

cardfactory

Annual Report and Accounts 2021



Celebrate
life's
moments



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

Card Factory sells more greeting cards in the UK than anyone else and is ranked #1 by shoppers on "wide range of cards" and "value for money"

Vision: Card Factory aspires to be recognised as the world's best greeting card retailer: everywhere, and for all occasions, the first choice for greeting cards.

Mission: Card Factory's mission is helping people celebrate life moments by making our products affordable and available for everyone.

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FY21 highlights

Financial highlights

Revenue £m

£285.1m



Card Factory LFL Sales % (excluding periods of store closure)

0.1 ppt



Profit Before Tax £m

£(16.4)m



Basic EPS

(4.0)p



Leverage (excluding lease liabilities)

2.3x



Underlying Profit Before Tax £m¹

£(15.2)m



Underlying Basic EPS

(3.7)p



Summary of the financial period

- Store estate closed for an average of five months with significant impact on profitability
- Effective and swift action preserved cash, with £35m reduction in net debt in FY21
- Better than expected reopening performances after lockdowns one and two
- High growth in Card Factory online (+135.3% to £11.1m) and Getting Personal (+12.2% to £16.5m)
- Positive initial signs from early actions following the refreshed strategy launched in July 2020

Investment case

- Only credible card specialist at scale
- Virtuous circle of design, manufacturing and retail provides barriers to entry
- Established brand, already demonstrating ability to extend beyond cards
- Clear pathway to restore sales and profit growth in the core
- Identified and proven sources of growth
- Cash generative model with diversifying income sources

Notes

See the glossary on page 161 for alternative performance measures ('APMs') and other explanatory information. Following adoption of IFRS16 in FY20, consistent comparatives for periods before FY19 are not available.

¹ See note 3 to the financial statements on page 129 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 franchise stores and 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

8,000+

Colleagues furloughed in FY21

97%

Total Revenue

£285.1m

Our channels

Stores (UK)

1,016

Partner retail locations (Australia)

356

Partner retail locations (UK)

534

Franchise stores

4

Online



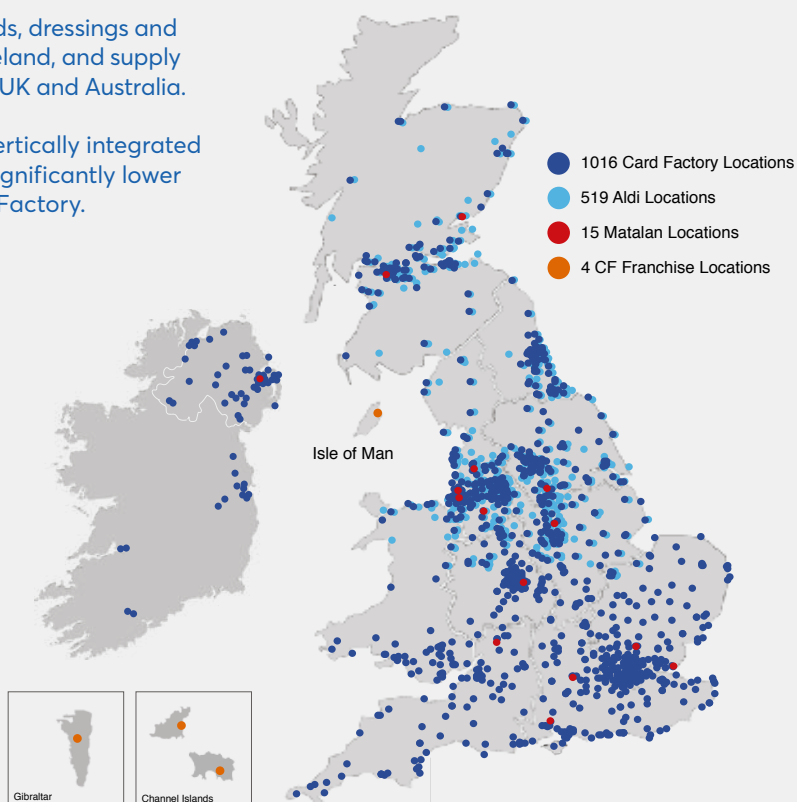
Unique visitors in FY21
cardfactory.co.uk

14.8m



Unique visitors in FY21
gettingpersonal.co.uk

13m



Data correct at 31 January 2021

Our purpose

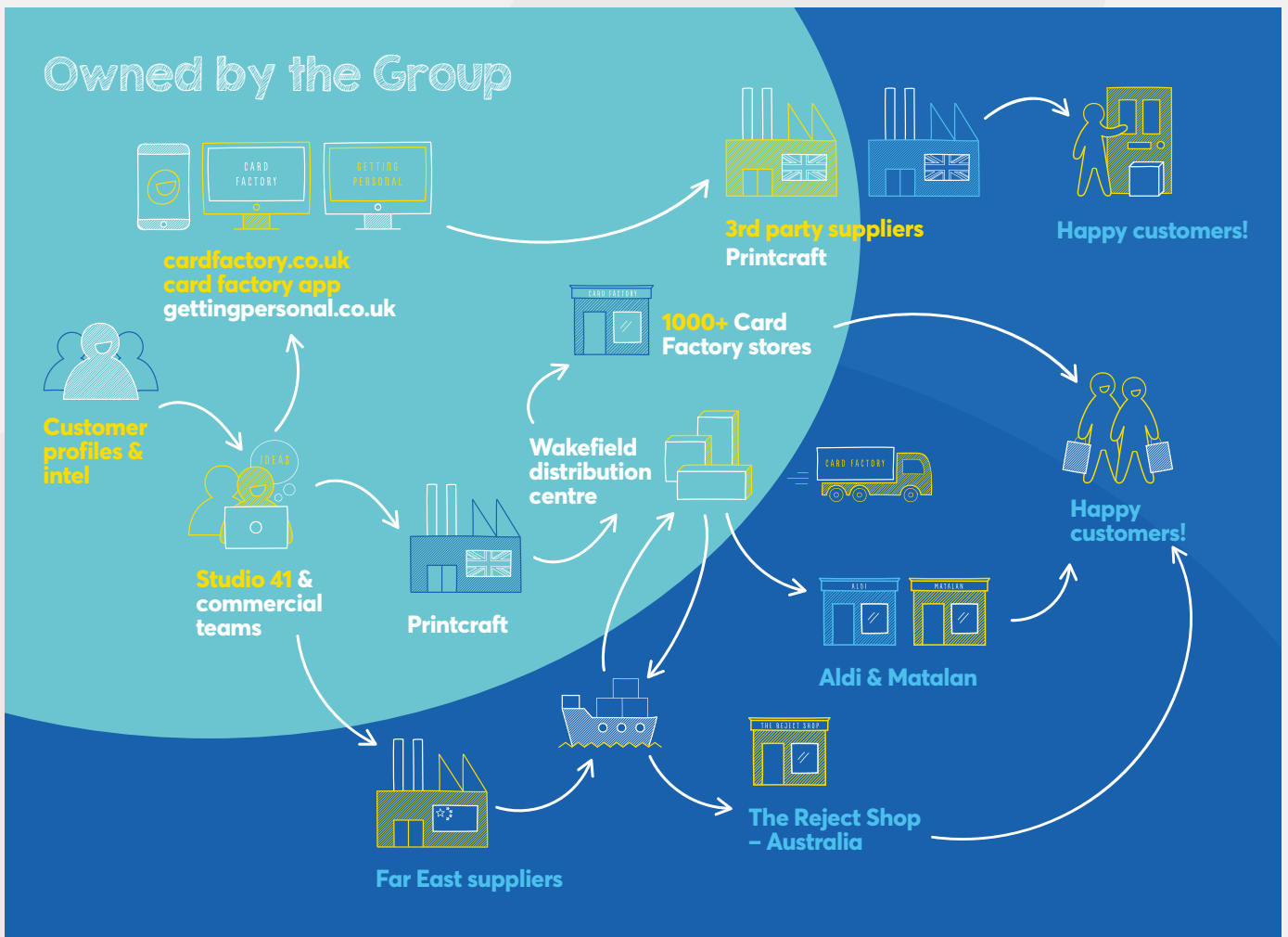
Helping people celebrate life moments

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, cardfactory.co.uk and gettingpersonal.co.uk.

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.

Our value chain



A year in review

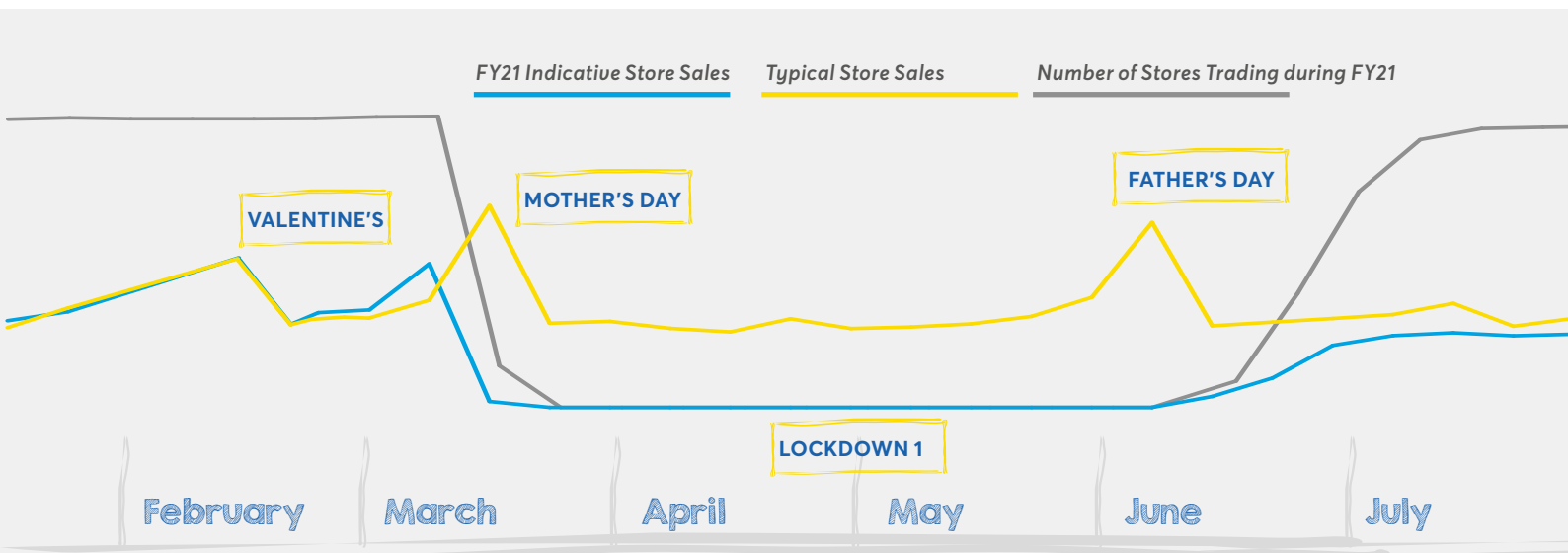
By 2019, Card Factory consistently sold more greeting cards in the UK than any other retailer. Closure of stores due to government restrictions had a severe impact on our ability to serve our customers, with financial performance severely impacted.

Our priorities:

#1
The safety and wellbeing of our customers and colleagues

#2
Focus on cash management & financial position

#3
Implementation of initial strategic priorities



Q1
Feb, Mar, April

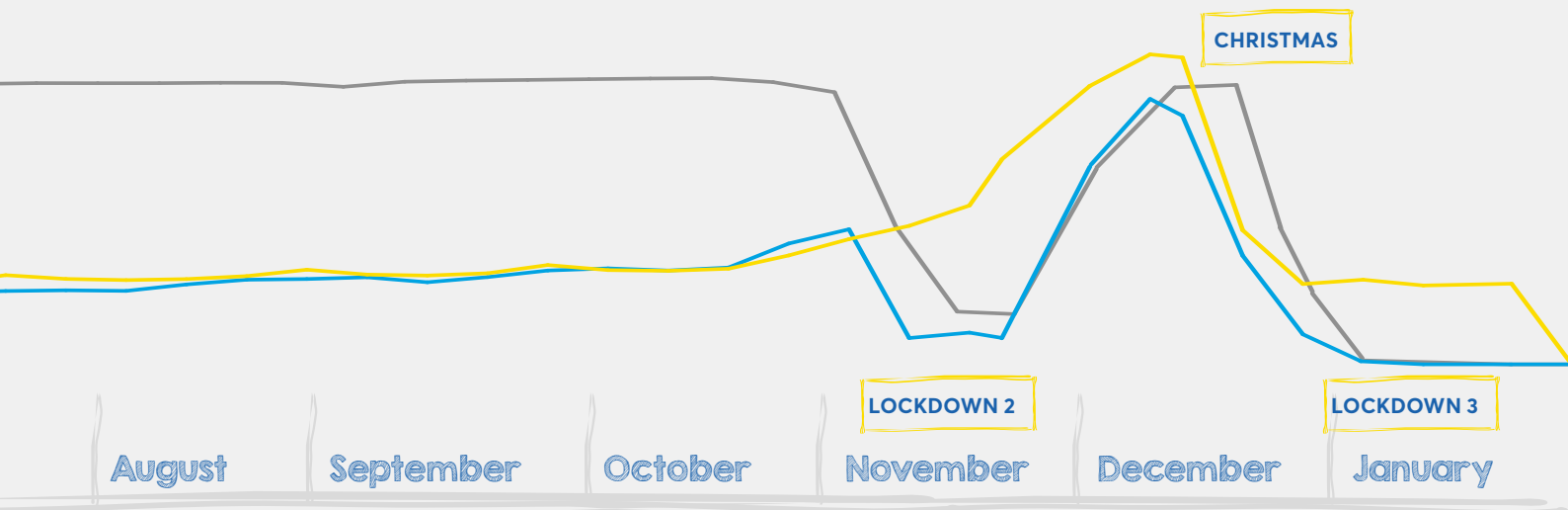
- **February:** Annual Card Factory Market Survey undertaken to allow us to understand customer preferences
- **23 March:** National lockdown, all retail stores closed for 3 months. Majority of colleagues furloughed
- **9 April:** Tripp Lane appointed as NED
- **23 March – 14 June:** Online sales up 120.7%, when all retail stores closed

Q2
May, June, July

- **2 June:** Preliminary Results for FY20 released
- **15 June:** phased reopening of stores commences
- **2 July:** cardfactory.co.uk launched on new platform
- **28 July:** Capital Markets Day: New strategy launched
- **End July:** Card and Helium Balloon prices increased – no material volume impact



Read more about our response to Covid on page 22



Q3

Aug, Sept, Oct

- **August/September:** New everyday card ranges launched
- **24 September:** Christmas range phase 2 launch accelerated in 130 stores
- **29 September:** Interim results – Net Debt broadly unchanged
- **w/c 26 October:** Christmas range phase 3 launch accelerated
- **October:** LFL store sales +17% as sales recover following lockdown and small pre-lockdown 2 sales rush

Q4

Nov, Dec, Jan

- **7 December:** Card Factory app soft launch on iOS
- **December:** Stores trade subdued following November lockdown
- **by 4 January:** All stores closed; staff furloughed
- **1 February:** Card Factory app launched on Android

Implementing our updated strategy



Swift action was taken to preserve the Group's cash position and protect the balance sheet towards the start of the year and our careful cash management meant we ended the financial year with a £35m reduction in net debt.

Paul Moody
Chairman



Group revenue

£285.1m

(36.9%)

FY20: £451.5m

Underlying profit before tax

£(15.2)m

(122.6)%

FY20: £67.2m

Dear Shareholders

I would like to start by thanking our colleagues for the considerable fortitude and commitment that they have shown throughout the uncertainties of the last year. I am very proud of how they have responded and risen to the unprecedented challenges presented by the pandemic. Our priority remains the continued welfare of our customers and colleagues; we are grateful for the Government's Coronavirus Job Retention Scheme that helped us in supporting our team throughout this extraordinarily challenging period.

Card Factory has demonstrated strong resilience in the face of the wide-ranging impacts of the pandemic. Swift action was taken to preserve the Group's cash position and protect the balance sheet towards

the start of the year and our careful cash management meant we ended the financial year with a £35m reduction in net debt. On behalf of the Board, I would like to thank our many partners and stakeholders who have continued to support the business.

Managing the impact of the pandemic

The closure of our stores for almost five months of the year affected key seasonal trading events, including Mother's Day and Christmas, had a very significant impact on the profitability of the business. The total lockdown of non-essential retail created a material step-up in online customer demand and we were pleased with how our two websites performed during the period, albeit recognising that we are at an early stage in the development of our digital offer.

The relaunch of cardfactory.co.uk on a new platform meant that we were better able to meet the increased demand, with a significantly improved customer experience including product range and additional new features. From December 2020, we further improved our digital platform with the launch of our new Card Factory app on iOS and then on Android, enhancing our new, highly competitive offer. Customers are embracing these apps, which accounted for 9% of online transactions by late May 2021, with the app generating 45% more repeat orders than our website.

Trading in the store estate recovered steadily following reopening after the first and second lockdowns, with transaction volumes outperforming UK retail footfall data. Footfall remained materially reduced, but was largely offset by customers choosing to buy more on each visit. We were particularly pleased with how our stores performed in October as we swiftly reacted to meet the increased customer demand to buy Christmas ranges early, accommodating the seasonal demand despite the significant disruption. Trading was also strong in December, but the November lockdown meant that the season overall was impacted as customers were able to shop the category in essential shops, that were able to trade, as well as on-line. Online demand has continued at above pre-pandemic levels but has slowed as stores reopened.

Our vertically integrated business model enabled us to identify and respond quickly to trends and satisfy customer demand. For example, lockdown humour ranges were made available online within five days of being designed, with great success. Our business model also allowed us to maintain our flexibility during the Christmas trading period; printing additional runs where necessary and avoiding overstocking as national and regional lockdowns came into effect.

Launch of our new strategy

In July 2020, we launched Card Factory's refreshed growth strategy. It is based on three pillars: a winning card-led proposition; being available in more places, however customers choose to shop; supported by a robust and scalable central model. While the overall future strategic direction for Card Factory is clear, the Board will be closely monitoring and assessing the impact of Covid-19 on the timing and phasing of the delivery of each element. Despite the challenges that the pandemic presented, we did make some important early progress against the strategy. As well as the relaunch of the cardfactory.co.uk website and accompanying app., we further optimised our card ranges and successfully implemented a number of price increases, given confidence in our ability to do so across the breadth of our categories.

Board appointments

We were delighted to welcome Darcy Willson-Rymer as our new Chief Executive on 8 March 2021. Darcy has excellent credentials and highly relevant experience to lead Card Factory through the next phase of our growth. We also welcomed Tripp Lane to the Board as a Non-Executive Director in April 2020.

Solid performance post re-opening

We continue to prioritise providing safe working and shopping environments in all our stores. After the third lockdown, which impacted the first two and half months of the financial year, including Valentine's and Mother's Days, we were delighted to welcome our customers back as trading restrictions began to ease across the UK and ROI from April 2021. The strong initial pent up demand has steadied and our performance since reopening has been in line with expectations. Our Everyday Card and party ranges have performed strongly, and although footfall remains reduced we are seeing evidence of customers shopping more evenly during the week and spending more per visit.

Successful refinancing

We were pleased to be able to recently announce a successful refinancing with our existing commercial banking syndicate. The increased bank facilities of £225m provides additional liquidity above the original £200m it replaced, and is for the same term through to 24 September 2023. The secured facilities provide Card Factory with the necessary financial resources to focus on its future growth strategy.

Summary

2020 was an unprecedented year for all businesses. For Card Factory in particular, key trading periods were significantly disrupted and a loss of over a third of the year's revenue inevitably had a very material impact on our financial performance. There were some challenging times for all, but I'm delighted at how the business and our colleagues navigated the consequences of the pandemic, which reflects on the robustness of the business. Our colleagues responded with great resilience ensuring our customers still received great service. We worked closely with our many stakeholders – suppliers, landlords, banking partners and the Government – to ensure that Card Factory can now confidently start to look forward to the future. I am certain that under Darcy's leadership we will take Card Factory forward, building on the strong platform that is already in place and deliver for all our stakeholders.

Paul Moody

Chairman
10 June 2021

A Covid impacted market

Despite three national lockdowns in the year, 76% of adults still purchased greeting cards in 2020¹

Whilst Covid-19 caused major disruptions to retail in the year, the UK greeting cards market remained resilient. The number of UK adults who purchased greeting cards in the year remained at 76% (consistent with 2019), although the number of cards purchased per adult was slightly down. The resulting overall market size has been estimated at 834m single cards in 2020, which was down 4.7% on 2019. Evidence suggests that the categories which were most impacted related to large social gatherings such as children's birthdays, milestone birthdays and milestone anniversaries and weddings.

The closure of specialist card retailers (including Card Factory's physical stores) as non-essential retail for approximately 5 months of the financial year drove a significantly higher than normal proportion of shoppers to purchase their cards online compared to previous years. One quarter of single card volume in the UK (approximately 206 million cards) in 2020 were sold online, up from a share of 8% in 2019. The average online price per card is approximately twice that sold in retail stores. So the combination of selling a greater proportion of cards in the year through the higher priced online channel caused the total value of the card market to increase to £1,425m, up by 6.7% the year before.

We expect shopper behaviours in 2021 to revert in large part to pre-pandemic patterns. Retail store sales will recover as shoppers return in large numbers to buying in stores again. Online sales will step down accordingly from 2020 to 2021, however we believe online sales will continue to be higher than pre-pandemic levels because of the underlying growth from longer term shopper behaviour trends.

Despite the periods of non-essential retail closure, Card Factory remained the biggest card retailer in the UK in 2020 by a considerable margin. Card Factory's market share of the volume of UK greeting cards was reduced to 20% (2019: 33%). Supermarkets unsurprisingly benefitted from the lockdown periods and grew their market shares as they were permitted to trade for 12 months as essential retailers. The next largest greeting card retailer after Card Factory, a supermarket, realised a small increase in market share to 12% (2019: 10%).

Card Factory's share of the UK online greeting card market share (by volume) increased slightly from 2.1% (in 2019) to 2.3%, with the 'out-of-home' market share reaching 25% (2019: 33%).

We expect Card Factory sales to bounce back strongly for Q2 2021 onwards following the re-opening of our stores across the UK. As the supermarkets lose their monopoly on physical retail space, we expect to gain share from them. Our key shopper ratings for 'value for money' and 'wide range of cards' have improved even further in 2020. As a result, our lead in these key measures over our nearest rival improved slightly compared to 2019: the 2020 summary of the 'out-of-home' shopper ratings for value for money and value for money for Card Factory and other card retailers are set out on the next page.

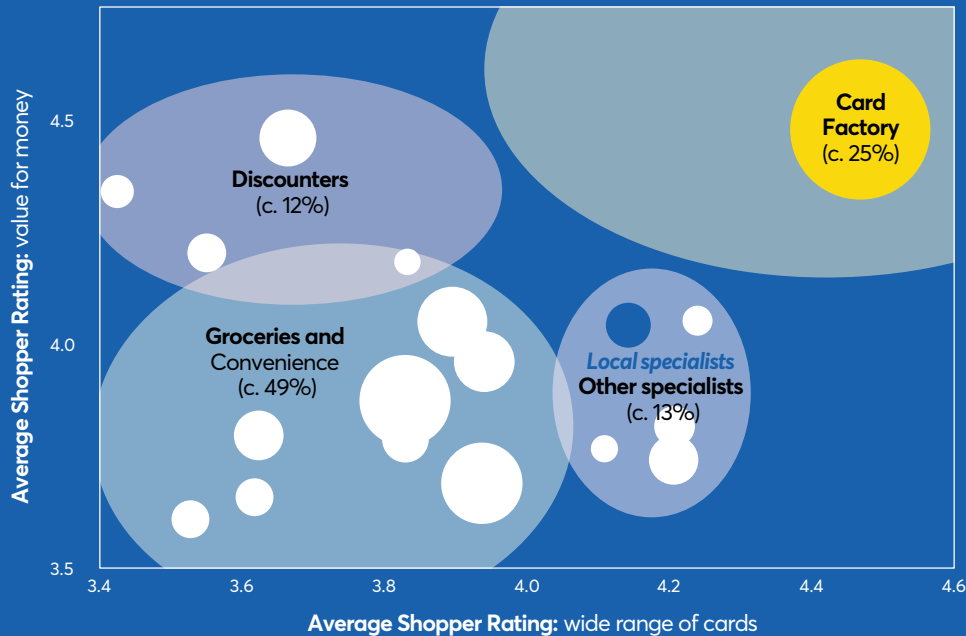
¹ Based on Card Factory's in-house market survey February & March 2021

UK market size, single greeting cards

| | 2019 | | 2020 | |
|---------------|--------------|------------------|--------------|------------------|
| | Value (£m) | Volume (units m) | Value (£m) | Volume (units m) |
| Retail stores | 1,158 | 804 | 910 | 629 |
| Online | 177 | 71 | 515 | 202 |
| Total | 1,335 | 875 | 1,425 | 831 |

Card Factory has a differentiated and defensible brand positioning

Shopper Ratings for Wide Range of Cards and Value for Money (excluding online) (Av. Score; % Volume Share)



The impact of Covid-19 materially changed where card buyers could shop: benefiting 'essential retailers' whilst non-essential retailers were prohibited from trading. For comparison purposes, in 2019, for purchases 'out-of-the-home' (i.e. excluding online), Card Factory accounted for 35% of the volume; discounters for 8%; Grocers and Convenience for 31% and other specialists for 24%.

Card Factory benefits from a 'moat' separating its positioning from the pack when rated for 'wide range of cards' (the #1 purchasing criterion) and 'value for money' (Card Factory's brand promise). This gap increased marginally in 2020 compared to 2019.

Discounters – typically offer narrow ranges focusing mainly or exclusively on lower price points. Shoppers must trade off breadth of choice (and often card quality) for the low price point.

Grocers and convenience – 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.

Other card specialists – typically serving destination shops where the card or a related item is the reason for the shopping trip. Well-rated for card ranges, but typically at high price points.



A vertically integrated business

Card Factory is the first choice for greeting cards

Our proposition

Card Factory is the UK's leading specialist retailer of greeting cards, dressings and gifts, with an estate of over 1,000 stores across UK and Ireland; a growing online offering through cardfactory.co.uk and gettingpersonal.co.uk; and supply through a further 4 franchise stores and 890 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.

Our design insight

Card Factory generates a unique insight in what customers want when choosing to celebrate life's moments. Card Factory has grown its UK market share to achieve one third of greeting card sales, before the Covid-19 pandemic which provides insight into customer preferences. This insight, and our leading market research led to development of 10 customer profiles that comprise the majority of card buyers. These profiles are used by designers in our Design Studio (Studio 41) to develop new designs. We regularly introduce newness to the range as customer taste evolves, and identify gaps in the range to address new customer preferences and buying occasions.

During the last year, the Studio 41 team refreshed the Male and Female everyday ranges. They worked closely with the buying team to develop new product ranges in all our key card and gifting categories, reflecting our customer profiles. Examples of new ranges include cards with positive messaging during Covid-19 and increased multi-racial representation on cards. We have broadened our portfolio through the introduction of over 30 new freelance designers to create fresh styles in both our store and online offer.

Our production advantage

Operating our own large-scale print facility in Baildon, Yorkshire, which has capacity to produce 270 million cards per annum is a key USP for Card Factory. This Printcraft facility, which primarily serves the Card Factory business, is capable of printing additional or new ranges that can be online within a week and can be in-store within 4 weeks of design. This flexibility allows us to operate small print runs to minimise surplus stock holdings, without the lead times of c. 12 weeks typically encountered for imported products. Over 60% of our store card ranges and all online personalised cards are produced at this facility, where we continue to invest in additional print and finishing capacity that allows us to on-shore a greater proportion of production to the UK.

Our sales channels

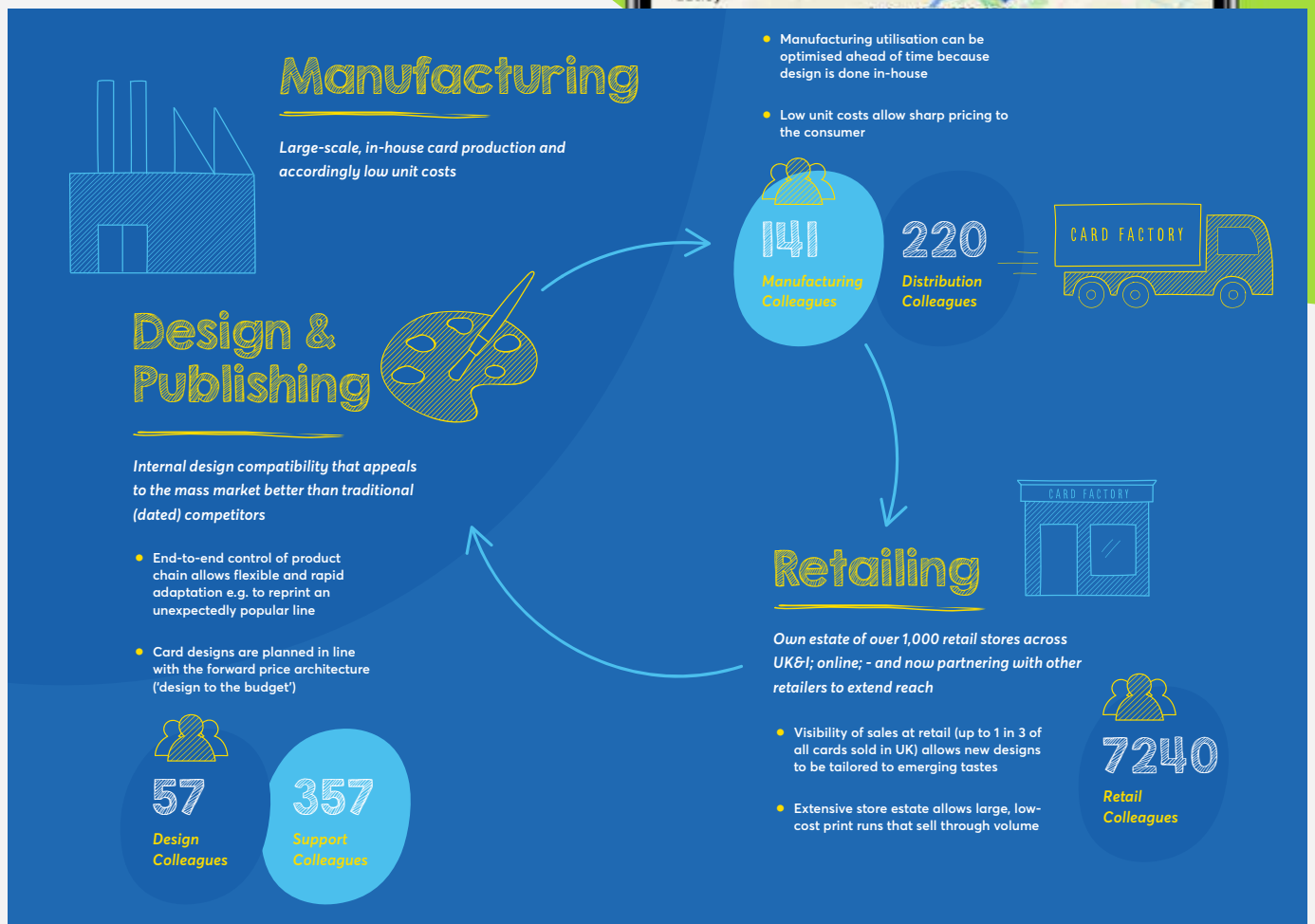
Our 1000+ stores across the UK and Ireland is our main route to market, offering our full range and retail experience to our customers. Additional access to our range is available from our online offer (from cardfactory.co.uk and gettingpersonal.co.uk) and via our UK and international retail partners (see pages 14 to 17 for details of our sales channels).



Find your nearest store



Our virtuous circle



Statistics correct as at 31 January 2021.

Setting ambitious, achievable targets

Card Factory launched its refreshed strategy in July 2020, setting ambitious, achievable financial targets designed to refocus the Card Factory business on its core competency: Card. The strategy leverages on the unique insight from being the largest greeting card retailer in the UK, and on our fully integrated model, from design, print and distribution. Opportunity for growth includes replicating our partnership models with other retailers, in the UK and internationally, offering branded Card Factory concessions and white label curated card ranges within other retailers' stores.

We recognise a material permanent shift in customer behaviour towards online following the Covid-19 pandemic. This requires investment in capacity to meet increased demand, following relaunch of our cardfactory.co.uk website in July 2020, to improve the customer experience and support future growth. We launched the Card Factory app on iOS in

December 2020 with the Android app launched in February 2021.

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.

Helping customers celebrate their life moments - Affordable and available for everyone.

Page 13

#1 Winning card-led retail proposition

- Leadership in card choice
- Distinctive and defensible pricing strategy
- Innovation and authority in complementary categories
- Growth in under-penetrated customer segments
- Sector-leading shopper insight

Page 14

#2 Available in more places, however customers shop

- UK&I store estate
- New retail formats
- UK partnerships
- Strategic international markets
- Rest of the world
- E-commerce and multichannel

Page 18

#3 Advantaged, robust & scalable central model

- In-house manufacturing and supply
- Lowest cost to operate
- Leadership, engagement and capacity
- Positive impact programme



Winning card led retail proposition

Sector-leading card shopper insights drive improved performance

Card Factory's strategy aims firstly to build the winning card-led retail proposition. This means delivering superior performance against the needs of card shoppers, now and into the future. Card shoppers report that 'wide range of cards' and 'value for money' are the strongest drivers of how they choose where to shop for cards. Card Factory aims to be top of the market for both these measures. The Board believes that excelling in these targets allows Card Factory to excel as market leader and to gain share across all targeted customer segments, growing from its value-led heritage. The business aims to deliver this position by pursuing five strategic programmes:

LEADERSHIP IN CARD CHOICE

All our stores must have space allocated to the best-selling cards, using data analytics to inform decision on stock in stores of all sizes. Reorganising how our cards are arranged will further maximise the sales density, using data to inform when best to phase launch of seasonal ranges to maximise sales of our everyday ranges. Ensuring our customers have the widest range of cards available will reduce the space for complementary products in smaller stores.

GROWTH IN UNDERPENETRATED CUSTOMER SEGMENTS

Segmentation has developed our understanding of our customer profiles, facilitating identification of opportunities to develop focused offerings for underpenetrated segments. This facilitates commercial decisions at conception, development, implementation and review of product ranges to attract and grow demand from shoppers who don't conventionally shop with Card Factory.

DISTINCTIVE AND DEFENSIBLE PRICING STRATEGY

Maintaining our value led proposition is key to our strategy as Card Factory is recognised for value, quality and range. Our pricing architecture will ensure pricing accounts for inflation and cost increases, with successful implementation of price increases across selected categories demonstrating limited volume reductions and improving product margins.

SECTOR-LEADING SHOPPER INSIGHT

By selling more greeting cards than anyone else in the UK, Card Factory has unique insight and data to fully understand the market: what customers want; what occasions they buy for; and what designs and captions sell well. Analysing our data to support our range selection, pricing, promotions, which can facilitate trials in a number of stores or geographies, allowing our design teams to adjust the offer to reflect customer behaviours.

INNOVATION AND AUTHORITY IN COMPLEMENTARY CATEGORIES

Customers visit primarily for card-led missions, with a diverse range of complementary ranges. Focus on a narrower range of complementary categories through innovation and insights improves our authority and opportunity to generate destination traffic for these complementary ranges, similar to our experience in Balloons. Development of further opportunity will drive additional growth.



A photograph of a Card Factory store at night. The store has large glass windows and a prominent yellow sign that reads "Card Factory" in a bold, sans-serif font. The sign is illuminated from within, making it stand out against the dark background. The store's interior is visible through the glass, showing shelves and products. The overall scene is a modern retail environment.

#2

Available in more places, however customers shop

New channels, formats, countries and routes to market

Card Factory is present:

- in the UK and Ireland through a network of over 1,000 physical stores, supply into over 50% of Aldi's UK estate, and two transactional websites;
- in Australia through its partner The Reject Shop; and
- in smaller territories through franchise arrangements.

There is significant further room for growth: for example, in the UK, more than 50% of card shoppers who are aware of, but do not shop at Card Factory, say it is because there is no convenient store location for them. Further, as the mass market begins to shop online for cards for the first time, Card Factory can sell to customers both through its existing e-commerce websites, but also through new multichannel propositions. Moreover, several international markets show attractive characteristics for entry and disruption.

Card Factory aims to make its brand and its products affordable and available for everyone. New store openings continue to be profitable, and so there is scope to grow the UK and Ireland estate to c.1,100 stores. In addition, the management team intends to:

- Add further and develop existing UK retail partnerships.
- Enter and grow in strategic international markets through partnership arrangements: in the US, Canada and Australia.
- Develop its e-commerce offerings and launch multichannel propositions, including click and collect.
- Experiment with new formats as the retail world adapts to the 'new normal'.
- Address localised pockets of demand around the world through extended franchise agreements.

Sales channels

Retail stores

Online +
multichannel

Retail
partnerships

Retail stores

Card Factory leases in excess of 1,000 retail stores across the UK and Ireland, in a mix of Shopping Centre; Retail Park, High Street; Supermarket; Shopping Precinct and Factory Outlet locations, in stores with between 480 and 3,180 square feet of retail space.

Growth in the number of stores has been largely suspended since the Covid-19 pandemic, save for opening stores that were legally committed before the first national lockdown in March 2020, and opening a limited number of new retail park stores. Our target of 1,100 stores by FY26 is subject to ongoing review as we review the portfolio following the Covid-19 pandemic, capitalising on our short average term to a lease event which permits renegotiation of occupation costs. The Company adopts a flexible approach to leasing retail stores, to allow it to respond to local changes and footfall to ensure stores operate profitably. Opportunity may arise to secure alternative premises at competitive rents as new retail space becomes available, or where co-location of two or more stores into single larger stores, with capacity for a full range of product lines may increase profitability. Our data confirms that multiple retail locations in larger conurbations ensures our stores are accessible to a larger number of customers.

The strategic priority for the retail stores is to maximise profitability by increasing sales, using data insights to ensure the best selling products are available in all locations.





Online + multichannel

The online trade from cardfactory.co.uk and gettingpersonal.co.uk currently accounts for a relatively small proportion of the Group revenues, growing from c. 4.3% of total Group sales in FY20 to c. 9.7% in FY21. The online business has made substantial progress, particularly whilst retail stores were required to close under government restrictions on non-essential retail due to the Covid-19 pandemic.

Cardfactory.co.uk

Cardfactory.co.uk saw substantial year-on-year growth of 135.3%, particularly whilst retail stores were required to close. We realised a shift in customers moving online to access our ranges for delivery to their homes, or sending cards direct to a family member or friend.

During the year, we delivered three step changes in our customer proposition:

New e-commerce platform

In July 2020, we launched the cardfactory.co.uk website onto a new e-commerce platform, delivering a new customer experience across devices and a range of new features including verse finder, for customers who want help finding the right words and a reminder system, so special events and birthdays never get missed.

New website and new card offer

Simultaneously, we also launched the new website with a new card offer, all personalised cards now included 1st class delivery, no hidden costs. We extended our in-store ranging offering online to ensure our store customer could access our offer whilst stores remain closed.

Launch of iOS and Android apps

We launched our iOS and Android apps, providing access to the same fantastic ranges and value as the website, persistent log-ins, wish-lists and integrated store finder. We are pleased with customer feedback and ratings from the first iterations of our apps.

The impact of lockdown has given us a glimpse of the future scale and volume of our online business. There is potential for us to grow further through investing and increasing our fulfilment capacity and operations, in particular to satisfy customer demand at seasonal peaks.

Gettingpersonal.co.uk

We also returned the Getting Personal business to profitability during the period. Getting Personal is an exclusively online premium gifting website primarily offering personalised products, of which c. 70 third party suppliers are approved to list products, in addition to our own stocked ranges. Printcraft fulfil approximately 70% of sales from the gettingpersonal.co.uk website, including personalised wall art, cards, cushions and engraved gifts. Around a third of purchasers had purchased from us previously.

