Celebrate life's moments

cardfactory

Annual Report and Accounts 2020

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

Card Factory is a British business success story. Founded in 1997, the company has grown rapidly by disrupting the greeting card market, which was not offering customers the choice and value they craved. Today, Card Factory is the UK's leading specialist retailer of greeting cards, dressings and gifts, with an estate of over 1,000 operated stores across the UK and Ireland, supported by a growing online consumer business, and supplemented by new partnerships in the UK and beyond. Headquartered in Wakefield, with its own design studio and print facility nearby, Card Factory takes pride in presenting its shoppers with the widest and freshest card ranges, at prices that keep their hard-earned money in their pockets.

Although historically the business focused on growth in the value end of the market, today Card Factory is the market leader in every customer segment. No matter where they are in the country, regardless of their income, irrespective of their living arrangements, everybody finds something to celebrate at Card Factory. There is simply no substitute for the widest possible range of choices at the lowest sustainable prices.

Strategic Report

Governance

Financial Statements

Company Information

Our Highlights

Revenue £m

£451.5m

FY20	451.5
FY19	436.0
FY18	422.1
FY17	398.2
FY16	381.6

Adjusted Underlying profit before tax £m

£65.8m

FY20	65.8
FY19	74.6
FY18	80.5
FY17	85.1
FY16	82.2

Like-for-like %

-0.5 ppts

FY20	(0.5)
FY19	(0.1)
FY18	2.9
FY17	0.6
FY16	2.8

Adjusted leverage

1.76x

FY20	1.76x
FY19	1.58x
FY18	1.72x
FY17	1.38x
FY16	1.30x

Adjusted Underlying basic EPS

15.4p

FY20	15.4
FY19	17.6
FY18	18.9
FY17	19.8
FY16	19.1

Total dividend per share p

7.9p

FY20	7.9
FY19	14.3
FY18	24.3
FY17	24.1
FY16	23.5

Group Revenue
£451.5m Increase of 3.6%

Net New Store Openings
50 Total UK and Ireland Stores 1,022

Like-for-like Store Sales
-0.7% FY19: -0.5%

Total Card Factory Like-for-like Sales
-0.5% FY19: -0.1%

Online Revenue
£19.4m FY19: £20.4m

Underlying EBITDA
£125.9m Decrease of 5.1%

Underlying EBITDA Margin
27.9% FY19: 30.4%

Underlying Profit Before Tax
£67.2m FY19: £76.2m

Statutory Profit Before Tax[1]
£65.2m FY19: £68.2m

Adjusted Leverage
1.76x FY19: 1.58x

Total Ordinary Dividend per share
2.9p FY19: 9.3p

Special Dividend per share
5.0p FY19: 5.0p

Underlying Basic EPS
15.7p FY19: 18.0p

Basic EPS
15.1p FY19: 15.4p

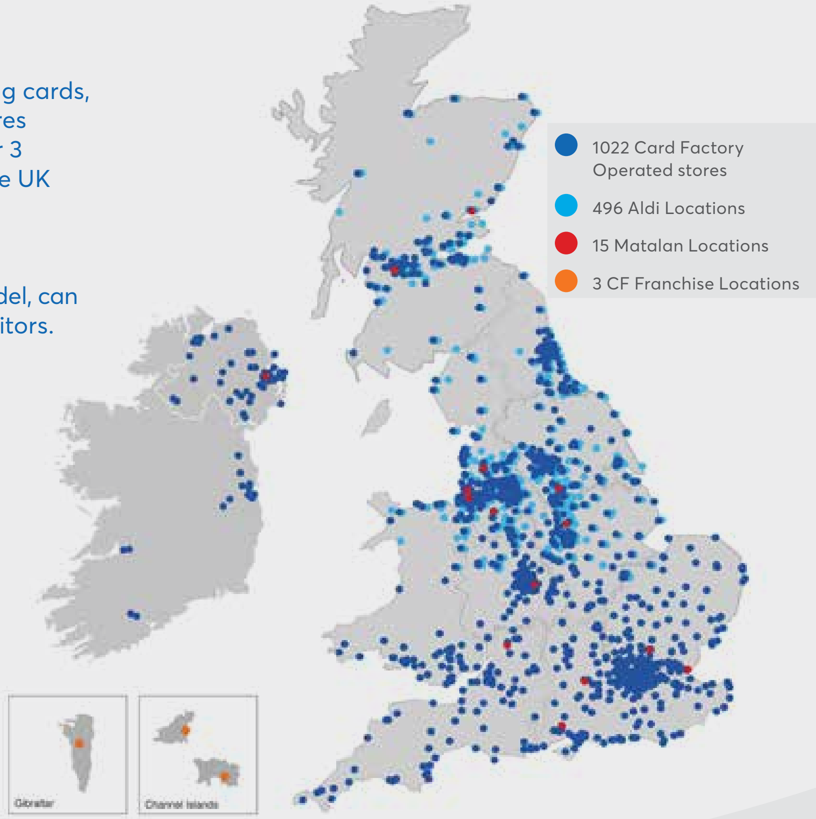
Notes
See the glossary on page 151 for alternative performance measures ('APMs') and other explanatory information. 'Adjusted' APMs have been included to aid comparability with the prior year released financial statements but the disclosure of adjusted APMs is not anticipated going forwards.
1. See note 3 to the financial statements on page 117 for details of non-underlying items.

Welcome to Card Factory

Card Factory is the first choice for greeting cards.

We are the UK's leading specialist retailer of greeting cards, dressings and gifts, with an estate of over 1,000 stores across UK and Ireland, and supply through a further 3 franchise stores and 866 partner stores mainly in the UK and Australia.

Our products are always high-quality, yet through our vertically integrated design, production and retail model, can be offered at significantly lower prices than competitors. There's nothing quite like Card Factory.



Colleagues
9,400+

Total Revenue
£451.5m

Our channels

Stores
1,022

Partner retail locations (UK)
511

Partner retail locations (Australia)
355

Franchise stores
3

Online

Visits in FY20
cardfactory.co.uk
8m

gettingpersonal.co.uk
13m

Our purpose

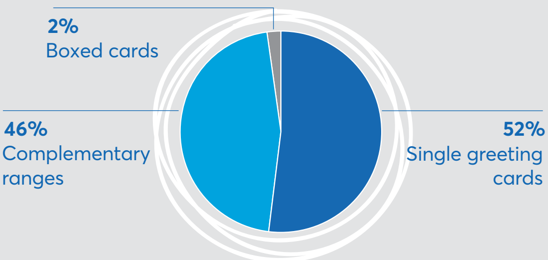
Helping people celebrate life moments.

We strive to understand better than anyone else how people celebrate. We design, manufacture and source the products that help to commemorate every occasion, from the everyday to the once-in-a lifetime; yet at prices that help people keep their money in their pockets.

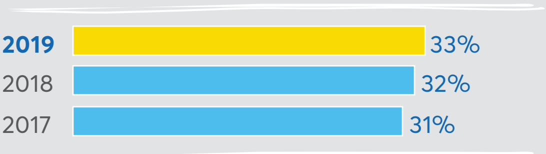
We retail principally through our chain of over 1,000 Card Factory stores in the UK and Ireland, as well as through our websites, Card Factory online and Getting Personal.

Using our unique insight from being the largest greeting card retailer by volume of cards in the UK, we help our partners' to retail cards in a way that is right for their locations and customers. Our partners include franchisees and Aldi, in the UK, and The Reject Shop, in Australia.

FY20 store sales by category[1]



UK Greeting card market share by volume 2017-19:



1. Excludes online sales and sales to Retail Partners.

Design studio

Studio 41, Wakefield

Manufacturing facility

Printcraft, Baildon

Distribution centre

Wakefield

Chairman's Statement

Clear growth strategy

During the second half of the year, the executive and senior leadership team worked towards a refreshed strategic framework that will enable the company to better address, and exploit, the rapidly changing consumer environment.

Paul Moody
Chairman

Whilst sales overall were relatively resilient in FY20, underlying like-for-like revenue showed a modest decline against last year. Profit was impacted by non-recurring operational costs and, as expected, the cost of the increase in the National Living Wage. Although the management team took a number of bold mitigating actions, they were insufficient to entirely off set the incremental costs.

During the year, the Group remained focused on executing plans that support the current four pillar strategy, underpinned by Card Factory's unique vertically integrated model. An important competitive advantage, the model is particularly key in the current environment, and will remain so in the future. During the second half of the year, the executive and senior leadership team worked towards a refreshed strategic framework that will enable the company to better address, and exploit, the rapidly-changing consumer environment. In our view, the emergence of the Covid-19 global pandemic will only accelerate changes in customer behaviour and present opportunity and challenge in equal measure. In the Chief Executive Officer's Review from page 16, Karen provides a brief, high-level update on these emerging strategic priorities.

The Board had intended to present the revised strategy to coincide with the announcement of the preliminary results. However, the government guidelines in relation to social distancing and meetings of no more than two people, has meant that we have decided to defer the Capital Markets Day to 28 July 2020.

As the potential consequences of Covid-19 became clearer, the management team and Board collectively prioritised actions to protect our colleagues and customers, preserve cash, by taking advantage of government backed financial support, and ensure that we dynamically plan for the anticipated relaxation of government guidelines. These remain our priorities.

Group revenue
£451.5m
+3.6%
FY19: £436.0m

Underlying profit before tax
£67.2m
(11.8%)
FY19: £76.2m

In order to help protect our balance sheet at this challenging time, as previously announced, the Board decided that a final dividend would not be paid. Our dividend policy remains unchanged over the medium term, and we will regularly review the most appropriate actions to take in the shorter term, however, currently we do not expect to pay any dividends in relation to FY21.

The business performance in the last year was significantly impacted by a very challenging market. As we look to the short and, most likely, medium term, the consumer market landscape will remain challenging. The time and effort focused on the development of a refreshed strategy, that means we will be better able to address that changing market with more agility and innovation, gives the Board greater confidence in the longer term prospects of the Card Factory business.

Paul Moody
Chairman
2 June 2020

Investment Proposition

Leader in a large and resilient market

UK greeting card market value of

£1.3bn

Read more on pages 6 to 9

Track record of sales growth

+4.3% CAGR

sales growth since FY16

£344m

dividends paid since IPO in 2014

Read more on pages 14, 15 and 24

Clear growth strategy

Roadmap for growth and efficiency in existing stores as well as new stores, formats, channels and markets

Read more on pages 14, 15, 20 and 21

Invested in vertical integration

Investment in the Group's design studio and print production facilities, in the UK, supports our competitive strengths

Read more on pages 10 and 11

Experienced and committed leadership team

Read more on pages 46 and 47

Market Review

The UK greeting card market remains robust, with c.76% of UK adults having purchased greeting cards in 2019, according to management's analysis.

It is estimated that c.875m single cards were sold in 2019 (-1.5% down from 2018), at a total value of c.£1,335m (+0.1%). Growth in value was driven by a higher average price per unit, offsetting mild volume decline. This market size excludes boxed cards, a minor and declining category typically purchased for Christmas, valued by the Greetings Card Association to be c.£200m in 2018; and other products that are bought alongside cards.

Prior to the Covid-19 pandemic, management projected that over the next five years single card volume would continue to decline, at -1.3% CAGR through to 2024. This was expected to be offset by continued year-on-year value growth, which was to come from a combination of a higher average price per card in retail stores, and channel shift to online (which has c.2x the average price). Management expected, prior to the Covid-19 pandemic, total retail value of c.£1,370m in 2024 (+0.5% CAGR from 2019).

In 2019, c.8% of card volume was purchased online, equating to c.70m cards. The online channel is not representative of the total card market; for example, c.65% of cards sold online are personalised, compared with less than 10% of those sold in retail stores. As the average online card price is c.2x that of cards sold offline, it is estimated that the channel was worth c.£180m in 2019. The online greeting card market in 2020 is significantly larger as a result of the disruptions caused by Covid-19; the lasting impacts are not known.

Beyond the UK, management has completed detailed market research and analysis of all sizeable English-speaking card markets. The research shows that the UK has the highest proportion of adults who purchase greeting cards, and is the second-largest market after the US. Card Factory is now, through its partner, The Reject Shop, present in Australia, where greeting card penetration is c.50% and the market value is estimated to be £300-350m in 2019.

UK card market value

Single cards (from stores)

£1.1bn

Single cards (online)

£0.2bn

Australian card market

All greeting cards

£300-350m

Competitive Environment

Card Factory is the leading UK retailer of greeting cards, accounting for c.33% of market volume in 2019, by management's estimate. The competitive environment can be grouped as follows:

Supermarkets & convenience

30-35%

typically serving impulse or planned missions where the card is bought alongside other, often unrelated, items. Offer increasingly wide ranges due to increased space, but overall less well-rated by shoppers.

Discounters

5-10%

typically offer narrow ranges (sometimes not all year round) focusing mainly or exclusively on lower price points. As with the broader discount proposition, shoppers must trade off breadth of choice (and often card quality) for low price point.

Other card specialists

20-25%

excluding Card Factory

typically serving destination shops where the card or a related item is the reason for the shopping trip. Well-rated for card ranges, but not considered to offer value for money due to high price points.

Online-only retailers

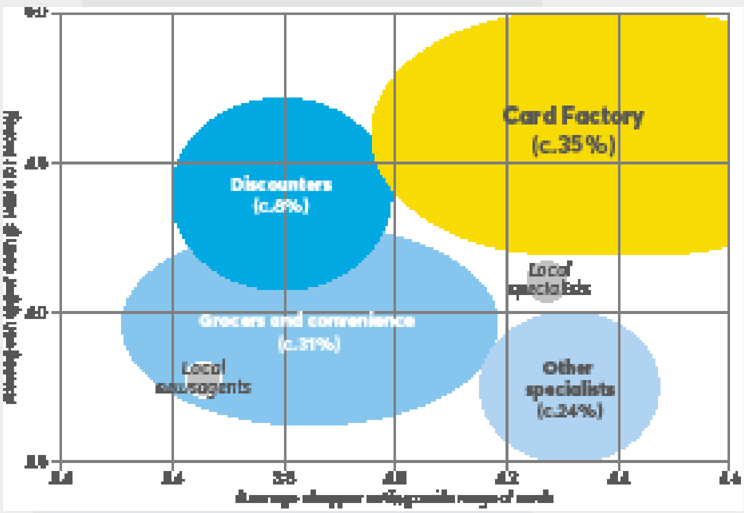
<5%

trade only online, with a limited selection typically focused on either single, personalised cards or multi-packs of standard cards. Not shown in chart below.

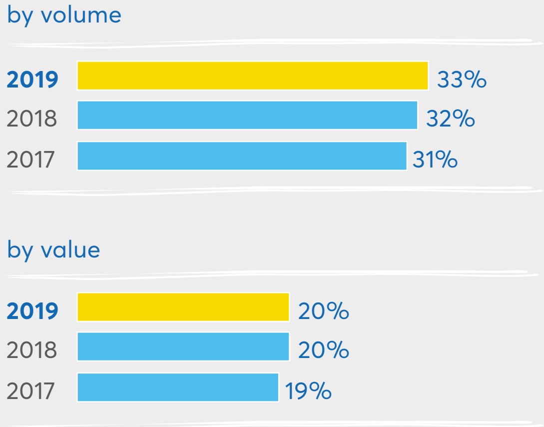
Management uses an independent shopper panel to monitor shoppers' satisfaction ratings for all significant greeting card retailers. Card Factory's continuing differentiation from its competitors is illustrated by the analysis. The chart below shows each retailer's average ratings out of 5 for two metrics: wide range of cards (which, analysis indicates, is the single most important criterion to shoppers) and value for money. Card Factory is the only scale retailer with a market-leading position against both.

These high ratings are corroborated by the independent Retail Proposition Index produced annually by OC&C Strategy Consultants and published on its website. For each of the last five years, Card Factory has been ranked #1 of all UK retail brands for 'value for money'.

Due to Card Factory's differentiated positioning, it has been able to maintain its volume share (c.33%) and value share (c.20%) of single greeting cards, despite the aggressive space roll-outs pursued by competitors. Almost 60% of UK card buyers have purchased from Card Factory at least once in the last 12 months, and more than 40% name it as their main card retailer. It is well positioned to capitalise on its leadership in card choice and value for money to grow share in underpenetrated customer segments and missions moving forwards.



UK market share, Single greeting cards



Market Review *continued*

Card Factory has an attractive, defensible leadership position in UK greeting cards

Resonant brand meaning

Most popular UK retailer for 'value for money' for five years in a row[1]. Card Factory consistently helps people keep money in their pockets, without compromising on the most meaningful moments in their lives.

Better at what matters

Card shoppers have clear and distinct preferences. Card Factory is ranked #1 by shoppers on five of the most important measures, including 'wide range of cards', which is the single most important[2].

Strong market leadership position

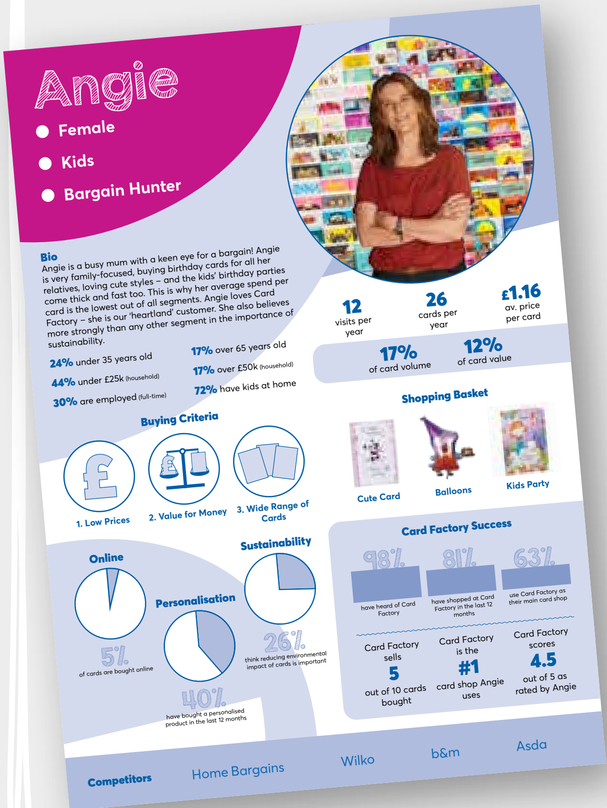
Distinct brand and strong customer ratings translate into selling one in every three greeting cards in the UK[2].

Customers

Selling one in every three greeting cards in the UK market, Card Factory benefits from robust customer insight. This can be used to tailor range development, commercial plans and expansion opportunities.

Through its depth of knowledge, Card Factory has developed a proprietary segmentation of UK card shoppers that management believes provides significant and growing competitive advantage. Everybody who buys a greeting card can be placed into one of the ten segments that share common behaviours and purchasing requirements, but are notably distinct from each other. This segmentation powerfully explains the different relative performance for each of the major retailers in the card market.

The segmentation also illuminates Card Factory's market opportunities. For example, outcomes for Card Factory's heartland shopper, 'Angie', can be distinguished from those in a segment in which the brand has a lower share, 'Frank':



1 As rated in independent survey by OC&C Strategy Consultants, published January 2020 as the Retail Proposition Index.
2 Data from Card Factory Market Tracker 2020, which is based on a nationally representative survey of over 2,750 card shoppers in the UK.

Illustrative comparison of customer segments

	Angie	Frank
% of market volume	16%	11%
% of market value	12%	13%
Occasions per year	12	9
Cards per year	26	20
Price per card	£1.16	£1.86
% awareness of Card Factory	98%	82%
% used Card Factory in last 12 months	81%	33%
% using Card Factory as main shop	63%	19%

Value for money

OC&C retail proposition index results (2019)

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

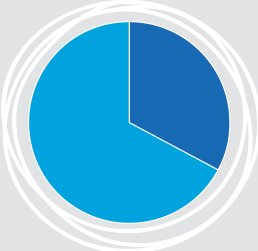
The greater amount of headroom illustrated within 'Frank' can then be accessed by leveraging the more detailed comparative data available at lower levels. For example, we know that 'Frank':

- Prioritises range, quality and availability of cards over any kind of measure of value;
- Buys more Christmas cards than Angie, but roughly half as many birthday cards;
- Is roughly half as likely as Angie to have bought any kind of personalised product.

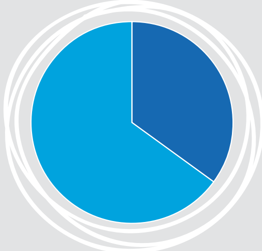
The quality of insight that Card Factory benefits from can increasingly be extended to partners both within the UK and abroad, contributing to the material volume uplifts that Card Factory category solutions are expected to deliver to partner retailers.

Card Factory share of UK single greeting cards:

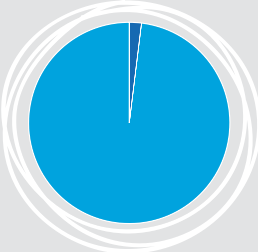
Overall – 33%



In stores – 35%



Online – 2%



Our Business Model

Virtuous circle

Our vertically integrated business model helps us fulfil our purpose and create value for stakeholders.

Our model covers:

- 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, 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 the price and quality that underpin the Group's mission.

Key competitive strengths

The Directors believe that the Group's unique model provides significant advantages, including:

Value proposition
enabling Card Factory to offer its clearly differentiated value proposition of quality products at affordable prices while maintaining strong margins;

Quality control
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;

Dynamic sourcing
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 increased product sourcing back to the UK with investment in technology;

Economies of scale
cost benefits that derive from scale (eg with regard to the size of card print runs) that have been built up over a significant period of time;

Investment in infrastructure
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;

Management expertise
a management team with the diverse experience and expertise required to operate a vertically integrated retail business as opposed to a pure retail model; and

Integrated business model
an integrated business model that would involve significant cost and execution risk to replicate.

Our vision

The customers' choice for cards, gifts, party and wrap, instore and online

Our values

We lead the way
Our people are proud and passionate about being first and leading the way – we improve things every day.

We're part of the story
Our people are here because they're excited by what the business has done so far – and want to play a part in taking it to the next level.

We're loyal
Our people are fiercely loyal to the colleagues they work with every day – and that builds customer loyalty too.

We're grafters
Our people are grafters that get things done – we pull together as a team to make it happen for our customers.

We're a little bit mad
Card Factory isn't for everyone – we move at a fast pace that some can't handle – you need to be a little bit mad to work here!

Our Business Model *continued*

Extending competitive advantage

Design

- Versatile design team built over the past 13 years, creating over 85% of the Card Factory product portfolio
- Skills include specialists in 3D design & packaging, an editorial and creative writing team, illustrators, designers and digital constructors
- Over 4,500 new card and 1,500 complementary product designs last year across all retail channels
- Extensive database of thousands of 'home-grown' creative designs, captions and verses
- Trend-led to ensure ranges meet evolving customer needs
- Insights from customer research factored into proposition development

Sourcing

- Dedicated in-house sourcing team covering a wide range of products, led by newly-appointed Chief Commercial Officer
- Technology and automation investment aimed at bringing card manufacturing back to the UK
- Sourcing and design teams work as one to optimise margins
- Well-established relationships with third-party manufacturers, particularly in the Far East
- Internal quality control function supported by third-party supplier technical and ethical audits with a 'no audit, no order' policy

Production

- Well-invested, scalable production facility based in Baildon, Yorkshire
- Currently producing over 210 million cards per annum for Card Factory and partners
- Strategically positioned to grow capacity to c.400 million cards per annum in line with growth in anticipated store roll-out and to support additional partnerships and new strategic initiatives

Warehousing

- National distribution centre based in Wakefield, Yorkshire
- Additional warehousing capacity acquired to support growth ambitions and reduce dependence on third-party storage
- Nearly 500,000 sq ft of storage space
- Voice picking technology improves efficiency, accuracy of picking and optimises resource allocation

Distribution

- Outbound distribution performed by third-party logistics partners
- Small, newly-leased, more fuel efficient fleet of commercial vehicles delivering to radial stores to meet customer demand
- Frequent store replenishment to support high store-sales densities
- Limited proportion of products shipped direct to store (eg helium gas canisters and postage stamps)

Merchandising

- Highly differentiated retail proposition with quality products at a fraction of the price of the Group's principal competitors
- Transparent pricing builds trust with customers
- Extensive depth of range for both card and complementary products
- Space planning software implemented to maximise use of space and profit per linear foot
- Auto-replenishment of Everyday card ranges across the estate
- Established online personal gifting business, gettingpersonal.co.uk, to be integrated as a separate brand on the new Card Factory platform

Store Network

- Network of over 1,000 of our own stores in the UK and Republic of Ireland, the majority from organic growth and a small proportion through acquisition
- High quality, flexible estate
- Ongoing 6-monthly review of all stores in the estate to maximise their profitability
- Versatile, high returns model operating successfully in a wide range of locations and demographic areas
- Target location database supports further increase to store numbers in the UK and Republic of Ireland

Online

- cardfactory.co.uk growing strongly and to be relaunched on a new platform improving choice and customer experience
- established online personal gifting business, gettingpersonal.co.uk, to be integrated as a separate brand on the new Card Factory platform
- Focus on multi-channel proposition

Four Pillar Strategy

Strategy update

We have for some time run our business in accordance with the four pillar strategy. We have spent a significant amount of time this year reviewing our approach in detail and looking at all elements of our customer and operating models. This has resulted in the evolution of our existing strategy to drive long-term sustainable and profitable growth.

The objective of this new long-term growth strategy is ensuring Card Factory establishes itself as a robust, scalable and sustainable international greeting card retailer with diversified routes to market. This strategy will deliver a superior proposition for customers; meaningful career opportunities for our people; positive impacts on the world around us; and attractive returns for shareholders.

The successful delivery of this strategy will be structured around enhancing our strong card-led retail proposition and making our products available everywhere, however our customers wish to shop.

Once finalised, we will be updating shareholders on our new strategy during FY21.

Like-for-like sales growth

The Group has a strong track record of consistently delivering sales growth and growing average basket value ('ABV'). This has been achieved through:

- improving and evolving existing card ranges and designs to support the continued growth of market share. In developing everyday ranges the customer always has a wide choice of cards from entry price point to everyday premium ranges for all occasions;
- developing complementary non-card ranges to grow ABV and create more reasons to visit, with customers able to find not only the card, but associated wrap, party products and gifts for every occasion;
- extending card and gift ranges across more occasions ensuring that customers can always find an appropriate greeting card or gift to celebrate their life moments; and
- building on the progress made during the year with retailing disciplines, especially around store standards and improving in-store navigation.

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 open for a full year, calculated on a calendar-week basis. The reported LFL sales figure excludes sales:

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

New store roll-out

Prior to the Covid-19 pandemic, the Group intended to expand its store portfolio organically from its existing store estate, including further stores in the Republic of Ireland. Save for the seven new stores that were committed before 23 March 2020, new store opening has been suspended. The overall scale of the store roll-out programme will be considered as we assess the implications of Covid-19 on store trading. Management will consider opening new stores in the current year, as long as the new stores are expected to deliver the appropriate return.

Target locations for stores have 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, these new stores will nevertheless enhance profitability and will continue the trend of delivering a strong return on capital. Management believes the Republic of Ireland also represents a good opportunity for further store expansion.

The Group has a structured appraisal process in place for new location opportunities, including an assessment of potential store sales and profitability. In addition, we review the performance of the whole estate twice per annum with every store in the Group having a 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 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 additional 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, 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:

(1) Deepening the vertical supply model. Products have continued to be of the highest quality and unit cost of production has decreased through better and more efficient production techniques.

(2) Continuous review of supply chain and relationships with UK and overseas manufacturers to ensure the most effective sourcing, in what is a tough commodity market.

(3) Significant improvements in efficiency and effectiveness in the distribution centre, with the introduction of voice picking, warehouse consolidation and improved warehouse productivity measures such as the development of pre-pack operations.

(4) Improved operational productivity in stores through the removal of non-customer facing tasks via automation and simplified store operations.

(5) Reduced other store operating costs by achieving targeted rent savings at lease renewal, and by reducing stock held in store, stock loss and cash loss.

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. This includes the planned implementation of a new enterprise resource planning (ERP) solution to drive business transformation and efficiency.

Online

The Group's online operations currently comprise Card Factory's transactional website and Getting Personal. In 2019, management estimates that c.8% of card volume was purchased online, equating to c.70m cards marketwide.

In 2019, 4% of Group sales were from the online channel.

cardfactory.co.uk

Card Factory online now has an established dedicated team supporting its future growth and significantly enhanced product ranges which are proving popular with customers. We continue to evaluate, enhance, test and evolve our online platform, 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, and also enhanced the selection of non-personalised products that customers would usually have to go to one of our stores to purchase. In addition, we have been working to implement a new online platform which will be deployed in the first half of FY21.

gettingpersonal.co.uk

Sales of personalised gifts represent the vast majority of Getting Personal sales.

Chief Executive Officer's Review

Designing a sustainable future

Our business model remains unique, with continual investment in our vertically integrated supply chain to improve our competitive advantage in the market.

Karen Hubbard
Chief Executive Officer

UK retailer 'value for money' ranking

#1

Overview

During FY20, Card Factory produced a resilient sales performance despite poor consumer confidence and lower high-street footfall, particularly in the second half. Like-for-like sales were broadly flat for the year, with record volume and like-for-like sales performances for Valentine's Day and Mother's Day. Sales over the Christmas season were more subdued, reflecting the market backdrop, a decline in demand, together with some execution issues.

Our business model remains unique, with continual investment in our vertically integrated supply chain to improve our competitive advantage in the market. This improves our ability to bring to market new ranges with shorter lead times, allowing us to provide an unrivalled offer of quality and value to our customers, whilst generating attractive gross margins. This investment will allow Card Factory to take advantage of growth opportunities both in the UK and overseas.

We are utilising EPOS information to inform future designs and ranges, and to automate replenishment in store driving sales growth, deliver cost efficiencies and improve our market share.

Despite tough market conditions and cost headwinds, our model and focus on the customer and business efficiencies enabled us to deliver good EDITDA margins and we continue to generate strong cash returns.

In the year, the management team focused on three key aspects of the business:

- Maximising our financial performance, while investing in key parts of the business which will support longer term future growth;
- Developing the five year growth strategy; and
- Testing elements of this growth strategy to ensure it will deliver tangible and sustainable results, thereby providing assurance to all stakeholders over Card Factory's long-term prospects.

Market update

The fundamentals of the card market remain intact – it is a large, and broadly stable market. Our updated analysis shows that the increasing average prices of cards fully offset the very modest year-on-year volume decline. We see interesting areas of growth that are consistent with wider consumer trends, such as the growth of new and non-standard occasions, offsetting a long-term decline in Christmas card giving, and a growing minority of shoppers now buying cards on impulse rather than in planned shopping missions. These present new opportunities to our business, which has increased its volume share once more to 33% of single greeting cards, despite increasingly aggressive competition.

Our proposition continues to resonate with customers. OC&C Strategy Consultants have found us once more to be the #1 ranked UK retailer for 'value for money', whilst our own research shows that:

- Card Factory is the top-rated retailer by greeting card shoppers, both overall, and for their most important "choice" factor, having a wide range of cards available;
- More than 40% of card shoppers consider Card Factory to be their main shop for greeting cards, which is up 4 ppts on last year; and
- When we look at the nine different shopper segments that make up all out-of-home card buying, despite their considerable differences in terms of social and economic indicators, we find that Card Factory is the market leader by volume in every single segment.

These figures give me enormous confidence that this business benefits greatly from its 21-year history of delivering a unique blend of the broadest choice of high-quality cards, the majority of which are manufactured in Yorkshire, at very attractive price points.

FY20 strategic performance

In FY20, we continued to make good progress against our established four strategic pillars.

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

Card Factory LFL sales were -0.5% (FY19: -0.1%) reflecting lower consumer confidence and footfall, particularly in the second half.

Although we did not see growth in our overall like-for-like sales, we offset the footfall decline with a number of successes in range and product development, resulting in a higher average basket value. In the year, the volume of Everyday cards sold increased, both in total and on a like-for-like basis; in addition we grew the average selling price of both Everyday and Seasonal cards. We saw substantial growth in Open cards; suitable for all occasions, with the introduction of higher price points and new modern styles, and within our Everyday Milestone-Age card range, whilst Baby, Gift and Sentiment all saw significant like-for-like sales increases. Our seasonal ranges also performed well for Valentine's Day and Mother's Day, achieving record sales volumes and value on a like-for-like basis.

Christmas was a disappointing season, driven by; the macro backdrop; a reduction in demand for single and boxed cards; and some execution issues which left us with unsatisfied demand for some key captions. Our detailed review of our seasonal performance, using data from all our stores, has resulted in better planning for Christmas in 2020.

