Celebrate life's moments

cardfactory

Annual Report and Accounts 2022

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

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".[1]

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.

1 Source: Dynata February 2022.

Strategic Report

Governance

Financial Statements

Company Information

FY22 highlights

Financial highlights

Revenue (£m)

£364.4m

FY22	364.4
FY21	285.1
FY20	451.5
FY19	436.0
FY18	422.1

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

-3.9 ppts

FY22	(3.9)
FY21	0.1
FY20	(0.5)
FY19	(0.1)
FY18	2.9

Profit Before Tax[1] (£m)

£11.1m

FY22	11.1
FY21	(16.4)
FY20	65.2
FY19	68.2

Leverage[1]
(excluding lease liabilities)

0.9x

FY22	0.9
FY21	2.4
FY20	1.1
FY19	1.1

Operating Cash Flow (£m)

£113.6m

FY22	113.6
FY21	79.9
FY20	124.8
FY19	99.1

Basic EPS[1] (p)

2.4p

FY22	2.4
FY21	(4.0)
FY20	15.1
FY19	15.4

Summary of the financial period

- Revenue of £364.4 million is +28% year-on-year ('YOY') driven by growth in store sales following easing of lockdown restrictions.
- Profits ahead of expectations, despite significant inflationary and supply chain headwinds, with EBITDA of £85.6 million and profit before tax of £11.1 million.
- Strong recovery in the run-up to Christmas with LFL December sales recovering to near pre-pandemic levels while remaining ahead of high street averages.
- Online sales significantly ahead of pre-pandemic levels (+23%) reflecting expansion of product range online and improved customer experience as well as accelerated shift in consumer behaviour, although -14% YOY reflecting the easing of lockdown restrictions and the return of customers to physical stores.
- Tight management of costs and selected price increases has enabled the business to largely offset inflationary pressures to date.

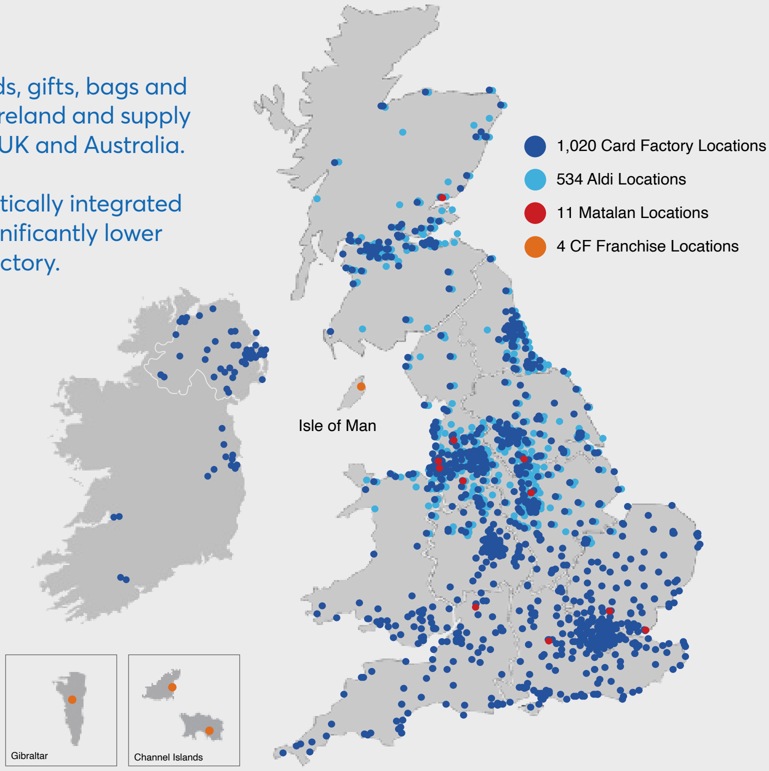
1 See the glossary on page 160 for alternative performance measures ('APMs') and other explanatory information. Following adoption of IFRS 16 in FY20, consistent comparatives for periods before FY19 are not available.
FY22 means the financial year to 31 January 2022.

Welcome to Card Factory

Card Factory is the first choice for greeting cards.

We are the UK's leading specialist retailer of greeting cards, gifts, bags and wrap with an estate of over 1,000 stores across the UK & 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 no one quite like Card Factory.



Data correct at 31 January 2022

Colleagues

8,800+

Total revenue

£364.4m

Our channels

Stores (UK & Ireland)

1,020

Partner retail locations (UK)

554

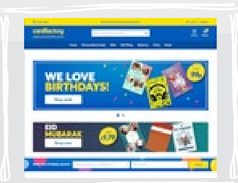
Partner retail locations (Australia)

367

Franchise stores

4

Online



Unique visitors in FY22 cardfactory.co.uk

9.9m

Unique visitors in FY22 gettingpersonal.co.uk

9.3m

Our purpose

Helping people celebrate life moments.

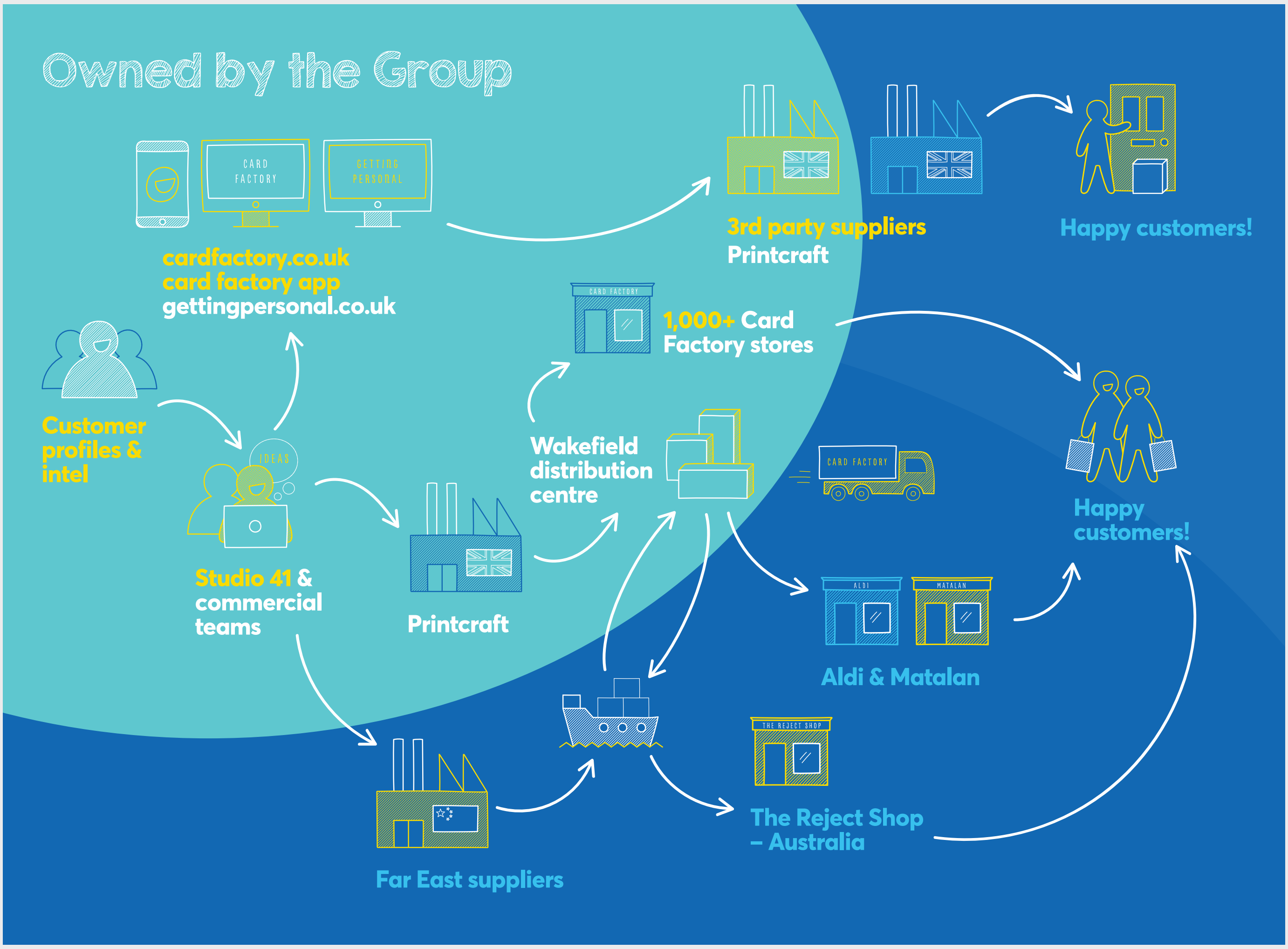
We design, manufacture and source the products that help to commemorate every occasion, from the everyday to the once-in-a-lifetime; yet at prices that help people keep their money in their pockets.

We retail principally through our chain of over 1,000 Card Factory stores in the UK & 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



Investment case

Only credible card specialist at scale

- Despite periods of non-essential retail closure, Card Factory remained the largest card retailer (in store) by volume share in the UK in 2021. Having been reduced to 20% in 2020, our market share by volume of UK greeting cards returned to 24% in 2021 and continues to grow towards its pre-pandemic level (2019: 33%).[1]
- This return to growth has outperformed the market, proving the resilience of the Card Factory brand.[1]
- 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.