We are actively reducing our reliance on search engines to drive traffic (reflected in a decrease year-in-year from 75% to 72% of traffic from Google) and continue to test alternative sources of traffic as a key focus of our marketing strategy. In the last year we successfully grew sales through affiliates, YouTube and social media and plan to test more new channels, including offline channels, in the coming months.

The online businesses primarily offer personalised ranges, which cannot be offered in-store, and increasingly will include non-personalised ranges with scope to introduce click and collect and other services to provide a genuine multichannel offer, which now includes provision of both an iOS and Android app.

The key strategic objective for the online business is to enhance the online offer to provide a true multichannel platform, including click and collect.

Retail partnerships

The Retail Partnership channel has been developed to leverage on Card Factory's expertise, range and customer insight. Applying its market leading UK position, into other English-speaking countries and, within the UK, to make our cards available to customers where we do not have a Card Factory store, or who are shopping for convenience.

The first Retail Partnership trials with each of Aldi (in the UK) and The Reject Shop (TRS) in Australia commenced in 2019 and have now been rolled out to 356 TRS stores and 519 Aldi stores (as at 31 January 2021). We have a further trial with Matalan (in 15 stores) and are pursuing a number of further opportunities for growth of this channel. The existing franchise arrangements with an operator of stores in Gibraltar, Jersey and Guernsey was extended to a fourth store in the Isle of Man.

As we look ahead we continue to explore new international markets and target English speaking countries with our unique 'quality-value' proposition, at the core of which is offering a wide range of cards at great quality and prices. This is underpinned by an efficient vertically integrated model of design and manufacture.

The Retail Partnerships channel realised a year-on-year sales growth of 83.3% over the 12 months to 31 January 2021.

Retail Partnerships allow us to make the Card Factory range available to additional customers who do not live near a Card Factory store. Although we realise only a wholesale margin from the Retail Partnership model, we benefit from greater efficiencies and significantly reduced operating costs, to support development of a strong investment return.



#3

Advantaged, robust & scalable central model

Ingrained defensible competitive advantage

Card Factory has competitive advantages in its vertically integrated design, manufacture and retail model. This must be renewed and extended to maintain its advantages and the Company's position as the lowest cost among comparable operators. At the same time, investments in the central operation are required in order to provide the infrastructure for growth and diversification. Therefore, the management team has committed to:

- Invest in capacity and capability expansion for the manufacturing operation.
- Increase and modernise e-commerce fulfilment operations.
- Deliver warehousing efficiencies including consolidation of picking and packing operations.
- Deploy a modern ERP system to cover the core business process and provide stability.
- Step-changing stock management including line-level stock at store level to unlock the potential of technological solutions.
- Build the new capabilities required to succeed as a modern design, manufacture and retail business.
- Make a positive impact on the world.



Investment case

Only credible card specialist at scale

- Card Factory sold more than 3 times the volume of the UK's second largest card retailer in 2019 and sold more than any other UK retailer in 2020, despite stores being closed for 5 months of the year
- Selling more cards than anyone else, we benefit from more information, enabling us to commission the right designs and innovations from our in-house team, and in turn order the right production runs yet still deliver

Virtuous circle of design, manufacturing and retail provides barriers to entry

- Design: 57 creative designers and verse writers in Wakefield, Yorkshire
- Manufacturing: 172.5 million cards and other products manufactured during the year in Baildon, Yorkshire (down from 258.9m for the previous year)
- Retailing: >1,900 distribution points including more than 1,000 Card Factory retail stores

Established brand, already demonstrating ability to extend beyond cards

- Leading retailer of greeting cards, selling 1 in 3 greeting cards sold in the UK, prior to Covid-19
- Ranked #1 for the last 6 years of all UK retail brands for 'value for money'
- Ranked #1 in the UK for the most important criteria used by customers buying greeting cards: Wide Range of Cards and Availability of Cards
- Generating destination footfall for balloons

Clear pathway to restore sales and profit growth in the core

- 600%+ return on investment realised from investment in store estate, with low capex model
- Targeting 5,600 international distribution points by FY26, 1,100 of which will be Company operated stores in UK and Ireland
- Optimising store returns driven by data insights, maximising returns from existing store space
- Refocus on card led proposition (generating c. 84% product margin) and specialise in select complimentary categories

Identified and proven sources of growth

- Measured price increases to address cost inflation whilst remaining true to our value and quality credentials
- Focus on complementary categories drive additional footfall and improved returns
- Investment in Online and Multichannel offer, including July 2020 relaunched website (cardfactory.co.uk), planned integration of gettingpersonal.co.uk to reduce overhead, launch of Card Factory apps on iOS and Android; future loyalty offering

Cash generative model with diversifying income sources

- Free cash flow/underlying PBT ratio targeted 80% average for FY24 to FY26
- Scope for generating growth from proven success from current UK partnerships with Aldi and an ongoing trial with Matalan. Concessions in 356 'The Reject Shop' stores in Australia provides additional model for further growth
- Return to shareholder distributions when prudent, post-Covid-19

How we measure progress

Card Factory introduced a focused set of KPIs, designed to measure and report on progress that have been identified as indicators of overall performance and early indicators for achievement, of the strategic objectives that were presented alongside our refreshed strategy.

| | Measure |
|------------------------|--|
| Customer | UK greeting card market share by volume |
| | Number of distribution points |
| | Competitor gap for 'value for money' and 'wide range of cards' |
| | Average cards per basket |
| Colleague | 'Be Heard' overall colleague engagement score |
| | Staff Turnover (12 month rolling average) |
| | Internal Promotion Rate |
| Operational efficiency | 'On Time In Full' |
| | Unit Cost |
| | Inventory value |
| | Productivity (£'000 sales/FTE) |
| Shareholder | Group net sales growth |
| | Profit before tax % |
| | Free cash flow conversion (% of PBT) |
| | Return on Capital Employed |

The KPI targets and performance against them are embedded throughout the business to ensure alignment, by relevant tier 2 and tier 3 measures incorporated in each colleague's personal objectives, which support the following tier 1 KPIs that are reviewed by the Board every month, facilitating review and action if any material deviations from Target arise. The targets were set after lockdown 1 ended in June 2020, before the effects of the subsequent lockdowns were known.

The performance for the year to January 2021 (below) include some anomalous results due to the extended periods of store closures and reduction in operations.

The Board notes the KPI performance is materially influenced by the mandatory closure of stores during the financial year, which has resulted in underperformance on

many KPI measures, on matters that have been outside the control of the Company. The Market Share and Shareholder KPIs are materially influenced by the extended periods of store closure during the financial year.

The next financial period to January 2022, which includes at least two and a half months of store closures, following which retail footfall is expected to take time to recover, is expected to provide a platform for further improvement, assuming no further periods of store closure are imposed. The Colleague and Operational Efficiency measures are encouraging, but reflect a period of extended suspension of store trade and colleague furlough, which isn't representative of normal operating conditions, however, the Board will focus on maintaining and improving on these measures now that the business is trading fully.

| Target/Process | Performance by 31 January 2021 |
|--|---|
| Measured annually through market research, targeting growth in number of single card sales in the UK to 45% by FY26. | Market share declined. |
| Targets growth month-on-month by increasing the number of sales points via our retail partners, in addition to our own store estate. | Average distribution points declined. |
| The key measures for our customer's priorities in purchasing greeting cards is 'value for money' and 'wide range of cards'. We undertake a UK survey of card buyers annually to measure how we score on these metrics and expect to score above our competitors on both measures. | Target exceeded. |
| As a greeting card led retailer, we target increasing the average number of cards in shoppers baskets (both in-store and online). | Target exceeded. |
| We participate in the annual Best Companies colleague survey and target improved scores year on year, to ultimately achieve 'Three star' employer rating (with a score of 738+), through year-on-year improvement. We commissioned Best Companies to replicate these surveys as it suspended its annual engagement survey due to Covid-19. | June 2020 score improved from September 2019 score. |
| Staff turnover is an indicator of staff satisfaction. We target the percentage of leavers over a 12 month period to be below 27% of the total number of permanent employees (excluding seasonal roles). | Colleague turnover for the period below threshold. |
| We strive to develop our talent as leaders of the future, by providing career progression training, and seeking to increase our internal promotions. We aim to achieve at least 29% of vacancies (excluding seasonal vacancies) being filled by existing colleagues (measured over a rolling 12 month period). | Internal promotion threshold exceeded. |
| To maximise sales, having stock in store or for online fulfilment for our customers is fundamental. Initially we will measure the proportion of online orders that are 'on time in full' and will, when enabled, measure on time in full supply to our stores and availability to our customers. | Target not achieved. |
| The average direct unit cost for manufacturing, handling and despatching our products to stores or customers is calculated to drive efficiency. | Target exceeded. |
| Managing our stock is a key component of our working capital management, ensuring it is sufficient to meet demand, whilst minimising excess stockholdings. | Target exceeded. |
| A productivity measure is adopted to ensure total headcount (in-store, distribution, production and support centres) is proportionate to sales, to maintain a focus on providing a lean business model. | Target not achieved. |
| Year-on-Year sales growth for the entire Group's turnover. | Target not achieved. |
| Statutory (unaudited) Profit Before Tax as a percentage of net sales. | Target not achieved. |
| All cash flows excluding financing and dividends over a rolling 12 month period as a proportion of the statutory (unaudited) PBT for the same period. | Target exceeded. |
| Statutory (unaudited) PBT for a rolling 12 month period divided by total assets (excluding current liabilities). | Target not achieved. |

Our Covid-19 response

The Covid-19 pandemic caused material disruption and challenge for Card Factory from March 2020, with its effects expected to continue into 2021 and possibly beyond.

Our colleagues responded robustly to the challenges of the Covid-19 pandemic as they arose, with established processes adopted to protect the business as the potential impact on Card Factory were identified. From the beginning of February 2020, we were actively monitoring the development of the pandemic, with our buying team engaging suppliers and shipping partners as they developed plans for potential disruption to our supply chain for products sourced from the Far East. New protocols and hygiene measures were adopted for disinfecting imported products. Our Emergency Response Team was activated. Their initial actions included implementing travel bans to protect our colleagues, and increasing frequency of communications with colleagues to respond to developments and changing guidance, including introduction of hygiene measures in our stores, Printcraft, distribution centres, support centre and Studio 41.

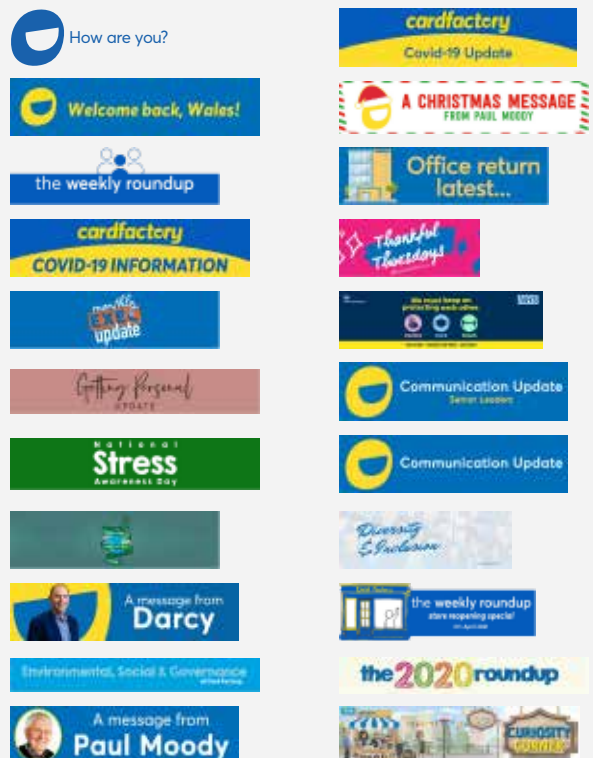
When the Board decided to close our stores on 23 March 2020 to protect our customers and colleagues, in advance of the government announcement mandating closures, the team implemented the detailed orderly closure plans. The majority of colleagues were furloughed with only a skeleton staff being retained, where necessary, to protect the business and support our supply to our retail partners and online operations, which were able to continue.

During periods of store closures we stepped up our colleague engagement and communications to support our colleagues. This included provision of support for mental health and wellbeing; provision of content and support for voluntary self-learning and providing regular updates and responses to questions to ensure our colleagues' concerns could be addressed, including video updates, incorporating responses to 'Ask the Exec'.

The potential financial impacts on trade became more apparent from early March 2020, as the first and (from late October) second lockdowns were imposed, detailed modelling and contingency planning to manage the financial and liquidity position were accelerated, with the Board initially meeting weekly. Various actions were taken to protect the Group's liquidity, including:

- Deferral or reduction of rent payments following extensive negotiations with landlords to agree revised terms, including payment of monthly rents (rather than quarterly) and deferral of payment for the periods of store closures;

- Engagement with a significant proportion of UK and Far East suppliers to agree revised payment terms and the deferral or cancellation of orders in line with the business needs;
- Use of business rates holiday, VAT deferrals, property grants and access to the UK's Coronavirus Job Retention Scheme funding and the equivalent schemes in The Republic of Ireland;
- Securing revised terms and covenants with our banking partners, including revised banking covenants, which permitted additional borrowings (a) based on an initial 3 month lockdown (b) to account for store closures in October/November 2020 and (c) following the year end: a full refinancing;
- Securing access to Coronavirus Corporate Finance Facilities (CCFF) from May 2020, although following rule changes in October, we were notified in January 2021 that access to the CCFF support ceased to be available;
- Review and rescheduling of our investment plans, including suspension of all uncommitted new store openings;
- Reduction of all discretionary spending; and
- Establishment of a Liquidity Committee of the Board, who reviewed (initially on a weekly basis from April 2020) the Group's liquidity position.



During the mandatory store closures, our sales revenue was severely restricted to our online businesses, [cardfactory.co.uk](https://www.cardfactory.co.uk) and [gettingpersonal.co.uk](https://www.gettingpersonal.co.uk). [Cardfactory.co.uk](https://www.cardfactory.co.uk) realised +222% LFL sales when the majority of our stores were closed. As essential retailers, our retail partners Aldi and The Reject Shop continued to trade, however, sales were disrupted as these businesses prioritised addressing shortfall in supply of essential items, particularly at earlier stages of the first lockdown.

In June 2020, we carried out a colleague engagement survey with our survey partners Best Companies, to understand how our colleagues felt about our engagement during the first lockdown, and the store reopening protocols we had put in place. Our colleague engagement score improved from a 'one to watch' in 2018 and 2019, through two grades to a 'two star company', where the top category is a 'three star company'. Feedback reported that our communications during lockdown had kept them informed, engaged, and safe, and that they were confident in the measures we had put in place for store reopening.

Following rollout of staff training and Covid-secure protocols, stores reopened on a phased basis from 15 June 2020, to allow us to adapt our Covid-secure protocols with customer and colleague safety as our priority. Our reopening plan was accelerated in response to positive feedback and performance.

Stores outperformed our original expectations following reopening, with customers shopping less frequently, but generally buying more on each visit. One real success for both our customers and colleagues was the introduction of the 'Meet & Greet' role to help manage store occupancy during busy periods. Both colleagues and customers responded positively to this addition, feeling safer in our stores, in addition to the other Covid-secure changes and training, we extended the Meet & Greet role for the Christmas period. By October 2020, stores were trading with positive LFLs, despite high street footfall remaining significantly reduced. Customers also started shopping early for Christmas, which we responded to by accelerating introduction of further Christmas ranges.

Stores in areas subject to new mandatory closure due to tier changes and national lockdowns from October 2021 realised a material uplift in sales in the few days before the mandatory closures took effect. With great flexibility from our store colleagues, store opening times were extended at short notice to satisfy customer demand, with other teams in the business responding brilliantly to prioritise restocking our stores and recruiting nearly 5,000 seasonal colleagues, to meet demand when stores were permitted to reopen from November and early December 2020, after the second lockdowns. Further store closures were imposed from mid-December, with all stores required to close after 4 January 2021.

Actions taken

Customer Actions

- Communication via social media and [cardfactory.co.uk](https://www.cardfactory.co.uk) website on store closures/opening and trading hours.
- Design, manufacture and sale of reusable, washable face masks.
- Additional resource allocated to customer services team to respond to increased customer enquiries, during periods of store closures.
- Focus to support and grow online business, including investment in additional infrastructure.
- Introduction of 'Meet & Greet' role in stores to manage store capacity extending this role to Christmas in recognition of safety of being in our stores realised from this role.
- Extensive planning and logistical challenge to restock stores in preparation for reopening after the second and third lockdowns, recruit seasonal staff (for December reopenings) and ensure sustained supply of stock and replenishment during peak trading periods.
- Extend opening hours in many stores in December to address capacity constraints from Covid-secure operations.

Colleague Actions

- Covid-secure arrangements in stores, production and distribution centres – prompt response to changing guidance to ensure colleagues' and customers' safety is paramount.
- Restrictions on travel and meetings. Accelerate technology solutions to deploy wholesale remote working.
- Implement store closure arrangements for our colleagues.
- Furlough colleagues to protect jobs.
- Launched Thankful Thursdays – to recognise hard work of our colleagues (when stores opened) and Feel Good Fridays (when stores closed) to keep colleagues engaged and updated.
- Launched intranet platform for all colleagues to provide up-to-date information, support and advice including: promoting our Mental Health First Aiders; Employee Assistance Programme; Salary Finance; production of bespoke online development tools and training.
- Provision of training and other support – not role related – personal development focus.

- Consultation on flexible working for support centre colleagues.
- Survey to receive feedback – improved score.
- Full 'Covid-secure' training for all store colleagues before store reopening at the end of the first lockdown.
- Introduction of 'Meet & Greet' role in stores to manage store capacity extending this role to Christmas in recognition of safety of being in our stores realised from this role.

Customer Sentiment (Social Media)

- "This is the shop I have missed most"
- "Brilliant shop, everything you need, the staff are amazing, so helpful"
- "I love Card Factory, wouldn't shop anywhere else, such good value and choice."
- "I really miss the Card Factory the little cuddly toys can't be beaten for value."
- "Hurry up and reopen the Card Factory is brilliant shop have missed this shop very much good value and great cards."

Chief Executive Officer's review

Strategic platform for recovery



My focus is to ensure the business maximises its opportunities to deliver, with appropriate investment to provide a long-term platform for sustainable growth.

Darcy Willson-Rymer
Chief Executive Officer



This is my first CEO review since I joined Card Factory on 8 March 2021. I have long admired Card Factory both as a brand and for its market leadership. I believe that given our business model, customer offer and leading position in a substantial market, there is great potential to deliver value for all our stakeholders in the coming years.

Since joining, I have been impressed by the team, the strong culture across the business, and the affinity our customers have for the brand. The vertically integrated business model provides us with a distinct and valuable competitive advantage which we can use to improve how we serve our customers, offering great products at unbeatable prices through convenient and positive shopping experiences, whilst also delivering attractive financial returns. My focus is to ensure the business maximises its opportunities to deliver, with appropriate investment to provide a long-term platform for sustainable growth.

One of my first priorities upon joining was the reopening of our stores across the UK and ROI from April and May 2021. I was encouraged by the store performance and it is clear from speaking to our customers just how much we have been missed. There are early indications that shoppers' habits have evolved with customers choosing to shop more evenly during the week, visiting less frequently but spending more. Clearly all retailers need a compelling online customer proposition, and we made some important progress in this regard through the last year. It remains an area of focus and opportunity for Card Factory, and something we that we will continue to invest in and develop. However – perhaps unlike other parts of the retail market – we are of the view that the majority of money spent on cards will still be in stores and on the High Street during the years ahead.

Card Factory launched a refreshed strategy in July 2020, aimed at extending and improving the customer offer, routes to market and its vertically integrated business model. The direction of travel that Card Factory needs to take is clear albeit we are currently assessing the impact of longer than expected lockdowns on the underlying elements and phasing of the strategy.

Overall, though, we remain focused on continuing to improve our customer experience and optimising our stores, using our data-led insight to respond to customer preferences for each particular store and maximise sales. We continue to monitor changes to customer behaviour to meet their needs and, following successful trials, have also continued to build on the initial price changes rolled out across the store estate during the year, with further premium ranges introduced and price increases implemented on additional card ranges from reopening of stores in April 2021. We have detailed plans in development across all channels to maximise all sales opportunities for Father's Day in June 2021 and the next key peak season of Christmas 2021.

Part of the important progress we made in the year with regard to our online offer was the launch of a new website and app. They provide the platform for further enhancements as we develop a wider omnichannel offer that allows us to put quality cards at great prices in the hands of customers wherever they choose to buy them. The preparations for our ERP implementation, on hold during the third lockdown, is now progressing well, with phase one now scheduled for October 2021. We expect this will further improve efficiency and replace multiple solutions, many of which are no longer supported and unreliable.

Card Factory app downloads

138,000

from launch (Android and iOS promoted from February 2021) to 31 May 2021

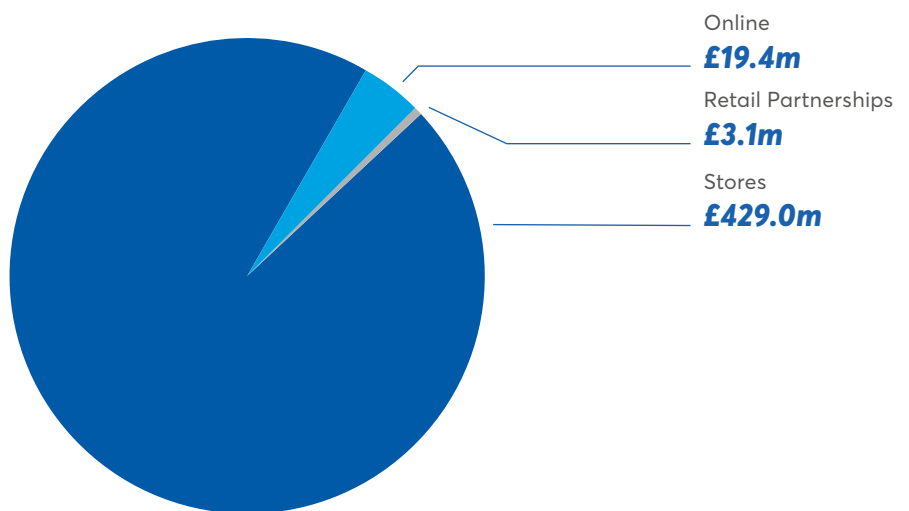
The recent successful refinancing provides the business with the necessary financial resources to focus on our future growth strategy. As previously announced, Card Factory intends to use its best efforts to raise net equity proceeds of £70m in due course, subject to independent advice and prevailing market conditions, to facilitate an early reduction of overall debt repayments.

We are a much-loved retail brand with a business model that allows us to offer our customers outstanding value at a time and place that suits them.

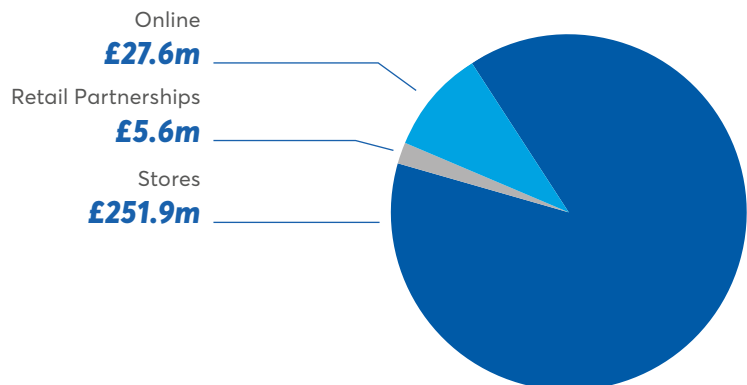
We can adapt quickly to new trends and changes to customer demand and deliver these products across a number of sales channels. Equally, there is still opportunity to strengthen the business to help it capitalise on the opportunities ahead. I am looking forward to leading the business through the next phase of its growth.

Darcy Willson-Rymer
Chief Executive Officer
10 June 2021

FY20 revenue



FY21 revenue



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, to promote the success of the Company. This engagement is also supportive of a Director's duty under Section 172 of the Companies Act 2006.

During the year, the Board reviewed the Group's stakeholders, the approach to stakeholder engagement, particularly in light of a determination in late 2019 to focus on the requirements of the UK Corporate Governance Code ('Code') to make substantial progress on engagement with our key stakeholders. This year's review included consideration of how the Board and how the entire business engages with our key stakeholders and ensure all stakeholders' interests are understood and considered when making key decisions affecting the long-term success of the Group. The Board resolved that in respect of a number of stakeholders, (particularly our Suppliers), that it is more appropriate for the senior management team, or their direct reports, to undertake part or most of the stakeholder engagement, provided insights and feedback is shared with the Board. The senior management team and the Board collaborate on the nature and form of such stakeholder engagement, and share their findings to ensure full regard of the stakeholder views is accounted for in decisions made by the Board and decision makers within the business.

The KPI metrics permit the Board to monitor performance against the strategic objectives are aligned to most stakeholder groups, including Colleagues, Customers and Shareholders (see page 20). The Board reviews the KPI balanced scorecard reports monthly.

Further items are addressed through regular Board reports and discussions with senior management. The CEO also has direct responsibility to promote stakeholder interests with the senior management team.

The Board recognises the key stakeholders as our Shareholders, our Customers, our Colleagues and our Suppliers. The Board also has regard to a wider range of stakeholders whose interests are considered within decision-making, including landlords of our leased retail properties, regulators, HMRC, our debt funders, our communities and our environment. Further details of our communities and environmental considerations, including the Card Factory Foundation, are set out on pages 44 to 54. The Board recognises the significant ongoing support over the last year from the government and our banking syndicate as a result of the Covid-19 pandemic and have regularly considered their interests in its decision making.

The Board objectives set by the Board following their effectiveness evaluation in late 2020 requires a quarterly review of their stakeholder engagement, with a specific focus on development of the ESG Strategy, embedding this across the business and making substantive initial steps to implement this strategy, with particular focus on diversity & inclusion; sustainability; and stakeholder engagement.

Shareholders

Our shareholders are a significant stakeholder group for Card Factory, as owners of the business, and as investors who fund the operations in expectation of a return. The shareholder experience has been at the front of the Board's decision-making, more-so this year than previously, as the share price stagnated, dividends were suspended and sales have been materially reduced as a result of store closures arising from the Covid-19 pandemic.

During the year we continued to engage with our shareholders on a regular basis, through RNS announcements and investor presentations. An open forum for all shareholders to ask questions was provided three times during the year: (1) when presenting our annual results; (2) our half-year results; and (3) presenting our refreshed strategy at our virtual capital markets day in July 2020. These presentations are attended by the CEO (or, more recently, the Chairman, pending appointment of a new CEO) and the CFO. A number of the senior management team also presented the new strategy to all our shareholders at the capital markets day presentation and addressed shareholder questions.

We also provide responses to ad-hoc investor questions and hold calls with current and prospective institutional investors. In accordance with best practice guidance issued in connection with holding AGMs during the Covid-19 pandemic, we invited questions in advance of our 2020 AGM to ensure shareholders had the opportunity to take account of responses before submission of their proxy votes, as there was no opportunity to attend the AGM due to government restrictions.

Much of this dialogue with shareholders is two-way, where we welcome feedback to take account of shareholder insights and experience. Members of the Board, and particularly the Chairman and CFO, have also made themselves available to meet with shareholders during the year. We aim to articulate our messages clearly in a way that is easy for all our shareholders to access and understand.

As our Remuneration Policy is subject to a 3-year review, the chair of the Remuneration Committee has also consulted on the proposed changes to that policy with a number of our larger shareholders, and with a number of proxy advisory services (who represent investor interests generally) to receive their feedback on the changes. This feedback has been reflected in the proposed Remuneration Policy set out on pages 78 to 85, which is to be considered by shareholders at the Annual General Meeting to be held on 28 July 2021.

The Board has regard to our shareholders' feedback during regular Board meetings and calls, ensuring their voice is considered during the Board's decision-making processes. Feedback from meetings with shareholders is also shared with the senior management team to ensure their insight is accounted for in their decision-making. The Shareholder KPIs (see page 20) are also reported on monthly to the Board and the senior management team, to ensure these range of key metrics are measured, reported on and accounted for all decision making to ensure of focus on achieving performance that is expected by this key stakeholder group.

We propose to continue to engage with our shareholders as outlined above.

Our next AGM will take place on 28 July 2021 at offices of UBS at 5 Broadgate, London EC2M 2QS at 11.00am. The Board welcomes questions from shareholders by email in advance of the meeting and will endeavour to provide written responses before the due date for submission of proxy votes, to facilitate shareholders making informed voting decisions in advance of the meeting. Appropriate questions and answers shall be published on the Company's investor website after the AGM. We encourage all our shareholders to vote by proxy on all of the resolutions proposed, to ensure votes are cast, should there be a change in regulations that may restrict attendance.

Our stakeholders continued

Customers

Card Factory's foundation and growth is attributable to our unwavering objective of helping people celebrate their life moments. To grow the business, we must continue to supply the right product, at the right time, in the right place, at the right price, to our customers with an emphasis on providing quality products, at a value price point. We continue to develop our range and sales channels to retain our existing customers and to attract new customers.

We actively engage with and listen to our customers, and to card shoppers who do not yet choose to buy from Card Factory, through our market research programme. We have taken the market insight function in-house to capture the proprietary insight derived from our market leading position and to consolidate all relevant data. Centralising this insight allows us to best understand our customers' needs and shopping behaviours to assist in development and design of our product ranges, pricing, services, stores, locations and online offering, to benefit all stakeholders in the long-term.

Our market research programme includes:

- our in-house annual market tracker research, which has been developed to provide bespoke insight and customer intelligence, including scoring on our customer focused KPIs (see page 20). In February and March 2021 we undertook a survey of over 3,000 members of the public to understand their card buying experiences and to understand how behaviours had changed over the previous year. See page 8.
- ad-hoc tailored research, to provide further insight into specific aspects of our customer (or prospective customer) preferences. One such example is our survey of new customers who purchased from cardfactory.co.uk following the lockdown from March 2020, to allow us to understand their needs and how such customers differ from a typical Card Factory shopper.
- access syndicated market research data. Although this is generally less tailored to our industry, it provides more frequent market data, including information on certain metrics like net promoter score, which assists to validate findings from our own commissioned research.

These varied approaches allow us to understand and quantify shoppers' opinions and values, to actively improve the proposition to meet our customers' needs, and to rigorously measure our performance in delivering the leading customer experience. Our Chief Commercial Officer 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.

To ensure all our colleagues have our customers in the front of their mind, we have rolled out the bespoke customer segmentation, which management believes to be market-leading, has been central to the evolution of the Group's refreshed strategy which the Board was heavily engaged in. This allows us to understand and address the interests of different groups of customers, increasing the likelihood that we can satisfy a wider range of customers.

We recognise we need to address and improve the customer experience, to satisfy customers who shop in-stores or online. As the Covid-19 pandemic hit and customers moved into the online channel, we had insufficient capacity to support all enquiries in the first lockdown leading to backlog of customers queries, which inevitably led to complaints. Following a review after the first lockdown, we invested in three areas: we increased the size of the customer services team to address demand; we extended customer services hours; and we introduced new contact channels in Live-Chat and social media. We also improved onsite content, frequently asked questions and website help pages to provide customers with the clarity they were looking for.

We have implemented transparency and tracking of store complaints with our retail teams, with area and store managers receiving regular updates on complaints received and actions to mitigate future re-occurrence. We continue to track, report and act on all inbound contact from our customers to improve the experience of shopping with us.

A further impact of lockdown was a changing approach to how we engage with our customers. We have improved our customer engagement through social media platforms, the trading websites and email. Content is tailored to seasonal activities, new launches and service updates including store openings/closures and change of hours. With the addition of the iOS and Android apps, we will add push notifications as an additional communication channel.

Customer inbound contact and feedback is shared weekly with senior management to allow corrective action to be taken to address identified issues.



Colleagues

Our colleagues are fundamental in helping our customers to celebrate their life moments. Our 7,200+ store based colleagues and c. 4,900 seasonal staff are the key contact our customers have with Card Factory, therefore we rely on them to deliver a great experience to ensure that they return to Card Factory to shop in our stores or online. These front-line colleagues are supported by our customer services teams, online fulfilment, production, distribution and other support centre colleagues whose collective mission is to delight our customers.

Our colleagues have been incredibly resilient over the last year, being flexible to prioritise the needs of the business, as we dealt with unprecedented demands. For our store based colleagues, this included reacting to and managing store closures and re-openings, being furloughed, adapting to new operational conditions to ensure our stores were Covid-secure for our colleagues and customers and being flexible in response to our requests to extend trading hours at short notice in advance of imminent mandatory closures (particularly before the second lockdowns in October/November 2020). Our other support centre, Printcraft and distribution centre colleagues all adapted brilliantly to remote working (where possible), furlough, or attending and working from our production and distribution centres amidst the material uncertainty and concern of infection. Our colleagues did so whilst facing great personal uncertainty as to when they would be able to return to work, on reduced incomes, with no opportunity for overtime. Further details can be seen on page 23.

Two-way colleague engagement is embedded into the Card Factory business, through formal and less regimented processes, where there is no union representation of colleagues. Our well-established colleague communication channels include:

- regular updates – including video briefings from the senior management team, weekly updates, learning and development support. The many channels allow us to engage with our colleagues to keep them informed on successes, financial performance, strategic direction and other aspects of our culture, our working environment, our infrastructure, our commitment to our colleagues' career development and encouragement to participate in the Company's SAYE scheme;
- supporting engagement between our colleagues, which develop the 'Card Factory Family' themes we hear from our colleagues, which include sharing insights and experiences and forums for colleague support and praise e.g. Feel-Good Fridays and Thankful Thursdays;

- allow us to listen to our colleague feedback, through:
 - our annual Best Companies survey. As the formal annual survey was suspended by Best Companies in 2020, we commissioned Best Companies to support a standalone 'Be Heard' survey of the Group's colleagues in June 2020. We were delighted to see that our communication and engagement efforts were well received by our colleagues. We saw improvements across all survey areas with particular improvement in wellbeing, fair deal, and leadership. Through the survey, our colleagues told us that they would like to see progress in personal growth, leadership and recognition which we are pleased aligns with our people agenda priorities;
 - other ad-hoc surveys, including surveys on our ESG strategy and priorities; survey on flexible working for support centre colleagues, which informed development of our smart working principles;
 - the formal Combined Colleague Advisory Group (CCAG), consultations (see page 30);
 - forums for colleagues within each part of the business (e.g. the Retail forum/support centre forum), where nominated representatives can share and bring issues with relevant members of the senior management team. We also use the forums as a channel to consult and communicate around specific issues and colleagues can also put forward ideas and recommendation for improvements and initiatives. The items raised in these forum meetings feed up into our CCAG forum to ensure full alignment and colleague engagement. This also ensures that the Board are receiving depth of insight into colleague engagement and feedback;
 - responding to colleague enquiries (including submissions to 'Ask the Exec') – with many responses shared with all colleagues using the various 'regular updates' channels noted above; and
 - informal feedback in attendance at stores, Printcraft, support centre and distribution centres by senior management and the Board with survey results and other feedback being shared with and by the Board and the senior management team, to inform decision making.

The results of our engagement survey, in particular, help the Board understand the Group's culture. To date the Group has not articulated its culture, but will, during 2021, through further engagement with colleagues, develop the articulation of the culture and its role in achieving the strategic priorities. Targeted action plans have been created for each business function, ensuring there is an ongoing commitment to improving colleague engagement and our people strategy has been shaped to take into consideration all of the rich insight gathered as part of our listening activity.

Our stakeholders continued

Colleagues continued

Our Combined Colleague Advisory Group (CCAG), which includes Paul McCrudden (as designated Non-Executive Director) provides a forum to ensure that our colleagues' voices are heard directly by our Board and ensures the Board to have regard for our colleagues' interests during their decision-making. Meetings scheduled for May 2020 and January 2021 were suspended to comply with government restrictions, with CCAG consultations undertaken in February and September 2020, with a further CCAG meeting held since the year end, in May 2021. These consultations included:

- in February 2020, colleague feedback focused on the proposed improvements in colleague engagement and communications to assist connections across all parts of the business, to enhance the 'We're part of the story' value. Further support in managing change was also proposed.
- in September 2020 where we listened to feedback and input from colleagues on how we dealt with the pandemic and lockdown 1 implications. We also asked colleagues to reflect on the extent to which our revised strategy had been cascaded and understood to ensure that any necessary follow-up communication could be initiated.
- In May 2021 we consulted on the Groups reward framework, received feedback on the changes proposed to our Remuneration Policy (see pages 78 to 85) and assessed our performance and areas for improvement in respect of Diversity & Inclusion.

We have a full suite of policies both mandatory and optional policies designed to create an inclusive, consistent and fair place to work. We include within this a suite of family friendly polices to ensure that we recognise the changing nature of colleagues lives and support effective work life balances and encourage flexibility. Our legal policies are regularly reviewed and updated to ensure performance, conduct and complaints are dealt with in line with best practice and legal frameworks. We are currently looking to build on our diversity and inclusion agenda to add to our existing policies to become a leading employer in relation to equal opportunities and diversity. A sample of our policies include:

- Family friendly including maternity, paternity and adoption, flexible working and sabbatical policies;
- Legal and legislative policies including, disciplinary, grievance, bribery and corruption, data protection and personal information policies; and
- Consistency and inclusivity driven policies such as anti-bullying and harassment, equal opportunities, recruitment and selection and the colleague led creation and design of a diversity and inclusion agenda and policy. These policies include processes for full and fair consideration of applications from disabled applicants, including making of adjustments for new or existing colleagues who may become disabled, through individual needs assessments and provision of support, training any additional equipment or software to support them in their role or their development. We are also a signatory to the DWP's Disability Confident Employer scheme.

The Board's ability to engage with colleagues on an informal basis, in our stores and in site visits, was significantly curtailed due to Covid-19 restrictions. The Directors welcome being able to speak to colleagues and customers now that stores have reopened.

We are committed to ensuring that colleagues are rewarded fairly and consistently and have access to career progression and continued learning. A big focus has been around our learning offering and we have run a number of programmes (primarily focused on our colleagues in stores) to encourage colleagues to join us with the ability to fast track their career in Card Factory. A project is underway to create a pay structure aligned to job levels in order to achieve a fair and transparent process, in relation to pay and progression and to ensure similar roles are treated the same in relation to reward and benefits. We are working to engage employees so they understand how their pay is set and reviewed with benchmarking being undertaken as part of this exercise, within clear pay principles. This piece of work will also set the groundwork for all other HR programmes including job and organisation design, career paths, succession planning and recruitment and selection.

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.

Suppliers

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.

We strive to foster long-term, mutually beneficial relationships with a reduced number of key product and raw material suppliers and engage constructively to set fair and clear expectations, which strengthens the transparency of our supply chain and actively promotes our environmental objectives. These are drawn to the attention of suppliers before we contract with them, and include clarity on:

- Our audit requirements, which include:
 - Ethical audit with requirements relating to child labour, forced labour, disciplinary practices, health and safety, discrimination, freedom of association, collective bargaining, working hours, remuneration and the environment;
 - SMETA (Sedex Members Ethical Trade Audit) – a globally recognised ethical audit that is conducted by an Affiliate Audit Company.
 - BSCI (Business Social Compliance Initiative) – another globally recognised ethical audit that is based on the International Labour Organization (ILO) standards, conducted by approved audit companies only.
 - SA8000 – these widely recognised standards on ethical audits are set by Social Accountability International, and are applicable to factories and organisations worldwide;
 - Access to and sharing of information via SEDEX (Supplier Ethical Data Exchange), which assists monitoring human rights issues in our supply chain;
- Technical audits (ISO 9001) on products and product safety for initial factory set-up and higher risk areas;
- Requirements that card is Forest Stewardship Council® (FSC®, License code: FSC-C128081) certified and compliance with the UK and EU Timber Regulations;
- Requirements in our Modern Slavery Act compliance – details of steps taken are available in the modern slavery statements available on the Card Factory and the Card Factory Investor websites.