We continue to learn from and leverage our EPOS data – to guide our design studio, to ensure that our top-selling card ranges are available in every store, and to drive auto-replenishment, which was implemented for Everyday cards in most stores in Q4. We also used our vertically integrated supply chain to quickly produce new concepts and ranges, in response to changing customer trends.

cardfactory.co.uk sales

+15%

Net store openings

50

Total UK and Ireland store estate

1,022

Chief Executive Officer's Review *continued*

For the year as a whole, the proportion of sales from non-card items increased to 45.8% (FY19: 44.6%).

The Card Factory website, cardfactory.co.uk, performed well during the year with an increase in both visitors and average order value, providing further evidence of the potential of this channel, as detailed further below.

2. New store roll-out

We achieved our target net new store openings for this year, opening 50 net new stores across the UK and Republic of Ireland, including a variety of retail locations - high streets, shopping centres and retail parks. We ended the year with 1,009 UK stores (31 January 2019: 965), with a further 13 stores in the Republic of Ireland (31 January 2019: 7), bringing our total estate of Card Factory operated stores to 1,022. The quality of our estate remains very strong with the average time to lease break of 2.5 years.

We remain mindful of the ongoing high street challenges, and we continue our twice-yearly review of all stores, assessing potential opportunities to upsize, downsize, co-locate or relocate. This helps to ensure the whole of the estate is well-positioned to best meet customer demand and benefit from shifting footfall.

Whilst our store roll-out programme remains an important part of the growth strategy, Covid-19 has impacted the pace at which we will open stores in the coming year. We now expect to open seven new stores in 2021, being those which we are already legally committed to and will revise our plans as appropriate. The overall scale of the store roll-out programme will be considered as we assess the implications of Covid-19 on store trading.

3. Business efficiencies

The Group has consistently delivered best-in-class operating profit margins, although these have slightly declined in recent years, mainly due to National Living Wage and foreign exchange headwinds. This year cost pressures continued, with National Living Wage increases, higher card payment fees and storage for increased stock levels. We sought to mitigate these through our established multi-year programme of cost efficiencies.

The key business initiatives in the year included:

(1) We invested in our vertical supply model, continuing to improve the quality of our products through better and more efficient production techniques. This reduced our unit cost of production while also ensuring our cards remain of the highest quality. Investments included a replacement press, which resulted in a reduction of head count, and a foiling machine that produces cards at three times the rate of the old machine. We have a clear plan in place for future investments in the latest technologies in dye, cutting, printing, foiling and packing efficiency. We have also been focusing on how we can move even more production in-house and away from overseas suppliers, improving margins, and providing greater control over our supply chain.

(2) We continually review our supply chain and relationships with our UK and overseas manufacturers to ensure we have the most effective sourcing in what is a tough commodity market. We successfully negotiated new supplier terms which resulted in better margins for Card Factory. Alongside those efforts, we also introduced a new freelance designer base that delivered new, fresher designs to our online business, with strong sales growth within an effective pricing model.

(3) We have delivered significant improvements in efficiency and effectiveness in our distribution centre, with the introduction of voice picking, warehouse consolidation and improved warehouse productivity measures such as the development of pre-pack operations. All of these actions facilitate a more cost-effective and efficient operation, in particular for key seasons.

(4) Improved operational productivity in stores through the removal of non-customer facing tasks, via automation and simplified store operations. We also introduced electronic rotas and new communication tools, enabling the removal of over 300,000 non-customer facing store hours. In addition, we laid the groundwork for further store operation efficiencies in FY21.

(5) We continued to reduce other store operating costs by achieving our targeted rent savings, and by reducing cash loss and store stock holding. In FY20, we introduced auto-replenishment of Everyday card in almost all of our stores, and reduced overall stock holding levels.

4. Online development

We have two transactional websites: **cardfactory.co.uk** and **gettingpersonal.co.uk**.

We were encouraged by the growth in the online business.
The cardfactory.co.uk team delivered sales growth of 15% in FY20 against a strong comparator (FY19: 56%). The development of the existing website and investment in marketing was limited, to allow the team to focus on: the development of the new digital platform, which we expect to launch shortly; test and learn from channel-specific marketing campaigns; and trial product/design ranges from independent designers. In the year we added 3,835 new product lines and 83% of the range are online exclusive products not available in store. This product offering resonates well with existing customers, with strong sales in cards and party ranges driving frequency of shop and basket size. New customer acquisition was focused on our existing store customers, a large proportion of whom we know shop online and yet were unaware of the Card Factory website. New point of sale, promoting cardfactory.co.uk, was launched across the store estate in July 2019 and we saw a 7% increase in traffic to the website.

Retail aCardemy
Management Development Programme:

96
graduated

68
promoted

127
in current intake

The **gettingpersonal.co.uk** business continued to face challenges and whilst it remains a small part of the Group, its financial performance in the year was disappointing, with sales decreasing by 9.8% and EBITDA falling to breakeven (FY19: £1.2m). During the year, we reviewed the business in detail and recently concluded that while there remain significant sales opportunities in the personalised gifting market, which is serviced through our manufacturing model, we would integrate the Getting Personal business into the new Card Factory platform. This will enable us to retain the Getting Personal brand and its unique customers, but leverage the investment made in the Card Factory business. This integration of the business will occur in H2 of FY21.

5. Retail colleagues and performance culture

We continue to develop our colleagues and their capabilities. Our Retail aCardemy, now in its third year, has successfully offered many development opportunities. This year we had 96 colleagues graduate from the twelve-month Management Development Programme, with 48 promotions into management roles. In September 2019, we launched our third year of Retail aCardemy, accommodating a further 127 Retail colleagues and, just a third of the way through the programme, we have already seen 20 promotions into management roles.

Throughout the year, we have continued to present development opportunities through the Retail Apprenticeship offering; Retailer Level 2, Team Leader Level 3, and Retail Manager Level 4.

Our clear aim is to develop our colleagues by creating a strong performance culture, with focused objectives that support the delivery of our strategy. We recently rolled out performance reviews for all Store Managers and have completed a training needs analysis for the same population, giving us a clear view of those with potential to develop further.

We are working hard to ensure that our colleagues are engaged and feel respected for the job that they do. The Retail Forum helped us build our action plan for this year; we are focussed on getting the basics right to drive engagement and motivation for colleagues and delivering the best-possible customer service in stores.

During the Covid-19 lock down period we have communicated fully with our colleagues, provided digital training for their personal development and provided support for their wellbeing. In addition, through our Charitable Foundation, we created a Covid hardship fund, available to all of our colleagues who are experiencing financial hardship during this time. This hardship fund is financed in part by the Directors and Non-Executive Directors who are voluntarily donating 20% of salaries for the period of furloughing.

6. Customer engagement and experience

We continue to shape our offer to meet the changing needs of our customers to help them celebrate their life moments. In FY20, we sought to focus all colleagues on a customer-first approach, whether product design, stores or evolving multi-channel propositions. Spending time in our stores, understanding website browsing behaviour and what customers are sharing and talking about through social media engagement continues to educate and inspire our thinking and plans. We have laid the foundation of our customer segmentation, which brings to life those we serve and, over the next twelve months, we will accelerate our plans to further understand our customers and trial new customer propositions.

Because our customers shop on the high street and online, we continue to test our multi-channel propositions, including in-store ordering and printing, extended ranges, design newness and product bundles. Our customers are reacting positively to these trials. We have brought the online and retail customer service teams together to ensure customers are treated as individuals rather than according to the channel they shopped. This also provides us with the opportunity to offer a consistent experience as we support customers across our channels.

Chief Executive Officer's Review *continued*

7. Development of the next Card Factory five-year growth strategy

Through the year, the Board and management team have devised a long-term strategy, the objective of which is delivering sustainable and attractive returns for our shareholders. This strategy leverages Card Factory's unique, vertically integrated business model and is based on robust, independent market data and research.

The vision which shaped the strategy is for Card Factory to be recognised as 'the world's best greeting card retailer'; helping people celebrate their life moments by offering products that are affordable and available for everyone. Critically, while this strategy focuses on delivering growth predominately in the UK market, it also allows us to leverage our assets internationally, taking the Card Factory brand into new geographies.

Three key work streams have been identified for Card Factory to deliver on both the strategy and vision, outlined below.

> "The vision is for Card Factory to be recognised as 'the world's best greeting card retailer'

(1) Build a winning card-led retail proposition

For our business to succeed, we are clear that our offering must be based around having a winning card-led retail proposition. To deliver this, we will continue to focus on:

- Being customer-led and leveraging the substantial data collected through c.2.5 million transactions per week to ensure the optimal and most efficient range of cards and gifts across the estate on a store-by-store basis, throughout the year;
- Leadership in Card Choice: offering the widest range of cards with ongoing improvement and refreshment of our card ranges. Our vertically integrated model means we can trial and bring to market new ranges more quickly and efficiently than our competitors;
- Creating complementary and popular non-card products, such as wrapping paper, gifting ranges and accessories, so Card Factory can fully capitalise on each visit a shopper makes to a store, concession or website for both seasonal events and in everyday ranges;
- Targeted marketing and loyalty programmes to address certain brand perceptions, broadening the potential number of Card Factory customers; and
- Ensuring that we have a distinctive and defensive pricing strategy, with a continual assessment of our pricing to ensure we continue to offer market-leading value for shoppers at attractive margins for Card Factory.

(2) Making our products available everywhere and however the customer wishes to shop

One of the key drivers behind Card Factory's market leadership to date has been its substantial, and growing, 1,000+ store estate. Market research has shown that there is an opportunity to increase market share further by increasing the availability of Card Factory products through complementary alternative formats and initiatives. There are five different aspects to increasing coverage:

- Continuing to review in detail both the current UK store estate and where we are planning to open new stores to ensure they are all in the best possible locations – be it on the high street or, increasingly, on retail parks. Whilst our store roll-out programme remains an important part of the growth strategy, the pace and scale will be considered as we assess the implications of Covid-19 on store trading;
- Trialling new formats where localised demand exists, which might either be smaller in scale or of a different character, where the main Card Factory fascia isn't appropriate, enabling us to take a local market approach to ensure that all customers can access our products;
- Capitalising on the growing trend of 'impulse purchasing' through partnerships with retailers in suitable locations and with complementary brand propositions. We are encouraged by the progress we have seen with this model through the current Aldi relationship and the ongoing trial with Matalan;
- Offering our ranges, retailing expertise and the Card Factory brand internationally, leveraging the infrastructure that we have. We have opened in Australia with The Reject Shop following an initial trial, and are now trading from 355 stores, (with 170 opened at end of FY20); and

- Increasing market share of online transactions. While the number of online transactions is forecast to grow, it is still relatively modest at 8% of UK card volume. We will launch a new web platform in 1H FY21 allowing us to significantly grow our online presence and leverage our store estate – thereby significantly strengthening our ability to trade as an omni-channel retailer.

(3) Sustain & extend our competitive advantages

Card Factory's vertically integrated business model is a key competitive advantage, allowing us to deliver both quality and value to our customers at attractive margins for the business. We will continue to invest in the business model to sustain this important differentiator. The focus will be:

- Retail operating model transformation: we have identified a number of additional opportunities across the entire business, from the design of a card or gift, through to manufacturing and supply chain, and on to the store itself, where we can deliver more efficiently for our customers. This will enable us to achieve the lowest cost to operate, especially in relation to the store operating model. Technology will play an important part in the ongoing improvement of this and allow us to leverage infrastructure to support all channels; and
- Manufacturing and supply chain investments: we have already started building the infrastructure required to support new sales channels with retail partners both in the UK and internationally. We will invest in our vertical supply chain and manufacturing technology to improve product margins and lower our operational cost base. In addition, we will be assessing the opportunity to bring the manufacture of more hand-made card ranges back to the UK, increasing the flexibility with which we can respond to customer demand.

Delivery of the strategy will require investment in a new warehouse (which will be fully operational by July 2020) a new ERP system and new printing machinery. Investments have been considered in line with the associated business benefits and timing amended given the current implications of Covid-19.

Covid-19 and liquidity update

The priority for Card Factory throughout Covid-19 has been the health and safety of both our colleagues and customers. As announced on 6 May 2020, we have continued to trade both of our online businesses. While still a small part of the overall group, we saw significant growth in visitors, conversion and sales. In response to this increased demand and to support social distancing we have established a second fulfilment unit in Wakefield. Alongside the online activity, we have continued to supply both Aldi and our Australian partner, The Reject Shop, with card ranges. Following Government guidance to close all stores, over 90% of our colleagues have been furloughed under the Government's Job Retention Scheme. Where required, our Support Centre colleagues are working effectively from home.

We have prepared extensively for the re-opening of our stores, and are currently working on changes to our store operations that will help ensure colleague and customer safety. We expect to be able to facilitate appropriate social distancing in the majority of our stores.

Whilst the audit report contains an emphasis of matter in respect of Covid-19, the Board is confident that the Group has access to sufficient liquidity for navigating the times ahead. This has been driven both by management focusing on cash conservation, its current banking facilities and the additional support from the Bank of England. The cash conservation measures have included utilising relevant government schemes where applicable, managing stock intake and supplier terms and controlling the cost base. Capital investment has been focused on a small number of key projects that remain important to the Group's long-term strategic objectives. In addition, the business has in place an existing £200m Revolving Credit Facility ('RCF') maturing in October 2023 with our commercial banks, who have remained supportive of the business during this period. Alongside the current bank facilities, the Bank of England have confirmed access to additional funding under the Covid Corporate Financing

Chief Executive Officer's Review *continued*

Facility ('CCFF'). We will provide further updates on Card Factory's response to Covid-19 as appropriate.

Given the recent announcements by the Government we are preparing for the re-opening of our stores, ensuring that we are compliant with the requirements to ensure we are "Covid-Secure". Over the past number of weeks the team have worked through the detail of social distancing in our stores, received appropriate PPE and other equipment and have a plan for a phased re-opening of our shops. Our priority in doing so is to ensure the ongoing safety of our colleagues and customers. It is clear that in some shops, social distancing will impact our ability to trade, however our teams are working through a plan for sales optimisation and trialling that will inform us more fully of the implications and any additional changes that we may have to make. As the impact on the operating performance becomes clearer we will amend our business plans accordingly.

Outlook

Before the impact of Covid-19, we had made a satisfactory start to the year. In the first major season of the year, Valentine's Day, we achieved our fourth consecutive year of record sales growth in both volume and value. However, the Covid-19 pandemic has impacted trading and, given the uncertain economic backdrop, we are unable to provide financial guidance for FY21.

Our four pillar strategy has been a simple and effective part of delivering the growth of the business to date. However, as customer buying habits evolve and the consumer landscape changes, we are planning for a new stage of growth. We have already established some key retail partnerships within the UK and overseas, leveraging our industry-leading position and vertically integrated business model. We will continue to look at new, similar opportunities. In addition we have tested price positioning and new ranges and are well progressed on the implementation of a new multi-channel enabling online platform.

The combination of the new growth strategy with Card Factory's market position, vertically integrated business model and management team provides confidence we will continue to grow our market-leading position. We have clear investment plans to support the delivery of our strategy, and remain focused on delivering strong returns for our shareholders. We are looking forward to sharing this new strategy with you on 28 July 2020.

Karen Hubbard
Chief Executive Officer
2 June 2020


Cards From
29p
Quality and value for all life's moments
79p

Chief Financial Officer's Review

Selective investment for growth

The 'FY20' accounting period refers to the year ended 31 January 2020 and the comparative period 'FY19' refers to the year ended 31 January 2019.

Unless otherwise stated, the following FY20 and FY19 information is presented as including the new accounting entries required by IFRS 16 Leases; references to 'Adjusted' financials exclude such entries. In addition, the Group has chosen to present underlying profit and earnings measures. Transactions are categorised as non-underlying if the resulting underlying profit and earnings information is believed to assist comparison of year-on-year performance.

In the year, the Group remained highly cash generative, driven by its strong operating margins, limited working capital absorption and relatively low ongoing capital expenditure requirements.

Kris Lee
Chief Financial Officer

Revenue

Total Group revenue during the year grew by 3.6% to £451.5m (FY19: £436.0m), driven by growth in the Card Factory store network:

	FY20 £'m	FY19 £'m	Increase/ (Decrease)
Card Factory stores	429.0	415.5	3.3%
Online	19.4	20.4	(4.9%)
Retail partnerships	3.1	0.1	
Group	451.5	436.0	3.6%

To reflect the change of emphasis in our business, we have adjusted our divisional reporting to report in respect of the above three divisions (Card Factory stores; Online and Retail Partnerships). The Group's established new store roll-out programme continued to be an important driver of sales growth for the business. In the year under review, 53 new stores were opened, giving a net addition of 50 new stores. This brought the total UK estate to 1,022 stores at the year-end, including 13 stores in the Republic of Ireland.

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

	FY20	FY19
Card Factory stores	(0.7%)	(0.5%)
Card Factory online	14.8%	56.3%
Card Factory LFL	(0.5%)	(0.1%)
Getting Personal	(9.8%)	(8.1%)

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 FY20 was 52.2% single cards (FY19: 53.1%), 45.8% non-card (FY19: 44.6%) and 2.0% boxed cards (FY19: 2.3%). We expect some continuation in this trend as we further improve our non-card offering and drive incremental sales and average basket value.

Revenue from the Card Factory transactional website grew by 15% (FY19: 56%).

Performance at Getting Personal was disappointing, with rising cost of customer acquisition in an increasingly competitive, discounting-led market continuing to present a challenge to the business model. We are currently reviewing the structure of the business and its strategy for targeting customers and as a result the Board has since concluded that an impairment to the remaining goodwill balance related to this business should be made. Further details are provided below.

Underlying operating costs

Underlying cost of sales and operating expenses can be analysed as follows:

FY20 Underlying	FY20 Adjusted £'m	FY20 IFRS16 £'m	FY20 £'m	FY20 % of revenue	% (Increase) / Decrease	£ (Increase) / Decrease
Cost of goods sold	152.7	–	***152.7***	33.8%	(1.2 ppts)	(7.5%)
Store wages	87.7	–	***87.7***	19.4%	(0.9 ppts)	(8.5%)
Store property costs	70.3	(43.8)	***26.5***	5.9%	0.1 ppts	(1.1%)
Other direct expenses	22.9	–	***22.9***	5.1%	(0.2 ppts)	(7.5%)
Underlying cost of sales	333.6	(43.8)	289.8	64.2%	(2.2 ppts)	(7.2%)
Operating expenses*	36.7	(0.9)	***35.8***	7.9%	(0.3 ppts)	(8.8%)
Depreciation & amortisation	11.0	39.3	***50.3***	11.1%	(0.1 ppts)	(4.6%)
Total operating expenses	47.7	38.4	86.1	19.0%	22.9	(6.3%)

FY19 Underlying	FY19 Adjusted £'m	FY19 IFRS16 £'m	FY19 £'m	FY19 % of revenue
Cost of goods sold	142.1	-	***142.1***	32.6%
Store wages	80.8	–	***80.8***	18.5%
Store property costs	68.3	(42.1)	***26.2***	6.0%
Other direct expenses	21.3	–	***21.3***	4.9%
Underlying cost of sales	312.5	(42.1)	270.4	62.0%
Operating expenses*	34.1	(1.2)	***32.9***	7.6%
Depreciation & amortisation	10.9	37.2	***48.1***	11.0%
Total operating expenses	45.0	36.0	81.0	18.6%

* excluding depreciation and amortisation

The overall ratio of cost of sales to revenue increased to 64.2% on an underlying basis (FY19: 62.0%). This increase was driven by the following movements in sub-categories and by the decline in LFL performance:

- ***Underlying cost of goods sold ('COGS'):*** principally comprises cost of raw materials, production costs, finished goods purchased from third party suppliers, import duty, freight costs, carriage costs and warehouse wages. Product sourcing and manufacturing improvements (both annualised from FY19 and new in FY20) helped improve both card and non-card constant currency product COGS by 0.3ppts. However, the shift in product mix from card to non-card, an increase in the core retail stock provision and, to a lesser extent, the effect of our lower product margin retail partnerships, resulted in an increase in overall constant currency product COGS by 1.2 ppts. The effective sterling-US dollar exchange rate for FY20 was c.$1.35 which is comparable both with FY19 and the anticipated effective P&L rate for FY21; however, the latter remains subject to any significant shift in the value of sterling and the impact of Covid-19 on hedged cash flows.
- ***Store wages:*** includes wages and salaries (including bonuses) for store-based staff, together with national insurance contributions, apprenticeship levy, pension contributions, and overtime, holiday and sick pay. As reported in the interim results, this cost increased, as expected, as new stores were opened in the UK and Republic of Ireland, pension costs grew and pay increases were awarded, including those influenced by National Living Wage. However, this headwind was mitigated, in part, by improved management of store hours and the successful delivery of planned in-store task reduction initiatives in H2.

Chief Financial Officer's Review *continued*

- ***Store property costs:*** Under IFRS 16 Leases, store rents are no longer included within cost of sales, leaving only business rates and service charges. The pre-IFRS 16 Leases total increased in absolute terms as new stores were opened, but the ratio to revenue was maintained at FY19 levels. We continue to target improvements in our overall rent roll as we reach break points or expiries on existing leases but, given Covid-19, we are not able to guide on the likely change in FY21. However, we can confirm that Card Factory will benefit from the UK Government's decision to provide business rates relief to retailers for the 2020-21 tax year.
- ***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 slightly by 0.2 ppts – as it had at the half year – largely due to the additional cost of holding increased stock levels (for Brexit contingency planning, investment in new lines and the acceleration of seasonal buying) for a prolonged period, with smaller increases linked to increasing debit/credit card payment mix and increased merchant fees thereon, and online marketing costs in Getting Personal. The overall increase in costs described above was mitigated in part by c.£1.3m of business efficiencies covering a range of cost categories, including waste disposal, cash collection and a reduction in new store opening costs.
- ***Underlying operating expenses:*** includes items such as support centre remuneration, the cost of store estate Regional and Area Managers, design studio costs and business insurance, together with other central overheads and administration costs. The Group invested further in its IT infrastructure in FY20 and in training and the other enabling costs associated with delivering the business efficiency savings outlined above. In addition, infrastructure costs, necessary to support growth, were added to both the Online and Retail Partnerships divisions. Total operating expenses (excluding depreciation and amortisation) increased by 8.8% (FY19: 9.6%) to £35.8m, representing an increase from 7.6% to 7.9% as a percentage of revenue.

Depreciation and amortisation, which now includes depreciation and impairment of right-of-use property lease assets under IFRS 16 Leases, grew by 4.6% - broadly in line with net new store openings – to £50.3m (FY19: £48.1m).

Underlying EBITDA

	FY20 Adjusted £'m	FY20 IFRS16 £'m	FY20 £'m	FY19 Adjusted £'m	FY19 IFRS16 £'m	FY19 £'m	(Increase) / Decrease
Underlying EBITDA	81.2	44.7	125.9	89.4	43.3	132.7	(5.1%)
Underlying EBITDA margin	18.0%		27.9%	20.5%		30.4%	(2.5 ppts)

The reduction in Underlying EBITDA reflects, in particular, Card Factory store like-for-like sales performance, the impact of one-off costs of £4.4m, from higher storage costs and stock provision increases due to increased stock holding in preparation for Brexit. Stockholdings returned to normal levels by the end of the period. Other ongoing increased costs relate to National Living Wage cost increases, investment in IT support (of EPOS in the main), increasing debit/credit card usage costs, investment in strengthening our competitive position in the online channel, growing our retail partnerships channel and maintaining our low price points. As described above, the business was able to mitigate in part a significant proportion of these cost increases through the removal of unnecessary, non-customer facing store wage costs and the delivery of various other operating cost savings.

The business is likely to continue to face increasing National Living Wage costs amongst other cost pressures. In addition, the full impact of Covid-19 on the short to medium term performance of the business is unclear. However, the business is operating close controls over its cost base and liquidity in order that it emerges from this crisis on a strong footing.

Underlying net financing expense

Excluding interest charges pertaining to IFRS 16 Leases, net financing expense, excluding non-underlying items, increased to £4.4m (FY19: £3.9m), due to the average effective interest rate being 0.23 ppts higher than in FY19. Including IFRS 16 Leases interest charges, the underlying net financing expense remained at £8.4m (FY19: £8.4m).

All Underlying	FY20 Adjusted £'m	FY20 IFRS16 £'m	FY20 £'m	FY19 Adjusted £'m	FY19 IFRS16 £'m	FY19 £'m	(Increase) / Decrease
Finance expense							
Interest on loans	4.0	–	4.0	3.5	–	3.5	(14.3%)
Loan issue cost amortisation	0.3	–	0.3	0.2	–	0.2	(50.0%)
Loss on interest rate derivatives	0.1	–	0.1	0.2	–	0.2	50.0%
IFRS 16 Leases interest	–	4.0	4.0	–	4.5	4.5	11.1%
Total finance	***4.4***	***4.0***	***8.4***	***3.9***	***4.5***	***8.4***	***–***
Expense							
Net finance expense	***4.4***	***4.0***	***8.4***	***3.9***	***4.5***	***8.4***	***–***

Profit before tax and non-underlying items

Underlying profit before tax for the financial year amounted to £67.2m (FY19: £76.2m), a decrease of 11.8%, whilst, overall profit before tax for the financial year amounted to £65.2m (FY19: £68.2m).

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

All Underlying	FY20 Adjusted £'m	FY20 IFRS16 £'m	FY20 £'m	FY19 Adjusted £'m	FY19 IFRS16 £'m	FY19 £'m	(Increase) / Decrease
Underlying profit before tax	65.8	1.4	67.2	74.6	1.6	76.2	(11.8%)
Non-underlying items:							
Cost of sales							
Loss on foreign currency derivative financial instruments not designated as a hedge	0.5	–	0.5	4.2	–	4.2	(88.1%)
Operating expenses							
Impairment of goodwill (note 11)	(2.5)	–	(2.5)	(11.9)	–	(11.9)	(79.0%)
Net finance expense							
Refinanced debt issue cost amortisation	–	–	–	(0.3)	–	(0.3)	(100.0%)
Profit before tax	***63.8***	***1.4***	***65.2***	***66.6***	***1.6***	***68.2***	***(4.4%)***

Further detail on the other non-underlying reconciling items is set out in notes 1 and 3.

Tax

The tax charge for the year fell to 20.8% of profit before tax (FY19: 22.8%). The underlying tax charge fell slightly to 19.2% of profit before tax (FY19: 19.4%).

Earnings per share

Basic and diluted underlying earnings per share for the year were 15.7p (FY19: 18.0p), a decrease of 12.8%. After the non-underlying items described above, basic and diluted earnings per share for the year were 15.1p (FY19: 15.4p), a decrease of 1.9%.

All Underlying	FY20 Adjusted £'m	FY20 IFRS16 £'m	FY20 £'m	FY19 Adjusted £'m	FY19 IFRS16 £'m	FY19 £'m	(Increase) / Decrease
Underlying Basic EPS	15.4p	0.3p	15.7p	17.6p	0.4p	18.0p	(12.8%)
Basic EPS	14.8p	0.3p	15.1p	15.0p	0.4p	15.4p	(1.9%)

Capital expenditure

Capital expenditure excluding IFRS 16 Leases right of use assets, amounted to £14.5m (FY19: £12.3m), comprising: strategic investments of £7.7m, principally in relation to the new cardfactory.co.uk platform and the business's vertically integrated supply chain, including manufacturing capability and warehouse voice picking technology. Total capital expenditure, including right of use assets, amounted to £50.9m (FY19: £54.3m).

The Board anticipates capital expenditure in FY21 to be significantly lower than recent years as it places stringent controls upon cash out flows in response to Covid-19 and postpones a large proportion of its FY21 new store roll-out and relocation programme. However, the business still plans to invest in certain key strategic projects, including: further investment in voice picking in the new consolidated warehouse facility, completion of the cardfactory.co.uk platform roll-out, and various process improvement investments that benefit from relatively short pay back periods.

Chief Financial Officer's Review *continued*

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 risk management, even if cash flow hedge accounting may not be permitted in some instances.

As at the year-end, we had cover in place for approximately two years' full trading. The anticipated effective P&L rates for both FY21 and FY22 are c.$1.35 (FY20: c.$1.35), although this remains subject to any significant shift in the value of Sterling, which could impact the structured trades that form part of the hedging portfolio, and the impact of Covid-19 on hedged cash flows. Structured trades represent approximately 40% of hedges that are yet to mature.

In response to the Covid-19 pandemic the Group has greatly reduced inventory purchases and will swap forward, or consider other amendments to trades, in order to defer currency contract maturities.

Cash generation

In the year, the Group remained highly cash generative, driven by its strong operating margins, limited working capital absorption and relatively low ongoing capital expenditure requirements.

Cash conversion, calculated as Underlying adjusted EBITDA less capex and underlying working capital movements divided by Underlying EBITDA, fell to 80.0% (FY19: 96.5%). This decline reflects a short-term favourable working capital timing difference as at 31 January 2019 that reversed in the reporting period.

Net debt & covenants

As at 31 January 2020, net debt (including debt issue costs of £1.0m) amounted to £289.0m, analysed as follows:

	FY20 Net Debt £'m	FY20 Leverage Multiple	FY19 Net Debt £'m	FY19 Leverage Multiple
Borrowings				
Current liabilities	3.6		0.1	
Non-current liabilities	144.0		143.7	
Total borrowings	147.6		143.8	
Lease liabilities	145.9		151.2	
Capitalised debt costs	1.0		1.3	
Gross debt	294.5		296.3	
Less cash	(5.5)		(3.8)	
Net Debt	**289.0**		**292.5**	
Leverage		**2.30x**		**2.20x**
Remove lease liabilities	(145.9)		(151.2)	
Adjusted net debt	**143.1**		**141.3**	
Adjusted Leverage		**1.76x**		**1.58x**

Net debt at the year-end represented 2.30 times Underlying EBITDA (FY19: 2.20 times), with Adjusted net debt representing 1.76x Underlying EBITDA (FY19: 1.58x).

The Group has entered into a revised agreement with its banking partners. This will enable it to utilise not only the full Revolving Credit Facility of £200m but also to utilise secured funding from the Bank of England Covid Corporate Financing Facility ('CCFF'), up to a combined net debt limit of £275m at its peak. As part of this agreement, the Group's existing covenant requirements will lapse and be replaced by three new covenant tests relating to total net debt; cash burn; and last twelve months EBITDA. These tests will be applied monthly until June 2021, after which it is envisaged that the business will have a phased return back to existing six-monthly covenant tests of EBITDA to net debt and EBITDA to interest cover.

Until the business returns to existing covenant tests - which is currently envisaged as commencing July 2021 - Adjusted Leverage is less than 2.0x (i.e. pre-IFRS 16) and it has no outstanding commercial papers issued under the CCFF, there will be a prohibition of any payment to shareholders by way of dividend or share buy-back, with the same tests applying to acquisitions. Furthermore, the Group must use best efforts to raise equity if leverage is above 3.0x before the later of January 2021 or 3 months before the redemption of the final commercial paper issuance.

Dividends and capital structure

Dividends

Historically, 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. Following the outbreak of the Covid-19 pandemic, the Board decided not to declare a final ordinary dividend for the year ended 31 January 2020. Our dividend policy remains unchanged over the medium term, and we will regularly review the most appropriate actions to take in the shorter term; however, currently we do not expect to pay any dividends in relation to FY21.

Total dividends for FY19 and FY20 can be summarised as follows:

	FY20	FY19 Restated
Interim dividend paid	2.9p	2.9p
Final dividend	–	6.4p
Total ordinary dividend	2.9p	9.3p
Ordinary dividend cover	5.11x	1.89x
Special dividend paid	5.0p	5.0p
Total dividend	7.9p	14.3p

Capital structure

The Board is focused on maintaining a capital structure that is conservative yet efficient in terms of providing long-term returns to shareholders. Over the medium term, the Board expects to maintain leverage broadly in the range of 1.0 to 2.0 times Adjusted net debt to Adjusted Underlying EBITDA, excluding the impact of IFRS 16. However, due to the impact of Covid-19, the Board expects that leverage will peak above this range in FY21, which will impact the distribution of cash to shareholders, as reflected above. 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.

On 1 May 2020, Card Factory received confirmation that it can access funding under the Covid Corporate Financing Facility. HM Treasury and the Bank of England have confirmed that the CCFF will be operated "for at least 12 months and for as long as steps are needed to relieve cash flow pressures on firms that make a material contribution to the UK economy". The Board will consider various options to ensure the key stakeholders of the business are protected as much as possible in these uncertain times and will look to provide a further update as the longer term impact of Covid-19 becomes clearer.

Kristian Lee
Chief Financial Officer
2 June 2020

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 identifying emerging risks and 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 enabling the Group to achieve its strategic and operational objectives and facilitating the long-term sustainable 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 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 pages 55 and 56.

