard	5,590	£10,677	n/a	n/a
Kris Lee	5,590	£10,677	n/a	n/a

1. Based on the share price on the date of award, 3 July 2018, of £1.91.

TOTAL FEES PAID TO 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 2019 and the prior year.

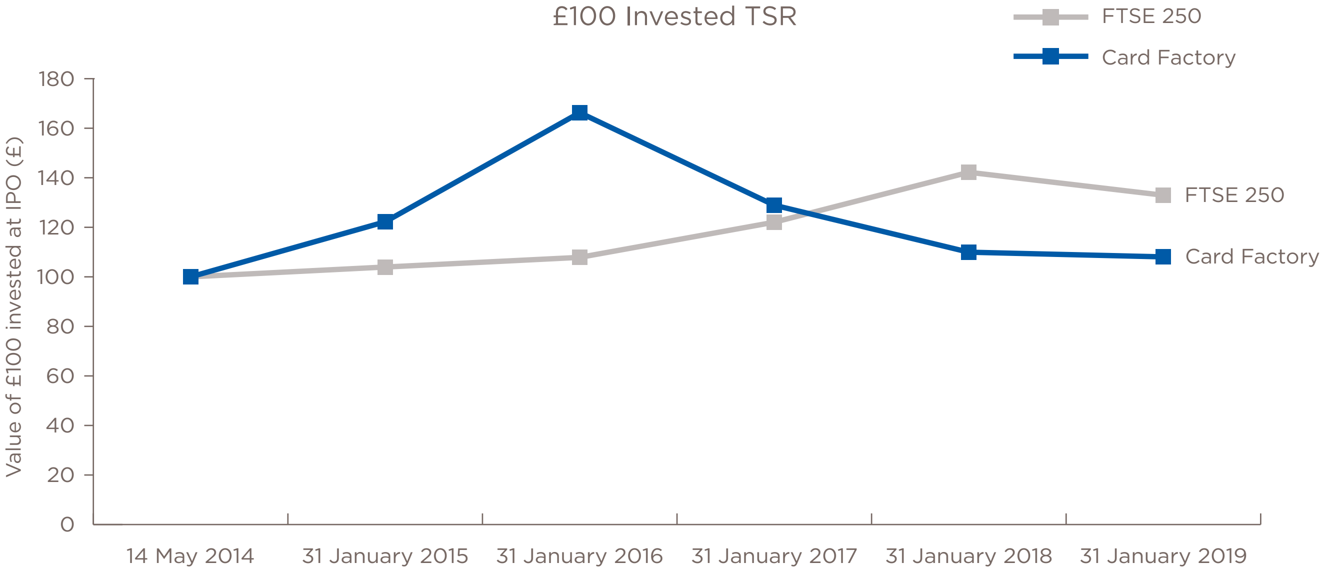
	Base fee		Additional fees		Total	
Non-Executive Director	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18
Geoff Cooper	**£93,750**	£125,000	**£0**	£0	**£93,750**	£125,000
Paul Moody	**£40,000**	n/a	**£0**	£0	**£40,000**	n/a
Octavia Morley	**£49,000**	£49,000	**£8,000**	£8,000	**£57,000**	£57,000
David Stead	**£45,000**	£45,000	**£8,000**	£8,000	**£53,000**	£53,000
Paul McCrudden	**£45,000**	£45,000	**£0**	£0	**£45,000**	£45,000
Roger Whiteside	**£45,000**	£7,327	**£0**	£0	**£45,000**	£7,327

PAYMENTS FOR LOSS OF OFFICE - AUDITED

No payments were made to Directors for loss of office.

HISTORICAL TSR PERFORMANCE AND CEO REMUNERATION

The graph below illustrates the total shareholder return 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 has been a member for most of this period.



CEO	2018/19	2017/18	2016/17[1]	2015/16	2014/15
Single figure of remuneration (£'000)	**611**	496	1,005	951	884
Annual bonus outcome (% of max)	**15**	0	20.0	79	77
LTIP vesting (% of max)	**0**	n/a	46.6	n/a	n/a

1. For 2016/17 this represents the aggregate single figure for Karen Hubbard (from date of appointment as CEO) and Richard Hayes (to date of stepping down as CEO).

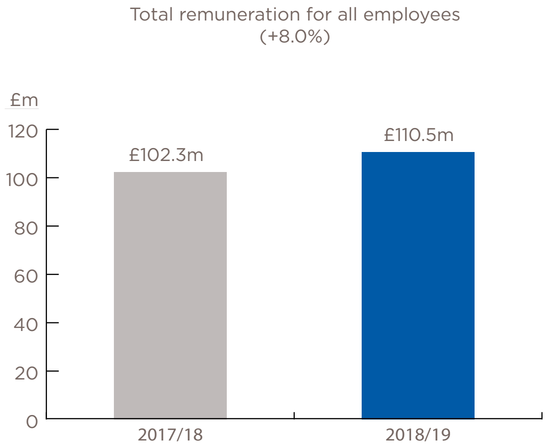
CHANGE IN CEO CASH REMUNERATION, 2017/18 TO 2018/19

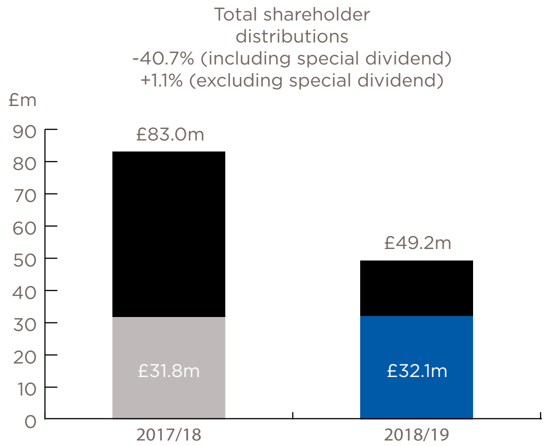
	Change in CEO pay over the year	Average change across all employees1
Salary	**4.3%**	**4%**
Taxable benefits	**0.4%**	**–**
Annual variable	**100%**	**-(8.2)%**

1. Store employees representing c90% of all employees.

DISTRIBUTION STATEMENT

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





2018/19 | 2017/18 | Special dividend

STATEMENT OF SHAREHOLDER VOTING

The following table shows the results of the shareholder votes on the Annual Report on Remuneration at the 2018 Annual General Meeting:

	Remuneration policy 2018		Annual Report on Remuneration 2018	
	Total number of votes	% of votes cast	Total number of votes	% of votes cast
For (including discretionary)	236,852,095	84.22	282,959,260	99.94
Against	44,370,382	15.78	158,107	0.06
Total votes cast (excluding withheld votes)	281,222,477	–	283,117,367	–
Total votes withheld[1]	3,600,623	–	1,705,732	–
Total votes cast (including withheld votes)	284,823,100	–	284,823,099	–

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 – AUDITED

The Committee sets shareholding guidelines for Executive Directors. The current guideline is to build and maintain, over time, a holding of shares in the Company equivalent in value to at least 250% and 200% of base salary for the Chief Executive and Chief Financial Officer, respectively. Both Executive Directors joined the Board recently and so have not yet met the shareholding guideline. Karen Hubbard purchased all of the shares she (or her connected persons) currently hold.

	Shares held			Options held				
Director	Owned outright[1]	Unvested and not subject to performance	Unvested and subject to performance	Vested but not exercised	Unvested and subject to continued employment	Current shareholding (% of salary/ fee[2])	Shareholding requirement (% of salary/ fee)	Guideline met?
Executive Directors								
Karen Hubbard	130,410	–	440,699	–	–	49%	250%	No
Kris Lee	0	–	195,712	–	–	0%	200%	No
Non-Executive Directors								
Paul Moody	0	–	–	–	–			
Geoff Cooper								
Octavia Morley	13,333	–	–	–	–			
David Stead	22,222	–	–	–	–			
Paul McCrudden	0	–	–	–	–			
Roger Whiteside	22,520	–	–	–	–			

1. Including shares owned by connected persons.
2. Calculated using the closing share price of the Company on 31 January 2019 of 180.3p.

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.

DETAILS OF DIRECTORS' INTERESTS IN SHARES IN INCENTIVE PLANS - AUDITED

	Date of grant	Share price at grant	Exercise price	Number of shares awarded	Face value at grant	Performance period	Exercise period
Karen Hubbard							
Restricted Shares	11.07.18	214.1p[1]	n/a	194,778	£417,031	01.02.18 – 31.01.21	n/a
LTIP	27.10.17	323.0p[2]	n/a	245,921	£794,325	01.02.17 – 31.01.20	n/a
SAYE	03.07.18	191.0p	161p	5,590	£10,677	n/a	01.08.21 – 31.01.22
SAYE	27.06.17	334.2	268p	3,358	£11,222	n/a	01.08.20 – 31.01.21
Kris Lee							
Restricted Shares	11.07.18	214.1p[1]	n/a	110,346	£236,250	01.02.18 – 31.01.21	n/a
LTIP	27.10.17	323.0p[2]	n/a	85,366	£275,733	01.02.17 – 31.01.20	n/a
SAYE	03.07.18	191.0p	161p	5,590	£10,677	n/a	01.08.21 – 31.01.22

1. To determine the number of shares comprising the award, 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, 11 July 2018, of 214.1p.
2. To determine the number of shares comprising the award, 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, 27 October 2017, of 323.0.p.

HOW THE POLICY WILL BE APPLIED IN FY19/20

Salary

The salaries of the Executive Directors will, with effect from 1 May 2019, be as follows:

Executive Director	1 May 2019	1 May 2018
Karen Hubbard	**£486,127**	£476,595
Kris Lee[1]	**£327,726**	£315,000

1 The Committee reviewed the Kris Lee's performance during the year and awarded him a 2% salary increase to £321,300 effective from the first anniversary of his appointment date. His salary with effect from 1 May 2019 represents a 2% increase on this revised salary.

ANNUAL BONUS

The annual bonus is capped at 125% and 100% of salary for the Chief Executive and Chief Financial Officer, respectively, based 80% on EBITDA and 20% on a number of strategic measures.

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 next year's Annual Report on Remuneration.

The strategic objectives for the CEO and CFO have been set to measure progress in the building blocks of the current four pillar strategy and in establishing the next steps for future strategic options. These will position us for growth in future years and mitigate business risk in achieving these goals in addition to their focus on delivering annual business results. These objectives are set out below, together with details of how they will be measured. The specific targets are commercially sensitive and will be disclosed retrospectively in next year's Directors' Remuneration Report with performance against them.

The CEO's strategic objectives are:

- development of the four pillar strategy to a medium-term time horizon and execution of key new initiatives to drive future growth measured by traction and financial performance at year end;
- maintaining our customer value proposition, measured by external research results compiled by OC&C and reported annually;
- improving our ongoing Business Efficiency to optimise the operating model for sustainable future performance, measured by performance in excess of budgeted savings; and
- improving employee engagement through strategic leadership, measured by company employee survey results.

The CFO's strategic objectives are:

- delivering the new platform for cardfactory.co.uk, measured by implementation in FY20;
- developing and refining the company property strategy for future years and building the appropriate execution plan for FY21 and FY22 measured by the pipeline of opportunity at year end;
- improving stock management to drive both availability and reduce stockholding, measured by stock at year end against target; and
- improving employee engagement through strategic leadership, measured by company employee survey results.

BENEFITS AND PENSION

These will be paid in line with the policy.

RESTRICTED SHARES

Restricted Shares will be granted over shares with a value at the time of grant of 87.5% of salary and 75% of salary for the Chief Executive and Chief Financial Officer, respectively.

In order for Restricted Shares to vest, the Committee must be satisfied that business performance is robust and sustainable and that management has strengthened the business. In assessing performance, the Committee will consider financial and non-financial KPIs of the business as well as delivery against strategic priorities. To the extent it is not satisfied with performance the Committee may scale back the level of vested awards including to zero.

There will be full disclosure in the Annual Report and Accounts of the Committee's determination of the performance underpin.

SHAREHOLDING REQUIREMENT

The level of shareholding required to be built and maintained is equivalent to 250% and 200% of salary for the Chief Executive and Chief Financial Officer, respectively.

NON-EXECUTIVE DIRECTOR FEES

No increases are proposed for the current year.

	2019/20	2018/19
Base fees		
Chairman	**£144,000**[1]	£125,000/£144,000
Senior Independent Director	**£49,000**	£49,000
Non-Executive Director	**£45,000**	£45,000
Additional fees		
Chair of the Remuneration Committee	**£8,000**	£8,000
Chair of the Audit and Risk Committee	**£8,000**	£8,000

1 In addition to his fee of £125,000, our previous Chairman, Geoff Cooper was granted an option to acquire shares in the Company as part of the terms of his appointment in 2014. His fee remained the same until he stepped down in October 2018. On appointment, our Chairman, Paul Moody's fee was set at £144,000 following advice received from our remuneration consultants Korn Ferry. Paul has not been granted any share options.

REMUNERATION COMMITTEE MEMBERSHIP AND ADVISERS

The Remuneration Committee consists of four Independent Non-Executive Directors: Octavia Morley (Chairman), David Stead, Paul McCrudden and Roger Whiteside, and the Non-Executive Chairman, Paul Moody. A more detailed explanation of the Remuneration Committee's role is set out in the Corporate Governance Report on page 45 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).