We listen to our suppliers through our dedicated relationship managers, welcoming an open dialogue to challenge and raise any concerns. During the year we have recruited an experienced colleague to lead our quality control and technical team demonstrating the importance of maintaining excellent supplier partnerships that drive strength in product development and maintaining a compliant supply chain that meets the highest standards of legal and ethical compliance. The Covid-19 pandemic has not curbed our compliance requirements, where local third party agents continue to audit our Far East suppliers on our mandatory policies on product quality and sourcing (including FSC certification), and anti-bribery, anti-corruption and anti-exploitation. Our 'No Audit, No Order' policy remains a steadfast requirement, requiring suppliers to have satisfied our on-boarding processes and to have received satisfactory technical and ethical audit results before any order will be placed with them.

To date, gettingpersonal.co.uk's bespoke suppliers, most of which are UK based, and are perceived to be lower risk of non-compliance, have not been subject to the above requirements. We will engage with these suppliers and account for their specific circumstances as we extend the above requirements to these suppliers over the next 9 to 12 months.

During this year, our regular visits to our suppliers in the Far East have been replaced by video conferencing, which facilitates more regular contact, however, we look forward to resuming supplier visits once all travel restrictions are lifted. In January 2021, we undertook our second annual Supplier Viewpoint survey, extending the participants to our top 30 product suppliers (previously 20 top product suppliers), which allows us to understand if actions taken following feedback received previously has improved our supplier relationship management. We also consulted this supplier base on their views on our ESG priorities, results of which are reflected in the ESG materiality assessment on page 46.



Our stakeholders continued

Case Studies

It is inevitable that the interests of the multiple stakeholder groups conflict and require careful consideration with certain decisions. The following case studies demonstrate how the Board considered the alternative stakeholder group interests in decisions during the year:

During the Covid-19 pandemic, the conflicting interests of our shareholders, our colleagues and of the burden on the public purse were assessed in considering the safety of our colleagues and customers and the extent of use of the Coronavirus Job Retention Scheme (CJRS) to support colleague wages:

- Colleague and customer safety was the Board's overriding priority, which prevailed over the shareholder detriment from forgoing revenue and the burden on the government from relying on CJRS funding, when the Board resolved early on 23 March 2020 to close all retail stores at that end of that trading day.
- The Board determined that prioritising shareholder interests meant it could not supplement colleague payments in excess of the CJRS support available. However, the Board recognised that many of the affected colleagues who had been placed on furlough would receive only 80% of normal income, many of whom are typically paid National Living/Minimum Wage. The Board, with the Card Factory Foundation, agreed to establish the Covid-19 Fund, to support colleagues facing financial hardship from the pandemic. The Company and individuals funded this Covid-19 Fund to support those colleagues most in need, including:
 - Directors and senior managers volunteered to contribute up to 20% of monthly fees or salary towards this fund for 2 months during the first lockdown.
 - Many Directors and members of the Executive Board waived part of their salary or fees in January and February 2021, to reflect the colleague experience and reduce the Company's costs, with other members of the senior management team also making additional contributions to the Covid-19 Fund.
 - The Company made additional contributions to the Covid-19 Fund in November 2020 (following the second national lockdown) and in January 2021 (following the third national lockdown), having taken account of the demand on that fund from colleagues.
- Advice was provided to colleagues to facilitate maximising their income, which included ensuring annual leave could be taken during the period of closure (allowing 100% of pay to be received rather than 80% of pay); facilitating colleagues in the Republic of Ireland to be voluntarily laid off to ensure they could avail of benefits that exceeded the income they would have received under the equivalent furlough funding from the Irish Government.

In total, the Card Factory Foundation received £137,000 of funding from the Company and senior management.

Amscan supply a significant proportion of the balloons sold by Card Factory. Card Factory seeks to work collaboratively with many key suppliers such as Amscan to realise long-term, mutually beneficial relationships, which also benefit Card Factory's wider stakeholders. This collaborative relationship has been significant in:

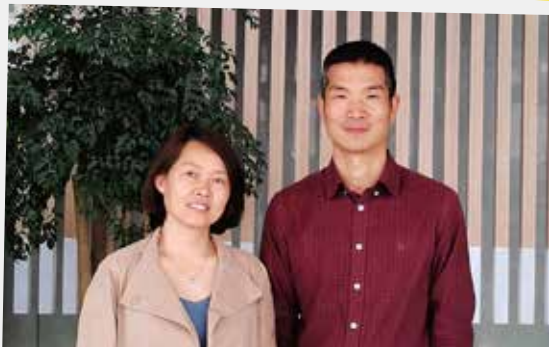
- addressing inflationary pressure for latex and helium, where Card Factory and Amscan have been able to balance and share the impact jointly, to ensure competitive pricing remains within the Card Factory offer, which benefits our customers, but also should protect volumes and trade with Amscan.
- affording Card Factory the UK exclusive access to Terracycle, enabling Card Factory to offer exclusive recycling of foil balloons and other foil party products, to be introduced during Q2 of 2021.

- realising efficiencies in aspects of our supply chain for balloons, including:
 - securing lower cost supplies from Amscan for certain ranges from increasing volumes supplied by Amscan;
 - reduced lead time for supplies from Amscan, resulting in lower stock holding whilst maintaining supply to customers;
 - joint development of new packaging, reducing packaging waste, informing customers of suitability for recycling and facilitating offering a wider range in store using the same shelf space.



Amscan balloons

Card Factory has worked with Yiwu Sunrising since 2012 as supplier of boxed Christmas cards. Yiwu Sunrising, based in Zhejiang province in Eastern China, was established in 2009 by husband and wife Ellen and Songjin. Its partnership with Card Factory has supported growth of its business, including tripling of its workforce in the last 6 years and their expansion into a second, larger production facility, which in turn has supported Card Factory being able to increase the range supplied by Yiwu Sunrising, when another card supplier decided to cease production. Award of additional orders to Yiwu Sunrising recognises the high quality product and great service levels provided for Card Factory in addition to their support of new product development. Card Factory accounts for approximately two thirds of Yiwu Sunrising's total output.



During the extended periods of lockdown, we decided to retain a colleague in each of our People Development and Communications teams to be able to continue and develop stronger communication with our colleagues, to engage them with inspiring content, to support their health and wellbeing and allow them to opportunity to learn and grow if they wished. The conflicting interests of our shareholders, whose priorities include cost reduction and maximising profitability, were considered, however, ultimately we determined that the long-term benefits for the business were to enhance our colleague engagement (which remains high on our leadership agenda), we knew it was the right thing for all stakeholders.



Our ERP implementation is a significant long-term investment and provides the foundations for continued success of the Group. Negotiations with our solution partner (SAP) were robust, achieving industry benchmarked discounts to deliver shareholder benefit. This reflects our joint long-term commitment to the SAP platform and the scale of the organisation.

Similar negotiations were held with our implementation partner (Retail Solutions). It was imperative that we balanced shareholder value and colleague benefit while entering into a true long-term partnership. Our model balances risk and reward and is designed to drive the right behaviours. Each phase is costed and progresses on a time and materials basis ensuring that the implementation partner generates margins and drives the right behaviours. Avoiding delays is achieved by capping payments and implementing a reducing rate card. This balances shareholder benefit (cost), colleague benefits (right first time solution) with our need for a long-term partnership.



Chief Financial Officer's review

Stable platform for growth

The "FY21" accounting period refers to the year ended 31 January 2021 and the comparative period "FY20" refers to the year ended 31 January 2020.

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.

Revenue

Total Group revenue during the year declined by 36.9% to £285.1m (FY20: £451.5m), driven by the impact on trading of Covid-19 related lockdowns:

| | FY21 £'m | FY20 £'m | Increase/ (Decrease) |
|---------------------|--------------|--------------|-------------------------|
| Card Factory stores | 251.9 | 429.0 | (41.3%) |
| Online | 27.6 | 19.4 | 42.0% |
| Retail partnerships | 5.6 | 3.1 | 83.3% |
| Group | 285.1 | 451.5 | (36.9%) |

Covid-19 led to a postponement of some planned new store openings in FY21; 9 new stores were opened, along with 15 store closures and 2 relocations, giving a net reduction of 6 stores during the year. This brought the total store estate to 1,016 stores at the year-end, including 14 stores in the Republic of Ireland. Going forward, store relocations will be an important driver of growth, with more modest new store roll outs.

The impact of the Covid-19 pandemic on consumer behaviour resulted in a significant boost to growth in business through our online channels.



The business is operating close controls over its cost base and liquidity in order that it emerges from this crisis on a strong footing.

Kris Lee
Chief Financial Officer



Like-for-like ("LFL") sales growth was broken down as follows (LFL measure excludes periods where stores were closed due to lockdown):

| | FY21 | FY20 |
|-------------------------|-------------|---------------|
| Card Factory stores | (2.4%) | (0.7%) |
| Card Factory online | 135.3% | 14.8% |
| Card Factory LFL | 0.1% | (0.5%) |
| Getting Personal | 12.2% | (10.0%) |

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. In addition, the business has placed increased emphasis on its Everyday card offering, to ensure customers have the widest choice of card type and greeting messages. The full-year mix for FY21 was 51.1% single cards (FY20: 52.2%), 46.7% non-card (FY20 45.8%) and 2.2% boxed cards (FY20: 2.0%).

LFL Revenue from the Card Factory transactional website grew by 135.3% (FY20: 14.8%) as the impact of lockdown saw a significant increase in visitor numbers.

Performance at Getting Personal was also encouraging, with LFL annual revenue growing 12.2% (FY20: -10.0%), again driven by increased visitors to the site and strong conversion driving higher sales in both cards and gifting.

Underlying operating costs

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

| | FY21 £'m | FY21 % of revenue | % (Increase) /Decrease | £ (Increase) /Decrease |
|---|--------------|-------------------------|------------------------------|------------------------------|
| FY21 Underlying | | | | |
| Cost of goods sold | 116.9 | 41.0% | (7.2 ppts) | 23.4% |
| Store wages | 59.7 | 20.9% | (1.5 ppts) | 31.9% |
| Store property costs | 9.6 | 3.4% | 2.5 ppts | 63.8% |
| Other direct expenses | 18.3 | 6.4% | (1.3 ppts) | 20.1% |
| Underlying cost of sales | 204.5 | 71.7% | (7.5 ppts) | 29.4% |
| Non-underlying FX loss | 1.2 | | | |
| Total cost of sales | 205.7 | | | |
| Operating expenses* | 33.6 | 11.8% | (3.9 ppts) | 6.1% |
| Depreciation, amortisation & impairment | 53.3 | 18.7% | (7.6 ppts) | (6.0%) |
| Total underlying operating costs | 86.9 | 30.5% | (11.5 ppts) | (0.9%) |
| Non-underlying items | – | | | |
| Total operating costs | 86.9 | | | |
| | | | | |
| FY20 Underlying | | | | |
| Cost of goods sold | | | | 152.7 33.8% |
| Store wages | | | | 87.7 19.4% |
| Store property costs | | | | 26.5 5.9% |
| Other direct expenses | | | | 22.9 5.1% |
| Underlying cost of sales | | | | 289.8 64.2% |
| Non-underlying FX gain | | | | (0.5) |
| Total cost of sales | | | | 289.3 |
| Operating expenses* | | | | 35.8 7.9% |
| Depreciation, amortisation & impairment | | | | 50.3 11.1% |
| Total underlying operating costs | | | | 86.1 19.0% |
| Non-underlying impairment | | | | 2.5 |
| Total operating costs | | | | 88.6 |

* excluding depreciation, amortisation and impairment.

Chief Financial Officer's review continued

The overall ratio of cost of sales to revenue increased to 71.7% on an underlying basis (FY20: 64.2%). 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 COGS (card and non-card) improved by 0.3 ppts at constant currency. However, an increase of £18.1m in stock provision resulted in an increase in overall COGS by 7.2 ppts. The introduction of technology to collate SKU level data has given us more visibility of individual product performance and, on the back of new product launches and more defined range management, we have decided that a large element of older stock (which includes an element of unsold stock due to Covid-19 store closures) will no longer be available for sale through the Group's channels. This gives us a much cleaner stock position and enables us to respond much more quickly to product performance. As a result we would not expect this increase in the stock provision to recur in future years.
- **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, and is shown net of Government support through the Coronavirus Job Retention Scheme ('CJRS'). Wages before taking account of CJRS support rose slightly as a result of pay increases, including those influenced by the National Living Wage.

- **Store property costs**: within cost of sales relate to business rates and service charges, and benefits from UK government's business rates relief of £18.1m in FY21.
- **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 the number of stores. The ratio of other direct expenses to revenue increased by 1.3 ppts as certain costs do not change in direct proportion with lower revenue from store closures, including premises insurance, electricity, maintenance, and rental of payment terminals.
- **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. FY21 includes full year costs for new warehousing facilities, offset by savings in storage costs within Other direct expenses. FY21 also saw further investment in IT infrastructure (including new hand held terminals and SAP), and Online support (including a new platform). Total operating expenses (excluding depreciation and amortisation) fell by 6.1% to £33.6m, representing an increase from 7.9% to 11.8% as a percentage of Covid-19 impacted revenue.

Depreciation and amortisation, including depreciation and impairment of right-of-use property lease assets, grew by 6.0% to £53.3m (FY20: £50.3m), largely driven by a lease impairment charge of £2.6m.

Underlying EBITDA

| | FY21 £'m | FY20 £'m | (Increase) /Decrease |
|--------------------------|-------------|-------------|-------------------------|
| Underlying EBITDA | 47.0 | 125.9 | (62.7%) |
| Underlying EBITDA margin | 16.5% | 27.9% | (11.4 ppts) |

The reduction in Underlying EBITDA reflects, in particular, the Covid-19 impacted sales performance, mitigated by strong cost control.

In addition, the stock provision increases, National Living Wage cost increases, investment in IT support and increases in headcount and platform costs for Card Factory Online all impacted underlying EBITDA.

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.

Net financing expense

Excluding interest charges pertaining to IFRS 16 Leases, net financing expense increased to £5.5m (FY20: £4.4m), due to the average effective interest rate being 0.44 ppts higher than in FY20 arising from Covid-related revisions to the facility. Including IFRS 16 Leases interest charges, the underlying net financing expense increased to £8.9m (FY20: £8.4m).

| <i>All Underlying</i> | FY21 £'m | FY20 £'m | (Increase)/ Decrease |
|-----------------------------------|-------------|-------------|-------------------------|
| Finance expense | | | |
| Interest on loans | 5.1 | 4.0 | (27.5%) |
| Loan issue cost amortisation | 0.4 | 0.3 | (33.3%) |
| Loss on interest rate derivatives | – | 0.1 | 100.0% |
| IFRS 16 Leases interest | 3.4 | 4.0 | 15.0% |
| Net finance expense | 8.9 | 8.4 | (6.0%) |

Profit before tax and non-underlying items

Underlying loss before tax for the financial year amounted to £15.2m (FY20: Underlying profit before tax £67.2m). Overall loss before tax for the financial year amounted to (£16.4m) (FY20: Profit before tax £65.2m).

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

| | FY21 £'m | FY20 £'m |
|---|---------------|-------------|
| Underlying profit before tax | (15.2) | 67.2 |
| Non-underlying items: | | |
| Cost of sales | | |
| Loss on foreign currency derivative financial instruments not designated as a hedge | (1.2) | 0.5 |
| Operating expenses | | |
| Impairment of goodwill | – | (2.5) |
| Profit before tax | (16.4) | 65.2 |

Tax

The tax credit of £2.8m for the year represents a tax rate (credit) of 17.1% of loss before tax (FY20: £13.6m tax charge, 20.8% tax rate).

Earnings per share

Basic and diluted underlying losses per share for the year were (3.7p) (FY20: Underlying earnings per share 15.7p). After the non-underlying items described above, basic and diluted losses per share for the year were (4.0p) (FY20: Earnings per share 15.1p).

| | FY21 Adjusted | FY21 IFRS16 | FY21 | FY20 Adjusted | FY20 IFRS16 | FY20 | (Increase)/ Decrease |
|----------------------|------------------|----------------|--------|------------------|----------------|-------|-------------------------|
| Underlying Basic EPS | (3.9p) | 0.2p | (3.7p) | 15.4p | 0.3p | 15.7p | (123.6%) |
| Basic EPS | (4.2p) | 0.2p | (4.0p) | 14.8p | 0.3p | 15.1p | (126.4%) |

Capital expenditure

Capital expenditure excluding IFRS 16 Leases right of use assets, amounted to £7.5m (FY20: £14.5m), principally in relation to new stores, supply chain investment and ERP implementation. Total capital expenditure, including right of use assets, amounted to £30.2m (FY20: £50.9m).

The Board anticipates capital expenditure in FY22 to be tightly controlled as it places stringent controls upon cash out flows in response to Covid-19 and postpones a large proportion of its new store roll out and relocation programme. However, the business still plans to invest in certain key strategic projects, including: e-commerce platforms, boosting online fulfilment capacity, SAP implementation 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.

At the year end, we had P&L cost of sales hedging in place for both FY22 and FY23 with anticipated effective P&L rates of c.\$1.33, although this remains subject to significant shifts in the value of sterling, which could impact the structured trades that form part of the hedging portfolio, and the impact of future trading conditions on hedged cash flows. Structured trades represent approximately one third of hedges that are yet to mature.

Cash generation

In the year, the Group remained cash generative, driven by favourable working capital movements and relatively low ongoing capital expenditure requirements.

Net Debt & Covenants

As at 31 January 2021, net debt (including debt issue costs of £1.2m) amounted to £252.6m, analysed as follows:

| | FY21 Net Debt £'m | FY21 Leverage Multiple | FY20 Net Debt £'m | FY20 Leverage Multiple |
|---|-------------------------|------------------------------|-------------------------|------------------------------|
| Borrowings | | | | |
| Current liabilities | 0.2 | | 3.6 | |
| Non-current liabilities | 118.8 | | 144.0 | |
| Total borrowings | 119.0 | | 147.6 | |
| Lease liabilities | 144.9 | | 145.9 | |
| Capitalised debt costs | 1.2 | | 1.0 | |
| Gross debt | 265.1 | | 294.5 | |
| Less cash | (12.5) | | (5.5) | |
| Net Debt | 252.6 | | 289.0 | |
| Leverage | | 5.4x | | 2.3x |
| Remove lease liabilities | (144.9) | | (145.9) | |
| Net Debt excl. lease liabilities | 107.7 | | 143.1 | |
| Leverage excl. lease liabilities | | 2.3x | | 1.1x |

Net debt excluding lease liabilities at the year-end represented 2.3 times Underlying EBITDA (FY20: 1.1 times).

The Group has renewed its financing facilities with its banking partners, which now comprise a £75m Term Loan, £50m CLBILS and a Revolving Credit Facility of £100m. Under revised covenant terms, the Group must achieve defined Net Debt and EBITDA targets, measured on a monthly basis until March 2022, following which the business will move to quarterly covenant tests of Interest Cover and Leverage.

Until the business has no outstanding CLBILS, there will be a prohibition of any payment to shareholders by way of dividend or share buy-back. Furthermore, the Group must use best efforts to raise £70m net equity by July 2022, or alternatively to prepay £70m using funding from other subordinated sources.

The facilities have an expiry date of 24 September 2023 (unchanged from the previous arrangement), with the RCF element being extendable by 1 year to 24 September 2024 if the Company achieves certain debt repayment milestones by 31 July 2022.

The reduction in Net Debt of £35m in FY21 is driven by deferrals of VAT (£19m) and property payments (£21m).

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 suspended dividend payments and no dividends were declared in FY21 (FY20: 2.9p interim dividend, nil final dividend, 5.0p special dividend).

Currently, we do not expect to pay any dividends in relation to FY22. The terms of the Company's refinancing restrict the payment of dividends until certain de-leveraging milestones are achieved.

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.

Following the impact of Covid-19, the Board intends to prioritise de-levering the business, which will impact the distribution of cash to shareholders in the short-term, as reflected above. Given the inherent uncertainty around the recovery of the business following the extended lockdowns experienced to date, and the risk of any subsequent lockdowns that may be imposed in the future, 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 on capital policy as trading conditions become clearer.

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.

Kristian Lee

Chief Financial Officer
10 June 2021

Risk management

Risk Management Framework

Card Factory's risk management framework has been refreshed to embed the identification, assessment, management and mitigation of risks, under the oversight of the Board and detailed scrutiny by the Audit & Risk Committee. Members of the senior management team are responsible for individual risks and design and implementation of mitigation plans. Each risk is subject to regular review by the senior management team, who are also primarily responsible for identifying and addressing emerging risks as they arise.

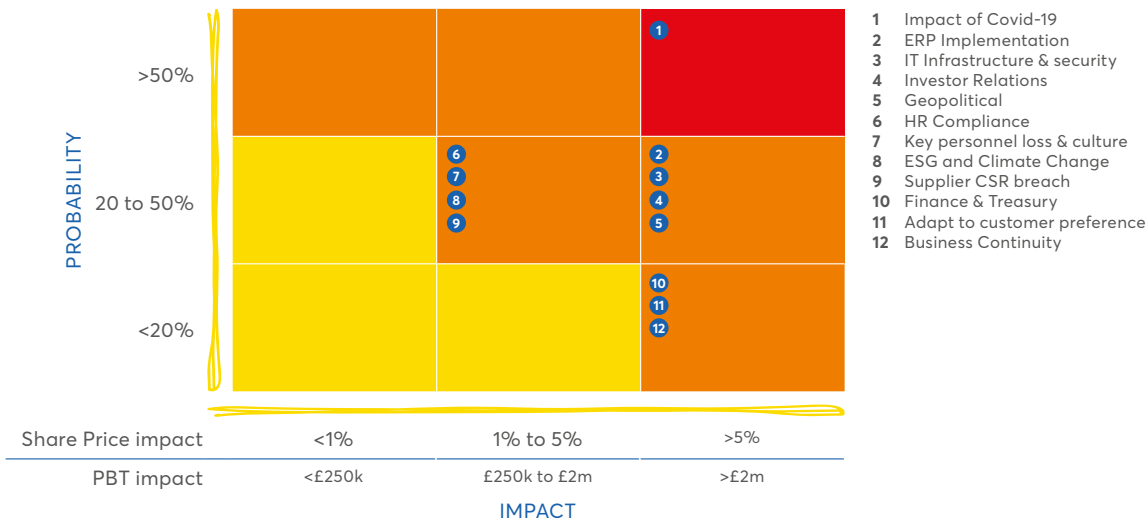
Risk Register and Review Processes






Risk management and mitigation are embedded within the operations of the Card Factory Group. Although Covid-19 or such a pandemic was not specifically identified as a risk to the business, the risk management processes adapted to respond to this emerging risk, as described on page 22. The Board effectiveness review undertaken in late 2020 considered that the Company's risk management control frameworks have improved this year, ensuring that the approach to risk management is commensurate with the risk profile for the Group, with identified areas for further risk mitigation, with a consistent approach of learning and adapting to respond to changes and new risks, as they arise.

The Board has set the risk appetite requiring the red and amber items to be subject to mitigation, to the extent reasonably and commercially proportionate. The Board reviews the principal risks, for example, in respect of Covid-19 impact, IT infrastructure and ERP implementation, 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.

Net risk scoring after mitigations:



Risk trend:  Increasing  Stable  Decreasing

Link to strategy:  01 Winning card led retail proposition
 02 Available in more places
 03 Scalable central model

Financial

Impact of coronavirus

Risk



Link

 01  02  03

Description

The risk of future mandatory closure of non-essential retail stores due to the ongoing Covid-19 pandemic is a significant ongoing risk for Card Factory. Loss of revenue from the store estate, which accounts for the majority of sales, would impact the Group's liquidity. Any lasting shift in shopper behaviours following the pandemic may further impact performance of our stores.

Mitigation

We have successfully secured additional bank facilities that provide additional liquidity, should further store closures be required, however, further agreements with our banks may be necessary, if any additional periods of closure are prolonged. Alteration to our store estate may be required – our short lease terms allows us to review locations and hold constructive discussions with landlords to manage our property costs. Investment in capacity to meet online sales demand and diversification of sales with retail partners provides other routes to the customer, via 'essential retailers'.

Geopolitical instability

NEW

Link

 01  02  03

The Group is reliant on a wide range of products supplied from the Far East, particularly China. Increasing political tension with China, and potential for increasing tariffs on imports (or countries which could provide alternative supplies) could disrupt supply and/or result in a need to increase sale price, which may impact our value proposition or, potentially reducing sales or profitability.

Any cost increases for imported products are likely to affect competitors equally. In the medium-term the business is proposing to on-shore a larger proportion of card production to its Printcraft business in the UK, with investment in technology to facilitate this. Buyers are also actively reviewing alternative supply sources and reviewing the applicable tariffs and duties to seek to maintain value and quality of supply to maintain our competitive range proposition.

Finance & Treasury

Risk



Link

 01  02  03

Cash management has become critical for the Group, particularly as revenue has been severely reduced due to mandatory closure of stores for extended periods and the risk of further closures due to the Covid-19 pandemic.

Following refinancing in May 2021, additional headroom has been created that provides a platform for stabilising and implementation of the strategic plan. The Board will continue to carefully manage the liquidity position and identify other opportunities to improve the balance sheet and liquidity.

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 Group will continue to hedge against interest rate and currency fluctuations in the CFO's Review (page 38).

Operational

ERP implementation

Risk



Link

 03

Description

The Group has commenced development of its new ERP (Enterprise Resource Planning) solution to replace multiple existing systems that are end-of-life. This significant project involves changing the core IT infrastructure on which the Group operates, to facilitate efficiencies and provide a platform for 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.

Mitigation

Our ERP implementation is being effected on a phased basis, following detailed testing, with support from specialist third parties, and strong governance, designed to materially adopt established solutions, with limited bespoke arrangements. The initial phase is due to be cut-over in October 2021 affecting master data, point of sale data and finance system changes. It has been subject to detailed design, with extensive consultation across the business to understand requirements, and will be subject to extensive testing and user training as part of implementation. Clear business mitigation plans will be defined in the event of any issues at the point of go live.

IT infrastructure and risk of IT/security disruption

Risk



Link

 02  03

Our IT infrastructure includes many legacy systems, some of which are unsupported and some which are subject to extensive tailoring. Many IT systems need further investment and development to ensure they are resilient, secure and support 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.

The Group is implementing an IT strategy which prioritises mitigation of the more material risks (which are subject to monthly reviews) to improve the resilience of the IT systems, with additional resource commitments to maintain and support the current systems and implement system changes where required (in addition to the ERP Implementation). This includes supplementing the cyber security protection and enhancing frequency and resilience of server backup.

Risk management continued

Operational *continued*

Description

Mitigation

HR compliance

Risk



Link

01 02 03

Compliance requirements for our colleagues continue to grow, explicitly through legislations and also indirectly via case law with National Living and Minimum Wage, Holiday Pay and Equal Pay. The Covid-19 pandemic has also required regular reviews of operations to improve the Health and Safety of our colleagues and compliance with the Coronavirus Job Retention Scheme rules (and the equivalent in Ireland). Compliance is time-intensive and costly with sanctions becoming more punitive.

The business has undertaken an extensive review and adopted policies and technology to support ensuring colleagues are paid for all the hours they work, designed to ensure compliance with minimum wage requirements. An internal audit review confirmed these systems and processes are effective. The HR specialists within the Group monitor regulatory changes to ensure steps are taken to maintain compliance.

Loss of key personnel & organisational culture

Risk



Link

01 02 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. Colleague retention is also aided by ensuring the business has a culture, management cohesion and leadership behaviours that support the Group's strategic vision. This is critical to long-term sustainable success.

A full review of the organisational design and reward applicable to all colleagues within this structure is being progressed which, once complete, should ensure clear, transparent structures and competitive benefits are provided to aid retention and development of succession plans. Retention of colleagues at stores remains challenging where a large proportion of staff are paid National Minimum/Living wage. Other benefits, such a personal development and opportunity for career progression are used, with sales based bonus and SAYE incentives.

Supplier CSR breach

NEW

Link

01 02 03

The Group relies on a range of third party suppliers for many product ranges. Failure to ensure such suppliers meet our standards, including anti-corruption compliance, non-exploitation and all safety standards could damage our reputation. Recent travel restrictions have limited the opportunity for site inspections by us or our independent inspectors which could increase the opportunity for non-compliance. Investors may elect to sell or not invest in the Company if such standards are not maintained, which could reduce our share price and limit opportunity to raise future funding.

Card Factory maintains it strict 'no audit-no order' policy, and adherence to ethical and technical standards which are subject to appropriate audits. As a member of SEDEX (Supplier Ethical Data Exchange), we monitor whether any human rights issues arise in or supply chain to take prompt action. Suppliers of cards are required to meet the high due diligence requirements (including Forestry Stewardship Council (FSC) Certified sourcing standards).

Business continuity

Risk






Link

01 02 03

Major disruption to our business, but particularly our manufacturing and online fulfilment facility, Printcraft, our distribution centres or our design studio, could severely affect our performance and profitability.

Ongoing IT system and process improvements and detailed disaster recovery planning is in place for the Printcraft site, which also services fulfilment of online orders. Further disaster recovery planning is required for other key parts of the business, to minimise disruption to trade. Insurance cover is in place to mitigate risk.

Risk trend:  Increasing  Stable  Decreasing

- Link to strategy:
- 01 Winning card led retail proposition
 - 02 Available in more places
 - 03 Scalable central model

Strategic

Description

Mitigation

ESG compliance and climate change risks

Risk 

Link
01 02 03

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 reputational issues and could limit growth. Managing risks from climate change, including increased demand for paper products may impact future cost base for the Group.

The Group has commenced the journey by developing its ESG Strategy, undertaking a materiality assessment and centralising oversight of its various ESG initiatives to ensure co-ordination and focused support for priority projects. The Group is reviewing a range of industry approaches to support accelerating progress (e.g. as a signatory to the British Retail Consortium's Diversity & Inclusion Charter) as has set targets (see pages 49 and 53) for further improvement of its environmental credentials.

Adapting to customer preferences

NEW

Link
01

The Group generates most revenue from cards, dressings, balloons and gifts. Customers, trends and tastes can change quickly. It's essential that it successfully predicts and responds to these challenges and to declining high-street footfall and increased reliance on online and digital offering following the Covid-19 pandemic.

Competition remains fierce, particularly during key seasonal card-buying occasions, when closure of 'non-essential retail' favoured essential retailers who sell these products. Range depth, quality and value remain key differentiators.

Competitor groups, including supermarkets and exclusively online businesses, enjoy strong brand recognition, flexible retail space, purchasing power, more mature multi-channel capability and pricing flexibility.

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.

Design, Buying, Merchandise Planning or Strategic Partnership teams are operating with data based insights in developing our range, supported by customer segmentation analysis undertaken as part of the refresh of the Group strategy in 2020. Further market research and use of market research technology solutions, supports improved range and design decision making.

A structured, data-led, programme of redesigning categories on a rolling basis ensures 'newness' to keep customers returning to shop with us.

Merchandising, marketing and PR initiatives help maintain brand perception.

Significant investment in the new online platform for cardfactory.co.uk and related iOS and Android apps should assist to support growth in the online business and capture channel shift, which has accelerated over the Covid-19 pandemic.

Strategic partnerships e.g. Aldi, TRS support brand development and facilitate reaching customers who shop for convenience.

ESG strategy

Acting responsibly

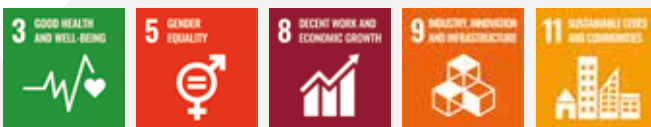
SUSTAINABLE DEVELOPMENT GOALS

UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS

Card Factory recognises the UN's Sustainable Development Goals as a helpful tool to develop the Group's sustainability objectives. The key Goals relevant to Card Factory are:



In addition to these above key goals, Card Factory have identified the following supporting goals:



All our cards are printed on paper from FSC accredited sources



Sustainability is a priority focus for the Board, recognising the objectives of the UN Sustainable Development Goals and the important role Card Factory can play in sustainability.

During 2020, the Group has developed its initial ESG (Environmental, Social and Governance) strategy to provide a cohesive focus for many activities to ensure opportunities and risks are assessed, with a full understanding of factors that are relevant to our stakeholders. This ESG strategy will be developed further as the challenges and opportunities are assessed to accelerate Card Factory's adoption of ESG matters throughout the business. A materiality assessment has been undertaken to identify the key environmental, social and governance issues for Card Factory. Colleagues', suppliers' and customers' views were obtained to validate and prioritise these factors.

The Company has set targets for waste reduction, carbon emission reduction and improved social impact (detailed on pages 49 and 53), however, analysis is not sufficiently advanced to facilitate setting specific targets for being carbon neutral. The Company must first undertake an assessment of what is realistic and achievable, alongside assessing the British Retail Consortium's Climate Action Roadmap, which provides a framework for the retail industry to realise Net Zero ahead of the UK Government target of 2050.

The approach to Environmental, Social and Governance is led by the ESG Forum, comprising colleagues from across the business including members of the senior management team.

The ESG Forum's current priority is to engage with all Card Factory colleagues on ESG matters, to promote the ESG strategy, align colleagues with the priorities identified from the materiality assessment and to develop opportunities for further improvements.



Card Factory ESG core principles

Card Factory's policy is to pursue and grow its business responsibly to minimise its impact on the environment and having a positive impact on society:

- We act with integrity at all times in all our dealings.
- We always comply with both the letter and the spirit of the law.
- 'No Audit, No Order' policy prevails for our product supply base – technical, ethical and legal sources only shall be engaged, which must meet high compliance standards. Our supply chain must be free from child labour, modern slavery and other exploitation.
- No bribery or corruption is acceptable in any of our dealings.
- Always be non-discriminatory (whether on grounds of gender, race or disability), and adopt equality and diversity in our employment practices and support social mobility. We target internal promotion and career progression within the Group.
- We act responsibly with respect to the environment, aiming for a sustainable approach to the use of resources, avoiding irresponsible disposal of products and unnecessary waste.
- We ensure that our management structures and policies reflect the need for transparency, accountability, equality and probity in the management of our businesses.
- We comply with and inform industry standard ESG guidelines and best practices, and actively manage ESG considerations and risks effectively.
- We have a positive impact on our communities, including support via the Card Factory Foundation.
- Our targets for ESG activity are clear and measurable and we report on them at least annually.

ESG strategy continued

ESG materiality assessment

We engaged specialist consultants to support a comprehensive Materiality Assessment to identify the priorities for the Card Factory business to support development of the sustainability strategy and priority targets. Over 580 potential sub-issues were identified, which were reviewed, consolidated, grouped and assessed and distilled into 18 priorities, grouped under one of 5 main areas: (1) Employee Health & Wellbeing; (2) Good Governance; (3) Environment & Climate Change; (4) Communities; and (5) Ethical Supply Chain. The preliminary findings were validated in engagement surveys with customers, colleagues and suppliers. The relevant priorities of these sustainability priorities are presented below, showing the relative importance for each stakeholder group:

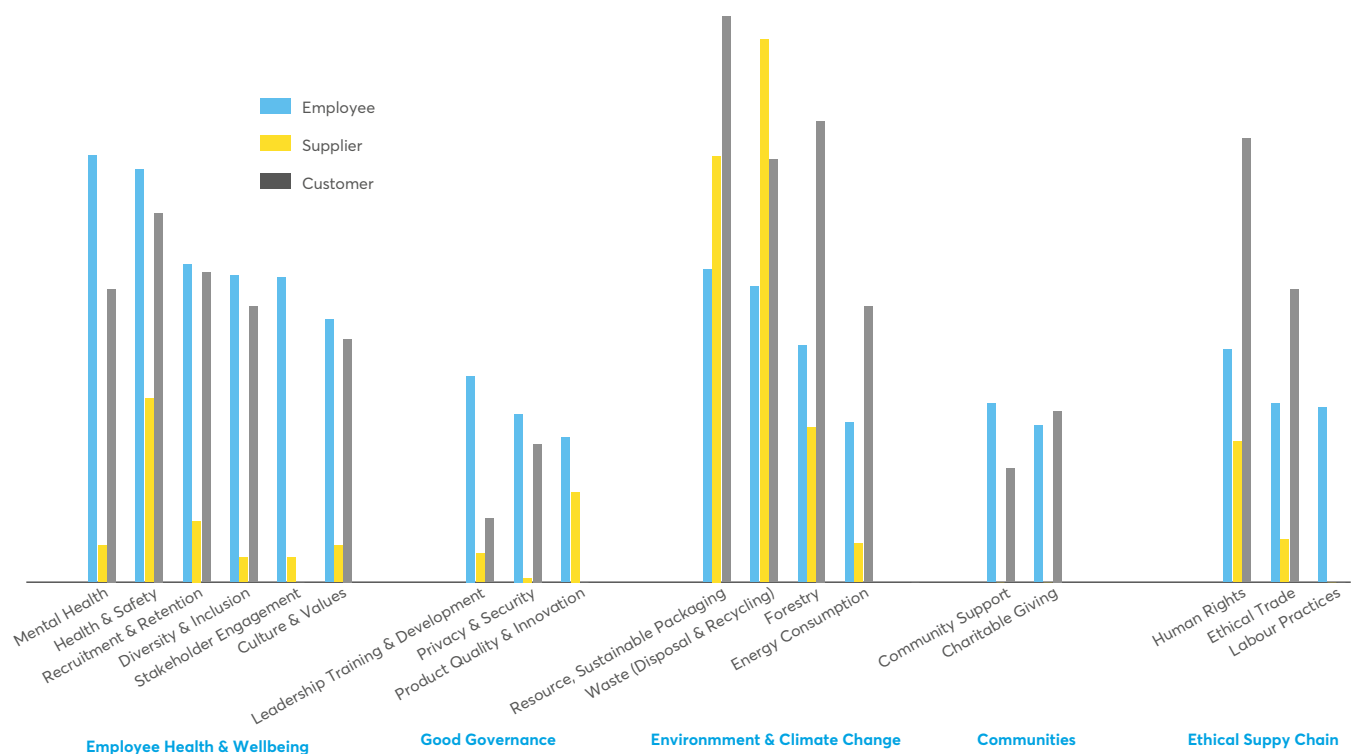
In developing the Card Factory ESG strategy, the higher scoring priorities for initial engagement are Environment & Climate Change (in particular, sustainable packaging and reduction of waste); and Employee Health and Wellbeing. The Board will also continue to engage and develop against all of the other key priorities.

Waste reduction



Card Factory strives to reduce the volume of waste it generates (both its products and in packaging) and to increase the proportion of recyclable waste produced, to protect the environment. We strive to achieve the balance between reducing packaging material and waste, with ensuring the product gets to the customer without damage, thereby reducing waste stock that is unsellable. Greeting cards typically use high grade card materials, which make them unsuitable for use of recycled material, which are generally incorporated in lower grade products, but Card Factory will continue to review opportunities for use of recycled card in its ranges. Card Factory ensures materials are from sustainable sources; whilst reducing waste, and facilitating more recycling, including:

Card Factory's material sustainability priorities for our colleagues, suppliers and customers



- 99.2% of the volume of all cards manufactured and purchased from our suppliers since February 2020 is FSC (Forest Stewardship Council) certified, meaning it is sourced from renewable, responsibly managed sources. We expect this to be 100% FSC from June 2021.
- All cards (except handmade cards) are sold 'naked' – i.e. free from any cellophane wrap.
- Since September 2020, all newly designed cards manufactured by Printcraft are 100% recyclable, and contain no glitter whilst 61% of cards within our store ranges at January 2021 were recyclable.
- By removing plastic from our Christmas 2020 boxed cards, we saved 40.5 tonnes of plastic, allowing all boxes to be fully recyclable.
- The Christmas 2020 tissue paper range had all plastic packaging replaced with cardboard. We are working on rolling out cardboard packaging on future seasonal and everyday tissue paper ranges.
- Glitter has been removed from all new card ranges designed by Studio 41 since April 2020, which sell in Card Factory stores and on cardfactory.co.uk. Removal of glitter will result in more of our cards being recyclable.
- We have reduced glitter used in our Printcraft production facility for Card Factory ranges by over 40% in the last 2 years.
- Printcraft's application of foil on our greeting cards uses techniques that ensures the final products are recyclable.
- All foil waste from Printcraft's manufacturing process is collected and recycled into solid recovered fuel used in the cement industry, as part of a 'Zero Foil to Landfill' scheme.
- Our 10 pence reusable plastic bags comprise at least 90% minimum recycled plastic.
- 87% of the waste from our stores during the year was recycled and over 12.5% was converted into refuse derived fuel (which is 100% recycling efficient), leaving less than 0.5% of store waste being sent to landfill, last year.
- Over 60% of the waste from our support centre and distribution centres was recycled during the financial year and over 36% was converted into refuse derived fuel, leaving 3.25% being delivered to landfill.