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

Risk	Description	Mitigation
Covid-19 **Since 2019** **Risk** NEW **Link** 01 02 03 04	The Covid-19 pandemic has resulted in the prolonged closure of our entire store estate with impact on our stakeholders and on sales. It may result, at least in the short term, in fundamental changes in the way we operate, to prevent further spread or a second wave of the disease. At the time of writing this report, the timing of reopening stores and the trading performance following reopening is uncertain, as customer behaviours change and social distancing could reduce footfall. It is possible that a second peak of infections could result in a further period of store closures, extending the period of significantly reduced turnover. In the longer-term consumer confidence and shopping habits may be affected which may significantly impact our business if this results in lower high-street footfall.	• Our Covid-19 Emergency Response Team has managed the impact of the pandemic across the Group with input from all business functions with detailed plans to reopen stores whilst prioritising safety of colleagues and customers. • The Board have received regular updates from the Chief Executive Officer (CEO) and CFO and provided support in managing the crisis. • Secured access all relevant Government support schemes including access to Covid Corporate Financing Facility. • Furloughed over 90% of our colleagues from across the Group (including all retail colleagues). • Expanded the scope of our online offering in anticipation of launching our new platform. • Review of 5 year strategic plan being undertaken to account for Covid-19 impacts.
Finance and treasury **Since 2019** **Risk** ↑ **Link** 01 02 04	Cash management has become critical for the Group since trading from retail stores ceased in March 2020 due to the Covid-19 pandemic. Group finance arrangements and a reliance on overseas suppliers mean that: a lack of appropriate levels of covenant headroom and/or cash resources; interest or exchange rate fluctuation, or inadequate cost control could impact operations and performance. The Chief Finance Officer's (CFO) Review from page 24 reports on action taken to address liquidity issues arising from Covid-19 and details the Group exposure to exchange rate fluctuation.	• Agreement secured with a large proportion of suppliers and landlords to revised terms (including order and payment deferral to preserve liquidity). • Access to Covid Corporate Finance Facility and revised terms agreed with banking syndicate to provide access to additional debt funding, if required. • Cost accountability and tracking in place. • Adequacy of current financing, hedging and cash flow for operations monitored by CFO including ongoing impact of Brexit-related volatility. • Treasury strategy effectiveness monitored by CFO and Board. • Comprehensive review of financial controls manual in progress. • Further details of the Group's financial position are in CFO's Review on pages 24 to 29 and the Group's viability statement from page 90 of the Directors' Report.

Risk	Description	Mitigation
Our market *Since 2019* *Risk* Stable *Link* 03	Group generates most revenue from cards, dressings, balloons and gifts. Customers, trends and tastes can change quickly. It's essential predict and respond to these challenges and to declining high-street footfall.	• Strategy underpinned by customer and market analysis. • Data-led commercial and studio teams drive quality, value and innovation. • New platform for cardfactory.co.uk to drive more sales online and capture channel shift. • Restructured commercial team. • Well-invested manufacturing facility driving flexibility to react to market and underpinning strategic partnerships with Aldi and The Reject Store.
Increasing competition *Since 2019* *Risk* Stable *Link* 01 02 04	Competition remains fierce, particularly during key seasonal card-buying occasions. Range depth, quality and value remain key differentiators. Competitor groups, including supermarkets, enjoy strong brand recognition, flexible retail space, purchasing power, more mature multi-channel capability and pricing flexibility.	• Comprehensive strategic review, led by Strategy and Insight Director, including current competitive landscape. • Vertical integration and brand strength have driven strategic partnerships with Aldi and The Reject Store in Australia. • Innovation, in both design and manufacturing, driving differentiation in our offer and underpinning competitiveness. • Partnerships and concessions established to increase share from the convenience consumer by making our cards available in more locations. • Investment in new platform for cardfactory.co.uk to drive online channel. • Strategic trials conducted to address competitive challenges.
Protecting and promoting our brands *Since 2019* *Risk* Stable *Link* 01 02 04	Protecting and enhancing the 'Card Factory' brand underpins our reputation. Sustaining and growing our appeal is critical to our long-term sustainability.	• Invested in marketing and PR to drive brand awareness. • Strategic review covered brand perception. • Rigorous protection of intellectual property and guidance provided to our teams. • Continued investment in colleague development underpinning 'customer first' approach. • Comprehensive store review process to identify improvement opportunities. • Operating 'no audit no order' policy for all suppliers.
Evolving our strategy *Since 2019* *Risk* Stable *Link* 01 02 03 04	Evolving our strategy to reflect current market dynamics and customer shopping habits, including widespread high-street footfall decline, is critical to the long-term performance and sustainability of the business for the benefit of all key stakeholders.	• Comprehensive strategic review undertaken establishing the Group's objectives over the short, medium and longer term, facilitated by new Strategy and Insight Director. • Board and senior management engaged throughout the process and engaged on actions to implement the strategy. • Review considered all key stakeholder interests. • Key commercial elements successfully contracted with retail partners; The Reject Store in Australia and Aldi. • Focus on customer segmentation, addressing competitive challenges and growing our market share in cards. • Financial and personal bonus objectives aligned with strategic goals.

Risk trend: Increasing · Stable · Decreasing

Link to strategy: 01 LFL sales growth · 02 New store roll-out · 03 Business efficiencies · 04 Online

Principal Risks and Uncertainties
continued

Risk	Description	Mitigation
Developing our culture and leadership **Since 2019** **Risk** Increasing **Link** 03	Developing a culture, management cohesion and leadership behaviours that support the Group's strategic vision is critical to long-term sustainable success. The Group's most recent colleague engagement survey has highlighted clear development opportunities.	• Corporate purpose refined, sitting alongside established values. • Organisational and leadership review alongside strategy development. • Targeted functional plans addressing engagement survey feedback. • Designated Non-Executive Director appointed to attend newly created Combined Colleague Advisory Group (CCAG), created to provide Group-wide voice on culture and leadership.
Loss of key personnel **Since 2019** **Risk** Increasing **Link** 03	Retaining key colleagues remains challenging. Effective succession planning and ensuring we have the capacity, capability and organisational structure to implement our strategy are critical to the Group's long-term success.	• Organisational and leadership review alongside strategy development. • Nomination Committee now overseeing succession planning across senior management. • New Chief Commercial Officer, Chief Information Officer (CIO), People Director and General Counsel recruited. Strategy and Insight Director role created. • Group's remuneration policy aligns incentives with strategic goals.
Managing change **Since 2019** **Risk** Stable **Link** 01 02 03 04	Group continues to pursue significant technology-focused change programmes underpinning our strategic ambitions, enabling greater efficiency and growth. 'Business as usual' activities could be compromised if ambition outweighs current capacity to manage change.	• New Programme Management Office established and accountable for change-management governance. • Significant additional investment in, and restructuring of, the leadership team with wider and clearer accountabilities. • Board and senior management committed significant time to strategic development. • Board receive programme updates to enable, support and challenge. • Organisational and leadership review alongside strategy development.
Information technology **Since 2019** **Risk** Increasing **Link** 01 02 03 04	Our IT infrastructure needs further investment and development to ensure it is resilient, secure and supports the strategic ambitions and business transformation agenda of the Group, in addition to maintaining our day-to-day operations. This is critical to our future success.	• New Group Chief Information Officer appointed. Accountable for IT and transformation. • Chief Information Officer undertaking a comprehensive review of infrastructure and team. • IT strategy development to ensure infrastructure supports both strategic objectives and core operations. • Group programme management office to support project governance, delivery and benefits realisation. • IT governance process embedded. • Continuing infrastructure investment supporting resilience and security. • ERP tender commenced and new platform for cardfactory.co.uk going live in 2020.

Risk trend: Increasing Stable Decreasing

Link to strategy: 01 LFL sales growth 02 New store roll-out 03 Business efficiencies 04 Online

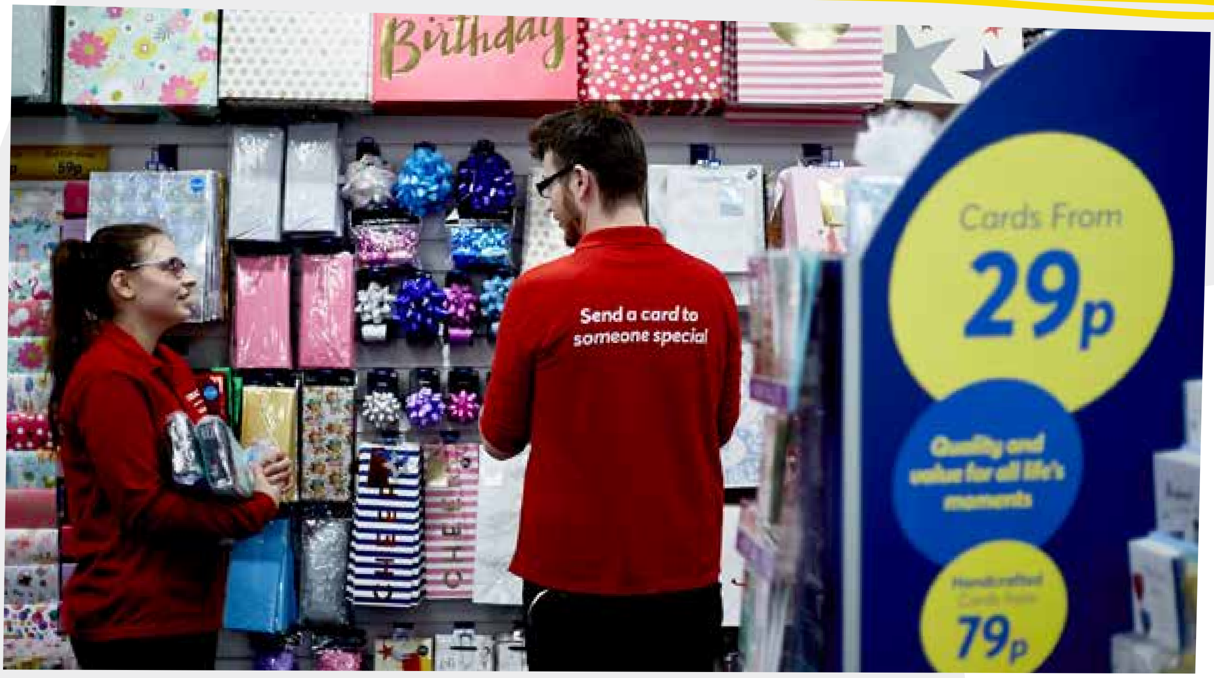
Risk	Description	Mitigation
ERP implementation *Since 2019* Risk NEW Link 01 02 03 04	The Group is due to implement a new ERP (Enterprise Resource Planning) solution. This significant project involves changing the core IT infrastructure on which the Group operates, to facilitate efficiencies, and provide a platform future growth. However, ensuring appropriate design of any ERP system, and implementation of business change to realise the benefits of it require proper execution. There are inherent risks of business disruption, data loss or delays in any ERP implementation.	• Established, proven suppliers are being assessed in response to the request for proposal. • Detailed assessment and planning is being undertaken to ensure suitability of the ERP solution. • Implementation on a module-by-module basis, only following appropriate testing, is expected to reduce extent of business disruption should material challenge arise.
Managing our supply chain *Since 2019* Risk ↑ Link 03	Heavily reliant on overseas suppliers, for complementary categories, products and handcrafted greeting cards. There is a risk they may not be able to satisfy orders and we are exposed to increases in raw material prices, freight costs and duty, as well as supply interruption and reputational risk arising from supplier labour practices. The Covid-19 outbreak initially caused delay to manufacturing output in China and to the delivery of finished products but its development into a global pandemic and the lockdown measures in the UK could result in us carrying excess stock as a result of committed orders and a lack of store-generated sales.	• Area of focus for our new Chief Commercial Officer, with further investment in strategic supply chain resource. • Maintain strong, category-led relationships with key suppliers. • Focus on diversifying supplier base, reducing risk and increasing flexibility. • Investment in manufacturing technology and R&D to 'on shore' greeting cards. • Compulsory for supplier to agree to our standard terms before any orders are placed. • 'No audit no order' policy implemented. Mandatory ethical and technical audits. • Formally assessed impact of changes in tariffs and stock requirements in light of Brexit. • Our Covid-19 Emergency Response Team has led an impact assessment for Covid-19 across the Group with input from all business functions. • We are working closely with our product suppliers to manage both our purchasing requirements and our payment terms.
Brexit *Since 2019* Risk NEW Link 01 04	The terms of trade deals that the UK Government may secure on expiry of the transitional period for the UK's exit from the European Union remain uncertain and the economic consequences from Brexit remain unclear. The business uncertainty arising from Brexit may impact on foreign exchange rates, potentially increasing the cost of supplies or reducing the sterling value of sales denominated in other currencies. Imported supplies and shipments to overseas partners and stores may be subject to tariffs and delays at port.	• Foreign exchange hedging adopted by the Group mitigates foreign exchange variance that may arise from Brexit in the short term. • A large proportion of the Group's product is produced by the Group in the UK. • The Group's business model and market position support its ability to withstand reductions in disposable income of consumers arising from economic impact from Brexit.
Sustainability *Since 2019* Risk NEW Link 01	The future success of Card Factory relies on progressive adoption of sustainable solutions to support the environment and long-term growth. Procuring sustainably sourced materials, and development of recyclable products, whilst reducing our carbon footprint are business priorities, recognising that failure to do so is likely to create adverse publicity and could limit growth.	• Demonstrable progress in reduction of carbon footprint. • Compliance with EU Timber Regulations and adoption of equivalent due diligence for card product sold by the business. • Production uses FSC certified materials with active engagement with suppliers to meet these standards. • Simple supply chain model adopted which facilitates due diligence on compliance purposes.

Principal Risks and Uncertainties *continued*

Risk	Description	Mitigation
Business continuity **Since 2019** **Risk** Stable **Link** 01 02 03 04	Major disruption to our business, but particularly our manufacturing and online fulfilment facility, Printcraft, our distribution centre or our design studio, could severely affect our performance and profitability.	• Group crisis management plan in place and used to manage response to the Covid-19 outbreak. • New warehousing capacity acquired providing additional resilience. • Online fulfilment model under review. • Consistent infrastructure for Group-wide IT back-ups. Enhancements planned for FY21. • Printcraft disaster recovery being further developed in FY21.
Compliance **Since 2019** **Risk** Stable **Link** 01 02 03 04	Compliance requirements continue to grow with the new UK Corporate Governance Code, Modern Slavery, GDPR, National Living and Minimum Wage all requiring operational focus and action. Compliance is time-intensive and costly with sanctions becoming more punitive.	• General Counsel and Company Secretary oversee compliance, with support from external advisers and collaboration from senior management. • Key legislation trackers in place, with 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. • Policies and procedures governing behaviours in all key areas.
E-commerce development **Since 2019** **Risk** Stable **Link** 04	The Group's websites are important sales channels supporting our strategic ambitions. Developing our e-commerce model, including the introduction of 'click and collect' and a mobile app, is critical to meeting evolving customer expectations and shopping preferences and to taking market share in these channels.	• Investment in new platform for cardfactory.co.uk to go live this year. • Dedicated online team within our design studio. • Expanded and refreshed product ranges with third-party card designs. • Invested in PR and marketing initiatives to drive traffic and sales. • In-store 'on-demand' and 'click and collect' to be piloted in 2020.

Risk trend: Increasing Stable Decreasing

Link to strategy: 01 LFL sales growth 02 New store roll-out 03 Business efficiencies 04 Online


Birthday
Send a card to someone special
Cards From
29p
Quality and value for all life's moments
79p


value for all life's moments
79p
4th

Our Stakeholders

Proactive and effective engagement

Section 172(1) Statement - Engaging with our stakeholders

Engaging with our stakeholders is of vital importance to the Group and ensures that our stakeholders' interests are taken into account during the Board's decision-making process. This engagement is also supportive of a Director's duty under Section 172 of the Companies Act 2006.

During the year, the Board, both generally and as part of the Board evaluation exercise, reviewed its current approach to corporate governance, particularly in light of changes to the UK Corporate Governance Code published in September 2018 by the Financial Reporting Council ('the UK Corporate Governance Code' or 'the Code'). This included consideration of how we currently engage with our key stakeholders and ensure their interests are represented when making key decisions affecting the long term success of the Group. Through the Board evaluation exercise, the Board identified this as an area of focus for the current year and committed to regularly reviewing the Group's stakeholder groups, ensuring our decision making and performance measurement processes take their interests into consideration in a balanced way.

The table opposite details the interests of our key stakeholders and our engagement during the year.

Shareholders

We engage with our shareholders on a regular basis, welcoming feedback to ensure that our long-term strategy is aligned with their interests. We aim to articulate our messages clearly in a way that is easy for all our shareholders to access and understand.

We provide updates on financial performance through our regular reporting, the annual general meeting (AGM), the investor pages on cardfactoryinvestors.com and our investor roadshows, where our Chief Executive and Chief Financial Officer meet with our shareholders and attend ad hoc investor calls and meetings.

We have regard for our shareholders' feedback during our regular Board meetings and calls, ensuring their voice is considered during the Board's decision-making processes. Members of the Board, and particularly our Chairman, have also made themselves available to meet with shareholders during the year.

Our next AGM will take place on 30 July 2020 at the Company's registered office, Century House, Brunel Road, Wakefield 41 Industrial Estate, Wakefield, WF2 0XG at 11.00am. Ordinarily the Board would welcome the attendance and questions of our Shareholders at the AGM, however under recent government guidelines concerning Covid-19 and in order to protect the safety and wellbeing of our shareholders and the Board, there are likely to be restrictions on attendance at our AGM. We therefore encourage all our shareholders to vote by proxy on all of the resolutions proposed. We intend to provide a mechanism for shareholders to submit questions ahead of the AGM and will provide shareholders the opportunity to engage with the Board in person later in the year, when current restrictions will have hopefully been lifted.

Customers

We actively listen to our customers, and to card shoppers who do not yet choose to buy from Card Factory, through our market research programme. This allows us to understand and quantify shoppers' opinions and values, to actively improve the proposition to meet their needs, and to rigorously measure our performance in delivering the leading customer experience. Our Strategy and Insight Director regularly communicates with the Board, enabling the Board to ensure our brand is accessible and our product offering meets our customer expectations and our Group's mission.

The development of a bespoke customer segmentation, which management believes to be market-leading, has been central to the evolution of the Group's strategy during the current year. This allows us to understand and address the interests of different groups of customers, increasing the likelihood that we can satisfy as many customers as possible. The Board has been fully engaged in this project.

Regular engagement with our customers through our social media platforms, such as Instagram and Facebook, enables the business to gather regular opinions and feedback from our customers, share real-time information and create targeted marketing campaigns.

Customer service performance is regularly reported to the Board by our Customer and Multi-Channel Director ensuring that the Board can have regard to our customers' interests and align these with our strategy.

More detail about how we manage our relationship with our Customers *can be found on page 38*

Colleagues

Our annual, Group-wide, engagement survey and our well-established colleague communication channels mean we can engage with our colleagues to shape and influence our strategic considerations surrounding our culture, our working environment, our infrastructure and our commitment to our colleagues' career development.

The results of our engagement survey, in particular, help the Board understand the Group's culture. Targeted action plans have been created for each business function, ensuring there is a continuing commitment to improving colleague engagement and fulfilment in their career as central strands of our people strategy.

In addition, we appointed Paul McCrudden, as our designated Non-Executive Director, to engage with the our colleagues through our recently formed Combined Colleague Advisory Group (CCAG) ensuring that our colleagues' voices are heard by our Board and enabling the Board to have regard for our colleagues' interests during their decision-making. Paul will attend CCAG meetings held throughout the year and report back to the Board.

More generally, the Board regularly engages with members of the Group's senior management, very often on store visits, which also provide the opportunity to speak directly with frontline retail colleagues.

More detail about how we engage with our Colleagues
can be found on page 39

Suppliers

We understand the importance of fostering our relationships with our suppliers and engage constructively to set fair and clear expectations, which strengthens the transparency of our supply chain and actively promotes our environmental objectives.

We listen to our suppliers through our dedicated relationship managers, welcoming an open dialogue to challenge and raise any concerns.

We regularly visit our suppliers in the Far East and, during the last year, undertook our first Supplier Viewpoint survey with our top 20 suppliers, using their feedback to improve our supplier relationship management. As part of our commitment to continuously evolve how we engage with our suppliers, we will conduct this survey annually.

Our Chief Commercial Officer is responsible for ensuring we develop mutually beneficial long-term relationships with our key product suppliers and monitors and responds to our suppliers' concerns to balance the commercial position, taking full account of our community and the environment within which we operate.

More detail about our supplier programme
can be found on pages 40 and 41

Corporate Social Responsibility Report

Our Responsible Business

We are committed to providing quality and value to our customers.

In achieving this we recognise and understand the importance of engaging with all of our stakeholders and actively demonstrating that we take our corporate responsibility seriously.

Operating responsibly is embedded within our culture and our stakeholders' interests are at the forefront of the decisions we make; focusing on the following key areas:

- Our Customers
- Our Colleagues
- Our Suppliers
- Our Environment
- Our Charities

Customers

Operating through our network of 1009 stores in the United Kingdom and 13 in the Republic of Ireland we continue to focus on how we can provide our great quality products and services whilst maintaining the value to our customers.

As the UK's leading specialist greeting card retailer we continue to maintain our Feefo Gold Service award for our online service. We continue to be ranked as the #1 brand in retail for 'value for money' by shoppers, as published by OC&C Strategy Consultants; maintaining this position for the fifth consecutive year.

We continue to make our brand more accessible to customers; our products are now available in 496 Aldi stores and 15 Matalan stores throughout the United Kingdom and 355 branded concessions within The Reject Shop in Australia. We continue to showcase our brand and products through our digital channels and social media platforms, sharing our customers' celebrations of their life occasions.

During the year we installed helium points at our tills and consolidated our party offering with our balloon kiosks to improve the customer experience in our stores.

We continue to listen to our customers to advance our product, service and brand proposition and we remain committed to deliver our multi-channel offering. Looking ahead, we plan to roll-out our refreshed online platform making it easier for our customers to shop when they want, where they want.

Think Big, Work Together, Make a Real Difference

Colleagues

Employing more than 9,400 colleagues across the Group, we understand the importance of recruiting and retaining the best people with a wide range of talents, skills and experience.

We continue to increase the retention rate among store managers following our commitment to developing a strong talent pipeline of store managers. We remain committed to investing in our colleagues' development through our retail store aCardemy programme, apprenticeships and our high potential management and leadership programmes.

During the year we:

- transformed our careers website and onboarding process in both our retail sector and support centre, to ensure our colleagues are given the best start when they join the business;
- simplified our internal processes for colleagues by automating their pay slips and enabling them to manage their holidays electronically via our new HR platform;
- continued the roll out of benefits and savings through our MyCardFactory savings platform; and
- instigated recruitment drives via social media platforms to attract new talent from a broader spectrum.

We acknowledge the mental health and wellbeing challenges our colleagues face and in response have trained 15 mental health first aiders across the business to proactively help our colleagues.

We maintained our engagement and feedback channels with our colleagues through our annual 'Be Heard' survey which all colleagues across the Group are encouraged to participate in. Our 'Weekly Roundup' bulletin informs our colleagues of everything from new starters, 'Green Team' updates, social news, charity events and operational information. Our colleagues also continue to communicate directly with our CEO, Karen Hubbard, through our 'Tell Karen' initiative.

We understand the importance of communicating our plan with our colleagues and significantly increased the number of them who attended our 'Engage' conference, where we cascaded the plan and performance measures for the year to over 1,150 colleagues, with everyone receiving a digest of the cascaded messages.

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 year, the percentage breakdown of male and female colleagues across the Group was as follows:

	% Male		% Female	
	FY20	FY19	FY20	FY19
Board	71	71	29	29
Senior management team	82	71	18	29
All employees	19	19	81	81

Looking ahead, our People Strategy focuses on strengthening organisational capability, building a strong people infrastructure and supporting a performance culture.

Corporate Social Responsibility Report *continued*

Health & safety is of paramount importance

Health and Safety

The health and safety of all our colleagues, 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 are operated without significant risk. Health and safety is incorporated into our day-to-day practices, including colleague induction, and 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, the Central Operations Director is accountable for health and safety on a day-to-day basis supported by the compliance and safety team. The team liaise with line managers across the business to ensure compliance with our policies and procedures and ensure that all colleagues receive appropriate training, 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.

Throughout the year accident and incident reporting has moved online, enabling the compliance and safety team to react quickly and take proactive steps to managing health and safety practices.

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

The business continues to support colleagues through NEBOSH (National Examination Board in Occupational Safety and Health) and has a 100% success rate.

Suppliers and manufacturing

The majority of cards sold in our stores are designed in our design studio and manufactured at our print facility, both 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.

The appointment of our Chief Commercial Officer has reinforced the scrutiny of our supplier practices and encouraged greater transparency over how our suppliers operate. All of our suppliers are required to comply with our compliance manual and we continue to strengthen our quality assurance and inspection operations, utilising third-party partners in the Far East to complement our own team.

Our supplier factory auditing programme reassures us that we are trading with suppliers that not only operate ethically, but produce good quality products that comply with all relevant laws and standards. We carry out audits using third-party specialists to ensure consistency in assessment.

We have a 'No Audit, No Order' policy and do not place orders with suppliers until they have successfully satisfied our onboarding process and we have received satisfactory technical and ethical audit results.

We remain committed to simplifying our supply chain

The ethical audits we commission use criteria SA8000, an auditable certification standard developed by Social Accountability International. The SA8000 standard is the most recognised social certification standard for factories and organisations worldwide and it encourages organisations to develop, maintain, and apply socially satisfactory practices in the supply chain. 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.

The technical audits we commission focus on a supplier's capacity to produce the number of goods we require safely and to all relevant standards.

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 remain committed to simplifying our supply chain, improving transparency and continuing to focus on reducing the number of trading companies we partner with. Our commitment has reduced the number of Far East trading companies from in excess of 100 partners to fewer than 12 partners and we remain committed to reduce these further.

We are continuing to develop our audit programme to ensure we have greater transparency over the overseas part of our supply chain, and 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.

We have been an established member of Sedex (Supplier ethical data exchange) since 2013. 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.

We publish our annual compliance statement in accordance with the Modern Slavery Act 2015. Copies of the statement are available on our transactional website (cardfactory.co.uk) and on our investor relations website (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.

Within 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 controls over the paper-based materials in our products sourced from the Far East, to ensure we replicate the level of due diligence undertaken in our own manufacturing facilities.

Our main trading subsidiary, Sportswift Limited (which trades as 'Card Factory'), and our UK manufacturing operation, Printcraft Limited, are both Forest Stewardship Council ('FSC') certified. This has assisted in providing a more robust and simplified supply chain, ensuring compliance as far as practicable, with EUTR. It also provides transparency of sourcing of paper-based materials with the aim of ensuring they are from sustainable sources. We are actively seeking to promote the use of the FSC certification mark on the products we manufacture, and continue to work with our key third-party suppliers to ensure that products on sale in our stores are manufactured using FSC-certified material.

Corporate Social Responsibility Report continued

We continue to focus on reducing our impact on the environment

Environment

We recognise our operations impact the environment, and will continue to focus on reducing our impact through the policies we adopt.

We have taken steps to reduce the level of single-use plastic bags used and continue to target a year-on-year reduction in the use of such bags through supporting the sale of reusable bags. We continue to focus on our ultimate goal of removing single-use plastic bags from our estate entirely.

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 emissions and costs. We are proud that the majority of our cards are not wrapped in packaging. Our 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 created by our products.

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.

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

In our day-to-day operations we 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 which 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.

Following education and training given to our colleagues, we have successfully reduced the number of waste collections from our stores. This has reduced our carbon footprint and positively impacted on our waste management cost.

Our support centre, store network, design studio and distribution centre have the facility to recycle paper, cardboard and plastic-based materials 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. Our distribution centre in Wakefield bails all plastic and cardboard materials on site, in readiness for recycling.

We recognise the need to become more sustainable and in August 2019 'The Green Team' initiative was established within our support centre and design studio, to explore ways of improving the business's impact on the environment and enable our colleagues to become 'greener' in their day-to-day activities. The Green Team have removed individual desk waste bins and replaced them with food and recycling stations, and removed single-use plastic from our vending machines. By raising awareness we have significantly reduced the amount of paper used (and consequently the number of trees felled) in the support centre each week and aim to reduce this further.

Looking ahead, we plan to roll out 'The Green Team' initiative throughout our distribution centre and our store network.

We have continued to focus on monitoring electricity usage

Energy

Electricity is the main form of energy we consume and we analyse consumption across our entire estate, including our distribution centre, 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 (Energy Savings Opportunity Scheme) and we concluded the second round of ESOS in December 2019.

Operationally, we have continued to focus on monitoring electricity usage. We continue to utilise the energy usage data we receive to support our store colleagues in reducing energy waste and consumption. During the year, we rolled out an e-learning module to all stores demonstrating the importance of energy conservation and the impact this has on the Group and the wider environment.

Looking ahead, we will continue to review our energy usage and perform energy audits to ensure the equipment we use or inherit is energy efficient.

Our entire store estate, distribution centre, support centre and design studio have LED lighting which saves energy and improves the lighting levels within the working environment. Our support centre and all of our new stores have energy-efficient equipment installed and we continue to explore new technology to further reduce our in-store energy consumption.

Fuel efficiency

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

During the year we replaced our commercial fleet, creating savings of up to 20% of current fuel consumption and reducing our carbon footprint by 22 tonnes of carbon dioxide equivalent each year.

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, a large proportion of our deliveries destined for the northern parts of the United Kingdom and Scotland are now 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 2020, in tonnes of carbon dioxide equivalent ('tCO_2e'), were:

Source	tCO_2e	%
Fuel combustion (stationary)	41.2	0.4
Fuel combustion (mobile)	995.9	10.5
Fugitive emissions (F-gas)	152.8	1.6
Purchased electricity	8,311.6	87.5
TOTAL	**9,501.5**	**100**

Annual comparison and emissions intensity

	tCO_2e 2019-20	2018-19	Reduction
Total emissions	9,501.5	11,861	19.9%
Emissions intensity*	21.0	27.2	22.6%

* 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.

Corporate Social Responsibility Report *continued*

CARD FACTORY FOUNDATION
SUPPORTING CAUSES CLOSE TO OUR HEARTS

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.

We continue to support our corporate charity partners but have been delighted to further extend our reach to regional charities close to the hearts of our colleagues in the communities they live and work. Local to the support centre and distribution centre, our relationship with Wakefield Hospice has been an important and rewarding relationship to both the trustees and our colleagues alike. We are proud to support our colleagues who have suffered live changing events where we can make a difference.

Chris Beck
Chairman, Card Factory Foundation

The Card Factory Foundation:

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 other beneficiaries to benefit the communities in which 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 £250,296 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.

Covid-19 fund

During the Covid-19 pandemic, the Foundation established a relief fund, in the form of grant payments of up to £250, for colleagues who were experiencing financial hardship during this time.

MACMILLAN CANCER SUPPORT

Card Factory is proud to have been supporting Macmillan Cancer Support since 2006. Colleagues and Card Factory customers 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 £604,784.32 for Macmillan, an incredible achievement, and we intend to continue this very successful partnership with Macmillan.

£6,484,618

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

A massive thank you from Macmillan to everyone at Card Factory for the incredible fundraising you continue to do. Since our partnership began in 2006, you have raised c.£6.5 million for people living with cancer! Your support is so invaluable.

Sharon Cottam
Partnership Manager, Macmillan Cancer Support

The Group also continued to support the British Heart Foundation, Alzheimer's Society, the NSPCC and Make-A-Wish Ireland through the sale of our charity Christmas Cards.

Alzheimer's Society would like to thank Card Factory and its customers on behalf of people affected by dementia. Dementia is the UK's biggest killer. Someone develops it every three minutes and there's currently no cure. Thanks to your support, Alzheimer's Society is facing dementia head on. Companies like yours help us find a cure, improve care and offer help and understanding to those who need it. Without your support none of this would be possible. Working together we know we will achieve our vision - a world without dementia.

Louise Ford
Commercial Trading Executive, Alzheimer's Society

This year Card Factory have donated £31,250 to the British Heart Foundation (BHF). With Card Factory's support the BHF can fund research into all heart and circulatory diseases so that one day we can beat the world's biggest killers.

Sarah Webb
Corporate Partnership Manager, British Heart Foundation

Thanks to the ongoing support from Card Factory we can be there for even more children when they need us the most, whether it be through Childline, our schools service or through our therapeutic services for children and their families struggling with abuse and neglect.