The Committee fulfils its duties with a combination of both formal meetings and informal consultation with relevant parties internally and externally. Its principal external advisers are Korn Ferry, who were appointed by the Committee following a tender process during the year. Korn Ferry does not provide any other services to the Company. Korn Ferry 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. Accordingly, the Committee is satisfied that the advice received is objective and independent. Fees of £48,000 (inc. VAT) were paid to Korn Ferry during the financial year.

COMMITTEE ACTIVITIES

During 2018/19, the Committee met to consider the following remuneration matters:

- the final stages of the investor consultation for the new remuneration policy;
- to consider performance against targets and resulting bonus payments and vesting of awards under the LTIP;
- to determine 2018/19 grants of Restricted Shares;
- to consider measures and targets for the 2019/20 annual bonus;
- to determine the remuneration package for the incoming Chairman;
- to review developing trends in remuneration governance including the new 2018 UK Corporate Governance Code; and
- to formally approve the Directors' Remuneration Report set out in this Annual Report.

Approved by the Board of Card Factory plc on 15 April 2019 and signed on its behalf by

Octavia Morley
Chairman of the Remuneration Committee

15 April 2019

Chairman's Letter – Nomination Committee

Paul Moody

Chairman of the Nomination Committee

Dear Shareholder

The main focus of the Nomination Committee over the last year has been managing the succession of Geoff Cooper as Chairman of the Board.

Geoff advised the Board in February 2018 that, for personal reasons, he intended stepping down as Chairman of the Group and invited the Board to seek a successor.

Following a rigorous search process, initiated and led by Octavia Morley, as acting Chair of the Committee, I was appointed to the Board as Chairman with effect from 19 October 2018. I, and the Board, would like to thank Octavia for her leadership of the Committee during this process.

The search for Geoff's successor was conducted by an internationally renowned firm and, with the exception of Geoff, all members of the Committee, Karen Hubbard and Kris Lee were involved in the selection process. The recruitment was focused on identifying a candidate with the skills and relevant experience to lead and work closely with the Board and the senior management team to drive Card Factory's existing four pillar strategy and assess longer-term strategic options for the business. The person specification for the role captured technical skills and relevant board experience whilst also ensuring that the opportunity to create further diversity to the Board was considered.

I'm delighted to have been appointed as Chairman and hope that my leadership experience can support the development and execution of the Group's strategy. My introduction to the business has been underpinned by an extensive induction programme which has given me the opportunity to engage with all parts of the business and understand the Group's current operations and strategy.

Looking forward, the Committee will ensure that its activities continue to be aligned with the principles and provisions of the new 2018 UK Corporate Governance Code. Succession planning for the Board and senior management team, together with the development of a diverse pipeline of future talent across the business, will be central to the Committee's activities during the year.

A great deal of progress has already been made by the Group to ensure there is greater transparency over future development, progression and reward across the workforce with a number of structured programmes designed to identify, develop and support the future leaders of the business. The Committee continues to endorse these developments and will regularly assess the outcomes they deliver.

Yours sincerely

Paul Moody
Chairman of the Nomination Committee

15 April 2019

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 forward.

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 46 and the Committee's terms of reference, which are published on Card Factory's investor website (www.cardfactoryinvestors.com), comply with the UK Corporate Governance Code.

The Committee's terms of reference are being reviewed and, if necessary, will be updated in light of the changes in the new Corporate Governance Code.

MEMBERSHIP

The Nomination Committee is chaired by Paul Moody, and its other members are Octavia Morley, David Stead, Paul McCrudden and Roger Whiteside.

The Company Secretary acts as secretary to the Committee.

MEETINGS

The Committee met seven times during the year with details of attendance set out in the Corporate Governance Report on page 43.

Throughout the year, the Senior Independent Non-Executive Director, Octavia Morley, acted as Chairman of the Committee ensuring its activities in managing the succession of Geoff Cooper were conducted in accordance with the UK Corporate Governance Code.

Paul Moody and Roger Whiteside were appointed to the Committee with effect from 19 October 2018 and were not therefore present at any of the Committee's meetings held during the year.

COMMITTEE ACTIVITY IN 2018/19

The Committee's main activity during the year, as described in more detail in the introductory letter to this report, was to manage the appointment and induction of Paul Moody as Chairman in succession to Geoff Cooper.

WELCOMING OUR NEW CHAIRMAN

Paul Moody's extensive induction programme took place over a number of months with the support of the Group's CEO Karen Hubbard. The induction covered all parts of the Group, and included:

- meetings with the Group's significant investors;
- meetings with the Group's CEO and CFO;
- one-to-one meetings with senior management team members, in many instances on site in stores or at the Group's facilities;
- meetings with the Non-Executive Directors;
- time with the team at our online subsidiary, Getting Personal;
- a tour of our in-house print facility, Printcraft;
- an introduction to and tour of the Group's design studio; and
- meeting the Group's key advisers.

COMMITTEE'S FOCUS FOR THE FUTURE

The Nomination Committee's priority over the coming year will be to:

- reflect on the 2018 Corporate Governance Code and how the Committee's terms of reference and activities can be developed to ensure they are aligned with the new code's principles and provisions in a way that supports the Group's strategic goals;
- focus on an orderly and considered Board succession plan that addresses the current long service of a number of our Independent Non-Executive Directors; and
- oversee and support the development of succession planning for all key roles in our senior management team and beyond, ensuring this supports the development of a diverse pipeline of future talent across the Group.

In addressing these, succession planning 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 the executive management team and among the Non-Executive Directors;
- support the development of the next generation of leaders from within the business; and
- recognise that the Group's best interests are served by ensuring that our leaders represent a range of skills, experiences, backgrounds and perspectives, including gender, race, religion or sexual orientation but who, at all times, are recognised as the best qualified people for their roles.

GENDER AND ETHNIC DIVERSITY

Our policy is that the Board should always be 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. We will also monitor the Group's approach to people development to ensure that it continues to enable talented individuals, from all genders and from all ethnic groups, to enjoy career progression activities within the Group.

We published our second Gender Pay Gap Report in April 2019. In addition to setting out the data required by the Government, the report evidences the outcomes of the Group's efforts in ensuring there is equality of opportunity between the genders throughout the Group. A copy of the report has been published on Card Factory's investor website (www.cardfactoryinvestors.com)

Details of the gender balance within the Group are set out in the Corporate Social Responsibility report on page 33.

BOARD EVALUATION

Following the first externally facilitated Board evaluation last year, the Chairman, with the support of the Company Secretary, carried out an internal evaluation this year reflecting on the Board's performance against the objectives agreed as part of the external evaluation and on the other steps the Board needs to take improve its effectiveness. Further details are set out in the Corporate Governance Report on page 46. Board evaluation will continue to be conducted on an annual basis and the Board will, as required by the UK Corporate Governance Code, engage an external facilitator once every three years to assist in the process.

TENURE AND RE-ELECTION OF DIRECTORS

In accordance with the UK Corporate Governance Code, all the Directors will seek election or re-election (as appropriate) at the next AGM on 5 June 2019.

This report was reviewed and approved by the Board on 15 April 2019.

Paul Moody
Chairman of the Nomination Committee

15 April 2019

Directors' Report

The Directors present their report together with the audited financial statements for the year ended 31 January 2019.

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 2016 ('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 15 April 2019 and is set out on pages 1 to 37, 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 ORDINARY DIVIDENDS

The consolidated profit for the Group for the year after taxation was £51.4m (FY18: £58.3m). The results are discussed in greater detail in the Chief Financial Officer's Review on pages 20 to 23.

A final dividend of 6.4 pence per share (FY18: 6.4 pence) is proposed in respect of the period ended 31 January 2019 to add to an interim dividend of 2.9 pence per share (FY18: 2.9 pence) paid on 14 December 2018. The final dividend will, subject to shareholders' approval at the AGM on 05 June 2019, be paid on 18 June 2019 to shareholders on the register on 10 May 2019.

SPECIAL DIVIDEND

A special dividend of 5 pence per share (FY18: 15 pence) was paid to shareholders on 14 December 2018.

POST YEAR-END EVENTS

There have been no 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 106. 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 112 and 113. Details of the share-based incentive schemes in place are provided in the Directors' Remuneration Report on page 59.

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 29 April 2014.

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.

SUBSTANTIAL SHAREHOLDERS

At 15 April 2019 the following had notified the Company of a disclosable interest of 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	89,897,573	26.32%
Artemis Investment Management LLP	33,970,205	9.95%
Woodford Investment Management	32,736,257	9.58%
Teleios Capital Partners	24,632,508	7.21%
Majedie Asset Management	24,422,154	7.15%
Stuart Middleton	18,035,477	5.28%
Norges Bank Investment Mgt	11,097,699	3.25%

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 and 24 September 2018) 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 113 of the Annual Report and Accounts.

DIRECTORS

The Directors of the Company and their biographies are set out on pages 38 to 40. Details of changes to the Board during the period are set out in the Corporate Governance Report on page 42. Details of how Directors are appointed and or removed are set out in the Corporate Governance Report on page 47.

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 page 47.

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 47.

EMPLOYEES

Information relating to employees of the Group is set out in the Corporate Social Responsibility Report on pages 32 and 33.

Share incentive schemes in which employees participate are described in the Directors' Remuneration Report on page 59 and in note 25 to the financial statements on pages 112 and 113.

HEALTH AND SAFETY

An overview of health and safety is provided in the Corporate Social Responsibility Report on pages 31 and 32.

GREENHOUSE GAS EMISSIONS

The Corporate Social Responsibility Report on page 31 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 27. In that section, beginning on page 24, 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 20 to 23.

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. A copy of the Group's tax strategy is available on Card Factory's investor website (www.cardfactoryinvestors.com).

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 1 to 37, 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 a period of at least 12 months from the date of approval of these financial statements. 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 2022. 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 1 to 37.

The Directors have determined that the three years to 31 January 2022 is an appropriate period over which to provide its viability statement. Three years closely corresponds to the average remaining lease term of the Group's property portfolio and is the timeframe used by the Board in its strategic planning process.

LONGER-TERM VIABILITY CONTINUED

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 remains particularly mindful of the continuing risk to the business from the range of uncertain Brexit developments and outcomes, including volatility in the strength of Sterling versus the US dollar and the threat of supply chain disruption due to delays at UK ports. The mitigation of short-to-medium term risk of FX volatility is delivered via the Group's existing currency hedging policy and the business has alleviated its supply chain risk by increasing its inventory levels.

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, wage costs, property costs and the success of various business efficiency initiatives). 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 company 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, having been renewed in October 2018, runs through to October 2023. 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 its liabilities as they fall due in the period to 31 January 2022.

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 2019 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 05 June 2019 at the offices of Squire Patton Boggs, 6 Wellington Place, Leeds, West Yorkshire LS1 4AP. 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 77.

APPROVAL OF THE ANNUAL REPORT

The Strategic Report and the Corporate Governance Report were approved by the Board on 15 April 2019 and signed on its behalf by

Shiv Sibal
Company Secretary

15 April 2019

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 International Financial Reporting Standards as adopted by the European Union (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, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

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 are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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.

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.

Karen Hubbard
Chief Executive Officer

Kris Lee
Chief Financial Officer

15 April 2019

Independent auditor's report to the members of Card Factory plc

1. OUR OPINION IS UNMODIFIED

We have audited the financial statements of Card Factory plc ("the Company") For the year ended 31 January 2019 which comprise the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of financial position, Consolidated statement of changes in equity, Consolidated cash flow statement, Parent Company statement of financial position, Parent Company statement of changes in equity, Parent Company cash flow statement, and the related notes, including the accounting policies in note 1 to the Group financial statements and in note 1 to the Parent Company financial statements.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and Parent Company's affairs as at 31 January 2019 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the Company's members on 30 April 2014. The period of total uninterrupted engagement is for the 5 financial years ended 31 January 2019. Prior to that we were also auditor to the Group's previous parent company, but which, being unlisted, was not a public-interest entity. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality: Group financial statements as a whole	£3.7m (2018:£4.0m) 5.0% (2018: 5.0%) of Group profit before tax excluding non-underlying items	
Coverage	100% (2018: 100%) of Group profit before tax	
Key audit matters	**vs 2018**	
New	The impact of uncertainties due to the UK exiting the European Union on our audit	▲
	Going concern	▲
Recurring risks	Existence and accuracy of the stock counts for store inventory and accuracy of the costing calculations for all inventory	◀▶
	Foreign exchange hedge accounting.	◀▶
	Recoverability of parent company investments in subsidiaries.	◀▶

2. KEY AUDIT MATTERS: INCLUDING OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
The impact of uncertainties due to the UK exiting the European Union on our audit	**Unprecedented levels of uncertainty:** All audits assess and challenge the reasonableness of estimates, and the appropriateness of the going concern basis of preparation of the financial statements (see below). All of these depend on assessments of the future economic environment and the Group's future prospects and performance. In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and the viability statement and to consider the directors' statement 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. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: • **Our Brexit knowledge –** We considered the directors' assessment of Brexit-related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks. • **Sensitivity analysis –** When addressing areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty. • **Assessing transparency –** We considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. **Our results:** We found the resulting estimates and related disclosures of going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a Group and this is particularly the case in relation to Brexit.