WASTE CASE STUDY

Card Factory hates producing waste both from an environmental perspective and as waste typically reduces profitability. Owning our own production facilities assists our objective of minimising our product waste, where we can operate smaller and additional print runs, at short lead-times, to meet customer demand whilst also minimising overstocking. By ensuring we have the ranges our customers want in store, we inevitably have some surplus unsellable stock. In early 2021 we undertook a material review of aged stock to rationalise legacy stock holdings across all our stores and distribution centres, and have adopted processes and procedures to avoid legacy stock being generated in the future, all of which

ensures we operate more efficiently, reducing waste which is for the good of the environment and helping to improve profitability for our shareholders. For the destruction of our legacy, unsellable stock, we selected a third party partner who would sort and separate all recyclable product, ensuring that no product is sent to landfill. Although this alternative is the most environmentally friendly solution, it was not the cheapest option, with the environmental priority overriding the shareholder preference to maximise margins, with full recognition that our shareholder and other stakeholders are increasingly expecting businesses to respect the environment.



ESG strategy continued

Reduction in carbon footprint



Card Factory has consistently managed its business to minimise its carbon footprint, which includes:

- Adoption of energy efficient technology:
 - The retail space in all stores has used energy efficient LED lighting since 2017; all new stores since 2017 only incorporate LED lighting and back-office and storage space in older stores is upgraded to LED lighting when legacy lighting requires replacement (approximately 20% replaced to date).
 - Support centre and certain distribution centres adopt LED lighting, and other distribution centres have other energy efficient solutions (including infrared sensors to turn off lighting in unoccupied areas).
 - Voltage optimisation technology adopted at the Printcraft site, saving electricity and costs.
- Over 50% of the electricity purchased was generated from renewable sources.
- Changes to deliveries to stores to improve efficiency, e.g. by reducing the frequency of small boxed deliveries, in preference for consolidating into pallet deliveries.

We continue to explore other opportunities to reduce our carbon emissions further, which include use of electric vehicles and increased use of alternative energy sources.

Improved social impact

Card Factory's social impact arises through a diverse range of its operations, from how it sources products (requiring suppliers to adopt ethical, legally compliant practices and treat their employees fairly), to how Card Factory treats its colleagues and local communities, including supporting the Card Factory Foundation, which supports our colleagues, communities and a range of charities.

During the year, Card Factory's social priorities included:

- Product ranges continued to be developed to reflect society, e.g. same sex couple/parents/BAME.
- Raising £125,000 for Macmillan Cancer Support, Alzheimer's Society, NSPCC and British Heart Foundation and €11,000 to Make-a-Wish Foundation Ireland; from the sale of Christmas Cards.
- Raising over £750,000 for the Card Factory Foundation including:
 - £493k from plastic bag sales.
 - £137k contributed to the Foundation, primarily the Covid-19 fund, which included salary sacrifice contributions from senior colleagues.
- Raising £290,418.33 for Macmillan from coffee morning, raffles, collection of change at store tills.

- Raising £10,000 for NSPCC, funded from part of the sale proceeds of a children's charity book.
- Selection of new charity partners for 3 years from 2021: Teenage Cancer Trust and MIND, with both Alzheimer's Society and Make-A-Wish Ireland being retained on our preferred panel, following colleague votes on changes to the charity partners.
- Supporting colleagues and our communities including:
 - £30,000 raised to support NHS Charities Together through the 'world's biggest greeting card'.
 - Supporting 976 colleagues from the Covid-19 hardship fund.
 - Supporting the Card Factory Foundation.
 - Donating our supply of 1450 face masks at the start of the pandemic to hospices and care homes local to our support centre.
 - Redeploying colleagues to essential retailers to support lockdown consumer demand.
- Supported career development opportunities for our colleagues including:
 - Provision of voluntary learning and development training to colleagues, which saw almost 5,000 completed courses by colleagues between April and June 2020.
 - aCardemy training programme for 90 colleagues to develop skills to progress to store managers, including redesign to support remote training, with 26 participants promoted to store manager.
 - 34% of vacancies during FY21 (excluding seasonal roles) were filled by internal candidates.
 - 38 colleagues completed apprenticeships.

Further commitments have been made to improve social aspects including:

- Improving opportunities for social mobility. We plan to create visible career pathways that support internal talent progression and map our people development offer to enable this.





- Focusing on inclusion across the whole organisation to improve diversity. We have recommenced the creation of a colleague led Diversity and Inclusion strategy (which had been suspended whilst the majority of colleagues were on furlough).
- As a founding signatory to the British Retail Consortium’s Diversity and Inclusion Charter, launched in March 2021, we have committed to take decisive action to improve diversity practices across the retail industry. Our commitments include:
 - nomination of a Diversity & Inclusion executive;
 - improvement of recruitment practices to remove bias;
 - collection and contribution of data on diversity;
 - creation of a respectful and inclusive work environment; and
 - ensuring all line managers are responsible for supporting equality in the workplace.
- Further product development to ensure the diversity of our customers is represented within our current & future products, continuing our strategy of inclusion from LGBTQ & BAME to female empowerment being represented across our offer, whilst actively reducing our non-recyclable product.

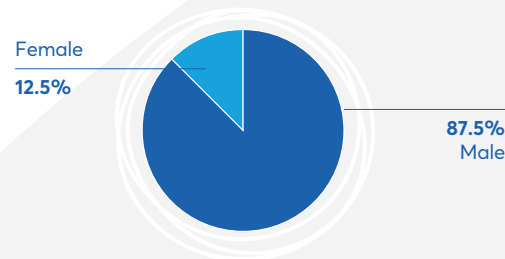
ESG strategic objectives

Card Factory’s ESG objectives fall into three main categories:

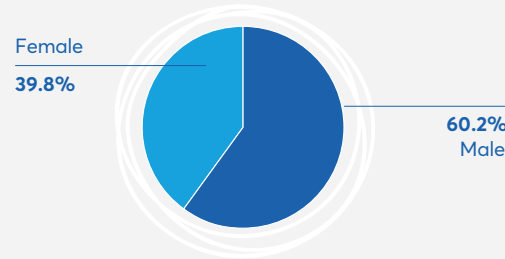
- Waste Reduction
 - Existing card ranges incorporating glitter will be redesigned or discontinued by mid-2022 to remove glitter from our stores and online;
 - All Cards will be FSC compliant from June 2021;
 - We will continue to pursue opportunities to reduce waste further including:
 - Exploring viability for other paper products to be FSC certified (such a wrap, bags)
 - Undertaking further testing on reduction of packaging e.g. removal of cello wrap on handmade cards; and
- Testing of plastic free stores;
- Reduction in our Carbon Footprint
 - Further assessments on carbon offsetting and opportunities and costs for investment in renewable energy sources
- Improved social impact
 - Our KPI targets in respect of our colleagues partly address our social objectives including:
 - Improvement in our colleague engagement score from ‘Be Heard’ surveys
 - Staff Turnover of less than 27%
 - Internal Promotion of at least 29%

CARD FACTORY GENDER COMPOSITION AT 31 JANUARY 2021:

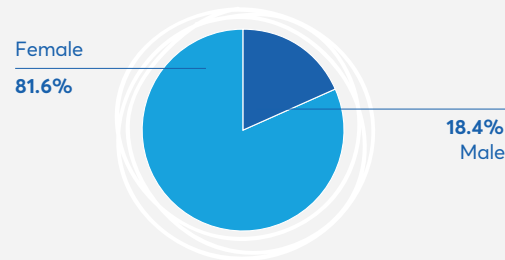
Board



Senior management



All colleagues



ESG strategy continued

Charity



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

The Card Factory Foundation: Supporting causes close to our hearts through three core funds: Match Fund; Community Fund; and Helping Hand. This year the Foundation established the Covid-19 Fund.

Match Fund

Government restrictions severely limited opportunities for our colleagues to participate in fundraising events, where the Card Factory Foundation provides match funding to support charity fundraising. During the year, recipients of Match Fund awards included:

Store Planning Manager, Jonathan Payne committed to run 10 km a day for 6 days in support of Cancer Research UK whilst his stepdad received life changing surgery and treatment during his battle against prostate and bladder cancer.

Elaine King, Store Manager at Pyramids (Birkenhead) jumped from the sky in memory of her late father raising funds for Macmillan Cancer Support.



Community Fund

Our Community Grant Fund funded over 160 grants in the financial year, helping:

- The Autism Directory purchase vital equipment for their new community hub in Caerphilly;
- The Chronicle Sunshine Fund purchase life changing equipment to support babies and young people with disabilities in the North East of England;
- Bedfordshire and Northamptonshire Multiple Sclerosis Therapy Centre purchase two Avalon Multiflex 3 electric massages tables;
- The Chaseley Trust to provide recreational activities for service veterans returning home with complex disabilities;
- The Mustard Tree to purchase food to enable service users access to fresh food items;
- The Ronald McDonald House Bristol to continue funding accommodation and support for families whose children are receiving treatment at Bristol Royal Hospital;
- The Children's Heart Unit Fund in Newcastle to broadcast an online advent calendar of entertainment and festive stories for children undergoing treatment during the pandemic at Christmas;
- The Dash Charity purchase new security equipment to enable victims of domestic abuse and harassment to stay safe in their home.

Covid-19 Fund

The Foundation launched the 'Covid-19' Fund to help those colleagues who were directly impacted by Covid-19 through grants of up to £500. Sadly, during the year, two of our colleagues passed away due to Covid-19. The Card Factory Foundation supported their families.

Helping Hand

The Card Factory Foundation's Our Helping Hand Hardship Fund helped colleagues through one off grant payments helping relieve the stress and burden that having no income can bring whilst undergoing life changing medical treatment. We also contributed towards home adaptations helping colleagues return home to their families, purchased medical equipment, specialist wheelchairs, specialist prams and contributed towards funeral costs.

During the pandemic, the Foundation were overwhelmed by the involvement of our colleagues in various charitable initiatives during lockdown, which led to the one off donation to Macmillan cancer of £31,500 to provide support ensuring nobody faced cancer alone, £20,000 to NSPCC to purchase equipment to enable more Childline counsellors to work from home at a time when children needed them most and £10,000 to Captain Tom Moore in support of NHS Charities Together.



The Foundation established a partnership with The Wakefield Hospice in 2019 and to date we have donated £35,000 to enable them to provide symptom management and care for people who have advanced active, progressive and life threatening illnesses.

MACMILLAN CANCER SUPPORT

Card Factory's partnership with Macmillan Cancer Support reached £290,418.33 during the financial year.

£6,865,660

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

Our Charity Partners

We continued supporting our charity partners through the sale of our boxed Christmas cards, donating over £134,000 during the financial year.



**British Heart
Foundation**

NSPCC

Make-A-Wish
IRELAND

Climate change risks and opportunities

Governance:

Climate related risks and opportunities are assessed by the Board as part of the general business risk management described on page 40. The Board review the Group’s approach to Environmental, Social and Governance and climate related risks in June, September, and January, which included an overview of the ESG framework and development of the Group’s ESG strategy. The Board has resolved not to nominate a Board member with key responsibility for ESG or climate related responsibilities, which shall be the responsibility of the entire Board, however, the CEO is required to lead the Group’s ESG and climate related priorities, with members of the executive taking lead responsibility for aspects within their area of responsibility. The risk management process, which identifies and assesses climate related risks and opportunities and identify actions to manage and mitigate them. The Board effectiveness review conducted in late 2020 identified ESG matters as being one of the Board’s priorities for 2021.

Strategy:

Climate relates risks and opportunities for Card Factory include the following:

| | <i>Climate related risks</i> | <i>Climate related opportunities</i> | <i>Implication for Card Factory</i> |
|-------------------|--|---|--|
| Short-term | Card Factory fails to engage on climate risks to identify and pursue opportunities for competitive advantage. | Presentation of our climate related credentials is expected to improve brand reputation which should assist in improving sales. | Improving our credentials could improve our profile and opportunity with new customers. This may also attract new shareholders. |
| | Card Factory’s supply chain relies extensively on imports from the Far East. There are limited opportunities for local supply base for gifting ranges which could reduce our carbon footprint, whilst maintaining our ‘value’ proposition. | Our strategy of increasing the proportion of cards produced in the UK, by increasing card production capacity at Printcraft, will reduce emissions from transportation for imports from the Far East. | Alternative ranges and sources will be constantly reviewed to balance climate risks with maintaining a value offer to our customers. |
| | Managing legacy stock, where recycling may not be economically viable and increased redundancy of stock from store closures during the Covid-19 pandemic may produce one-off exceptional anomaly on impact climate related reporting. | Improved processes to minimise legacy stock risk, including improved stock management and more local, smaller production runs from Printcraft reduces the risk of such legacy issues arising in the future. | Improved stock management will reduce exposure to stock wastage. Any waste management is to seek to avoid reliance of landfill. |
| | Businesses seeking to use ‘green’ raw materials is expected to increase demand for FSC certified raw materials (to replace plastics and other materials e.g. in packaging). Long lead times will constrain supply, inflating cost prices. | At present, use of recycled card in product ranges is not considered viable, but innovation to artificially grow pulp may address supply constraints in the future to address demand and price inflation. | Development of ‘recycled card’ products could be used as a USP, whilst managing costs and improving Card Factory’s credentials. |

| Climate related risks | Climate related opportunities | Implication for Card Factory |
|---|---|---|
| Levies and surcharges are to be applied for packaging, Green House Gas (GHG) emissions, which could increase operating costs and require investment in alternative solutions. | By reducing waste and GHG emissions in advance of such levies applying, cost increases can be minimised. | Planned levies and surcharges to be monitored and action taken to minimise the implications for such charges on Card Factory. |
| Energy costs expected to increase over time, particularly with limited energy security in the UK that could affect availability for Card Factory's future needs. | Potential opportunity for Card Factory to commit to a long-term power purchase arrangement which can be used as a basis for investment in additional green energy capacity. | In addition to supporting development of additional green energy generation, this may mitigate future cost increases, whilst reducing the Group's GHG emissions. |
| Increased flooding risk from higher water levels from global warming could impact Card Factory's key operational sites. | Although the support centre and distribution centres are not at any material risk from flooding, the Printcraft facility is next to a river which would be at risk of flooding, without appropriate flood defences being adopted. As many store leases are subject to relatively short-term leases, stores can be relocated on lease events, if flood risk is considered to be a material risk. | Plans to increase capacity at Printcraft will require extending the property, which will require an assessment of any flood defence measures to protect this key production facility in the long-term. Design and layout required to minimise risk of equipment damage if extreme flooding is realised. |

Long-term

Risk management:

Climate Change risk is managed in accordance with the risk management framework described on page 40, which provides for members of the senior management team being primarily responsible for identifying and assessing climate-related risks, with support from internal and external specialists, as appropriate. These are managed through regular risk reviews, with an appropriate member of the senior management team being nominated to manage each risk and to lead development and implementation of mitigation. Updates are provided to the Board and its Audit and Risk Committee.

The initial climate-related risks summarised above were considered by the Board as part of the adoption of the ESG strategy and have been incorporated into the risk management framework described on page 40.

Metrics and targets:

Card Factory's key ESG targets relating to waste reduction and reduction of carbon footprint are described at pages 49 and 53.

In respect of waste reduction, an annual target is proposed to be set at the start of each financial year, to target particular aspects for improvement, which could vary from reducing plastics, to reducing glitter, to increasing the proportion of certain products that are recyclable. All targets will be clear and objectively measurable. Objectives set in previous years will continue to be measured to ensure improvements are sustained.

The Green House Gas emissions target for the next financial year, to 31 January 2022, is not to exceed total CO₂ emissions generated in FY20 (ie. Scope 1 and Scope 2 emissions not to exceed 7,817t CO₂). The FY21 GHG emissions data isn't representative of a full year of trade due to the 5 months of suspended operations across our store estate. We have maximised much of our opportunities to reduce GHG emissions further through the measures outlined on pages 47 to 49. Our review of options for further reduction of GHG emissions, (such as commissioning additional renewable energy capacity to meet Card Factory's needs), are not capable of realising improvements during the current financial year.

ESG strategy continued

Green House Gas emissions

During FY21, the Card Factory group's Green House Gas (GHG) emissions have been as follows:

| | | FY21 tCO ₂ e | FY21 % | FY20 tCO ₂ e ¹ | FY20 % |
|--|-------|----------------------------|-----------|---|-----------|
| Scope 1 emissions (combustion of fuel – direct emissions) | UK | 777 | 99.6 | 1,029 | 100 |
| | RoW | 3 | 0.4 | 0 | 0 |
| | Total | 780 | 100 | 1,029 | 100 |
| Scope 2 emissions (purchased energy – indirect emission) | UK | 4,245 | 99.0 | 6,754 | 99.5 |
| | RoW | 44 | 1.0 | 34 | 0.5 |
| | Total | 4,289 | 100 | 6,788 | 100 |
| Total energy use (kWh) | UK | 20,476,623 | 99.1 | 30,130,676 | 99.6 |
| | RoW | 189,524 | 0.9 | 134,830 | 0.4 |
| | Total | 20,666,147 | 100 | 30,265,506 | 100 |

¹ Our previous Annual Report stated our FY20 GHG emissions amounted to 9,501.5 tCO₂e (a 19.9% reduction on FY19). A supplier has notified of an update to our consumption data which indicates actual usage in FY20 is as reported above; i.e. 7,817 tCO₂e, which was a 34.1% reduction on FY19's GHG emissions.

Intensity metric

Consistent with previous periods, Card Factory has chosen to report against previous year GHG emissions using the intensity metric of total emissions (tonnes of CO₂) per £m of turnover:

| | FY21 tCO ₂ e | FY20 tCO ₂ e ¹ | Reduction (increase) |
|---|-------------------------|--------------------------------------|-------------------------|
| Total emissions | 5,069 | 7,817 | 35.15% |
| Emissions intensity (tCO₂e/£m turnover) | 17.78 | 17.31 | (2%) |

¹ FY20 emissions data restated as noted above.

During FY21, Card Factory undertook the following energy efficiency measures:

- Store closure procedures. Include isolation of all non essential power supplies to keep the consumption/running cost to a minimum whilst the stores are closed;
- Behavioural culture and trying to initiate energy efficiency. Looking at the various profiles of stores across the estate and understanding what they consume we can then apply this to all stores and identify exceptional usages and interrogate this further. Due to lockdown these activities have had to be curtailed.

Methodology and emissions data

The above emissions data has been produced in accordance with the Streamlined Energy and Carbon Reporting (SECR) framework, under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. The footprint is calculated in accordance with the Greenhouse Gas (GHG) Protocol and Environmental Reporting Guidelines: Including streamlined energy and carbon reporting guidance. DEFRA emission factors have been used for all emission sources to allow an activity to be converted into carbon dioxide equivalent (CO₂e).

Non-financial information statement

| Reporting requirement | Relevant information | Policies and standards |
|---|---|------------------------|
| Information necessary to understand the Company's development, performance and position and the impact of its activity relating to: | | |
| 1. Environmental matters (including the impact of the Company's business on the environment) | • Pages 44 to 49; 52 to 54 | Page 45 |
| 2. The Company's employees | • Pages 22, 23, 29, 30 | Page 30 |
| 3. Social matters | • Pages 44 to 51 | Pages 45, 48 |
| 4. Respect for human rights | • Page 31 | Pages 31, 45 |
| 5. Anti-corruption and anti-bribery matters | • Pages 30, 31 | Pages 30, 31, 45 |
| Required information | | |
| 6. Description of the Company's business model | See Pages 10 to 19 | |
| 7. Description of policies (and any due diligence processes implemented pursuant to those policies) pursued by the Company in respect of items 1 to 5 above and a description of the outcome of those policies | See the sections referred to above | |
| 8. A clear and reasoned explanation if the Company does not pursue any policies in respect of the above matters | Not applicable | |
| 9. Description of the principal risks relating to items 1 to 5 above and where relevant and proportionate, a description of the business relationships, products and services which are likely to cause adverse impacts in those areas of risk and a description of how it manages such risks | See pages 41 to 43 | |
| 10. Description of the non-financial key performance indicators relevant to the Company's business | See pages 20 and 21 | |
| 11. Where appropriate, references to and additional explanations of amounts included in the accounts | The accounts are produced in accordance with IFRS as applicable in the EU. See page 161 for alternative performance measures. | |

Board of Directors



Paul Moody
Non-Executive Chairman



Date of appointment:
19 October 2018

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 was Chairman of Johnson Service Group plc between May 2014 and August 2018 and was a Non-Executive Director and Chair the Remuneration Committee of Pets at Home plc from March 2014 until July 2020. Paul assumed the interim role of Executive Chairman from 1 July 2021 to 8 March 2021.

Current external appointments:

Non-Executive Chairman of 4imprint Group plc.



Octavia Morley
Senior Independent
Non-Executive Director



Date of appointment:
30 April 2014

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 and Chair of The Spicers-Officeteam Group, 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, Non-Executive Director of Ascensos Limited and Non-Executive Director of Marston's plc.



Darcy Willson-Rymer
Chief Executive Officer

Date of appointment:
8 March 2021

Prior to joining the Company, Darcy served as CEO Costcutter Supermarkets for eight years. Prior to this, Darcy was CEO of Clinton Cards plc from 2011 to 2012. Before joining Clinton Cards, Darcy held a range of roles in international branded businesses, including Managing Director (UK & Ireland) of Starbucks Coffee Company; and senior roles at Yum Restaurants International, including Operations Director of KFC Great Britain; and Director of Operations and Franchise, Europe, KFC and Pizza Hut.

Current external appointments:

Non-Executive Director of international anti-people trafficking charity, Stop The Traffik.



Kris Lee
Chief Financial Officer

Date of appointment:
3 July 2017

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 Bighthouse, 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

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

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

Paul is a technology industry CMO growing businesses of all sizes from start-ups to plcs. This currently includes OnePlan, a SaaS events platform. Paul was previously Senior Director of Europe at Eventbrite. Prior to this, Paul was Global Head of Live Marketing at Twitter and spent the early part of his career at AMV BBDO 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

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

The Board has focused on enhancing the approach to Corporate Governance, including further improving our stakeholder engagement and developing our ESG approach

Paul Moody
Chairman



Dear Shareholder

It has been an unprecedented year for Card Factory, which, as with many businesses, acted to protect its balance sheet, colleagues and customers as the Covid-19 pandemic, lockdowns and social distancing significantly disrupted normal operations and trade. As our stores were classified as 'non-essential' retail, we were forced to close for five months of the financial year.

Such disruption and impact of Covid-19 did not distract from key strategic developments for the Group; we launched a refreshed strategy and financial targets in July 2020 and have implemented a number of key initiatives focused on delivering this strategy and realising the financial goals. Action taken includes implementing price reviews; developing our data-led insights to support range planning and availability by stocking the best performing cards in all stores; and using data to dictate the timing of introduction of seasonal ranges into our stores to improve sales density. The steps taken have borne great results including realising positive like-for-like sales in October 2020, as the business recovered from the initial closures, before the second lockdown in England was imposed in November 2020.

I am extremely pleased that Darcy Willson-Rymer has now joined the business. Darcy brings extensive experience in retail and in branded and international business, including previous role as CEO of a greeting card business. He has already demonstrated strong leadership and clear direction and engagement with the business.

During the year we have carefully acted to maintain the Group's liquidity, which has included a series of revised terms being agreed with our supportive banks, as the implications of the Covid-19 pandemic were realised. The Board secured access to Coronavirus Corporate Financing Facility, which unfortunately transpired not to be available to the Company when terms of access were subsequently changed. I am pleased that the Group's banking syndicate has confirmed their confidence in the success of what is a profitable business, that has suffered the consequences of mandatory closure of non-essential retail stores during the year. I am confident that we are well placed to reduce this additional debt to normalised levels, following which the suspension on dividends may be lifted.

In order to achieve our strategic goals we rely on our people, who have been incredibly flexible and steadfast in passionately supporting the business, throughout significant operational changes. As a Board we are pleased with the progress made in improving our colleague engagement scores over this uncertain period and have continued to seek to develop our culture and engagement. Strategic objectives are aligned to the businesses strategy with improved alignment to our shareholder interest.

During the year, the Board has focused on enhancing the approach to Corporate Governance requirements, including further improving our stakeholder engagement, developing our ESG approach with clearer target setting and measurement of performance, recognising the opportunities arising from reducing plastics and waste in our supply chain and product ranges. Consistent with guidance, we deferred our planned externally moderated Board effectiveness evaluation until 2021, to allow us to address the priorities in responding to Covid-19, but also to ensure that review is undertaken after appointment of the new CEO, to ensure valuable feedback can be obtained to improve effectiveness. 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.

Yours sincerely

Paul Moody
Chairman
10 June 2021

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:

- finalising and launching the Group's strategy for the next five years, including refinement of the financial targets to take account of the known impact of Covid-19, 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;
- developing new key performance indicators that are aligned to the refreshed strategy, adopted to monitor performance and drive colleague objectives;
- developing our ESG policy and setting our key environmental, social governance objectives;
- undertaking a detailed review of the risks and uncertainties for the Group, embedding ownership and mitigation of the risks within the senior leadership team;
- enhancing our stakeholder engagement, including sharing our stakeholder insights, our shopper profiles; and reviewing feedback from our colleague, supplier and customer surveys;
- recruitment of a new CEO, capable to lead the Group to the next stage of its development;
- appointment of Nathan (Tripp) Lane as a Non-Executive Director;
- developing our colleague engagement, support and development to aid retention over a period of material uncertainty, which included periods of furlough and reduced income for many of our colleagues; and
- maximising the Group's liquidity position in response to the Covid-19 pandemic with open dialogue with our banking partners and use of additional government support where possible.

Code compliance

The Board has substantially 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 (Code) a copy of which can be obtained from frc.org.uk.

The Code and Listing Rules require the Company to provide explanation of any provisions not complied with during the year. The relevant exceptions are as follows:

- Between 1 July 2020 and 8 March 2021, Paul Moody assumed the interim role as Executive Chairman, following departure of the former CEO, pending recruitment of a new CEO. During this period, the roles of Chair and Chief Executive were temporarily exercised by the same person, which was inconsistent with Provision 9 of the Code. This was an interim arrangement that was required following the resignation of the previous CEO. As the Chairman had good knowledge and understanding of the business, was immediately available and willing to provide temporary executive leadership his interim appointment was considered by the other Board members to best provide continuity pending recruitment of a permanent replacement. During this period, the Senior Independent Director provided additional support in the absence of a Non-Executive Chair. Such a temporary exercise of the Chairman and the Chief Executive roles by one person was considered acceptable. As this was not a permanent arrangement, on advice, it was not discussed with shareholders in advance.
- During the financial period which is the subject of this Annual Report, no formal policy for post-employment shareholding requirements had been adopted as the previous Remuneration Policy had been issued for adoption prior to publication by the FRC of the UK Corporate Governance Code 2018. Provision 36 of the Code requires development of a policy to address this. The Remuneration Policy (set out on pages 78 to 85) proposed to be put to shareholders for approval at the 2021 AGM introduces a post-employment shareholding policy in accordance with this Code provision.
- The current employer pension contribution to the CFO marginally exceeds the rates applicable to the workforce, contrary to Provision 37 of the Code. As described in the Remuneration Report (Page 78), full alignment will be effected from the end of 2022, consistent with Investment Association guidance.

Corporate Governance Report continued

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 Board considers all of the current Non-Executive Directors, with the exception of Nathan (Tripp) Lane, as independent Non-Executive Directors (within the meaning of the Code).

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 which held a c. 13% interest in the Company at the time (now c. 20.02%), 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. The constitution of the Company's Board complies with the Code's recommendation, with four members of the Board being judged to be independent.

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.

None of the Directors assumed new additional roles outside the Company, during the year that required the Board to consider or approve additional appointments. When recruiting Darcy Willson-Rymer, the Board considered, and were satisfied that Darcy Willson-Rymer's role as Non-Executive Director of Stop The Traffik would not impede or conflict with performance of his duties with the Company.

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. Octavia provided additional support and counsel to the Executive Directors, whilst Paul Moody assumed an executive role, in the absence of a Non-Executive Chairman.

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).

Board attendance

During the year, the Board held 12 scheduled meetings and 18 other ad-hoc Board or Committee meetings (excluding various Liquidity Committee meetings that were also convened). The Committees of the Board also convened meetings during the year, with attendance as follows:

| Director | Role | Scheduled Board meetings (12 meetings) | Other Board or Committee meetings+ | Remuneration Committee (8 meetings) | Audit and Risk Committee (4 meetings) | Nomination Committee (3 meetings) |
|----------------------|--|--|------------------------------------|-------------------------------------|---------------------------------------|-----------------------------------|
| Paul Moody | Non-Executive Chairman and Chair of Nomination Committee | 12 of 12 | 18 of 18 | 4 of 4 | – | 3 of 3 |
| Octavia Morley | Senior Independent Director and Chair of Remuneration Committee | 12 of 12 | 12 of 12 | 8 of 8 | 4 of 4 | 3 of 3 |
| David Stead | Independent Non-Executive Director and Chair of Audit and Risk Committee | 11 of 12 | 16 of 16 | 7 of 8 | 4 of 4 | 2 of 3 |
| Paul McCrudden | Independent Non-Executive Director | 12 of 12 | 7 of 8 | 6 of 8 | 4 of 4 | 2 of 3 |
| Roger Whiteside | Independent Non-Executive Director | 10 of 12 | 8 of 9 | 6 of 8 | 4 of 4 | 2 of 3 |
| Nathan (Tripp) Lane* | Non-Independent Non-Executive Director | 10 of 11 | 7 of 8 | – | – | – |
| Karen Hubbard# | Chief Executive Officer | 5 of 5 | 11 of 11 | – | – | – |
| Kristian Lee | Chief Financial Officer | 12 of 12 | 13 of 13 | – | – | – |

*Nathan (Tripp) Lane was appointed from 9 April 2020

#Karen Hubbard resigned on 30 June 2020

+ Excludes numerous Liquidity Committee meetings

Board activities and effectiveness

Board meetings are structured to ensure they focus on key strategic matters that affect 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.

The Board meetings include a rolling agenda of key strategic, operational, governance and risk topics, as well as updates on key strategic programmes, operational and financial performance, with periodic presentations from senior management team members. These ensure that the Group's Non-Executive Directors remain informed of key developments within the Group and the progress in achieving the strategic objectives. 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 |
|---|--|---|
| <ul style="list-style-type: none"> Group strategy Group budget Covid-19 response and business protection Debt funding strategy, including access to CCFF and amendment to Bank facilities Liquidity Reviews Commercial strategy and delivery of strategic projects Business development strategy HR strategy and engagement Online strategy Capex review IT Strategy and ERP investment review | <ul style="list-style-type: none"> Annual results Interim results Seasonal trading updates Key project updates KPIs and Balanced Scorecard performance Operational reviews Online trading reviews | <ul style="list-style-type: none"> Board evaluation Director appointments People strategy review, colleague engagement and job protection Stakeholder engagement review AGM approach and shareholder engagement Sustainability and ESG policy Health and Safety Governance and legal updates Non-Executive Director reports Principal risks review Investor relations updates Board and Committee planner Modern Slavery Act statement Audit review |

Corporate Governance Report continued

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 receives progress updates on key business programmes. The Board will continue to receive performance updates against our agreed strategic key performance indicators (see page 20).

Minutes of all Board and Committee meetings are taken by the Company Secretary or Assistant Company Secretary and circulated for approval. The minutes record actions, decisions and deadlines arising out of the topics discussed and detailed actions and resolutions accompany 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 previous year to the Group's strategic development, which continued for the early part of FY21. The Board held its annual strategy day in March 2020, with many further reviews as the impact of the Covid-19 pandemic on the strategic plan was assessed, culminating in the finalisation of the refreshed Strategy which was presented to shareholder at our virtual presentation in July 2020.

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 more recently, the Executive Chairman) and Chief Financial Officer have overall responsibility for investor relations. They are currently supported by the Company's financial PR advisers, Tulchan, 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, held virtually during the last year, but we look forward to returning to face to face meetings, where possible. Over the last year we have increased our use of technology to engage with our investors remotely, driven by government restrictions on gatherings. We have embraced this opportunity and the solutions available, by ensuring online broadcast of results presentations and launch of our refreshed strategy are accessible to all current and prospective shareholders, facilitating attendees to submit questions to presenters, for answers to be provided live to the attendees. We note this has afforded a greater number of retail investors to participate in these discussions and to

engage directly with the Board. We propose to continue to adopt these technological solutions whilst physical meetings are restricted.

Updates are provided to the other members of the Board after any investor-related events and it is also ensured that the Board is kept informed of feedback from analysts and shareholders. The Chairman and the Non-Executive Directors occasionally meet or speak 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 or speak with major shareholders if they wish, to raise issues separately from the arrangements described above.

Although the AGM in 2020 was closed to attendees due to government restrictions imposed due to the Covid-19 pandemic, the Company arranged for questions to be submitted and responded to before shareholder proxy votes were required to be submitted. Appropriate questions and answers were also published following the AGM. The Company expects future AGMs will provide a further opportunity to engage with our shareholders. The Company is proposing to update its Articles of Association at the 2021 Annual General Meeting to permit hybrid shareholder meetings, should it be cost effective or necessary to facilitate.

At the end of the period, the Chair of the Remuneration Committee consulted with substantial shareholders and shareholder groups in respect of the proposed changes to the Remuneration Policy. Card Factory's investor website is also updated with news and information including this Annual Report, setting out our strategy and performance together with our plans for future growth (cardfactoryinvestors.com).

Non-Executive Director meetings

The Chairman and the other Non-Executive Directors met on six 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 a separate occasion, as part of the annual Board effectiveness review, the Senior Independent Director and the other Non-Executive Directors met without the Chairman to discuss his performance.

The Chairman and the other Non-Executive Directors regularly have informal meetings (often virtual meetings) with the Executive Directors and other members of the senior management team in the business, on occasion at a store location or at the Group's support centre, although this year many such meetings were held virtually.

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.

In April 2020, the Board established a Liquidity Committee as a sub-committee of the Board, comprising Paul Moody, Karen Hubbard (before her resignation), Kris Lee, David Stead and Nathan (Tripp) Lane. The Liquidity Committee is charged with monitoring the financing requirements of the Group and to make recommendations to the Board on actions required or advised to protect the business as the implications of the Covid-19 pandemic developed. This Committee met twice weekly initially, with regular reporting (primarily by the CFO) to this group, which in turn provided ad-hoc updates to the Board and full briefings at each scheduled Board meeting. From January 2021, when the consequences of the third national lockdown were apparent, the full Board (rather than the liquidity committee) met regularly to review the Company's position.

Audit and Risk Committee

The Audit and Risk Committee assists the Board in discharging its responsibilities required by DTR 7.1.3 including responsibility for:

- 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 four 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 69 to 73 of the Governance section of this Annual Report.

The Audit and Risk Committee's terms of reference, which 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. The Remuneration Committee has undertaken the triennial review of the Company's Remuneration Policy, which is the subject of approval by shareholders, to be proposed at the 2021 AGM.

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

Corporate Governance Report continued

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, however, Paul Moody stepped down from the Remuneration Committee temporarily from 1 July 2020 to 8 March 2021, whilst he held the interim position as Executive Chairman, pending the appointment of Darcy Willson-Rymer as CEO.

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

The Board and the Remuneration Committee have employed Korn Ferry (UK) Limited (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 74 to 96 of the Governance section of this Annual Report.

The Remuneration Committee's terms of reference, which 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 Nomination Committee met three times 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 97 to 99 of the Governance section of this Annual Report. The Nomination Committee's terms of reference, which 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.

During the year, the Board has refreshed the Board induction programme in preparation for a new CEO joining the business and to incorporate adjustments to account for the government restrictions imposed due to the Covid-19 pandemic. New Directors receive a full, formal and tailored induction on joining the Board, including meetings with each other members of the Board, the senior management team, other key team members and the Group's advisers. The typical induction process includes visits to the Group's stores, support centre, its design studio, Printcraft (the Group's print facility), however, certain visits have been delayed due to government restrictions.

During the year, a reduced number of site visits by the Non-Executive Directors have been possible, but the Non-Executive Directors have continued to meet (often virtually) members of the senior management team, their informal 'buddying up' 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, strategy documentation, market research, colleague and other stakeholder feedback, 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.

Board evaluation

The Board had originally planned to conduct an externally moderated Board evaluation in late 2020. It was considered to be in the best interests of the Company and its stakeholders to defer the externally moderated review by one year, and to undertake an internally moderated Board effectiveness evaluation instead. The key considerations included: guidance recommending Boards consider whether an externally moderated review is appropriate, as businesses respond to Covid-19; the fact the Company is not subject to the obligation to undertake an external review every third year (which applies to FTSE 350 companies); and the benefits of deferring such an externally moderated review to allow the incoming CEO to fully engage in the evaluation. 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 with details of improvements or deterioration from previous reviews. In addition to reviews of the collective effectiveness of the Board, the Chairman undertook reviews on the individual performance and contribution of each Director and the Senior Independent Director collated views from the other Directors, to provide similar feedback to the Chairman.

The evaluation identified the following areas of strength:

- the Board is skilled, experienced, well balanced and committed. It operates collaboratively, with appropriate challenge 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.

The Board set collective objectives in November 2020, which are subject to quarterly reviews. Following review of the objectives in February 2021, the Board revised the priority of its objectives to account for the priorities arising following the third national lockdown, acknowledging that ability to pursue some of the original objectives to be limited by the further extended period of store closures and furlough for the majority of the workforce. The reprioritised collective Board objectives for the current year are as follows:

- Priority Objectives:
 - Refinancing of the Group to meet its medium-term liquidity requirements; and to ensure the Group has access to additional facilities to support the business for additional periods of closure of non-essential retail; and to support sign-off of its FY21 audit.
 - Execution of a store reopening plan to maximise opening all stores as quickly and efficiently as possible following the third lockdown, to maximise sales recovery, whilst maintaining colleague and customer safety.
 - Efficient, on-time, on-budget and on-plan ERP Implementation to address legacy IT issues and provide a stable platform for the business to grow and enhance our multichannel offer.

- Successful recruitment and induction of the CEO to facilitate assumption of executive duties and full engagement with the Board, the senior management team and the wider business, to drive the strategic objectives of the business.
- Development and implementation of a Succession Plan, and also drive Organisational Talent Development to cover the plc Board, the senior management team and their direct reports.
- ESG Strategy – further development and adoption of a clear and focused ESG Strategy, which is to be embedded across the business and to make substantive initial steps to implement this policy, with particular focus on the following aspects:
 - Diversity & Inclusion – to include gender, ethnicity and social mobility;
 - Sustainability – to focus on reduction of waste, plastics, glitter and packaging waste; reduction of greenhouse gas emission and increased use of green energy; and
 - Stakeholder engagement (s172) – Board to continually satisfy itself that the Board's engagement is appropriate and proportionate to meet investor requirements.