Tim Bradshaw
Regional Corporate Fundraising Manager, NSPCC

Make-A-Wish Ireland is delighted to work with Card Factory. Thank you so much to Card Factory and all their customers who support Make-A-Wish and help us grant approximately 200 wishes each year to seriously-ill children across Ireland, bringing hope, strength and happiness.

Marjut Ellis
Corporate Fundraising Officer, Make-A-Wish Ireland

Board of Directors

Paul Moody

Non-Executive Chairman

R N

Date of appointment:
19 October 2018

Current role:
Paul was appointed to the Board of Directors as our Non-Executive Chairman on 19 November 2018. Paul is Chair of the Nomination Committee and also a member of the Remuneration Committee.

Experience:
Paul has extensive retail experience having served 20 years at Britvic plc, including eight years as Chief Executive Officer. Paul is currently Chairman of 4imprint Group plc, having been appointed in February 2016. Paul has also been a Non-Executive Director of Pets at Home plc since March 2014 and is Chair of their Remuneration Committee. Prior to this, Paul was Chairman of Johnson Service Group plc between May 2014 and August 2018.

Octavia Morley

Senior Independent Non-Executive Director

AR R N

Date of appointment:
30 April 2014

Current role:
Octavia was appointed to the Board of Directors on 30 April 2014 as our Senior Independent Non-Executive Director.

Experience:
Octavia has extensive retail experience and significant experience of serving on boards of UK public companies. Prior to serving as a Non-Executive Director of John Menzies plc, Octavia was the Chief Executive of Oka Direct Limited and the Managing Director of Crew Clothing Co. Limited. Octavia also served as Chief Executive Officer and latterly as Chairman of LighterLife UK Limited. Octavia was the Commercial Director of Woolworths plc, the Managing Director of E-Commerce at Asda Stores Limited and the Buying and Merchandising Director at Laura Ashley plc.

Current external appointments:
Independent Non-Executive Director of Crest Nicholson Holdings plc, Chairman of The Spicers-Officeteam Group Limited, Non-Executive Director of Ascensos Limited and Non-Executive Director of Marston's plc.

Karen Hubbard

Chief Executive Officer

Date of appointment:
22 February 2016

Current role:
Karen was appointed to the Board of Directors on 22 February 2016 as our Chief Executive Officer.

Experience:
Prior to joining the Company, Karen served as Chief Operating Officer of the fast-growing multi-price value retailer B&M European Value Retail S.A.. Karen also held a number of senior roles at ASDA, latterly Executive Director of Property, Format Development and Multi-Channel and spent 14 years in BP's retail operations, initially in Australia before moving to the UK in 2004.

Kris Lee

Chief Financial Officer

Date of appointment:
3 July 2017

Current role:
Kris was appointed to the Board of Directors on 3 July 2017 as our Chief Financial Officer.

Experience:
Before joining the Company Kris served as Finance Director of the Edinburgh Woollen Mill Group and prior to this held finance director or other senior finance positions at Brighthouse, Phones4U, JD Sports, all:sports, BMI Healthcare, 20:20 Mobile Logistics, Barclays and 3663 Distribution. He is a Chartered Accountant and has a Bachelor of Arts in Accountancy Studies.

Committee membership

Audit & Risk AR | Remuneration R | Nomination N | Chair

David Stead

Independent Non-Executive Director

AR R N

Date of appointment:
30 April 2014

Current role:
David was appointed to the Board of Directors on 30 April 2014 as an Independent Non-Executive Director.

Experience:
David is a chartered accountant and has significant retail experience having served 13 years at Dunelm Group plc as their Chief Financial Officer. Prior to this role David was the Finance Director for Boots The Chemist and Boots Healthcare International for 12 years. David also spent the early part of his career with KPMG.

Current external appointments:
Independent Non-Executive Director of Naked Wines plc, and Senior Independent Non-Executive Director of Joules Group plc.

Nathan Lane (Tripp)

Non-Independent Non-Executive Director

Date of appointment:
9 April 2020

Current role
Tripp was appointed to the Board of Directors on 9 April 2020 as a Non-Independent Non-Executive Director.

Experience
Tripp is the founder of Resegon Capital Partners, where he focuses on investing in and managing investments in private and public markets. Tripp has significant retail and consumer sector experience having invested extensively in the sector via private equity, public equity and distressed debt. In addition, Tripp served on the board of New Look for five years and is currently serving on the board of Vivarte. Prior to founding Resegon, Tripp was an investment professional for BlueMountain Capital and Apax Partners.

Current external appointments
Member of Resegon Capital Partners and Director of Vivarte

Paul McCrudden

Independent Non-Executive Director

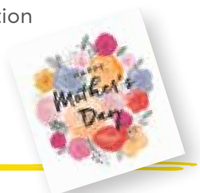
AR R N

Date of appointment:
1 December 2014

Current role:
Paul was appointed to the Board of Directors on 1 December 2014 as an Independent Non-Executive Director.

Experience:
Paul is a technology industry Marketing Director, serving as Senior Director of Marketing, Europe at Eventbrite. Prior to this, Paul was Global Head of Live Marketing at Twitter, a board director at AMV BBDO and spent the early part of his career at Imagination and Accenture specialising in innovation and new technologies. Paul also served as Chairman of the board of trustees at Hoipolloi, an arts organisation funded by the Arts Council.

Current external appointments:
Advisor at National Trust, and Advisor at The Youth Group.



Roger Whiteside OBE

Independent Non-Executive Director

AR R N

Date of appointment:
4 December 2017

Current role:
Roger was appointed to the Board of Directors on 4 December 2017 as an Independent Non-Executive Director.

Experience:
Roger has extensive retail experience and is currently the Chief Executive Officer of Greggs plc. Prior to this role, Roger served as Chief Executive of both Thresher Group and Punch Taverns. Roger was also a founding member and the Joint Managing Director of Ocado. Roger spent the early part of his career at Marks and Spencer where he led the food division for the business.

Current external appointments:
Chief Executive Officer of Greggs plc and a Member of the Women's Business Council.

Chairman's Letter – Corporate Governance

One of Card Factory's great strengths is its ability to support and enrich the celebrations of our customers in all circumstances.

Paul Moody
Chairman

Dear Shareholder

It has been a challenging year but one in which the Group has consolidated its position as the UK's leading greeting card retailer and made great strides in beginning to grow its presence across different channels and geographies, particularly through partnerships with other retailers.

The Board's focus during the last year has been supporting the development of the Group's strategy, ensuring it strengthens the foundations for long-term sustainable success. Whilst the business has traded robustly through the challenging consumer environment, the retail landscape against which this has been achieved necessitated a detailed and thorough review of the Group's strategic priorities in the medium term.

The evolution in our strategy, to be shared with our shareholders later in the year when it is finalised, will reflect the collaborative approach of both the senior management team and the Board who have rigorously challenged all aspects of the Group's current strategy in determining how best to tackle its future.

In order to achieve our strategic goals we rely on our people, who are incredibly passionate about our business. As a Board, we have spent a great deal of time considering the Group's current culture and engagement, particularly as highlighted in the results of our latest employee engagement survey. We are committed to ensuring that the Group-wide plans the senior management team have put in place, to ensure our culture drives the achievement of our strategic ambitions, are implemented fully.

Additional engagement mechanisms have been introduced, alongside our well-established communication channels, that will ensure the interests of all our key stakeholders are taken into account in how the business is operated and governed.

Most recently, the Board have supported the Group's response to the Covid-19 pandemic which has significantly impacted the Group's performance during the current financial year.

Against this backdrop, the Board have considered the requirements of the significantly updated 2018 UK Corporate Governance Code, both to ensure we are meeting the new reporting requirements and, most importantly, that we are effectively applying its principles in a way that enhances or protects the long-term value of the business.

As a Board, we are committed to continually evaluating our performance, not only through the formal evaluations required by the Code, but by maintaining a governance framework in which supportive challenge and collective responsibility underpin our support of the execution of the Group's strategy. Details of the key objectives we agreed as part of our internal evaluation are set out in the report below.

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 this year, all of our Directors will be seeking reappointment.

Yours sincerely

Paul Moody
Chairman
2 June 2020

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 sustainable success, whilst successfully managing risks for all of our stakeholders.

We believe that good governance is demonstrated by applying corporate governance principles and following the more detailed provisions and guidance in a way that enhances or protects the long-term value of the business. This ensures a pragmatic governance culture sits alongside the entrepreneurial and community-minded spirit which has enabled Card Factory to develop into the business it is today.

Key governance activities

Key activities during the year were:

- giving detailed consideration to the development of the Group's strategy for the next five years ensuring it has the customer at its heart and measures success in a balanced way that reflects our business culture, the interests of our key stakeholders and the importance of the long-term sustainability of the business;
- giving consideration to the requirements of the new UK Corporate Governance Code and how the current and future agendas of the Board and its Committees should evolve to ensure the spirit of the Code's principles and its provisions, are being applied optimally for the Group;
- reflecting in detail on the Group's culture, in particular by reference to the results of the most recent Group-wide employee engagement survey and management's response to these, including the need to build greater cohesion within the senior management team, many of whom have recently joined the business;
- to appoint Paul McCrudden as our designated Non-Executive Director to engage with the workforce, primarily through the Combined Colleague Advisory Group, which has been formed so the Board can engage with the workforce and assess and monitor the Group's culture, ensuring that its policies, practices and behaviours are aligned with its purpose, values and strategy;
- reviewing the performance of the business against its strategic objectives and monitoring progress with key business projects implemented during the year, including a number of strategic trials and our burgeoning partnerships with Aldi and the Australian retailer, The Reject Shop;
- reviewing the Group's key risks and uncertainties and supporting Karen and Kris with appropriate mitigation strategies; and
- reviewing and approving the updated terms of reference for each of the Board's Committees and the matters reserved for the Board to ensure they reflect the principles and provisions of the new Code.

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 2018 by the Financial Reporting Council a copy of which can be obtained from frc.org.uk. The Company will report to its shareholders on its application of and compliance with the UK Corporate Governance Code in accordance with the Listing Rules.

Role of the board

The strategy for the growth of the business is determined by the Board in a manner that facilitates the development, growth and sustainability of the Group over the long term in the interests of all its key stakeholders.

Board composition, balance and independence

The Board currently comprises eight 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.

The Board 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, with the exception of Tripp Lane, 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.

Tripp Lane was appointed to the Board on 9 April 2020 following constructive discussions between the Company, Teleios Capital Partners LLC (Teleios), a long-term shareholder with a c.13% interest in the Company, and another major shareholder. Given the circumstances surrounding his appointment, including the Board's understanding that Teleios agreed to supplement Tripp's remuneration with a one-off payment to secure his candidacy, the Board decided that it would not be appropriate to view Tripp as an independent Non-Executive Director for the purposes of the Code, notwithstanding that Tripp is not a nominated director of Teleios, or acting on their behalf. Tripp's appointment was recommended to the Board by the Nomination Committee following a number of meetings between Tripp and members of the Board, who were confident he had relevant skills and experience that could add value to the Company.

Corporate Governance Report *continued*

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 have 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.

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 (cardfactoryinvestors.com) and, on request, from the Company Secretary.

Board attendance

During the year, the Board held 9 scheduled meetings and various Board Committee meetings were also held, with attendance as follows:

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

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 strategy	Seasonal trading updates	Health and Safety
Business development strategy	Key project updates	Governance and legal updates
Property strategy	Four pillars performance	Board decisions' review
HR strategy and engagement	Retail operations review	Non-Executive Director reports
Online strategy		Principal risks review
Vertical integration investment		Investor relations updates
SAYE 2020 grant		Board and Committee planner
		Modern Slavery Act statement
		Audit 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. As previously, the Board will continue to receive performance updates against our agreed strategic key performance indicators.

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 progress.

Board strategy day
In addition to the considerable time the Board has committed throughout the year to the Group's strategic development, the Board held its annual strategy day in July 2019, at which it reviewed and debated in detail the core elements of the Group's strategy and the customer segmentation analysis that underpinned its development.

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. In addition, a capital markets' update will be held for investors later this year to present details of the Group's new strategy.

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 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, after 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 also communicates with shareholders through the AGM, at which the Chairman provides a brief account of the progress of the business over the last year and a review of current issues. The AGM also provides an opportunity for shareholders to ask questions as all Directors are usually present.

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 (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 88.

Corporate Governance Report *continued*

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-year results 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 usually attends the Annual General Meetings of the Company and is available 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 58 to 62 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 (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 ensuring incentives and rewards are aligned with the Group's culture;
- 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; and
- ensuring appropriate engagement with shareholders and the workforce takes place on executive remuneration policy and its alignment with wider company pay policy.

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, who had served more than 12 months on a remuneration committee prior to her appointment. The Committee's other members are Paul Moody, David Stead, Paul McCrudden and Roger Whiteside.

The Remuneration Committee met twice 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, together with the Directors' Remuneration Report is set out on pages 63 to 83 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 (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 Remuneration Committee met twice during the year. 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 84 to 86 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 (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 (gettingpersonal.co.uk).

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 General Counsel and Company Secretary 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 46 and 47 for details of the skills and experience of each Director.

Corporate Governance Report *continued*

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. Each member of the Board responded to a detailed questionnaire addressing how the Board and its Committees operate and their effectiveness. This questionnaire invited each Director to provide specific feedback and examples in support of their answers. The responses were then summarised and shared with the Board.

The evaluation identified the following areas of strength:

- the Board is skilled, experienced, well balanced and committed. It operates collaboratively and is collectively responsible; and
- the Board Committees are effective and operate within well-defined terms of reference and with the necessary skills and experience.

Areas for additional focus during the current year include:

- the Board ensuring that the Group's leadership, culture and values effectively support the delivery of the Group's strategy;
- regularly reviewing the Company's stakeholder groups and ensuring our decision-making and performance measurement processes take their interests into consideration in a balanced way;
- enhancing our succession planning for the Group's wider management team, documenting our plans and ensuring diversity and equality continue to be at the forefront of our thinking; and
- considering appropriate, more formal, measures of performance for the Board collectively and for individual Directors.

In addition to the evaluation we conducted, the Board also reflected on the achievement of the high-priority objectives adopted as a result of the previous year's internal evaluation, the critical one being the development and articulation of the Group's longer-term growth strategy. This will be achieved, albeit with a slight delay as a result of the Covid-19 crisis. Following the evaluation, the non-executive's performance continues to be effective and demonstrates commitment to the role.

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 authorise 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 authorise 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 63 to 83. 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 identifying, reporting and 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, 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 2020 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.

Corporate Governance Report *continued*

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. Since 1 January 2019, the Group's Head of Loss Prevention has overseen the Group's programme of internal audit reviews with the support of relevant experts in each area of investigation. Details of the investigations carried out during the last 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 page 61.

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 ensure good health and safety standards are observed

Internal audit function

The internal audit function is 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 2020 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 87 to 92.

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) with the aim of ensuring compliance with with UK Bribery Act 2010 (as amended) by the company and other members of the Group.

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 1 June 2020.

Paul Moody
Chairman
2 June 2020

Chairman's Letter – Audit and Risk Committee

The Audit and Risk Committee's activities during the year have focused on ensuring the Group's controls underpin its resilience in challenging and evolving macroeconomic and regulatory environments.

David Stead
Chairman of the Audit and Risk Committee

Committee members
David Stead (Chair)
Octavia Morley
Paul McCrudden
Roger Whiteside

Dear Shareholder

The Committee's activities during the year have focused on ensuring the Group's controls underpin its resilience in challenging and evolving macroeconomic and regulatory environments. The Committee is mindful of the numerous, high-profile corporate failures in recent years.

The Committee has allocated a significant proportion of its time to areas of serious risk, such as inventory management. It has confidence in the Group's overall control environment and in management's commitment to identifying and improving areas where the Group's systems and processes are in need of modernisation.

The Committee remains satisfied with the performance of KPMG LLP as our external auditor. We will review whether to defer the formal audit tender process (which was scheduled to be undertaken before the AGM in 2021) following the FRC and FCA's advice in their Covid-19 joint statement, to defer planned tenders for new auditors.

The Committee is carefully monitoring anticipated audit reforms and reform of the audit market itself (taking account of the findings of the Competition and Markets Authority, the Kingman review and the Brydon review). Most significant of all is the expected replacement of the Financial Reporting Council (FRC) by a statutory body: the Audit, Reporting and Governance Authority.

The Committee has considered the impact of the new Corporate Governance Code and the new IFRS 16 Leases that have come into effect for the period being reported on, including the FRC's guidance on disclosure. Whilst the new Code has not significantly altered the responsibilities of the Committee, we will continue to monitor the Group's approach to implementing the Code's requirements to ensure we are operating within best practice guidelines.

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 addressing any questions in respect of the audit in advance of the AGM and to engaging with shareholders at our strategy update in July.

Yours sincerely

David Stead
Chairman of the Audit and Risk Committee
2 June 2020

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, the extent of the non-audit services provided by our auditor and our auditor's independence and effectiveness;
- monitor the effectiveness of financial controls;
- evaluate the process for identifying and managing risk throughout the Group;
- ensure the effectiveness and independence of the Group's internal audit programme; 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 52. The Committee's terms of reference, which are published on Card Factory's investor website (cardfactoryinvestors.com), have been updated in light of and 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. 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 internal audit reviews also attend 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 50.

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 2019, 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 2019, 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 2019;
- 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 their association with several, high-profile accounting failures and on their response to challenge from the regulators;
- approving the process and timetable for the proposed tender of the Group's external audit that was to culminate in the appointment of an auditor for the financial year ending 31 January 2022. The timing of this tender is now under review;
- reviewing the findings of, and the implementation of actions arising from, the internal audit projects undertaken during the year and reviewing the Group's current approach to internal audit work;
- reviewing the Group's adoption of new accounting standards, with a focus on IFRS16 Leases (given the Group's entire store portfolio is leasehold);
- 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 April and January;
- 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, with a particular emphasis on the team's work analysing and mitigating stock loss, in addition to its work detecting and preventing fraud and theft of cash;
- 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.

Audit and Risk Committee Report *continued*

Activities after the year-end

in the period following the year-end, the Committee met once in May 2020 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 90 to 92) 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 2020, including the appropriateness of accounting policies (including the adoption of IFRS 16) 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 provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy;
- the performance, effectiveness, independence and qualifications of the external auditor and recommendation for their reappointment; 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 meetings in May and June 2020, 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 papers from the Chief Financial Officer to support the Directors' going-concern and viability statements. The major accounting issues discussed by the Committee concerned:

- detailed review of the impact of store closures from Covid-19 on viability and going concern;
- the accounting treatment of the Group's relevant lease contracts under the IFRS 16 Leases;
- the existence and valuation of the Group's inventory;
- goodwill impairment review;
- the accounting treatment of the Group's foreign exchange hedging instruments; and
- Brexit and its impact on the Group.

Covid-19 impact

The Committee has applied extensive scrutiny to the projections and sensitivities made in assessing the financial modelling for the Group arising from the closure of stores and significant loss of revenues, taking account of the proactive steps taken to conserve cash, reduce costs, secure access to additional funding (if required) and agree revised terms to current debt facilities. The Committee is satisfied that reasonable assumptions have been made and sensitivities assessed for the viability statement and the going concern opinion, subject to the material uncertainty arising from a second forced closure of the Group's retail stores in the event of a second peak of infections. See Note 32 for further information.

Leases (IFRS 16)

The Group has applied IFRS 16 "Leases" on a retrospective basis for the first time for FY20. The work to collect the relevant data and agree the appropriate accounting policies and disclosures has been significant. The Committee reviewed IFRS 16 adoption and is satisfied that the methodology used and the judgements and assumptions applied are reasonable. See Note 30 for further information.

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, which are scheduled to be automated, there is a heightened risk for the period to 31 January 2020 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.

Goodwill impairment review

The Committee considered the goodwill impairment testing. It concluded that no impairment in respect of Card Factory goodwill was required, reflecting on the market capitalisation of the Company as at the accounts date and alternative valuation models. It reviewed the impairment of the Getting Personal goodwill and discussed the associated accounting policies and judgements, underlying valuation used in the impairment assessment. The Committee also reviewed recommendations from the FRC Thematic Review on impairment reporting to improve disclosure. See Note 11 for further information.

Foreign exchange
The Group 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. 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 and the judgement applied in respect of hedge accounting have been appropriately applied.

Brexit
The Group's potential exposure to Brexit were reviewed by the Committee to reflect the current status regarding expected trade deals that may be secured on expiry of the transitional period for the UK's exit from the European Union in December 2020.

In respect of all of the above matters, and reflecting on the findings of the external auditors from their review, 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.

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
As previously reported, the programme of internal audit reviews for the financial year ended 31 January 2020 was overseen by the Group's Head of Loss Prevention, with the support of relevant experts in each area of investigation. At the direction of the Committee, the main areas covered by the internal audit programme during the last year were:

- health and safety – a comprehensive review of the effectiveness of the Group's health and safety function including: the structure and management of the team; current systems and processes underpinning the Group's health and safety arrangements, including induction and ongoing training provision, and the adequacy of performance monitoring arrangements, both proactive and reactive.

  The review was conducted by Gallagher Risk Management Solutions (Gallaghers) and arranged by our insurance brokers, Arthur J Gallagher Insurance Brokers Limited. Gallaghers made a number of detailed recommendations that would improve the effectiveness of the Group's health and safety arrangements and the implementation of these is being monitored by the Committee;
- payroll – a review of the design and operational effectiveness of controls over the Group's payroll, including the processes which support these and the efficacy of the data within the payroll system. The review, conducted by PricewaterhouseCoopers LLP, found current process and controls to be satisfactory but highlighted a number of manual and resource-intensive payroll processes and activities, many of which are the result of the transition of the Group's payroll software system. Management are implementing the findings of the review with a view to minimising manual processes and ensuring the current systems provide adequate controls;
- national minimum wage – in light of certain historic issues raised by HM Revenue and Customs in their review of our compliance with national minimum wage legislation, the Committee has regularly received reports on and is closely monitoring the effectiveness of the actions taken by the Group to mitigate the risk of these issues reoccurring; and
- actions from previous audits – monitoring progress with the outstanding actions from audits conducted in previous years including those relating to payroll, cyber security and IT resilience.

In line with good practice, the Committee continuously assesses whether the approach to internal audit adopted by the Group remains optimal and will make any adjustments it feels necessary to ensure it supports a rigorous control framework across the Group.

Loss prevention
The loss prevention team, and its programme of activities, are embedded in the business. Direct engagement and regular communication with colleagues across the business remain 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.

In addition, the team have been instrumental in ensuring that we have the processes and tools in place to ensure colleague safety in those stores which have adopted the practice of lone working at certain times.

The Committee receives regular reports on the activities of the loss prevention team and our head of loss prevention attends the Committee meetings.

External auditor
KPMG LLP have conducted the statutory audit for the financial year ended 31 January 2020 and they attended all three of the Committee meetings held during that year, as well as the one held in April 2020. 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 £197,000. A breakdown of fees paid to KPMG LLP during the financial year is set out in note 4 to the financial statements on page 117.

Audit and Risk Committee Report *continued*

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, we had expected to commence a formal tender process that would have culminated in the appointment of an auditor for the 2021/22 financial year. We will review whether to defer the audit tender following the FRC and FCA's advice in their Covid-19 joint statement, encouraging companies to defer planned tenders for new auditors, even when mandatory rotation is due. When the audit tender is to be effected, we intend to invite at least one firm outside the 'big four' to participate in the tender process.

Whilst we have not conducted a competitive tender for the audit for over nine 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. KPMG appointed a new audit partner to manage the Group's audit process for 2019/20 as the previous partner was absent on maternity leave.

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 no longer provide the Company any non-audit services other than those closely related to the audit.

The aggregate fees paid to KPMG LLP for services closely related to the audit during the year were £7,000 (equivalent to 3.6% of the audit fee). This related to the half-year review. Full details are given in note 4 to the financial statements on page 117.

The Committee is satisfied that the overall levels of audit-related and non-audit fees, and the nature of services provided, are such that they will not 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 (cardfactoryinvestors.com).

This report was reviewed and approved by the Committee on 1 June 2020.

David Stead
Chairman of the Audit and Risk Committee
2 June 2020

Chairman's Letter – Remuneration Committee

Overall, in what has been a challenging year, the Committee considers there has been an appropriate link between reward and performance.

Octavia Morley

Chairman of the Remuneration Committee

Committee members
Octavia Morley (Chair)
Paul Moody
Paul McCrudden
David Stead
Roger Whiteside

Dear Shareholder

I am pleased to present our Directors' Remuneration Report for the financial year ended 31 January 2020 (FY20).

FY21 is the final year of the three-year Directors' Remuneration Policy (Policy) that was approved by shareholders at our 2018 AGM. On reviewing the operation of the Policy and considering whether it continued to support our business strategy, the Committee concluded that the Policy had operated as intended and no Policy changes are needed prior to the triennial AGM vote in 2021.

The significant impact of the Covid-19 pandemic on the Group will require the Committee to exercise its discretion in adjudicating remuneration outcomes in respect of variable pay for the current year. The Committee will report on this in next year's Annual Report but will act reasonably and proportionately, taking into account the interests and experiences of all of the business's key stakeholders and the mitigating actions taken by the business throughout the pandemic.

The Committee has carefully reviewed the operation of the Policy for FY21 and the individual objectives for the strategic element of the annual bonus. These not only support our current strategy but are aligned with proposed developments in our strategy, which the Board have considered during the year and which will be presented to stakeholders later in the year, once approved. The objectives set for both the CEO and CEO for FY21, which are shared by all of the senior management team, are:

- Leadership in card choice – the delivery of key initiatives supporting profitable growth in overall card volumes that will help us to build the winning card-led retail proposition, measured by market-share gain and maintaining our reputation for range and value;
- Multichannel – developing a compelling customer proposition and experience that allows us to capture the opportunity from this channel shift, supporting our goal of making our products available everywhere, however customers wish to shop, measured by the successful launch of our new platform for Card Factory online and online sales in excess of budget; and
- ERP implementation – progressing the completion of our ERP implementation plan, delivering business transformation in support of our strategy, measured by the delivery of project milestones on time and to budget and the identification of business process improvements that deliver significant cost reductions.

Chairman's Letter – Remuneration Committee *continued*

The Committee will review the Policy during 2020 in light of our evolving business strategy to ensure it continues to drive, support and reward achievement of our strategy while taking into account developments in market practice and the requirements of the 2018 Corporate Governance Code. As part of its review the Committee will engage with its shareholders and seek feedback on any new Policy proposals as well as seeking feedback from Paul McCrudden, in his capacity as our Designated Non-Executive Director, after his engagement with our new Combined Colleague Advisory Group.

Summary of the Remuneration Policy

We designed the Remuneration Policy to be simple and strongly aligned to shareholders' interests. Salary and benefits levels are relatively modest compared to other companies and there is a higher weighting to variable performance pay, with a significant share-based element. Current pension levels are modest and broadly in line with the current workforce contribution of 3%, and, notwithstanding our existing Policy limits, we have further agreed that, in future, pension contributions for Executive Directors will be in line with the current workforce and this will be reflected in our next Policy review. 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. With this current Policy 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 FY21

- In light of the impact of the Covid-19 pandemic on the Group, salary reviews for our CEO and CFO have been deferred, with their salaries remaining at their current levels, retaining a lower quartile market positioning.
- Pension entitlement will remain at a value equivalent to just over 3% of base salary, broadly in line with the current workforce entitlement of 3%.
- The annual bonus will remain capped at 125% and 100% of base salary, respectively, for the CEO and CFO. We have changed the balance of the measures, so that instead of an 80/20 split, 70% of the annual bonus will be based on stretching EBITDA targets. The remaining 30% will be determined by strategic objectives which will be stretching, clearly defined, measurable and disclosed retrospectively in our Annual Report on Remuneration. The 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. These objectives are summarised above.
- The Committee has deferred any decision to make Restricted Share awards for the current financial year until after the Group's Interim Results for FY21 have been announced. Any awards granted will retain the same vesting profile and underpin as the awards granted during the last financial year, meaning that, in order for Restricted Shares awarded 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 disclosure in the Annual Report and Accounts of the Committee's determination of the performance underpin.
- As outlined above, the Committee recognises the importance of carefully exercising its discretion in adjudicating remuneration outcomes in respect of variable pay in light of the significant impact of the Covid-19 pandemic on the Group and will report on this in next year's Annual Report.

Payments for performance in FY20

It has been another tough year for the high street and the EBITDA performance 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 2020. In relation to the 20% based on strategic objectives, the CEO and CFO each achieved two of their four objectives resulting in an achievement of 50% of this element of their respective bonuses (i.e. 10% of the overall bonus opportunity). The CEO and CFO have proposed that payment of their bonus entitlement be deferred until such time as the Group has greater visibility of trading performance, and therefore its available cash resources, coming out of the Covid-19 pandemic. The Committee anticipates this to be no earlier than after the Group's Interim Results for the current financial year are announced.

Full details of the performance conditions are set out on pages 73 to 75 in the Directors' Remuneration Report.

Performance in the relevant period for the long term incentive plan ('LTIP') awards granted to the CEO and CFO on 30 September 2017, which was based on achieving a range of EPS targets measured over the three financial years to 31 January 2020, also fell short of the minimum performance threshold and the awards have lapsed.

Overall, in what has been a challenging year, the Committee considers there has been an appropriate link between reward and performance. As part of its review of the remuneration outcomes, the Committee also considered whether there were any relevant environmental, social, and governance matters that it needed to take into account and concluded that there were no such factors.

UK Corporate Governance Code

During the year the Committee gave further consideration to how the requirements of the UK Corporate Governance Code should be incorporated into our Policy and the workings of the Committee. Most of the structural requirements will be considered as part of the Policy review. However, the Committee has already considered the requirements of the Code as they relate to pension. Our workforce currently receive a pension contribution of 3% of salary and new appointments to the Board will be aligned to this or the rate applicable to the workforce at that time. Our incumbent Executive Directors currently receive a pension contribution of just over 3% and this will be considered as part of the overall Policy review.

The workings and remit of the Committee have been updated to align with the Code and the Committee's Terms of Reference updated. The Committee now sets the remuneration for the senior management team taking into account the recommendations of the CEO and includes, as part of its annual agenda, a review of wider workforce policies and practices.

During the year, the Board has appointed one of our Non-Executive Directors, Paul McCrudden, as the designated Non-Executive Director responsible for workforce engagement and our new Combined Colleague Advisory Group has been established to broaden our current engagement approach, with a schedule of meetings and an agenda agreed by the Board, commencing early 2020. As part of this engagement, we will explain the alignment of the current Executive Directors' Remuneration Policy to the wider workforce and take into account the views of the Combined Colleague Advisory Group on the policy review we will be carrying out over the next year.

Our remuneration reporting has been updated to include the new reporting requirements of the Code as well as the Directors' remuneration reporting regulations to include the CEO pay ratio. There are further requirements following transposition of the Shareholder Rights' Directive into UK law and these will be included as required next year.

At the AGM, which will be held on 30 July 2020, the Annual Report on Remuneration, which outlines the payments made in respect of the financial year ended 31 January 2020 and the implementation of our Remuneration Policy for the forthcoming financial year, will be subject to an advisory vote. Shareholders will be asked to approve the revised Remuneration Policy at the 2021 AGM.

Conclusion

The Committee is comfortable that the Policy continues to operate as intended and provides an appropriate link between reward and performance. Future objectives and outcomes will be closely aligned, ensuring they support the delivery of the Group's evolved strategy.

I look forward to addressing any questions from shareholders in respect of this Report in advance of the AGM and look forward to your support on the resolution to approve the Annual Report on Remuneration.

Octavia Morley
Chairman of the Remuneration Committee
2 June 2020

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 30 July 2020, although the vote is advisory.

Directors' Remuneration Policy

This section, on pages 66 to 72 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 from 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 the market) the Committee has discretion to make appropriate adjustments to salary levels to ensure they remain fair and competitive.	Business and individual performance are both 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

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
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.	
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.

Directors' Remuneration Report *continued*

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 years 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 of the Executive Directors. The senior management team will participate in the same annual bonus scheme and will receive Restricted Shares awards alongside the Executive Directors.

The Policy for our Executive Directors is considered alongside the remuneration philosophy and principles that underpin remuneration for the wider Group. 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.

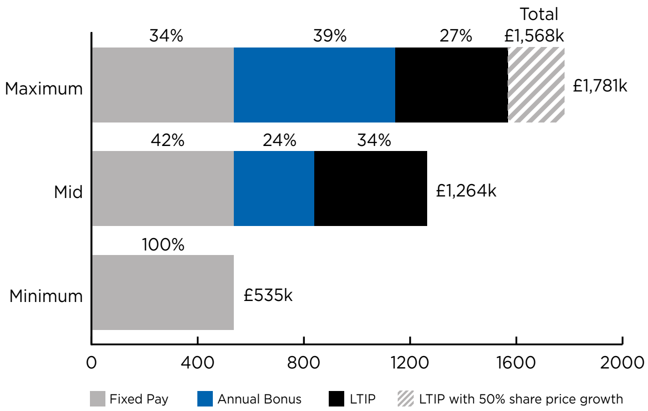
Other

In addition to the above elements of remuneration, any commitment made prior to, but due to be fulfilled after its 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).