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

- Design: 80% of cards and 75% of gifts are designed in-house through our team of 60 creative designers, verse writers, and creative management; each year we create around 3,500 new products from cards and wrap, to gifts and toys.
- Manufacturing: 168 million cards and other products manufactured during the year in Baildon, Yorkshire (down from 172.5 million 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 one in three greeting cards sold in the UK, prior to Covid-19.[1]
- Ranked #1 of all UK retail brands for 'value for money'.[1]
- Ranked #1 in the UK for the most important criteria used by customers buying greeting cards: 'Wide range of cards', 'Availability of cards', and 'Cards available at different price points'.[1]
- Ranked #1 destination for balloons and party.[2]

Clear pathway to restore sales and profit growth in the core

- High return on investment reflecting low capex model.
- Pursuing an international multichannel roll-out and targeting 1,050 Company operated stores in UK & Ireland.
- Optimising store returns driven by data insights, maximising returns from existing store space.
- Targeting wider card-led opportunities in complementary gifting 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 drives 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

- Scope for generating growth from proven success of current relationship with Aldi and an ongoing trial with Matalan. Concessions in 367 The Reject Shop stores in Australia provides additional model for further growth.
- Return to shareholder distributions when prudent, post-Covid-19.

1 Source: Dynata February 2022.
2 Source: Savanta Brand Vue January 2022.

Platform for omnichannel growth

> *I am proud of the resilient performance delivered by the Card Factory leadership team and colleagues across the business."*
>
> **Paul Moody**
> Chair

Group revenue
£364.4m
+28.0%
FY21: £285.1m

Profit before tax
£11.1m
+167.7%
FY21: £16.4m

Dear Shareholder

With the impact of Covid-19 lockdowns and personal constraints still being felt throughout 2021, I am proud of the resilient performance delivered by the Card Factory leadership team and colleagues across the business. Even though the financial year was materially impacted by Covid-19 related restrictions, trading and profits for FY22 were ahead of the Board's expectations, with overall performance recovering steadily from April 2021 as those restrictions eased.

The response from our customers as lockdowns ended was extremely positive. As footfall increased but to levels still below historical norms, our customers told us how much they had missed shopping at Card Factory. We believe that this evident loyalty to our brand and customer proposition places us in a strong position to grow the business in line with our strategic ambition and is testament to both the strength of the Card Factory offer and the hard work and commitment of store colleagues throughout the UK and Ireland.

I would also like to recognise all Card Factory colleagues for the exceptional effort and drive they have shown through this second year of the pandemic. Many of our colleagues were on furlough for much of the first quarter of the year but they returned to the business with a passion to reopen stores and deliver for our customers, our business and our shareholders. It is important to recognise the unrelenting efforts of colleagues who worked through the lockdowns, continuing to adapt with agility and pace to changing circumstances, ensuring the business was well placed to reopen stores at, often, short notice.

Year in review

Encouragingly, store sales recovered steadily through the year after lockdown restrictions eased, enabling an improving top-line performance.

Profit for the 12 months to 31 January 2022 was ahead of management's expectations despite the external headwinds facing the wider market, particularly significant inflationary headwinds and supply chain pressures including the increasing cost of freight and also the impact of inflation on staff costs and utilities. As Covid-19 related restrictions eased, we saw a steady recovery of store sales performance, with the key Christmas season approaching pre-pandemic LFL levels.

As customers returned to our stores following consecutive lockdowns, we saw our online sales decline slightly year on year. However, we remain encouraged by our Card Factory online sales in the financial year being significantly ahead of pre-pandemic levels, reflecting the expansion of our online product range and the improved customer experience whilst visiting the website, as well as an accelerated shift in consumer behaviour, consequent to the extended periods when our stores were closed.

The Board has remained focused on building the financial strength of the business. This resulted in strong operational cash flow and improved balance sheet strength.

The Board is pleased to have successfully refinanced the business, as announced on 21 April 2022, with an updated and amended financing package with our banking partners. As well as reducing the overall quantum, the refinancing has extended the term of the Group's debt facilities comprising term loans of £30 million, CLBILS (Coronavirus Large Business Interruption Loan Scheme) of £20 million and a Revolving Credit Facility of £100 million. The revised agreement removed the obligation on the Group to use best efforts to raise further equity to make prepayments of the debt facilities. Further details of the refinancing are provided within the CFO statement on pages 32 to 37.

Platform for growth

Under the leadership of Darcy Willson-Rymer, we have comprehensively reviewed our future growth strategy, emphasising the strategic importance of our digital offer and the opportunity to develop partnerships with third parties nationally and internationally. Launched to our colleagues in October 2021, the 'Opening Our New Future' strategy will deliver the key elements that will realise the potential for sustainable growth across the whole enterprise.

Through this strategy, Card Factory is well-positioned to become the UK's number one destination for all customers seeking unrivalled quality, value, choice, convenience and experience. We are working to transform Card Factory into the leading omnichannel brand in our space to help customers celebrate each and every special occasion. It is our aim to become a global competitor putting cards and gifts in the hands of more customers.

Outlook and financial headwinds

As previously guided, the Board expects revenues in FY23 to be towards FY20 revenue levels.

The Board also expects significant inflationary headwinds to continue through FY23. Pre-emptive action has already mitigated a significant proportion of these pressures through a combination of efficient management of costs and working capital, as well as an increased number of carefully targeted price increases.

While taking into consideration the inflationary headwinds mentioned above as well as the levels of trading seen in the new financial year, the Board's expectations for revenue and profit for FY23 remain unchanged.

Board appointments during FY22

We were delighted to welcome both Darcy Willson-Rymer as our new Chief Executive on 8 March 2021 and Robert (Rob) McWilliam as independent Non-Executive Director, replacing David Stead who stepped down on 30 November 2021. Rob joined the Board on 1 November 2021; he has been appointed as Chair of Card Factory's Audit & Risk Committee and as a member of the Nomination Committee and the Remuneration Committee.

Summary

After the significant disruption that the business has faced over the past two financial years, we ended FY22 in a robust position. We are also optimistic about the positive impact that the 'Opening Our New Future' strategy will deliver and the more detailed plans now in place to enable flawless execution of those plans. We remain confident that our store estate remains a strong, relevant channel within our longer-term omnichannel proposition.

Colleagues across the business have shown their strong support and commitment towards the strategy and as delivery momentum continues to build, we look forward to the future with confidence.

Paul Moody
Chairman
3 May 2022

A resilient greeting cards market

In a year that continued to present unique challenges for retailers the world over, the UK greeting cards market proved its resilience once more.

FY22 started with a two-and-a-half-month period of forced closure for non-essential retail, however the months which followed have broadly reflected a return toward pre-pandemic normality, with encouraging signs of continued growth.

The number of UK adults purchasing greeting cards in 2021 reached 73%[1], which represents an increase from 71% in 2020 and a return to the same level recorded in 2019. The overall UK greeting card market size has been estimated at 811 million single cards in 2021[1], a decrease of 3% from 835 million units in 2020. Some of this can be attributed to the reduced number of cards purchased per shopper, which at 20.3, is down against 21.7 in 2020. While fewer events and occasions were impacted by government restrictions than in 2020, the impact of Valentine's Day, Mother's Day and Easter taking place during periods of lockdown in 2021 is notable. Clear evidence of growth accelerating was observed in the final quarter of the year, influenced by the easing of restrictions, increased customer confidence and the resumption of celebrations previously put on hold due to government guidelines. Of particular note was the 44% growth of cards purchased for weddings in 2021 versus 2020.

Throughout the Covid-19 pandemic we witnessed how deeply engrained card buying is in UK culture. The act of buying and sending cards transcends age, gender and demographic factors and during 2020 and 2021, when customers were unable to buy cards in specialist shops, they moved to buying cards online and in supermarkets. 147 million single cards were sold via online channels in 2021. While this represents a decline of 29% from the heights of 206 million units in 2020, it remains a significant increase from the pre-pandemic level of 71 million in 2019. Card Factory's share of the online market grew in 2021 to 2.7% (cardfactory.co.uk and gettingpersonal.co.uk), an increase from 2.3% in 2020.

So far, the gains made by the supermarkets, driven in part by the periods of forced closure of specialist card retailers, appear transient. There is clear indication that distribution of market share has been steadily reverting to a mix that reflects what was observed before the pandemic (see graph on page 9). Trading in the Card Factory store estate bounced back upon reopening after lockdowns in 2020 and this was replicated in April 2021. Following the third national lockdown, pent-up demand and queues were experienced at Card Factory stores across the UK, demonstrating the strength of our brand and the wide appeal of our offer.

Customer affection for Card Factory is further evident in our key brand metrics, which remained strong in 2021. We have advanced our significant lead against our nearest competitors and with the increase in cost of living at the forefront of shoppers' minds, our strong price and value proposition will be a critical enabler for growth.

Despite periods of non-essential retail closure, Card Factory remained the largest card retailer by volume in the UK in 2021. Having been reduced to 20% in 2020, our market share by volume of UK greeting cards returned to 24% in 2021 and continues to grow towards its pre-pandemic level (2019: 33%).

As we look to opportunities that support our 'Opening Our New Future' strategy, we have completed extensive analysis of the UK Gifting Market. We estimate that there is a c.£5 billion market opportunity in card attach gifting. Our leading position in the greeting card market, alongside being the number one destination for balloons and party in the UK, means that the Card Factory business is ideally positioned to pursue this opportunity and we will continue to develop our brand and offer in order to win a sizeable share of the market.

UK market size, single greeting cards

	2020		2021[1]	
	Value (£m)	Volume (units m)	Value (£m)	Volume (units m)
Retail	910	629	986	664
Online	515	206	378	147
Total	1,425	835	1,364	811

1 Source: Card Factory bespoke market research February 2022.

Brand strength drives share recovery

Card Factory is a brand that is loved by shoppers across the UK & Ireland. Our strong proposition built around value and range has meant that we have successfully defended our number one position in the market through two extraordinary years.

Card Factory brand metrics
Card Factory ranks number one more times than any competitor on key customer metrics and our brand awareness and consideration are both strong and growing.

Within the UK greeting cards market, Card Factory meets all the customers' identified key needs, while its competitors deliver a narrower offer.

Discounters – typically offer lower price points on narrow ranges. Shoppers must trade off breadth of choice in exchange for value.

Grocers and convenience – typically have smaller ranges and serve impulse or distress missions where cards are purchased alongside unrelated items.