In addition to the evaluation, the Board also reflected on the achievement of the high-priority objectives adopted as a result of the previous year's internal evaluation. Following launch of the refreshed strategy in July 2020, this key objective is satisfied, however, the strategy will remain under review, particularly as the Board assesses the impact of the Covid-19 pandemic on the business and the financial targets that were set alongside the strategy. Good progress has been made to address the initial objectives in respect of succession planning and assessment of stakeholder groups, however, the Board recognises the requirement to continually improve on these areas and has set further objectives to further enhance the Board's focus on these matters. Following the evaluation, the Non-Executive Director'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 and (following deferral) the Company will conduct an externally facilitated evaluation to take place in the financial year ending 31 January 2022.

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.

Corporate Governance Report continued

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 83 and 84. 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 all directors should be subject to annual re-election. The Company complies with this recommendation and is proposing shareholders approve changes to its articles which include requiring annual re-election in accordance with the Code requirement.

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.

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. The Board has adopted internal delegations of authority in accordance with the Code which incorporate 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 Annual 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.

Each Director of the Company has 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. 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. The Company proposes to make minor changes to the Articles of Association to be considered by shareholders at the AGM to be held in 2021. The main proposed changes include changes to provide flexibility, with provisions proposed to permit hybrid physical and online shareholder meetings; requiring Directors to stand for re-election annually (in compliance with the Code and to reflect current practice); and including amendments in accordance with best practice to deal with untraced shareholders and use of branch registers.

Governance and risk

The Board has adopted the risk management framework described on page 40 of this Annual Report.

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 2021 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, however, enhancements and investment are required to business continuity planning across a number of aspects of the Group's operations.

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. The Assistant Company Secretary co-ordinates the Group's programme of internal audit reviews with the support of relevant experts in each area of investigation and use of an independent accounting firm or other advisor to provide specialist internal audit reviews. 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 67.

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 the Assistant Company Secretary

Specific elements of the current internal control framework include:

- a list of matters specifically reserved for Board approval;
- a clear framework for delegated responsibilities, mandating escalation of decisions to more senior colleagues within the business, or ultimately the Board, where appropriate;
- 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, in addition to reports from the independent accounting firm (or appropriate third party expert) engaged to undertake specific internal audit reviews.

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 2021 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 100 to 105.

Corporate Governance Report continued

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 and continues to be adopted without adjustment following departure from the EU, where UK Market Abuse Regulations substantially mirror the EU terms. 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 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 10 June 2021.

Paul Moody

Chairman
10 June 2021

Chairman's Letter – Audit and Risk Committee

The Audit and Risk Committee has allocated a significant proportion of its time to areas of serious risk, including IT and cyber risk, inventory management and disaster recovery management

David Stead

Chairman of the Audit and Risk Committee

Committee members

David Stead (Chair)
Octavia Morley
Paul McCrudden
Roger Whiteside



Dear Shareholder

The Audit and Risk Committee has continued to focus on a range of pre-Covid-19 issues and new arising issues to ensure Card Factory has appropriate controls in place which underpin its resilience, recognising the further challenges arising from the Covid-19 pandemic and the escalating importance of compliance within supply chains.

The Committee has allocated a significant proportion of its time to areas of serious risk, including IT and cyber risk, inventory management and disaster recovery planning, within certain higher risk areas of the business. 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. The Committee notes that the retender of the audit will be required for the FY25 audit, assuming the Company is not in the FTSE350 before that date. Card Factory will undertake its audit tender during 2023, following which the successful firm will be proposed for appointment at the AGM to be held in 2024 in advance of the audit for the financial year to 31 January 2025.

The Committee continues to carefully monitor audit reforms, significant additional guidance issued during the year to respond to the Covid-19 pandemic, including a significant focus on liquidity, going concern and viability, arising due to the extended closure of the store estate over the year.

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.

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 work of the Audit Committee in advance of the AGM in July 2021.

Yours sincerely

David Stead

Chairman of the Audit and Risk Committee
10 June 2021

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 63.

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 (when in post), 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 and external accounting firms engaged to support internal audit reviews also attend meetings of the Committee by invitation. The Assistant Company Secretary acts as secretary to the Committee.

Meetings

The Committee met four times during the year with details of attendance at these meetings set out in the Corporate Governance Report on page 61.

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 2020, the appropriateness of accounting policies with a particular focus on going concern and viability statements and assumptions to account for the uncertainty arising from the Covid-19 pandemic, the auditor's report regarding its findings on the annual results;
- assessing whether the Annual Report and Accounts for the year ended January 2020, 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 2020;
- verifying the independence of the Group's auditor, approving their audit plan and audit fee and setting performance expectations;
- shortlisting of priority projects for internal audit review, reviewing the findings of, and the implementation of actions arising from, the internal audit projects undertaken;
- 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;
- enhancing and 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 May and (following a material review and adoption of revised processes) September and January;
- 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;
- The Group received a letter on 21 January 2021 from the Financial Reporting Council (FRC) noting it had included the Company's Annual Report and Accounts for the year ended 31 January 2020 in its sample for the thematic review of companies reporting on cash flow and liquidity disclosures. The letter indicated that the FRC had no questions or queries arising from their review, but noted a matter where they considered users of the accounts would benefit from improvements to existing disclosures in connections with presentation of cash and cash equivalents. As a result, the Company has sought to improve the reporting of its cash and cash equivalent disclosures. The Company recognises that the FRC's review was solely based on a review of its Annual Report and Accounts for the year ended 31 January 2020 and did not benefit from detailed knowledge of the Company's business or an understanding of the

underlying transactions entered into. As a result, the review did not provide any assurance that the Company's Annual Report and Accounts are correct in all material respects.

- monitoring the Group's compliance with its policy for use of our auditor for non-audit work;
- reviewing the Group's tax strategy and tax risk register; and
- with the support of KPMG LLP, monitoring developments in legislation, reporting and practice which affect matters for which the Committee is responsible.

Activities after the year-end

In the period following the year-end, the Committee met in June 2021 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 going concern statement (which is set out on page 103) 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 2021, including the appropriateness of accounting policies and going-concern assumptions;
- the external auditor's report;
- 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 meeting in June 2021, 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 statement. The major accounting issues discussed by the Committee concerned:

- inventory valuation;
- goodwill recoverability/impairment;
- going concern due to Covid-19;
- store asset recoverability/impairment;
- job retention scheme computations; and
- valuation of investment in subsidiaries.

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, and secure increased 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 a range of alternative scenarios.

Inventory

The Group holds significant volumes, and a broad range, of inventory. Although technology solutions to aid stocktakes have been introduced during the year, the initial phasing does not provide an entire solution which relies on manual processes. Consequently there is an ongoing but reduced risk for the period to 31 January 2021 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 centres – now aided by new technology which improved the accuracy of stock takes;
- 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 distribution centre stock; and
- detailed analytical review to assess the reasonableness of the inventory figure.

Inventory valuation was considered to be higher risk than prior years due to the impact of the store lockdowns on Fathers Day and Christmas sales, and also our new stock management strategy. The introduction of new technology referred to above has facilitated a comprehensive review of the product range and as a result we have decided to discontinue a higher level of card and non-card products than in previous years.

Impairment reviews

The Committee considered both the goodwill and the store 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. In respect of store impairment testing, a charge of £2.6m has been made and the Committee considered the basis for this charge and its sensitivity to changes in the key assumptions. The Committee also reviewed recommendations from the FRC Thematic Review on impairment reporting to improve disclosure. See Note 11 for further information.

Audit and Risk Committee Report continued

Store impairment review

The Group reviewed the carrying value of its right of use assets, primarily store premises, and made an impairment charge against a small number of leases.

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.

The unprecedented impact on trade from Covid-19 resulted in the discontinuation of certain hedging relationships during the year where inventory purchase cash flows were no longer expected to occur. Excess foreign exchange hedged positions were resolved by a combination of trading USD cash back to Sterling and extending maturity dates on structured trades not designated as a hedging relationship.

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

The Group does not have its own dedicated internal audit function as the size and complexity of the Group's business does not justify such dedicated resource. The Group changed its approach to internal audit for the year under review, by engaging appropriate third party experts. At the direction of the Committee, the main areas covered by the internal audit programme during the last year were:

- closure of internal audit actions from the previous year, including the previous health and safety review.
- reviews to confirm compliance with National Minimum/Living Wage requirements.
- review of the stock management process.
- cyber security testing.

Internal audit reports are shared with the External Auditors, who also attend the Audit and Risk Committee's meetings, ensuring External Auditors have full disclosure to allow them to account for internal audit findings in their audit scope.

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. The Committee intends to continue to deploy the process implemented for the last financial year, into the current financial year.

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.

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 2021 and they attended all four of the Committee meetings held during that year, as well as the one held in June 2021. 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 £374,000. A breakdown of fees paid to KPMG LLP during the financial year is set out in note 4 to the financial statements on page 130.

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 policy had been to tender the statutory audit at least every ten years in accordance with applicable legislation. As KPMG LLP first audited the Company's accounts as a public interest entity for the financial year to 31 January 2015, KPMG are permitted to audit the accounts for the period to 31 January 2024. We propose to commence a formal retender during 2023 (for the appointee's first audit following the retender to be the audit for the period to 31 January 2025).

Whilst we have not conducted a competitive tender for the audit for over ten 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.

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 £25,000 (equivalent to 6.7% of the audit fee). This related to the half-year review. Full details are given in note 4 to the financial statements on page 130.

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 Audit and Risk Committee on 10 June 2021.

David Stead

Chairman of the Audit and Risk Committee
10 June 2021

Chairman's Letter – Remuneration Committee

The Committee exercised discretion in adjusting remuneration outcomes, balancing the interests and experiences of stakeholders: no pay increases were awarded; earned bonus was not paid; Restricted Share awards granted and Restricted Share awards vesting were scaled back.

Octavia Morley

Chairman of the Remuneration Committee

Committee members

Octavia Morley (Chair)

Paul Moody¹

Paul McCrudden

David Stead

Roger Whiteside



¹ Paul Moody stepped down from the Remuneration Committee whilst he undertook the interim role of Executive Chairman, between 1 July 2020 and 8 March 2021 to ensure compliance with the Corporate Governance Code 2018.

Dear Shareholder

I am pleased to present our Directors' Remuneration Report for the financial year ended 31 January 2021 (FY21). We also present our proposed Remuneration Policy (Policy) for the next 3-year period, which we are seeking shareholder approval for, at the 2021 AGM.

Introduction

This Directors' Remuneration Report is divided into three sections, this Letter and the introduction to the Policy (pages 74 to 77), the proposed Directors' Remuneration Policy (pages 78 to 85) and the Annual Report on Remuneration for the year to 31 January 2021 (pages 86 to 96).

The proposed Directors' Remuneration Policy section sets out the policy which is proposed for approval by shareholders at the AGM to be held on 28 July 2021, and if approved, shall take effect from that date.

This Letter and the Annual Report on Remuneration will also be put to shareholders for approval at the AGM on 28 July 2021, although the vote is advisory.

Remuneration Policy Review

As we reported in the FY20 Remuneration Report, we believe the current remuneration policy continues to be effective for Card Factory, with only minor changes proposed for the next three-year period:

- Reduction in the policy for pension contributions, which will align with the percentage payable to the majority of the workforce;
- Extension of the malus and clawback provisions to include Company failure and reputational damage;
- Additional explicit Remuneration Committee discretion to override formula-based incentive plan awards; and
- Introduction of a post-employment shareholding policy.

We consulted 11 of our largest investors (together holding 66% of the issued share capital); the proxy agencies (who represent wider shareholder interests); and our colleagues via the CCAG forum (see page 30), in respect of the proposed changes. Advice was also received from Korn Ferry, a specialist executive remuneration advisor. Although we did receive some suggestions on the structure of the post-employment shareholding policy, we are confident that the structure proposed achieves an appropriate balance between the Directors' and wider stakeholders' interests.

We designed the proposed Remuneration Policy to be simple and strongly aligned to shareholders' interests. Salary and benefits levels are relatively modest and there is a higher weighting to variable performance pay, with a significant share-based element. Current pension levels are modest and will not exceed contribution levels of the workforce after the end of 2022.

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. Any such shareholding will be subject to the post employment shareholding obligations noted above. In 2018, 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.

The proposed Remuneration Policy will be the subject of a shareholder vote at the AGM, which will be held on 28 July 2021.

Application of the Remuneration Policy during FY21

The significant impact of the Covid-19 pandemic on the Group required the Committee to exercise its discretion in adjudicating remuneration outcomes in respect of variable pay. The Committee accounted for the suspension of dividends; the government support and the implications for colleagues from extensive furlough during the period and took the following actions:

- Bonus outcomes for FY20 had been assessed, but the Committee suspended payment pending a further review following release of the interim results for the first six months of FY21. The Committee resolved in October 2020, to authorise payment of such bonuses to the Executive Directors (being 20% of salary for the previous financial year) which were paid in October 2020 when the business was cash generative, prior to any expectation of further lockdowns.
- The Committee did not adjust bonus targets that were set in early 2020 for FY21, before the impact of Covid-19 was fully appreciated. Although strategic bonus objectives had been achieved during the year, the Committee and the senior management team agreed, taking account of the wider stakeholder experience, that no bonuses would be awarded in respect of FY21.
- We granted Restricted Shares and Save As You Earn (SAYE) awards in October 2020, having deferred such awards which were typically granted earlier in each financial year.
 - Restricted Shares were scaled back for the most senior executives, by 40% for Executive Directors with additional conditionality applied to all awards, providing the Committee with additional discretion to scale awards back further on vesting to address excessive returns being realised.
 - The Committee elected to increase the number of shares available for SAYE applications from colleagues across the business, as a result of the scheme being materially oversubscribed, however, applications were scaled back for those who applied for largest participation, to encourage widespread share ownership throughout the Group.
- The performance underpin condition contained in the Restricted Shares awards granted in July 2018 was assessed. For these awards to vest in full, the Committee was required to be satisfied that, for the three year period to 31 January 2021, the business performance was robust, sustainable and strengthened by management's actions. The Committee recognised that the business performance over the period had marginally declined prior to Covid-19, and acknowledged the circumstances and drivers for that performance, alongside the significant contributions of management in developing and initial implementation of the revised strategic plan. However, despite this strong management performance, the Committee felt that the performance underpin had not been achieved in full meaning that the share awards should not vest at the maximum level. Accordingly the award was scaled back by 50% representing, in the Committee's judgment, a balanced position recognising that management action has secured a stable platform for recovery of the business and growth, notwithstanding matters outside their control. Accordingly, 50% of the scaled back award will vest on 11 July 2021 and the remaining scaled back award will vest in two 25% tranches on 11 July 2022 and 11 July 2023. All shares must be held for 5 years from grant (save for disposals to pay tax on vesting).
- The Committee agreed terms for the departure of the former CEO from the business in June 2020, in accordance with the remuneration policy, which included exercise of discretion to treat the executive as a good leaver for the purpose of Restricted Shares and agreeing to garden leave terms applying.
- This Remuneration Policy was also applied in settling the terms on which Paul Moody, was appointed as interim Executive Chairman, the temporary increment to Kris Lee's salary to reflect the additional responsibilities pending recruitment of a new CEO (which amounted to an additional £4,000 per month), and for the remuneration package for Darcy Willson-Rymer's appointment as CEO on a reduced package to the previous CEO, and in line with the Remuneration Policy.

Chairman's Letter – Remuneration Committee continued

How we intend to apply the proposed Remuneration Policy in FY22

Assuming the shareholders approve the proposed Remuneration Policy at the 2021 AGM, the Committee proposes to proceed as follows:

- The Committee has agreed with senior management that no salary increases will be considered, as the business focuses on recovery from the Covid-19 pandemic. The earliest salary reviews for most colleagues will be May 2022. However, Kris Lee will continue to receive a salary increment of £4,000 per month until 31 December 2021 recognising the additional workload entailed when we were without a CEO and during the CEO on-boarding.
- Pension entitlements will be maintained current levels, with downward adjustment potentially required to Kris Lee's pension contributions (3.45% of basic salary in FY21) required from the end of 2022 to fully align with the current 3% of salary rate applicable to the majority of colleagues;
- The maximum annual bonus entitlement will be maintained at 125% and 100% of basic salary for the CEO and CFO (respectively). The Committee has elected to alter the proportion of the bonus that can be earned from financial and strategic objectives from 70:30 to 60:40 to incentivise the Executive Directors to stabilise the business following the Covid-19 pandemic and to provide a platform for strategic growth aligned with the strategy. The targets for the two financial measures are: (a) EBITDA and (b) cash flow from operating activities. The remaining 40% of total bonus will be determined by the following strategic objectives:
 - Development of the strategy for the cardfactory.co.uk sales channel to grow revenues and build fulfilment capacity;
 - Refinance the business to meet the medium-term liquidity requirements of the Group;
 - Raising funds to part prepay bank debt; and
 - Improve colleague engagement during the year to be realised by an improvement in the Be Heard colleague survey scores, operated by Best Companies.
- These objectives and achievements against them will be reported in the next Annual Report on Remuneration in 2022.
- The Committee proposes to proceed to award Restricted Shares after publication of this Annual Report. We will consider the grant levels carefully in light of the prevailing share price at the time of grant. Any awards are proposed to adopt the performance underpin adopted in previous years and to include the additional discretion to scale back on vesting to avoid excessive returns.

Conclusion

The Committee is comfortable that the proposed Remuneration Policy will continue to provide a strong link to the business strategy 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 strategy. Use of discretion to scale back Restricted Shares granted in October 2020, Restricted Shares due to vest in July 2021 and bonus payments, to account for overall performance against strategy and the experience of other stakeholders, ensures reward is appropriately balanced. The Committee will continue to exercise its discretion in accordance with investor guidelines, to assess benefits and reward taking account of the wider shareholder and other stakeholder experience.

I look forward to addressing any questions from shareholders in respect of this Report at or in advance of the AGM and look forward to your support on the resolutions to approve the Annual Report on Remuneration and adopt the proposed Remuneration Policy.

Yours sincerely

Octavia Morley

Chairman of the Remuneration Committee
10 June 2021

Directors' Remuneration Report

Introduction

The Directors' Remuneration Policy section (pages 78 to 85) sets out the policy which will be put forward for shareholder approval at the AGM on 28 July 2021 and (if approved) will take effect from that date. It is intended that the policy will operate for the full three-year period as permitted under the regulations.

Changes to the remuneration policy for the next policy period

Following a significant change of policy in 2018 to replace our LTIP with Restricted Shares, the Remuneration Committee recognises the significant benefits of management's alignment with shareholder interests being best served by the continuation of the Restricted Share Plan.

The rationale for introduction of the Restricted Share Plan continues to apply:

- **Employee share ownership:** with substantial management team share ownership pre IPO in 2014, this remains part of the cultural DNA of the business, creating a strong performance culture through the wider senior management. Much of the senior team are shareholders or have interests in the plan and have been aligned with the recent experience of shareholders.
- **Right for our strategy:** since the relaunch of our strategy in July 2020, management need to focus on strategic business priorities to realise long-term benefits, aligned with the 5 year plan to achieve the stretching ambitions for the restoration of shareholder value by FY26.
- **Strong investor alignment:** Our proposal continues to be structured in line with investor recommendations, with an aggregated 5-year vesting and holding period. There is a performance underpin, which provides a clear focus on building long-term value.
- **Simple and transparent:** The restricted share model ensures a focus on long-term share price to drive long-term share value and is clearly understood by all participants.

Accordingly, we will continue to use Restricted Shares as our long-term incentive and the changes we propose to make to the policy are minor and designed to ensure that it remains in line with the Code and investor guidelines.

The changes are as follows:

Pension

- There is a modest reduction from the current policy of a maximum contribution of 5% of salary, to a maximum percentage contribution in line with the percentage rate available to the majority of the workforce, currently 3% of salary. Kris Lee currently receives a fixed pension contribution of £10,000 per annum plus 3% of salary between the lower and upper earnings limit which amounted to £1,312.92 p.a. (i.e. £11,312.92 in aggregate). Therefore Kris Lee's aggregate pension contribution currently amounts to 3.45% of annual salary; fractionally above the workforce rate. This will continue until the end of 2022 at the latest and then align to the percentage rate applying to the workforce.

- Any new Executive Director will receive a pension contribution rate in line with the rate applying to the majority of the workforce. Darcy Willson-Rymer's employer pension contributions are fixed in accordance with this policy.

Recovery provisions

- In line with Code requirements, clawback and malus provisions will be expanded to include company failure and reputational damage and there will be explicit Remuneration Committee discretion to override a formula-driven incentive plan outturn if this is inappropriate in the circumstances.

Post-employment shareholding guidelines

- A policy for post-employment shareholding guidelines will be introduced, which will apply to incentive plan awards which vest in the future (currently addressing deferred bonus and Restricted Shares) and will require executives to hold the lower of their shareholding value on cessation of employment, or their minimum shareholding requirement (i.e. 250% of salary for the CEO and 200% of salary for the CFO), for the first year, and 50% of their minimum shareholding requirement (i.e. 125% of salary for the CEO and 100% of salary for the CFO) for at least one further year. Market purchases of shares will be excluded.

Directors' Remuneration 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. The policy has been tested against the six factors listed in Provision 40 of the UK Corporate Governance Code:

- **Clarity** – the policy is as clear as possible and is described in straightforward concise terms to shareholders and the workforce in this report.
- **Simplicity** – remuneration structures are as simple and Restricted Shares are significantly simpler than long term incentive plans operated in most other UK listed companies.
- **Risk** – the remuneration policy has been shaped to discourage inappropriate risk taking through a weighting of incentive pay towards shares, an appropriate balance between financial and non-financial measures in the annual bonus, recovery provisions, and in-employment and post-employment shareholding requirements.
- **Predictability** – elements of the policy are subject to caps and the Restricted Shares are significantly more predictable than long term incentive plans operated in most other UK listed companies. The Committee may exercise its discretion to adjust Directors' remuneration if a formula-driven incentive pay-out is inappropriate in the circumstances.
- **Proportionality** – there is a sensible balance between fixed pay and variable pay, and incentive pay is weighted to shares rather than cash
- **Alignment to culture** – There will be a strong emphasis on consistency of approach and fairness of remuneration outcomes across the workforce.

Directors' Remuneration Report continued

Directors' Remuneration Policy

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. | <p>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.</p> <p>Increases will normally be effective from 1 May.</p> | <p>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.</p> <p>In certain circumstances (including, but not limited to, a material increase in job size or complexity, promotion, recruitment or development of the individual in the role, or a significant misalignment with the market) the Committee has discretion to make appropriate adjustments to salary levels to ensure they remain fair and competitive.</p> | Business and individual performance are both considerations in setting base salary. |
| Pension | Executive Directors may receive a Company contribution into a pension plan or a cash allowance in lieu of pension. | <p>The maximum Company contribution or cash allowance is the percentage rate available to the majority of the workforce (currently 3% of salary). This will apply to current and new Executive Directors, other than Kris Lee.</p> <p>Kris Lee will receive an annual pension contribution of c. £11,312.92 per annum until 31 December 2022, when it will align to the percentage rate available to the majority of the workforce, at that time.</p> | None |

| <i>Purpose and link to strategy</i> | <i>Operation</i> | <i>Maximum opportunity</i> | <i>Performance metrics</i> |
|--|---|--|----------------------------|
| <p>Benefits To provide Executive Directors with a reasonable level of benefits.</p> | <p>Benefits include private medical insurance, life insurance, income protection, and the provision of a car or car allowance.</p> <p>Where appropriate, other benefits may be offered, for example including, but not limited to, relocation allowances.</p> | <p>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).</p> <p>The cost of providing benefits for the year under review are disclosed in the Annual Report on Remuneration.</p> | None |

VARIABLE PAY

| | | | |
|---|--|-----------------|---|
| <p>Annual bonus To focus Executives on delivery of year-on-year financial and non-financial performance.</p> <p>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.</p> | <p>Bonus payments will be determined based on performance in a single financial year and payment may be made in cash or in shares.</p> <p>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.</p> <p>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, company failure or reputational damage.</p> | 125% of salary. | <p>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.</p> <p>A majority of bonus will be based on financial measures.</p> <p>The Committee may scale back the bonus if it considers the outcome is not representative of the underlying performance of the Company or is otherwise not appropriate in the circumstances.</p> <p>For achievement of threshold performance for any financial measure, up to 15% of the maximum financial target element of the bonus is earned.</p> |
|---|--|-----------------|---|

Directors' Remuneration Report continued

| Purpose and link to strategy | Operation | Maximum opportunity | Performance metrics |
|---|---|--|---|
| <p>Restricted Shares To align the interests of Executives with shareholders in growing the value of the business over the long-term.</p> | <p>The Committee may grant annual awards of Restricted Shares, structured as conditional awards or nil-cost options.</p> <p>50% of an award vests after three years, 25% after four years and 25% after five years, subject to service.</p> <p>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.</p> <p>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.</p> <p>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, company failure or reputational damage.</p> <p>The Remuneration Committee may exercise its discretion to override a formula-driven incentive plan outturn if this is inappropriate in the circumstances.</p> | <p>87.5% of salary face value at grant.</p> | <p>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, or that the award would not reflect the shareholder and other stakeholder experience, 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.</p> |
| <p>SAYE To encourage share ownership across the workforce.</p> | <p>A UK tax-qualified scheme under which eligible employees (including Executive Directors) may save up to the maximum monthly savings limit (as determined by prevailing legislation) over a period of three or five years.</p> <p>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.</p> | <p>Savings are capped at the prevailing HMRC limit at the time eligible employees are invited to participate, or such lower limit as determined by the Remuneration Committee.</p> | <p>None</p> |

| <i>Purpose and link to strategy</i> | <i>Operation</i> | <i>Maximum opportunity</i> | <i>Performance metrics</i> |
|--|---|---|----------------------------|
| Shareholding guidelines To encourage share ownership and ensure alignment of Executive interests with those of shareholders, both while they are in service and after cessation of employment (see below). | Requirement to build up and maintain a beneficial holding of shares in the Company defined as a percentage of salary. Executive Directors will be required to retain shares that vest from future Bonus and Restricted Share awards. | 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 both internal and external 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 (Restricted Share) 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 CEO. 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

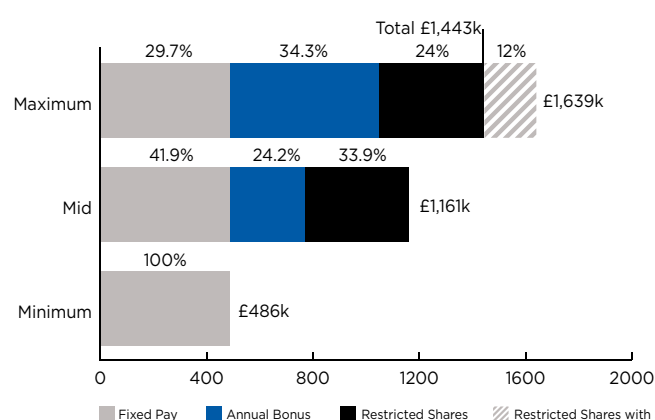
In addition to the above elements of remuneration, any commitment made prior to, but due to be fulfilled after its approval at the 2021 AGM, will be honoured, including arrangements put in place prior to an individual becoming a Director. The Committee also retains discretion to make non-significant changes to the Policy without reverting to shareholders (for example, for regulatory, tax, legislative or administrative purposes).

Directors' Remuneration Report continued

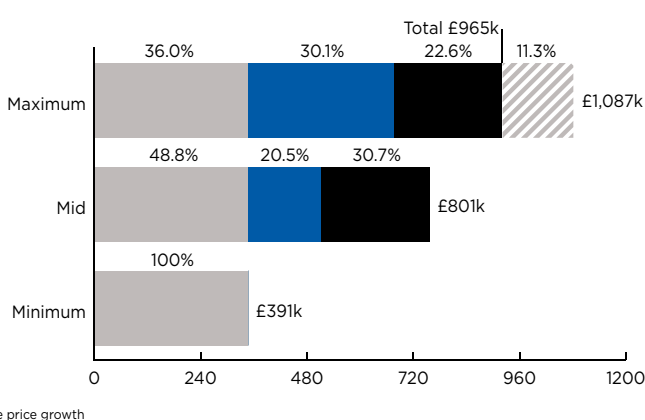
Performance scenarios

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. The following reflects annual entitlements (without adjustment for the fact that the CEO joined the business part way through the FY22 financial year) and assumes that future Restricted Share awards are not scaled back (as per the Restricted Share awards granted in 2020):

Chief Executive Officer



Chief Financial Officer



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

| | Fixed pay | Annual bonus | Restricted shares |
|----------------|---|---|--|
| Minimum | Salary as at 1 May 2021. | No annual bonus payable. | The Committee anticipates granting new awards of Restricted Shares worth 87.5% and 75% of base salary for the Chief Executive and Chief Financial Officer, respectively. |
| Mid | The CEO receives a pension contribution of 3% and the CFO receives a contribution of just over 3% of base salary. | On-target annual bonus payable (50% of maximum). | |
| Maximum | Benefits paid for the most recent financial year. | Maximum annual bonus payable of 125% and 100% 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%. |

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 |
|---------------------|--|---------------------|
| 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 |
|---------------------|--------------------------|---------------|
| Darcy Willson-Rymer | 18 December 2020 | 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. |

Directors' Remuneration Report continued

| | | | |
|--------------------------|--|---|--|
| Restricted Shares | Default treatment 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. | Awards lapse 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. | n/a 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 | | |

Any payments to Directors in excess of payments permitted by the Remuneration Policy in force from time to time may only be made with prior shareholder approval.

Post-employment shareholding

Executive Directors are required to hold the lower of:

- the number of shares held by the Director on the date their employment ends, where such shares had been (or are subsequently) acquired from Company share plan awards and investment of bonuses received before or after the termination of employment, other than permitted sales to meet tax liabilities (but excluding shares otherwise purchased in the market); and
- For each of the following periods following termination of the employment:
 - during the first 12 month period: such number of shares that had, on the date their employment ends, the value required to be held in accordance with the shareholding guideline applicable to that former Executive Director; and
 - for the subsequent 12 month period: 50% of the value of the number of shares that had, on the date their employment ends, the value required to be held in accordance with the shareholding guideline applicable to that former Executive Director; and
 - after 24 months: no shareholding requirement shall apply.

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.

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 Combined Colleague Advisory Committee were consulted on this draft Remuneration Policy in May 2021 and considered the changes to align Executive Directors with the workforce to be appropriate.

Consideration of shareholder views

The Company is committed to engaging with significant investors on remuneration matters and has consulted with 11 of its largest shareholders and three recognised investor bodies to receive their feedback and reflect their comments in this Remuneration Policy. We are grateful for the consideration and feedback received on our proposed revisions to the Remuneration Policy. The majority of those consulted were supportive of the proposals, as proposed. A small number of consultees suggested adjustments to the post-employment shareholding requirements which were considered by the Committee but were considered not to be selected in the proposed Remuneration Policy, taking account of guidance and other shareholder views. 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, e.g. 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, e.g. 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. |

Directors' Remuneration Report continued

Annual Report on Remuneration

This is the Annual Report on Remuneration for the financial year ended 31 January 2021. This report sets out how the Remuneration Policy has been applied in the financial year being reported on, and how the new Policy will be applied in the coming year.

Single figure 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 2021 and the prior year:

| | Paul Moody ¹ | | Karen Hubbard ² | | Kris Lee | |
|---------------------------------------|-------------------------|---------|----------------------------|----------|-----------------|----------|
| | 2020/21 | 2019/20 | 2020/21 | 2019/20 | 2020/21 | 2019/20 |
| Salary | £268,154 | – | £445,616 | £483,744 | £327,726 | £326,120 |
| Salary Supplement ³ | – | – | – | – | £28,000 | – |
| Pension benefit ⁵ | – | – | £14,954 | £16,231 | £11,313 | £11,231 |
| Taxable benefits ⁶ | – | – | £23,211 | £25,044 | £8,401 | £8,385 |
| Non-taxable benefits ⁷ | – | – | £7,053 | £7,356 | £1,816 | £1,764 |
| Total Fixed Remuneration | £268,154 | £nil | £490,843 | £532,375 | £377,256 | £347,500 |
| Annual bonus ⁸ | – | – | – | £59,574 | – | £32,130 |
| LTIP (Restricted Shares) ⁹ | – | – | £33,944 | – | £19,780 | – |
| SAYE ¹⁰ | – | – | – | £1,303 | £2,203 | £1,303 |
| Total Variable Remuneration | £nil | nil | £33,944 | £60,877 | £21,983 | £33,433 |
| Total Remuneration | £268,154 | £ | £524,787 | £593,252 | £399,239 | £380,933 |

1 Paul Moody was appointed interim Executive Chairman on 1 July 2020. All fees paid to Paul Moody from 1 July 2020 are reported. Paul Moody waived his entitlement to his additional fee (£30,000 per month) as Executive Chairman for the period from 1 January 2021 to 28 February 2021.

2 Karen Hubbard resigned as an Executive Director on 30 June 2020. Remuneration reported above reflects the position to 31 December 2020, the date her employment ended. See page 89 for details of post-employment payments.

3 Kris Lee's received a salary supplement of £4,000 per month from 1 July 2020 on account of additional responsibilities assumed in the absence of a permanent CEO and during the new CEO's induction period. This arrangement will continue until 31 December 2021.

4 Karen Hubbard and Kris Lee's salaries were increased by 2% effective from 1 May 2019. No subsequent pay review has been applied since this date.

5 Karen Hubbard received a cash payment in lieu of her pension entitlement.

6 Taxable benefits comprise car or car allowance and family private medical insurance.

7 Karen Hubbard and Kris Lee were/are members of the Group Life Assurance and Income Protection Schemes. The amounts stated relate to insurance premiums paid by the Group.

8 See details of 2020/21 bonus payments below.

9 Value of Restricted Shares vesting based on performance to 31 January 2021 under the Card Factory plc Long Term Incentive Plan based on the closing share price on 29 January 2021 of 35.85 pence.

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

Annual bonus payments and link to performance

EBITDA (70% of bonus opportunity)

Bonus opportunities for 2020/21 (set before the Covid-19 pandemic's implications were understood) 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 (pre-IFRS 16 adjustment for Leases) (70% of the opportunity) and Strategic Objectives (30% 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 | 2020/21 Adjusted Underlying EBITDA (pre-IFRS 16) target range | Percentage of Adjusted Underlying EBITDA (pre-IFRS 16) part of bonus available | Adjusted Underlying EBITDA (pre-IFRS 16) Performance achieved | Bonus payable for EBITDA part of bonus (% of maximum) |
|-------------------|---|--|---|---|
| Threshold | £71.5m | 15% | £0.4m | nil |
| Maximum | £76.5m | 100% | | |

Achievement against strategic objectives (30% of bonus opportunity)

The strategic objectives for the CFO and the former CEO were set at the start of the year and outlined in the last year's report. The former CEO is entitled to any bonus achieved during 2020/21, calculated on a consistent basis with other Executive Directors, subject to pro-rating to reflect the period she was engaged in the business, to 30 June 2020.

The strategic objectives have been reviewed in detail and all three objectives have been partly achieved, giving a potential achievement for 15% the maximum 30% of total bonus opportunity.

The specific outcomes for each objective were as follows:

| Strategic objective | Link to strategy | Target and stretch performance set | Outcome | Bonus achieved (% of maximum) |
|--|---|---|---|-------------------------------|
| Leadership in card choice – The backbone of the customer proposition. Actions around range and space optimisation to enable the core business to be back in growth in overall card volume whilst at the same time managing price moves to ensure that we grow the profitability of the business. | Part of strand 1 of strategy – Winning card-led retail proposition | Target: Retain top rating for 'wide range of cards' and increase market share for single greeting cards (excl. online) from 35% to 36%. Stretch: Retain #1 rating for UK retailers in 'value for money' under the OC&C Proposition Index and increase market share for single greeting cards (excl. online) from 35% to 36%. | Company market research undertaken in February 2021 confirmed Card Factory as the UK's best rated retailer for 'wide range of cards', however, UK market share reduced to 25% (excluding online). The Committee approved adoption of an alternative measure for 'value for money', in the absence of access to any OC&C data, which confirmed the Company maintained its #1 UK ranking in the card market for 'value for money'. Although market share targets had not been realised for matters outside the Executive's control, an improved result for 'wide range of cards' and 'value for money' had been achieved. | 5% of 10% |
| Multichannel – Make significant progress in landing an online offer for Card Factory that is a compelling proposition and customer experience. Capture the opportunities from channel shift and prepare the ground for a future multi-channel offering, in addition to extending the Card Factory range whilst managing returns to the business. | Part of strand 2 of the strategy – Available in more places, however customers shop | Target: Launch of new platform by mid-July 2020; deliver sales from cardfactory.co.uk of £10.9m (i.e. budget + 33%) Stretch: deliver sales from cardfactory.co.uk of £10.9m (i.e. budget + 58%) | The online platform for cardfactory.co.uk was launched on 2 July 2020. Cardfactory.co.uk revenue for the financial year amounted to £11.1m. | 5% of 10% |
| ERP implementation – Select an ERP vendor demonstrating appropriate due diligence. Produce a phased plan to deliver benefit frequently and often. The scope of ERP will include the business process transformation required to underpin our strategy. | Key component of third strand of the strategy – Advantaged, scalable central model | Target: Complete ERP selection and FY21 planned objectives; identify at least £1m of annual central overhead cost savings from ERP project. Stretch: Achieve ERP selection and FY21 objectives on budget; identify at least £2m of annual central overhead cost savings from ERP project. | A SAP solution was selected and design phase completed, in budget and in line with original objectives by the end of the financial year in accordance with the original plan. A conscious decision was made to delay the implementation of phase 1 by 3 months to balance the impacts of Covid-19. The delay will result in phase 1 delivery in October 2021 within the original budget outlined. | 5% of 10% |
| Total | | | | 15% |

Directors' Remuneration Report continued

The CFO and senior management team (who had the same strategic bonus objectives), reflecting on the stakeholder experience and the severe impact on the Group arising from Covid-19, agreed with the Remuneration Committee that no bonus payments should be made for the FY21 financial year. Therefore, despite performance which would have entitled a bonus of 15% of the maximum entitlement, no bonus has been awarded or paid.

Grants of Restricted Shares 2020/21 – audited

Awards of Restricted Shares were granted to the Executive Directors on 12 October 2020, following deferment of the awards typically made in May. The Remuneration Policy provides for awards of shares worth 87.5% of basic salary for a CEO and 75% of salary for the CFO. The Remuneration Committee exercised discretion and reduced the awards to Kris Lee by 40%, having regard to the change in share price as a result of the then current market environment and shareholder experience. The Remuneration Committee also introduced a further condition to the Restricted Shares, introducing a further discretion to the Committee on vesting to permit further scale back to avoid excessive returns.

| Executive Director | Number of Restricted Shares awarded ¹ | Face value of award value as a % of salary | Face/maximum value of Restricted Shares at grant date ¹ | Measurement period for performance underpin |
|--------------------|--|--|--|---|
| Paul Moody | – | – | – | n/a |
| Karen Hubbard | – | – | – | n/a |
| Kris Lee | 371,067 | 45% | £147,476 | 1.2.20–31.1.23 |

¹ Based on the average share price for the three months to and including 9 October 2020 of 39.74385p.

For Restricted Shares to vest, the Committee must be satisfied that business performance over the three years commencing 1 February 2020 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 2020. 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 (save for permitted sales to meet tax liabilities from vesting) will normally end on the fifth anniversary of the date of grant.

2018 LTIP Restricted Share award vesting – audited

Restricted Share Awards granted in July 2018 under the LTIP were subject to substantially the same performance underpin summarised above in respect of the 2020/21 Restricted Shares (save that the further discretion on vesting to scale back to avoid excessive returns did not apply). Under the terms of the awards, 50% of any award that vests will vest on the third anniversary of grant (i.e. on 11 July 2021); 25% on the fourth anniversary and 25% on the fifth anniversary. The Committee recognised that the business performance over the period had marginally declined prior to Covid-19, and acknowledged the circumstances and drivers for that performance, alongside the significant contributions of management in developing and initial implementation of the revised strategic plan. However, despite this strong management performance, the Committee felt that the performance underpin had not been achieved in full meaning that the share awards should not vest at the maximum level. Accordingly the award was scaled back by 50% representing, in the Committee's judgment, a balanced position recognising that management action has secured a stable platform for recovery of the business and growth, notwithstanding matters outside their control. Accordingly, 50% of the scaled back award will vest on 11 July 2021 and the remaining scaled back award will vest in two 25% tranches on 11 July 2022 and 11 July 2023. All shares must be held for 5 years from grant (save for disposals to pay tax on vesting).