	The risk	Our response
Going concern *Refer to page 52 (Audit and Risk Committee Report) and note 1 on page 92 (accounting policy).*	**Disclosure quality** The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group. That judgement is based on an evaluation of the inherent risks to the Group's business model and how those risks might affect the Group's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements. The risks most likely to adversely affect the Group's available financial resources over this period were: • The level of financing and the ability of the Group to comply with financial covenants at certain points in the year; and • Meeting management forecasts and managing the risk presented by Brexit regarding access to raw material supplies at affordable prices and the risk of a sudden fall in consumer confidence. The achievability of mitigating actions the Directors would take to improve the position should these or other risks materialise. The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.	Our procedures included: **Funding assessment** • Assessed the committed level of financing available to the Group for at least the next 12 months through consideration of the facility agreement. We challenged the directors' assumptions by considering our own expectations based on our knowledge of the entity and experience of the industry in which it operates. **Historical comparisons** • Considered the Group's historical budgeting accuracy, by assessing actual performance against budget. **Sensitivity analysis:** • Considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively. **Assessing transparency** • Assessed the completeness and accuracy of the matters covered in the going concern disclosure by assessing the reasonableness of risks and uncertainties specified by the disclosure against our findings from our evaluation of management's assessment of going concern. **Our results:** We found the resulting estimates and related disclosures of going concern to be acceptable.

	The risk	Our response
Existence and accuracy of store inventory and accuracy of the costing calculations for all inventory (£68.6m; 2018: £51.5m) *Refer to page 52 (Audit and Risk Committee Report}, note 1 on page 97 (accounting policy) and note 14 on page 104 (financial disclosures).*	**Physical quantities of store stock:** Store inventory quantities depend on year end physical counts. Accordingly, given the high volume and broad range of inventory held there is a risk that quantities of store inventory could be incorrectly recorded. Controls over the year end counts of store inventory are themselves manual in nature. **Calculation error:** Elements of the inventory costing calculations across both store and warehouse stock are manual in nature. Given the high volume and broad range on inventory held there is a risk that cost could be incorrectly recorded.	Our procedures included: • **Count design and attendance:** Assessment of the design and implementation of the store count procedures through attendance at a sample of store inventory counts, this informed the extent of our test of details. • **Control operation:** Evaluated the operating effectiveness of the controls over the process for reviewing by the company of its store count results, which compares the results of the store counts to the expected stock levels for each store on a line by line basis. This includes investigation of significant variances. The test informs the extent of our tests of details. • **Tests of details:** Selected a sample of stock lines to assess whether the counted quantities agree to expected quantities according to the stock system and investigated how any variances within our sample had been resolved. As an adjustment is made to the gross stock figure to the extent variances exceed the Group's threshold, we considered the level of this threshold in the context of our materiality. • **Tests of details:** Identified store outliers based on a number of factors such as stock levels per square foot of selling space. For that sample we evaluated the characteristics specific to a sample of stores such as their location in relation to other stores, to assess whether this was consistent with the stock levels reported. We considered the overall value of the stock held in outlier stores in the context of materiality. • **Re-performance:** For a sample of inventory lines re-performed the standard cost calculations and agreed each input to invoice or other supporting documentation. **Our results:** The results of our procedures were satisfactory (2018 result: satisfactory).

	The risk	Our response
Foreign exchange hedge accounting (Hedging reserve £0.9m, cost of hedging reserve £0.4m; 2018: hedging reserve £4.4m deficit, cost of hedging reserve £0.1m deficit as restated) *Refer to page 52 (Audit and Risk Committee Report), note 1 on page 96 (accounting policy) and note 24 on page 110 (financial disclosures).*	**Accounting treatment** The Group adopts hedge accounting for a high proportion of its foreign currency inventory purchases. The amount of fair value movement recorded through other comprehensive income (OCI) rather than the income statement is determined by effectiveness testing. Hedge accounting is inherently complex and requires a degree of judgement in determining forecast cash flows. If the assumptions made in the effectiveness testing were inappropriate, the presentation of the fair value movement on the financial instruments in OCI and the income statement could be incorrect. IFRS 9 'Financial Instruments' is mandatory for the first time in 2019. The first year of adoption inherently carries a risk of error.	Our procedures included: • **Control operation:** Tested the operating effectiveness of the processes and controls over foreign exchange hedging to assess whether effectiveness testing had been performed on a monthly basis. • **Accounting analysis:** Assessed the Group's accounting policy in light of the adoption of IFRS 9 in the year. • **Tests of details:** Assessed the accuracy of management's hedge effectiveness testing by agreeing the inputs to contracts, budgets and valuations. • **Re-performance:** Re-performed the calculation of hedge effectiveness for all foreign exchange contracts outstanding at the year end and re-performed the calculation of inventory balances at hedged rates versus average spot rate. • **Historical comparisons:** Considered the accuracy of historical forecast foreign currency purchases to assess the Group's forecasting reliability. We also considered the accuracy of the testing performed in the prior year. **Our results:** The results of our procedures were satisfactory and we found the fair value movement on derivatives recorded through OCI to be acceptable (2018 result: satisfactory and acceptable).
Parent Company's investments in subsidiaries (Group investments £316.2m; 2018: £316.2m,) *Refer to note 1 on page 120 (accounting policy) and note 4 on pages 122 and 123 (financial disclosures).*	**Low risk, high value** The carrying amount of the Parent Company's investments, held at cost, represents 98.45% (2018: 99.8%) of the Company's total assets. We do not consider the recoverable amount of these investments to be at a high risk of significant misstatement, or to be subject to a significant level of judgement. However, due to their materiality in the context of the Parent Company financial statements as a whole, this is considered to be one of the areas which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit of the Parent Company.	Our procedures included: • **Tests of details:** Compared the carrying amount of all of the investments with the respective subsidiaries' net assets values to identify whether the net assets values, being an approximation of their minimum recoverable amount, were in excess of the carrying amount. • **Comparing valuations:** For the investments where the carrying amount exceeded the net asset value, compared the carrying amount of the investment with the expected value of the business based on the value in use calculation prepared by the Group. • **Tests of details:** Compared the carrying amount of investments in total against the market capitalisation of the Group at the year end. • **Assessing subsidiary audits:** Considering the results of the work on those subsidiaries' profits and net assets. **Our results:** We found the assessment of the recoverability of the investment in subsidiaries to be acceptable (2018 result: acceptable).

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

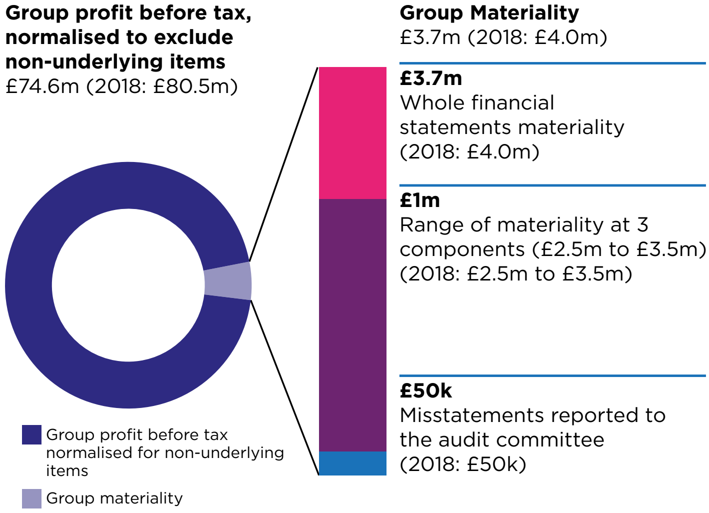
The materiality for the Group financial statements as a whole has been set at £3.7m (2018: £4.0m) determined by reference to a benchmark of Group profit before tax, normalised to exclude nonunderlying items, of £74.6m (2018: £80.5m), of which it represents 5.0% (2018: 5.0%).

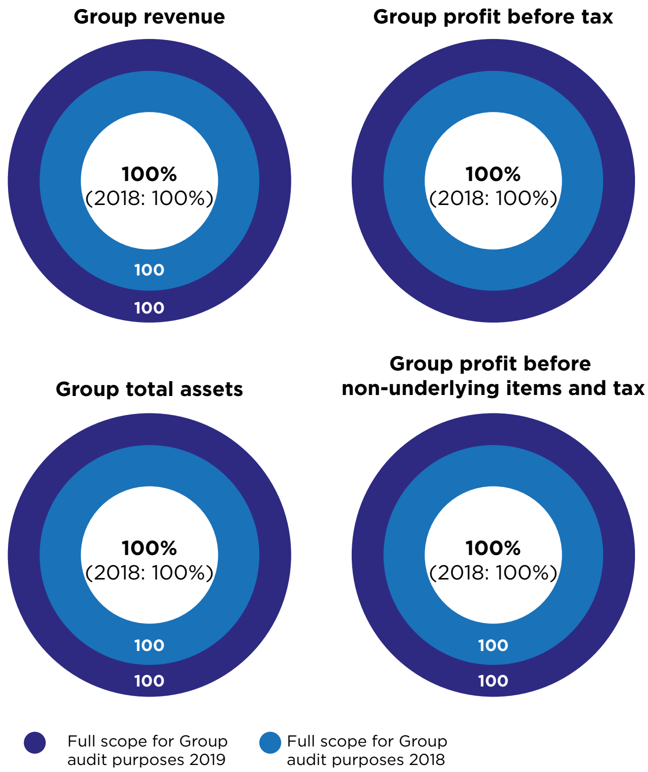
The materiality for the Parent Company financial statements as a whole has been set at £3.5m (2018: £3.9m) determined by reference to a benchmark of total assets of £321.1m (2018: £316.7m), of which it represents 1.1% (2018: 1.2%).

The group team performed procedures on the items excluded from normalised group profit before tax.

We report to the Audit and Risk committee any corrected and uncorrected misstatements exceeding £50,000 (2018: £50,000) in addition to other identified misstatements that warrant reporting on qualitative grounds.

Of the Group's 3 reporting components we subjected all 3 to audit for group reporting purposes. These components covered 100% of the total Group revenue (2018: 100%), 100% of the Group profit before taxation (2018: 100%) and 100% of total Group assets (2018: 100%). Our procedures were performed by the Group audit team from the Group's support centre in Wakefield and at its offices in Shipley and Wythenshawe.





4. WE HAVE NOTHING TO REPORT ON GOING CONCERN

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

We identified going concern as a key audit matter (see section 2 of this report). Based on the work described in our response to that key audit matter, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in note 1 to the Group financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 75 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

5. WE HAVE NOTHING TO REPORT ON THE OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

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

- the directors' confirmation within the viability statement page 75 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks and Uncertainties disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the Longer Term Viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the of viability statement. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements 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 section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6. WE HAVE NOTHING TO REPORT ON THE OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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.

We have nothing to report in these respects.

7. RESPECTIVE RESPONSIBILITIES

Directors' responsibilities

As explained more fully in their statement set out on page 77, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's licence to operate.

Irregularities – ability to detect continued
We identified the following areas as those most likely to have such an effect: anti-bribery, employment law, regulatory capital and liquidity and certain aspects of company legislation recognising the financial and regulated nature of the Group's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any.

Through these procedures we became aware of actual or suspected non-compliance and considered the effect as part of our procedures on the related financial statement items. The identified actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter. We did undertake additional audit work in relation to this matter including obtaining copies of correspondence in relation to this matter and consulting with our specialists on this area of actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed noncompliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. THE PURPOSE OF OUR AUDIT WORK AND TO WHOM WE OWE OUR RESPONSIBILITIES

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

Frances Simpson (Senior Statutory Auditor) for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
1 Sovereign Square Sovereign
Street Leeds
LS1 4DA

16 April 2019

Consolidated income statement

For the year ended 31 January 2019

	Note	2019 Underlying £'m	2019 Non-underlying (note 3) £'m	2019 Total £'m	2018 Underlying £'m	2018 Non-underlying (note 3) £'m	2018 Total £'m
Revenue		**436.0**	**–**	**436.0**	422.1	–	422.1
Cost of sales		**(312.5)**	**4.2**	**(308.3)**	(297.0)	(7.6)	(304.6)
Gross profit/(loss)		**123.5**	**4.2**	**127.7**	125.1	(7.6)	117.5
Operating expenses		**(45.0)**	**(11.9)**	**(56.9)**	(41.7)	(0.3)	(42.0)
Operating profit/(loss)	3,4	**78.5**	**(7.7)**	**70.8**	83.4	(7.9)	75.5
Finance income	7	**–**	**–**	**–**	0.1	–	0.1
Finance expense	7	**(3.9)**	**(0.3)**	**(4.2)**	(3.0)	–	(3.0)
Net finance expense		**(3.9)**	**(0.3)**	**(4.2)**	(2.9)	–	(2.9)
Profit/(loss) before tax		**74.6**	**(8.0)**	**66.6**	80.5	(7.9)	72.6
Taxation	8	**(14.5)**	**(0.7)**	**(15.2)**	(15.8)	1.5	(14.3)
Profit/(loss) for the year		**60.1**	**(8.7)**	**51.4**	64.7	(6.4)	58.3

	Note	2019 Underlying		2019 Total	2018 Underlying		2018 Total
Earnings per share		**pence**		**pence**	pence		pence
– Basic and diluted	10	**17.6**		**15.0**	18.9		17.1

All activities relate to continuing operations.