Other card specialists – serve destination shoppers where the card or a related item is the reason for the shopping trip. They are well-rated for card ranges and quality, but typically at higher price points.

Greeting cards market share (store only) 2021
Card Factory share pattern over 2020 and 2021 versus key competitors.

Whilst Card Factory's volume share of greeting cards fell during closures, it returned strongly over the latter half of 2021.

+14%

Difference in awareness vs key competitor average Jan 2022[1]

+19%

Difference in consideration vs key competitor average Jan 2022[1]

+44

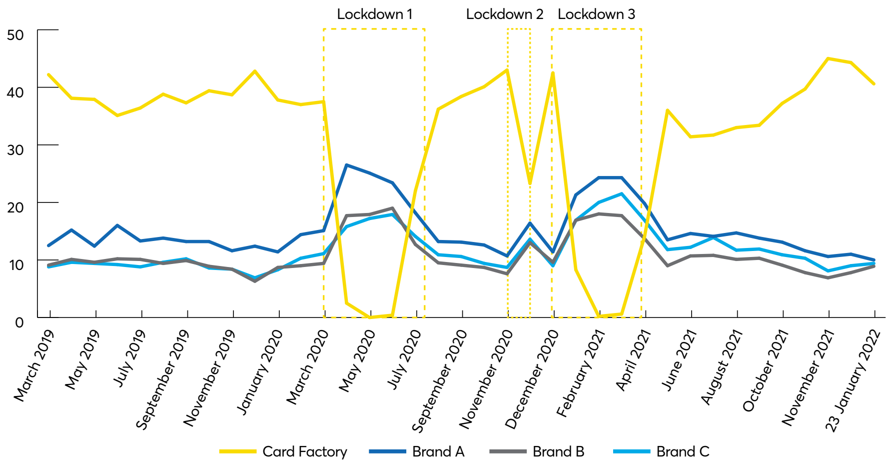
Net Promoter Score ('NPS') +6 pts vs FY19[1]

#1

Customers rated Card Factory for[2]:

- value for money;
- wide range of cards;
- availability of cards;
- ease of finding the card I want;
- specific range of cards I am looking for; and
- cards available at different price points.

Greeting Cards – Market % Share of Volume – Last 3 years 4 weekly data[3]
Card Factory share pattern March 2019 to January 2022 versus key competitors



1 Source: Savanta Brand Vue January 2022.
2 Source: Card Factory bespoke market research February 2022.
3 Source: Kantar Worldpanel Plus Physical Retail January 2022.

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, wrap, bags and gifts, with an estate of over 1,000 stores across the UK & Ireland; a growing online offering through cardfactory.co.uk and gettingpersonal.co.uk; and supply through a further four franchise stores and 921 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. Such economies of scale are maintained through monthly reporting of productivity KPIs such as pick rates and store operational efficiency.

Our design insight
As we learn to adapt to a post-Covid-19 era and the changing needs of consumers, our design studio and commercial team are using our insights, sales data and trend analysis to ensure our product offering remains relevant and current for our loyal shoppers, as well as learning how to satisfy new targeted demographics. This year, through our deeper dive into our data and further segmentation work, we will be able to highlight new opportunities both in how we talk about our brand and develop our product offer. Examples of how we are responding to changing trends and consumer preferences includes our range of cards for new pets with our 'from the dog' cards being a successful incremental pick up last Father's Day; and our continued drive to ensure we are inclusive in our product offering from LGBTQ to cards for the rise of blended families.

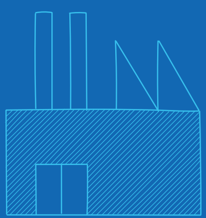
Our production advantage
Operating our own large-scale print facility in Baildon, Yorkshire, which has the capacity to produce 270 million cards per annum, is a key USP for Card Factory. This Printcraft facility, which primarily serves the Card Factory business, is capable of printing all of our UK produced cards and some 70% of all counter cards we retail through our store network. New ranges can be produced in four weeks and additional quick selling lines can be remanufactured in a matter of days if required. Our online stock cards are also manufactured through this facility. This flexibility allows us to operate small print runs to minimise surplus stock holdings, without the lead times of upwards of 12 weeks typically encountered for imported products and also, as we have seen this last 12 months, additional shipping costs and space constraints. We have continued to invest in state-of-the-art equipment in this area to not only continue to be one of the lowest cost to operate print facilities but to also increase and maintain the outstanding quality we are well known for.

Our sales channels
Our 1,000+ stores across the UK & 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.

Introducing our Model Store

Our virtuous circle

Manufacturing

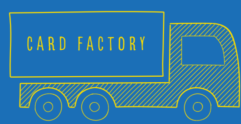


Large-scale, in-house card production and accordingly low unit costs.

- Manufacturing utilisation can be optimised ahead of time because design is done in-house.
- Low unit costs allow sharp pricing to the consumer.

136 *Manufacturing Colleagues*

238 *Distribution Colleagues*



Design & Publishing

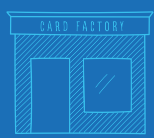
Internal design compatibility that appeals to the mass market better than traditional (dated) competitors.

- End-to-end control of product chain allows flexible and rapid adaptation e.g. to reprint an unexpectedly popular line.
- Card designs are planned in line with the forward price architecture ('design to the budget').

60 *Design Colleagues*

381 *Support Colleagues*

Retailing



Own estate of over 1,000 retail stores across UK & Ireland; online; and now partnering with other retailers to extend reach.

- Visibility of sales at retail (up to one third of all cards sold in UK) allows new designs to be tailored to emerging tastes.
- Extensive store estate allows large, low-cost print runs that sell through volume.

8,068 *Retail Colleagues*

Statistics correct as at 31 January 2022.

Chief Executive Officer's review

Foundations for strategic growth

> ***Delivery of our strategy is now underway and some significant milestones have already been achieved."***
>
> ***Darcy Willson-Rymer***
> Chief Executive Officer

Introduction

Having now completed my first full year as Chief Executive of Card Factory, I have been impressed by the potential from the design, print, manufacturing and retail capability, as well as the culture of the business and am optimistic about our opportunities for growth. Card Factory is a company that is loved by both customers and colleagues, and there is an energy from our colleagues to do the right thing.

The culture of this business and the opportunities that are open to every colleague are as much a growth driver as anything we do for our customers. It is only by working together, as one team with common goals in a diverse and inclusive culture, that we can take this business to the next level.

FY22 performance

The business recovered well through the year with Group revenue up 28% driven by growth in store sales following easing of lockdown restrictions. Store sales increased 33% year on year reflecting a 20% increase in the number of trading days compared to the prior year and a recovery in market share. Store LFL sales (versus FY20) were -5.7%, albeit with steady recovery post-lockdown as footfall recovered. The key Christmas trading season benefited from approaching pre-pandemic LFL levels.

While online sales across both cardfactory.co.uk and gettingpersonal.co.uk for the financial year were ahead of pre-pandemic levels (+23% versus FY20), sales were short of target due to delays to development that should have further increased the ranges offered online. Online sales were down-13.5% YOY (made up of cardfactory.co.uk -1.5%; gettingpersonal.co.uk -21.6%) which reflects the easing of lockdown restrictions and the return of customers to physical stores as well as the focus on higher margin sales on gettingpersonal.co.uk.

As expansion of our retail partnerships both in the UK and internationally is a key component of our 'Opening Our New Future Strategy', we were delighted to welcome our Business Development Director in September 2021. Partnership sales were down 18% YOY, reflecting an underlying performance in line with expectations with the decline relating to the extended Covid-19 lockdown periods in Australia, which impacted trading at our partner, The Reject Shop.

The focus on building the financial strength of the business was seen through the strong operating cash flow which was up 42% in FY22 to £114 million. Actions to manage cost included strong capex control, greater efficiency in stock management (including reduced closing stock YOY) and proactive management of additional expense costs. Improved balance sheet strength resulted in closing Net Debt (excluding lease liabilities) of £74.2 million (FY21: £107.7 million), with Leverage excluding lease liabilities of 0.9x (FY21: 2.4x) below pre-pandemic levels (FY20: 1.1x). Inclusive of lease liabilities, Net Debt was £194.0 million (FY21: £252.6 million) and Leverage 2.3x (FY21: 5.5x).

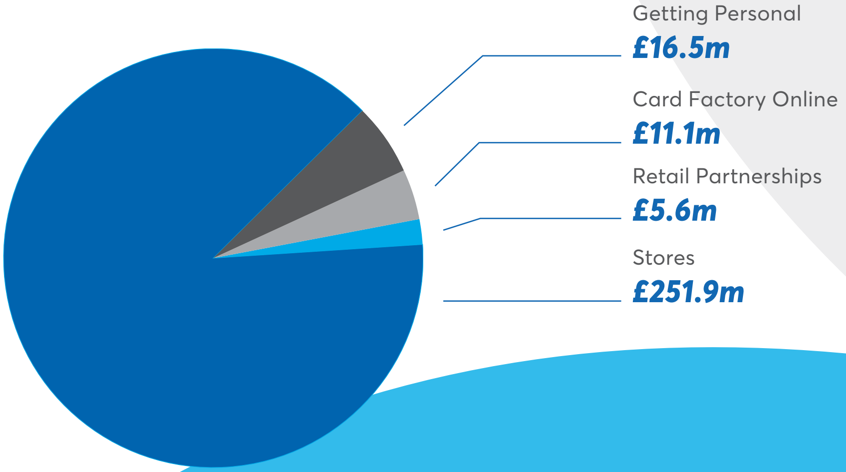
Strategy refresh

Since joining the Group, one of my priorities has been to review the business and its growth strategy. Having completed that process, I remain extremely excited about the opportunities available to Card Factory.

The delivery of the growth strategy set out in July 2020 – and the broader retail environment itself – has obviously been impacted by Covid-19. However, it is clear that the right way forward is to transition Card Factory from being a store-led card retailer into a market leading, omnichannel retailer of cards and gifts.