SAYE – audited

Awards under the HMRC-approved SAYE plan were granted to all participating employees on 2 October 2020. Options were granted at a discount of 20% to the share price on grant, and vest after three years subject to continued employment.

| Executive Director | Number of SAYE options awarded | Face/maximum value of awards at grant date ¹ | % of award vesting at threshold and (maximum) | Performance period |
|--------------------|--------------------------------|---|---|--------------------|
| Paul Moody | – | £nil | n/a | n/a |
| Karen Hubbard | – | £nil | n/a | n/a |
| Kris Lee | 13,254 | £3,600 | n/a | n/a |

¹ Based on the average share price for the 3 days to and including 1 October 2020, of 33.95p.

Single figure 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 2021 and the prior year. Each of Octavia Morley, Paul McCrudden and Roger Whiteside waived 20% of their fee from 1 January 2021 until 28 February 2021, and David Stead waived 100% of his fee for this period. In respect of the first lockdown period, each of the following Directors directed that the following fees be donated to the Card Factory Foundation Covid-19 Hardship Fund: David Stead: 100% of two months fees; Paul Moody and Octavia Morley: 20% of two months fees; Paul McCrudden and Roger Whiteside: 20% of one months fees.

| Non-Executive Director | Committee membership ² | | | Base fee paid | | Additional fees | | Total | |
|------------------------------------|-----------------------------------|-----|----|----------------|----------|-----------------|---------|----------------|----------|
| | | | | 2020/21 | 2019/20 | 2020/21 | 2019/20 | 2020/21 | 2019/20 |
| Paul Moody ¹ (Chairman) | R | | N* | £60,000 | £144,000 | £0 | £0 | £60,000 | £144,000 |
| Octavia Morley (SID) | R* | AR | N | £48,183 | £49,000 | £7,867 | £8,000 | £56,050 | £57,000 |
| David Stead | R | AR* | N | £37,500 | £45,000 | £6,667 | £8,000 | £44,167 | £53,000 |
| Paul McCrudden | R | AR | N | £44,250 | £45,000 | £0 | £0 | £44,250 | £45,000 |
| Roger Whiteside | R | AR | N | £44,250 | £45,000 | £0 | £0 | £44,250 | £45,000 |
| Nathan (Tripp) Lane | | | | £35,389 | £0 | £0 | £0 | £35,389 | £0 |

¹ The figures report only the fees paid to Paul Moody in his capacity as a Non-Executive Director to 30 June 2020. Additional fees paid in respect of his interim executive role are reported above on page 86 (Total remuneration paid to Executive Directors – audited).

² Committee Memberships are R= Remuneration Committee; AR =Audit and Risk Committee; N= Nomination Committee.

* Indicates the individual chairs the relevant Committee. Paul Moody stepped down from the Remuneration Committee whilst he held the interim position of Executive Chairman.

Payments for loss of office for Karen Hubbard – audited

Karen Hubbard resigned from the Board on 30 June 2020 and was placed on garden leave to 31 December 2020, during which period she received salary and contractual benefits (including pension). Payment of the bonus of £59,574 in respect of the FY20 financial year was also made in October 2020 and Karen remained eligible for a bonus payment in respect of FY21, subject to pro-rating to reflect her period in the business from 1 February 2020 to 30 June 2020. However, no sums will be paid in respect of that bonus. Payment of salary and contractual benefits of £124,018.11 (in aggregate) have been paid monthly from 1 January 2021 to 26 March 2021 as payments in lieu of notice for the balance of Karen's notice period. A further payment of £26,176.06 on account of accrued and untaken annual leave as at 30 June 2020, was also paid in January 2021.

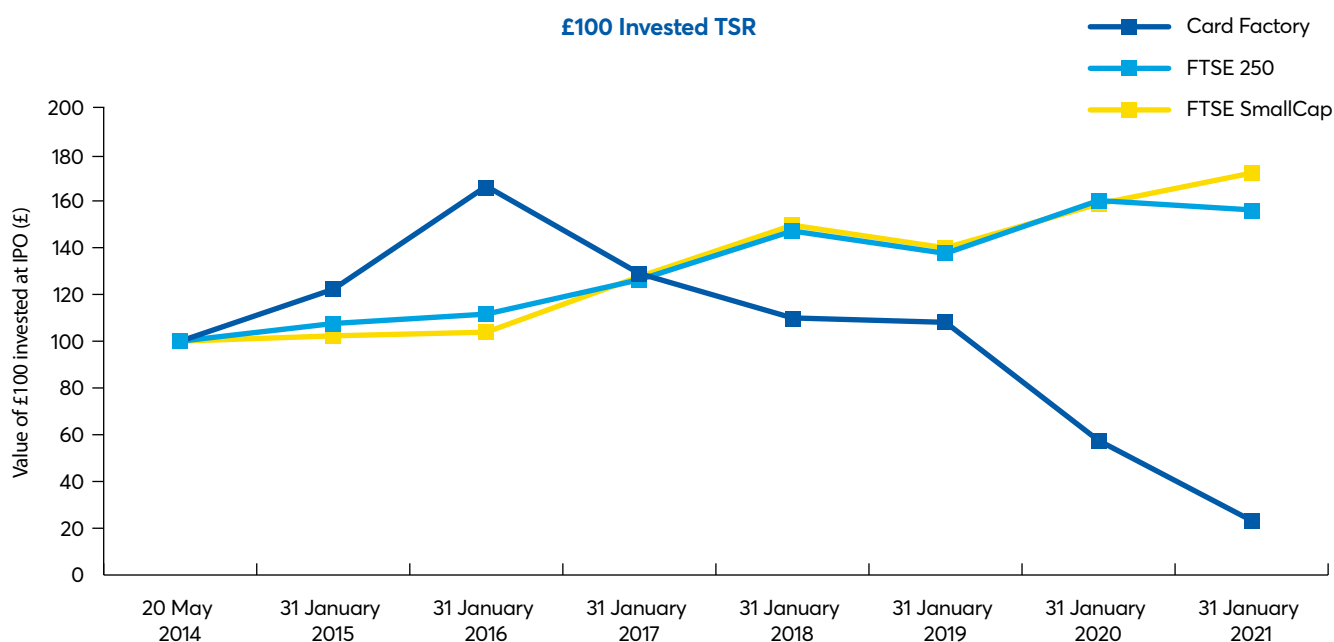
Karen will be treated as a good leaver in respect of original grants over 194,778 Restricted Shares in July 2018 and 225,368 Restricted Shares in May 2019. Karen is entitled to a proportion of shares awarded under each grant, subject to vesting in accordance with the terms of grant, and subject to time period pro-rating from the date of grant to 31 December 2020. Consequently the maximum entitlement for these awards is 189,367 shares and 143,985 shares (respectively). Following assessment of the performance underpin for the three year period to 31 January 2021 in respect of the Restricted Shares granted in July 2018, and the resolution to allow only 50% of the award to vest, 94,683 shares shall vest in aggregate, of which 47,341 shall vest from 11 July 2021; 23,670 shall vest from 11 July 2022; and 23,672 shall vest from 11 July 2023, subject to the rules of the Long Term Incentive Plan and the terms of grant, which restrict disposals of such shares prior to July 2023 (save for disposals to meet the tax liability on vesting of each tranche).

No payments for loss of office have been or will be paid.

Directors' Remuneration Report continued

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 | 2020/21 ¹ | 2019/20 | 2018/19 | 2017/18 | 2016/17 ² | 2015/16 | 2014/15 |
|---------------------------------------|----------------------|---------|---------|---------|----------------------|---------|---------|
| Single figure of remuneration (£'000) | 525 | 593 | 611 | 496 | 1,005 | 951 | 884 |
| Annual bonus outcome (% of max) | – | 10 | 15 | – | 20.0 | 79 | 77 |
| LTIP vesting (% of max) | 50% | – | – | n/a | 46.6% | n/a | n/a |

- For 2020/21 this represents all remuneration paid to Karen Hubbard to 30 June 2020 (the date of her resignation), and payments to Karen Hubbard during her period of garden leave to 31 December 2020 and the proportion of the pro rata restricted share award that will vest in July 2021.
- 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).

Percentage change in remuneration of Directors and all employees

The table below shows the change each year for each Director's salary/fees, benefits and bonus, from the year to 31 January 2020, compared to the year to 31 January 2021, as compared to the salary change for all employees (excluding such Directors), based on a total full-time equivalent reward for the relevant financial year. Where a Director joined part way through the financial year, their salary/fees, benefits and bonus are grossed up to reflect as full year equivalent to provide for meaningful reflection for the year-on-year change:

| Year on Year change % | Average employee ¹ | Executive Directors | | | Non-Executive Directors | | | | |
|-----------------------|-------------------------------|----------------------------|--------------|------------|-------------------------|----------------------|---------------------|---------------------|---------------------|
| | | Karen Hubbard ² | Kristian Lee | Paul Moody | Octavia Morley | David Stead | Paul McCrudden | Roger Whiteside | Nathan (Tripp) Lane |
| Salary/Fees | +5.3% | -7.9% | +9.07% | +127.88% | -1.67% ³ | -16.67% ³ | -1.67% ³ | -1.67% ³ | n/a |
| Bonus | -64.3% | -100% | -100% | n/a | n/a | n/a | n/a | n/a | n/a |
| Benefits | -12.8% | +58.53% | +91.83% | n/a | n/a | n/a | n/a | n/a | n/a |

- The Average Employee is the FTE for all UK Group employees.
- Karen Hubbard's remuneration information stated is on the basis of the details in note 1 to the preceding table.
- Actual reduction in fees received is partly attributable to partial waiver of fees noted on pages 86 and 89.

CEO to employee pay ratio

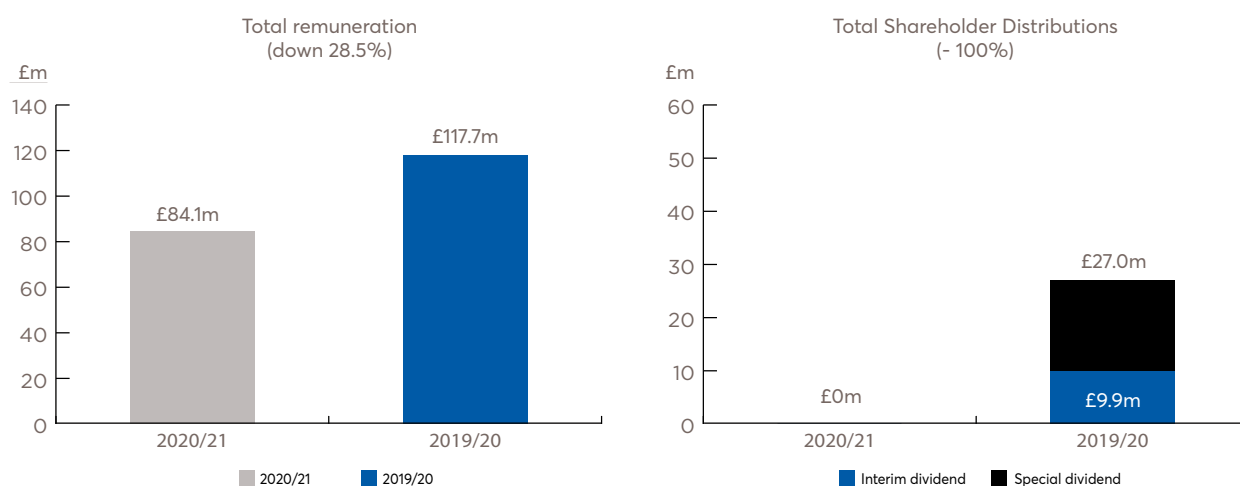
| 2020/21 | Method | 25th percentile pay ratio | Median pay ratio | 75th percentile pay ratio |
|-----------------------------|----------|---------------------------|------------------|---------------------------|
| Ratio | Option A | 31.4 : 1 | 30.6 : 1 | 29.5 : 1 |
| Employee salary | | £17,497 | £17,927 | £18,538 |
| Employee total remuneration | | £17,811 | £18,298 | £18,955 |
| 2019/20 ratio | Option A | 35.2 : 1 | 33.1 : 1 | 32.2 : 1 |

Card Factory has chosen Option A (pursuant to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended), which provides a comparison of the Company's full-time equivalent total remuneration for all UK employees against the CEO for the 2020/21 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. For the purposes of this comparison, the remuneration package of the former CEO has been used, with an assumption that they remained in role for the entire financial year.

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. The ratios have moved slightly year-on-year, primarily due to changes in incentive plan payouts for the CEO.

Distribution statement

The charts below illustrate the year-on-year change in total remuneration for all employees and total shareholder distributions (TSD). The material reduction in total remuneration paid is partly due to a large number of colleagues receiving reduced wages on furlough, pursuant to the Coronavirus Job Retention Scheme (and equivalent schemes in Ireland).



Statement of shareholder voting

The following table shows the results of the shareholder votes on the Annual Report on Remuneration at the 2020 Annual General Meeting and for the Directors' Remuneration Policy at the 2018 Annual General Meeting:

| | Remuneration policy 2018 | | Annual Report on Remuneration 2020 | |
|---|--------------------------|-----------------|------------------------------------|-----------------|
| | Total number of votes | % of votes cast | Total number of votes | % of votes cast |
| For (including discretionary) | 236,852,095 | 84.22 | 238,258,016 | 98.64 |
| Against | 44,370,382 | 15.78 | 3,285,212 | 1.36 |
| Total votes cast (excluding withheld votes) | 281,222,477 | - | 241,543,228 | - |
| Total votes withheld ¹ | 3,600,623 | - | 3,140,846 | - |
| Total votes cast (including withheld votes) | 284,823,100 | - | 244,684,074 | - |

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' Remuneration Report continued

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. The Executive Directors have not yet met the shareholding guideline.

| Director | Shares held | | | Options held | | Current shareholding (% of salary/fee ²) | Shareholding requirement (% of salary/fee) | Guideline met? |
|--------------------------------|-----------------------------|---|-------------------------------------|--------------------------|--|--|--|----------------|
| | Owned outright ¹ | Unvested and not subject to performance | Unvested and subject to performance | Vested but not exercised | Unvested and subject to continued employment | | | |
| Executive Directors | | | | | | | | |
| Darcy Willson-Rymer | – | – | – | – | – | 0% | 250% | No |
| Karen Hubbard | 190,406 ³ | 94,683 ⁴ | 143,985 | – | – | 14.0% | 250% ⁵ | No |
| Kris Lee | 20,471 | 74,271 | 501,296 | – | – | 2.2% | 200% | No |
| Non-Executive Directors | | | | | | | | |
| Paul Moody | – | – | – | – | – | – | – | – |
| Octavia Morley | 13,333 | – | – | – | – | – | – | – |
| David Stead | 22,222 | – | – | – | – | – | – | – |
| Paul McCrudden | – | – | – | – | – | – | – | – |
| Roger Whiteside | 22,520 | – | – | – | – | – | – | – |
| Nathan (Tripp) Lane | – | – | – | – | – | – | – | – |

1 Including shares owned by connected persons.

2 Calculated using the closing share price of the Company on Friday 29 January 2021 of 35.85p.

3 Shares owned by Karen Hubbard and her closely associated persons as at 31 December 2020, the date of termination of her employment.

4 As at 31 December 2021 (the date of termination of Karen Hubbard's employment) Karen Hubbard had voluntarily terminated the savings contracts in respect of awards previously made under the SAYE Scheme, thereby terminating options to acquire shares under the SAYE scheme.

5 Shareholding requirement applied until 31 December 2020.

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

Details of Directors' interests in shares in incentive plans – audited

| | Date of grant | Share price at grant | Exercise price | Number of shares awarded | Face value at grant | Performance period | Exercise period |
|----------------------------|---------------|----------------------|----------------|--------------------------|-----------------------|---------------------|---------------------|
| Darcy Willson-Rymer | | | | | | | |
| Restricted shares | – | – | – | – | – | – | – |
| SAYE | – | – | – | – | – | – | – |
| Karen Hubbard | | | | | | | |
| Restricted shares | 14.05.19 | 118.74p ² | n/a | 143,985 ⁴ | £170,968 | 01.02.19 – 31.01.22 | n/a |
| Restricted shares | 11.07.18 | 214.1p ³ | n/a | 94,683 ⁵ | £202,716 | 01.02.18 – 31.01.21 | n/a |
| Kris Lee | | | | | | | |
| Restricted shares | 12.10.20 | 39.74p ¹ | n/a | 371,067 | £147,477 ⁶ | 01.02.20 – 31.01.23 | n/a |
| Restricted Shares | 14.05.19 | 188.74p ² | n/a | 130,229 | £245,795 | 01.02.19 – 31.01.22 | n/a |
| Restricted Shares | 11.07.18 | 214.1p ³ | n/a | 55,173 ⁷ | £118,125 | 01.02.18 – 31.01.21 | n/a |
| SAYE | 27.10.20 | 33.95p | 27.16p | 13,254 | £4,500 | – | 01.12.23 – 31.05.24 |
| SAYE | 08.07.19 | 176.3p | 154p | 5,844 | £10,303 | – | 01.08.22 – 31.01.23 |

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, 12 October 2020, of 39.74p.

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, 14 May 2019, of 188.74p.

3 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.

4 Karen Hubbard's original award in 2019 was granted over 225,368 shares. This award was reduced to 143,985 shares following Karen Hubbard's resignation.

5 Karen Hubbard's original award in 2018 was granted over 194,778 shares. This award was reduced to 189,367 shares following Karen Hubbard's resignation and was further reduced to 94,683 following the Remuneration Committee decision to permit only 50% of the award to vest.

6 Restricted Share award to Kris Lee made in 2020 was scaled back by 40% of the policy level, following exercise of discretion by the Remuneration Committee, having regard to the change in share price as a result of the then current market environment.

7 Kris Lee's original award in 2018 was granted over 110,346 shares. This award was reduced to 55,173 following the Remuneration Committee decision to permit only 50% of the award to vest.

How the Policy will be applied in FY22

Covid-19 and exercise of discretion

The significant impact of the Covid-19 pandemic on the Group will require the Committee to apply the policy carefully during FY22 and there may be a need 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 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 2021 are as follows:

| Executive Director | 1 May 2021 | 1 May 2020 |
|---------------------|-----------------------------|------------|
| Darcy Willson-Rymer | £450,000 | £nil |
| Kris Lee | £359,726¹ | £327,726 |

¹ Kris Lee's basic salary from 1 May 2021 is £327,726 p.a. The salary stated for the 12 month period from 1 May 2021, includes a supplemental sum of £4,000 per month that will be paid to 31 December 2021 as noted in note 3 to the single figure remuneration table on page 86.

Benefits and pension

These will be paid in line with the Policy.

Annual bonus

The annual bonus for the current financial year (FY22) is capped at 125% and 100% of salary for the CEO and CFO (respectively), up to 60% of which can be realised if financial targets are achieved (financial targets are (a) cash flow from operating activities, excluding capex, before tax and bank financing and (b) EBITDA (pre-IFRS 16)) and the remaining 40% can be realised from achievement of strategic objectives.

The financial targets have been set by the Committee and will require Executive Directors to deliver significant stretch performance and take account of the closure of stores for the first 2 to 3 months of the financial year. Given the close link between these targets and Card Factory's competitive strategy, financial targets are considered commercially sensitive but will be published in next year's Annual Report on Remuneration.

The objectives set for both the CEO and CFO for 2021/22, which are substantially shared (as appropriate) by all of the senior management team, with the proportion of each individual's bonus in respect of the strategic objectives adjusted to reflect their influence on each objective, are as follows:

| Objective | Link to strategy | Target and stretch performance set ¹ | Bonus potential (% of maximum bonus opportunity) |
|---|--|---|--|
| Financial objectives | | | 60% total |
| EBITDA based target | Group financial performance and recovery of profitability following the Covid-19 pandemic. | 15% of full opportunity if Threshold is achieved; 50% of opportunity if Target is achieved; and 100% of full opportunity if Stretch is achieved. | 30% |
| Cash Flow from operating activities (including capex and before tax, interest and bank financing costs) | Group financial performance to address requirement to generate cash flow to reduce leverage. | Straight line adjustment for results between Threshold, Target and Stretch. | 30% |
| Strategic objectives | | | 40% total |
| cardfactory.co.uk growth | Multichannel is one of the key strategic sales channels targeting sales and market share growth. | Net sales targets for cardfactory.co.uk. 15% of full opportunity if Threshold is achieved; 50% of opportunity if Target is achieved; and 100% of full opportunity if Stretch is achieved. Straight line adjustment for sales between Threshold, Target and Stretch. | CEO: 13.33% CFO: 5% |

Directors' Remuneration Report continued

| Objective | Link to strategy | Target and stretch performance set ¹ | Bonus potential (% of maximum bonus opportunity) |
|---|---|--|--|
| Refinancing | Priority liquidity situation to be resolved following Covid-19 to enable the Group to stabilise and implement its strategy. | Implementation of the refinancing (no Stretch target potential). | CEO: 13.33% CFO: 15% |
| Raising funding to part prepay bank debt by July 2022 | Compliance with obligation to banks and stabilising the business further to pursue strategic objectives. | Raising funds to part prepay bank debt (no Stretch target potential). | CFO: 15% |
| Enhance employee engagement | Engagement is a key component in the Advantaged, robust and scalable central model strategic plan. | Improved colleague engagement score targets to be realised in 'Be Heard' colleague engagement survey. 15% of full opportunity if Threshold is achieved i.e. September 2019 'Be Heard' score (pre-Covid-19) plus 2.5% (i.e. 650 points); 50% of opportunity if Target of 675 points is achieved; and 100% of full opportunity if Stretch of 681 points is achieved. Straight line adjustment between Threshold, Target and Stretch. | CEO: 13.33% CFO: 5% |

¹ Quantum's for Target and Stretch for each objective are commercially sensitive, and will be published in the Annual Report on Remuneration for the year to 31 January 2022.

Restricted shares

The precise grant levels have not yet been finalised, but we anticipate that Restricted Shares will be granted over shares with a value at the time of grant of up to 87.5% of salary and 75% of salary for the Chief Executive and Chief Financial Officer, respectively.

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

There will be full disclosure in the Annual Report and Accounts of the Committee's determination of the performance underpin and/or scale back on vesting to address windfalls.

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. Under the new Remuneration Policy, these now extend post employment.

Non-Executive Director fees

The agreed Non-Executive Director fees are set out below. 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 |

Remuneration Committee membership and advisers

The Remuneration Committee consists of four Independent Non-Executive Directors: Octavia Morley (Chair), David Stead, Paul McCrudden and Roger Whiteside, and (save when he assumed an executive role) 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 63 and 64 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 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 £12,337.50 (inc. VAT) were paid to Korn Ferry during the financial year.

Committee activities

During 2020/21, up to approval of this Report, the Committee met to consider the following remuneration matters:

- to review operation of the remuneration policy in 2020/21, propose changes to the remuneration policy and consult shareholders and representative bodies on the proposed changes;
- to consider performance against targets and resulting bonus payments for 2019/20 and vesting of the 2018 awards under the first Restricted Share awards;
- to consider 2020/21 grants of Restricted Shares;
- to consider measures and targets for the 2021/22 annual bonus;
- to review and advise the Board on the terms of departure of the former CEO;
- to review the recruitment and remuneration for several senior management roles, including the terms of appointment for Darcy Willson-Rymer as CEO;
- to review developing trends in remuneration market practice, investor guidelines and governance including various Covid-19 related guidance;
- 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

The Committee consulted shareholders on the changes proposed to be made to the Directors' Remuneration Policy during January 2021. Support for the Directors' Remuneration Policy that was adopted at the 2018 AGM was above 84% and for the 2019/20 Directors' Remuneration Report at the 2020 AGM received support from shareholders holding more than 98% of the votes cast, and there were no material concerns for the Committee to consider from the AGM voting outcomes. Encouragingly despite a national lockdown, our employee engagement scores increased significantly during the year, as assessed using a pulse survey from 'Be Heard'. Card Factory continues to work on some of the key themes and outputs from the survey and we continue with the Combined Colleague Advisory Group which complements existing forms of employee engagement. It also forms 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. Although we have had to postpone meetings due to store closures, as stores are now reopened, meetings have reconvened with Paul McCrudden continuing to act as Designated Director.

Directors' Remuneration Report continued

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, in particular in respect of the exercise of discretion in respect of bonus and share awards and in setting any new targets for future annual bonus schemes.

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 98 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 Remuneration Committee of Card Factory plc on 10 June 2021 and signed on its behalf by:

Octavia Morley

Chairman of the Remuneration Committee
10 June 2021

Chairman's Letter – Nomination Committee

Reinvigorating succession planning and our Diversity and Inclusion is a key focus for the Committee

Paul Moody Chairman of the Nomination Committee

Committee members

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



Dear Shareholder

The Nomination Committee's activities during the year have focused on:

- consideration of the proposal from Teleios to the appointment of Nathan (Tripp) Lane as an additional Non-Executive Director (details of which were included in last year's Annual Report);
- addressing the immediate vacancy arising from the resignation of Karen Hubbard as CEO, both in respect of both my interim appointment as Executive Chairman (with my abstention), and engagement in a recruitment process for permanent CEO, which culminated in the appointment of Darcy Willson-Rymer, whose appointment was finalised in December 2020 and effective from 8 March 2021; and
- Effecting the annual Board effectiveness review, which, although scheduled to be externally moderated this year, was internally facilitated, as explained on page 65.

Following Karen Hubbard's resignation as CEO, on my indication that I would be prepared to assume executive duties pending recruitment of a permanent CEO, the Committee (in my absence) considered the alternative strategies before recommending to the Board that such an interim executive appointment be pursued, subject to agreeing terms.

Odgers Berndtson were retained to undertake a full market search of a permanent CEO. The Committee reviewed a range of candidates. A shortlist of candidates participated in multiple interviews and presentations as part of a rigorous selection process, including meetings with direct reports to the CEO, prior to a unanimous recommendation on Darcy Willson-Rymer's appointment.

Odgers Berndtson has no other connection to the Company or any of the Directors, save for their engagement in appointment of a Non-Executive Director of 4imprint Group plc, a company of which I am a Non-Executive Director.

The Committee's activities to progress succession planning and development of capability and capacity of the organisation has been impeded by the restrictions imposed following the Covid-19 pandemic, which resulted in over 90% of colleagues being placed on furlough for extended periods. Immediate priorities required review of the organisational design to ensure the business operated efficiently, during and after lockdown, with a lean team, whilst maintaining great customer service and capacity to achieve the strategic objectives.

Reinvigorating succession planning and our diversity and inclusion remains a key focus for the Committee. We have initiated a colleague led diversity and inclusion agenda which will start with a consultative launch event to understand our barriers to inclusion and diversity, to get input into the shape of our strategy and start the creation of the plan. An obvious starting point for this is gender equality. The female representation on the Board currently comprise 12%, with 39.8% of the executive Board and their direct reports being female. The Board recognise the need to improve on this.

Talent management and succession planning is an objective for the current year, where we will design our approach to talent assessment and succession planning and roll out across the business to give us sight of our high potential colleagues and a good understanding of our critical roles and succession strength. We will use these maps to take proactive action in strengthening our talent and succession risks.

In last year's Annual Report we indicated that we had suspended our search for a replacement for each of David Stead and Octavia Morley. We are grateful that David, Octavia and Paul McCrudden are happy to remain on the Board and welcome their valued ongoing support and challenge.

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
10 June 2021

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 64 and the Committee's terms of reference, which are published on Card Factory's investor website (cardfactoryinvestors.com), comply with 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 three times during the year with details of attendance set out in the Corporate Governance Report on page 61. 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.

Committee's focus for the future

The Nomination Committee's priority over the coming year will include a number of objectives delayed from last year due to Covid-19, including:

- supporting 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;
- playing 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;
- giving 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; and
- procuring an externally moderated review of the Board's effectiveness to be undertaken.

Equality and Diversity Policy

Our policy is that the Board and the Group's senior management team should always be diverse, with selection being made irrespective of personal attributes, 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 are committed to providing equal opportunities for all our colleagues and to having a diverse workforce of gender, age, nationality, education and background. We are a founding signatory, alongside 50 other leading retailers, to the British Retail Consortium's Diversity and Inclusion Charter, launched in March 2021. Details of some of our commitments in the ESG Report from page 44.

We published our Gender Pay Gap Report in April 2021, which reports on the gender pay gap as at 5 April 2020. This report does not reflect the Group's entire workforce as colleagues on furlough were required to be excluded from the calculations. Consequently, pay data for only 3% of colleagues was used in calculating the gap, the majority of which were roles based in the support centre where males hold more senior roles than females. The report highlights an issue of gender imbalance in senior roles. A copy of the report has been published on Card Factory's investor website (cardfactoryinvestors.com).

Details of the gender balance as at 31 January 2021 within the Group are set out in the ESG Report on page 49.

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 65. Board evaluation will continue to be conducted on an annual basis, with an external facilitator to lead the evaluation during the financial year ending 31 January 2022, to assist in the process, following deferral of such an external review.

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 28 July 2021.

This report was reviewed and approved by the Nomination Committee on 10 June 2021.

Paul Moody

Chairman of the Nomination Committee
10 June 2021

Directors' Report

The Directors present their report together with the audited financial statements for the year ended 31 January 2021.

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 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 10 June 2021 and is set out on pages 1 to 55, contains a fair review of the Group's business, a description of the Group's emerging and 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 dividends

The consolidated profit(loss) for the Group for the year after taxation was £(13.6)m (FY20: £51.6m). The results are discussed in greater detail in the Chief Financial Officer's Review on pages 34 to 39.

No final dividend is proposed in respect of the period ended 31 January 2021 (FY20 final dividend: nil). No interim or special dividend has been paid in respect of the period ended 31 January 2021 (FY20 interim dividend: 2.9 pence; FY20 special dividend: 5 pence).

Post year-end events

We reopened our stores, as government restrictions relaxed, from 12 April to 17 May 2021. Completion of a complete refinancing with our banking syndicate, including an increase in overall facilities from £200m to £225m provided additional funding capacity to stabilise the business and focus on the strategic priorities.

Otherwise, 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 140. Since the end of the financial year under review and the date of approval of this report, the Company issued, in aggregate, 53,534 ordinary shares of 1 pence each, to satisfy awards under employee share schemes. As such, the total issued share capital of the Company as at 9 June 2020 (being the latest practical date before publication of this report) is 341,679,930. No shares are held in treasury.

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 147 and 148. 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 9 June 2021 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 | No. of ordinary shares | Percentage of issued share capital |
|-----------------------------------|------------------------|------------------------------------|
| Teleios Capital Partners LLC | 68,397,212 | 20.02 |
| Artemis Investment Management LLP | 34,154,603 | 9.99 |
| Aberforth Partners LLP | 22,753,964 | 6.66 |
| Mr Stuart Middleton | 18,035,477 | 5.28 |
| Majedie Asset Management Limited | 16,819,832 | 4.92 |

As at 31 January 2021, the disclosable interests notified to the Company were as stated above, except that:

- DBAY Advisors had notified the Company that it held 26,513,765 shares (7.76%); and
- Teleios Capital Partners LLC had notified the Company that it held 66,502,127 shares (19.47%)

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 facilities dated 17 April 2014 (as amended and restated on 24 June 2015, 24 September 2018, 1 June 2020 and 21 May 2021) and the Coronavirus Large Business Interruption Loans, which contain 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 148 of the Annual Report and Accounts.

Directors

The Directors of the Company and their biographies are set out on pages 56 and 57. Details of changes to the Board during the period are set out in the Corporate Governance Report on page 59. Details of how Directors are appointed and or removed are set out in the Corporate Governance Report on page 66.

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 66.

As at 31 January 2021, the Directors had shareholder authority, granted at the AGM in 2020, to effect a purchase by the Company of up to 34,162,639 of its own shares. None of this authority had been used during FY21. This authority is proposed to be renewed at the AGM to be held in 2021.

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 66.

Directors' Report continued

Employees

Information relating to employees of the Group is set out on pages 23, 29, 30, 48 and 49.

Share incentive schemes in which employees participate are described in the Directors' Remuneration Report on page 80 and in note 25 to the financial statements on pages 146 and 147.

Greenhouse gas emissions

The ESG Report on page 54 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 41. In that section, beginning on page 40, 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 34 to 39.

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).

Disclosures required under Listing Rule 9.8.4R.

In accordance with Listing Rule 9.8.4C, the information requires to be disclosed in the Annual Report by Listing Rule 9.8.4R is detailed in the following sections:

| Disclosure | Cross reference |
|---|-----------------|
| Amount of interest capitalised by the Group during FY21 and the amount and treatment of any related tax relief | Not Applicable |
| Any Information required by Listing Rule 9.2.18R (Publication of unaudited financial information) | Not Applicable |
| Details of any long-term incentive schemes | Pages 80 and 92 |
| Details of any arrangements under which any Director has waived or agreed to waive any emoluments for FY21 or any future emoluments | Pages 86 and 89 |
| Details of cash allotments of shares by Card Factory plc or any major subsidiary undertaking, during FY21 | Not Applicable |
| Details of any contract of significance subsisting during FY21 | Not Applicable |
| Details of any contract for the provision of services to the Group by a controlling shareholder subsisting during FY21 | Not Applicable |
| Details of any arrangement under which a shareholder has waived or agreed to waive any dividends | Not Applicable |
| A statement by the Board in respect of any agreement with a controlling shareholder | Not Applicable |

Going concern

The Board continues to have a reasonable expectation that the Group has adequate resources to continue in operation for at least the next 12 months and that the going concern basis of accounting remains appropriate. The outbreak of the Covid-19 pandemic and the measures adopted by governments in our key markets to mitigate its spread have impacted the Group. These measures required the Group to close its retail outlets for over 5 months in total during FY21. This has negatively impacted the Group's financial performance during the year and also its liquidity position.

The Group renewed its financing facilities with its banking partners in May 2021 (see Note 18 for further detail), through which it has access to £225m of credit. As at 31 May 2021, the Group's net debt excluding lease liabilities was £111.9m.

The Group has prepared cashflow forecasts for the 12 months following the date of approval of these accounts which incorporate the new debt facility and related covenant measures. These forecasts are based on the approved budget and business plan and include the Board's assumptions on trading performance, including the extent and speed of the recovery of store sales following reopening, and the timing of cashflows including amounts where payment was deferred due to Covid-19. The Board's trading assumptions are cautious compared to the Group's actual experience since stores reopened and model a gradual recovery to pre-Covid-19 levels. These forecasts indicate that the Group would have significant headroom within its agreed financing arrangements and would comfortably meet all covenant tests within those arrangements, and would be able to settle its liabilities as they fall due for the duration of the forecasts.

There is still uncertainty over how the future development of the pandemic will impact the Group's business and customer demand for its products. The Group has therefore modelled a number of severe but plausible downside scenarios involving further closures of its stores, including scenarios where government imposed lockdowns require a two-month closure during the winter period and a separate scenario where the Group's stores are closed for the whole of the peak trading month of December 2021. The impact of a December lockdown is the most severe and, in such a scenario, without assuming the availability of government support (including the coronavirus job retention scheme) during this period of enforced closure, the Board would be required to take mitigating actions to reduce costs, optimise the Group's cash flow and preserve liquidity, including laying off retail staff during the period of closure and deferring or cancelling any potential bonuses. Additional cost saving measures such as deferring non-essential capital expenditure, which have not been modelled, would also be available to the Group.

On the basis of these mitigating actions the sensitised forecast cashflows indicate that, even on the basis of full closure in December and no government support, the Group would continue to be able to operate within the terms of its facility and to settle its liabilities as they fall due for a period of at least 12 months from date of approval of these financial statements. Based on these factors, the Board has a reasonable expectation that the Group has adequate resources and sufficient loan facility headroom and accordingly the accounts are prepared on a going concern basis.

Longer-term viability

In accordance with the UK Corporate Governance Code, the Directors have assessed the viability of the Group over the five years to 31 January 2026. 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 55.

The Directors have determined that the five years to 31 January 2026 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 out 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 since reopening stores in April 2021 and a number of severe but possible scenarios incorporating the potential for further outbreaks of Covid-19.

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.

Directors' Report continued

Assumption

New funding

The Group refinanced in May 2021, securing total debt facilities of £225m with its syndicate of commercial banks.

Assumption limitations

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 the new covenants; these are monthly tests around total net debt and last 12 months EBITDA until March 2022, after which the business will move to quarterly tests of last 12 months EBITDA to leverage and EBITDA to interest cover. However, covenant testing has been carried out accordingly and sufficient headroom was available under downside scenarios, including the effect of a nationwide lockdown during December 2021, and separately, a two month lockdown (and mandatory closure of all stores) in early 2022.

Store sales recovery

The baseline forecasts assume a gradual build-back to pre-Covid levels of trade following store re-openings from April 2021, however, the Board is 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.

Downside scenarios include considering the pace and/or extent of recovery of post-reopening like-for-like performance being less than anticipated.

Capital investment

The FY22 capital expenditure plan has been significantly reduced. All non-essential spend has ceased, including new store fit outs reduced to only 11 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.

Stock intake

Stock intake and payment terms are being managed with suppliers.

There are no limitations to these assumptions.

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 FY21 and does not currently expect to pay an FY22 dividend.

There are no limitations to these assumptions.

Board Assessment

The Board has reviewed the Group's detailed five-year strategic plan, including an assessment of key operational and financial assumptions, the recovery of the business from extended closures, the impact of future lockdowns, 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 further outbreaks of Covid-19. 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.

Capital investment has been focused on a small number of key projects that remain important to the Group's long-term strategic objectives.

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 FY21 and does not currently expect to pay a dividend in relation to FY22. 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.

Whilst there inherent risks and uncertainties 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 the Directors focusing on cash conservation, and that the Group has renewed its banking facilities. 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. Accordingly, the Board confirms 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 2026.

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 2021 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 28 July 2021 at the offices of UBS at 5 Broadgate, London EC2M 2QS. 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 questions in advance, and 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 106.

Approval of the Annual Report

The Strategic Report and the Corporate Governance Report were approved by the Board on 10 June 2021 and signed on its behalf by

Ciaran Stone

Company Secretary
10 June 2021

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

Darcy Willson-Rymer
Chief Executive Officer
10 June 2021

Kristian Lee
Chief Financial Officer
10 June 2021

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 2021 which comprise the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of financial position, Consolidated statement of changes in equity, Consolidated cash flow statement, Parent Company statement of financial position, Parent Company statement of changes in equity, Parent Company cash flow statement and the related notes, including the accounting policies in note 1.

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 2021 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006
- the Parent Company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of, 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 to the extent applicable 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 shareholders on 30 April 2014. The period of total uninterrupted engagement is for the 7 financial years ended 31 January 2021. 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: £2m (2020:£3.45m)
Group financial statements as a whole

Coverage 100% (2020:100%)
of group loss before tax

Key audit matters vs 2020

| Recurring risks | | |
|---|--|----|
| Going concern | | ◀▶ |
| Existence and accuracy of the stock counts for store inventory and accuracy of the costing calculations for all inventory | | ◀▶ |
| New: Recoverability of shop property, plant and equipment and right-of-use assets | | ▲ |
| Recoverability of Group goodwill and of Parent's investment in subsidiaries | | ▲ |
| New: Net realisable value of inventories | | ▲ |

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, 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.