Consolidated statement of comprehensive income

For the year ended 31 January 2019

	2019 £'m	2018 £'m
Profit for the year	**51.4**	58.3
Items that are or may be recycled subsequently into profit or loss:		
Cash flow hedges – changes in fair value	**6.5**	(7.2)
Cash flow hedges – reclassified to profit or loss	**–**	(1.5)
Cost of hedging reserve – changes in fair value	**1.4**	–
Cost of hedging reserve – reclassified to profit or loss	**(0.2)**	–
Tax relating to components of other comprehensive income (note 13)	**(1.4)**	1.7
Other comprehensive expense for the period, net of income tax	**6.3**	(7.0)
Total comprehensive income for the period attributable to equity shareholders of the parent	**57.7**	51.3

Consolidated statement of financial position

As at 31 January 2019

	Note	2019 £'m	2018 (restated – note 29) £'m
Non-current assets			
Intangible assets	11	**320.2**	331.6
Property, plant and equipment	12	**40.4**	40.0
Deferred tax assets	13	**0.8**	1.9
Other receivables	15	**0.7**	0.8
Derivative financial instruments	24	**0.1**	0.2
		362.2	374.5
Current assets			
Inventories	14	**68.6**	51.5
Trade and other receivables	15	**17.8**	16.6
Derivative financial instruments	24	**2.3**	0.3
Cash and cash equivalents	16	**3.8**	3.6
		92.5	72.0
Total assets		**454.7**	446.5
Current liabilities			
Borrowings	17	**(0.1)**	(14.9)
Trade and other payables	18	**(64.3)**	(37.7)
Tax payable		**(7.7)**	(5.5)
Derivative financial instruments	24	**(0.2)**	(7.0)
		(72.3)	(65.1)
Non-current liabilities			
Borrowings	17	**(143.7)**	(149.6)
Trade and other payables	18	**(9.8)**	(10.0)
Derivative financial instruments	24	**(1.1)**	(3.4)
		(154.6)	(163.0)
Total liabilities		**(226.9)**	(228.1)
Net assets		**227.8**	218.4
Equity			
Share capital	19	**3.4**	3.4
Share premium	19	**202.2**	202.2
Hedging reserve		**0.9**	(5.0)
Cost of hedging reserve		**0.4**	(0.3)
Reverse acquisition reserve		**(0.5)**	(0.5)
Merger reserve		**2.7**	2.7
Retained earnings		**18.7**	15.9
Equity attributable to equity holders of the parent		**227.8**	218.4

The financial statements on pages 87 to 116 were approved by the Board of Directors on 15 April 2019 and were signed on its behalf by:

Kris Lee
Chief Financial Officer

Consolidated statement of changes in equity

For the year ended 31 January 2019

	Share capital £'m	Share premium £'m	Hedging reserve £'m	Cost of hedging reserve £'m	Reverse acquisition reserve £'m	Merger reserve £'m	Retained earnings £'m	Total equity £'m
At 1 February 2017 (as previously stated)	3.4	201.9	2.0	–	(0.5)	2.7	40.0	249.5
Adjustment (see note 29)	–	–	–	(0.3)	–	–	0.3	–
At 1 February 2017 (restated)	3.4	201.9	2.0	(0.3)	(0.5)	2.7	40.3	249.5
Total comprehensive income for the period								
Profit or loss	–	–	–	–	–	–	58.3	58.3
Other comprehensive expense	–	–	(7.0)	–	–	–	–	(7.0)
	–	–	(7.0)	–	–	–	58.3	51.3
Transactions with owners, recorded directly in equity								
Issue of shares (note 19)	–	0.3	–	–	–	–	–	0.3
Share-based payment charges (note 25)	–	–	–	–	–	–	(0.1)	(0.1)
Dividends (note 9)	–	–	–	–	–	–	(82.6)	(82.6)
Total contributions by and distributions to owners	–	0.3	–	–	–	–	(82.7)	(82.4)
At 31 January 2018 (restated – see note 29)	3.4	202.2	(5.0)	(0.3)	(0.5)	2.7	15.9	218.4
Opening balance adjustment (see note 29)	–	–	0.6	0.2	–	–	(0.3)	0.5
Balance at 1 February 2018	3.4	202.2	(4.4)	(0.1)	(0.5)	2.7	15.6	218.9
Total comprehensive income for the period								
Profit or loss	–	–	–	–	–	–	51.4	51.4
Other comprehensive expense	–	–	5.3	1.0	–	–	–	6.3
	–	–	5.3	1.0	–	–	51.4	57.7
Hedging gains and losses and costs of hedging transferred to the cost of inventory	–	–	–	(0.5)	–	–	–	(0.5)
Transactions with owners, recorded directly in equity								
Share-based payment charges (note 25)	–	–	–	–	–	–	0.6	0.6
Dividends (note 9)	–	–	–	–	–	–	(48.9)	(48.9)
Total contributions by and distributions to owners	–	–	–	–	–	–	(48.3)	(48.3)
At 31 January 2019	**3.4**	**202.2**	**0.9**	**0.4**	**(0.5)**	**2.7**	**18.7**	**227.8**

Consolidated cash flow statement

For the year ended 31 January 2019

	Note	2019 £'m	2018 £'m
Cash inflow from operating activities	20	**99.1**	89.7
Corporation tax paid		**(13.4)**	(17.0)
Net cash inflow from operating activities		**85.7**	72.7
Cash flows from investing activities			
Purchase of property, plant and equipment	12	**(10.4)**	(10.6)
Purchase of intangible assets	11	**(1.7)**	(2.5)
Proceeds from sale of property, plant and equipment		**0.2**	–
Interest received		**–**	0.1
Net cash outflow from investing activities		**(11.9)**	(13.0)
Cash flows from financing activities			
Proceeds from bank borrowings		**–**	20.0
Interest paid		**(3.4)**	(2.7)
Repayment of bank borrowings		**(6.4)**	–
Proceeds from new shares issued		**–**	0.3
Dividends paid	9	**(48.9)**	(82.9)
Net cash outflow from financing activities		**(58.7)**	(65.3)
Net increase/(decrease) in cash and cash equivalents		**15.1**	(5.6)
Cash and cash equivalents at the beginning of the year		**(11.3)**	(5.7)
Closing cash and cash equivalents	16	**3.8**	(11.3)

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.

This is the first set of the Group's annual financial statements in which IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* have been applied. The significant accounting policies described below reflect the policies in accordance with the new standards.

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.

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.

No significant judgements have been made in the process of applying the Group's accounting policies, other than those involving estimations, that could have a material effect on the amounts recognised in the financial statements. The sources of estimation uncertainty are detailed below:

Inventories
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 estimate 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 in determining forecast cash flows there is a risk that the assumptions made in the effectiveness testing are inappropriate.

Other estimates – Goodwill impairment testing
During the period goodwill attributable to the Getting Personal cash generating unit ('CGU') has been impaired (see note 11). The recoverable amount of the CGU is based on management expectations of future performance.

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 1 to 37, 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 at least 12 months from the date of issue of these financial statements. 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 20 to 23. 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. The Chief Financial Officer's Review on pages 20 to 23 provides further detail on the Board's current view on capital policy.

Principal accounting policies
The principal accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements except to the extent applied from transition to IFRS 9. The impact on the financial statements on adoption of IFRS 9 is detailed in note 29.

EU Endorsed International Financial Reporting Standards effective in the year

- IFRS 9 *Financial Instruments*
- Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts* (Amendments to IFRS 4)
- IFRS 15 *Revenue from Contracts with Customers*
- Clarifications to IFRS 15 *Revenue from Contracts with Customers*
- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)
- Transfers of Investment Property (Amendments to IAS 40)
- Annual Improvements to IFRS 2014-2016 Cycle (Amendments to IFRS 1)
- Annual Improvements to IFRS 2014-2016 Cycle (Amendments to IAS 28)
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

IFRS 15 introduces principles to recognise revenue by allocation of the transaction price to performance obligations and is effective for accounting periods commencing on or after 1 January 2018. Group revenue is attributable to the retail sale of cards, dressings and gifts. Revenue is subject to a single performance obligation fulfilled by receipt of goods at the point of payment with minimal returns and refunds. Adoption of the measurement and recognition principles under IFRS 15 has no impact on the values reported in these consolidated financial statements.

There is no impact on the values reported in these consolidated financial statements from adoption of the other amendments to International Financial Reporting Standards effective in the current period.

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

- IFRS 16 *Leases*
- Prepayment Features with Negative Compensation (Amendments to IFRS 9)
- IFRIC 23 *Uncertainty over Income Tax Treatments*
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)
- Annual Improvements 2015-2017 Cycle

IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019). IFRS 16 will replace IAS 17 and related interpretations and requires entities to apply a single lessee accounting model, with lessees recognising right-of-use-assets and lease liabilities on balance sheet for all applicable leases. In addition, the nature of expenses related to those leases will change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for the right-of-use assets and an interest expense relating to lease liabilities. The anticipated impact on the financial statements on adoption of IFRS 16 is detailed in note 30.

New and revised International Financial Reporting Standards or interpretations effective for future periods that are currently awaiting EU endorsement

The future impact on the financial statements of new standards and amendments awaiting EU endorsement is currently being assessed but is not expected to have a significant impact on the financial statements.

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.

1 ACCOUNTING POLICIES CONTINUED

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

Group revenue is attributable to the retail sale of cards, dressings and gifts. Revenue is subject to a single performance obligation fulfilled by receipt of goods at the point of payment with minimal returns and refunds. Adoption of the measurement and recognition principles under IFRS 15 has no impact on the values reported in these consolidated financial statements.

Finance 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 expense 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 pound Sterling, which is the functional currency of the Company.

Foreign operations

The Group has one foreign subsidiary with a Euro functional currency. The activities of foreign operations are not material to the Group. On consolidation, assets and liabilities of foreign operations are translated into Sterling at year-end exchange rates. The results of foreign operations are translated into Sterling at average rates of exchange for the year.

Transactions and balances

Transactions in foreign currencies are recorded at the exchange rate on the transaction date. All currency transactions that are not in the functional currency of the trading entity 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.

Underlying profit and earnings

The Group has chosen to present an underlying profit and earnings measure. Transactions are categorised as non-underlying if the resulting underlying profit and earnings information provides a more meaningful comparison of performance year-on-year. 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 IFRS 9. 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 or cost of hedging reserve.

Impairment of goodwill

During the period goodwill attributable to the Getting Personal cash generating unit ('CGU') has been impaired (see note 11). The impairment is a non-cash charge to the income statement reflecting a reduction in future performance expectations of Getting Personal and is presented as a non-underlying item in the year.

Refinanced debt issue cost amortisation

Debt issue costs totalling £0.3 million were expensed to the income statement in the year on completion of an extended borrowing facility effective 31 October 2018. This expense relates to costs that were not yet amortised in relation to the refinanced facility and is presented as a non-underlying item.

Other non-underlying operating expenses

In January 2017, Card Factory plc announced the succession of the CFO. Costs attributable to recruitment and dual remuneration costs during the handover periods were presented as non-underlying items in prior periods.

Dividends

Dividends are recognised as a liability in the period in which they are approved.

Financial instruments

Non-derivative financial assets

Non-derivative financial assets comprise trade and other receivables and cash and cash equivalents. The Group classifies all its non-derivative financial assets as financial assets at amortised cost. Financial assets at amortised cost are initially measured at fair value plus directly attributable transaction costs, except for trade and other receivables without a significant financing component that are initially measured at transaction price. Subsequent to initial recognition non-derivative financial assets are carried at amortised cost using the effective interest method, subject to impairment.

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. The Group measures loss allowances at an amount equal to lifetime expected credit loss.

Cash and cash equivalents comprise cash in hand, at bank and on short-term deposit for less than three months. Bank overdrafts, within borrowings, 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.

Non-derivative financial liabilities

Non-derivative financial liabilities comprise bank borrowings and trade and other payables. Non-derivative financial liabilities are initially recognised at fair value, less any directly attributable transaction costs and subsequently stated at amortised cost using the effective interest method.

Derivative financial instruments

Derivative financial instruments are mandatorily categorised as fair value through profit or loss ('FVTPL') except to the extent they are part of a designated hedging relationship and classified as cash flow hedging 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.

1 ACCOUNTING POLICIES CONTINUED

Derivative financial instruments not designated as an effective hedging relationships principally relate to structured foreign exchange options that form part of the foreign exchange risk management policy detailed in note 23 of the financial statements. Gains and losses in respect of foreign exchange and interest rate derivative financial instruments that are not part of an effective hedging relationship are recognised within cost of sales and net finance expense.

Cash flow hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income ('OCI') and accumulated in the hedging reserve. The effective portion of changes in the fair value of the derivative that is recognised in OCI is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

The Group designates only the change in fair value of the spot element of forward exchange contracts as the hedging instrument in cash flow hedging relationships. The change in fair value of the forward element of forward exchange contracts ('forward points') is separately accounted for as a cost of hedging and recognised in a costs of hedging reserve within equity.