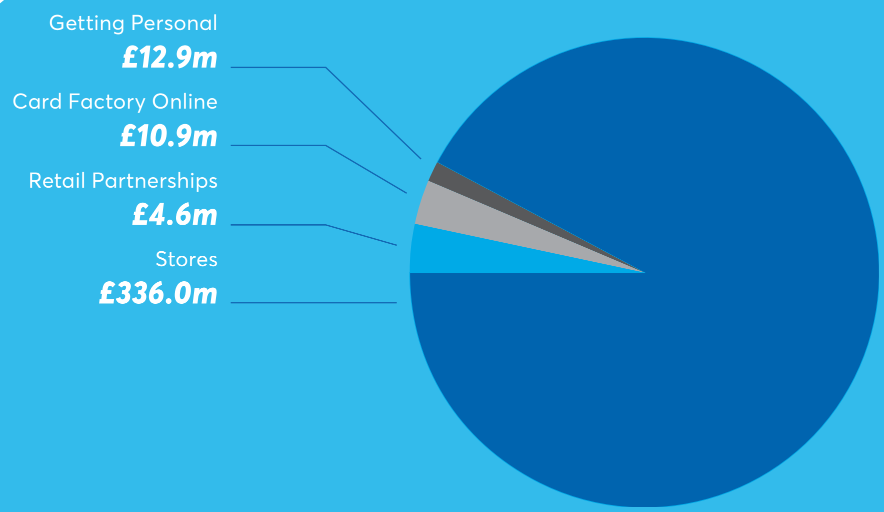
While cards will remain the largest part of our business in terms of total contribution, we will substantially increase our focus on complementary gifting, enhancing our customer offer and significantly increasing the size of our addressable market. The successful delivery of our strategy will be achieved by putting the customer at the heart of everything we do – ensuring that we provide outstanding value and quality across all our products and services, available however our customers want to shop.

FY21 revenue



Card Factory app
60,000
active users per month

FY22 revenue



Chief Executive Officer's review continued

This will include the continued expansion of our partnership strategy. The opportunity for us to sell our products in areas of the UK where we have no presence but do have potential customers is considerable, and there is additional significant opportunity to satisfy shopper missions that are not currently met through our existing store estate footprint. By further expanding our brand and offer internationally, we will leverage the full potential of our design, production and distribution capability.

Delivery of our strategy is now underway and some significant milestones have already been achieved. We have strengthened our leadership team with key appointments into the roles of Chief Information Officer and Digital Director, recognising the critical role digital has to play in our business growth. In addition, we have appointed a new Business Development Director and appointed Card Factory's first Customer Marketing Director to oversee our new Customer Marketing function. These appointments bring significant experience to our leadership team and will ensure we have the right capabilities to drive the next stage of our growth.

Recent delivery milestones include opening our first new look 'model store', and we will soon complete the transitioning of both of our online stores (cardfactory.co.uk and gettingpersonal.co.uk) onto a single, unified platform which unlocks cost benefits and the ability to significantly expand the cardfactory.co.uk gifting range.

Looking ahead, our focus for the next financial year is creating growth opportunities around the store estate and building out our wider capability.

Key FY23 milestones include:

Stores

- Expand our market share in Stores in complementary categories – We are already UK leaders in party and balloon categories and for stores we will be looking at expanding our market share in categories such as stationery, confectionery and toys. This will not come at the expense of cards in-store. It is about making smarter, more agile choices about the space dedicated to complementary categories.
- Complete the roll-out of trial model stores – We opened our first new format 'model store' in February 2022. The Coventry store features better use of store space, improved customer flow and navigation through the store, while also improving operational efficiencies. Results from the store have been very promising and we expect that similar results can be achieved as more trial stores are opened. Analysis of results will be used to prepare for wider roll-out from FY24 while taking learnings into our existing store estate.
- Open first central London stores; continue Republic Of Ireland expansion – We have identified a profitable route for opening our first stores in central London. Having enjoyed profitable success with our first 14 stores in the Republic of Ireland, we will continue our expansion plans with a further five stores already identified and additional openings planned.

Wider capability

- Trialling the ability for shoppers to Click & Collect any product from our online or app platforms for collection in-store – This is the first step on rolling out our omnichannel capability which we believe provides the opportunity to leverage our brand, store estate, vertical integration, quality and value proposition and our investment in our online channels to materially increase our share of the online market.
- Deliver the second phase of our ERP implementation – Already live across the finance functions, the new ERP system will underpin the growth strategy across the entire business allowing us to understand and respond rapidly to changing shopper habits and preferences. It will provide the ability to view stock in all areas of the business, which is essential for omnichannel operations, and will allow us to integrate with future partners both in the UK and internationally.
- Pricing strategy – To support maintaining margins, we have begun a highly targeted set of price increases across some of our products. We are carefully analysing the impact on sales with further price rises on other SKUs being actively considered, whilst maintaining our value proposition.

Responding to headwinds

Continuing to respond to the inflationary headwinds outlined by Paul in the Chair's statement is a priority area of focus. We have taken significant pre-emptive measures to manage costs within the business and enact sustainable price increases.

People and culture

Investing in the evolution and development of our people strategy and culture within Card Factory is a priority for our senior management team. Developing Card Factory into a diverse, inclusive and socially responsible business is vital for our growth and prosperity. It creates the work environment where we can all prosper and thrive. It attracts new people and exceptional talent into the business, and it helps retain the exceptional talent we already have.

Over the past year, we have been collecting and listening to feedback from across the business so that we understand where our culture is right, where we are treating colleagues in the way they expect to be treated, where we are fostering a leadership environment that values and encourages everyone's contribution, and how we can best reward colleagues for the contribution they make. Having completed a full review of our pay and rewards policies including industry benchmarking, we have introduced a range of significant improvements. All colleagues now benefit from a company maternity and paternity pay scheme and an inclusive company sick pay policy, and we have made substantial steps towards making pay for all colleagues competitive within the market.

Our ESG commitment

Another area of progress that we are proud to highlight are the steps the business is taking to develop and deliver positive change through our ESG strategy. We are progressing well in terms of reducing our carbon footprint and becoming a carbon neutral business. We are on track in our efforts to reduce waste and improve the sustainability of our product ranges, with 90% of our products being free of single use plastic by the end of FY24, along with all of our products being glitter free in the same timeframe.

Our social policies are moving forward at pace with colleagues working collaboratively on a range of initiatives which includes a progressive DE&I strategy and we continue to have a positive impact within the communities we work within and the charities we support through The Card Factory Foundation.

At all times we are complying with guidelines and best practices, and actively managing our ESG considerations and risks effectively, with good governance informing our decision-making. Further details around our ESG commitments can be found on pages 44 to 45.

Summary

We have made a positive start on our five-year growth journey. Through the course of this year, we aim to make significant headway on all of the key initiatives that will drive our future growth, especially omnichannel. The strong return of sales through the year demonstrated that we remain a much-loved retail brand with a unique and scalable business model that is the ideal platform for achieving our growth ambitions. Our focus is on continuing to return same store sales and delivering the strategic initiatives that will drive growth at pace.

Darcy Willson-Rymer
Chief Executive Officer
3 May 2022

"Investing in the evolution and development of our people strategy and culture within Card Factory is a priority."

'Opening Our New Future' strategy

In FY22, we launched our 'Opening Our New Future' strategy which has broadened our ambition and vision for Card Factory, to build upon our dominance within the UK card market with the aim of becoming the leading, technology-enabled, omnichannel retailer in our sector, with an extensive UK & Ireland footprint and a growing international presence. This is underpinned by a clear shift in focus from being a product-led business to a customer-focused business.

By delivering on the strategy, Card Factory will become:

- the leading omnichannel brand helping customers every day to celebrate life's special moments;
- the UK's #1 destination for all customers seeking unrivalled quality, value, choice, convenience and experience; and
- a global competitor putting cards and gifts in the hands of more customers.

There are multiple opportunities for Card Factory to build upon its existing share of the card market as we work towards this ambition. These opportunities include increasing our ranges in the complementary party and gift categories; transitioning into omnichannel retail to improve the customer experience; further geographical expansion in the UK & Ireland and – in due course – internationally; and broadening the target market to capture spend from less price-sensitive customers. All of these opportunities have been incorporated in the refreshed strategy, building on the strategy set out in July 2020.

Implementation of the 'Opening Our New Future' strategy will enable the Group to adapt effectively to underlying structural changes in consumer behaviour that were accelerated during the Covid-19 pandemic. The majority of customer spend on cards and gifts across the market is currently made in-store and we are highly confident that this trend will continue. As such, a successful omnichannel offering not only requires growth in online distribution channels and delivery of products to customers, but a complementary, strong store portfolio.

Card Factory is uniquely placed to capitalise upon the growth opportunities available because of its vertically integrated business model. This model is fully differentiated, robust, and highly scalable affording great flexibility to respond to market changes and enabling efficient, high-quality design and production at attractive margins, supporting online channel growth and retail partners with lower costs per unit. This provides a sustainable business model through the expansion of Card Factory's offer into the larger addressable market of gifting and the opportunities omnichannel provides to drive further growth both in-store and online.

Delivery of the strategy is expected to drive an acceleration in revenue growth and margin expansion, with an ambition of growing revenues to over £600 million by FY26. Approximately 20% of revenues will be generated from online, omnichannel and retail partnerships, while creating a business with a low-cost base and highly scalable business model. We expect the delivery of the strategy to result in a shift in product and channel mix, alongside investment.

Delivering on the strategy

The strategy remains based around three pillars.

#1 Increasing breadth of product offering

Transforming Card Factory to an omnichannel retailer of cards and gifts with a leadership in cards and increasing presence in complementary categories.

#2 Create a full omnichannel offer

Improving availability and access to our products, however customers choose to shop; enhancing convenience and experience for shoppers.