Independent auditor's report continued

| | The risk | Our response |
|---|---|---|
| Going concern Refer to page 71 (Audit Committee Report), and page 122 (basis of preparation). | Disclosure quality The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and Parent Company. That judgement is based on an evaluation of the inherent risks to the Group's and Company's business model and how those risks might affect the Group's and Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements. The risks most likely to adversely affect the Group's and Company's available financial resources and/or metrics relevant to debt covenants over this period were those associated with Covid-19 including the potential for government imposed shop closures or short-term changes to consumer behaviour as a result of the pandemic. There are also less predictable but realistic second order impacts, such as the impact of geopolitical changes affecting the Group's supply chain, which could result in a rapid reduction of available financial resources. The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed. | <p>We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period by assessing the Directors' sensitivities over the level of available financial resources and covenant headroom indicated by the Group's financial forecasts taking account of severe, but plausible, adverse effects that could arise from these risks individually and collectively.</p> <p>Our procedures also included:</p> <ul style="list-style-type: none">— Funding assessment: Considering the availability and sufficiency of the financing arrangements in place at the Group, including the headroom on financial covenants in place on the Group's new revolving credit facility;— Sensitivity analysis: Challenging the stress testing performed by the Directors considering the severe but plausible scenarios that could arise, including those which could result from Covid-19;— Historical comparisons: Assessing historical forecasting accuracy, by comparing forecast results to those actually achieved by the Group and challenging the consistency of sales assumptions with the Group's performance during previous Covid- 19 lockdowns;— Benchmarking assumptions: Assessing the key assumptions used in the cash flow forecast including comparing the estimated rate of recovery of sales to pre-Covid-19 levels to third party analysis;— Comparing assumptions: Considering whether the forecasts and assumptions used by the Directors are consistent with other forecasts used by the Group (including those used to assess Recoverability of Goodwill and Recoverability of store assets);— Assessing transparency: Considering whether the going concern disclosure in the basis of preparation of the accounts gives a full and accurate description of the Directors' assessment of going concern, including the identified risks and corresponding assumptions. <p>Our results:</p> <ul style="list-style-type: none">— We found the going concern disclosure in the basis of preparation of the accounts without any material uncertainty to be acceptable (2020: material uncertainty, acceptable). |

| | <i>The risk</i> | <i>Our response</i> |
|--|---|--|
| <p>Existence and accuracy of the stock counts for store inventory and accuracy of the costing calculations for all inventory (£41.1 million; 2020: £54.4m)</p> <p>Refer to page 71 (Audit Committee Report), page 127 (accounting policy) and page 138 (financial disclosures).</p> | <p>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.</p> <p>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.</p> | <p>Our procedures also included:</p> <ul style="list-style-type: none"> — Count design and attendance: Assessment of the design and implementation of the store count procedures through attendance at a sample of store inventory counts. This informed the extent of our test of details. — Control operation: Evaluated the operating effectiveness of the controls over the 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, reperformed the standard cost calculations and agreed each input to invoice or other supporting documentation. <p>Our results:</p> <ul style="list-style-type: none"> — The results of our procedures were acceptable (2020: acceptable). |

Independent auditor's report continued

| | <i>The risk</i> | <i>Our response</i> |
|--|--|--|
| <p>Recoverability of shop property, plant and equipment and right-of-use assets (£110.6 million; 2020: £131.8 million)</p> <p>Refer to page 71 (Audit Committee Report), page 122 (accounting policy) and page 136 (financial disclosures).</p> | <p>Subjective estimate</p> <p>The Group has significant Shop Property, plant and equipment and Right-of-use assets balances.</p> <p>The impact of Covid-19 on the Group's business represents an impairment trigger meaning that the recoverable amounts of these balances needs to be estimated.</p> <p>The estimated recoverable amount for shops is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows. In particular, as individual shops represent Cash Generating Units ('CGUs'), judgement is needed in estimating the rate of recovery of sales at an individual shop level.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the recoverable amount of Company-Managed shop Property, plant and equipment and Right-of-use assets has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the accounts as a whole. The financial statements (note 11) disclose the sensitivity estimated by the Group.</p> | <p>Our procedures also included:</p> <ul style="list-style-type: none"> — Methodology implementation: Assessing the calculation methodology to ensure that it operates in line with the requirements of the accounting standards; — Sensitivity analysis: Performing our own sensitivity analysis over the key assumptions used by the Group and identifying those that have the greatest impact on the impairment assessment, individually and in combination; — Benchmarking assumptions: Assessing the assumptions applied to individuals shops for the return to pre-Covid-19 trading levels and the timeframe of this recovery with reference to market conditions and third party analysis; — Comparing assumptions: Considering whether the forecasts and assumptions used by the Directors are consistent with other forecasts used by the Group (including those used to assess Recoverability of Goodwill and Going Concern); — Historical comparisons: Comparing the assumed rate of recovery of trade with the performance at an individual shop level during the period and post year end and growth thereafter with historic trends; — Assessing transparency: Assessing whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of Shop Property, plant and equipment and Right-of-use assets. <p>We performed the tests above rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.</p> <p>Our results:</p> <ul style="list-style-type: none"> — We found the shop property, plant and equipment and right-of-use asset balances and the related impairment charges to be acceptable (2020: acceptable). |

| | <i>The risk</i> | <i>Our response</i> |
|---|--|---|
| <p>Recoverability of group goodwill and of parent's investment in subsidiaries (£313.8 million; 2020: £313.8 million)</p> <p>Refer to page 71 (Audit Committee Report), page 122 (accounting policy) and page 134 (financial disclosures).</p> | <p>Forecast-based assessment</p> <p>Goodwill in the Group and the carrying amount of the Parent Company's investment in subsidiaries are significant and at risk of irrecoverability due to continued uncertainty arising from the Covid-19 pandemic. The estimated recoverable amount of these balances is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows. The cash-generating unit to which goodwill is allocated, Card Factory, predominantly comprises one subsidiary company, Sportsworld, which makes up substantially all of the recoverable amount of the parent company's investment in subsidiaries.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the value in use of goodwill and the recoverable amount of the cost of investment in subsidiaries has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (page 122) disclose the sensitivity estimated by the Group.</p> | <p>Our procedures also included:</p> <ul style="list-style-type: none"> — Methodology implementation: Performing breakeven analysis on the assumptions for recovery of sales and the discount rate; — Our sector experience: Evaluating assumptions used, in particular those relating to forecast revenue recovery postlockdown and growth in future periods; — Benchmarking assumptions: Challenging and comparing the Group's assumptions, including forecast sales and the discount rate, to externally derived data in relation to key inputs such as comparable companies' earnings multiples, projections of economic growth and inflation, sector analyses; and analysts' reports; — Our valuation expertise: Using our own valuation specialists to assist us in assessing the appropriateness of the discount rate applied by the Group, including benchmarking the inputs used in the Group's capital asset pricing model ('CAPM'); — Comparing valuations: Comparing the sum of the discounted cash flows to the Group's market capitalisation to assess the reasonableness of those cashflows; — Comparing valuations: Comparing the carrying amount of the investment with the expected value of the business based the value-in-use determined in the goodwill assessment; — Assessing transparency: Assessing whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of goodwill; and — Assessing transparency: Assessing the adequacy of the Parent Company's disclosures in respect of the investment in subsidiaries. <p>We performed the tests above rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.</p> <p>Our results:</p> <ul style="list-style-type: none"> — We found the carrying value of goodwill to be acceptable (2020: acceptable). |

Independent auditor's report continued

| | <i>The risk</i> | <i>Our response</i> |
|---|--|---|
| <p>Net realisable value of inventories (£41.1 million; 2020: £54.4 million)</p> <p>Refer to page 71 (Audit Committee Report), page 127 (accounting policy) and page 122 (financial disclosures).</p> | <p>Subjective estimate The Group has significant levels of inventory and estimates are made in the valuation of slow moving and obsolete inventories.</p> <p>As the Group's trading has been interrupted by various lockdown measures since the onset of Covid-19 there is reduced recent evidence of product sales. There is also uncertainty over changes in consumer preferences and spending patterns, arising from Covid-19, as well as the inherent seasonality in the industry.</p> <p>The effect of these matters is that we determined that the net realisable value of inventory has a high degree of reasonable outcomes greater than our materiality for the financial statements as a whole.</p> | <p>Our procedures also included:</p> <ul style="list-style-type: none"> — Our sector experience: Assessing the appropriateness of the Group's inventory provisioning policies based on our understanding of the business, the industry and the accuracy of previous provisioning estimates; — Expectation vs. outcome: we formed our own expectation of the inventory provision using our own view of the key assumptions above and comparing our expectation to the actual provision amount. This included analysing inventory balances by season and criteria such as inventory not bought in the last 6 months and slower moving inventory; — Tests of detail: Comparing, by product, for a sample of inventory lines, inventory levels to sales data in the period leading up to the year end to assess whether slow moving and obsolete inventories, with a focus on those with a limited shelf life, had been appropriately identified and provided for by the Group based on the provisioning policy; — Assessing transparency: Assessing the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the net realisable value of inventories. <p>We performed the tests above rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.</p> <p>Our results:</p> <ul style="list-style-type: none"> — We found the Group's assessment of the carrying value of inventory to be acceptable (2020: acceptable). |

We continue to perform procedures over the valuation of lease liabilities, however, following the year of transition to the new leasing accounting standard there is reduced estimation uncertainty on an ongoing basis, we have not assessed this as amongst the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year. In the prior year we reported a key audit matter in respect of the impact of uncertainties due to the UK exiting the European Union. Following the trade agreement between the UK and the EU, and the end of the EU-exit implementation period, the nature of these uncertainties has changed. We continue to perform procedures over material assumptions in forward looking assessments such as going concern and impairment tests however we no longer consider the effect of the UK's departure from the EU to be a separate key audit matter.

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £2 million (2020: £3.45m), determined with reference to a benchmark of profit before tax adjusted for exceptional items, normalised in 2021 by averaging over the last three years because of volatility caused by the Covid-19 pandemic. It represented 5% (2020: 5%) of this benchmark.

Materiality for the Parent Company financial statements as a whole was set at £1.4 million (2020: £2.9m), determined with reference to a benchmark of Parent Company net assets, of which it represents 0.4% (2020: 0.9%). We reduced Parent Company materiality in line with the reduction to Group materiality.

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 75% (2020: 75%) of materiality for the financial statements as a whole, which equates to £1.5 million (2020: £2.59m) for the Group and £1.05 million (2020: £2.2m) for the Parent Company.

We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.5 million (2020: £0.5 m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

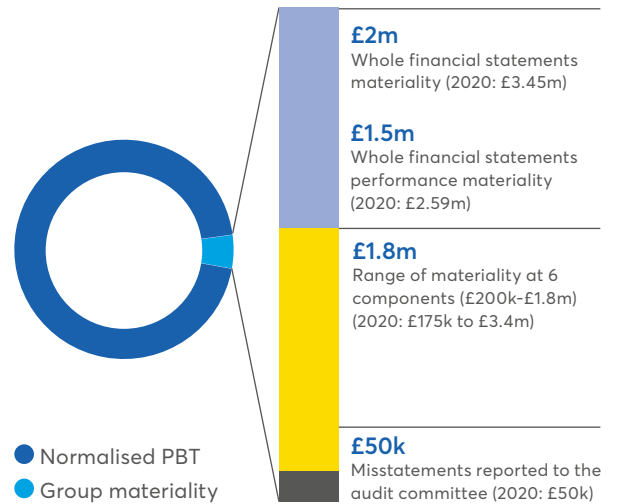
Of the Group's 6 (2020: 6) reporting components, we subjected 6 (2020: 6) to full scope audits for Group purposes.

The components within the scope of our work accounted for the percentages illustrated opposite.

The work on all components subject to full scope audits for Group purposes, including the audit of the Parent Company, was performed by the Group team.

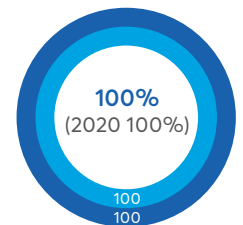
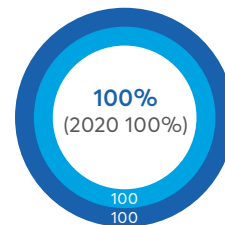
Normalised Group profit before tax
£40.4m

Group materiality
£2m (2020: £3.45m)

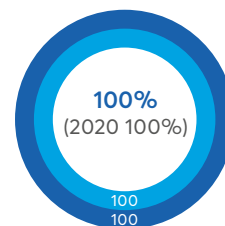


Group revenue

Group loss before tax



Group total assets



- Full scope for Group audit purposes 2021
- Full scope for Group audit purposes 2020

Independent auditor's report continued

4. Going concern

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

An explanation of how we evaluated management's assessment of going concern is set out in the related key audit matter in section 2 of this report.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period;
- we have nothing material to add or draw attention to in relation to the Directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for the going concern period, and we found the going concern disclosure in page 122 to be acceptable; and
- the related statement under the Listing Rules set out on page 103 is materially consistent with the financial statements and our audit knowledge.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Company will continue in operation.

5. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ('fraud risks') we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of Directors and management and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for 'whistleblowing', as well as whether they have knowledge of any actual, suspected or alleged fraud.

- Reading Board, Audit Committee and loss prevention meeting minutes.
- Considering remuneration incentive schemes and performance targets including the EPS target for management remuneration.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to reduce total losses, we perform procedures to address the risk of management override of controls, in particular the risk that Group management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as impairment assumptions. On this audit we do not believe there is a fraud risk related to revenue recognition because revenue is primarily made up of simple, small transactions which individually carry low risk, and can be reconciled through to bank.

We did not identify any additional fraud risks.

In determining the audit procedures we took into account the results of our evaluation and testing of the operating effectiveness of some of the Group-wide fraud risk management controls.

We performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual accounts, and those posted on weekends.
- Assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

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.

Context of the ability of the audit to detect fraud or breaches of law or regulation

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 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 fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

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

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

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

Strategic Report and Directors' Report

Based solely on our work on the other information:

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

Directors' Remuneration Report

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

Disclosures of emerging and principal risks and longer-term viability

We are required to perform procedures to identify whether there is a material inconsistency between the Directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the viability statement page 103 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 how emerging risks are identified, 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.

We are also required to review the viability statement, set out on page 103 under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the financial statements and our audit knowledge.

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

Independent auditor's report continued

Corporate governance disclosures

We are required to perform procedures to identify whether there is a material inconsistency between the Directors' corporate governance disclosures and the financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:

- 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;
- the section of the annual report describing the work of the Audit Committee, including the significant issues that the Audit Committee considered in relation to the financial statements, and how these issues were addressed; and
- the section of the Annual Report that describes the review of the effectiveness of the Group's risk management and internal control systems.

We are required to review the part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review. We have nothing to report in this respect.

7. 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.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 106, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or 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 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

9. 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
10 June 2021

Consolidated income statement

For the year ended 31 January 2021

| | Note | 2021 | | | 2020 | | |
|-----------------------------------|------|-------------------|-----------------------------------|----------------|-------------------|-----------------------------------|--------------|
| | | Underlying £'m | Non-underlying (note 3) £'m | Total £'m | Underlying £'m | Non-underlying (note 3) £'m | Total £'m |
| Revenue | | 285.1 | – | 285.1 | 451.5 | – | 451.5 |
| Cost of sales | | (204.5) | (1.2) | (205.7) | (289.8) | 0.5 | (289.3) |
| Gross profit | | 80.6 | (1.2) | 79.4 | 161.7 | 0.5 | 162.2 |
| Operating expenses | | (86.9) | – | (86.9) | (86.1) | (2.5) | (88.6) |
| Operating (loss)/profit | 3,4 | (6.3) | (1.2) | (7.5) | 75.6 | (2.0) | 73.6 |
| Finance expense | 7 | (8.9) | – | (8.9) | (8.4) | – | (8.4) |
| (Loss)/profit before tax | | (15.2) | (1.2) | (16.4) | 67.2 | (2.0) | 65.2 |
| Taxation | 8 | 2.6 | 0.2 | 2.8 | (13.5) | (0.1) | (13.6) |
| (Loss)/profit for the year | | (12.6) | (1.0) | (13.6) | 53.7 | (2.1) | 51.6 |
| Earnings per share | | pence | | pence | pence | | pence |
| – Basic and diluted | 10 | (3.7) | | (4.0) | 15.7 | | 15.1 |

All activities relate to continuing operations.

Consolidated statement of comprehensive income

For the year ended 31 January 2021

| | 2021 £'m | 2020 £'m |
|--|---------------|-------------|
| (Loss)/profit for the year | (13.6) | 51.6 |
| Items that are or may be recycled subsequently into profit or loss: | | |
| Cash flow hedges – changes in fair value | (1.9) | 0.6 |
| Cost of hedging reserve – changes in fair value | (0.1) | 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 | (0.4) |
| Other comprehensive (expense)/income for the period, net of income tax | (1.6) | 1.8 |
| Total comprehensive (expense)/income for the period attributable to equity shareholders of the parent | (15.2) | 53.4 |

Consolidated statement of financial position

As at 31 January 2021

| | Note | 2021 £'m | 2020 £'m |
|--|------|----------------|-------------|
| Non-current assets | | | |
| Intangible assets | 11 | 320.3 | 319.8 |
| Property, plant and equipment | 12 | 36.8 | 41.6 |
| Right of use assets | 13 | 111.4 | 132.4 |
| Deferred tax assets | 14 | 5.3 | 2.7 |
| Derivative financial instruments | 24 | – | 0.5 |
| | | 473.8 | 497.0 |
| Current assets | | | |
| Inventories | 15 | 36.4 | 54.4 |
| Trade and other receivables | 16 | 9.2 | 10.8 |
| Tax receivable | | 0.5 | – |
| Derivative financial instruments | 24 | 0.1 | 1.1 |
| Cash and cash equivalents | 17 | 12.5 | 5.5 |
| | | 58.7 | 71.8 |
| Total assets | | 532.5 | 568.8 |
| Current liabilities | | | |
| Borrowings | 18 | (0.2) | (3.6) |
| Lease liabilities | 13 | (39.4) | (40.7) |
| Trade and other payables | 19 | (57.4) | (45.0) |
| Tax payable | | – | (6.5) |
| Derivative financial instruments | 24 | (2.8) | (1.0) |
| | | (99.8) | (96.8) |
| Non-current liabilities | | | |
| Borrowings | 18 | (118.8) | (144.0) |
| Lease liabilities | 13 | (105.5) | (105.2) |
| Derivative financial instruments | 24 | (1.9) | (1.3) |
| | | (226.2) | (250.5) |
| Total liabilities | | (326.0) | (347.3) |
| Net assets | | 206.5 | 221.5 |
| Equity | | | |
| Share capital | 20 | 3.4 | 3.4 |
| Share premium | 20 | 202.2 | 202.2 |
| Hedging reserve | | (3.1) | (1.6) |
| Cost of hedging reserve | | 0.4 | 1.1 |
| Reverse acquisition reserve | | (0.5) | (0.5) |
| Merger reserve | | 2.7 | 2.7 |
| Retained earnings | | 1.4 | 14.2 |
| Equity attributable to equity holders of the parent | | 206.5 | 221.5 |

The financial statements on pages 117 to 149 were approved by the Board of Directors on 10 June 2021 and were signed on its behalf by:

Kris Lee

Chief Financial Officer

Consolidated statement of changes in equity

For the year ended 31 January 2021

| | 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 2019 | 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 |
| Total comprehensive expense for the period | | | | | | | | |
| Profit or loss | – | – | – | – | – | – | (13.6) | (13.6) |
| Other comprehensive expense | – | – | (1.5) | (0.1) | – | – | – | (1.6) |
| | – | – | (1.5) | (0.1) | – | – | (13.6) | (15.2) |
| Hedging gains/(losses) and costs of hedging transferred to the cost of inventory | – | – | – | (0.7) | – | – | – | (0.7) |
| Deferred tax on transfers to inventory | – | – | – | 0.1 | – | – | – | 0.1 |
| Transactions with owners, recorded directly in equity | | | | | | | | |
| Share-based payment charges (note 25) | – | – | – | – | – | – | 0.8 | 0.8 |
| Dividends (note 9) | – | – | – | – | – | – | – | – |
| Total contributions by and distributions to owners | – | – | – | – | – | – | 0.8 | 0.8 |
| At 31 January 2021 | 3.4 | 202.2 | (3.1) | 0.4 | (0.5) | 2.7 | 1.4 | 206.5 |

Consolidated cash flow statement

For the year ended 31 January 2021

| | Note | 2021 £'m | 2020 £'m |
|--|------|---------------|-------------|
| Cash inflow from operating activities | 21 | 79.9 | 124.8 |
| Corporation tax paid | | (6.3) | (14.6) |
| Net cash inflow from operating activities | | 73.6 | 110.2 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | 12 | (4.9) | (11.0) |
| Purchase of intangible assets | 11 | (2.6) | (3.5) |
| Proceeds from disposal of fixed assets | | 0.5 | 0.4 |
| Net cash outflow from investing activities | | (7.0) | (14.1) |
| Cash flows from financing activities | | | |
| Interest paid | | (8.4) | (8.0) |
| Repayment of bank borrowings | | (25.6) | – |
| Payment of lease liabilities | | (22.1) | (41.0) |
| Dividends paid | 9 | – | (48.9) |
| Net cash outflow from financing activities | | (56.1) | (97.9) |
| Net increase/(decrease) in cash and cash equivalents | | 10.5 | (1.8) |
| Cash and cash equivalents at the beginning of the year | | 2.0 | 3.8 |
| Closing cash and cash equivalents | 17 | 12.5 | 2.0 |

Notes to the financial statements

1 Accounting policies

General information

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

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

Basis of preparation

The Group financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

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 UK 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 identified the following as significant estimates in the period:

Goodwill and store assets impairment testing

The annual impairment testing of goodwill and store assets requires significant 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, the pre-tax discount rate and the Covid-19 trading environment. During the prior period goodwill attributable to the Getting Personal CGU was impaired to nil (see note 11).

Inventories

The Group holds significant volumes, and a broad range of inventory. The provision estimate is calculated based on historical experience and the business stock management strategy, which determines the range of product that will be available for sale in store and online. The Group provides against the carrying value of inventories where it is anticipated the amount realised may be below the cost recognised. Provision is made in full where there are no current plans to trade prior season stock through stores, and partial provision is made against seasonal stock from prior seasons or where certain ranges do not perform as anticipated. At the end of FY21, the total inventory provision was £28.8m (FY20: £10.8m), the increase driven by discontinuation of older ranges and stock impacted by Covid-19 related lockdowns. The element of the provision that is most sensitive to adjustment in future years relates to stock items with a partial provision, the accuracy of which will be determined by future sales volumes. An increase or decrease of 10% in this element of the stock provision would have a corresponding impact on the stock provision of +/- £1.6m.

Going concern basis of accounting

The Board continues to have a reasonable expectation that the Group has adequate resources to continue in operation for at least the next 12 months and that the going concern basis of accounting remains appropriate. The outbreak of the Covid-19 pandemic and the measures adopted by governments in our key markets to mitigate its spread have impacted the Group. These measures required the Group to close its retail outlets for over 5 months in total during FY21. This has negatively impacted the Group's financial performance during the year and also its liquidity position.

The Group renewed its financing facilities with its banking partners in May 2021 (see Note 18 for further detail), through which it has access to £225m of credit. As at 31 May 2021, the Group's net debt excluding lease liabilities was £111.9m.

The Group has prepared cashflow forecasts for the 12 months following the date of approval of these accounts which incorporate the new debt facility and related covenant measures. These forecasts are based on the approved budget and business plan and include the Board's assumptions on trading performance, including the extent and speed of the recovery of store sales following reopening, and the timing of cashflows including amounts where payment was deferred due to Covid-19. The Board's trading assumptions are cautious compared to the Group's actual experience since stores reopened and model a gradual recovery to pre-COVID levels. These forecasts indicate that the Group would have significant headroom within its agreed financing arrangements and would comfortably meet all covenant tests within those arrangements, and would be able to settle its liabilities as they fall due for the duration of the forecasts.

There is still uncertainty over how the future development of the pandemic will impact the Group's business and customer demand for its products. The Group has therefore modelled a number of severe but plausible downside scenarios involving further closures of its stores, including scenarios where government imposed lockdowns require a two-month closure during the winter period and a separate scenario where the Group's stores are closed for the whole of the peak trading month of December 2021. The impact of a December lockdown is the most severe and, in such a scenario, without assuming the availability of government support (including the coronavirus job retention scheme) during this period of enforced closure, the Board would be required to take mitigating actions to reduce costs, optimise the Group's cash flow and preserve liquidity, including laying off retail staff during the period of closure and deferring or cancelling any potential bonuses. Additional cost saving measures such as deferring non-essential capital expenditure, which have not been modelled, would also be available to the Group.

On the basis of these mitigating actions the sensitised forecast cashflows indicate that, even on the basis of full closure in December and no government support, the Group would continue to be able to operate within the terms of its facility and to settle its liabilities as they fall due for a period of at least 12 months from date of approval of these financial statements. Based on these factors, the Board has a reasonable expectation that the Group has adequate resources and sufficient loan facility headroom and accordingly the accounts are prepared on a going concern basis.

Principal accounting policies

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

Changes in significant accounting policies

New standards and amendments to existing standards effective in the period do not have a material effect on the Group's financial statements.

UK endorsed standards and amendments issued but not yet effective

UK endorsed standards and amendments effective for annual periods beginning after 1 January 2021 have not been early adopted and are not expected to have a significant impact on the Group's consolidated financial statements.

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2

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.

Notes to the financial statements continued

1 Accounting policies continued

Basis of consolidation continued

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

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

Revenue

Group revenue is 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 currently represents a small percentage 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 volume related terms are yet to be satisfied. 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.

Government grants

Grants from governments are recognised where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Grants are recognised in the income statement over the period necessary to match them with the related costs for which they are to compensate. Grants are deducted against the related expense in the income statement.

Government grants receivable in light of the ongoing COVID-19 situation principally reflect grants receivable under the Coronavirus Job Retention Scheme ('CJRS') and business rates relief. Under the CJRS, grant income may be claimed in respect of certain costs to the Group of furloughed employees. Business rates relief for the Group's entire store portfolio commenced 1 April 2020, with no business rates payable in respect of retail locations for the remainder of the financial year.

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 the income statement 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.

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 UK 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.

Impairment of goodwill

In the prior period goodwill attributable to the Getting Personal cash generating unit ('CGU') was been impaired (see note 11). The impairment was a non-cash charge to the income statement reflecting a reduction in future performance expectations of Getting Personal 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 receivable 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 less allowances for expected credit losses.

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.

Notes to the financial statements continued

1 Accounting policies continued

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.

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

- changes in the timing of the hedged transactions; and
- 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.

Notes to the financial statements continued

1 Accounting policies continued

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 adopted a fully retrospective application of the standard in the prior year.

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 IFRS 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 that its entire store lease portfolio, some warehousing locations, an office location 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 3 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, dressing and gifts principally through an extensive UK store network, with a small number of stores in the Republic of Ireland, and also through our 3rd party retail partners. Card Factory revenue for the year was £268.6m (FY20: £436.8m). Getting Personal revenue for the year was £16.5 million (FY20: £14.7 million).

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 partnerships and non-retail customers were circa £6.6m in the year. Revenue from outside the UK is circa £3.8m of Group Revenue.

3 Non-underlying items

| | 2021 £'m | 2020 £'m |
|--|--------------|-------------|
| Cost of sales | | |
| (Loss)/profit on foreign currency derivative financial instruments not designated as a hedge (note 24) | (1.2) | 0.5 |
| Operating expenses | | |
| Impairment of goodwill (note 11) | - | (2.5) |

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

Notes to the financial statements continued

4 Operating loss/profit

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

| | 2021 £'m | 2020 £'m |
|---|--------------|-------------|
| Staff costs (note 6) | 90.9 | 121.8 |
| Depreciation expense | | |
| – owned fixed assets (note 12) | 9.2 | 9.6 |
| – right of use assets (note 13) | 39.9 | 38.9 |
| Amortisation expense (note 11) | 1.6 | 1.4 |
| Impairment of right of use assets (note 13) | 2.6 | 0.4 |
| Profit on disposal of fixed assets | – | (0.3) |
| Foreign exchange gain | (0.3) | (1.5) |
| Impairment of goodwill (note 11) | – | 2.5 |

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

The operating loss for the year end 2021 includes circa £31.4 million in respect of government grants receivable under the Coronavirus Job Retention Scheme ('CJRS') and circa £18.1 million retail business rates relief. Under the CJRS, grant income may be claimed in respect of certain costs to the Group of furloughed employees. Business rates relief for the Group's entire store portfolio commenced 1 April 2020, with no business rates payable in respect of retail locations for the remainder of the financial year.

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

| | 2021 £'000 | 2020 £'000 |
|---|---------------|---------------|
| Audit of the consolidated and Company financial statements | 34 | 23 |
| Amounts receivable by the Company's auditor and its associates in respect of: | | |
| Audit of financial statements of subsidiaries of the Company | 340 | 167 |
| Other services closely related to the audit | 25 | 7 |
| Total fees | 399 | 197 |

5 EBITDA

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

| Note | 2021 | | | 2020 | | |
|---|-------------------|-----------------------------------|--------------|-------------------|-----------------------------------|--------------|
| | Underlying £'m | Non-underlying (note 3) £'m | Total £'m | Underlying £'m | Non-underlying (note 3) £'m | Total £'m |
| Operating (loss)/profit | (6.3) | (1.2) | (7.5) | 75.6 | (2.0) | 73.6 |
| Depreciation, amortisation and impairment | 53.3 | – | 53.3 | 50.3 | 2.5 | 52.8 |
| EBITDA | 47.0 | (1.2) | 45.8 | 125.9 | 0.5 | 126.4 |

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:

| | 2021 Number | 2020 Number |
|-------------------------------|----------------|----------------|
| Management and administration | 425 | 429 |
| Operations | 9,322 | 9,213 |
| | 9,747 | 9,642 |

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

| | 2021 £'m | 2020 £'m |
|--|-------------|-------------|
| Employee wages and salaries | 78.0 | 109.1 |
| Equity-settled share-based payment expense | 0.8 | 0.5 |
| Social security costs | 5.9 | 6.7 |
| Defined contribution pension costs | 1.3 | 1.4 |
| Total employee costs | 86.0 | 117.7 |
| Agency labour costs | 4.9 | 4.1 |
| Total staff costs | 90.9 | 121.8 |

Total employee costs are presented net of £31.4m recovered through the coronavirus job retention scheme.

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:

| | 2021 £'m | 2020 £'m |
|--|-------------|-------------|
| Salaries and short-term benefits | 4.4 | 4.1 |
| Equity-settled share-based payment expense | 0.7 | 0.3 |
| Social security costs | 0.6 | 0.5 |
| Defined contribution pension costs | 0.1 | 0.1 |
| | 5.8 | 5.0 |

Further details of Director's remuneration are disclosed in the Directors' Remuneration Report on pages 77 to 96.

7 Finance expense

| | 2021 £'m | 2020 £'m |
|--|-------------|-------------|
| Finance expense | | |
| Interest on bank loans and overdrafts | 5.1 | 4.0 |
| Amortisation of loan issue costs | 0.4 | 0.3 |
| Lease interest | 3.4 | 4.0 |
| Loss on interest rate derivative contracts | – | 0.1 |
| | 8.9 | 8.4 |

Notes to the financial statements continued

8 Taxation

Recognised in the income statement

| | 2021 £'m | 2020 £'m |
|---|--------------|-------------|
| Current tax (credit)/expense | | |
| Current year | (0.8) | 13.5 |
| Adjustments in respect of prior periods | 0.1 | – |
| | (0.7) | 13.5 |
| Deferred tax (credit)/charge | | |
| Origination and reversal of temporary differences | (1.9) | – |
| Adjustments in respect of prior periods | 0.1 | – |
| Effect of change in tax rate | (0.3) | 0.1 |
| | (2.1) | 0.1 |
| Total income tax (credit)/expense | (2.8) | 13.6 |

The effective tax credit rate of 17.1% (2020: 20.8% tax charge) is lower than the standard rate of corporation tax in the UK principally due to expenses not deductible for tax purposes within the loss for the year. The tax charge is reconciled to the standard rate of UK corporation tax as follows:

| | 2021 £'m | 2020 £'m |
|--|---------------|-------------|
| Profit before tax | (16.4) | 65.2 |
| Tax at the standard UK corporation tax rate of 19.0% (2020: 19.0%) | (3.1) | 12.4 |
| Tax effects of: | | |
| Expenses not deductible for tax purposes | 0.4 | 1.1 |
| Adjustments in respect of prior periods | 0.2 | – |
| Effect of change in tax rate | (0.3) | 0.1 |
| Total income tax expense | (2.8) | 13.6 |

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

| | 2021 | | | 2020 | | |
|----------------------------|----------------|-----------------|--------------|----------------|-----------------|--------------|
| | Current £'m | Deferred £'m | Total £'m | Current £'m | Deferred £'m | Total £'m |
| Income statement | (0.7) | (2.1) | (2.8) | 13.5 | 0.1 | 13.6 |
| Other comprehensive income | – | (0.4) | (0.4) | – | 0.4 | 0.4 |
| Equity | – | (0.1) | (0.1) | – | (0.8) | (0.8) |
| Total tax | (0.7) | (2.6) | (3.3) | 13.5 | (0.3) | 13.2 |

9 Dividends

There were no dividends paid in the year and the Board is not recommending a final dividend in respect of the financial year ended 31 January 2021 (2020: no final dividend).

| Dividends paid in the year: | Pence per share | 2021 £'m | 2020 £'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 |
| Total dividends paid to shareholders in the year | | – | 48.9 |

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.

| | 2021 (Number) | 2020 (Number) |
|--|--------------------|------------------|
| Weighted average number of shares in issue | 341,626,396 | 341,575,284 |
| Weighted average number of dilutive share options | 128,446 | – |
| Weighted average number of shares for diluted earnings per share | 341,754,842 | 341,575,284 |

| | £'m | £'m |
|---|---------------|------|
| Profit for the financial period | (13.6) | 51.6 |
| Non-underlying items | 1.0 | 2.1 |
| Total underlying profit for underlying earnings per share | (12.6) | 53.7 |

| | pence | pence |
|---------------------------------------|--------------|-------|
| Basic earnings per share | (4.0) | 15.1 |
| Diluted earnings per share | (4.0) | 15.1 |
| Underlying basic earnings per share | (3.7) | 15.7 |
| Underlying diluted earnings per share | (3.7) | 15.7 |

Notes to the financial statements continued

11 Intangible assets

| | Goodwill £'m | Software £'m | Total £'m |
|--------------------------------|-----------------|-----------------|--------------|
| Cost | | | |
| At 1 February 2020 | 328.2 | 14.1 | 342.3 |
| Additions | – | 2.6 | 2.6 |
| Disposals | – | (3.0) | (3.0) |
| At 31 January 2021 | 328.2 | 13.7 | 341.9 |
| Amortisation/impairment | | | |
| At 1 February 2020 | 14.4 | 8.1 | 22.5 |
| Amortisation in the period | – | 1.6 | 1.6 |
| Amortisation on disposals | – | (2.5) | (2.5) |
| At 31 January 2021 | 14.4 | 7.2 | 21.6 |

Net book value

| | | | |
|---------------------------|--------------|------------|--------------|
| At 31 January 2021 | 313.8 | 6.5 | 320.3 |
| At 31 January 2020 | 313.8 | 6.0 | 319.8 |

| | 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 |

Impairment testing

Goodwill in respect of the Getting Personal CGU was impaired to nil in the prior year. All remaining goodwill is in respect of the Card Factory CGU.

The recoverable amount has been determined based on value-in-use calculations. Value-in-use calculations are based on 5-year management forecasts and operating cash flows with a 0% (2020: 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 and new retail partnerships, 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 expectations; product mix; foreign exchange rates, based on hedges in place and market forecasts for unhedged items, the Group's current expectations in relation to operational costs; and the Covid-19 trading environment. 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% (2020: 12.0%) calculated using the capital asset pricing model utilising available market data and compared to the published discount rates of comparable businesses.

No impairment loss was identified. The valuations indicate sufficient headroom such that a reasonably possible change to key assumptions would not result in an impairment of the related goodwill. Whilst the continued impact of Covid-19 remains uncertain, the Board do not anticipate that further short-term Covid-19 downsides will result in an impairment of the Card Factory CGU.

12 Property, plant and equipment

| | Freehold property £'m | Leasehold improvements £'m | Plant, equipment, fixtures & vehicles £'m | Total £'m |
|----------------------------|--------------------------|----------------------------------|---|--------------|
| Cost | | | | |
| At 1 February 2020 | 17.5 | 40.3 | 66.4 | 124.2 |
| Additions | 0.3 | 0.7 | 3.9 | 4.9 |
| Disposals | – | (0.8) | (2.7) | (3.5) |
| At 31 January 2021 | 17.8 | 40.2 | 67.6 | 125.6 |
| Depreciation | | | | |
| At 1 February 2020 | 3.5 | 32.4 | 46.7 | 82.6 |
| Depreciation in the period | 0.4 | 3.1 | 5.7 | 9.2 |
| Depreciation on disposals | – | (0.7) | (2.3) | (3.0) |
| At 31 January 2021 | 3.9 | 34.8 | 50.1 | 88.8 |
| Net book value | | | | |
| At 31 January 2021 | 13.9 | 5.4 | 17.5 | 36.8 |
| At 31 January 2020 | 14.0 | 7.9 | 19.7 | 41.6 |

| | 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 |
| Provided 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 |

Notes to the financial statements continued

13 Leases

The Group has lease contracts, within the definition of IFRS 16 leases, in relation to its entire store lease portfolio, some warehousing office locations, an office location 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.

Right of use assets

| | Buildings £'m | Motor Vehicles £'m | Total £'m |
|------------------------------------|------------------|-----------------------|--------------|
| Cost | | | |
| At 1 February 2020 | 324.5 | 1.3 | 325.8 |
| Additions | 22.2 | 0.6 | 22.8 |
| Disposals | (30.4) | (0.3) | (30.7) |
| At 31 January 2021 | 316.3 | 1.6 | 317.9 |
| Depreciation and impairment | | | |
| At 1 February 2020 | 192.7 | 0.7 | 193.4 |
| Depreciation in the period | 39.5 | 0.4 | 39.9 |
| Impairment in the period | 2.6 | – | 2.6 |
| Depreciation on disposals | (28.9) | (0.3) | (29.2) |
| Impairment on disposals | (0.2) | – | (0.2) |
| At 31 January 2021 | 205.7 | 0.8 | 206.5 |
| Net book value | | | |
| At 31 January 2021 | 110.6 | 0.8 | 111.4 |
| At 31 January 2020 | 131.8 | 0.6 | 132.4 |
| Cost | | | |
| At 1 February 2019 | 311.6 | 1.0 | 312.6 |
| Additions | 35.9 | 0.5 | 36.4 |
| Disposals | (23.0) | (0.2) | (23.2) |
| At 31 January 2020 | 324.5 | 1.3 | 325.8 |
| Depreciation and impairment | | | |
| At 1 February 2019 | 176.1 | 0.6 | 176.7 |
| Depreciation in the period | 38.6 | 0.3 | 38.9 |
| Impairment in the period | 0.4 | – | 0.4 |
| Depreciation on disposals | (22.3) | (0.2) | (22.5) |
| Impairment on disposals | (0.1) | – | (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 | 135.5 | 0.4 | 135.9 |

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.

Lease liabilities

| | 2021 £'m | 2020 £'m |
|--|----------------|-------------|
| Current lease liabilities | (39.4) | (40.7) |
| Non-current lease liabilities | (105.5) | (105.2) |
| Total lease liabilities (note 22) | (144.9) | (145.9) |

Rent concessions agreed in the year in response to Covid-19 were principally in respect of the timing of payments and did not significantly impact the total consideration payable in respect of leases. In accordance with the amendment to IFRS16 in respect of Covid-19 concessions, lease liabilities have not been re-measured in respect of Covid-19 concessions except to the extent the rent concession was agreed as part of a lease renewal or extension. Total lease liabilities remain consistent with prior periods as the deferral of lease payments in response to Covid-19 is offset by slight reductions in the total store portfolio and average lease term.