When foreign exchange hedged forecast transactions subsequently result in the recognition of inventory, the amount accumulated in the hedging reserve and the cost of hedging reserve is included directly in the initial cost of the inventory.

For interest rate hedges, the Group designates only the change in the fair value of the intrinsic element of a derivative as the hedging instrument in cash flow hedging relationships. The Group has elected to separately account for the time value as a cost of hedging. Consequently, changes in time value are recognised in other comprehensive income and accumulated in a cost of hedging reserve as a separate component within equity. Amounts accumulated in the hedging reserve and the cost of hedging reserve are reclassified to profit or loss in the same period or periods during which the hedged interest cash flows affect profit or loss.

For interest hedged forecast transactions, the amount accumulated in the hedging reserve and the cost of hedging reserve is reclassified to profit or loss in the same period or periods during which the hedged interest cash flows affect profit or loss.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument is sold, expires, is terminated or is exercised, then hedge accounting is discontinued prospectively. When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the hedging reserve remains in equity until it is included in the cost of inventory on its initial recognition or, for interest cash flow hedges, it is reclassified to profit or loss in the same period or periods as the hedged interest future cash flows affect profit or loss.

If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in the hedging reserve and the cost of hedging reserve are immediately reclassified to profit or loss.

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 principally through an extensive UK 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 aggregated and presented as a single reportable segment.

Group revenue is almost entirely derived from retail customers. Average transaction value is low and products are transferred at the point of sale. Group revenue is presented as a single category subject to substantially the same economic factors that impact the nature, amount, timing and uncertainty of revenue and cash flows. Revenue from non-retail customers and revenue from outside the UK are both less than 1% of Group Revenue.

3 NON-UNDERLYING ITEMS

	2019 £'m	2018 £'m
Cost of sales		
Profit/(loss) on foreign currency derivative financial instruments not designated as a hedge (note 24)	**4.2**	(7.6)
Operating expenses		
Impairment of goodwill (note 11)	**(11.9)**	–
Other non-underlying operating expenses	**–**	(0.3)
	(11.9)	(0.3)
Net finance expense		
Refinanced debt issue cost amortisation (note 7)	**(0.3)**	–

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:

	2019 £'m	2018 £'m
Staff costs (note 6)	**114.1**	106.2
Depreciation expense (note 12)		
– owned fixed assets	**9.7**	9.5
Amortisation expense (note 11)	**1.2**	1.1
Operating lease rentals:		
– land and buildings	**42.6**	40.4
– plant, equipment and vehicles	**0.7**	0.6
Loss on disposal of fixed assets	**0.1**	0.2
Foreign exchange (gain)/loss	**(5.7)**	3.3
Impairment of goodwill	**11.9**	–

Non-underlying items included in the above are detailed in note 3.

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

	2019 £'000	2018 £'000
Audit of the consolidated and Company financial statements	**23**	18
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the Company	**104**	89
Other services closely related to the audit	**7**	7
Other assurance services	**–**	4
Total fees	**134**	118

5 UNDERLYING EBITDA

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

	2019 £'m	2018 £'m
Underlying operating profit	**78.5**	83.4
Depreciation and amortisation	**10.9**	10.6
Underlying EBITDA	**89.4**	94.0

Earnings before interest, tax, depreciation and amortisation ('EBITDA') represents profit for the period before net finance expense, taxation, depreciation, amortisation and impairment of goodwill.

	2019 £'m	2018 £'m
Operating profit	**70.8**	75.5
Depreciation and amortisation	**10.9**	10.6
Impairment of goodwill	**11.9**	–
EBITDA	**93.6**	86.1

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:

	2019 Number	2018 Number
Management and administration	**416**	393
Operations	**9,568**	9,543
	9,984	9,936

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

	2019 £'m	2018 £'m
Employee wages and salaries	**102.8**	96.2
Equity-settled share-based payment expense	**0.6**	(0.1)
Social security costs	**6.3**	5.8
Defined contribution pension costs	**0.8**	0.4
Total employee costs	**110.5**	102.3
Agency labour costs	**3.6**	3.9
Total staff costs	**114.1**	106.2

Key management personnel

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

	2019 £'m	2018 £'m
Salaries and short-term benefits	**3.4**	2.3
Equity-settled share-based payment expense	**0.4**	(0.4)
Social security costs	**0.4**	0.3
Defined contribution pension costs	**0.1**	0.1
	4.3	2.3

Further details of Director's remuneration are disclosed in the Directors' Remuneration Report on pages 56 to 70.

7 FINANCE INCOME AND EXPENSE

	2019 £'m	2018 £'m
Finance income		
Bank interest received	–	(0.1)
Finance expense		
Interest on bank loans and overdrafts	**3.5**	2.6
Amortisation of loan issue costs	**0.5**	0.2
Loss on interest rate derivative contracts	**0.2**	0.2
	4.2	3.0
Net finance expense	**4.2**	2.9

Amortisation of loan issue costs include £0.3 million (2018: £nil) in relation to previous loan facilities, expensed to the income statement on completion of an extended facility and presented as non-underlying, see note 3.

8 TAXATION

Recognised in the income statement

	2019 £'m	2018 £'m
Current tax expense		
Current year	**15.7**	13.9
Adjustments in respect of prior periods	**(0.1)**	–
	15.6	13.9
Deferred tax (credit)/charge		
Origination and reversal of temporary differences	**(0.4)**	0.5
Adjustments in respect of prior periods	–	(0.1)
	(0.4)	0.4
Total income tax expense	**15.2**	14.3

The effective tax rate of 22.8% (2018: 19.7%) is higher than the standard rate of corporation tax in the UK principally in respect of non-deductible impairments. The tax charge is reconciled to the standard rate of UK corporation tax as follows:

	2019 £'m	2018 £'m
Profit before tax	**66.6**	72.6
Tax at the standard UK corporation tax rate of 19.0% (2018: 19.2%)	**12.7**	13.9
Tax effects of:		
Expenses not deductible for tax purposes	**2.6**	0.5
Adjustments in respect of prior periods	**(0.1)**	(0.1)
Total income tax expense	**15.2**	14.3

9 DIVIDENDS

The Board is recommending a final dividend in respect of the financial year ended 31 January 2019 of 6.4 pence per share (2018: 6.4 pence per share), resulting in a total final dividend of £21.9 million (2018: £21.9 million). The dividend will, subject to shareholders' approval at the Annual General Meeting on 5 June 2019, be paid on 18 June 2019 to shareholders on the register at the close of business on 10 May 2019. 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	2019 £'m	2018 £'m
Special dividend for the year ended 31 January 2019	5.0p	**17.1**	
Interim dividend for the year ended 31 January 2019	2.9p	**9.9**	
Final dividend for the year ended 31 January 2018	6.4p	**21.9**	
Special dividend for the year ended 31 January 2018	15.0p		51.2
Interim dividend for the year ended 31 January 2018	2.9p		9.9
Final dividend for the year ended 31 January 2017	6.3p		21.5
Total dividends paid to shareholders in the year		**48.9**	82.6
Dividend equivalents paid under long-term incentive schemes		**–**	0.3
Total dividends per the cash flow statement		**48.9**	82.9

Dividend equivalents totalling £0.1 million (2018: £nil) were accrued in the year 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.

	2019 (Number)	2018 (Number)
Weighted average number of shares in issue	**341,527,355**	341,260,105
Weighted average number of dilutive share options	**–**	37,572
Weighted average number of shares for diluted earnings per share	**341,527,355**	341,297,677

	£'m	£'m
Profit for the financial period	**51.4**	58.3
Non-underlying items	**8.7**	6.4
Total underlying profit for underlying earnings per share	**60.1**	64.7

	pence	pence
Basic earnings per share	**15.0**	17.1
Diluted earnings per share	**15.0**	17.1
Underlying basic earnings per share	**17.6**	18.9
Underlying diluted earnings per share	**17.6**	18.9

11 INTANGIBLE ASSETS

	Goodwill £'m	Software £'m	Total £'m
Cost			
At 1 February 2018	328.2	8.9	337.1
Additions	–	1.7	1.7
At 31 January 2019	328.2	10.6	338.8
Amortisation/Impairment			
At 1 February 2018	–	5.5	5.5
Amortisation in the period	–	1.2	1.2
Impairment in the period	11.9	–	11.9
At 31 January 2019	11.9	6.7	18.6
Net book value			
At 31 January 2019	**316.3**	**3.9**	**320.2**
At 31 January 2018	328.2	3.4	331.6

	Goodwill £'m	Software £'m	Total £'m
Cost			
At 1 February 2017	328.2	6.4	334.6
Additions	–	2.5	2.5
At 31 January 2018	328.2	8.9	337.1
Amortisation			
At 1 February 2017	–	4.4	4.4
Provided in the period	–	1.1	1.1
At 31 January 2018	–	5.5	5.5
Net book value			
At 31 January 2018	328.2	3.4	331.6
At 31 January 2017	328.2	2.0	330.2

Impairment testing

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

	2019 £'m	2018 £'m
Card Factory	**313.8**	313.8
Getting Personal	**2.5**	14.4

The recoverable amounts have been determined based on value-in-use calculations. Value-in-use calculations are based on five year management forecasts and operating cash flows with a 2% (2018: 2%) terminal growth rate applied thereafter, representing management's estimate of the long-term growth rate of the sector. Forecasts do not include new or additional revenue streams such as new stores, to reflect the value-in-use of the existing business.

The key assumptions used to forecast operating cash flows include: sales growth, based on historic performance and latest forecasts; product mix; foreign exchange rates, based on hedges in place and market forecasts for unhedged items; and the Group's current expectations in relation to efficiency initiatives. The values assigned to each of these assumptions were determined based on historical performance of the CGU and expected future trends.

The forecast cash flows are discounted at a pre-tax discount rate of 10.5% (2018: 10.0%) for Card Factory and 11.9% (2018: 10.0%) for Getting Personal.

Card Factory

No impairment loss was identified in respect of the Card Factory CGU (2018: £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.

Getting Personal

Following deteriorating performance, a reduction in management expectations of future performance for the Getting Personal CGU gave rise to an £11.9 million impairment (2018: £nil). The sensitivity of the Getting Personal valuation to terminal growth rates and discount rates is shown below:

	Valuation assumption	100bps increase £'m	100bps decrease £'m
Terminal growth rate	2.0%	0.3	(0.2)
Pre-tax discount rate	11.9%	(0.3)	0.4

12 PROPERTY, PLANT AND EQUIPMENT

	Freehold property £'m	Leasehold improvements £'m	Plant, equipment, fixtures & vehicles £'m	Total £'m
Cost				
At 1 February 2018	17.4	35.8	52.6	105.8
Additions	0.1	2.9	7.4	10.4
Disposals	–	(0.6)	(0.8)	(1.4)
At 31 January 2019	17.5	38.1	59.2	114.8
Depreciation				
At 1 February 2018	2.7	26.4	36.7	65.8
Provided in the period	0.4	3.4	5.9	9.7
Disposals	–	(0.5)	(0.6)	(1.1)
At 31 January 2019	3.1	29.3	42.0	74.4
Net book value				
At 31 January 2019	**14.4**	**8.8**	**17.2**	**40.4**
At 31 January 2018	14.7	9.4	15.9	40.0

	Freehold property £'m	Leasehold improvements £'m	Plant, equipment, fixtures & vehicles £'m	Total £'m
Cost				
At 1 February 2017	17.4	32.1	47.1	96.6
Additions	–	4.0	6.6	10.6
Disposals	–	(0.3)	(1.1)	(1.4)
At 31 January 2018	17.4	35.8	52.6	105.8
Depreciation				
At 1 February 2017	2.3	23.3	31.9	57.5
Provided in the period	0.4	3.3	5.8	9.5
Disposals	–	(0.2)	(1.0)	(1.2)
At 31 January 2018	2.7	26.4	36.7	65.8
Net book value				
At 31 January 2018	14.7	9.4	15.9	40.0
At 31 January 2017	15.1	8.8	15.2	39.1

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 2017	0.2	0.4	(0.5)	0.2	0.3	0.6
Charge to income statement	–	(0.3)	–	–	(0.1)	(0.4)
Credit to other comprehensive income	–	–	1.7	–	–	1.7
At 31 January 2018	0.2	0.1	1.2	0.2	0.2	1.9
Opening balance adjustment (note 29)	–	–	(0.1)	–	–	(0.1)
At 1 February 2018	0.2	0.1	1.1	0.2	0.2	1.8
Credit to income statement	0.2	–	–	–	0.2	0.4
Charge to other comprehensive income	–	–	(1.4)	–	–	(1.4)
At 31 January 2019	**0.4**	**0.1**	**(0.3)**	**0.2**	**0.4**	**0.8**

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:

	2019 £'m	2018 £'m
Deferred tax assets	**0.8**	1.9
Deferred tax liabilities	**–**	–
Net deferred tax asset	**0.8**	1.9

A reduction in the corporation tax rate to 17% from 1 April 2020 was substantively enacted on 6 September 2016. 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

	2019 £'m	2018 £'m
Finished goods	**67.9**	50.9
Work in progress	**0.7**	0.6
	68.6	51.5

The cost of inventories recognised as an expense and charged to cost of sales in the year was £127.8 million (2018: £126.1 million).