#3 A robust and scalable central model

This continues to provide Card Factory with a distinct competitive advantage.

Following the strategy review in FY22, the key initiatives for delivering the updated strategy have been identified and the business focused on delivery of those initiatives through the five-year timeframe of the strategy which has now been relaunched as the 'Opening Our New Future' strategy.

The approach for delivering those strategy initiatives has been structured around providing for our customers improved value and choice, more convenience and an exceptional experience. All of which is built upon the foundation of our scalable central model that drives efficiency across the business. To ensure the strategy is successfully realised, delivery is being led by the Business Transformation team and senior leaders within the business through the Annual Operating Plan.

'Opening Our New Future'

The leading technology-enabled, omnichannel retailer in our sector with an extensive UK & Ireland footprint and growing international presence.

cardfactory

CONVENIENCE

Page 18

- Digital experience innovation
- Extensive UK & Ireland footprint
- Growing international presence

VALUE & CHOICE

Page 20

- Leadership in card
- Authority in complementary categories

EXPERIENCE

Page 22

- Customer and community focus
- Passionate colleagues

Scalable central model driving organisational efficiency

Creative
Insight-driven product, design and creative content publisher at the heart of Card Factory's intellectual property.

Manufacturing
Ability to scale up production to meet increased demand in line with projections.

Technology
Enabling greater efficiency, more agile practices and the ability to do business worldwide.

Convenience

At any time and in any place, a customer will be able to access our range, whether online, in our stores or through our partners, and so enjoy a seamless shopping experience.

DIGITAL EXPERIENCE INNOVATION

If we want to make best use of our nationwide store estate and respond to today's customer needs, then we need to transform the business from a predominantly store-driven retail model to a full omnichannel offer. This will make best use of our existing and invested infrastructure to become the first card and gifting retailer to provide a seamless physical and online customer experience. We believe that omnichannel provides the opportunity to leverage our brand, store estate, vertical integration, quality and value proposition and our investment in our online channels to materially increase our share of the online market. The UK online market for cards peaked at an estimated £515 million in 2020 due to the Covid-19 lockdowns, declining to £378 million in 2021 as stores reopened. This estimated market size is still over double the £177 million online market estimation in 2019. We are targeting c.10% of Group revenues from online by FY26, up from 2.7% today.

Our objective is to allow our customers to have a seamless shopping experience where they can Click & Collect our cards, gifts and personalised products anytime and anywhere across our stores, online or app. By providing an improved omnichannel service, Card Factory will enhance the shopper experience and access to its offer, by being the first specialised card and gifting brand to combine an effective digital proposition with its store estate.

We will give our customers control over how they shop with Card Factory, with the ability to access our full offer; in-store or online, with fast delivery to home or store.

As well as leveraging the scale of our existing store estate, omnichannel will unlock our online growth potential. The Covid-19 driven change in consumer behaviour drove our online sales growth to be significantly ahead of pre-pandemic levels (+23%) reflecting the expansion of our product range online and the improvements we made to the customer experience. This provides the platform we need to drive our omnichannel expansion.

Our digital strategy focuses on the delivery of five areas of focus:

1 *Click & Collect*

The ability for shoppers to Click & Collect any product from our online or app platforms for collection in-store.

FY23 Milestone: on track to deliver proof of concept trial in c.40 stores before Christmas 2022.

2 *Range expansion*

The phased expansion of our online range as we create an 'endless aisle' of products and categories. New categories to include (but not limited to) flowers, books, experience gifts, confectionery and alcohol.

FY23 Milestone: new categories being rolled out through FY23 and into FY24.

3 *Ecommerce platform integration*

We are transitioning our two ecommerce sites (cardfactory.co.uk and gettingpersonal.co.uk) onto the same platform. As well as saving costs, it unlocks more efficient development capability, in particular the massive expansion of the gifting range on cardfactory.co.uk.

FY23 Milestone: on track to successfully deliver integration.

4 *Web experience*

Customer experience improvements to optimise the conversion rates on both cardfactory.co.uk and gettingpersonal.co.uk.

FY23 Milestone: initiative successfully launched with agile development put in place to drive ongoing incremental improvements.

TECHNOLOGY INFRASTRUCTURE

Card Factory has completed the first phase of a major IT implementation programme to replace its legacy ERP system.

Already live across the finance functions, the new ERP system will underpin the growth strategy across the entire business allowing us to understand and respond rapidly to changing shopper habits and preferences. It will provide the ability to view stock in all areas of the business, which is essential for omnichannel operations and will allow us to integrate with future partners both in the UK and internationally.

We are investigating where to introduce automation within our distribution network to further streamline our current workflow. This will be focused on the picking and packing of customer orders from the centrally fulfilled operation. With modest enhancements to our item and order tracking functionality within our current systems we will be able to provide our customers with a better service and cut-off times.

FY23 Milestone: deliver the second phase of our ERP implementation.

EXTENSIVE UK & IRELAND FOOTPRINT

The store portfolio will be optimised to ensure Card Factory has profitable stores in high footfall locations.

New store openings will be focused on under-penetrated areas, including central London and areas of high footfall, including retail parks.

Our stores will remain a vital route to market and are not simply legacy assets. Store revenues will continue to grow in their own right but will simply be a smaller proportion of the mix as online growth accelerates. Initiatives such as targeted pricing and an increased gifting range are expected to improve in-store sales, increase average basket value and offset the structural trend of minor YOY footfall decline.

Model store

We opened our first new format 'model store' in February 2022. The Coventry store features better use of store space, improved customer flow and navigation through the store, while also improving operational efficiencies. Results from the store have been very promising and we expect that similar results can be achieved as more trial stores are opened.

FY23 Milestones: complete the roll-out of trial model stores; analyse results and prepare for wider roll-out from FY24 onwards.

Relocation strategy

The store optimisation programme will continue with locations selected based on profitability and returns. The low lease lengths across the store portfolio provide additional flexibility and optionality, ensuring an effective overall store portfolio.

London and the Republic of Ireland

We have identified a profitable route for opening our first stores in central London. Having enjoyed profitable success with our first 14 stores in the Republic of Ireland, we will continue our expansion plans with further stores to be opened in the Republic of Ireland.

FY23 Milestones: open first central London stores; continue Republic of Ireland expansion.

Partners

The partnership model allows us to reach more UK shoppers for minimal investment in additional convenient locations that meet the growing demand for impulse buying. In the UK, we have two successful retail partnerships. We have an ongoing trial with Matalan and agreed an extension to our agreement with Aldi. We also have an existing franchise arrangement with an operator of stores in Gibraltar, Jersey, Guernsey and the Isle of Man.

FY23 Milestone: further extension of partner programmes in the UK.

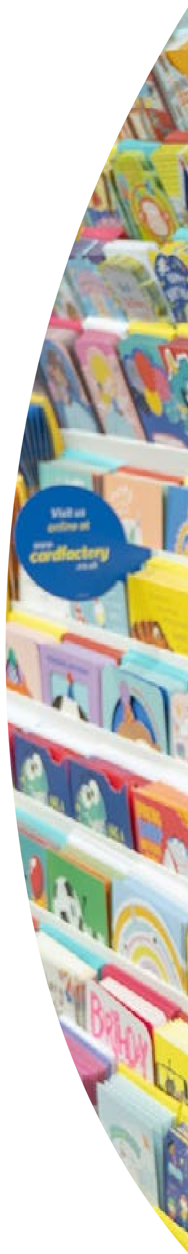
GROWING INTERNATIONAL PRESENCE

Outside the UK we want to enter selective scalable markets which we view as being primed for disruption due to identified gaps in the market for Card Factory's value and quality proposition.

This expansion will be through an investment-light multichannel model, where partners in international markets will help to build our global brand. We are already enjoying success with our Australian partner, The Reject Store, where we have a full Card Factory branded offer.

FY23 Milestones: further develop fulfilment capability.

Value & Choice



With customers inclined to buy gifts alongside a card purchase, we can capture a larger addressable market by expanding our complementary categories offer in-store and online.

LEADERSHIP IN CARD

We will continue to be a card-led value retailer in a stable market where 73% of UK adults are card givers.

To offset inflationary pressures, we have begun a highly targeted set of price increases across some of our products. We are carefully analysing the impact on sales with further price rises on other shop keeping units ('SKUs') being actively considered. As price increases are being seen across the wider UK retail sector, we do not believe these increases will negatively impact the attractiveness of Card Factory to our customers. However, as a value retailer we are making every effort to maintain our price point competitiveness while also understanding how much price increase our customers will accept.

Selling more greeting cards than anyone else in the UK provides us with 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 and promotions allows our design teams to adjust the offer to reflect customer behaviours. The card range will be broadened in terms of introducing more modern and contemporary choice and a clearer focus on the proposition in-store to help shoppers. However the SKU size will remain the same.

FY23 Milestone: initiate targeted price increases.

AUTHORITY IN COMPLEMENTARY CATEGORIES

We will meet customer demand by providing greater choice through complementary gifting and party ranges, opening up access to a large market worth £44 billion per annum in the UK, capturing more customer spend and increasing average basket value.

The UK card-attached gift market is worth c.£31 billion per annum, with Card Factory targeting an element of the market worth over £5 billion per annum which is between four and five times larger than the card-only market that Card Factory has historically addressed.

We are already UK leaders in party and balloon categories and for stores we will be looking at expanding our market share in categories such as stationery and confectionery. This will not come at the expense of cards in-store. It is about making smarter, more agile choices about the space dedicated to complementary categories. Online will have a far broader offer across more complementary categories, making best use of the 'endless aisle' capability of our online platform.

FY23 Milestone: growth across stationery, confectionery, toys and party.

£5bn
addressable gift market

We will meet customer demand by providing greater choice through complementary gifting and party ranges, capturing more customer spend and increasing average basket value."