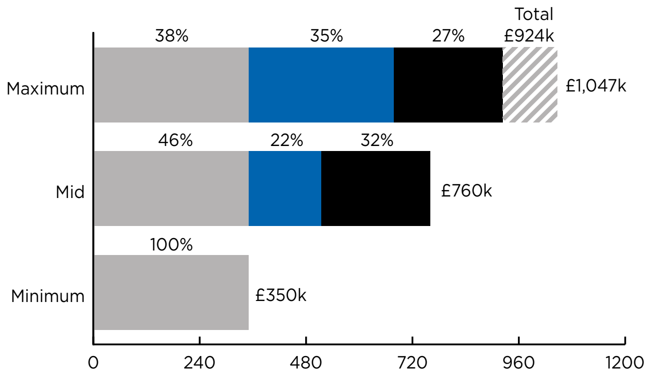
PERFORMANCE SCENARIOS

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



Directors' Remuneration Report *continued*

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.	Although the decision in relation to the grant level has not yet been made, 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.	percentage of base salary applicable to wider workforce
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
Nathan (Tripp) Lane	9 April 2020

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.

Directors' Remuneration Report *continued*

Consideration of employee remuneration and employment conditions in the 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 in light of the new UK Corporate Governance Code requirements for broader stakeholder engagement, will take into account the views of our Combined Colleague Advisory Group on the policy review we will be carrying out over the next year.

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 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 2020. 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 for the year ended 31 January 2020 and the prior year:

	Karen Hubbard		Kris Lee	
	2019/20	2018/19	2019/20	2018/19
Salary[1]	£483,744	£470,921	£326,120	£318,675
Pension benefit[2]	£16,231	£15,743	£11,231	£9,909
Taxable benefits[3]	£25,044	£24,963	£8,385	£8,370
Non-taxable benefits[4]	£7,356	£8,153	£1,764	£4,096
Annual bonus[5]	£59,574	£89,362	£32,130	£32,130
LTIP	–	–	–	–
SAYE[6]	£1,303	£1,677	£1,303	£1,677
	–		–	
Total	£593,252	£610,819	£381,306	£374,857

1. Karen Hubbard and Kris Lee's salaries were increased by 2% effective from 1 May 2019.
2. Karen Hubbard receives a cash payment in lieu of her pension entitlement.
3. Taxable benefits comprise car or car allowance and family private medical insurance.
4. Karen Hubbard and Kris Lee are members of the Group Life Assurance and Income Protection Schemes. The amounts stated relate to insurance premiums paid by the Group.
5. See details of bonus payments below.
6. Embedded value of SAYE options at grant. There are no performance conditions.

Annual bonus payments and link to performance

EBITDA (80% of bonus opportunity)

Bonus opportunities for 2019/20 were 125% of salary for Karen Hubbard and 100% of salary for Kris Lee.

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

Performance level	2019/20 Adjusted Underlying EBITDA target range	Percentage of Adjusted Underlying EBITDA part of bonus available	Adjusted Underlying EBITDA Performance achieved	Bonus payable for EBITDA part of bonus (% of maximum)
Threshold	£85.0m	15%	£81.2m	–
Maximum	£93.0m	100%	–	–

Achievement against strategic objectives (20% of bonus opportunity)

The strategic objectives for the CEO and CFO were set at the start of the year and outlined in the last year's report. They have been reviewed in detail and both the CEO and CFO each achieved two of their objectives resulting in an achievement of 50% of this element of their bonus. The CEO and CFO, have proposed that payment of their bonus entitlement be deferred until such time as the Group has greater visibility of trading performance, and therefore its available cash resources, coming out of the Covid-19 pandemic. The Committee anticipates this to be no earlier than after the Group's Interim Results for the current financial year are announced.

Directors' Remuneration Report *continued*

The specific outcomes for each objective were as follows:

CEO

Strategic objective	Link to strategy	Metric by which the objective is evaluated	Basis for determining performance	Outcome	Bonus achieved (% of maximum)
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.	Strategy (as a whole)	Completion of strategy development and business model targets.	Board approval of our evolved strategy and testing of new elements. Tested: Price Positioning, International & UK Concessions.	Developed a clear 5 year strategy including trialling of key elements to validate value and size of opportunity. Backed up by key market research and a clear work plan to deliver financial targets.	100%
Maintaining our customer value proposition, measured by external research results compiled by OC&C and reported annually.	Like-for-like sales	External research results compiled by Strategy and Insight Director.	Improved position.	Strong delivery of our customer proposition, as evidenced through market research, by way of appropriately-priced and quality customer offer.	100%
Improving our ongoing business efficiency to optimise the operating model for sustainable future performance, measured by performance in excess of budgeted savings.	Business efficiencies	By performance in excess of budgeted savings.	Targeted savings of £8.5m – not achieved.	Savings achieved in store-labour costs, property and supply-chain savings, offset by significant demurrage and third-party storage costs incurred due to Brexit stock strategy.	0%
Improving employee engagement through strategic leadership.	Developing our people	Company employee survey results.	Year-on-year improvement in employee engagement score.	Employee engagement score as measured by 'Be Heard' declined in year.	0%
				Total	**50%**

CFO

Strategic objective	Link to strategy	Metric by which the objective is evaluated	Basis for determining performance	Outcome	Bonus achieved (% of maximum)
Delivering the new platform for cardfactory.co.uk, measured by implementation in FY20.	Online	Implementation in FY20.	Platform operational during FY20.	Platform delivery delayed until FY21.	0%
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.	Strategic development and business efficiency	Pipeline of opportunity at year-end.	New strategy delivered.	Property strategy developed and included in the wider-evolved strategic plan. Optimised property plan in place with a strong pipeline of new and proposed relocations.	100%
Improving stock management to drive both availability and reduce stockholding.	Business efficiencies	Stock at year-end against target.	Reduce stockholding by £14.1m.	Reduced stockholding at end of the financial year in line with target.	100%
Improving employee engagement through strategic leadership.	Developing our people	Company employee survey result.	Year-on-year improvement in employee engagement score.	Employee Engagement Score as measured by 'Be Heard' declined in year.	0%
				Total	***50%***

The Committee considered the overall bonus payment in light of the broader performance of the business and the overall shareholder experience over the year and concluded that there should be a payment of a relatively small part of the bonus, in light of the achievement of these strategic steps that will lay the foundations of the future evolution of the strategy. One third of the after-tax bonus payment must be used to purchase shares in the Company. The Committee also recognised that certain other colleagues were also entitled to a bonus payment based on the achievement of their own personal objectives but that these payments had all been deferred until later in the year.

Directors' Remuneration Report *continued*

Grants of restricted shares 2019/20 – audited

Awards of Restricted Shares were granted to the Executive Directors on 14 May 2019. Awards were made of shares worth 87.5% of basic salary for Karen Hubbard and 75% of salary for Kris Lee. The Committee considered carefully the grant level and, although there had been a c.12% fall in the share price since the prior year's grant, the number of shares under the award did not increase significantly compared to the prior year's award.

Executive Director	Number of Restricted Shares awarded	Face value of award value as a % of salary	Face/maximum value of Restricted Shares at grant date[1]	Measurement period for performance underpin
Karen Hubbard	225,368	87.5%	£425,361	1.2.19–31.1.22
Kris Lee	130,229	75.0%	£245,795	1.2.19–31.1.22

1. Based on the average share price for the three months prior to the date of award on 14 May 2019 of 188.74p.

For Restricted Shares to vest, the Committee must be satisfied that business performance over the three years commencing 1 February 2019 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 the performance underpin condition (as set out above) measured over the three financial years commencing 1 February 2019. 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.

2017 LTIP award vesting – audited

Awards granted in 2017 under the LTIP were subject to the three-year Adjusted Underlying basic EPS compound annual growth target of 1% pa to 6% pa with 25% vesting at threshold, and were subject to a return on capital underpin. Adjusted Underlying basic EPS growth over the three-year period 1 February 2017 to 31 January 2020 was -8.0% which 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 8 July 2019. 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 ward vesting at threshold and (maximum)	Performance period
Karen Hubbard	5,844	£10,303	n/a	n/a
Kris Lee	5,844	£10,303	n/a	n/a

1. Based on the share price on the date of award, 8 July 2019, of 176.3p.

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 2020 and the prior year.

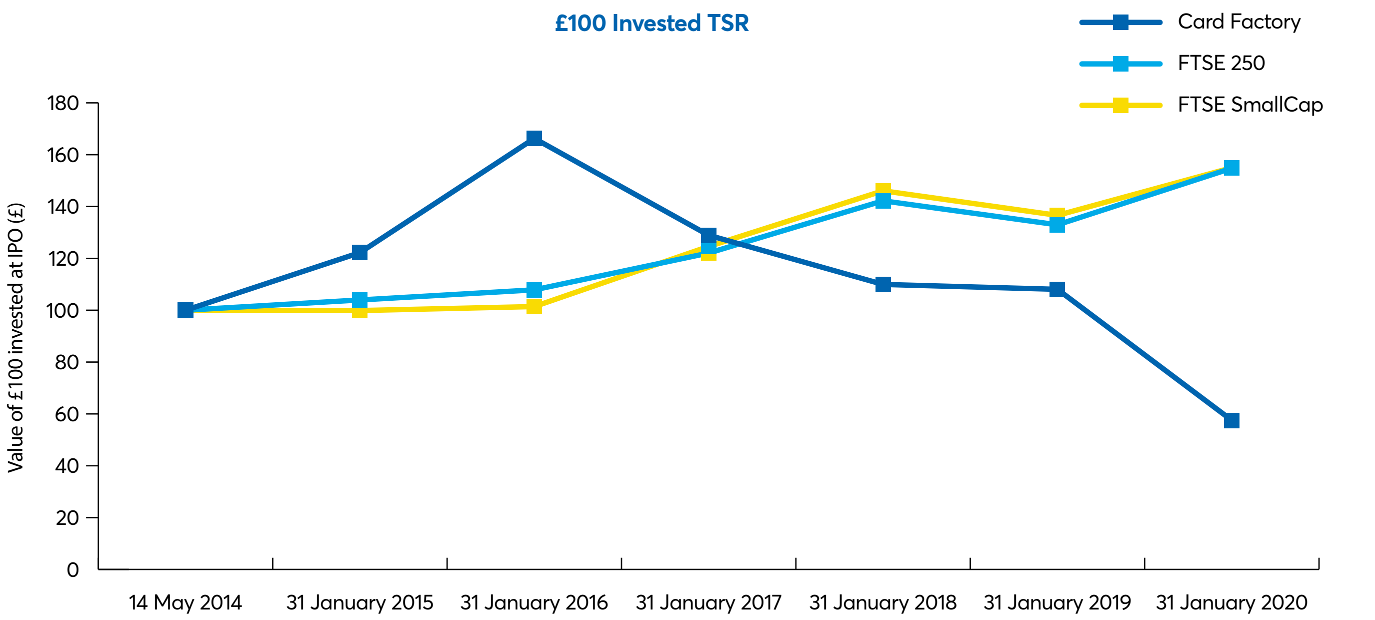
	Base fee		Additional fees		Total	
Non-Executive Director	**2019/20**	2018/19	**2019/20**	2018/19	**2019/20**	2018/19
Geoff Cooper	***n/a***	£93,750	***n/a***	£0	***n/a***	£93,750
Paul Moody	***£144,000***	£40,000	***£0***	£0	***£144,000***	£40,000
Octavia Morley	***£49,000***	£49,000	***£8,000***	£8,000	***£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***	£45,000	***£0***	£0	***£45,000***	£45,000

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 (TSR) of Card Factory against the FTSE 250 Index and FTSE Small Cap Index over the period since the Group listed on 20 May 2014. These indices have been chosen as they are recognised, broad-equity market indices of which the Group has been a member for this period.



CEO	**2019/20**	2018/19	2017/18	2016/17[1]	2015/16	2014/15
Single figure of remuneration (£'000)	***593***	611	496	1,005	951	884
Annual bonus outcome (% of max)	***10***	15	–	20.0	79	77
LTIP vesting (% of max)	***–***	–	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).

Directors' Remuneration Report *continued*

Change in CEO cash remuneration, 2018/19 to 2019/20

	Change in CEO pay over the year	Average change across all employees[1]
Salary	**2.7%**	**4.8%**
Taxable benefits	**0.3%**	**–**
Annual variable	**(33)%**	**10.5%**

1. Store employees representing c.90% of all employees.

CEO to employee pay ratio

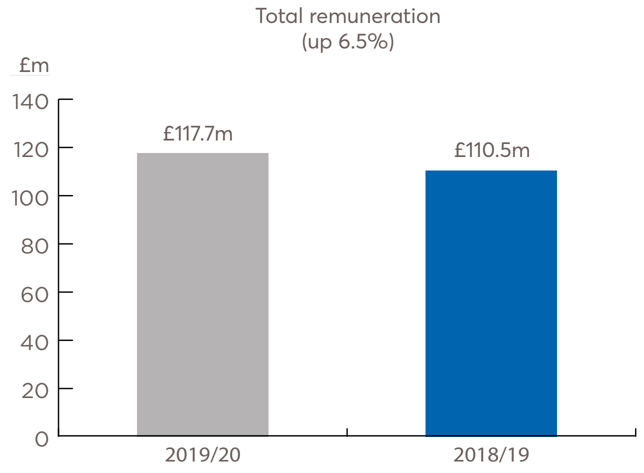
2019/20	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
Ratio	Option A	35.2 : 1	33.1 : 1	32.2 : 1
Employee salary		£17,017	£18,144	£18,564
Employee total remuneration		£17,395	£18,504	£19,014

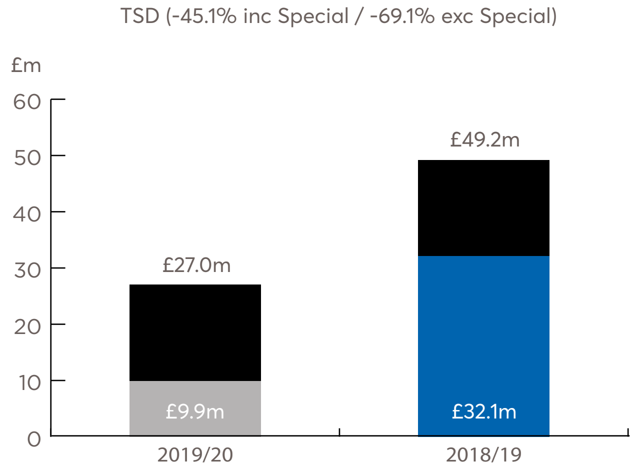
Card Factory has chosen Option A* (which provides a comparison of the Company's full-time equivalent total remuneration for all UK employees against the CEO for the 2019/20 financial year) as the most appropriate methodology to report the ratio, in line with the recommendation from the UK Government Department for Business, Energy and Industrial Strategy and shareholder and proxy-voting bodies.

The Committee considers pay ratios as one of many reference points when considering remuneration. Throughout the Group, pay is aligned with our pay principles, is structured to be as consistent as possible and is market-competitive in the context of the sector in which we operate. The Committee notes the limited comparability of pay ratios across companies and sectors, given the diverse range of business models and employee population profiles which exist across the market. A significant proportion of the CEO's potential pay is delivered in variable remuneration which may therefore fluctuate significantly on a year-to-year basis.

Distribution statement

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





2019/20 2018/19 Special dividend

* pursuant to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended)

Statement of shareholder voting

The following table shows the results of the shareholder votes on the Annual Report on Remuneration at the 2019 Annual General Meeting and for the Directors' Remuneration Policy at the 2018 Annual General Meeting:

	Remuneration policy 2018		Annual Report on Remuneration 2019	
	Total number of votes	% of votes cast	Total number of votes	% of votes cast
For (including discretionary)	236,852,095	84.22	276,884,335	100
Against	44,370,382	15.78	3,742	0
Total votes cast (excluding withheld votes)	281,222,477	–	276,888,077	–
Total votes withheld[1]	3,600,623	–	567,340	–
Total votes cast (including withheld votes)	284,823,100	–	277,455,347	–

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 CEO and CFO, respectively. Both Executive Directors have not yet met the shareholding guideline.

	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	190,406	–	420,146	–	–	35%	250%	No
Kris Lee	3,195	–	240,575	–	–	1%	200%	No
Non-Executive Directors								
Paul Moody	–	–	–	–	–			
Octavia Morley	13,333	–	–	–	–			
David Stead	22,222	–	–	–	–			
Paul McCrudden	–	–	–	–	–			
Roger Whiteside	22,520	–	–	–	–			
Tripp Lane	–	–	–	–	–			

1. Including shares owned by connected persons.
2. Calculated using the closing share price of the Company on 31 January 2020 of 88.6p.

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

Directors' Remuneration Report *continued*

Details of Directors' interests in shares in incentive plans – 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	14.05.19	188.74p	n/a	225,368	£425,361	01.02.19 – 31.01.22	n/a
Restricted Shares	11.07.18	214.1p[2]	n/a	194,778	£417,031	01.02.18 – 31.01.21	n/a
SAYE	08.07.19	176.3p	154p	5,844	£10,303	n/a	01.08.22 – 31.01.23
SAYE	03.07.18	191.0p	161p	5,590	£10,677	n/a	01.08.21 – 31.01.22
Kris Lee							
Restricted shares	14.05.19	188.74p	n/a	130,229	£245,795	01.02.19 – 31.01.22	n/a
Restricted Shares	11.07.18	214.1p[1]	n/a	110,346	£236,250	01.02.18 – 31.01.21	n/a
SAYE	08.07.19	176.3p	154p	5,844	£10,303		01.08.22 – 31.01.23
SAYE	03.07.18	191.0p	161p	5,590	£10,677		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, 14 May 2019, of 188.74p.
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, 11 July 2018, of 214.1p.

How the Policy will be applied in FY21

Covid-19 and exercise of discretion

The significant impact of the Covid-19 pandemic on the Group will require the Committee to carefully exercise its discretion in adjudicating remuneration outcomes in respect of variable pay for the current year. The Committee will report on this in next year's Annual Report and Accounts but will act reasonably and proportionately, taking into account the interests and experiences of all of the business's key stakeholders and mitigating actions taken by the business throughout the pandemic.

Salary

The salaries of the Executive Directors with effect from 1 May 2020 will be as follows:

Executive Director	1 May 2020	1 May 2019
Karen Hubbard	**£486,127**	£486,127
Kris Lee	**£327,726**	£327,726

Salary reviews for the Executive Directors have been deferred.

Annual bonus
The annual bonus for the current financial year is capped at 125% and 100% of salary for the CEO and CFO, respectively, based 70% on Adjusted Underlying EBITDA and 30% on 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 Committee has carefully reviewed the operation of policy for 2020/21 and the individual objectives for the strategic element of the annual bonus. These not only support our current strategy but are aligned with proposed developments in our strategy, which the Board have considered during the year and which will be presented to our key stakeholders later in the year, once approved. The objectives set for both the CEO and CFO for 2020/21, which are shared by all of the senior management team, are:
- Leadership in card choice – the delivery of key initiatives supporting profitable growth in overall card volumes that will help us to build the winning card-led retail proposition, measured by market-share gain and maintaining our reputation for range and value;
- Multichannel – developing a compelling customer proposition and customer experience that allow us to capture the opportunity from channel shift which supports our goal of making our products available everywhere, however customers wish to shop, measured by the successful launch of our new platform for Card Factory online and online sales in excess of budget; and
- ERP implementation – progressing the completion of our ERP implementation plan delivering business transformation in support of our strategy measured by the delivery of project milestones on time and to budget and the identification of business process improvements that deliver significant cost reductions.

The objectives have been set by the Committee and will require Executive Directors to deliver significant stretch performance. Given the link between these targets and Card Factory's competitive strategy, they are considered commercially sensitive but will be published in next year's Annual Report on Remuneration.

Benefits and pension
These will be paid in line with the Policy.

Restricted shares
The Committee has deferred any decision to make Restricted Share awards for the current financial year until after the Group's Interim Results for 20/21 have been announced. Any awards granted will retain the same vesting profile and underpin as the awards granted during the last financial year, meaning that, in order for Restricted Shares awarded 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 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 CEO and CFO, respectively.

Non-Executive Director fees
No increases are proposed for the current year.

	2020/21	2019/20
Base fees		
Chairman	**£144,000**	£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

Directors' Remuneration Report *continued*

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 pages 52 and 53 and a copy of its terms of reference, which comply with the UK Corporate Governance Code, is available on Card Factory's investor relations website (cardfactoryinvestors.com).

The Committee fulfils its duties with a combination of both formal meetings and informal consultation with relevant parties, both internal and external. Its principal external advisers are Korn Ferry, who were appointed by the Committee following a tender process during 2018. Korn Ferry does not provide any other services to the Company. Korn Ferry advises Crest Nicholson plc's Remuneration Committee, which is also chaired by Octavia Morley. 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 remunerationconsultantsgroup.com. Accordingly, the Committee is satisfied that the advice received is objective and independent. Fees of £15,574.50 (inc. VAT) were paid to Korn Ferry during the financial year.

Committee activities

During 2019/20, the Committee met to consider the following remuneration matters:

- to review and update the Committee's Terms of Reference;
- to review operation of policy in 2019/20 and consider if any changes to policy are required prior to the triennial policy vote at the 2021 AGM;
- to consider performance against targets and resulting bonus payments for 2018/19 and vesting of the 2017 awards under the LTIP;
- to consider 2019/20 grants of Restricted Shares;
- to consider measures and targets for the 2020/21 annual bonus taking into account the Group's strategic review;
- to review the recruitment and remuneration for several senior management roles;
- to review developing trends in remuneration market practice, investor guidelines and governance including the new 2018 UK Corporate Governance Code;
- to review and consider wider group-remuneration policies and practices and the approach to employee engagement as it relates to remuneration matters; and
- to formally approve the Directors' Remuneration Report set out in this Annual Report.

The work of the Remuneration Committee

Set out below are those areas of the Committee's work that it is required to report under the Code and reporting regulation and which are not covered elsewhere in this Directors' Remuneration Report.

Engagement with stakeholders

There were no remuneration matters which required specific engagement with shareholders during 2019/20. The Committee will engage with its shareholders during 2020/21 as part of the Directors' Remuneration Policy review and feedback on any proposed policy changes will be sought. Support for the Directors' Remuneration Policy at the 2018 AGM was above 84% and for the 2018/19 Directors' Remuneration Report at the 2019 AGM was above 99% and there were no material concerns for the Committee to consider from the AGM voting outcomes.

Disappointingly, our employee engagement scores declined during the year, as assessed using our "Be Heard" survey. During the year and as set out in more detail on page 37, Paul McCrudden was appointed as the designated Non-Executive Director for employee engagement. The Company also established its Combined Colleague Advisory Group which complements existing forms of employee engagement and will form the basis of engagement on those matters specifically required under the Code, including to explain the alignment of the Executive Directors' Remuneration Policy to the wider group. A timetable and agenda for the meetings which will commence in early 2020/21 has been agreed by the Board and will be attended by Paul McCrudden.

Policy and operation of Policy

In determining the operation of Policy for the year ahead the Committee has considered the six factors listed in the Code as follows, these matters will be considered again as part of the Policy review during 2020/21:

- ***Clarity –*** our policy is well understood by our management team and has been clearly articulated to our shareholders through direct engagement and our remuneration reporting. A key part of our Human Resources Director's role is engaging with our wider employee base and this is supported further by our new Combined Colleague Advisory Group and the appointment of our designated Director for workforce engagement. The Board will be able to monitor the effectiveness of this process through the feedback received by the Board to ensure that our remuneration policy and practices are clearly understood by our employees.
- ***Simplicity –*** the Committee is mindful of the need to avoid overly complex remuneration structures. Our Restricted Share plan is straightforward and cascaded below the Board to our senior management team. Our strategic objectives and deliverables are clearly articulated through the financial and strategic measures on our annual bonus plan and longer-term sustainable growth through our restricted share plan that provides longer-term share ownership and alignment with our shareholders.
- ***Risk –*** our remuneration policy is designed to ensure that reputational, behavioural and other risks are managed and will not be rewarded via (i) the balanced use fixed and variable pay, the use of our restricted share plan and the blend of financial and strategic objectives in our annual bonus plan (ii) the significant role played by equity in our incentive plans (together with shareholding guidelines in service and post service) and (iii) malus/clawback provisions.
- ***Predictability –*** our restricted share plan limits ensure significant predictability in the remuneration of our executives as demonstrated in the scenario charts on page 69. The Remuneration Committee also has the discretion to adjust any vesting outcomes if they are not considered appropriate.
- ***Proportionality –*** there is a clear link between individual awards, delivery of strategy and our long-term performance. In addition, the significant role played by incentive/'at-risk' pay, together with the structure of the Executive Directors' service contracts, ensure that poor performance is not rewarded.
- ***Alignment to culture –*** Our incentive schemes drive behaviours consistent with Card Factory's purpose, values and strategy by using metrics in the annual bonus that underpin the delivery of our strategy. Our restricted share plan supports and encourages our culture of wider employee-share ownership, alignment to shareholders and sharing in the longer-term sustainable success of our business.

Determining Executive Director remuneration

The Committee considers the appropriateness of the Executive Directors' remuneration, not only in the context of overall business performance and environmental, governance and social matters, but also in the context of wider workforce pay conditions (taking into account workforce policies and practices as well as the ratio of CEO pay to all-employee pay) and external market data, to ensure that it is fair and appropriate for the role, experience of the individual, responsibilities and performance delivered.

More specifically the Committee will continue to give specific consideration to the impact of Covid-19 on the operation of the Directors' Remuneration Policy given its significant impact on the Group's performance during the current year.

Wider workforce matters

The Committee as part of its wider remit under the Code considers workforce remuneration policy and practices. This includes our Gender Pay statistics, which are published on our investor relations website (cardfactoryinvestors.com) and our Equality and Diversity policy which is set out on page 85 in the Nomination Committee Report. The Committee has also considered the Group's wider review of remuneration across the workforce and its current grading of roles and the remuneration and benefits associated with each role.

Approved by the Board of Card Factory plc on 1 June 2020 and signed on its behalf by:

Octavia Morley
Chairman of the Remuneration Committee
2 June 2020

Chairman's Letter – Nomination Committee

The Committee has considered and acknowledges its renewed obligations under the new Code and is committed to overseeing the Group's succession planning and approach to diversity and ensuring they are key components of its long-term success.

Paul Moody
Chairman of the Nomination Committee

Committee members
Paul Moody (Chair)
Octavia Morley
Paul McCrudden
David Stead
Roger Whiteside

Dear Shareholder

In light of them both nearing six years of service, the initial focus of the Nomination Committee's activities during the year, was on securing successors to Octavia Morley (Chair of the Remuneration Committee and Senior Independent Director) and David Stead (Chair of the Audit Committee).

A search firm (Spencer Stuart) had been appointed to undertake the task and was progressing the search; however, the process was suspended as, in light of the criticality of the Group's strategic review, both Octavia and David expressed their willingness to continue in their roles beyond their current terms. Their knowledge, skill and experience have been invaluable to the of Board's consideration and evolution of the Group's strategy and I thank them for their continued service.

During the year, the Committee's terms of reference have also been reviewed and updated to reflect the requirements of the 2018 UK Corporate Governance Code. The Committee has considered and acknowledges its renewed obligations under the new Code and is committed to overseeing the Group's succession planning and approach to diversity, and ensuring they are key components of its long-term success.

As part of this, the Committee has considered in detail, and given its approval for, the revised organisational structure proposed by our CEO, Karen Hubbard. The refreshed structure will support the delivery of the Group's long-term strategic ambitions, ensuring it has optimal capacity, capability and leadership within its functional teams.

The Committee has also given its initial consideration to succession plans for the senior management team that will underpin the continued development of the capability and capacity of the organisation. The Committee is also taking an active role, working closely with the Executive Directors and the Group People Director in setting diversity objectives for the Group and understanding how best to measure the impact of these.

Whilst the Committee has taken initial steps in meeting its obligations under the new Code, the Group has already made good progress in promoting diversity and ensuring there is equality of opportunity across the business. There is also greater transparency over future development and progression across the workforce. The Committee is committed to supporting these developments.

Most recently, the Committee considered, and recommended to the Board, the appointment of Tripp Lane, as a Non-Executive Director of the Company. This recommendation followed a number of meetings between Tripp and members of the Committee, who were confident he had relevant skills and experience that could add value to the Company.

Tripp was appointed to the Board on 9 April 2020 following constructive discussions between the Company and Teleios Capital Partners LLC (Teleios), a long-term shareholder with a c.13% interest in the Company, and another major shareholder. Given the circumstances surrounding his appointment, including the Committee's understanding that Teleios agreed to supplement Tripp's remuneration with a one-off payment to secure his candidacy, the Committee recommended that it would not be appropriate to view Tripp as an independent Non-Executive Director for the purposes of the Code, notwithstanding that Tripp is not a nominated director of Teleios, or acting on their behalf.

There remains much to be done throughout the organisation, but, the Committee is pleased with progress to date and we will further update shareholders in next year's Annual Report.

Yours sincerely

Paul Moody
Chairman of the Nomination Committee
2 June 2020

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 and performance of the Board and its Committees under continuous review to ensure it has the necessary balance of skills and experience to fulfil its purpose;
- ensure a thorough and transparent process is adopted for making new appointments to the Board; and
- oversee diversity, inclusion and succession, not only within the Board but across the Group's senior management team.

A more detailed explanation of the Nomination Committee's role is set out in the Corporate Governance Report on page 53 and the Committee's terms of reference, which are published on Card Factory's investor website (cardfactoryinvestors.com), comply with, and have been updated in light of the changes to, the UK 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 twice during the year with details of attendance set out in the Corporate Governance Report on page 50. In addition to formal meetings, the Chairman has, where necessary, consulted with Committee members on an ad hoc basis during the year.

Committee activity in 2019/20

The Committee's main activity during the year, as described in more detail in the introductory letter to this report, was to find successors for Octavia Morley and David Stead.

Committee's focus for the future

The Nomination Committee's priority over the coming year will be to continue to embrace its increased responsibilities under the 2018 Corporate Governance Code. In particular, the Committee will:

- recommence its search for successors to Octavia Morley and David Stead;
- support the Board in ensuring the Group has an organisational structure that is fit for purpose. A key part of this will be the Committee satisfying itself that the Group has the leadership, capacity, capability and organisational structure to support the delivery of the Group's long-term strategic vision and its long-term sustainable success. Where any gaps are identified, the Committee will support the Executive Directors in recruiting suitable candidates to fill these roles;
- play an active role in succession beyond the Board. The Committee will oversee the Group's development of a diverse pipeline for succession to the Group's senior management team having regard to diversity of gender, social and ethnic backgrounds and personal strengths. The Committee will ensure that formal plans are in place and will actively monitor their execution. The focus will be on the needs of the business over the medium to longer term as well as ensuring the Group is supporting the development of the next generation of leaders from within the business; and
- give detailed consideration to the Group's policies and approach to diversity, including the establishment of appropriate diversity and inclusion objectives and measuring the impact of these. The Committee will ensure there are clear guidelines for how the Group recruits and retains talent that guarantees equality of opportunity.

Gender and ethnic diversity

Our policy is that the Board and the Group's senior management team should always be diverse but we feel that quotas are not appropriate as they are likely to lead to compromised decisions on Board and senior management team membership, quality and size.

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

Nomination Committee Report *continued*

We published our third Gender Pay Gap Report in April 2020. 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 (cardfactoryinvestors.com).

Details of the gender balance within the Group are set out in the Corporate Social Responsibility report on page 39.

Board evaluation

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 internal evaluation carried out last year. Further details are set out in the Corporate Governance Report on page 54. 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 during the financial year ending 31 January 2021, 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 30 July 2020.

This report was reviewed and approved by the Board on 1 June 2020.

Paul Moody
Chairman of the Nomination Committee
2 June 2020

Directors' Report

The Directors present their report together with the audited financial statements for the year ended 31 January 2020.

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 2018 ('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, 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 1 June 2020 and is set out on pages 1 to 45 , 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 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, social and community issues and about how we engage with our stakeholders.

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 £51.6m (FY19 (restated): £52.7m). The results are discussed in greater detail in the Chief Financial Officer's Review on pages 24 to 29.

No final dividend is proposed in respect of the period ended 31 January 2020 (FY19 final dividend: 6.4 pence). The Company paid an interim dividend of 2.9 pence per share (FY19: 2.9 pence) on 19 December 2019.