15 TRADE AND OTHER RECEIVABLES

	2019 £'m	2018 £'m
Current		
Trade receivables	**0.3**	0.2
Other receivables	**0.6**	0.9
Prepaid property costs	**13.8**	12.8
Other prepayments and accrued income	**3.1**	2.7
	17.8	16.6
Non-current		
Prepaid property costs	**0.7**	0.8

Group revenue is principally attributable to the retail sale of cards, dressings and gifts. Revenue is subject to a single performance obligation fulfilled by receipt of goods at the point of payment with minimal returns and refunds. Trade receivables are attributable to non-retail sales which currently represent less than 1% of group revenue. The value of trade receivables is such that no significant impairment loss has been recorded.

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 £0.2 million (2018: £0.4 million) US Dollar denominated deposits paid on inventory purchases.

16 CASH AND CASH EQUIVALENTS

	2019 £'m	2018 £'m
Cash at bank and in hand	3.8	3.6
Unsecured bank overdraft (note 17)	–	(14.9)
Net cash and cash equivalents	3.8	(11.3)

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

	2019 £'m	2018 £'m
Sterling	2.8	(18.2)
Euro	0.3	0.3
US dollar	0.7	6.6
	3.8	(11.3)

17 BORROWINGS

	2019 £'m	2018 £'m
Current liabilities		
Unsecured bank loans and accrued interest	0.1	–
Unsecured bank overdraft	–	14.9
	0.1	14.9
Non-current liabilities		
Unsecured bank loans	143.7	149.6

Bank loans

Bank borrowings are summarised as follows:

	Liability £'m	Interest rate %	Interest margin ratchet range %	Repayment terms
31 January 2019				
Unsecured bank loan	145.0	1.40 + LIBOR	1.00 – 2.50	£200m RCF
Accrued interest	0.1			The facility terminates on 31 October 2023
Debt issue costs	(1.3)			
	143.8			
31 January 2018				
Unsecured bank loan	150.0	1.25 + LIBOR	1.00 – 2.00	£200m RCF
Accrued interest	–			The facility terminates in June 2020
Debt issue costs	(0.4)			
	149.6			

The Group borrowing facility consists of a £200 million revolving credit facility ('RCF') terminating 31 October 2023 with an additional £100 million accordion. Borrowings under the facility attract interest at LIBOR plus a margin in the range 1.0% to 2.5%, subject to a leverage ratchet (LIBOR plus 1.40% at 31 January 2019). The facilities are subject to financial covenants typical to an arrangement of this nature.

17 BORROWINGS CONTINUED

At the balance sheet date the Group had utilised a further £0.1 million (2018: £0.1 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

	2019 £'m	2018 £'m
Current		
Trade payables	**19.4**	15.2
Other taxation and social security	**19.9**	4.2
Property accruals and deferred income	**9.6**	7.6
Other accruals and deferred income	**15.4**	10.7
	64.3	37.7
Non-current		
Property accruals and deferred income	**9.8**	10.0

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 £8.4 million (2018: £5.4 million).

19 SHARE CAPITAL AND SHARE PREMIUM

	2019 (Number)	2018 (Number)
Share capital		
Allotted, called up and fully paid ordinary shares of one pence:		
At the start of the period	**341,459,281**	340,844,864
Issued in the period (note 25)	**90,025**	614,417
At the end of the period	**341,549,306**	341,459,281

	£'m	£'m
Share capital		
At the start of the period	**3.4**	3.4
Issued in the period (note 25)	**–**	–
At the end of the period	**3.4**	3.4

	£'m	£'m
Share premium		
At the start of the period	**202.2**	201.9
Issued in the period (note 25)	**–**	0.3
At the end of the period	**202.2**	202.2

20 NOTES TO THE CASH FLOW STATEMENT

Reconciliation of operating profit to cash generated from operations:

	2019 £'m	2018 £'m
Profit before tax	**66.6**	72.6
Net finance expense	**4.2**	2.9
Operating profit	**70.8**	75.5
Adjusted for:		
Depreciation and amortisation	**10.9**	10.6
Goodwill impairment	**11.9**	–
Loss on disposal of fixed assets	**0.1**	0.2
Cash flow hedging foreign currency movements	**–**	(3.4)
Share-based payments charge	**0.6**	(0.1)
Operating cash flows before changes in working capital	**94.3**	82.8
(Increase)/decrease in receivables	**(0.8)**	3.0
Increase in inventories	**(16.5)**	(0.1)
Increase in payables	**22.1**	4.0
Cash inflow from operating activities	**99.1**	89.7

21 ANALYSIS OF NET DEBT

	At 1 February 2018 £'m	Cash flow £'m	Non-cash changes £'m	At 31 January 2019 £'m
Unsecured bank loans and accrued interest (note 17)	(149.6)	6.4	(0.6)	**(143.8)**
Cash and cash equivalents (note 16)	(11.3)	15.1	–	**3.8**
Total net debt	(160.9)	21.5	(0.6)	**(140.0)**

	At 1 February 2017 £'m	Cash flow £'m	Non-cash changes £'m	At 31 January 2018 £'m
Unsecured bank loans and accrued interest (note 17)	(129.4)	(20.0)	(0.2)	(149.6)
Cash and cash equivalents (note 16)	(5.7)	(5.6)	–	(11.3)
Total net debt	(135.1)	(25.6)	(0.2)	(160.9)

22 OPERATING LEASE COMMITMENTS

Future minimum rentals payable under non-cancellable operating leases:

	2019 £'m	2018 £'m
Aggregate future minimum lease payments:		
Within 1 year	**44.0**	41.9
Within 1 to 2 years	**37.6**	36.6
Within 2 to 3 years	**29.7**	29.9
Within 3 to 4 years	**21.4**	22.2
Within 4 to 5 years	**12.8**	14.0
Within 5 to 10 years	**21.7**	20.1
Within 11 to 15 years	**0.3**	0.6
	167.5	165.3

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 ongoing 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 24 to 28 and in the Corporate Governance Report on page 48.

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 net debt (note 21) of £140.0 million (2018: £160.9 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 2019, 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, excluding interest.

	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m	Total £m
At 31 January 2019					
Unsecured bank loans	**0.1**	**–**	**145.0**	**–**	**145.1**
Trade and other payables	**60.4**	**–**	**–**	**–**	**60.4**
	60.5	**–**	**145.0**	**–**	**205.5**
At 31 January 2018					
Unsecured bank loans	–	–	150.0	–	150.0
Unsecured bank overdraft	14.9	–	–	–	14.9
Trade and other payables	34.3	–	–	–	34.3
	49.2	–	150.0	–	199.2

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
At 31 January 2019					
Foreign exchange contracts					
– Inflow	**67.1**	**47.3**	**16.0**	**–**	**130.4**
– Outflow	**(63.9)**	**(46.4)**	**(15.3)**	**–**	**(125.6)**
Interest rate contracts					
– Inflow	**–**	**0.1**	**–**	**–**	**0.1**
– Outflow	**–**	**(0.1)**	**(0.1)**	**–**	**(0.2)**
At 31 January 2018					
Foreign exchange contracts					
– Inflow	75.4	52.9	–	–	128.3
– Outflow	(80.1)	(54.3)	–	–	(134.4)
Interest rate contracts					
– Inflow	–	0.1	0.2	–	0.3

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 of between 50% and 100% of the next 12 months rolling US Dollar requirement using foreign exchange derivative contracts and US Dollar denominated cash balances, up to 80% forward cover for the period 12 to 24 months and up to 40% for the period 24 to 36 months. The policy permits a proportion of each year's US Dollar requirement to be covered by structured options and similar instruments.

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.

	2019		2018	
	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	**(2.1)**	**(5.0)**	(3.9)	(4.6)
10 cent decrease	**2.5**	**5.9**	3.9	5.3

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. Current Group policy requires between 25% and 75% of forecast floating interest rate borrowings to be hedged for the next 24 months using interest rate derivative contracts, up to 50% for the period 24 to 36 months and up to 25% for periods greater than 36 months.

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.

	2019		2018	
	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	**(0.4)**	**0.8**	(0.5)	0.5
50 basis point interest rate decrease	**0.4**	**(0.7)**	0.5	(0.4)

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. Sterling cash balances are maintained at near zero or overdrawn within the facility 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. The Group financing facility includes a facility for letters of credit to eliminate exposure on advance payments for certain overseas suppliers.

Credit risk in respect of trade receivables on non-retail revenues is minimal. Non-retail revenues represent less than 1% of Group revenue and trade receivables at 31 January 2019 were £0.3m (2018: £0.2m).

The Group considers expected credit losses as not material and no impairment allowances have been recognised in respect of credit risk.

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:

	2019 £'m	2018 £'m
Derivative assets		
Non-current		
Interest rate contracts	–	0.2
Foreign exchange contracts	0.1	–
	0.1	0.2
Current		
Foreign exchange contracts	2.3	0.3
Derivative liabilities		
Current		
Interest rate contracts	(0.1)	–
Foreign exchange contracts	(0.1)	(7.0)
	(0.2)	(7.0)
Non-current		
Interest rate contracts	(0.1)	–
Foreign exchange contracts	(1.0)	(3.4)
	(1.1)	(3.4)
Net derivative financial instruments		
Interest rate contracts	(0.2)	0.2
Foreign exchange contracts	1.3	(10.1)
	1.1	(9.9)

Interest rate contracts

At 31 January 2019 the Group held fixed for floating interest rate swaps and interest rate caps to hedge a portion of the variable interest rate risk on bank borrowings. Notional principal amounts for interest hedges totalled £90.0 million for the period to October 2019, reducing to £70.0 million for the period to October 2020 then reducing to £50.0 million for the period to October 2021 (2018: £70.0 million for the period to October 2019 then reducing to £60.0 million for the period to October 2020). Fair value movements of £0.2 million (2018: £0.2 million) were expensed to the income statement within financial expense.

Foreign exchange contracts

At 31 January 2019 the Group held a portfolio of foreign currency derivative contracts with notional principal amounts totalling £130.4 million (2018: £128.3 million) to mitigate the exchange risk on future US Dollar denominated trade purchases. Foreign currency derivative contracts with a notional value of £37.4 million representing a fair value liability of £0.5 million (2018: £42.3 million representing a fair value asset of £4.5 million) 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. The fair value movements of £4.2 million that do not form part of an effective hedging relationship have been credited to the income statement (2018: £7.6 million charge) 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.

	Mandatorily at FVTPL £'m	Cash flow hedging instruments £'m	Financial assets at amortised cost £'m	Other financial liabilities £'m
At 31 January 2019				
Financial assets measured at fair value				
Derivative financial instruments	–	2.4	–	–
Financial assets not measured at fair value				
Trade and other receivables	–	–	0.9	–
Cash and cash equivalents	–	–	3.8	–
Financial liabilities measured at fair value				
Derivative financial instruments	(0.6)	(0.7)	–	–
Financial liabilities not measured at fair value				
Unsecured bank loans	–	–	–	(143.8)
Unsecured bank overdrafts	–	–	–	–
Trade and other payables	–	–	–	(60.4)
	(0.6)	1.7	4.7	(204.2)

	Mandatorily at FVTPL £'m	Cash flow hedging instruments £'m	Financial assets at amortised cost £'m	Other financial liabilities £'m
At 31 January 2018				
Financial assets measured at fair value				
Derivative financial instruments	0.3	0.2	–	–
Financial assets not measured at fair value				
Trade and other receivables	–	–	1.1	–
Cash and cash equivalents	–	–	3.6	–
Financial liabilities measured at fair value				
Derivative financial instruments	(4.8)	(5.6)	–	–
Financial liabilities not measured at fair value				
Unsecured bank loans	–	–	–	(149.6)
Unsecured bank overdrafts	–	–	–	(14.9)
Trade and other payables	–	–	–	(34.3)
	(4.5)	(5.4)	4.7	(198.8)

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. Derivatives not designated as a hedging relationship are mandatorily classified at FVTPL.

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. Grants awarded in the year to Executive Directors and senior management vest in stages over three, four and five years and vested shares may not be sold (other than to pay taxes due on vesting) until the end of the five year period. Grants awarded in the year to senior employees are subject to a three-year vesting period. Grants awarded in prior years were subject to a three-year vesting period with performance conditions and a two-year holding period for awards in favour of senior management. Further details on Executive Director LTIP awards are provided in the Remuneration Report on pages 56 to 70.

Card Factory SAYE Scheme ('SAYE')

The SAYE scheme is open to all employees (in prior years length of service eligibility applied). 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, previously 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 was conditional upon and subject to Mr Cooper remaining as Chairman of the Company on such date. The final option was exercised in the prior year.