Experience

We will be delivering an exceptional customer experience through improved data capabilities for understanding the customer, brand investment and ESG investment. We will develop a culture of accountability with colleagues empowered to make the right decisions for the business with a shared understanding of its identity, strategy, vision and values within a diverse, inclusive and socially responsible business.

CUSTOMER & COMMUNITY FOCUS

We will continue to invest in the Card Factory brand, with emphasis on our quality and value focus, to increase shopper awareness and improve trust. With a new Customer Marketing function now in place, we will build upon the existing strength and awareness of the Card Factory brand to connect with more customers both in-store and online.

We will build upon Card Factory's ESG credentials to be recognised as a socially and environmentally responsible business. We are working to reduce waste, reduce our carbon footprint, meet ever bolder recycling targets and make our products as sustainable as possible. We continue to invest in giving back and The Card Factory Foundation, combined with our charity partnerships, makes a significant contribution to the wellbeing of our colleagues and communities; something we care passionately about.

FY23 Milestones: new Customer Marketing function introduced; updated ESG strategy.

PASSIONATE COLLEAGUES

While our 'Opening Our New Future' strategy has the customer at its heart, its success is reliant upon every colleague delivering and supporting it.

That means we need an inclusive, diverse and driven culture where every colleague feels they can develop within Card Factory and further their career should they wish to. We need to develop our leadership talent while at the same time devolve decision-making so that everyone feels they are empowered to make the right decisions for their function and the Company as a whole.

In early FY23 we have made the first significant step as a business towards delivering a pay and benefits model that we can be proud of. Our aim is to reward everyone fairly, inclusively and competitively. While it will take time to achieve that ambition, we are aiming to reach a place as quickly as we can where everyone feels that the hard work and commitment they deliver is recognised in the financial reward and benefits they receive. We have therefore made the most substantial increase to our annual pay and benefits bill that Card Factory has ever seen – in total, we have increased our pay and benefits bill by 7%. A large proportion of this has been invested in our benefits, which will have a significant positive impact for many of our colleagues, especially those who are on hourly pay. For all colleagues throughout the business, we have made two significant benefit improvements that are an important step towards inclusivity. All colleagues will now receive enhanced company maternity, paternity and adoption leave beyond the statutory minimum. All colleagues will now receive enhanced paid sick leave, which is something that was lacking for many hourly paid colleagues who primarily work within our stores, distribution centres and Printcraft. We are proud to make these investments because, as a responsible employer, we are fairly recognising the value of each colleague by making these core benefits uniform for all colleagues.

FY23 Milestones: improved benefits; competitive benchmarking of pay.

Our stakeholder 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 honoured during the Board's decision-making process, to promote the success of the Company, for the long-term success of the Group.

This engagement is also supportive of a Director's duty under Section 172 of the Companies Act 2006.

The Board continues to recognise Shareholders, Customers, Colleagues and Suppliers as our key stakeholders, following its review of the Group's stakeholders in 2020. The Board concluded that these stakeholder groups have a material impact to achieving our Mission. The Board and the management team take full account of other stakeholders as part of decision-making, with other stakeholder groups including landlords of our leased retail properties, regulators, HMRC, our debt funders, our communities and our environment.

The impact of key decisions on stakeholder groups are identified to ensure they are considered and understood. The Board takes an active role in engaging with some stakeholders and receives regular reports from the management team to keep appraised of stakeholder interests and issues. The Board resolved that in respect of a number of stakeholders (particularly our Suppliers), 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 Board receives monthly updates on key performance indicators ('KPIs') that are aligned to most stakeholder groups, including Colleagues, Customers and Shareholders. The nature and form of KPIs are reviewed at least annually to ensure the Board and senior management team receive the most relevant data to support informed decision-making and to identify any matters requiring remedy. Updated KPI reporting includes increased reliance on current, live data, particularly in respect of our Customers, as the business develops a more customer-centric mindset. This includes monthly data on market share, net promoter score, and customer awareness of Card Factory compared to competitor brands (see pages 9 and 25).

The Board objectives set by the Board following the external Board effectiveness evaluation in late 2021 includes an objective to improve the quality of investor communications.

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. The Board recognise that the moderate share price recovery over the last 12 months may not realise an appropriate return on investment for longer-term shareholders. Reduction of debt from cash generated and investment for future growth, to address recent under-investment have been prioritised before returning value to shareholders. Having evaluated all available options, the Board considers this short to medium-term approach to be in the longer-term best interests of all stakeholders in achieving improved stability for the Group, e.g. in facilitating recruitment and retention of colleagues with the skills and experience needed to achieve the strategic objectives. The Board appreciates all support and feedback from investors.

We continued to engage with our shareholders on a regular basis, through RNS announcements and investor presentations. An open forum for all shareholders to attend online investor presentations and to ask questions was provided when presenting our year-end and half-year results, as well as returning to holding an in-person Annual General Meeting in July 2021.

We regularly hold calls with current and prospective institutional investors and address ad hoc investor questions. In accordance with best practice guidance developed during the Covid-19 pandemic, despite being able to hold a physical AGM meeting, we saw the benefit in extending a facility for any shareholders to have questions answered in advance of our 2021 AGM. This allowed us to ensure that all shareholders had the opportunity to take account of responses before submission of their proxy votes.

Much of our dialogue with shareholders is two-way, where we welcome feedback to take account of shareholder insights, views and experience. Members of the Board, including the Chair, CEO, CFO and several Non-Executive Directors have met with shareholders during the year and share the feedback arising from those shareholder conversations when the Board next meet. We aim to articulate our messages clearly in a way that is easy for all our shareholders to access and understand.

The Board has regard to our shareholders' feedback during its Board meetings, ensuring their voice is considered during the Board's decision-making processes. The CEO ensures the senior management team are appraised of shareholder views to ensure their insight is accounted for in their decision-making. Shareholder KPIs (including those on page 1) are reported monthly to the Board and the senior management team, to ensure the range of key metrics are measured, reported on and accounted for in all decision-making, to ensure focus on realising performance that is required by shareholders.

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

Our next AGM will take place on 23 June 2022 at the Company's registered office at Century House, Brunel Road, Wakefield 41 Industrial Estate, Wakefield, West Yorkshire WF2 0XG 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.

Customers

Card Factory's mission of helping people celebrate life moments has always been enabled by a deep understanding of our customers. As we emerge from a two-year period of universal disruption, it is now more important than ever that we continue to robustly investigate our customers' needs and behaviours. This is a significant driving factor behind our progress towards being a truly customer-centric organisation as part of our 'Opening Our New Future' strategy.

The appointment to the senior management team in 2021 of a Director of Customer Marketing, who is building capability in customer insight and data, is reflective of our commitment to growing an even stronger customer focus across the organisation. We have adapted resiliently to the challenges of the pandemic by making smart investments in our stores, online channels and infrastructure to enhance the customer experience. Our in-house market insight function will now lead us towards becoming the number one UK destination for customers who are seeking value, range and quality to help them celebrate life moments.

Through our expert market research programme, we continue to listen and respond to the needs of our customers and to gain insight into attracting those customers who have yet to discover Card Factory. We invest and make extensive use of customer insight tools to inform our planning and to make informed and meaningful decisions about all aspects of our brand, including our product ranges, pricing, services and our in-store and digital offerings.

Our Market Research programme includes:

- our in-house research tracker of 3,000 respondents: An annual survey which has been developed to size the market, to provide bespoke customer intelligence and to rate our performance against our customer focused KPIs;
- Kantar panel data, which gives us access to market share data, contribution to growth and customer switching activity for Card Factory and the market;
- an ongoing brand health tracker, which allows us to monitor Card Factory's brand performance and the experience we provide;
- ad hoc tailored research into specific initiatives. An example of this is the extensive 2021 study into the gift attach market opportunity, which was used to shape our FY23 growth strategy;
- syndicated data, which builds our understanding of key aspects of our brand, our customers and our market; and
- sophisticated in-house customer segmentation, based on both attitude and behaviour towards cards and gifts. This equips us with valuable insight into who our core, existing and target customers are, how many of them do and don't shop with us vs the market and how to serve them better in order to grow our market share.

Taking an extensive and holistic approach to customer intelligence affords us a profound understanding of our customers. This allows us to interrogate and improve the Card Factory proposition to meet our customers' needs, whilst also measuring the success of the experience we are delivering.

To fulfil our customer-centric ambition, our commitment goes beyond market research. Our success relies on every colleague and every process being focused on delivering the right products, services, channels and experiences for our customers. In 2020 we responded quickly to customer needs during the pandemic by investing in an increased customer services team, extended customer services hours and new Live-Chat and social media contact channels. In 2021 we continued to embed customer-focused frameworks throughout the Card Factory organisation, including regular business-wide communications and insights, specialised training and development opportunities for colleagues and online focus groups as part of our 'Voice of the Customer' initiative.

We have invested in the upskilling of our Customer Service Team to improve the quality and speed of response to customer contact, online and in-store. Our leadership teams are provided with regular visibility of customer enquiries and key service metrics, in order to ensure that high standards of response are maintained and that improvements are made where necessary.

As we look to the future, our strategy to become the UK's leading omnichannel retailer in our sector will be enabled by decision-making driven out of our comprehensive insights capability. This will enable us to meet customer needs anywhere, anytime, via a channel and service that suits them. In support of this we continue to develop and make improvements to our store environment, with the completion of our 'model store' format development in 2021. This offers an enhanced shopping experience to customers, elevates the Card Factory brand and offer and will continue to be rolled out and evaluated as one of the priorities of our strategic plan. Continued investments in the Card Factory brand, with improvements and innovations to our in-store and digital offer, will enable Card Factory to continue to deliver a unique customer experience.

Colleagues

Key to helping customers celebrate life moments are our store colleagues: over 8,000 people working in over 1,000 stores across the UK & Ireland; joined by an additional 5,000 seasonal colleagues, during peak trading periods. Supporting them in their mission are 441 colleagues at our support centre and 374 working in fulfilment, production and distribution.