Lease expense:

| | 2021 £'m | 2020 £'m |
|---|--------------|-------------|
| Total lease related expenses | | |
| Depreciation expense on right of use assets | 39.9 | 38.9 |
| Impairment of right of use assets | 2.6 | 0.4 |
| Profit on disposal of fixed assets | (0.3) | (0.1) |
| Lease interest | 3.4 | 4.0 |
| Expense relating to short term and low value leases * | 0.6 | 0.5 |
| Expense relating to variable lease payments ** | – | (0.3) |
| Total lease related income statement expense | 46.2 | 43.4 |

* 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 are subject to an element of turnover linked variable rents that are 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 £'m | Tax Losses £'m | Other timing differences £'m | Total £'m |
|--------------------------------------|---------------------|------------------------------------|--|--------------------------|-------------------|------------------------------------|--------------|
| At 1 February 2019 | 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 |
| Credit to income statement | 0.1 | – | – | – | 1.7 | 0.3 | 2.1 |
| Credit to other comprehensive income | – | – | 0.4 | – | – | – | 0.4 |
| Credit to equity | – | – | 0.1 | – | – | – | 0.1 |
| At 31 January 2021 | 0.3 | 0.1 | 0.6 | 1.4 | 1.7 | 1.2 | 5.3 |

Notes to the financial statements continued

14 Deferred tax assets and liabilities continued

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:

| | 2021 £'m | 2020 £'m |
|--------------------------|-------------|-------------|
| Deferred tax assets | 5.3 | 2.7 |
| Deferred tax liabilities | – | – |
| Net deferred tax asset | 5.3 | 2.7 |

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 had 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. The UK deferred tax asset as at 31 January 2021 has been calculated based on this rate.

The UK Budget on 3 March 2021 included an announcement that the corporation tax rate will increase to 25% from 1 April 2023 for certain companies. This increase has not yet been substantively enacted. The 25% tax rate announcement is a non-adjusting post balance sheet event. If the effect of the change to 25% was applied at 31 January 2021 the deferred tax asset would increase by circa £1.7m.

15 Inventories

| | 2021 £'m | 2020 £'m |
|------------------|-------------|-------------|
| Finished goods | 35.9 | 53.9 |
| Work in progress | 0.5 | 0.5 |
| | 36.4 | 54.4 |

The cost of inventories recognised as an expense and charged to cost of sales in the year was £107.1 million (2020: £137.3 million).

16 Trade and other receivables

| | 2021 £'m | 2020 £'m |
|--------------------------------------|-------------|-------------|
| Current | | |
| Trade receivables | 1.6 | 1.6 |
| Other receivables | 5.6 | 1.0 |
| Prepaid property costs | – | 4.4 |
| Other prepayments and accrued income | 2.0 | 3.5 |
| Contract assets | – | 0.3 |
| | 9.2 | 10.8 |

The Group has net US Dollar denominated trade and other receivables of £1.0 million (2020: £0.7 million).

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 partnerships and non-retail sales which totalled £6.6m Revenue in the year. No significant impairment loss has been recorded against trade receivables.

17 Cash and cash equivalents

| | 2021 £'m | 2020 £'m |
|------------------------------------|-------------|-------------|
| Cash at bank and in hand | 12.5 | 5.5 |
| Unsecured bank overdraft (note 18) | – | (3.5) |
| Net cash and cash equivalents | 12.5 | 2.0 |

Group cash and cash equivalents held in bank accounts within the RCF facility described in note 18 are subject to a netting arrangement. At the prior year end £14.3m overdrawn Sterling balances were netted against £10.8m US dollar balances giving rise to a net £3.5m overdrawn balance within the RCF.

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

| | 2021 £'m | 2020 £'m |
|-----------|-------------|-------------|
| Sterling | 1.1 | (9.3) |
| Euro | 0.4 | 0.5 |
| US dollar | 11.0 | 10.8 |
| | 12.5 | 2.0 |

18 Borrowings

| | 2021 £'m | 2020 £'m |
|---|-------------|-------------|
| Current liabilities | | |
| Unsecured bank loans and accrued interest | 0.2 | 0.1 |
| Unsecured bank overdraft | – | 3.5 |
| | 0.2 | 3.6 |
| Non-current liabilities | | |
| Unsecured bank loans | 118.8 | 144.0 |

Bank loans

Bank borrowings as at 31 January 2021 are summarised as follows:

| | Liability £'m | Interest rate % | Interest margin ratchet range % | Repayment terms |
|------------------------|------------------|--------------------|---------------------------------------|--|
| 31 January 2021 | | | | |
| Unsecured bank loan | 120.0 | 2.5 + LIBOR | 1.00 – 2.50 | £200m RCF (see below for renewed facility terms) The facility terminates on 24 September 2023 |
| Accrued interest | 0.2 | | | |
| Debt issue costs | (1.2) | | | |
| | 119.0 | | | |
| 31 January 2020 | | | | |
| Unsecured bank loan | 145.0 | 1.65 + LIBOR | 1.00 – 2.50 | £200m RCF The facility terminates on 24 September 2023 |
| Accrued interest | 0.1 | | | |
| Debt issue costs | (1.0) | | | |
| | 144.1 | | | |

In response to the first period of non-essential retail closures due to Covid-19, the Group previously announced on 6 May 2020 an agreement with its banks to enable continued full utilisation of the £200m Revolving Credit Facility ('RCF') to ensure the business had sufficient liquidity in the uncertain period. In order to do this, the Group had agreed three main covenant tests relating to: total net debt, cash burn and last twelve months EBITDA until June 2021, after which it was envisaged that the business would have a phased return back to existing covenant tests of EBITDA to Leverage and EBITDA to interest cover.

Notes to the financial statements continued

18 Borrowings continued

Following further periods of non-essential retail closures, on 21 May 2021 the Group renewed its financing facilities with its banking partners, which now comprise a £75m Term Loan, £50m CLBILS and a Revolving Credit Facility of £100m. Under revised covenant terms, the Group must achieve defined Net Debt and EBITDA targets, measured on a monthly basis until March 2022, following which the business will move to quarterly covenant tests of Interest Cover and Leverage. Covenant thresholds are phased to return to 2.5x leverage and 2x interest cover by January 2023. The facilities have an expiry date of 24 September 2023 (unchanged from the previous arrangement), with the RCF element being extendable by 1 year to 24 September 2024 if the Company achieves certain debt repayment milestones by 31 July 2022.

The secured facilities are structured to incentivise an early reduction of overall debt with fees of up to £5m payable if pre-payments are not made in line with specified dates from 30 November 2021 through until 31 July 2022. Subject to prevailing market conditions and upon taking independent advice, the Company intends to use its best efforts to raise net equity proceeds of £70m to facilitate these prepayments. The Company is also permitted, under the terms of the facilities, to prepay £70m using funding from other subordinated sources. In accordance with the terms of the CLBILS facilities, restrictions on payment of dividends will apply whilst the CLBILS facilities remain outstanding. Prepayments shall discharge the Term Loan facility and the CLBILS facilities pro-rata.

Until the business has no outstanding CLBILS, there will be a prohibition of any payment to shareholders by way of dividend or share buy-back. Furthermore, the Group must use best efforts to raise at least £70m (net) in equity before the 31 July 2022, or alternatively to prepay £70m using funding from other subordinated sources.

Contractual cash flows of financial liabilities as at the year-end date are disclosed in note 23.

19 Trade and other payables

| | 2021 £'m | 2020 £'m |
|------------------------------------|-------------|-------------|
| Current | | |
| Trade payables | 11.1 | 15.0 |
| Other taxation and social security | 19.3 | 3.7 |
| Contract liabilities | 0.9 | 0.6 |
| Property accruals | 6.0 | 4.4 |
| Other accruals and deferred income | 20.1 | 21.3 |
| | 57.4 | 45.0 |

The Group has net US Dollar denominated trade and other payables of £5.2 million (2020: £3.1 million).

20 Share capital and share premium

| | 2021 (Number) | 2020 (Number) |
|--|--------------------|------------------|
| Share capital | | |
| Allotted, called up and fully paid ordinary shares of one pence: | | |
| At the start of the period | 341,626,396 | 341,549,306 |
| Issued in the period (note 25) | – | 77,090 |
| At the end of the period | 341,626,396 | 341,626,396 |
| | £'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

| | 2021 £'m | 2020 £'m |
|---|---------------|-------------|
| Profit before tax | (16.4) | 65.2 |
| Net finance expense | 8.9 | 8.4 |
| Operating profit | (7.5) | 73.6 |
| Adjusted for: | | |
| Depreciation and amortisation | 50.7 | 49.9 |
| Impairment of right of use assets | 2.6 | 0.4 |
| Goodwill impairment | – | 2.5 |
| Loss on disposal of fixed assets | – | (0.3) |
| Cash flow hedging foreign currency movements | (0.1) | 0.2 |
| Share-based payments charge | 0.8 | 0.5 |
| Operating cash flows before changes in working capital | 46.5 | 126.8 |
| Decrease/(Increase) in receivables | 2.2 | (2.9) |
| Decrease in inventories | 18.0 | 14.2 |
| Increase/(Decrease) in payables | 13.2 | (13.3) |
| Cash inflow from operating activities | 79.9 | 124.8 |

22 Analysis of net debt

| | At 1 February 2020 £'m | Cash flow £'m | Non-cash changes £'m | At 31 January 2021 £'m |
|---|------------------------------|------------------|----------------------------|------------------------------|
| Unsecured bank loans and accrued interest (note 18) | (144.1) | 25.6 | (0.5) | (119.0) |
| Lease liabilities | (145.9) | 22.1 | (21.1) | (144.9) |
| Total debt | (290.0) | 47.7 | (21.6) | (263.9) |
| Debt costs capitalised | (1.0) | (0.6) | 0.4 | (1.2) |
| Cash and cash equivalents (note 17) | 2.0 | 10.5 | – | 12.5 |
| Net debt | (289.0) | 57.6 | (21.2) | (252.6) |
| Lease liabilities | 145.9 | (22.1) | 21.1 | 144.9 |
| Net debt excluding lease liabilities | (143.1) | 35.5 | (0.1) | (107.7) |

| | 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) |
| Debt costs capitalised | (1.3) | – | 0.3 | (1.0) |
| Cash and cash equivalents (note 17) | 3.8 | (1.8) | – | 2.0 |
| Net debt | (292.5) | 39.2 | (35.7) | (289.0) |
| Lease liabilities | 151.2 | (41.0) | 35.7 | 145.9 |
| Net debt excluding lease liabilities | (141.3) | (1.8) | – | (143.1) |

Notes to the financial statements continued

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 40 to 43 and in the Corporate Governance Report on pages 66 and 67.

Liquidity risk

With the exception of trading under Covid-19, the Group generates significant operational cash inflows. Cash flow forecasts are prepared to assist management in identifying future liquidity requirements. At the balance sheet date, the Group had net debt (note 22) of £107.7 million (2020: £143.1 million) and an RCF facility of £200 million (see note 18).

On 21 May 2021 the Group renewed its financing facilities with its banking partners, which now comprise a £75m Term Loan, £50m CLBILS and a Revolving Credit Facility of £100m. Under revised covenant terms, the Group must achieve defined Net Debt and EBITDA targets, measured on a monthly basis until March 2022, following which the business will move to quarterly covenant tests of Interest Cover and Leverage. Covenant thresholds are phased to return to 2.5x leverage and 2x interest cover by January 2023. The facilities have an expiry date of 24 September 2023 (unchanged from the previous arrangement), with the RCF element being extendable by 1 year to 24 September 2024 if the Company achieves certain debt repayment milestones by 31 July 2022.

The facilities are structured to incentivise an early reduction of overall debt with fees of up to £5m payable if prepayments are not made in line with specified dates from 30 November 2021 through until 31 July 2022. Subject to prevailing market conditions and upon taking independent advice, the Company intends to use its best efforts to raise net equity proceeds of £70m to facilitate these prepayments. The Company is also permitted, under the terms of the facilities, to prepay £70m using funding from other subordinated sources. In accordance with the terms of the CLBILS facilities, restrictions on payment of dividends will apply whilst the CLBILS facilities remain outstanding. Prepayments shall discharge the Term Loan facility and the CLBILS facilities pro-rata.

Until the business has no outstanding CLBILS, there will be a prohibition of any payment to shareholders by way of dividend or share buy-back. Furthermore, the Group must use best efforts to raise at least £70m (net) in equity before the 31 July 2022.

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 2021 | | | | | |
| Unsecured bank loans | 0.2 | – | 120.0 | – | 120.2 |
| Lease liabilities | 63.0 | 33.6 | 47.1 | 8.3 | 152.0 |
| Trade and other payables | 57.4 | – | – | – | 57.4 |
| | 120.6 | 33.6 | 167.1 | 8.3 | 329.6 |
| 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 |

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 2021 | | | | | |
| Foreign exchange contracts | | | | | |
| – Inflow | 74.3 | 27.0 | 4.4 | – | 105.7 |
| – Outflow | (76.7) | (27.6) | (4.4) | – | (108.7) |
| Interest rate contracts | | | | | |
| – Outflow | (0.7) | (0.5) | (0.2) | – | (1.4) |
| At 31 January 2020 | | | | | |
| Foreign exchange contracts | | | | | |
| – Inflow | 61.7 | 43.3 | – | – | 105.0 |
| – Outflow | (60.8) | (42.8) | – | – | (103.6) |
| Interest rate contracts | | | | | |
| – Outflow | (0.2) | (0.5) | (0.2) | – | (0.9) |

Foreign currency risk

A significant proportion of the Group's retail products are procured from overseas suppliers denominated in US Dollars. Current Group policy requires forward cover of between 50% and 100% of the next 12 months rolling US Dollar requirement using foreign exchange derivative contracts and US Dollar denominated cash balances, up to 80% forward cover for the period 12 to 24 months and up to 40% for the period 24 to 36 months. The policy permits a proportion of each year's US Dollar requirement to be covered by structured options and similar instruments.

The unprecedented impact on trade from Covid-19 resulted in the discontinuation of certain hedging relationships during the year where inventory purchase cashflows were no longer expected to occur. Amounts recognised in the hedging reserve and cost of hedging reserve in respect of discontinued hedges were released to the income statement. Excess foreign exchange hedged positions were resolved by a combination of trading USD cash back to Sterling and extending maturity dates on structured trades not designated as a hedging relationship. Gains and losses on discontinued hedges were recognised in the income statement.

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.

| | 2021 | | 2020 | |
|------------------|--------------------------------------|--|--------------------------------------|--|
| | 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 | (2.5) | (3.7) | (2.1) | (5.5) |
| 10 cent decrease | 3.1 | 4.4 | 2.2 | 6.4 |

Notes to the financial statements continued

23 Financial risk management continued

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.

| | 2021 | | 2020 | |
|---------------------------------------|-----------------------------------|--|-----------------------------------|--|
| | 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) | 0.6 | (0.2) | 1.0 |
| 50 basis point interest rate decrease | 0.2 | (0.7) | 0.2 | (1.0) |

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 typically 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 certain 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 represented circa £6.6 million in the year and trade receivables at 31 January 2021 were £1.6m (2020: £1.6m). 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.

Following the impact of Covid-19, the Board intends to prioritise de-levering the business, which will impact the distribution of cash to shareholders in the short-term, as reflected above. Given the inherent uncertainty around the recovery of the business following the extended lockdowns experienced to date, and the risk of any subsequent lockdowns that may be imposed in the future, 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 on capital policy as trading conditions become clearer.

Details on Group borrowings and new funding arrangements agreed after the balance sheet date 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.

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 suspended dividend payments and no dividends were declared in FY21. We currently do not expect to pay any dividends in relation to FY22. The terms of the Company's refinancing restrict the payment of dividends until certain de-leveraging milestones are achieved.

24 Financial instruments

Fair value

Financial instruments carried at fair value are measured by reference to the following fair value hierarchy:

- Level 1: quoted prices in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Derivative financial instruments are carried at fair value and measured under a level 2 valuation method.

Derivative financial instruments

The balance sheet date fair value of derivative financial instruments is as follows:

| | 2021 £'m | 2020 £'m |
|---|-------------|-------------|
| Derivative assets | | |
| <i>Non-current</i> | | |
| Foreign exchange contracts | – | 0.5 |
| <i>Current</i> | | |
| Foreign exchange contracts | 0.1 | 1.1 |
| Derivative liabilities | | |
| <i>Current</i> | | |
| Interest rate contracts | (0.7) | (0.4) |
| Foreign exchange contracts | (2.1) | (0.6) |
| | (2.8) | (1.0) |
| <i>Non-current</i> | | |
| Interest rate contracts | (0.6) | (0.5) |
| Foreign exchange contracts | (1.3) | (0.8) |
| | (1.9) | (1.3) |
| Net derivative financial instruments | | |
| Interest rate contracts | (1.3) | (0.9) |
| Foreign exchange contracts | (3.3) | 0.2 |
| | (4.6) | (0.7) |

Interest rate contracts

At 31 January 2021 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 £80.0 million for the period to October 2021, reducing to £60.0 million for the period to October 2022 then reducing to £30 million for the period to October 2023 (2020: £120.0 million for the period to October 2020, reducing to £80.0 million for the period to October 2021 then reducing to £60.0 million for the period to October 2022 then reducing to £10 million for the period to October 2023). Unhedged fair value movements of £nil (2020: £0.1 million) were expensed to the income statement within financial expense.

Foreign exchange contracts

At 31 January 2021 the Group held a portfolio of foreign currency derivative contracts with notional principal amounts totalling £105.6 million (2020: £103.3 million) to mitigate the exchange risk on future US Dollar denominated trade purchases and £nil to mitigate the exchange risk on Euro denominated income (2020: £1.7 million). Foreign currency derivative contracts with a notional value of £46.6 million representing a fair value liability of £1.2 million (2020: £23.0 million representing a fair value asset of near zero) 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 £1.2 million that do not form part of an effective hedging relationship have been charged to the income statement (2020: £0.5 million credit) as a non-underlying item within cost of sales (see note 3).

Notes to the financial statements 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.

| | Mandatorily at FVTPL £'m | Cash flow hedging instruments £'m | Financial assets at amortised cost £'m | Other financial liabilities £'m |
|---|--------------------------------|---|--|---------------------------------------|
| At 31 January 2021 | | | | |
| Financial assets measured at fair value | | | | |
| Derivative financial instruments | – | 0.1 | – | – |
| Financial assets not measured at fair value | | | | |
| Trade and other receivables | – | – | 7.2 | – |
| Cash and cash equivalents | – | – | 12.5 | – |
| Financial liabilities measured at fair value | | | | |
| Derivative financial instruments | (1.2) | (3.5) | – | – |
| Financial liabilities not measured at fair value | | | | |
| Unsecured bank loans | – | – | – | (119.0) |
| Unsecured bank overdrafts | – | – | – | – |
| Trade and other payables | – | – | – | (57.4) |
| | (1.2) | (3.4) | 19.7 | (176.4) |
| At 31 January 2020 | | | | |
| | £'m | £'m | £'m | £'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) |

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 77 to 96.

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 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 |
| Granted during the year | 2,618,058 | £0.00 | 3,648,970 | £0.27 |
| Exercised during the year | – | £0.00 | – | – |
| Forfeited during the year | (858,239) | £0.00 | (724,827) | £1.72 |
| Outstanding at 31 January 2021 | 3,681,075 | £0.00 | 3,961,409 | £1.58 |

At 31 January 2021 there were 402 options remaining exercisable at £2.68 under the SAYE scheme which lapsed on 1 April 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.

| | 2021 | | | 2020 | |
|-----------------------------|----------------|------------------|------------------|-------------|---------|
| | RSA/LTIP (1)* | RSA/LTIP (2) | SAYE | RSA/LTIP | SAYE |
| Granted during the year | 304,356 | 2,313,702 | 3,648,970 | 860,688 | 518,324 |
| Fair value at grant date | £0.79 | £0.35 | £0.10 | £1.88 | £0.31 |
| Share price at grant date** | £0.79 | £0.35 | £0.35 | £1.88 | £2.01 |
| Exercise price** | £0.00 | £0.00 | £0.27 | £0.00 | £1.54 |
| Expected volatility | 40% | 60% | 60% | 30% | 30% |
| Expected term (years) | 2 | 3 to 5 | 3 | 3 to 5 | 3 |
| Expected dividend yield | N/A*** | N/A*** | 10% | N/A*** | 8.5% |
| Risk free interest rate | 0.30% | 0.00% | 0.00% | 0.73%-0.80% | 0.35% |

* A special share award was granted on 28 February to certain senior employees vesting after two years.

** 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:

| | 2021 £'m | 2020 £'m |
|--|-------------|-------------|
| All amounts exclude national insurance costs | | |
| RSA or LTIP | 0.7 | 0.4 |
| SAYE | 0.1 | 0.1 |
| Total share based payment expense | 0.8 | 0.5 |

Notes to the financial statements continued

26 Capital commitments

There were capital commitments of £0.8 million at 31 January 2021 (2020: £0.6 million).

27 Contingent liabilities

There were no material contingent liabilities at 31 January 2021 (2020: £nil).

28 Related party transactions

The Group has taken advantage of the exemptions contained within IAS 24 'Related Party Disclosures' from the requirement to disclose transactions between Group companies as these have been eliminated on consolidation.

Transactions with key management personnel

The key management personnel of the Group comprise the Card Factory plc Board of Directors, 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 77 to 96. Directors of the Company and their immediate families control 0.02% of the ordinary shares of the Company.

There were no other related party transactions in the year.

29 Subsidiary undertakings

At 31 January 2021 the Group controlled 100% of the issued ordinary share capital of the following subsidiaries, all of which are included in the consolidated financial statements. All subsidiaries are registered in England and Wales with the exception of Card Factory Ireland Limited which is registered in the Republic of Ireland. The registered office of the Company is Century House, Brunel Road, Wakefield 41 Industrial Estate, Wakefield, West Yorkshire, WF2 0XG.

| Subsidiary undertaking | Nature of business | Registered office |
|--------------------------------|--|---------------------|
| CF Bidco Limited* | Intermediate holding company | Same as the Company |
| Sportswift Limited | Sale of greeting cards and gifts | Same as the Company |
| Printcraft Limited | Printers | Same as the Company |
| Getting Personal Limited | Online sale of personalised products and gifts | Same as the Company |
| 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 | Same as the Company |
| Getting Personal (UK) Limited | Dormant | Same as the Company |
| 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.

** 6th Floor, 2 Grand Canal Square, Dublin 2, Dublin, Republic of Ireland.

30 Subsequent events

Liquidity

On 21 May 2021 the Group renewed its financing facilities with its banking partners, which now comprise a £75m Term Loan, £50m CLBILS and a Revolving Credit Facility of £100m. Under revised covenant terms, the Group must achieve defined Net Debt and EBITDA targets, measured on a monthly basis until March 2022, following which the business will move to quarterly covenant tests of Interest Cover and Leverage. Covenant thresholds are phased to return to 2.5x leverage and 2x interest cover by January 2023. The facilities have an expiry date of 24 September 2023 (unchanged from the previous arrangement), with the RCF element being extendable by 1 year to 24 September 2024 if the Company achieves certain debt repayment milestones by 31 July 2022.

The facilities are structured to incentivise an early reduction of overall debt with fees of up to £5m payable if prepayments are not made in line with specified dates from 30 November 2021 through until 30 July 2022. Subject to prevailing market conditions and upon taking independent advice, the Company intends to use its best efforts to raise net equity proceeds of £70m to facilitate these prepayments. The Company is also permitted, under the terms of the facilities, to prepay £70m using funding from other subordinated sources. In accordance with the terms of the CLBILS facilities, restrictions on payment of dividends will apply whilst the CLBILS facilities remain outstanding. Prepayments shall discharge the Term Loan facility and the CLBILS facilities pro-rata.

Until the business has no outstanding CLBILS, there will be a prohibition of any payment to shareholders by way of dividend or share buy-back. Furthermore, the Group must use best efforts to raise at least £70m (net) in equity before the 31 July 2022, or alternatively to prepay £70m using funding from other subordinated sources.

Store re-opening dates

In accordance with Government guidelines, we welcomed our colleagues and customers back into our stores in England and Wales (12 April), Scotland (26 April), Northern Ireland (30 April) and the Republic of Ireland (17 May).

Parent Company statement of financial position

As at 31 January 2021

| | Note | 2021 £'m | 2020 £'m |
|--|------|--------------|-------------|
| Non-current assets | | | |
| Investments | 4 | 316.2 | 316.2 |
| Deferred tax assets | | 0.3 | – |
| | | 316.5 | 316.2 |
| Current assets | | | |
| Trade and other receivables | 5 | 2.0 | 1.1 |
| Total assets | | 318.5 | 317.3 |
| Current liabilities | | | |
| Trade and other payables | 6 | (3.5) | (1.8) |
| Net assets | | 315.0 | 315.5 |
| Equity | | | |
| Share capital | 7 | 3.4 | 3.4 |
| Share premium | 7 | 202.2 | 202.2 |
| Merger reserve | | 2.7 | 2.7 |
| Retained earnings | 13 | 106.7 | 107.2 |
| Equity attributable to equity holders of the parent | | 315.0 | 315.5 |

The financial statements on pages 150 to 160 were approved by the Board of Directors on 10 June 2021 and were signed on its behalf by:

Kris Lee
Chief Financial Officer

Company number 09002747

Parent Company statement of changes in equity

For the year ended 31 January 2021

| | Share capital £'m | Share premium £'m | Merger reserve £'m | Retained earnings £'m | Total equity £'m |
|--|----------------------|----------------------|-----------------------|--------------------------|---------------------|
| 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 |
| Total comprehensive income for the year | | | | | |
| Profit or loss | – | – | – | (1.3) | (1.3) |
| Transactions with owners, recorded directly in equity | | | | | |
| Share-based payments (note 8) | – | – | – | 0.8 | 0.8 |
| At 31 January 2021 | 3.4 | 202.2 | 2.7 | 106.7 | 315.0 |

The notes that accompany these financial statements are included on pages 153 to 160.

Parent Company cash flow statement

For the year ended 31 January 2021

| | Note | 2021 £'m | 2020 £'m |
|--|------|-------------|-------------|
| Cash (outflow)/inflow from operating activities | 11 | - | 0.9 |
| Corporation tax paid | | - | - |
| Net cash (outflow)/inflow from operating activities | | - | 0.9 |
| Cash flows from investing activities | | | |
| Dividends received | | - | 48.0 |
| Net cash inflow from investing activities | | - | 48.0 |
| Cash flows from financing activities | | | |
| Dividends paid | 3 | - | (48.9) |
| Net cash outflow from financing activities | | - | (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 153 to 160.

Notes to the Parent Company financial statements

1 Accounting policies

Basis of preparation

The Company financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

The financial statements have been prepared under the historical cost convention.

Going Concern basis of accounting

The Board continues to have a reasonable expectation that the Group and the Company have adequate resources to continue in operation for at least the next 12 months and that the going concern basis of accounting remains appropriate. The outbreak of the Covid-19 pandemic and the measures adopted by governments in our key markets to mitigate its spread have impacted the Group. These measures required the Group to close its retail outlets for over 5 months in total during FY21. This has negatively impacted the Group's financial performance during the year and also its liquidity position.

The Group renewed its financing facilities with its banking partners in May 2021 (see Note 18 for further detail), through which it has access to £225m of credit. As at 31 May 2021, the Group's net debt excluding lease liabilities was £111.9m.

The Group has prepared cashflow forecasts for the 12 months following the date of approval of these accounts which incorporate the new debt facility and related covenant measures. These forecasts are based on the approved budget and business plan and include the Board's assumptions on trading performance, including the extent and speed of the recovery of store sales following reopening, and the timing of cashflows including amounts where payment was deferred due to Covid-19. The Board's trading assumptions are cautious compared to the Group's actual experience since stores reopened and model a gradual recovery to pre-COVID levels. These forecasts indicate that the Group would have significant headroom within its agreed financing arrangements and would comfortably meet all covenant tests within those arrangements, and would be able to settle its liabilities as they fall due for the duration of the forecasts.

There is still uncertainty over how the future development of the pandemic will impact the Group's business and customer demand for its products. The Group has therefore modelled a number of severe but plausible downside scenarios involving further closures of its stores, including scenarios where government imposed lockdowns require a two-month closure during the winter period and a separate scenario where the Group's stores are closed for the whole of the peak trading month of December 2021. The impact of a December lockdown is the most severe and, in such a scenario, without assuming the availability of government support (including the coronavirus job retention scheme) during this period of enforced closure, the Board would be required to take mitigating actions to reduce costs, optimise the Group's cash flow and preserve liquidity, including laying off retail staff during the period of closure and deferring or cancelling any potential bonuses. Additional cost saving measures such as deferring non-essential capital expenditure, which have not been modelled, would also be available to the Group.

On the basis of these mitigating actions the sensitised forecast cashflows indicate that, even on the basis of full closure in December and no government support, the Group would continue to be able to operate within the terms of its facility and to settle its liabilities as they fall due for a period of at least 12 months from date of approval of these financial statements. Based on these factors, the Board has a reasonable expectation that the Group and the Company have adequate resources and sufficient loan facility headroom and accordingly the accounts are prepared on a going concern basis.

Significant judgements and estimates

The preparation of financial statements in conformity with UK 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 identified the following as significant estimates in the period:

Investment in subsidiaries impairment testing

The impairment testing of investment in subsidiaries requires significant 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, the pre-tax discount rate and the Covid-19 trading environment.

Principal accounting policies

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

Notes to the Parent Company financial statements *continued*

1 Accounting policies *continued*

Changes in significant accounting policies

New standards and amendments to existing standards effective in the period do not have a material effect on the Group's financial statements.

UK endorsed standards and amendments issued but not yet effective

UK endorsed standards and amendments effective for annual periods beginning after 1 January 2021 have not been early adopted and are not expected to have a significant impact on the Group's consolidated financial statements:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform –Phase 2

Income statement

The Company made a loss after tax of £1.3 million for the year ended 31 January 2021 (2020: £47.1 million profit), including £nil dividends received from subsidiary undertakings (2020: £48.0 million). As permitted by section 408 of the Companies Act 2006, the income statement of the Company is not presented as part of the financial statements.

Investments

Investments in subsidiary undertakings are held at cost less any provision for impairment.

Financial instruments

Non-derivative financial assets

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

Non-derivative financial liabilities

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

Share capital

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

Merger reserve

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

Share-based payments

The Company issues equity-settled share-based payments to employees 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 86 to 96.

3 Dividends

The Board is not recommending a final dividend in respect of the financial year ended 31 January 2021 (2020: no final dividend).

Dividends paid in the year:

| | Pence per share | 2021 £'m | 2020 £'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 |
| Total dividends paid to shareholders in the year | | – | 48.9 |

4 Investments in subsidiaries

| | £'m |
|--|--------------|
| At 31 January 2020 and 31 January 2021 | 316.2 |

The market capitalisation of the Group at 31 January 2021 was 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 in subsidiaries 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.

Notes to the Parent Company financial statements *continued*

4 Investments in subsidiaries *continued*

Subsidiary undertakings

At 31 January 2021 the Company controlled 100% of the issued ordinary share capital of the following subsidiaries, all of which are included in the consolidated financial statements. All subsidiaries are registered in England and Wales with the exception of Card Factory Ireland Limited which is registered in the Republic of Ireland. The registered office of the Company is Century House, Brunel Road, Wakefield 41 Industrial Estate, Wakefield, West Yorkshire, WF2 0XG.

| Subsidiary undertaking | Nature of business | Registered office |
|--------------------------------|--|---------------------|
| CF Bidco Limited* | Intermediate holding company | Same as the Company |
| Sportswift Limited | Sale of greeting cards and gifts | Same as the Company |
| Printcraft Limited | Printers | Same as the Company |
| Getting Personal Limited | Online sale of personalised products and gifts | Same as the Company |
| 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 | Same as the Company |
| Getting Personal (UK) Limited | Dormant | Same as the Company |
| 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.

** 6th Floor, 2 Grand Canal Square, Dublin 2, Dublin, Republic of Ireland

5 Trade and other receivables

| | 2021 £'m | 2020 £'m |
|------------------------------------|-------------|-------------|
| Amounts owed by Group undertakings | 1.8 | 1.0 |
| VAT recoverable | 0.2 | – |
| Prepayments and other debtors | – | 0.1 |
| | 2.0 | 1.1 |

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

| | 2021 £'m | 2020 £'m |
|------------------------------------|-------------|-------------|
| Amounts owed to Group undertakings | 3.0 | 1.3 |
| Trade payables | 0.2 | 0.1 |
| Accruals | 0.3 | 0.4 |
| | 3.5 | 1.8 |

7 Share capital and share premium

| | 2021 (Number) | 2020 (Number) |
|--|--------------------|------------------|
| Share capital | | |
| Allotted, called up and fully paid ordinary shares of one pence: | | |
| At the start of the period | 341,626,396 | 341,549,306 |
| *Shares issued in the year | – | 77,090 |
| At the end of the period | 341,626,396 | 341,626,396 |
| | £'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 86 to 96.

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.

Notes to the Parent Company financial statements *continued*

8 Equity settled share-based payment arrangements *continued* 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 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 |
| Granted during the year | 2,618,058 | £0.00 | 3,648,970 | £0.27 |
| Exercised during the year | – | £0.00 | – | – |
| Forfeited during the year | (858,239) | £0.00 | (724,827) | £1.72 |
| Outstanding at 31 January 2021 | 3,681,075 | £0.00 | 3,961,409 | £1.58 |

At 31 January 2021 there were 402 options remaining exercisable at £2.68 under the SAYE scheme which lapsed on 1 April 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.

| | 2021 | | | 2020 | |
|-----------------------------|----------------|------------------|------------------|-------------|---------|
| | RSA/LTIP (1)* | RSA/LTIP (2) | SAYE | RSA/LTIP | SAYE |
| Granted during the year | 304,356 | 2,313,702 | 3,648,970 | 860,688 | 518,324 |
| Fair value at grant date | £0.79 | £0.35 | £0.10 | £1.88 | £0.31 |
| Share price at grant date** | £0.79 | £0.35 | £0.35 | £1.88 | £2.01 |
| Exercise price** | £0.00 | £0.00 | £0.27 | £0.00 | £1.54 |
| Expected volatility | 40% | 60% | 60% | 30% | 30% |
| Expected term (years) | 2 | 3 to 5 | 3 | 3 to 5 | 3 |
| Expected dividend yield | N/A*** | N/A*** | 10% | N/A*** | 8.5% |
| Risk free interest rate | 0.30% | 0.00% | 0.00% | 0.73%-0.80% | 0.35% |

* A special share award was granted on 28 February to certain senior employees vesting after two years.

** 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:

| | 2021 £'m | 2020 £'m |
|---|-------------|-------------|
| <i>All amounts exclude national insurance costs</i> | | |
| Expense recognised in the Company income statement | | |
| RSA or LTIP | 0.3 | 0.2 |
| Expense recognised in subsidiary income statements | | |
| RSA or LTIP | 0.4 | 0.2 |
| SAYE | 0.1 | 0.1 |
| | 0.5 | 0.3 |
| Total expense recognised in the Group income statement | 0.8 | 0.5 |

9 Financial risk management

The financial risk management strategy of the Company is consistent with the Group strategy detailed in note 23 of the Group financial statements. Company exposure to liquidity, interest rate, foreign exchange and credit risk are principally to the extent they impact the trade of its subsidiary investments. Trade and other receivables of the Company principally comprise amounts due from Group undertakings.

10 Financial instruments

Classification of financial instruments.

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

Maturity analysis

All financial instrument assets and liabilities fall due in less than one year.

Fair values

The fair values of financial instruments have been assessed as approximating to their carrying values.

11 Notes to the cash flow statement

| | 2021 £'m | 2020 £'m |
|---|--------------|--------------|
| (Loss)/profit before tax | (1.6) | 46.9 |
| Dividends received | – | (48.0) |
| Operating loss | (1.6) | (1.1) |
| Adjusted for: | | |
| Share-based payment charge | 0.3 | 0.2 |
| Operating cash flows before changes in working capital | (1.3) | (0.9) |
| Increase in receivables | (0.5) | 4.3 |
| Increase in payables | 1.8 | 2.5 |
| Cash inflow/(outflow) from operating activities | – | (0.9) |

12 Related party transactions

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

| | 2021 £'m | 2020 £'m |
|--|-------------|-------------|
| Management services | 1.4 | 1.5 |
| Dividends received from Group undertakings | – | 48.0 |
| Inter-company working capital cash flows from group undertakings | 1.4 | 1.7 |

Transactions with key management personnel

The key management personnel of the Company comprise the Card Factory plc Board of Directors. Disclosures relating to Directors' remuneration are set out in the Remuneration Report on pages 86 to 96. Directors of the Company control 0.02% of the ordinary shares of the Company.

13 Distributable reserves

The retained earnings of the Company are wholly distributable.

14 Subsequent events

Liquidity

On 21 May 2021 the Group renewed its financing facilities with its banking partners, which now comprise a £75m Term Loan, £50m CLBILS and a Revolving Credit Facility of £100m. Under revised covenant terms, the Group must achieve defined Net Debt and EBITDA targets, measured on a monthly basis until March 2022, following which the business will move to quarterly covenant tests of Interest Cover and Leverage. Covenant thresholds are phased to return to 2.5x leverage and 2x interest cover by January 2023. The facilities have an expiry date of 24 September 2023 (unchanged from the previous arrangement), with the RCF element being extendable by 1 year to 24 September 2024 if the Company achieves certain debt repayment milestones by 31 July 2022.

The facilities are structured to incentivise an early reduction of overall debt with fees of up to £5m payable if pre-payments are not made in line with specified dates from 30 November 2021 through until 30 July 2022. Subject to prevailing market conditions and upon taking independent advice, the Company intends to use its best efforts to raise net equity proceeds of £70m to facilitate these prepayments. The Company is also permitted, under the terms of the facilities, to prepay £70m using funding from other subordinated sources. In accordance with the terms of the CLBILS facilities, restrictions on payment of dividends will apply whilst the CLBILS facilities remain outstanding. Prepayments shall discharge the Term Loan facility and the CLBILS facilities pro-rata.

Until the business has no outstanding CLBILS, there will be a prohibition of any payment to shareholders by way of dividend or share buy-back. Furthermore, the Group must use best efforts to raise at least £70m (net) in equity before the 31 July 2022, or alternatively to prepay £70m using funding from other subordinated sources.

Store re-opening dates

In accordance with Government guidelines, we welcomed our colleagues and customers back into our stores in England and Wales (12 April), Scotland (26 April), Northern Ireland (30 April) and the Republic of Ireland (17 May).

Glossary

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

Introduction

In the reporting of the financial statements, the Directors have adopted various Alternative Performance Measures (APMs) of financial performance, position or cash flows other than those defined or specified under International Financial Reporting Standards (IFRS). These measures are not defined by IFRS and therefore may not be directly comparable with other companies' APMs, including those in the Group's industry. APMs should be considered in addition to IFRS measures and are not intended to be a substitute for IFRS measurements.

Purpose

The Directors believe that these APMs provide additional useful information on the underlying performance and position of the Group.

APMs are also used to enhance the comparability of information between reporting periods by adjusting for irregularity factors which affect IFRS measures, to aid the user in understanding the Group's performance.

Consequently, APMs are used by the Directors and management for performance analysis, planning, reporting and incentive setting purposes. The key APMs that the Group has focused on this period are as follows:

"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.

"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 like-for-like sales as the year-on-year growth in sales via Card Factory retail channels as follows:

- Card Factory Stores: "Store LFLs" consider stores that were open in both the current year and the comparative period. Sales are compared only for the equivalent c.55% of the year in which the applicable Card Factory stores were open for trading in FY21.
- Card Factory Online: made via the Card Factory website, www.cardfactory.co.uk;
- "Card Factory LFL" is defined as Like-for-like sales in stores plus sales from the Card Factory website. www.cardfactory.co.uk;
- Getting Personal: made via the separately branded personalised card and gift website, www.gettingpersonal.co.uk;
- Where 2 year LFLs are used, these compare FY22 with FY20, because there was no comparable trade during FY21.

Sales by Printcraft, the Group's printing division, to external third-party customers are excluded from any LFL sales measure.

"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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Notes

Notes

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