Reconciliation of outstanding awards

	LTIP		SAYE		Other options/shares 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 2017	2,220,022	£0.00	835,754	£2.90	159,248	£2.27
Granted during the year	759,978	£0.00	301,816	£2.68	–	–
Exercised during the year	(465,592)	£0.00	(2,155)	£2.90	(146,666)	£2.25
Forfeited during the year	(642,355)	£0.00	(273,183)	£2.87	(12,582)*	£2.50
Outstanding at 31 January 2018	1,872,053	£0.00	862,232	£2.84	–	–
Granted during the year	626,864	£0.00	779,332	£1.61	–	–
Exercised during the year	(90,025)	£0.00	–	–	–	–
Forfeited during the year	(672,688)	£0.00	(413,812)	£2.57	–	–
Outstanding at 31 January 2019	**1,736,204**	**£0.00**	**1,227,752**	**£2.15**	**–**	**–**

* Estimated number of shares in respect of CEO bonus entitlement was to be deferred in shares for three years. Under the terms of the bonus scheme the award was subsequently paid in cash in the prior year with a requirement to purchase shares using one third of the total cash bonus awarded.

290,563 options exercisable at £2.90 under the SAYE scheme at 31 January 2019 lapsed on 1 February 2019.

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.

	2019		2018	
	LTIP	**SAYE**	LTIP	SAYE
Fair value at grant date	**£1.99**	**£0.31**	£3.19	£0.37
Share price at grant date	**£1.99**	**£2.01**	£3.19	£2.98
Exercise price	**£0.00**	**£1.61**	£0.00	£2.68
Expected volatility	**30%**	**30%**	30%	30%
Expected term (years)	**3 to 5**	**3**	3	3
Expected dividend yield	**N/A***	**8.5%**	N/A*	8.0%
Risk-free interest rate	**0.79% to 1.00%**	**0.76%**	0.55%	0.28%

* 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 the company over the expected term at the grant date.

Impact on the income statement

The total expense recognised in the income statement arising from share-based payments is as follows:

	2019 £'m	2018 £'m
Card Factory LTIP	**0.5**	(0.2)
SAYE	**0.1**	0.1
Total share-based payment expense/(income)	**0.6**	(0.1)

The amounts disclosed above do not include employer's national insurance costs.

26 CAPITAL COMMITMENTS

There were capital commitments of £1.2 million at 31 January 2019 (2018: £0.6 million).

27 CONTINGENT LIABILITIES

There were no material contingent liabilities at 31 January 2019 (2018: £nil).

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 Executive 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 56 to 70. Directors of the Company and their immediate families control 0.055% of the ordinary shares of the Company.

There were no other related party transactions in the year.

29 TRANSITION TO IFRS 9

IFRS 9 'Financial Instruments' is effective for periods beginning on or after 1 January 2018 and has been adopted by the Group in the year. IFRS 9 sets out requirements for recognising and measuring financial assets and financial liabilities and replaces IAS 39 'Financial Instruments: Recognition and Measurement'. The impact on the consolidated financial statements of the Group is detailed below.

Classification of financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and the cash flow characteristics of the assets.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income and fair value through profit or loss. The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. The new classification requirements do not impact the accounting for the Group's financial assets.

Impairment of financial assets

IFRS 9 replaces the incurred loss model in IAS 39 with a forward-looking 'expected credit loss' model. The new impairment model will apply to financial assets measured at amortised cost. Revenue from retail customers represents over 99% of Group revenues and consequently trade and other receivables measured at amortised cost are not material to the financial statements. There is no impact on the values reported in the financial statements from adopting IFRS 9 in respect of expected credit losses.

Cash and cash equivalents

Cash and cash equivalents are held at banks with a strong credit rating and are not subject to any period of notice. The Group typically maintains a low value of cash and cash equivalents and often a net overdrawn cash position as part of its RCF funding arrangement. There is no impact on the values reported in the financial statements from adopting IFRS 9 in respect of expected credit losses.

Classification of financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. The classification requirements of IFRS 9 do not impact the financial statements.

29 TRANSITION TO IFRS 9 CONTINUED

Hedge accounting

On initial adoption of IFRS9, the Group may choose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in IFRS 9. The Group has chosen to apply the new requirements of IFRS 9.

IFRS 9 requires the Group to ensure that hedge accounting relationships are aligned with the Group's risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. IFRS 9 also introduces new requirements on rebalancing hedge relationships and prohibiting voluntary discontinuation of hedge accounting. Under the new model, it is possible that more risk management strategies may qualify for hedge accounting, though eligibility for hedge accounting of the Group's existing hedging activities have been assessed as unchanged.

Foreign exchange hedge accounting

The Group utilises foreign currency derivative contracts and US Dollar denominated cash balances to manage the foreign exchange risk on US Dollar denominated inventory purchases. The Group designates only the change in the fair value of the spot element of forward currency contracts as the hedging instrument in cash flow hedging relationships. Under IAS 39, the change in fair value of the forward element of the forward currency contract ('forward points') was recognised immediately in profit or loss (presented as a non-underlying item).

On adoption of IFRS 9, the Group has elected to separately account for the forward points as a cost of hedging. Consequently, changes in forward points are recognised in other comprehensive income and accumulated in a cost of hedging reserve as a separate component within equity and subsequently recognised into the hedged inventory purchase value. The Group has not applied the transitional option to retrospectively apply this treatment.

In accordance with the requirements of IFRS 9, the Group has amended the accounting policy in respect of cash flow hedge accounting. Gains or losses recognised in other comprehensive income in respect of a cash flow hedge of a forecast transaction that results in the recognition of a non-financial asset or liability are included in the initial measurement of the asset or liability. The previous accounting policy, under IAS 39, recognised such gains or losses 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, but did not recognise the gain or loss in the initial measurement of a resulting asset or liability.

Interest rate hedge accounting

The Group utilises interest rate derivative contracts to manage the risk on floating rate bank borrowings. The Group designates only the change in the fair value of the intrinsic element of interest rate caps as the hedging instrument in cash flow hedging relationships. Under IAS 39, the change in fair value of the time value element of the interest rate cap was recognised immediately in profit or loss (presented as a non-underlying item until the date of the hedged cash flow).

On adoption of IFRS 9, the Group has elected to separately account for the time value as a cost of hedging. Consequently, changes in time value are recognised in other comprehensive income and accumulated in a cost of hedging reserve as a separate component within equity and reclassified to profit or loss on the date of the hedged cash flow. IFRS 9 mandates retrospective application of this treatment.

Transition

The impact on the financial statements from the adoption of IFRS 9 is detailed below. The amendments to hedge accounting policies detailed above are applied prospectively except for the mandated retrospective application of the time value element of interest rate cap hedges. Consequently the comparative period is restated solely in respect of hedge accounting for the time value element of interest rate caps. Other adjustments on transition to IFRS 9 are presented as an adjustment to opening reserves at 31 January 2018.

Restatement

	31 January 2018 £'m	31 January 2017 £'m
Equity		
Cost of hedging reserve	**(0.3)**	(0.3)
Retained earnings	**0.3**	0.3
	–	–

Movements in the cost of hedging reserve in respect of interest rate hedges from 31 January 2017 to 31 January 2018 were less than £0.1m. Consequently the consolidated income statement and the consolidated statement of comprehensive income are not restated.

Opening Reserves Adjustment

	31 January 2018 £'m
Deferred tax	**(0.1)**
Inventory	**0.6**
Net Assets	**0.5**
Equity	
Hedging reserve	**0.6**
Cost of hedging reserve	**0.2**
Retained earnings	**(0.3)**
	0.5

30 TRANSITION TO IFRS 16

IFRS 16: *Leases* (effective for annual periods beginning on or after 1 January 2019) will replace IAS 17 and related interpretations and requires entities to apply a single lessee accounting model, with lessees recognising right-of-use-assets and lease liabilities on the balance sheet for all applicable leases. In addition, the nature of expenses related to those leases will change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for the right-of-use assets and an interest expense relating to lease liabilities.

The Group intends to adopt a full retrospective application of the standard applying the practical expedient available on transition not to reassess whether a contract existing at the date of initial application contains a lease. The Group currently anticipates the approximate impact on the financial statements as follows:

	Estimated impact £'m	Range of outcomes* +/- £'m
Statement of Financial Position (restatement impact as at 31 January 2018)		
IFRS 16 right-of-use assets	127	10
IFRS 16 lease liabilities	(145)	10
Net IFRS 16 lease recognition	(18)	3
Remove operating lease related prepayments and accruals	6	1
Net impact at 31 January 2018	(12)	3
FY19 Income Statement (restatement impact)		
Remove operating lease charges	43	1
Replace with IFRS 16 depreciation and finance charge	(41)	1
FY19 profit before tax increase under IFRS 16 versus IAS 17	2	1

* All estimates are rounded to the nearest £million and presented as a range of outcomes as they remain subject to refinement of judgements, estimates and assumptions, further detailed review and full audit of the transition amounts in the year of transition. Any revisions to estimates, notably in respect of lease term and discount rates, would include a degree of offset between right-of-use assets and lease liabilities. Consequently the range of outcomes for the total net impact is lower than the sum of individual ranges of outcomes.

The reduction in net assets on transition to IFRS 16 reflects the timing of finance charges under a full retrospective application, whereby the finance charge is greatest at the start of each lease resulting in higher cumulative historical income statement charges prior to the date of transition versus those reported under IAS 17. Consequently the Group anticipates total future income statement charges in respect of existing leases to be slightly lower under IFRS 16 than would have been reported on a straight-line basis under IAS 17, reflecting the gradual reversal of the opening restatement impact on net assets. This will be partially offset by higher initial income statement charges on new leases. The estimated impact on the FY19 income statement is shown above.

31 SUBSIDIARY UNDERTAKINGS

At 31 January 2019 the Group controlled 100% of the issued ordinary share capital of the following subsidiaries, all of which are included in the consolidated financial statements. All subsidiaries are registered in England and Wales with the exception of Card Factory Ireland Limited which is registered in the Republic of Ireland. The registered office of the Company is Century House, Brunel Road, Wakefield 41 Industrial Estate, Wakefield, West Yorkshire, WF2 0XG.

Subsidiary undertaking	Nature of business	Registered office
CF Bidco Limited*	Intermediate holding company	Same as the Company
Sportswift Limited	Sale of greeting cards and gifts	Same as the Company
Printcraft Limited	Printers	Same as the Company
Getting Personal Limited	Online sale of personalised products and gifts	**
Card Factory Ireland Limited	Sale of greeting cards and gifts	***
CF Topco Limited*	Dormant	Same as the Company
CF Interco Limited	Dormant	Same as the Company
Short Rhyme Limited	Dormant	Same as the Company
Heavy Distance Limited	Dormant	Same as the Company
Getting Personal Group Limited	Dormant	**
Getting Personal (UK) Limited	Dormant	**
Lupfaw 221 Limited	Dormant	Same as the Company
Sportswift Properties Limited	Dormant	Same as the Company
CF Midco Limited	Dormant	Same as the Company
Century Cards Limited	Dormant	Same as the Company
Rose Card Limited	Dormant	Same as the Company
Celebration Cards Limited	Dormant	Same as the Company
Sportswift Trading Limited	Dormant	Same as the Company
CF Newco Limited	Dormant	Same as the Company
321 Cards Limited	Dormant	Same as the Company
Card Concepts Limited	Dormant	Same as the Company
Excelsior Graphics Limited	Dormant	Same as the Company
Card Factory Stores Limited	Dormant	Same as the Company
Card Factory Retail Limited	Dormant	Same as the Company
Card Factory Online Limited	Dormant	Same as the Company
Card Factory Greetings Limited	Dormant	Same as the Company

* Shares held directly. All other subsidiaries' shares are held indirectly through subsidiary undertakings.
** 1st Floor, Southmoor House Southmoor Industrial Estate, Southmoor Road, Manchester, M23 9XD.
*** 6th Floor, 2 Grand Canal Square, Dublin 2, Dublin, Republic of Ireland.

Parent Company statement of financial position

As at 31 January 2019

	Note	2019 £'m	2018 £'m
Non-current assets			
Investments	4	**316.2**	316.2
Current assets			
Trade and other receivables	5	**4.9**	0.5
Total assets		**321.1**	316.7
Current liabilities			
Trade and other payables	6	**(4.3)**	(1.4)
Net assets		**316.8**	315.3
Equity			
Share capital	7	**3.4**	3.4
Share premium	7	**202.2**	202.2
Merger reserve		**2.7**	2.7
Retained earnings	13	**108.5**	107.0
Equity attributable to equity holders of the parent		**316.8**	315.3

The financial statements on pages 117 to 126 were approved by the Board of Directors on 15 April 2019 and were signed on its behalf by:

Kris Lee
Chief Financial Officer

Company number 09002747

Parent Company statement of changes in equity

For the year ended 31 January 2019

	Share capital £'m	Share premium £'m	Merger reserve £'m	Retained earnings £'m	Total equity £'m
At 1 February 2017	3.4	201.9	2.7	106.9	314.9
Total comprehensive income for the year					
Profit or loss	–	–	–	82.8	82.8
Transactions with owners, recorded directly in equity					
Issue of shares (note 7)	–	0.3	–	–	0.3
Share-based payments (note 8)	–	–	–	(0.1)	(0.1)
Dividends	–	–	–	(82.6)	(82.6)
	–	0.3	–	(82.7)	(82.4)
At 31 January 2018	3.4	202.2	2.7	107.0	315.3
Total comprehensive income for the year					
Profit or loss	–	–	–	49.8	49.8
Transactions with owners, recorded directly in equity					
Share-based payments (note 8)	–	–	–	0.6	0.6
Dividends	–	–	–	(48.9)	(48.9)
	–	–	–	(48.3)	(48.3)
At 31 January 2019	**3.4**	**202.2**	**2.7**	**108.5**	**316.8**

Parent Company cash flow statement

For the year ended 31 January 2019

	Note	2019 £'m	2018 £'m
Cash inflow/(outflow) from operating activities	11	**0.2**	(0.9)
Corporation tax paid		**–**	–
Net cash inflow/(outflow) from operating activities		**0.2**	(0.9)
Cash flows from investing activities			
Dividends received		**50.0**	83.0
Loans (issued to)/repaid by Group undertakings		**(1.3)**	0.5
Net cash inflow from investing activities		**48.7**	83.5
Cash flows from financing activities			
Proceeds from new shares issued		**–**	0.3
Dividends paid	3	**(48.9)**	(82.9)
Net cash outflow from financing activities		**(48.9)**	(82.6)
Net increase in cash and cash equivalents		**–**	–
Cash and cash equivalents at the beginning of the year		**–**	–
Closing cash and cash equivalents		**–**	–

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 at least 12 months from the date of issue of these financial statements. Accordingly, the financial statements have been prepared on a going concern basis.