Special dividend
A special dividend of 5 pence per share (FY19: 5 pence) was paid to shareholders on 19 December 2019.

Post year-end events
Details of the impact of the Covid-19 pandemic on the Group are set out in the Strategic Report on pages 21 to 22.

There have been no other significant post year-end events.

Share capital, shareholders and restrictions on transfers of shares
The Company has only one class of shares, ordinary shares of 1p each.

Further details of the Company's share capital, including changes in the issued share capital in the year under review, are set out in note 20 to the financial statements which form part of this report on page 127. 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.

Directors' Report *continued*

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 132 to 133. Details of the share-based incentive schemes in place are provided in the Directors' Remuneration Report on page 80.

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 1 June 2020 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 Ltd	58,493,894	17.13%
Teleios Capital Partners	45,823,377	13.42%
Artemis Investment Management LLP	34,325,625	10.05%
Mr Stuart Middleton	18,035,477	5.28%
St James' Place group of companies	16,717,278	4.89%
Majedie Asset Management	16,267,238	4.76%

As at 31 January 2020, the disclosable interests notified to the Company were as stated above, except for Invesco Ltd's notified interest in 70,856242 ordinary shares (20.74%) and Teleios Capital Partners' interest in 37,989,393 shares (11.12%).

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 134 of the Annual Report and Accounts.

Directors

The Directors of the Company and their biographies are set out on pages 46 and 47. Details of changes to the Board during the period are set out in the Corporate Governance Report on page 49. Details of how Directors are appointed and or removed are set out in the Corporate Governance Report on page 54.

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 55.

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 55.

Employees

Information relating to employees of the Group is set out in the Corporate Social Responsibility Report on page 39.

Share incentive schemes in which employees participate are described in the Directors' Remuneration Report on pages 68 and 69 and in note 25 to the financial statements on pages 132 and 133.

Health and safety

An overview of health and safety is provided in the Corporate Social Responsibility Report on page 40.

Greenhouse gas emissions
The Corporate Social Responsibility Report on page 43 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 30. In that section, beginning on page 30, 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 CFO's review on pages 24 to 29.

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 (cardfactoryinvestors.com).

Going concern
In assessing the appropriateness of the going concern assumption, the Board has considered the availability of funding alongside the possible cash requirements of the Group and Company, taking into account the unprecedented anticipated circumstances caused by Covid-19.

Availability of funding
The Group has entered into revised covenant terms with its banking partners. This will enable it to utilise not only the full Revolving Credit Facility ('RCF') of £200m but also the secured funding from the Bank of England Covid Corporate Financing Facility, to the extent that the combined draw down on facilities, net of cash, do not exceed a monthly cap, which varies from month-to-month as agreed with the banking partners, of up to £275m at their peak. Under the revised covenant terms, the Group's existing covenant requirements have lapsed immediately and have been replaced by three new covenant tests relating to net debt; cash burn; and last twelve months EBITDA. These tests will be applied monthly until June 2021, after which it is envisaged that the business will have a phased return back to existing six-monthly covenant tests of net debt to EBITDA and interest cover.

Cash flow forecasts
The Board has prepared cash flow forecasts for a period of 18 months from the date of approval of these financial statements. This base case scenario includes the benefits of actions already taken by management to mitigate the trading downsides brought by Covid-19, e.g. cancellation of dividends, significant reduction in capital investment, cancellation and rescheduling of stock orders, renegotiating property rents, participating in the government's job retention scheme, and taking advantage of other government support measures amongst other actions within their control. This base case assumes that the majority of stores are reopened for trading during June 2020, and gradually build back towards pre-Covid-19 levels of trade (88% of the value of budgeted sales) by December 2020. Under this base case scenario, the Group is expected to continue to have significant headroom relative to the funding available to it and to comply with its revised banking covenants.

The Board has also considered various other severe but plausable downside scenarios, including the possibility that the recovery of trade is much more sluggish than assumed in the base case. It has determined that even if sales were to remain significantly below budget for a longer period (79% of budgeted sales in December 2020), the Group would still expect to have sufficient headroom in its financing facilities. The Board does not regard a slower pace of recovery to be reasonably possible, but, in the event that it is, notes that further mitigations are within their control. However, in the event of another government imposed store closure in the later part of 2020 or early 2021 due to a second peak of Covid-19 infection, there is a risk of breaching the Group's new financial covenants. In such circumstances the Group would seek to agree a waiver or further variation of terms with the banks, who have been consistently supportive of the business but, the Board cannot predicts with certainty how the banks would respond.

Based on the above indications the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However, this material uncertainty, may cast significant doubt on the Group and Company's ability to continue as a going concern and therefore to realise its assets and discharge its liabilities in the normal course of business. The Board emphasises that this arises solely due to the global public health pandemic which is entirely outside the Group's influence or control. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Directors' Report *continued*

Longer-term viability

In accordance with the UK Corporate Governance Code, the Directors have assessed the viability of the Group over the five years to 31 January 2025. 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 45.

The Directors have determined that the five years to 31 January 2025 is an appropriate period over which to provide its viability statement being the timeframe used by the Board in its strategic planning process.

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

In particular, the Board has carried a detailed assessment of the possible impacts on the business of Covid-19. In doing so it has undertaken a rigorous assessment of the forecast outturns and assessed the downside risks and other mitigating actions that can be taken. The downside risks include alternative models for recovery of sales on reopening stores following three month closure scenarios and a number of severe but possible scenarios incorporating the potential for a second outbreak of Covid-19 and a prolonged period of closure of six months. In addition a reverse stress test model has been used to identify how sensitive the forecast is to both store closure and post-reopening like-for-like performance. These forecasts take into account the ongoing diligent approach the business is taking in respect to liquidity planning, cost control and capital investment and the proactive actions it is taking to ensure that trading can commence smoothly and safely once stores are able to reopen.

Assumption	Assumption limitations
New funding On 1 May 2020, Card Factory received confirmation that it can access funding under the Covid Corporate Financing Facility. The Bank of England and HM Treasury have jointly confirmed that they "will operate the facility for at least 12 months and for as long as steps are needed to relieve cash flow pressures on firms that make a material contribution to the UK economy."	The key limitation of this assumption relates to the extent to which the Group is able to draw down on the facility, as dictated by new covenants around; total net debt, cash burn and last twelve months EBITDA until June 2021, after which it is envisaged that the business will have a phased return back to existing covenant tests of EBITDA to Leverage and EBITDA to interest cover. However, covenant testing has been carried out accordingly and sufficient headroom was available under three-month closure scenarios.
Store closure / opening The three-month closure scenario assumes full estate closure up to and including 30 June 2020. A gradual return to normal levels of trading is assumed, plus only the opening of only seven new stores in FY21.	These assumptions are limited by the ongoing uncertainty over the decision by governments as to when current lock-down rules can be eased and to what extent they are eased. However, it appears increasingly likely that a large number of our UK stores will be able to trade in advance of 30 June 2020. The Board is also mindful of the uncertainty over how consumers will shop with social distancing measures applied in store and, more generally, to what extent retail consumers will return to the high street.
Capital investment The FY21 capital expenditure plan has been significantly reduced. All non-essential spend has ceased, including deferral of replacement manufacturing equipment and new store fit outs reduced to only seven stores. Only a small number of key projects, that support the Group's long term strategic objectives, will now be invested in.	There are no limitations to these assumptions, which are entirely within the control of the Board.

Assumption	Assumption limitations
Stock intake Stock intake and payment terms are being managed with suppliers.	There are no limitations to these assumptions.
Online performance For prudence, and because Online has historically been a relatively small part of the business, the closure scenarios included no upside on the original FY21 budget.	As with any forecast, there are limitations to the Online budget assumptions. However, with appropriate safety measures and controls in place, the Online businesses have continued to trade. While remaining a small part of the group, significant growth in visitors, conversion and sales have been recorded since the lock-down.
Distributions to shareholders In order to protect the business and its balance sheet at this uncertain time, the Board is not proposing to pay a final dividend in respect of FY20 and does not currently expect to pay an FY21 dividend.	There are no limitations to these assumptions.

Brexit

The Board remains mindful of the continuing risk to the business from the uncertainty surrounding the new rules for trade, travel, and business for the UK and EU once the transition period ends (currently 31 December 2020). The remains a short-to-medium term risk of FX volatility, which is mitigated via the Group's existing currency hedging policy and the business has alleviated its supply chain risk by implementing new processes in order to proactively manage threats to its inventory levels.

Board Assessment

The Board has reviewed the Group's detailed five-year strategic plan, including an assessment of key operational and financial assumptions, the three-month closure scenarios, extended closures (should relaxation of current lock-down rules be delayed), and reverse stress-testing. In assessing the viability assumptions, the Board has undertaken a rigorous assessment of the forecast outturns and assessed the downside risks and other mitigating actions that can be taken. The downside risks include a number of severe but possible scenarios incorporating the potential for a second outbreak of Covid-19 and a prolonged period of closure of six months. Under these severe but possible scenarios, the Board consider that in the event of a government imposed store closure due to a second peak of Covid-19 infection, there is a risk of breaching the Group's financial covenants, unless a waiver or further variation is agreed with the banks, however the banks have been very supportive to date. Whilst these reviews do not consider all of the risks that the Group might face, the Directors consider that this assessment of the Group's prospects is reasonable in the circumstances of the particular uncertainties presented at this time.

Whilst the audit report contains an emphasis of matter in respect of Covid-19, the Board is confident that the Group has access to sufficient liquidity for navigating the times ahead. This has been driven both by management focusing on cash conservation, its current banking facilities and the additional support from the Bank of England in responding to the consequences of Covid-19. In the shorter term, the cash conservation measures have included utilising relevant government schemes where applicable, managing stock intake and supplier terms and controlling the cost base. Capital investment has been focused on a small number of key projects that remain important to the Group's long-term strategic objectives. In addition, the business has in place an existing £200m Revolving Credit Facility ('RCF') maturing in October 2023 with our commercial banks, who have remained supportive of the business during this period. Alongside the current bank facilities, the Bank of England have confirmed access to additional funding under the Covid Corporate Financing Facility. As the impact of Covid-19 on trading diminish, the Group expects to pursue the 5-year plan.

In its latest assessment of potential returns of surplus cash to shareholders – which are discretionary - the Board has taken into account expected profitability, cash generation, the ongoing capital requirements of the business, and projected leverage ratios, all under the aforementioned store closure and reverse stress test scenarios. Accordingly, due to the uncertainty presented by Covid-19, the Board has taken the decision not to pay a final dividend in respect of FY20 and does not currently expect to pay a dividend in relation to FY21. The Group's dividend policy remains unchanged over the medium term, and the Board will regularly review the most appropriate actions to take in the shorter term as more is known about the timing of store re-openings and the impact Covid-19 has on consumer sentiment and desire to visit retail locations.

Directors' Report *continued*

The above situation gives rise to a material uncertainty, as defined in auditing and accounting standards, related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, due to a global public health pandemic that is entirely outside the Company's influence or control. In such circumstances, it may therefore be unable to realise its assets and discharge its liabilities in the normal course of business. Reflecting the Board's confidence that a second government imposed closure can be avoided, but that if it is to arise, mitigation can be taken, the Board confirm 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 2025.

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 2020 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.

AGM

The AGM of the Company will be held at 11.00am on 30 July 2020 at the Company's registered office at Century House, Brunel Road, 41 Industrial Estate, Wakefield, West Yorkshire WF2 0XG, however, due to the impact of Covid-19 and in accordance with the current government guidance against gatherings of more than two people, we do not intend to admit any shareholders in person at the AGM and have made arrangements for the quorum (which is any two shareholders or their proxies/corporate representatives) to be satisfied by the presence of two employee shareholders present in person. A formal notice of meeting, explanatory circular and a form of proxy will accompany this Annual Report and Accounts. Shareholders are encouraged to submit their votes by proxy in accordance with the instructions the enclosed documents.

Responsibility statement of the Directors in respect of the Annual Report and Accounts

This statement is set out on page 93.

Approval of the Annual Report

The Strategic Report and the Corporate Governance Report were approved by the Board on 1 June 2020 and signed on its behalf by

Ciaran Stone
Company Secretary
2 June 2020

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.

By order of the Board

Karen Hubbard
Chief Executive Officer
2 June 2020

Kristian Lee
Chief Financial Officer
2 June 2020

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 2020 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 inequity, Parent Company cash flow statement and the related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 January 2020 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 first appointed as auditor by the Company's members on 30 April 2014. The period of total uninterrupted engagement is for the 6 financial years ended 31 January 2020. 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	£3.45m (2019:£3.70m) 5% (2019:5%) of group profit before tax excluding non underlying items)	
Coverage	100% (2019:100%) of group profit before tax	
Key audit matters vs 2019		
Recurring risks	The impact of uncertainties due to the UK exiting the European Union on our audit	↓
	Going concern	↑
	Existence and accuracy of the stock counts for store inventory and accuracy of the costing calculations for all inventory	–
	Recoverability of parent company investments in subsidiaries	–
New risks	IFRS 16 subjective estimate	↑

2 Material uncertainty related to going concern

	The risk	Our response
Going concern We draw attention to note 1 to the financial statements which indicates that the ability of the Group and parent Company to continue as a going concern is dependent on the external lender not calling in the debt owing to it in the event of the Group and parent Company, in a severe but plausible downside scenario, breaching its covenant. These events and conditions, along with the other matters explained in note 1, constitute a material uncertainty that may cast significant doubt on the Group's and the parent Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.	**Disclosure quality** There is little judgement involved in the directors' conclusion that risks and circumstances described in note 1 to the financial statements represent a material uncertainty over the ability of the Group and parent Company to continue as a going concern for a period of at least a year from the date of approval of the financial statements. However, clear and full disclosure of the facts and the directors' rationale for the use of the going concern basis of preparation, including that there is a related material uncertainty, is a key financial statement disclosure and so was the focus of our audit in this area. Auditing standards require that to be reported as a key audit matter.	Our procedures included: ***Assessing transparency:*** We assessed the completeness and accuracy of the matters covered in the going concern disclosure by: • ***Our sector experience:*** We assessed and challenged the key assumptions in the prospective financial information prepared by the Group by benchmarking these against external economic forecasts. • ***Funding assessment:*** We obtained and inspected the signed banking agreement, bank approved revised covenant terms and Corporate Finance Funding Scheme ('CCFF') facility agreement, a commercial paper issued to eligible larger businesses who are experiencing disruption as a result of the COVID-19 pandemic, to ascertain the committed level of financing available to the Group and parent Company, the duration of the facilities and related covenant requirements. • ***Sensitivity analysis:*** We 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 and considered the impact of these on the available facility headroom and covenant compliance. We challenged the Group and performed stress testing over the key assumptions of the extent of the lockdown period in which stores will be closed, the recovery period of the retail store business and the potential impact of another government imposed store closure in the event of a second peak of the COVID 19 pandemic. This was done by benchmarking these key assumptions against external economic data. • ***Our results:*** We found the disclosure of the material uncertainty to be acceptable (FY19:No material uncertainty).

We are required to report to you if the directors' going concern statement under the Listing Rules set out on page 89 is materially inconsistent with our audit knowledge. We have nothing to report in this respect.

Independent Auditor's Report *continued*

3 Other key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, 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. Going concern is a significant key audit matter and is described in section 2 of our report. We summarise below the other 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 its effects are subject to unprecedented levels of uncertainty of consequences, 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
Existence and accuracy of store inventory and accuracy of the costing calculations for all inventory (£54.4 million; 2019: £68.6m) Refer to page 60 (Audit Committee Report), page 115 (accounting policy) and page 125 (financial disclosures).	***Physical quantities of store stock:*** Store inventory quantities held at the year end are determined by 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:*** The inventory costing calculations across both store and warehouse stock are manual in nature. Given the high volume and broad range of 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 and obtained confirmation from external counters where relevant. This informed the extent of our tests of details. ***Control operation:*** Evaluated the operating effectiveness of the controls over the Company's process for reviewing 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 the stock system and followed up on how variances within our sample had been resolved. ***Tests of details:*** Identified a selection of outlier stores based on a number of factors such as stock levels per square foot of selling space. For each outlier selected we evaluated the specific characteristics of the store (such as location) which led them to be outliers. Then assessed the stock levels recorded by comparison to other stores with similar characteristics. ***Re-performance:*** For a sample of inventory lines held in stores and in warehouses, 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 (2019 result: satisfactory).

Independent Auditor's Report *continued*

3 Other key audit matters: including our assessment of risks of material misstatement *continued*

	The risk	***Our response***
FRS16 Lease liability (£145.9m; 2019 (restated under fully retrospective application model): £151.2m) Refer to page 60 (Audit Committee Report), pages 116 and 117 (accounting policy) and pages 123 and 124 (financial disclosures).	***Subjective estimate*** Judgement arises in determining the lease term as this relies on assessing the likelihood of continued use of the leased asset after the contractually committed period. Estimation uncertainty arises in respect of the discount rate where the implicit rate in the lease is not available, as is typical in the Group's store leases. Small changes in either of these assumptions across a number of leases could lead to a material change in the valuation of lease liabilities. The effect of these matters is that, as part of our risk assessment for audit planning purposes, we determined that the level of lease liabilities had a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the accounts as a whole. In conducting our final audit work, we reassessed the degree of estimation uncertainty to be less than that materiality. ***Data capture*** The Group has over 1,000 stores which are all leased and is required to recognise a lease liability under IFRS 16 for all of these leases. The calculation of the lease liabilities requires input of complete and accurate lease population and attributes, and the appropriate application of transition options and practical expedients.	Our procedures included: ***Test of design:*** Evaluating management's process for identifying lease contracts to be assessed based on the fully retrospective transition approach and any practical expedients applied. ***Tests of detail:*** Evaluating the completeness, accuracy and relevance of data used in preparing the transition adjustments and lease liabilities and considered the appropriateness of the transition approach and practical expedients applied. ***Tests of details:*** Evaluating assumed lease terms with reference to contracts and legal rights; ***Historical comparisons:*** Comparing assumed lease terms with actual terms of leases which have expired or have been renewed during the period; ***Tests of detail:*** Corroborating the Group's credit risk assumption with reference to correspondence with bankers; ***Benchmarking assumptions:*** comparing the discount rates to the credit premium implicit with the Group's banking arrangements and our sector experience. ***Assessing transparency:*** Assessing the adequacy of the group's disclosures about the sensitivity of the valuation of lease liabilities to changes in key assumptions. ***Our results:*** We found the level of lease liabilities to be acceptable.

	The risk	Our response
Recoverability of parent company investments in subsidiaries (£316.2m; 2019: £316.2m) Refer to page 60 (Audit Committee Report), page 109 (accounting policy) and pages 121 and 122 (financial disclosures).	***Low risk, high value:*** The carrying amount of the Parent Company's investments, held at cost, represents 99.65% (2018: 98.45%) 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: ***Test of details:*** Compared the carrying amount of all of the investments with the respective subsidiaries' draft balance sheet 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; ***Test of details:*** Compared the carrying amount of investments in total against the market capitalisation of the Group at the year end.We challenged the Group on the items reconciling the difference between the carrying value of the investments and the market capitalisation at year end. ***Assessing subsidiary audits:*** Considering the results of the work performed on those subsidiaries' profits and net assets; and ***Our results:*** We found the Group's assessment of the recoverability of the investment in subsidiaries to be acceptable (2019 result: acceptable).

Independent Auditor's Report *continued*

4 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 3.45m (2019: 3.7m) determined by reference to a benchmark of Group profit before tax, normalised to exclude non underlying items (as described in note 3), of 67.2m (2019: 74.6m as previously reported not including the restatement under IFRS 16), of which it represents 5% (2019: 5%).

The materiality for the Parent Company financial statements as a whole has been set at 2.9m (2019: 3.5m) determined by reference to a benchmark of total assets of 317.3m (2019: 321.1m), of which it represents 0.9% (2019: 1.1%).

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 (2019: 50,000) in addition to other identified misstatements that warrant reporting on qualitative grounds.

Of the Group's 6 (2019: 3) reporting components we subjected all 6 (2019: 3) to audit for group reporting purposes. These components covered 100% of the total Group revenue (2019: 100%), 100% of the Group profit before taxation (2019: 100%) and 100% of total Group assets (2019: 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.

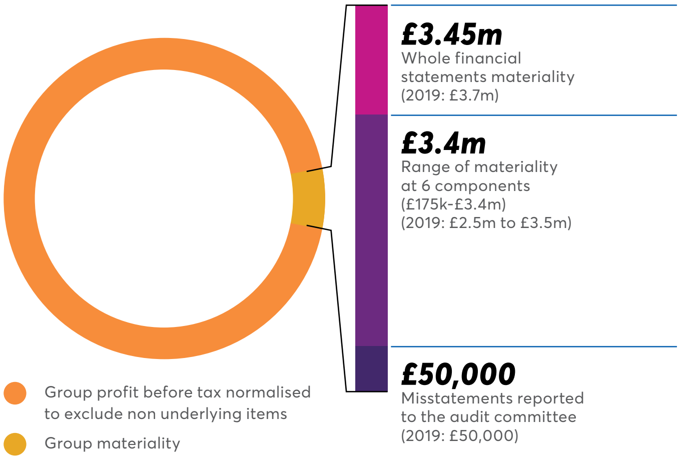
5 We have nothing to report on the other information in the Annual Report

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, indoing 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.

Group profit before tax, normalised to exclude non underlying items
£67.2m (2019: £74.6m)

Group Materiality
£3.45m (2019: £3.7m)



Group revenue

Group profit before tax

Group total assets

Group profit before tax, normalised to exclude non underlying items

Full scope for group audit purposes 2020

Full scope for group audit purposes 2019

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 emerging and principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, other than the material uncertainty related to going concern referred to above, we have nothing further material to add or draw attention to in relation to:

- the directors' confirmation within the viability statement page 90 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the 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 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 judgments 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.

Independent Auditor's Report *continued*

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the 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 93, the directors are responsible for: the preparation of thefinancial statements including being satisfied that they givea true and fair view; such internal control as they determineis necessary to enable the preparation of financialstatements that are free from material misstatement,whether due to fraud or error; assessing the Group andparent 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 unlessthey either intend to liquidate the Group or the parentCompany or to cease operations, or have no realisticalternative 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, through discussion with the directors and other management (as required by auditing standards), and from inspection of the group's regulatory and legal correspondence 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. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law, and certain aspects of company legislation recognising the 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.

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 non-compliance 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.

Nick Plumb (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA
2 June 2020

Consolidated income statement
For the year ended 31 January 2020

		2020			2019 restated (note 30)		
	Note	**Underlying £'m**	**Non-underlying (note 3) £'m**	**Total £'m**	Underlying £'m	Non-underlying (note 3) £'m	Total £'m
Revenue		**451.5**	**–**	**451.5**	436.0	–	436.0
Cost of sales		**(289.8)**	**0.5**	**(289.3)**	(270.4)	4.2	(266.2)
Gross profit		**161.7**	**0.5**	**162.2**	165.6	4.2	169.8
Operating expenses		**(86.1)**	**(2.5)**	**(88.6)**	(81.0)	(11.9)	(92.9)
Operating profit/(loss)	3,4	**75.6**	**(2.0)**	**73.6**	84.6	(7.7)	76.9
Finance expense	7	**(8.4)**	**–**	**(8.4)**	(8.4)	(0.3)	(8.7)
Profit/(loss) before tax		**67.2**	**(2.0)**	**65.2**	76.2	(8.0)	68.2
Taxation	8	**(13.5)**	**(0.1)**	**(13.6)**	(14.8)	(0.7)	(15.5)
Profit/(loss) for the year		**53.7**	**(2.1)**	**51.6**	61.4	(8.7)	52.7

Earnings per share		**pence**		**pence**	pence	pence
– Basic and diluted	10	**15.7**		**15.1**	18.0	15.4

All activities relate to continuing operations.

The notes that accompany these financial statements are included on pages 109 to 140.

Consolidated statement of comprehensive income
For the year ended 31 January 2020

	2020 £'m	2019 restated (note 30) £'m
Profit for the year	***51.6***	52.7
Items that are or *may be recycled subsequently into profit or loss:*		
Cash flow hedges – changes in fair value	***0.6***	6.5
Cost of hedging reserve – changes in fair value	***1.7***	–
Cost of hedging reserve – reclassified to profit or loss	***(0.1)***	–
Tax relating to components of other comprehensive income (note 14)	***(0.4)***	(1.4)
Other comprehensive expense for the period, net of income tax	***1.8***	5.1
Total comprehensive income for the period attributable to equity shareholders of the parent	***53.4***	57.8

The notes that accompany these financial statements are included on pages 109 to 140.

Consolidated statement of financial position
As at 31 January 2020

	Note	2020 £'m	2019 restated (note 30) £'m	2018 restated (note 30) £'m
Non-current assets				
Intangible assets	11	**319.8**	320.2	331.6
Property, plant and equipment	12	**41.6**	40.4	40.0
Right of use assets	13	**132.4**	135.9	132.7
Deferred tax assets	14	**2.7**	2.4	3.7
Derivative financial instruments	24	**0.5**	0.1	0.2
		497.0	499.0	508.2
Current assets				
Inventories	15	**54.4**	68.6	52.1
Trade and other receivables	16	**10.8**	8.6	8.3
Derivative financial instruments	24	**1.1**	2.3	0.3
Cash and cash equivalents	17	**5.5**	3.8	3.6
		71.8	83.3	64.3
Total assets		**568.8**	582.3	572.5
Current liabilities				
Borrowings	18	**(3.6)**	(0.1)	(14.9)
Lease liabilities	13	**(40.7)**	(38.9)	(37.1)
Trade and other payables	19	**(45.0)**	(58.2)	(32.6)
Tax payable		**(6.5)**	(7.7)	(5.5)
Derivative financial instruments	24	**(1.0)**	(0.2)	(7.0)
		(96.8)	(105.1)	(97.1)
Non-current liabilities				
Borrowings	18	**(144.0)**	(143.7)	(149.6)
Lease liabilities	13	**(105.2)**	(112.3)	(112.5)
Derivative financial instruments	24	**(1.3)**	(1.1)	(3.4)
		(250.5)	(257.1)	(265.5)
Total liabilities		**(347.3)**	(362.2)	(362.6)
Net assets		**221.5**	220.1	209.9
Equity				
Share capital	20	**3.4**	3.4	3.4
Share premium	20	**202.2**	202.2	202.2
Hedging reserve		**(1.6)**	0.9	(4.4)
Cost of hedging reserve		**1.1**	0.4	(0.1)
Reverse acquisition reserve		**(0.5)**	(0.5)	(0.5)
Merger reserve		**2.7**	2.7	2.7
Retained earnings		**14.2**	11.0	6.6
Equity attributable to equity holders of the parent		**221.5**	220.1	209.9

The financial statements on pages 104 to 140 were approved by the Board of Directors on 1 June 2020 and were signed on its behalf by:

Kristian Lee
Chief Financial Officer
2 June 2020

The notes that accompany these financial statements are included on pages 109 to 140.

Consolidated statement of changes in equity

For the year ended 31 January 2020

	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 31 January 2018 (as previously reported – note 29)	3.4	202.2	(4.4)	(0.1)	(0.5)	2.7	15.6	218.9
Adjustment (note 30)	–	–	–	–	–	–	(9.0)	(9.0)
At 1 February 2018 (restated)	3.4	202.2	(4.4)	(0.1)	(0.5)	2.7	6.6	209.9
Total comprehensive income for the period								
Profit or loss	–	–	–	–	–	–	52.7	52.7
Other comprehensive income	–	–	5.3	1.0	–	–	–	6.3
	–	–	5.3	1.0	–	–	52.7	59.0
Hedging gains/(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 (restated – note 30)	3.4	202.2	0.9	0.4	(0.5)	2.7	11.0	220.1
Total comprehensive income for the period								
Profit or loss	–	–	–	–	–	–	51.6	51.6
Other comprehensive income	–	–	0.5	1.3	–	–	–	1.8
	-	-	0.5	1.3	-	-	51.6	53.4
Hedging gains/(losses) and costs of hedging transferred to the cost of inventory	–	–	(3.6)	(0.8)	–	–	–	(4.4)
Deferred tax on transfers to inventory	–	–	0.6	0.2	–	–	–	0.8
Transactions with owners, recorded directly in equity								
Share-based payment charges (note 25)	–	–	–	–	–	–	0.5	0.5
Dividends (note 9)	–	–	–	–	–	–	(48.9)	(48.9)
Total contributions by and distributions to owners	–	–	–	–	–	–	(48.4)	(48.4)
At 31 January 2020	3.4	202.2	(1.6)	1.1	(0.5)	2.7	14.2	221.5

The notes that accompany these financial statements are included on pages 109 to 140.

Consolidated cash flow statement
For the year ended 31 January 2020

	Note	2020 £'m	2019 restated (note 30) £'m
Cash inflow from operating activities	21	**124.8**	142.1
Corporation tax paid		**(14.6)**	(13.4)
Net cash inflow from operating activities		**110.2**	128.7
Cash flows from investing activities			
Purchase of property, plant and equipment	12	**(11.0)**	(10.4)
Purchase of intangible assets	11	**(3.5)**	(1.7)
Proceeds from disposal of fixed assets		**0.4**	0.2
Net cash outflow from investing activities		**(14.1)**	(11.9)
Cash flows from financing activities			
Interest paid		**(8.0)**	(7.9)
Repayment of bank borrowings		**–**	(6.4)
Payment of lease liabilities		**(41.0)**	(38.5)
Dividends paid	9	**(48.9)**	(48.9)
Net cash outflow from financing activities		**(97.9)**	(101.7)
Net (decrease)/increase in cash and cash equivalents		**(1.8)**	15.1
Cash and cash equivalents at the beginning of the year		**3.8**	(11.3)
Closing cash and cash equivalents	17	**2.0**	3.8

The notes that accompany these financial statements are included on pages 109 to 140.

Notes to the financial statement

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 16 *Leases* has been applied. The significant accounting policies described below reflect the policies in accordance with the new standard. See note 30 for details of the transition to IFRS 16.

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. The Group has not identified any significant judgements and estimates in the period however, has disclosed estimates and judgements identified below:

Judgements and estimates

Goodwill impairment testing

The annual impairment testing of goodwill requires judgement in determining the assumptions to be used to estimate the recoverable amount. The recoverable amount of the cash generating units ('CGUs'), which is based on the higher of the value in use or fair value less costs to sell, has been derived from discounted forecast cash flow models. These models use several key assumptions, including estimates of future revenues, operating costs, terminal value growth rates and the pre-tax discount rate. During the period goodwill attributable to the Getting Personal CGU has been impaired to nil (see note 11).

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.

Leases

In assessing lease term the Group is required to exercise judgement, in particular whether it is reasonably likely to exercise options to break leases.

Going concern

Covid-19 gave rise to judgements both in respect to being an adjusting event or not (see note 32) and in relation to the basis of preparation for the financial statements (see below).

Going concern

In assessing the appropriateness of the going concern assumption, the Board has considered the availability of funding alongside the possible cash requirements of the Group and Company, taking into account the unprecedented circumstances caused by Covid-19.

Notes to the financial statement *continued*

1 Accounting policies *continued*

Going concern *continued*

Availability of funding

The Group has entered into a revised agreement with its banking partners. This will enable it to utilise not only the full Revolving Credit Facility ('RCF') of £200m but also to utilise secured funding from the Bank of England Covid Corporate Financing Facility to the extent that the combined draw down on facilities net of cash do not exceed a monthly cap, which varies from month-to-month as agreed with the banking partners, of up to £275m at their peak. Under the revised covenant terms, the Group's existing covenant requirements have lapsed immediately and have been replaced by three new covenant tests relating to net debt; cash burn; and last twelve months EBITDA. These tests will be applied monthly until June 2021, after which it is envisaged that the business will have a phased return to existing six-monthly covenant tests of net debt to EBITDA and interest cover.

Cash flow forecasts

The Board has prepared cash flow forecasts for a period of 18 months from the date of approval of these financial statements. This base case scenario includes the benefits of actions already taken by management to mitigate the trading downsides brought by Covid-19, e.g. cancellation of dividends, significant reduction in capital investment, cancellation and rescheduling of stock orders, renegotiating property rents, participating in the government's job retention scheme, and taking advantage of other government support measures amongst other actions within their control. This base case assumes that the majority of stores are reopened for trading during June 2020, and gradually build back towards pre-Covid-19 levels of trade (88% of the value of budgeted sales) by December 2020. Under this base case scenario, the Group is expected to continue to have significant headroom relative to the funding available to it and expects to comply with its revised banking covenants.