All teams continued to show great resilience and flexibility as we adapted to the ever-changing Covid-19 restrictions throughout the course of FY22. Furlough allowed us to phase a return of our colleagues over time after stores reopened. We ensured that our colleagues were kept safe and felt supported and we implemented measures to operate in a way which complied with government restrictions and considered the health and wellbeing of our customers and our workforce, whether in a store, an office or a distribution centre.

Our entire business continued to adapt and respond to the needs of our customers and our colleagues. We maintained our flexible working arrangements for office-based colleagues, to allow our colleagues to benefit from working in a way which suits them and the business. This allows us to attract and retain talented candidates, as well as addressing the wellbeing and engagement benefits of being a flexible and agile employer.

Communication and engagement with colleagues continues to be high on our agenda: frequently two-way, to allow us to listen and to act on what we hear. Our many channels include video updates, business roundups and our Company-wide virtual conference held in January 2022 which allowed us to bring colleagues together from across the country to hear about our five-year strategy and to input and feedback on our values. Finally, the Board's ability to engage with colleagues on an informal basis, in our stores and on site visits are now able to continue as government restrictions ease.

Our regular Best Companies survey gives our colleagues a voice and creates the opportunity for us to receive feedback in a quantitative and qualitative way. We commissioned Best Companies to run a standalone 'Be Heard' survey in June 2021. Some of the key feedback included that colleagues wanted to see progress in terms of personal growth, leadership and recognition. This feedback has allowed us to work on our people plan, to include:

- Values refresh and culture: We have reviewed our organisational values to ensure they are aspirational in supporting the business on its strategic journey and as part of the work to articulate our culture. Our values articulate what we value most, a set of beliefs and principles that we commit to, that are brought to life within our Leadership Behaviour Framework and ways of working. Through high engagement with colleagues across the whole business we gathered data on what we appreciate about our current values and what will make our culture future-fit. The new values are due to be launched later in 2022.

- Performance management: To support our ambition for growth and to achieve our five-year strategy it is critical that every colleague knows what is expected of them within their role, owns their personal accountability and recognises the valuable part they play. This involves connecting our business-wide objectives to our individual contributors and being clear on what they need to do as well as how they need to do it. We capture this through our newly defined performance management process which sets measurable and relevant objectives, ensures regular performance and feedback conversations and supports personal development plans. We have invested significantly in developing our leaders through coaching supported by workshops and toolkits.
- DE&I: Our aim is to build an inclusive workplace where diversity thrives and to attract a colleague group as diverse as the customers we serve. Using a colleague-led approach to gathering data, we have built a five-year DE&I strategy and plan. This will deliver on five key pillars: Leadership; Wellbeing; Community and Connection; Brand; and Customer. Through this plan we have identified a set of outcomes that we aim to achieve and will review annually, both qualitatively and quantitatively.
- Career pathways: We have begun to define functional career pathways that provide clear visibility of opportunities for colleagues to develop their breadth and depth of skills, as well as mapping progression routes. This supports managers to support the development of others, encouraging internal mobility. Our apprenticeship offer will continue to be embedded within our career pathways, along with our leadership development offer; demonstrating our commitment to social mobility and developing our leadership culture respectively. Talent pipeline and succession planning has been undertaken with the senior management team and the colleague population reporting into them and will continue to be rolled out beyond this population, throughout FY23.

Our 'Be Heard' colleague survey has been repeated in January 2022. The response rate is higher than it has ever been, at 71% of colleague participation and we have improved our scores on almost all of our categories. Outputs from the survey enable us to make decisions to support our longer-term strategy of reducing turnover and maintaining our excellent customer service offering.

Our Combined Colleague Advisory Group ('CCAG') provides a forum to ensure that our colleagues' voices are heard directly by our Board and ensures the Board considers colleagues' interests during its decision-making. CCAG consultations were undertaken in May, September and December 2021 and January 2022. These consultations included:

- in May 2021 we consulted on the Group's reward framework, received feedback on the changes proposed to our Remuneration Policy (see pages 77 to 81) and assessed our performance and areas for improvement in respect of DE&I;
- in September 2021, we consulted on the Group's ESG strategy using colleague feedback to inform progress moving forward, including trials of a cardboard alternative to bubble wrap, the removal of plastic slips from cards being rolled out more widely across ranges and a proposal to increase the size of TerraCycle boxes in stores;
- in December 2021, we consulted on colleague morale in the peak trading period; feedback confirmed that additional lines of communication put in place by the Group were effective and that colleagues felt well supported despite challenges with stock and availability; and
- in January 2022, we consulted on learnings from the Christmas 2021 trading period to inform plans for Christmas 2022, including use of the new auto-replenishment system in distribution centres and recruitment of temporary colleagues during the peak trading period.

Paul McCrudden, as designated Non-Executive Director, stepped down as Chair of the CCAG in January 2022 and has been replaced by Paul Moody, Chair of the Board.

Our people policies lay out a framework of how we work, some of these are a mandatory requirement and some are optional. They are in place to ensure our compliance but also to support our aspiration to be inclusive, consistent and fair. An outline of our policies include:

- Family friendly policies including maternity, paternity and adoption, flexible working and sabbatical policies.
- These policies are designed to ensure that we recognise the changing nature of colleagues' lives, to support effective work-life balance and to encourage flexibility. These policies are subject to regular review and benchmarking to other businesses to ensure we consider the needs of our colleagues as well as to attract and retain talent.
- Legal and legislative policies including disciplinary, grievance, anti-bribery and corruption, data protection and personal information policies.
- These policies are regularly reviewed and updated to ensure performance, conduct and complaints are dealt with in line with best practice and legal frameworks, whilst ensuring consistency and transparency for colleagues and managers.
- Consistency and inclusivity policies such as anti-bullying and harassment, equal opportunities, recruitment and selection.
- We are currently looking to build on the colleague-led creation and design of a DE&I agenda and policy to add to our existing policies to become a leading employer in relation to equal opportunities and diversity.
- 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 and 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.

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.

Our stakeholders *continued*

Colleagues *continued*

We are committed to ensuring that colleagues are rewarded fairly and consistently and have access to career progression and continued learning. This has included a review of our rewards and benefits where all roles in our organisation have been benchmarked. Further details are in the 'colleague reward' case study on page 31.

As we work through the year, we have implemented a set of KPIs relating to our colleagues that combined with our wider business KPIs give us a measure of how we are performing and what actions we need to take to improve. For FY22 these included:

- Turnover – Our colleague turnover averages at 27%. This rate varies across our business divisions due to the diversity of employees we have in our business. Our retail colleagues tend to have the shortest tenure and highest turnover which is in line with market trends. We are working on a retail-specific plan to address this particular group and to review pay and benefits as well as listening to their feedback in the survey.
- Internal Promotions – We want to be able to promote and develop from within and to identify transferable skills and benefit from the great amount of knowledge we have in the business. In line with good practice, our internal promotion rate sits at 33%. As the recruitment market becomes more challenging, we want to look at ways of how we can access the skills within our business and create a pipeline of internal talent.
- Headcount – We consistently monitor our headcount to ensure we have the capacity to deliver on our strategy. It is likely that as we move into the next financial year, we will place more focus on our number of vacancies versus our budgeted headcount to better understand where we have resource issues and how to address them.

FY23 brings some challenges as the UK & Ireland is impacted by a highly active candidate market, with many people choosing to move companies and find new jobs. By focusing our people activity on the activities we describe, our aspiration is to differentiate Card Factory from other employers and to be able to recruit high-quality talent into our organisation as well as developing and retaining the colleagues who are already with us.

Gender data

The gender composition of Card Factory's workforce as at 31 January 2022 was as follows:

	Gender				
Category	Female	%	Male	%	Grand Total
Board	1	14%	6	86%	7
Senior management	2	22%	7	78%	9
All	7,572	83%	1,580	17%	9,152

The majority of colleagues in our business are female with many working in stores and distribution centres. However, if we look at the senior population, we can see that this trend shifts and that the majority of colleagues in this population are male.

We continue to be committed to creating a workforce that is diverse and inclusive, provides equal opportunities for everyone to progress and is reflective of the environment we trade in and the customers we serve. This will continue to be a priority for Card Factory, demonstrated in 2021 by the launch of a five-year DE&I strategy.

In 2021 we became a founding signatory to the British Retail Consortium's Diversity & Inclusion Charter alongside 50 other leading retailers. As a result of this pledge, we have:

- appointed a DE&I Executive;
- improved recruitment practices and continue to review these in order to remove bias from processes and practices;
- collected data on inclusivity at Card Factory, including the addition of DE&I questions to our engagement survey; and
- launched our new flexible working approach post-pandemic, that supports all colleagues balancing personal commitments alongside work.

In addition, we will:

- continue to support female talent through our Women in Leadership initiative, so that we further create an inclusive workplace that attracts female talent in leadership positions and supports equal opportunities for internal progression and development, particularly in senior roles where females remain under-represented;
- champion balanced shortlists when recruiting; and
- continue to support flexible working, job shares and 'smart working' to support work-life balance and ensure flexibility is not a hindrance to career progression.

Suppliers

Our Chief Commercial Officer is responsible for ensuring we develop mutually beneficial long-term relationships with our key product suppliers and for monitoring and responding 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 effective relationships with a reduced number of key product and raw material suppliers and engage constructively to set fair and clear expectations. This 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, which includes:
    - 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; and
  - access to and sharing of information via SEDEX (Supplier Ethical Data Exchange), which assists monitoring human rights issues in our supply chain;
- technical audits (based on ISO 9001) on products and product safety for initial factory set-up and higher risk areas;
- requirements that card is Forest Stewardship Council® (FSC®, Licence code: FSC-C128081) certified and compliant with the UK and EU Timber Regulations. During the last quarter of 2021 Card Factory underwent and passed its five-year FSC renewal audit, which was a reflection of our commitment to the ethos of FSC. With the success of moving the majority of cards sold to being FSC certified, we are now moving rollwrap and bags to FSC certified suppliers and marking the items accordingly. Towards the end of 2022 we will start to investigate and implement the use of FSC certified packaging wherever practical); and
- 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 raising any concerns. During the year we have recruited an experienced colleague to lead our quality control and technical team. This demonstrates our commitment to maintaining excellent supplier partnerships that drive strength in product development and to maintaining a supply chain that meets the highest standards of legal and ethical compliance. Over the next 12 months the new quality team will be restructured and become more involved in all areas of the business in order to improve product selection, wherever possible. Reflecting the Company's ESG commitment, this will include reviewing and reducing current packaging and investigating alternative materials to make product more environmentally friendly. In addition to this, the restructure will better equip the team to support the five-year strategic plan with the move to omnichannel and international.