Principal accounting policies

The principal accounting policies set out below have been applied consistently to all periods presented in these financial statements except to the extent applied from transition to IFRS 9. Amendments to accounting policies on adoption of IFRS 9 have not impacted the values reported in these financial statements.

EU Endorsed International Financial Reporting Standards effective in the year

- IFRS 9 *Financial Instruments*
- Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts* (Amendments to IFRS 4)
- IFRS 15 *Revenue from Contracts with Customers*
- Clarifications to IFRS 15 *Revenue from Contracts with Customers*
- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)
- Transfers of Investment Property (Amendments to IAS 40)
- Annual Improvements to IFRS 2014-2016 Cycle (Amendments to IFRS 1)
- Annual Improvements to IFRS 2014-2016 Cycle (Amendments to IAS 28)
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

There is no impact on the values reported in these financial statements from adoption of the standards and amendments effective in the current period.

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

- IFRS 16 *Leases*
- Prepayment Features with Negative Compensation (Amendments to IFRS 9)
- IFRIC 23 *Uncertainty over Income Tax Treatments*
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)
- Annual Improvements 2015-2017 Cycle

Adoption of the standards and amendments effective in future periods is not expected to have a significant impact on the financial statements.

New and revised International Financial Reporting Standards or interpretations effective for future periods that are currently awaiting EU endorsement

The future impact on the financial statements of new standards and amendments awaiting EU endorsement is currently being assessed but is not expected to have a significant impact on the financial statements.

Income statement

The Company made a profit after tax of £49.8 million For the year ended 31 January 2019 (2018: £82.8 million), including £50.0 million dividends received from subsidiary undertakings (2018: £83.0 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.

Financial instruments

Non-derivative financial assets

Non-derivative financial assets comprise trade and other receivables classified as financial assets at amortised cost. The trade and other receivables do not have a significant financing component and are initially measured at transaction price. At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. The Company measures loss allowances at an amount equal to lifetime expected credit loss.

Non-derivative financial liabilities

Non derivative financial liabilities comprise trade and other payables. Trade and other payables are initially recognised at fair value, less any directly attributable transaction costs and subsequently stated 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 8 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 Company'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 Company 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.

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.

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 56 to 70.

3 DIVIDENDS

The Board is recommending a final dividend in respect of the financial year ended 31 January 2019 of 6.4 pence per share (2018: 6.4 pence per share), resulting in a total final dividend of £21.9 million (2018: £21.9 million). The dividend will, subject to shareholders' approval at the Annual General Meeting on 5 June 2019, be paid on 18 June 2019 to shareholders on the register at the close of business on 10 May 2019. 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	**2019 £'m**	2018 £'m
Special dividend for the year ended 31 January 2019	5.0p	**17.1**	–
Interim dividend for the year ended 31 January 2019	2.8p	**9.9**	–
Final dividend for the year ended 31 January 2018	6.4p	**21.9**	–
Special dividend for the year ended 31 January 2018	15.0p	**–**	51.2
Interim dividend for the year ended 31 January 2018	2.8p	**–**	9.9
Final dividend for the year ended 31 January 2017	6.3p	**–**	21.5
		48.9	82.6
Dividend equivalents paid under long-term incentive schemes		**–**	0.3
Total dividends per the cash flow statement		**48.9**	82.9

Dividends equivalents totalling £0.1 million (2018: £nil) were accrued in the year in relation to share-based long-term incentive schemes.

4 INVESTMENTS IN SUBSIDIARIES

	£'m
At 31 January 2018 and 31 January 2019	**316.2**

The Directors' are satisfied that there is no indication of an impairment of the investment in subsidiaries.

Subsidiary undertakings

At 31 January 2019 the Company controlled 100% of the issued ordinary share capital of the following subsidiaries, all of which are included in the consolidated financial statements. All subsidiaries are registered in England and Wales with the exception of Card Factory Ireland Limited which is registered in the Republic of Ireland. The registered office of the Company is Century House, Brunel Road, Wakefield 41 Industrial Estate, Wakefield, West Yorkshire, WF2 0XG.

Subsidiary undertaking	Nature of business	Registered office
CF Bidco Limited*	Intermediate holding company	Same as the Company
Sportswift Limited	Sale of greeting cards and gifts	Same as the Company
Printcraft Limited	Printers	Same as the Company
Getting Personal Limited	Online sale of personalised products and gifts	**
Card Factory Ireland Limited	Sale of greeting cards and gifts	***
CF Topco Limited*	Dormant	Same as the Company
CF Interco Limited	Dormant	Same as the Company
Short Rhyme Limited	Dormant	Same as the Company
Heavy Distance Limited	Dormant	Same as the Company
Getting Personal Group Limited	Dormant	**
Getting Personal (UK) Limited	Dormant	**
Lupfaw 221 Limited	Dormant	Same as the Company
Sportswift Properties Limited	Dormant	Same as the Company
CF Midco Limited	Dormant	Same as the Company
Century Cards Limited	Dormant	Same as the Company
Rose Card Limited	Dormant	Same as the Company
Celebration Cards Limited	Dormant	Same as the Company
Sportswift Trading Limited	Dormant	Same as the Company
CF Newco Limited	Dormant	Same as the Company
321 Cards Limited	Dormant	Same as the Company
Card Concepts Limited	Dormant	Same as the Company
Excelsior Graphics Limited	Dormant	Same as the Company
Card Factory Stores Limited	Dormant	Same as the Company
Card Factory Retail Limited	Dormant	Same as the Company
Card Factory Online Limited	Dormant	Same as the Company
Card Factory Greetings Limited	Dormant	Same as the Company

* Shares held directly. All other subsidiaries' shares are held indirectly through subsidiary undertakings.
** 1st Floor, Southmoor House Southmoor Industrial Estate, Southmoor Road, Manchester, M23 9XD.
*** 6th Floor, 2 Grand Canal Square, Dublin 2, Dublin, Republic of Ireland

5 TRADE AND OTHER RECEIVABLES

	2019 £'m	2018 £'m
Amounts owed by Group undertakings	**4.8**	0.4
Prepayments and other debtors	**0.1**	0.1
	4.9	0.5

Trade and other receivables of the Company principally relate to balances due on demand from subsidiary undertakings. The Company has assessed the expected credit loss as very low and has made no provision for impairment.

6 TRADE AND OTHER PAYABLES

	2019 £'m	2018 £'m
Amounts owed to Group undertakings	**3.8**	1.1
Accruals	**0.5**	0.3
	4.3	1.4

7 SHARE CAPITAL AND SHARE PREMIUM

	2019 (Number)	2018 (Number)
Share capital		
Allotted, called up and fully paid ordinary shares of one pence:		
At the start of the period	**341,459,281**	340,844,864
*Shares issued in the year	**90,025**	614,417
At the end of the period	**341,549,306**	341,459,281

	£'m	£'m
Share capital		
At the start of the period	**3.4**	3.4
*Shares issued in the year	**–**	–
At the end of the period	**3.4**	3.4

	£'m	£'m
Share premium		
At the start of the period	**202.2**	201.9
*Shares issued in the year	**–**	0.3
At the end of the period	**202.2**	202.2

* Shares issued relate to share incentive schemes. See note 8 for further details.

8 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 within the Group 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. Grants awarded in the year to Executive Directors and senior management vest in stages over three, four and five years and vested shares may not be sold (other than to pay taxes due on vesting) until the end of the five year period. Grants awarded in the year to senior employees are subject to a three-year vesting period. Grants awarded in prior years were subject to a three-year vesting period with performance conditions and a two-year holding period for awards in favour of senior management. Further details on Executive Director LTIP awards are provided in the Remuneration Report on pages 56 to 70.

Card Factory SAYE Scheme ('SAYE')

The SAYE scheme is open to all employees (in prior years length of service eligibility applied). 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, previously 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 was conditional upon and subject to Mr Cooper remaining as Chairman of the Company on such date. The final option was exercised in the prior year.

Reconciliation of outstanding awards

	LTIP		SAYE		Other options/shares 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 2017	2,220,022	£0.00	835,754	£2.90	159,248	£2.27
Granted during the year	759,978	£0.00	301,816	£2.68	–	–
Exercised during the year	(465,592)	£0.00	(2,155)	£2.90	(146,666)	£2.25
Forfeited during the year	(642,355)	£0.00	(273,183)	£2.87	(12,582)*	£2.50
Outstanding at 31 January 2018	1,872,053	£0.00	862,232	£2.84	–	–
Granted during the year	626,864	£0.00	779,332	£1.61	–	–
Exercised during the year	(90,025)	£0.00	–	–	–	–
Forfeited during the year	(672,688)	£0.00	(413,812)	£2.57	–	–
Outstanding at 31 January 2019	**1,736,204**	**£0.00**	**1,227,752**	**£2.15**	**–**	**–**

* Estimated number of shares in respect of CEO bonus entitlement was to be deferred in shares for three years. Under the terms of the bonus scheme the award was subsequently paid in cash in the prior year with a requirement to purchase shares using one third of the total cash bonus awarded.

290,563 options exercisable at £2.90 under the SAYE scheme at 31 January 2019 lapsed on 1 February 2019.

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.

	2019		2018	
	LTIP	**SAYE**	LTIP	SAYE
Fair value at grant date	**£1.99**	**£0.31**	£3.19	£0.37
Share price at grant date	**£1.99**	**£2.01**	£3.19	£2.98
Exercise price	**£0.00**	**£1.61**	£0.00	£2.68
Expected volatility	**30%**	**30%**	30%	30%
Expected term	**3 to 5 years**	**3 years**	3 years	3 years
Expected dividend yield	**N/A***	**8.5%**	N/A*	8.0%
Risk-free interest rate	**0.79% to 1.00%**	**0.76%**	0.55%	0.28%

* 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 the Company over the expected terms at the grant date.

Impact on the income statement

The total expense recognised in the income statement arising from share-based payments is as follows:

	2019 £'m	2018 £'m
Expense/(credit) recognised in the Company income statement		
Card Factory LTIP	**0.2**	(0.2)
Expense recognised in subsidiary income statements		
Card Factory LTIP	**0.3**	–
SAYE	**0.1**	0.1
	0.4	0.1
Total expense/(credit) recognised in the Group income statement	**0.6**	(0.1)

The amounts disclosed above do not include employer's national insurance costs.

9 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. Company exposure to liquidity, interest rate, foreign exchange and credit risk are principally to the extent they impact the trade of its subsidiary investments. Trade and other receivables of the Company principally comprise amounts due from Group undertakings.

10 FINANCIAL INSTRUMENTS

Classification of financial instruments.

Financial assets have all been classified as financial assets at amortised costs. 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.

11 NOTES TO THE CASH FLOW STATEMENT

	2019 £'m	2018 £'m
Profit before tax	**49.8**	82.8
Dividends received	**(50.0)**	(83.0)
Operating loss	**(0.2)**	(0.2)
Adjusted for:		
Share-based payment charge	**0.2**	(0.2)
Operating cash flows before changes in working capital	**–**	(0.4)
Increase/(decrease) in payables	**0.2**	(0.5)
Cash inflow/(outflow) from operating activities	**0.2**	(0.9)

12 RELATED PARTY TRANSACTIONS

Amounts due to and from Group undertakings are set out in notes 5 and 6 of the financial statements. Transactions between the Company and its subsidiaries were as follows:

	2019 £'m	2018 £'m
Management services	**1.9**	1.4
Dividends received from Group undertakings	**50.0**	83.0
Loans (issued to)/repaid by Group undertakings	**(1.3)**	0.6

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 Remuneration Report on pages 56 to 70. Directors of the Company control 0.055% of the ordinary shares of the Company.

13 DISTRIBUTABLE RESERVES

The retained earnings of the Company are wholly distributable.

Advisors and Contacts

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1 Lines are open 8.30am to 5.30pm (UK time), Monday to Friday, excluding English public holidays

Notes

FSC LOGO TO GO HERE

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