The Board has also considered various other severe but plausible downside scenarios, including the possibility that the recovery of trade is much more sluggish than assumed in the base case. It has determined that even if sales were to remain significantly below budget for a longer period (79% of budgeted sales in December 2020), the Group would still expect to have sufficient headroom in its financing facilities. The Board does not regard a slower pace of recovery to be reasonably possible but, in the event that it is, notes that further mitigations are within their control. However, in the event of another government imposed store closure in the later part of 2020 or early 2021 due to a second peak of Covid-19 infection, there is a risk of breaching the Group's new financial covenants. In such circumstances the Group would seek to agree a waiver or further variation of terms with the banks, who have been consistently supportive of the business, but the Board cannot predict with certainty how the banks would respond.

Based on the above indications the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However, this material uncertainty, may cast significant doubt on the Group and Company's ability to continue as a going concern and therefore to realise its assets and discharge its liabilities in the normal course of business. The Board emphasises that this arises solely due to the global public health pandemic which is entirely outside the Group's influence or control. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Principal accounting policies

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

Changes in significant accounting policies

The Group has adopted IFRS 16 *Leases* on a fully retrospective basis and has therefore restated the previously reported consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position and consolidated cash flow statement for the year ended 31 January 2019 and the consolidated statement of financial position as at 31 January 2018. The changes in accounting policies for IFRS 16 and the impact on the financial statements are detailed in note 30.

Other new standards effective in the period do not have a material effect on the Group's financial statements.

Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Group has not early-adopted the new or amended standards in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements:

- Amendments to References to Conceptual Framework in IFRS Standards.
- Definition of a Business (Amendments to IFRS 3).
- Definition of Material (Amendments to IAS 1 and IAS 8).
- IFRS 17 Insurance Contracts.

Basis of consolidation

Subsidiaries

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

Business combinations

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

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

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

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

Revenue

Group revenue is principally attributable to the retail sale of cards, dressings and gifts subject to a single performance obligation fulfilled by receipt of goods at the point of payment with minimal returns and refunds. Revenue is recognised at the point the customer is deemed to have taken delivery of the goods.

Revenue attributable to retail partners and non-retail customers represents circa 1% of Group revenue and is typically characterised by single performance obligations and standard Group products. Certain contracts with retail partners are subject to a cost of entering into the contract along with a minimum order quantity and volume-related rebate for an initial period of the contract. Revenue subject to potential rebate is deferred as a contract liability to the extent the rebate remains a potential contractual liability. Costs of entering into a contract are treated as a contract asset and expensed to the income statement, as performance obligations are fulfilled for goods subject to the minimum order quantity.

Finance expense

Finance expense comprises interest charges, including interest on leases under IFRS 16, 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.

Interest expense is 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. Accounting policies for leases are detailed separately.

Notes to the financial statement *continued*

1 Accounting policies *continued*

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

In both the current and prior 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 both years.

Refinanced debt issue cost amortisation – prior year
Debt issue costs totalling £0.3 million were expensed to the income statement in the prior 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 was presented as a non-underlying item.

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. Accounting policies for lease liabilities are detailed separately.

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.

Derivative financial instruments not designated as an effective hedging relationship 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 determines the existence of an economic relationship between the hedging instrument and hedged item based on the currency, amount and timing of their respective cash flows, applying a hedge ratio of 1:1. The Group assesses whether the derivative designated in each hedging relationship is expected to be and has been effective in offsetting changes in cash flows of the hedged item using the hypothetical derivative method.

Notes to the financial statement *continued*

1 Accounting policies *continued*

Derivative financial instruments *continued*

Cash flow hedges *continued*

In these hedge relationships, the main sources of ineffectiveness are:

- changes in the timing of the hedged transactions,
- the effect of the counterparties' and the Group's own credit risk on the fair value of the forward foreign exchange contracts, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in exchange rates.

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 within the Group through the Card Factory Restricted Share Awards Scheme ('RSA') (previously through the Long Term Incentive Plan) 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.

Leases
IFRS 16 *Leases* (effective for annual periods beginning on or after 1 January 2019) replaced IAS 17 and related interpretations. The Group has adopted a fully-retrospective application of the standard.

Definition of a lease
Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. Contracts that were not identified as leases under IAS 17 and IFRC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 February 2019.

The Group has recognised its entire store-lease portfolio, some warehousing locations, two office locations and motor vehicles as lease contracts. Other contracts assessed, including distribution contracts and IT equipment, are deemed not to be a lease within the definition of IFRS 16 or are subject to the election not to apply the requirements of IFRS 16 to short-term or low-value leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Notes to the financial statement *continued*

1 Accounting policies *continued*

Leases *continued*

Definition of a lease *continued*

For property leases containing a non-lease component (for instance a lease inclusive of rates and service charge), the Group has elected to apply the practical expedient not to separate the non-lease component from the lease component and treat the whole contract as a lease. A small proportion of the store lease portfolio are subject to an element of turnover-linked variable rents that are excluded from the definition of a lease under IFRS 16. The Group does not have significant lessor contracts.

Accounting as a lessee

The Group recognises a right-of-use asset and a lease liability at the lease commencement date The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. The right-of-use asset is periodically reduced by any impairment losses, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Typically, the Group uses its incremental borrowing rate, at the date of lease commencement, as the discount rate.

The Group determines its incremental borrowing rate by reference to its own funding arrangements which are subject to leverage margin ratchets, variable three month LIBOR interest rates and periodic refinancing, thereby ensuring they remain a reasonable reflection of the Group's current borrowing costs. The Group's leases are predominantly in respect of its store portfolio, which represent the majority of the Group's revenue and therefore the Group's borrowing costs, as at the date of lease commencement, are deemed to be representative of the incremental borrowing costs for additions to right-of-use assets. The Group does not believe there are significant differences between the risk margins that would apply across its lease portfolio. The term and payment profile are reflected in the discount rate applied to each individual lease by virtue of the variable interest-curve component of the incremental borrowing rate.

The assessment of lease term may include the application of judgement, particularly in respect of options to break often included in the Group's property leases. The Group assesses lease term as the non-cancellable period of the lease plus an assessment of reasonably certain, continued tenancy in respect of tenant options to break. Where a lease expires without the completion of a new lease, but the asset remains in use, the Group assumes (other than by exception) a new five-year lease at expiring rates until a new lease is completed.

After initial recognition, the lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index, rate or contractual market rent review or if the Group changes its assessment of whether it will exercise a break option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

2 Segmental reporting

The Group has two operating segments trading under the names Card Factory and Getting Personal. Card Factory retails greeting cards, dressings and gifts, principally through an extensive UK store network, with a small number of stores in the Republic of Ireland. 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 retail partners and non-retail customers and revenue from outside the UK are circa 1% of Group revenue.

3 Non-underlying items

	2020 £'m	2019 £'m
Cost of sales		
Profit on foreign currency derivative financial instruments not designated as a hedge (note 24)	**0.5**	4.2
Operating expenses		
Impairment of goodwill (note 11)	**(2.5)**	(11.9)
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:

	2020 £'m	2019 restated (note 30) £'m
Staff costs (note 6)	**121.8**	114.4
Depreciation expense		
– owned fixed assets (note 12)	**9.6**	9.7
– right-of-use assets (note 13)	**38.9**	37.0
Amortisation expense (note 11)	**1.4**	1.2
Impairment of right-of-use assets (note 13)	**0.4**	0.2
Profit on disposal of fixed assets	**(0.3)**	(0.4)
Foreign exchange gain	**(1.5)**	(5.7)
Impairment of goodwill (note 11)	**2.5**	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:

	2020 £'000	2019 £'000
Audit of the consolidated and Company financial statements	**23**	23
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the Company	**167**	104
Other services closely related to the audit	**7**	7
Total fees	**197**	134

Notes to the financial statement *continued*

5 Adjusted EBITDA

Adjusted earnings before interest, tax, depreciation and amortisation ('Adjusted EBITDA') represents profit for the period before net finance expense, taxation, depreciation and amortisation ('EBITDA'), adjusted to remove the impact of adopting IFRS16 *Leases*.

		2020			2019		
	Note	Underlying £'m	Non-underlying (note 3) £'m	Total £'m	Underlying £'m	Non-underlying (note 3) £'m	Total £'m
Operating profit		75.6	(2.0)	73.6	84.6	(7.7)	76.9
Depreciation, amortisation and impairment	4	50.3	2.5	52.8	48.1	11.9	60.0
EBITDA		125.9	0.5	126.4	132.7	4.2	136.9
IAS 17 income statement charges not recognised under IFRS 16		(44.6)	–	(44.6)	(42.9)	–	(42.9)
Profit on lease disposal recognised under IFRS 16		(0.1)	–	(0.1)	(0.4)	–	(0.4)
Adjusted EBITDA		81.2	0.5	81.7	89.4	4.2	93.6

6 Employee numbers and costs

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

	2020 Number	2019 Number
Management and administration	429	416
Operations	9,213	9,568
	9,642	9,984

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

	2020 £'m	2019 £'m
Employee wages and salaries	109.1	103.1
Equity-settled share-based payment expense	0.5	0.6
Social security costs	6.7	6.3
Defined contribution pension costs	1.4	0.8
Total employee costs	117.7	110.8
Agency labour costs	4.1	3.6
Total staff costs	121.8	114.4

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:

	2020 £'m	2019 £'m
Salaries and short-term benefits	4.1	3.4
Equity-settled share-based payment expense	0.3	0.4
Social security costs	0.5	0.4
Defined contribution pension costs	0.1	0.1
	5.0	4.3

Further details of Directors' remuneration are disclosed in the Directors' Remuneration Report on pages 66 to 83.

7 Finance expense

	2020 £'m	2019 restated (note 30) £'m
Finance expense		
Interest on bank loans and overdrafts	4.0	3.5
Amortisation of loan issue costs	0.3	0.5
Lease interest	4.0	4.5
Loss on interest rate derivative contracts	0.1	0.2
	8.4	8.7

Amortisation of loan-issue costs include £nil (2019: £0.3 million) 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

	2020 £'m	2019 restated (note 30) £'m
Current tax expense		
Current year	13.5	15.7
Adjustments in respect of prior periods	–	(0.1)
	13.5	15.6
Deferred tax (credit)/charge		
Origination and reversal of temporary differences	–	(0.1)
Effect of change in tax rate	0.1	–
	0.1	(0.1)
Total income tax expense	13.6	15.5

The effective tax rate of 20.8% (2019: 22.8%) is higher than the standard rate of corporation tax in the UK principally in respect of non-deductible impairments in both years. The tax charge is reconciled to the standard rate of UK corporation tax as follows:

	2020 £'m	2019 restated (note 30) £'m
Profit before tax	65.2	68.2
Tax at the standard UK corporation tax rate of 19.0% (2019: 19.0%)	12.4	13
Tax effects of:		
Expenses not deductible for tax purposes	1.1	2.6
Adjustments in respect of prior periods	–	(0.1)
Effect of change in tax rate	0.1	–
Total income tax expense	13.6	15.5

Total taxation recognised through the income statement, other comprehensive income and through equity are as follows:

	2020			2019 restated (note 30)		
	Current £'m	Deferred £'m	Total £'m	Current £'m	Deferred £'m	Total £'m
Income statement	13.5	0.1	13.6	15.6	(0.1)	15.5
Other comprehensive income	–	0.4	0.4	–	1.4	1.4
Equity	–	(0.8)	(0.8)	–	–	–
Total tax	13.5	(0.3)	13.2	15.6	1.3	16.9

Notes to the financial statement *continued*

9 Dividends

The Board is not recommending a final dividend in respect of the financial year ended 31 January 2020 (2019: 6.4 pence per share resulting in a total final dividend of £21.9 million).

Dividends paid in the year:	Pence per share	2020 £'m	2019 £'m
Special dividend for the year ended 31 January 2020	5.0p	**17.1**	–
Interim dividend for the year ended 31 January 2020	2.9p	**9.9**	–
Final dividend for the year ended 31 January 2019	6.4p	**21.9**	–
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
Total dividends paid to shareholders in the year		**48.9**	48.9
Dividend equivalents paid under long term incentive schemes		**–**	–
Total dividends per the cash flow statement		**48.9**	48.9

Dividend equivalents totalling £nil (2019: £0.1 million) 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.

	2020 (Number)	2019 restated (note 30) (Number)
Weighted-average number of shares in issue	**341,575,284**	341,527,355
Weighted-average number of dilutive share options	**–**	–
Weighted-average number of shares for diluted earnings per share	**341,575,284**	341,527,355
	£'m	£'m
Profit for the financial period	**51.6**	52.7
Non-underlying items	**2.1**	8.7
Total underlying profit for underlying earnings per share	**53.7**	61.4
	pence	pence
Basic earnings per share	**15.1**	15.4
Diluted earnings per share	**15.1**	15.4
Underlying basic earnings per share	**15.7**	18.0
Underlying diluted earnings per share	**15.7**	18.0

11 Intangible assets

	Goodwill £'m	Software £'m	Total £'m
Cost			
At 1 February 2019	328.2	10.6	338.8
Additions	–	3.5	3.5
At 31 January 2020	328.2	14.1	342.3
Amortisation/impairment			
At 1 February 2019	11.9	6.7	18.6
Amortisation in the period	–	1.4	1.4
Impairment in the period	2.5	–	2.5
At 31 January 2020	14.4	8.1	22.5
Net book value			
At 31 January 2020	**313.8**	**6.0**	**319.8**
At 31 January 2019	316.3	3.9	320.2

	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

Impairment testing

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

	2020 £'m	2019 £'m
Card Factory	**313.8**	313.8
Getting Personal	**–**	2.5

The recoverable amounts has 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% (2019: 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 operational costs. 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 12.0% (2019: 10.5%) for Card Factory.

Notes to the financial statement *continued*

11 Intangible assets *continued*

Impairment testing *continued*

Card Factory

No impairment loss was identified in respect of the Card Factory CGU (2019: £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. The Board view the Covid-19 pandemic as a non-adjusting post balance sheet event (see note 31). Whilst the impact of Covid-19 remains uncertain, the Board do not anticipate that Covid-19 would have resulted in an impairment of the Card Factory CGU.

Getting Personal

Following continued deterioration in performance, a reduction in management expectations of future performance for the Getting Personal CGU gave rise to a £2.5 million impairment (2019: £11.9 million), representing a full impairment of the CGU. Despite the improvement in trading of the Getting Personal online business during the current lock-down, a strategic review has resulted in the decision to integrate the business as a separate brand on the new Card Factory platform. Operating the business in this way allows both brands to be leveraged against a single, online cost base.

12 Property, plant and equipment

	Freehold property £'m	Leasehold improvements £'m	Plant, equipment, fixtures & vehicles £'m	Total £'m
Cost				
At 1 February 2019	17.5	38.1	59.2	114.8
Additions	–	2.6	8.4	11.0
Disposals	–	(0.4)	(1.2)	(1.6)
At 31 January 2020	17.5	40.3	66.4	124.2
Depreciation				
At 1 February 2019	3.1	29.3	42.0	74.4
Depreciation in the period	0.4	3.4	5.8	9.6
Depreciation on disposals	–	(0.3)	(1.1)	(1.4)
At 31 January 2020	3.5	32.4	46.7	82.6
Net book value				
At 31 January 2020	**14.0**	**7.9**	**19.7**	**41.6**
At 31 January 2019	14.4	8.8	17.2	40.4

	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
Depreciation on 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

13 Leases

The Group has lease contracts, within the definition of IFRS 16 *Leases*, in relation to its entire store lease portfolio, some warehousing locations, two office locations and motor vehicles. Other contracts, including distribution contracts and IT equipment, are deemed not to be a lease within the definition of IFRS 16 or are subject to the election not to apply the requirements of IFRS 16 to short-term or low-value leases. Accounting policies for leases are detailed in note 1. Assets, liabilities and the income statement expense in relation to leases are detailed below. All amounts in relation to IFRS 16 *Leases* were recognised on transition to the new standard, therefore all comparative figures are restated. See note 30 for details of the transition to IFRS 16 *Leases*.

Right-of-use assets

	Buildings £'m	Motor vehicles £'m	Total £'m
Cost			
At 1 February 2019 (restated)	311.6	1.0	312.6
Additions	35.9	0.5	36.4
Disposals	(23)	(0.2)	(23.2)
At 31 January 2020	324.5	1.3	325.8
Depreciation and impairment			
At 1 February 2019 (restated)	176.1	0.6	176.7
Depreciation in the period	38.6	0.3	38.9
Impairment in the period	0.4	0.0	0.4
Depreciation on disposals	(22.3)	(0.2)	(22.5)
Impairment on disposals	(0.1)	0.0	(0.1)
At 31 January 2020	192.7	0.7	193.4
Net book value			
At 31 January 2020	***131.8***	***0.6***	***132.4***
At 31 January 2019 (restated)	135.5	0.4	135.9

Restated	Buildings £'m	Motor vehicles £'m	Total £'m
Cost			
At 1 February 2018	291.5	0.9	292.4
Additions	41.9	0.3	42.2
Disposals	(21.8)	(0.2)	(22.0)
At 31 January 2019	311.6	1.0	312.6
Depreciation and impairment			
At 1 February 2018	159.2	0.5	159.7
Depreciation in the period	36.7	0.3	37.0
Impairment in the period	0.2	0.0	0.2
Depreciation on disposals	(19.8)	(0.2)	(20.0)
Impairment on disposals	(0.2)	0.0	(0.2)
At 31 January 2019	176.1	0.6	176.7
Net book value			
At 31 January 2019	135.5	0.4	135.9
At 31 January 2018	132.3	0.4	132.7

Disposals and depreciation on disposals include fully depreciated right-of-use assets in respect of leases that expired but the asset remained in use whilst a lease-renewal was negotiated.

Notes to the financial statement *continued*

13 Leases *continued*

Lease liabilities

	2020 £'m	2019 £'m
Current lease liabilities	**(40.7)**	(38.9)
Non-current lease liabilities	**(105.2)**	(112.3)
Total lease liabilities (note 22)	**(145.9)**	(151.2)

Lease expense:

Total lease related expenses	2020 £'m	2019 £'m
Depreciation expense on right-of-use assets	**38.9**	37.0
Impairment of right-of-use assets (note 13)	**0.4**	0.2
Profit on disposal of fixed assets	**(0.1)**	(0.4)
Lease interest	**4.0**	4.5
Expense relating to short-term and low-value leases*	**0.5**	0.7
Expense relating to variable lease payments**	**(0.3)**	0.4
Total lease related income statement expense	**43.4**	42.4

* Contracts subject to the election not to apply the requirements of IFRS 16 to short-term or low-value leases.
** A small proportion of the store lease portfolio is subject to an element of turnover-linked variable rents that is excluded from the definition of a lease under IFRS 16.

14 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	IFRS 16 Leases restated (note 30) £'m	Other timing differences £'m	Total £'m
At 31 January 18 (as previously reported – note 29)	0.2	0.1	1.1	–	0.4	1.8
Adjustment (note 30)	–	–	–	1.9	–	1.9
At 1 February 2018 (restated)	0.2	0.1	1.1	1.9	0.4	3.7
Credit/(charge) to income statement	0.2	–	–	(0.3)	0.2	0.1
Charge to other comprehensive income	–	–	(1.4)	–	–	(1.4)
At 31 January 2019 (restated)	0.4	0.1	(0.3)	1.6	0.6	2.4
(Charge)/credit to income statement	(0.2)	–	–	(0.2)	0.3	(0.1)
Charge to other comprehensive income	–	–	(0.4)	–	–	(0.4)
Credit to equity	–	–	0.8	–	–	0.8
At 31 January 2020	**0.2**	**0.1**	**0.1**	**1.4**	**0.9**	**2.7**

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:

	2020 £'m	2019 restated (note 30) £'m
Deferred tax assets	**2.7**	2.4
Deferred tax liabilities	**–**	–
Net deferred tax asset	**2.7**	2.4

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016, and the UK deferred tax asset as at 31 January 2020 has been calculated based on this rate. In the 11 March 2020 Budget it was announced that the UK tax rate will remain at the current 19% and not reduce to 17% from 1 April 2020. This will have a consequential effect on the Group's future tax charge. If this rate change had been substantively enacted at 31 January 2020 the deferred tax asset would have increased by £0.3 million.

15 Inventories

	2020 £'m	2019 £'m
Finished goods	**53.9**	67.9
Work in progress	**0.5**	0.7
	54.4	68.6

The cost of inventories recognised as an expense and charged to cost of sales in the year was £137.3 million (2019: £127.8 million).

16 Trade and other receivables

	2020 £'m	2019 restated (note 30) £'m
Current		
Trade receivables	**1.6**	0.3
Other receivables	**1.0**	0.6
Prepaid property costs	**4.4**	4.6
Other prepayments and accrued income	**3.5**	3.1
Contract assets	**0.3**	–
	10.8	8.6

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 retail partners and non-retail sales which currently represent circa 1% of Group revenue. No significant impairment loss has been recorded against trade receivables.

17 Cash and cash equivalents

	2020 £'m	2019 £'m
Cash at bank and in hand	**5.5**	3.8
Unsecured bank overdraft (note 18)	**(3.5)**	–
Net cash and cash equivalents	**2.0**	3.8

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

	2020 £'m	2019 £'m
Sterling	**(9.3)**	2.8
Euro	**0.5**	0.3
US dollar	**10.8**	0.7
	2.0	3.8

Notes to the financial statement *continued*

18 Borrowings

	2020 £'m	2019 £'m
Current liabilities		
Unsecured bank loans and accrued interest	**0.1**	0.1
Unsecured bank overdraft	**3.5**	–
	3.6	0.1
Non-current liabilities		
Unsecured bank loans	**144.0**	143.7

Bank loans

Bank borrowings are summarised as follows:

	Liability £'m	Interest rate %	Interest margin ratchet range %	Repayment terms
31 January 2020				
Unsecured bank loan	145.0	1.65 + LIBOR	1.00 – 2.50	£200m RCF
Accrued interest	0.1			The facility terminates on 31 October 2023
Debt-issue costs	(1.0)			
	144.1			
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			

The Group borrowing facility at 31 January 2020 consisted 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 1.65% at 31 January 2020). The facilities are subject to financial covenants typical to an arrangement of this nature.

Covid-19

As announced on 6 May 2020, the Group has entered into an agreement with our banks to enable us to utilise the full Revolving Credit Facility ('RCF') of £200m and utilise the secured funding from the Bank of England Covid Corporate Financing Facility to ensure the business has sufficient liquidity in this uncertain period, if required. In order to do this, the Group has agreed three main covenant tests around total net debt, cash burn and last twelve months' EBITDA until June 2021, after which it is envisaged that the business will have a phased return to existing covenant tests of EBITDA to Leverage and EBITDA to interest cover.

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

19 Trade and other payables

	2020 £'m	2019 restated (note 30) £'m
Current		
Trade payables	**15.0**	19.4
Other taxation and social security	**3.7**	19.9
Contract liabilities	**0.6**	–
Property accruals	**4.4**	3.5
Other accruals and deferred income	**21.3**	15.4
	45.0	58.2

The Group has net US Dollar denominated trade and other payables of £3.1 million (2019: £8.4 million).

20 Share capital and share premium

	2020 (Number)	2019 (Number)
Share capital		
Allotted, called-up and fully-paid ordinary shares of one pence:		
At the start of the period	341,549,306	341,459,281
Issued in the period (note 25)	77,090	90,025
At the end of the period	341,626,396	341,549,306

	£'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	202.2
Issued in the period (note 25)	–	–
At the end of the period	202.2	202.2

21 Notes to the cash flow statement

Reconciliation of operating profit to cash generated from operations

	2020 £'m	2019 restated (note 30) £'m
Profit before tax	65.2	68.2
Net finance expense	8.4	8.7
Operating profit	73.6	76.9
Adjusted for:		
Depreciation and amortisation	49.9	47.9
Impairment of right-of-use assets	0.4	0.2
Goodwill impairment	2.5	11.9
Loss on disposal of fixed assets	(0.3)	(0.3)
Cash flow hedging foreign currency movements	0.2	–
Share-based payments charge	0.5	0.6
Operating cash flows before changes in working capital	126.8	137.2
Increase in receivables	(2.9)	0.1
Decrease/(increase) in inventories	14.2	(16.5)
(Decrease)/increase in payables	(13.3)	21.3
Cash inflow from operating activities	124.8	142.1

22 Analysis of net debt

	At 1 February 2019 £'m	Cash flow £'m	Non-cash changes £'m	At 31 January 2020 £'m
Unsecured bank loans and accrued interest (note 18)	(143.8)	–	(0.3)	(144.1)
Lease liabilities	(151.2)	41.0	(35.7)	(145.9)
Total debt	(295.0)	41.0	(36.0)	(290.0)
Cash and cash equivalents (note 17)	3.8	(1.8)	–	2.0
Net debt	(291.2)	39.2	(36.0)	(288.0)
Debt costs capitalised	(1.3)	–	0.3	(1.0)
Lease liabilities	151.2	(41.0)	35.7	145.9
Adjusted net debt	(141.3)	(1.8)	–	(143.1)

Notes to the financial statement *continued*

22 Analysis of net debt *continued*

	At 1 February 2018 £'m	Cash flow £'m	Non-cash changes £'m	At 31 January 2019 £'m
Unsecured bank loans and accrued interest (note 18)	(149.6)	6.4	(0.6)	(143.8)
Lease liabilities	(149.6)	38.5	(40.1)	(151.2)
Total debt	(299.2)	44.9	(40.7)	(295.0)
Cash and cash equivalents (note 17)	(11.3)	15.1	–	3.8
Net debt	(310.5)	60.0	(40.7)	(291.2)
Add: debt costs capitalised	(0.4)	(1.4)	0.5	(1.3)
Lease liabilities	149.6	(38.5)	40.1	151.2
Adjusted net debt	(161.3)	20.1	(0.1)	(141.3)

23 Financial risk management

The principal financial risks faced by the Group are liquidity, foreign currency, interest rate and counterparty credit risk.

The Board have overall responsibility for managing risks and uncertainties across the Group. The principal financial risks and uncertainties and the actions taken to mitigate them are reviewed on an on going basis. Further details of the Group's approach to managing risk are included in the Principal Risks and Uncertainties section of the Strategic Report on pages 30 to 34 and in the Corporate Governance Report on pages 55 and 56.

Liquidity risk

With the exception of the current trading under Covid-19, the Group generates significant operational cash inflows and at the balance sheet date could draw down on immediate request against a £200 million revolving credit facility. At the balance sheet date, the Group had drawn down £145.0 million of this facility and had Adjusted net debt (note 22) of £143.1 million (2019: £141.3 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 2020, the Group had adequate headroom against all of its financial covenants. Further details on Group borrowings and additional funding arrangements in response to Covid-19 are set out in note 18 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, including contractual interest except in respect of bank borrowings that have no fixed repayment profile.

	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 2020					
Unsecured bank loans	**0.1**	**–**	**145.0**	**–**	**145.1**
Unsecured bank overdraft	**3.5**	**–**	**–**	**–**	**3.5**
Lease liabilities	**44.0**	**37.0**	**59.3**	**14.2**	**154.5**
Trade and other payables	**45.0**	**–**	**–**	**–**	**45.0**
	92.6	37.0	204.3	14.2	348.1
At 31 January 2019 restated (note 30)					
Unsecured bank loans	0.1	–	145.0	–	145.1
Lease liabilities	42.7	37.1	61.7	20.8	162.3
Trade and other payables	44.5	–	–	–	44.5
	87.3	37.1	206.7	20.8	351.9

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 2020					
Foreign exchange contracts					
– Inflow	***61.7***	***43.3***	–	–	***105.0***
– Outflow	***(60.8)***	***(42.8)***	–	–	***(103.6)***
Interest rate contracts					
– Inflow	–	–	–	–	–
– Outflow	***(0.2)***	***(0.5)***	***(0.2)***	–	***(0.9)***
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)

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. In response to the Covid-19 pandemic the Group has greatly reduced inventory purchases and will swap forward, or consider other amendments to trades, in order to defer currency contract maturities.

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.

	2020		2019	
	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)***	***(5.5)***	(2.1)	(5.0)
10 cent decrease	***2.2***	***6.4***	2.5	5.9

* Amounts presented as impacting the cash flow hedging reserve would impact profit after tax to the extent they relate to hedges of cashflows that subsequently do not occur. Please see note 32 for details of the Covid-19 non-adjusting post-balance-sheet event.

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.

	2020		2019	
	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	***(0.2)***	***1.0***	(0.4)	0.8
50 basis point interest rate decrease	***0.2***	***(1.0)***	0.4	(0.7)

Notes to the financial statement *continued*

23 Financial risk management *continued*

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. To limit this exposure, goods from overseas suppliers are not paid until after shipment, except for a limited number of deposit payments.

Credit risk in respect of trade receivables on revenues from retail partners and non-retail customers is not significant to the Group. Revenues from retail partners and non-retail customers represent circa 1% of Group revenue and trade receivables at 31 January 2020 were £1.6m (2019: £0.3m). 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 22. Details on Group borrowings and additional funding arrangements in response to Covid-19 are set out in note 18 of the financial statements.

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. As announced on 6 May 2020, Card Factory received confirmation that it can access funding under the Covid Corporate Financing Facility ('CCFF'). HM Treasury and the Bank of England have confirmed that the CCFF will be operated "for at least 12 months and for as long as steps are needed to relieve cash flow pressures on firms that make a material contribution to the UK economy."

The Board will consider various options to ensure the key stakeholders of the business are protected as much as possible in these uncertain times and will look to provide a further update as the longer-term impact of Covid-19 becomes clearer. In order to help protect our balance sheet at this challenging time, the Board decided that a final dividend will not be paid in respect of the year ended 31 January 2020. Our dividend policy remains unchanged over the medium term, and we will regularly review the most appropriate actions to take in the shorter term; however, currently we do not expect to pay any dividends in relation to FY21.

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 (ie as prices) or indirectly (ie 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:

	2020 £'m	2019 £'m
Derivative assets		
Non-current		
Foreign exchange contracts	**0.5**	0.1
	0.5	0.1
Current		
Foreign exchange contracts	**1.1**	2.3
Derivative liabilities		
Current		
Interest rate contracts	**(0.4)**	(0.1)
Foreign exchange contracts	**(0.6)**	(0.1)
	(1.0)	(0.2)
Non-current		
Interest rate contracts	**(0.5)**	(0.1)
Foreign exchange contracts	**(0.8)**	(1.0)
	(1.3)	(1.1)
Net derivative financial instruments		
Interest rate contracts	**(0.9)**	(0.2)
Foreign exchange contracts	**0.2**	1.3
	(0.7)	1.1

Interest rate contracts

At 31 January 2020 the Group held fixed for floating interest rate swaps to hedge a portion of the variable interest rate risk on bank borrowings. Notional principal amounts for interest hedges totalled £120.0 million for the period to October 2020, reducing to £80.0 million for the period to October 2021, reducing to £60.0 million for the period to October 2022, then reducing to £10 million for the period to October 2023 (2019: £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). Unhedged fair value movements of £0.1 million (2019: £0.2 million) were expensed to the income statement within financial expense.

Foreign exchange contracts

At 31 January 2020 the Group held a portfolio of foreign currency derivative contracts with notional principal amounts totalling £103.3 million (2019: £130.4 million) to mitigate the exchange risk on future US Dollar denominated trade purchases and £1.7m to mitigate the exchange risk on Euro denominated income. Foreign currency derivative contracts with a notional value of £23.0 million representing a fair value liability of near zero (2019: £37.4 million representing a fair value asset of £0.5 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 £0.5 million that do not form part of an effective hedging relationship have been credited to the income statement (2019: £4.2 million charge) as a non-underlying item within cost of sales (see note 3).

Notes to the financial statement *continued*

24 Financial instruments *continued*

Classification of financial instruments

The table below shows the classification of financial assets and liabilities at the balance sheet date. Fair value disclosures in respect of lease liabilities are not required.

At 31 January 2020	Mandatorily at FVTPL £'m	Cash flow hedging instruments £'m	Financial assets at amortised cost £'m	Other financial liabilities £'m
Financial assets measured at fair value				
Derivative financial instruments	**0.5**	**1.1**	**–**	**–**
Financial assets not measured at fair value				
Trade and other receivables	**–**	**–**	**2.6**	**–**
Cash and cash equivalents	**–**	**–**	**5.5**	**–**
Financial liabilities measured at fair value				
Derivative financial instruments	**(0.5)**	**(1.8)**	**–**	**–**
Financial liabilities not measured at fair value				
Unsecured bank loans	**–**	**–**	**–**	**(144.1)**
Unsecured bank overdrafts	**–**	**–**	**–**	**(3.5)**
Trade and other payables	**–**	**–**	**–**	**(45.0)**
	–	**(0.7)**	**8.1**	**(192.6)**

At 31 January 2019 restated (note 30)	£'m	£'m	£'m	£'m
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)
Trade and other payables	–	–	–	(44.5)
	(0.6)	1.7	4.7	(188.3)

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 Restricted Share Awards and Long Term Incentive Plan

The Company grants restricted share awards ('RSA's) to the Executive Directors, members of the senior management team and senior employees within the Group under the terms of the Group's Long Term Incentive ('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. All restricted share awards are subject to a performance underpin through which the Remuneration Committee can exercise discretion to reduce the number of awards that will vest based on certain defined criteria.

Grants awarded prior to 31 January 2018 under the LTIP 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 share awards are provided in the Remuneration Report on pages 66 to 83.

Card Factory SAYE Scheme ('SAYE')

The SAYE scheme is open to all employees (in years prior to FY19 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.

Reconciliation of outstanding awards

	RSA/LTIP		SAYE	
	Number of options	Weighted-average exercise price	Number of options	Weighted-average exercise price
Outstanding at 1 February 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***
Granted during the year	***860,688***	***£0.00***	***518,324***	***£1.54***
Exercised during the year	***(77,090)***	***£0.00***	***–***	***–***
Forfeited during the year	***(598,546)***	***£0.00***	***(708,810)***	***£2.26***
Outstanding at 31 January 2020	***1,921,256***	***£0.00***	***1,037,266***	***£1.80***

76,993 options exercisable at £2.68 under the SAYE scheme at 31 January 2020 lapsed on 1 February 2020.

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.

	2020		2019	
	RSA/LTIP	***SAYE***	RSA/LTIP	SAYE
Fair value at grant date	***£1.88***	***£0.23***	£1.99	£0.31
Share price at grant date*	***£1.88***	***£1.75***	£1.99	£2.01
Exercise price*	***£0.00***	***£1.54***	£0.00	£1.61
Expected volatility	***30%***	***30%***	30%	30%
Expected term (years)	***3 to 5***	***3***	3 to 5	3
Expected dividend yield	***N/A****	***8.2%***	N/A**	8.5%
Risk free interest rate	***0.73%-0.80%***	***0.35%***	0.79%-1%	0.76%

* The exercise price is set at a 20% discount to an average market price determined in accordance with scheme rules. The grant date share price represents the closing price on the grant date.

** RSA/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:

All amounts exclude national insurance costs	***2020 £'m***	2019 £'m
RSA or LTIP	***0.4***	0.5
SAYE	***0.1***	0.1
Total share based payment expense	***0.5***	0.6

26 Capital commitments

There were capital commitments of £0.6 million at 31 January 2020 (2019: £1.2 million).

27 Contingent liabilities

There were no material contingent liabilities at 31 January 2020 (2019: £nil).

Notes to the financial statement *continued*

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, the Executive Board and the Operating 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 66 to 83. Directors of the Company and their immediate families control 0.074% of the ordinary shares of the Company.

There were no other related party transactions in the year.

29 Transition to IFRS 9 in the prior period
IFRS 9 *Financial Instruments* became effective for periods beginning on or after 1 January 2018 and was previously adopted by the Group in the financial statements for the year ended 31 January 2019 within the 2019 Annual Report.

The opening values as at 31 January 2018 that are presented in the statement of changes in equity and in note 30 to these financial statements are the values previously reported after transition to IFRS 9, including the related opening balance adjustments (see note 30), and not those originally presented in the 2018 Annual Report under IAS 39.

Full details of the transition to IFRS 9 were disclosed in note 29 to the financial statements for the year ended 31 January 2019 within the 2019 Annual Report.

30 Transition to IFRS 16
IFRS 16 *Leases* (effective for annual periods beginning on or after 1 January 2019) replaces 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 for all applicable leases. Previously the Group classified leases as operating or finance leases based on an assessment of whether the lease transferred substantially all of the risk and rewards of ownership. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for almost all leases previously recognised as an operating lease. In addition, the nature of expenses related to those leases has changed as 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 has adopted IFRS 16 Leases on a fully retrospective basis and has therefore restated the previously reported consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position and consolidated cash flow statement for the year ended 31 January 2019 and the consolidated statement of financial position as at 31 January 2018.

Definition of a lease
Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. Contracts that were not identified as leases under IAS 17 and IFRC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 February 2019.

The Group has assessed its entire store lease portfolio, some warehousing locations, two office locations and motor vehicles as lease contracts. Other contracts assessed, including distribution contracts and IT equipment, are deemed not to be a lease within the definition of IFRS 16 or are subject to the election not to apply the requirements of IFRS 16 to short-term or low-value leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

For property leases containing a non-lease component (for instance a lease inclusive of rates and service charge), the Group has elected to apply the practical expedient not to separate the non-lease component from the lease component and treat the whole contract as a lease. A small proportion of the store lease portfolio are subject to an element of turnover linked variable rents that are excluded from the definition of a lease under IFRS 16. The Group does not have significant lessor contracts.

Accounting as a lessee

The Group recognises a right-of-use asset and a lease liability at the lease commencement date The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. The right-of-use asset is periodically reduced by any impairment losses, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Typically, the Group uses its incremental borrowing rate, at the date of lease commencement, as the discount rate.

The Group determines its incremental borrowing rate by reference to its own funding arrangements which are subject to leverage margin ratchets, variable three month LIBOR interest rates and periodic refinancing, thereby ensuring they remain a reasonable reflection of the Group's current borrowing costs. The Group's leases are predominantly in respect of its store portfolio, which represent the majority of the Group's revenue and therefore the Group's borrowing costs, as at the date of lease commencement, are deemed to be representative of the incremental borrowing costs for additions to right-of-use assets. The Group does not believe there are significant differences between the risk margins that would apply across its lease portfolio. The term and payment profile are reflected in the discount rate applied to each individual lease by virtue of the variable interest-curve component of the incremental borrowing rate.

The assessment of lease term may include the application of judgement, particularly in respect of options to break often included in the Group's property leases. The Group assesses lease term as the non-cancellable period of the lease plus an assessment of reasonably-certain continued tenancy in respect of tenant options to break. Where a lease expires without the completion of a new lease, but the asset remains in use, the Group assumes (other than by exception) a new five year lease at expiring rates until a new lease is completed.

After initial recognition, the lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index, rate or contractual market-rent review or if the Group changes its assessment of whether it will exercise a break option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Notes to the financial statement *continued*

30 Transition to IFRS 16 *continued*

Accounting as a lessee *continued*

The impact on the financial statements of adopting IFRS 16 is shown in the tables below.

(i) The impact on previously reported consolidated statements of financial position is shown below.

	31 January 2019			31 January 2018			
	Previously reported £'m	IFRS 16 £'m	Restated £'m	Previously reported (note 29) £'m	IFRS 9 opening balance adjustments £'m	IFRS 16 £'m	Restated £'m
Non-current assets							
Intangible assets	320.2	–	320.2	331.6	–	–	331.6
Property, plant and equipment	40.4	–	40.4	40.0	–	–	40.0
Right-of-use assets	–	135.9	135.9	–	–	132.7	132.7
Deferred tax assets	0.8	1.6	2.4	1.9	(0.1)	1.9	3.7
Other receivables	0.7	(0.7)	–	0.8	–	(0.8)	–
Derivative financial instruments	0.1	–	0.1	0.2	–	–	0.2
	362.2	136.8	499.0	374.5	(0.1)	133.8	508.2
Current assets							
Inventories	68.6	–	68.6	51.5	0.6	–	52.1
Trade and other receivables	17.8	(9.2)	8.6	16.6	–	(8.3)	8.3
Derivative financial instruments	2.3	–	2.3	0.3	–	–	0.3
Cash and cash equivalents	3.8	–	3.8	3.6	–	–	3.6
	92.5	(9.2)	83.3	72.0	0.6	(8.3)	64.3
Total assets	454.7	127.6	582.3	446.5	0.5	125.5	572.5
Current liabilities							
Borrowings	(0.1)	–	(0.1)	(14.9)	–	–	(14.9)
Lease liabilities	–	(38.9)	(38.9)	–	–	(37.1)	(37.1)
Trade and other payables	(64.3)	6.1	(58.2)	(37.7)	–	5.1	(32.6)
Tax payable	(7.7)	–	(7.7)	(5.5)	–	–	(5.5)
Derivative financial instruments	(0.2)	–	(0.2)	(7.0)	–	–	(7.0)
	(72.3)	(32.8)	(105.1)	(65.1)	–	(32.0)	(97.1)
Non-current liabilities							
Borrowings	(143.7)	–	(143.7)	(149.6)	–	–	(149.6)
Lease liabilities	–	(112.3)	(112.3)	–	–	(112.5)	(112.5)
Trade and other payables	(9.8)	9.8	–	(10.0)	–	10.0	–
Derivative financial instruments	(1.1)	–	(1.1)	(3.4)	–	–	(3.4)
	(154.6)	(102.5)	(257.1)	(163.0)	–	(102.5)	(265.5)
Total liabilities	(226.9)	(135.3)	(362.2)	(228.1)	–	(134.5)	(362.6)
Net assets	227.8	(7.7)	220.1	218.4	0.5	(9.0)	209.9
Equity							
Share capital	3.4	–	3.4	3.4	–	–	3.4
Share premium	202.2	–	202.2	202.2	–	–	202.2
Hedging reserve	0.9	–	0.9	(5.0)	0.6	–	(4.4)
Cost of hedging reserve	0.4	–	0.4	(0.3)	0.2	–	(0.1)
Reverse acquisition reserve	(0.5)	–	(0.5)	(0.5)	–	–	(0.5)
Merger reserve	2.7	–	2.7	2.7	–	–	2.7
Retained earnings	18.7	(7.7)	11.0	15.9	(0.3)	(9.0)	6.6
Equity attributable to equity holders of the parent	227.8	(7.7)	220.1	218.4	0.5	(9.0)	209.9

(ii) The impact on previously reported and the current period consolidated income statement is shown below.

	Year ended 31 January 2020			Year ended 31 January 2019		
	Excluding IFRS 16 £'m	**IFRS 16 £'m**	**Reported £'m**	Previously stated £'m	IFRS 16 £'m	Restated £'m
Revenue	**451.5**	**–**	**451.5**	436.0	–	436.0
Cost of sales	**(333.2)**	**43.9**	**(289.3)**	(308.3)	42.1	(266.2)
Gross profit	**118.3**	**43.9**	**162.2**	127.7	42.1	169.8
Operating expenses	**(50.1)**	**(38.5)**	**(88.6)**	(56.9)	(36.0)	(92.9)
Operating profit	**68.2**	**5.4**	**73.6**	70.8	6.1	76.9
Finance expense	**(4.4)**	**(4.0)**	**(8.4)**	(4.2)	(4.5)	(8.7)
Profit before tax	**63.8**	**1.4**	**65.2**	66.6	1.6	68.2
Taxation	**(13.3)**	**(0.3)**	**(13.6)**	(15.2)	(0.3)	(15.5)
Profit for the period	**50.5**	**1.1**	**51.6**	51.4	1.3	52.7
Non-underlying profit	**(2.1)**	**–**	**(2.1)**	(8.7)	–	(8.7)
Underlying profit	**52.6**	**1.1**	**53.7**	60.1	1.3	61.4
Profit for the period	**50.5**	**1.1**	**51.6**	51.4	1.3	52.7
Earnings per share	**pence**	**pence**	**pence**	pence	pence	pence
– Basic	**14.8**	**0.3**	**15.1**	15.0	0.4	15.4
– Diluted	**14.8**	**0.3**	**15.1**	15.0	0.4	15.4
Underlying earnings per share						
– Basic	**15.4**	**0.3**	**15.7**	17.6	0.4	18.0
– Diluted	**15.4**	**0.3**	**15.7**	17.6	0.4	18.0

(iii) The adjustments to profit before tax are shown below.

	Year ended 31 January 2020 £'m	Year ended 31 January 2019 £'m
Profit before tax (reported)	**65.2**	68.2
Add back IFRS 16 adjustments:		
Depreciation of right-of-use assets	**38.9**	37.0
Impairment of leased assets	**0.4**	0.2
Profit on disposal of leases	**(0.1)**	(0.4)
Lease interest	**4.0**	4.5
Less amounts no longer charged to the income statement under IFRS 16		
Cost of sales	**(43.9)**	(42.1)
Operating expenses	**(0.7)**	(0.8)
Adjusted profit before tax for the period (excluding IFRS 16)	**63.8**	66.6

Notes to the financial statement *continued*

30 Transition to IFRS 16 *continued*

Accounting as a lessee *continued*

(iv) The impact on the previously reported consolidated cash flow statement for the year ended 31 January 2019 is shown below.

	Previously stated £'m	IFRS 16 £'m	Restated £'m
Profit before tax	66.6	1.6	68.2
Net finance expense	4.2	4.5	8.7
Operating profit	70.8	6.1	76.9
Adjusted for:			
Depreciation and amortisation	10.9	37.0	47.9
Impairment of right-of-use assets	–	0.2	0.2
Goodwill impairment	11.9	–	11.9
Loss on disposal of fixed assets	0.1	(0.4)	(0.3)
Share-based payments charge	0.6	–	0.6
Operating cash flows before changes in working capital	94.3	42.9	137.2
(Increase)/decrease in receivables	(0.8)	0.9	0.1
(Increase)/decrease in inventories	(16.5)	–	(16.5)
Increase in payables	22.1	(0.8)	21.3
Cash inflow from operating activities	99.1	43.0	142.1
Corporation tax paid	(13.4)	–	(13.4)
Net cash inflow from operating activities	85.7	43.0	128.7
Cash flows from investing activities			
Purchase of property, plant and equipment	(10.4)	–	(10.4)
Purchase of intangible assets	(1.7)	–	(1.7)
Proceeds from disposal of fixed assets	0.2	–	0.2
Net cash outflow from investing activities	(11.9)	–	(11.9)
Cash flows from financing activities			
Interest paid	(3.4)	(4.5)	(7.9)
Repayment of bank borrowings	(6.4)	–	(6.4)
Payment of lease liabilities	–	(38.5)	(38.5)
Dividends paid	(48.9)	–	(48.9)
Net cash outflow from financing activities	(58.7)	(43.0)	(101.7)
Net increase in cash and cash equivalents	15.1	–	15.1
Cash and cash equivalents at the beginning of the year	(11.3)	–	(11.3)
Closing cash and cash equivalents	3.8	–	3.8

(v) A reconciliation of the operating lease disclosure in the Annual Report for the year ended 31 January 2019 to the IFRS 16 lease liability is shown below.

	31 January 2019 £'m
Operating lease commitments	167.5
Prepayments and invoice timing adjustments	(8.6)
Lease term assumptions	3.1
Lease liability future interest charges	(10.8)
Lease liability	151.2

31 Subsidiary undertakings

At 31 January 2020 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, 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.

Notes to the financial statement *continued*

32 Subsequent events

Covid-19

The Board view the Covid-19 pandemic as a non-adjusting post-balance sheet event. Based on the conditions that existed at the balance sheet date, only limited impacts on the trading operations of the business were anticipated. These impacts were primarily related to possible disruption of supply from China and there were sufficient options available to mitigate any such disruption.

As previously announced, on 23 March 2020 the Group temporarily closed all its retail stores in line with Government requirements. The Group has implemented a number of measures to ensure the continued welfare of our colleagues and customers, manage our cost base and conserve cash. To protect the short term liquidity of the business the Group has furloughed over 90% of colleagues, deferred future store openings and other non-priority capital expenditure, worked with landlords and key suppliers to agree deferred payment terms and minimised all other discretional expenditure throughout the business. In addition, the Group will benefit from the 12 month business rates' holiday announced by the UK Government. In order to help protect our balance sheet at this challenging time, the Board decided that a final dividend will not be paid in respect of the year ended 31 January 2020. Our dividend policy remains unchanged over the medium term, and we will regularly review the most appropriate actions to take in the shorter term; however, currently we do not expect to pay any dividends in relation to FY21.

As announced on 6 May 2020, Card Factory received confirmation that it can access funding, in addition to the existing £200 million RCF, under the Covid Corporate Financing Facility ('CCFF'). HM Treasury and the Bank of England have confirmed that the CCFF will be operated "for at least 12 months and for as long as steps are needed to relieve cash flow pressures on firms that make a material contribution to the UK economy." In order to do this, the Group has agreed three main covenant tests around; total net debt, cash burn and last twelve months' EBITDA until June 2021, after which it is envisaged that the business will have a phased return to existing covenant tests of EBITDA to Leverage and EBITDA to interest cover.

Whilst the impact of Covid-19 remains uncertain, the Board do not anticipate that Covid-19 would have resulted in a significant impairment of the assets reported in notes 11, 12 and 13 of these financial statements, if it were an adjusting event. Goodwill impairment tests are sensitised on the basis of the Board's current expectations of the severe, but plausible, downside scenario in respect of Covid-19. Whilst assets relating to some specific stores may become impaired under short-term adverse trading conditions it is not yet possible to reliably estimate the impact.

In response to Covid-19, many lease payment profiles are being renegotiated. It is not yet possible to assess the impact this might have on amounts reported under IFRS 16 *Leases*, however to the extent total contractual lease payments are not amended, any change in the profile of payments would have minimal impact on the amounts reported in the financial statements. In addition, the International Accounting Standards Board ('IASB') plans to issue amendments to IFRS 16 by the end of May 2020 to allow an optional exemption from assessing whether a Covid-19-related rent concession is a lease modification. There may also be an impact on the assessment of lease term where a lease contains an option to break.

The Group utilises foreign currency derivative contracts and US Dollar denominated cash balances to manage the foreign exchange risk on US Dollar denominated purchases. To the extent forecast foreign currency transactions would no longer be expected to occur, amounts recognised in the hedging reserve and cost of hedging reserve relating to those cashflows would be expensed to the income statement.

The Group does not have a material balance of trade receivables (note 16), therefore any reassessment of credit risk would not have resulted in a significant adjustment to the financial statements.

Only a very small proportion of the Group's Inventories are perishable and inventory specific to a season can be stored until the following year. Therefore, the realisable value of inventories would not have been significantly impacted by the subsequent event.

Parent Company statement of financial position
As at 31 January 2020

	Note	2020 £'m	2019 £'m
Non-current assets			
Investments	4	**316.2**	316.2
Current assets			
Trade and other receivables	5	**1.1**	4.9
Total assets		**317.3**	321.1
Current liabilities			
Trade and other payables	6	**(1.8)**	(4.3)
Net assets		**315.5**	316.8
Equity			
Share capital	7	**3.4**	3.4
Share premium	7	**202.2**	202.2
Merger reserve		**2.7**	2.7
Retained earnings	13	**107.2**	108.5
Equity attributable to equity holders of the parent		**315.5**	316.8

The financial statements on pages 141 to 150 were approved by the Board of Directors on 1 June 2020 and were signed on its behalf by:

Kristian Lee
Chief Financial Officer
2 June 2020

Company number 9002747

The notes that accompany these financial statements are included on pages 144 to 150.

Parent Company statement of changes in equity
For the year ended 31 January 2020

	Share capital £'m	Share premium £'m	Merger reserve £'m	Retained earnings £'m	Total equity £'m
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 (note 3)	–	–	–	(48.9)	(48.9)
	–	–	–	(48.3)	(48.3)
At 31 January 2019	3.4	202.2	2.7	108.5	316.8
Total comprehensive income for the year					
Profit or loss	–	–	–	47.1	47.1
Transactions with owners, recorded directly in equity					
Share-based payments (note 8)	–	–	–	0.5	0.5
Dividends (note 3)	–	–	–	(48.9)	(48.9)
	–	–	–	(48.4)	(48.4)
At 31 January 2020	**3.4**	**202.2**	**2.7**	**107.2**	**315.5**

The notes that accompany these financial statements are included on pages 144 to 150.

Parent Company cash flow statement
For the year ended 31 January 2020

	Note	2020 £'m	2019 £'m
Cash inflow from operating activities	11	**0.9**	0.2
Corporation tax paid		**–**	–
Net cash (outflow)/inflow from operating activities		**0.9**	0.2
Cash flows from investing activities			
Dividends received		**48.0**	50.0
Loans issued to group undertakings		**–**	(1.3)
Net cash inflow from investing activities		**48.0**	48.7
Cash flows from financing activities			
Dividends paid	3	**(48.9)**	(48.9)
Net cash outflow from financing activities		**(48.9)**	(48.9)
Net increase in cash and cash equivalents		**–**	–
Cash and cash equivalents at the beginning of the year		**–**	–
Closing cash and cash equivalents		**–**	–

The notes that accompany these financial statements are included on pages 144 to 150.

Notes to the Parent Company financial statements

1 Accounting policies

Basis of preparation

The Company's 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.

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 Company'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. The Company has not identified any significant judgements and estimates in the period however, has disclosed estimates and judgements identified below:

Judgements and estimates

Investment in subsidiaries impairment testing

The impairment testing of investment in subsidiaries requires judgement in determining the assumptions to be used to estimate the value-in-use, including estimates of future revenues, operating costs, terminal value growth rates and the pre-tax discount rate.

Going concern

Covid-19 gave rise to judgements both in respect to being an adjusting event or not (see note 14) and in relation to the basis of preparation for the financial statements (see below).

Going Concern

In assessing the appropriateness of the going concern assumption, the Board has considered the availability of funding alongside the possible cash requirements of the Group and Company, taking into account the unprecedented anticipated circumstances caused by Covid-19.

Availability of funding

The Group has entered into revised covenant terms with its banking partners. This will enable it to utilise not only the full RCF of £200m but also the secured funding from the Bank of England Covid Corporate Financing Facility, to the extent that the combined draw down on facilities net of cash do not exceed a monthly cap, which varies from month-to-month as agreed with the banking partners, of up to £275m at their peak. Under the revised covenant terms, the Group's existing covenant requirements have lapsed immediately and have been replaced by three new covenant tests relating to net debt; cash burn; and last twelve months EBITDA. These tests will be applied monthly until June 2021, after which it is envisaged that the business will have a phased return back to existing six-monthly covenant tests of net debt to EBITDA and interest cover.

Cash flow forecasts

The Board has prepared cash flow forecasts for a period of 18 months from the date of approval of these financial statements. This base case scenario includes the benefits of actions already taken by management to mitigate the trading downsides brought by Covid-19, e.g. cancellation of dividends, significant reduction in capital investment, cancellation and rescheduling of stock orders, renegotiating property rents, participating in the government's job retention scheme, and taking advantage of other government support measures amongst other actions within their control. This base case assumes that the majority of stores are reopened for trading during June 2020, and gradually build back towards pre-Covid-19 levels of trade (88% of the value of budgeted sales) by December 2020. Under this base case scenario, the Group is expected to continue to have very significant headroom relative to the funding available to it and to comply with its revised banking covenants.

The Board has also considered various other severe but plausible downside scenarios, including the possibility that the recovery of trade is much more sluggish than assumed in the base case. It has determined that even if sales were to remain significantly below budget for a longer period (78% of budgeted sales in December 2020), the Group would still expect to have sufficient headroom in its financing facilities. The Board does not regard a slower pace of recovery to be reasonably possible but, in the event that it is, notes that further mitigations are within their control. However, in the event of another government imposed store closure in the later part of 2020 or early 2021 due to a second peak of Covid-19 infection, there is a risk of breaching the Group's new financial covenants. In such circumstances the Group would seek to agree a waiver or further variation of terms with the banks, who have been consistently supportive of the business but, the Board cannot predict with certainty how the banks would respond.

Based on the above indications the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However, this material uncertainty, may cast significant doubt on the Group and Company's ability to continue as a going concern and therefore to realise its assets and discharge its liabilities in the normal course of business. The Board emphasises that this arises solely due to the global public health pandemic which is entirely outside the Group's influence or control. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Principal accounting policies

The principal accounting policies set out below have been applied consistently to all periods presented in these financial statements. New standards effective in the period, including IFRS 16 Leases, do not have a material effect on the Company's financial statements.

Other new standards effective in the period do not have a material effect on the Company's financial statements.

Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Company has not early-adopted the new or amended standards in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements:

- Amendments to References to Conceptual Framework in IFRS Standards.
- Definition of a Business (Amendments to IFRS 3).
- Definition of Material (Amendments to IAS 1 and IAS 8).
- IFRS 17 Insurance Contracts.

Income statement

The Company made a profit after tax of £47.1 million for the year ended 31 January 2020 (2019: £49.8 million), including £48.0 million dividends received from subsidiary undertakings (2019: £50.0 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.

Notes to the Parent Company financial statements *continued*

1 Accounting policies *continued*

Share-based payments

The Company issues equity-settled share-based payments to employees within the group through the Card Factory Restricted Share Awards Scheme ('RSA') 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 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 66 to 83.

3 Dividends

The Board is not recommending a final dividend in respect of the financial year ended 31 January 2020 (2019: 6.4 pence per share resulting in a total final dividend of £21.9 million).

Dividends paid in the year:	Pence per share	**2020 £'m**	2019 £'m
Special dividend for the year ended 31 January 2020	5.0p	**17.1**	–
Interim dividend for the year ended 31 January 2020	2.9p	**9.9**	–
Final dividend for the year ended 31 January 2019	6.4p	**21.9**	–
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
Total dividends paid to shareholders in the year		**48.9**	48.9
Dividend equivalents paid under long term incentive schemes		**–**	–
Total dividends per the cash flow statement		**48.9**	48.9

Dividend equivalents totalling £nil (2019: £0.1 million) were accrued in the year in relation to share-based long-term incentive schemes.

4 Investments in subsidiaries

	£'m
At 31 January 2019 and 31 January 2020	316.2

The market capitalisation of the Group at 31 January 2020 was slightly below the Company's investment in subsidiaries. Under IAS 36 Impairment of Assets this would be considered a possible indication of impairment.

The recoverable amount of its investments have been determined based on value-in-use calculations which require the use of estimates. Management has prepared discounted cash flows based on forecasts which were anticipated at the year-end. The Directors are satisfied that there is no impairment of the investment in subsidiaries.

Investment impairment has also been considered in the context of alterations to the relevant company's forecasts in the subsequent events note 14.

Subsidiary undertakings

At 31 January 2020 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, 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

	2020 £'m	2019 £'m
Amounts owed by Group undertakings	1.0	4.8
Prepayments and other debtors	0.1	0.1
	1.1	4.9

Notes to the Parent Company financial statements *continued*

5 Trade and other receivables *continued*

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

	2020 £'m	2019 £'m
Amounts owed to Group undertakings	1.3	3.8
Trade payables	0.1	–
Accruals	0.4	0.5
	1.8	4.3

7 Share capital and share premium

	2020 (Number)	2019 (Number)
Share capital		
Allotted, called-up and fully-paid ordinary shares of one pence:		
At the start of the period	341,549,306	341,459,281
*Shares issued in the year	77,090	90,025
At the end of the period	341,626,396	341,549,306

	£'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	202.2
*Shares issued in the year	–	–
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 Restricted Share Awards ('RSA') and Long Term Incentive Plan ('LTIP')

The Company grants restricted share awards ('RSA's) to the Executive Directors, members of the senior management team and senior employees within the Group under the terms of the Group's Long Term Incentive ('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. All restricted share awards are subject to a performance underpin through which the Remuneration Committee can exercise discretion to reduce the number of awards that will vest based on certain defined criteria.

Grants awarded prior to 31 January 2018 under the LTIP 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 share awards are provided in the Remuneration Report on pages 66 to 83.

Card Factory SAYE Scheme ('SAYE')

The SAYE scheme is open to all employees (prior to 31 January 2018 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.

Reconciliation of outstanding awards

	RSA/LTIP		SAYE	
	Number of options	Weighted-average exercise price	Number of options	Weighted-average exercise price
Outstanding at 1 February 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
Granted during the year	860,688	£0.00	518,324	£1.54
Exercised during the year	(77,090)	£0.00	–	–
Forfeited during the year	(598,546)	£0.00	(708,810)	£2.26
Outstanding at 31 January 2020	**1,921,256**	**£0.00**	**1,037,266**	**£1.80**

76,993 options exercisable at £2.68 under the SAYE scheme at 31 January 2020 lapsed on 1 February 2020.

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.

	2020		2019	
	RSA/LTIP	**SAYE**	RSA/LTIP	SAYE
Fair value at grant date	**£1.88**	**£0.23**	£1.99	£0.31
Share price at grant date*	**£1.88**	**£1.75**	£1.99	£2.01
Exercise price*	**£0.00**	**£1.54**	£0.00	£1.61
Expected volatility	**30%**	**30%**	30%	30%
Expected term (years)	**3 to 5**	**3**	3 to 5	3
Expected dividend yield	**N/A***	**8.2%**	N/A**	8.5%
Risk free rate	**0.73% to 0.80%**	**0.35%**	0.79%-1%	0.76%

* The exercise price is set at a 20% discount to an average market price determined in accordance with scheme rules. The grant date share price represents the closing price on the grant date.

** RSA/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:

All amounts exclude national insurance costs	**2020 £'m**	2019 £'m
Expense recognised in the Company income statement		
RSA or LTIP	**0.2**	0.2
Expense recognised in subsidiary income statements		
RSA or LTIP	**0.2**	0.3
SAYE	**0.1**	0.1
	0.3	0.4
Total expense recognised in the Group income statement	**0.5**	0.6

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's 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.

Notes to the Parent Company financial statements *continued*

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

	2020 £'m	2019 £'m
Profit before tax	**46.9**	49.8
Dividends received	**(48.0)**	(50.0)
Operating loss	**(1.1)**	(0.2)
Adjusted for:		
Share-based payment charge	**0.2**	0.2
Operating cash flows before changes in working capital	**(0.9)**	–
Decrease in receivables	**4.3**	–
(Decrease)/increase in payables	**(2.5)**	0.2
Cash inflow from operating activities	**0.9**	0.2

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:

	2020 £'m	2019 £'m
Management services	**1.5**	1.9
Dividends received from Group undertakings	**48.0**	50.0
Loans repaid by/(issued to) group undertakings	**1.7**	(1.3)

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 66 to 83. Directors of the Company control 0.074% of the ordinary shares of the Company.

13 Distributable reserves

The retained earnings of the Company are considered at each distribution to ensure that amounts paid are considered to be distributable.

14 Subsequent events

Covid-19

The Board view the Covid-19 pandemic as a non-adjusting post-balance-sheet event. Based on the conditions that existed at the balance sheet date, only limited impacts on the trading operations of the Group controlled by the Company were anticipated. These impacts were primarily related to possible disruption of supply from China and there were sufficient options available to mitigate any such disruption.

Whilst the impact of Covid-19 remains uncertain, the Board do not anticipate that Covid-19 would have resulted in an impairment of the Company's investment in subsidiaries had it been an adjusting event. Investment in subsidiaries impairment tests are sensitised and the Board believes the long term prospects of the business will not be significantly impacted by Covid-19.

Glossary

Alternative Performance Measures ('APMs') and other explanatory information

'Adjusted' APMs have been included to aid comparability with the prior year released financial statements but the disclosure of adjusted APMs is not anticipated going forwards.

"Adjusted profit before tax / EBITDA / EPS" is defined as profit before tax / EBITDA / EPS excluding the impact of IFRS 16 Leases. For further information see note 30.

"Adjusted Leverage" is calculated as the ratio of Adjusted net debt to Adjusted Underlying EBITDA for the previous 12 months. This definition excludes the impact of IFRS 16 Leases but is consistent with the Group's Capital Policy and with the terms of its borrowing arrangements.

"Adjusted net debt" comprises total borrowings, overdrafts and the value of capitalised debt issues' costs less cash. This measure excludes lease liabilities reported under IFRS 16 Leases.

"EBITDA" is defined as earnings before interest, tax, depreciation and amortisation and represents profit for the period before net finance expense, taxation, depreciation and amortisation.

"Card Factory like-for-like sales" is defined as like-for-like sales plus the year-on-year growth in sales from the Card Factory website.

"Getting Personal like-for-like sales" is defined as the year-on-year growth in sales from the Getting Personal website, calculated on a calendar-week basis.

"Leverage" is calculated as the ratio of Net Debt to Underlying EBITDA for the previous 12 months.

"Like-for-like" or ***"LFL"*** is defined as follows:

The Group defines Card Factory store like-for-like 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 and excluding third-party retail channels. The reported like-for-like sales figure excludes sales:
- made via the Card Factory website, cardfactory.co.uk;
- made via the separately-branded personalised card and gift website, 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 like-for-like figures for each week of trading after having been open for 52 weeks.

"Net debt" comprises total borrowings, overdrafts, lease liabilities reported under IFRS 16 Leases and the value of capitalised debt issues' costs less cash.

"Percentage movements" have been calculated before figures were rounded to £0.1m.

"Underlying" The Group has chosen to present underlying profit and earnings measures. Transactions are categorised as non-underlying if the resulting underlying profit and earnings information is believed to assist comparison of year-on-year performance.

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

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