The Covid-19 pandemic has not curbed our compliance requirements: local third-party agents continue to audit our Far East suppliers on our mandatory policies on product quality and sourcing, including FSC certification, anti-bribery, anti-corruption and anti-exploitation. Our 'No Audit, No Order' policy remains a steadfast requirement, necessitating 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, Getting Personal'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. They will, however, be extended to them over the next nine to 12 months and we will engage with these suppliers and account for their specific circumstances as part of the process.

***Suppliers** continued*

Over the next two years there are going to be some challenging changes to legislation which will have an impact on all businesses in the UK. These include:

- the Plastic Packaging Tax (starting in April 2022);
- the new Deposit Returns Schemes ('DRS') (Scotland at present is the only country in the UK with firm plans and a start date of Aug 2023);
- the Extended Producer Responsibilities for Packaging, WEEE and Batteries; and
- the Food (Promotion and Placement) (England) Regulations 2021.

As we see more devolution of product, legislation is becoming more complex. As differing requirements could apply in different countries in the UK, for example, Northern Ireland has increased the single-use carrier bag charge to 25p from April 2022, Scotland is likely to introduce Deposit Return Schemes before the rest of the UK and Brexit means the requirements for Northern Ireland are different from mainland UK, the quality approach has to evolve and become more dynamic to answer these challenges.

We have continued engagement with our Far East suppliers by video conference which facilitates more regular contact, however, we look forward to resuming supplier visits once all travel restrictions are lifted. In February 2021, we completed our second annual Supplier Viewpoint survey, extending the participants to our top 30 product suppliers (previously top 20 product suppliers). This allows us to understand if actions we have taken following previous feedback has improved our supplier relationship management. We also consulted this supplier base on their views on our ESG priorities, with a summary of the findings set out on page 44.

No of colleagues

8,000

across the UK & Ireland

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:

Colleague reward

A colleague reward review was initiated to address increasing colleague turnover rates across the business, with the aim of attracting and retaining the best talent to facilitate implementation of the revised five-year strategy. Colleague turnover rates had been steadily rising following the Covid-19 pandemic and due to Card Factory's existing reward offering have now fallen below market rate.

A full salary benchmarking exercise was undertaken with Willis Towers Watson, an independent company which provided significant benchmarking market data specific to the retail sector. The research showed that Card Factory's salaried colleagues' remuneration was generally below market median, with 51% of colleagues remunerated below market rate. The cost to bring all salaried colleagues to within market rate was £1.5 million; or £4.4 million to bring all colleagues to mid-market median rate. The benefits package for hourly paid colleagues, many of whom receive National Minimum Wage or National Living Wage, was also noted as being less attractive than comparative retailer offerings. Card Factory does not pay the real living wage.

The Board needed to balance the conflicting interests of shareholder value and profitability, in the short term, with the need to improve pay and benefits to aid recruitment and retention, to ensure a fair deal for colleagues and to be competitive in the market. Taking into account the statutory requirement to enhance wages in April 2022 in line with National Living Wage increases, it was decided that further investment in colleagues' salary and benefits, whilst impacting shareholder value in the short term, would drive longer-term benefits to support business growth.

To achieve balance between shareholder interests and the need to invest in colleagues, it was decided that a 'levelling up' approach be adopted to improve the deal for colleagues progressively over time, alongside efficiency improvements. The Board ultimately resolved that additional funding of c.£600k (equivalent to 2.5% of the aggregate of salaried colleagues' pay) be awarded, but with selective allocation to those colleagues with larger variances to benchmarked market rates for their role. In addition to National Living Wage increases to hourly paid staff and further increases to hourly paid colleagues with greater responsibilities, further enhancements were made to Company sick pay, maternity and paternity benefits above statutory levels.

Reviews to benefits and wages will be considered in the next few years taking into account the need to balance shareholder value with the need to further invest in colleagues' reward offering and the increasing costs of living, to drive long-term business growth.

Marketing data and insight investment

During FY22 we made calculated investments in marketing, data and insight expertise. Our new, dedicated team have established a strategy rooted in developing the deep, segmented and robust understanding of our customers that is required for us to deliver a highly tailored offer. This is a strategy that allows us to concentrate on the initiatives with the highest resonance for customers, in order to drive sales and unlock further growth. Bringing this capability in-house allows us to better exploit existing data sources, fill knowledge gaps and will afford us long-term cost saving and efficiency benefits.

As we navigate through a period of globally unprecedented social, political, environmental and economic change, reliable customer insights are more valuable than ever before. New insight sources, including Kantar data, are allowing us to optimise our range, product, service and pricing to better meet customers' needs in-store, and in due course online and via our retail partnerships, whilst also shaping opportunities for growth and our understanding of our performance within the wider market.

Through better meeting customers' needs we will continue to evolve in a way that is fit for the future and mutually beneficial for all stakeholders, creating excellent career opportunities for colleagues, attractive investment opportunities for shareholders and stability for our suppliers. Despite the initial cost, these investments balance our shareholders' overarching priorities; by talking to more customers, more often, winning more sales, we will maximise our profitability for the long term.

Chief Financial Officer's review

Resilient financial performance

The 'FY22' accounting period refers to the year ended 31 January 2022 and the comparative period FY21 refers to the year ended 31 January 2021.

Historically, the Group has presented underlying profit and earnings measures. During FY22, the Group has ceased such presentation on the basis that the amounts were not material. A full description of Alternative Performance Measures used throughout this report and the Group's accounts is included on page 160.

Revenue

Total Group revenue during the year increased by 28% to £364.4 million (FY21: £285.1 million), predominantly due to improving trading conditions as the UK began to exit and recover from restrictions associated with the Covid-19 pandemic. Stores were closed for ten weeks due to lockdown in FY22, compared to five months in FY21. The steady recovery in sales followed the end of the last national lockdown in April 2021. For the financial year overall, an increase in store average basket values ('ABV') (+22%) versus FY20 partially offset lower footfall/transaction volumes (-23%) versus FY20.

Growth in ABV is being driven by the strength of our balloon and party ranges where Card Factory is the market leader, alongside growth in complementary categories, therefore our focus in FY23 will be on expanding these ranges and responding to customer lifestyle choices.

"Growth in ABV is being driven by the strength of our balloon and party ranges where Card Factory is the market leader."

Kris Lee
Chief Financial Officer

	FY22 £'m	FY21 £'m	Increase/ (decrease) £'m
Card Factory stores	336.0	251.9	84.1
Card Factory online	10.9	11.1	(0.2)
Getting Personal	12.9	16.5	(3.6)
Retail partnerships	4.6	5.6	(1.0)
Group	**346.4**	**285.1**	**79.3**

The Group's programme of new store openings continues to be an important driver of sales growth. Covid-19 led to a postponement of some new store openings during FY21 which continued into FY22. However, despite this, 11 new stores were opened during FY22, three stores were relocated, and seven stores closed, giving a net increase in stores during the year of four. This brought the total store estate to 1,020 stores at the end of the year, including 14 stores in the Republic of Ireland (FY21: 1,016 stores, 14 in the Republic of Ireland).

The reduction in lockdown periods during FY22, compared to the prior period, drove a proportion of sales back to stores and away from online. As mentioned in the CEO statement, online sales for both cardfactory.co.uk and gettingpersonal.co.uk were ahead of pre-pandemic levels although short of target due to delays to development that should have further increased the ranges offered online. Continued growth in online remains a key strategic focus for the Group.

Retail partnerships sales also reduced compared to the prior year, largely due to The Reject Shop being affected by regional lockdown restrictions during the period.

Like-for-like ('LFL') sales growth across each division is set out in the table below. LFL measures exclude periods where stores were closed due to lockdown and for stores are stated compared to FY20, the last full year of trading unaffected by Covid-19.

	FY22	FY21
Card Factory stores	(5.7%)	(2.4%)
Card Factory online	(1.5%)	135.3%
Card Factory LFL	***(3.9%)***	***(0.1%)***
Getting Personal	(21.6%)	12.2%

Ongoing improvements to the depth, quality and merchandising of our complementary 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 FY22 was 48.4% single cards (FY21: 51.1%), 48.4% non-card (FY21 46.7%) and 3.2% boxed cards (FY21: 2.2%).

Operating costs

Cost of sales and operating expenses are set out in the tables below.

FY22	FY22 £'m	FY22 % of revenue	% (Increase) /decrease	£ (Increase) /decrease
Cost of goods sold[1]	134.1	37.0%	4.4 ppts	(13.5%)
Store wages	78.8	21.6%	(0.7 ppts)	(32.2%)
Store property costs	15.8	4.3%	(0.9 ppts)	(64.6%)
Other direct expenses	19.2	5.2%	1.2 ppts	(4.9%)
Cost of sales	***247.9***	***68.1%***	***4.0 ppts***	***(21.2%)***
Operating expenses[2]	38.9	10.7%	1.1 ppts	(15.8%)
Depreciation, amortisation and impairment	54.0	14.8%	3.9 ppts	(1.3%)
Total operating costs	***92.9***	***25.5%***	***5.0 ppts***	***(6.9%)***

FY21	FY21 £'m	FY21 % of revenue
Cost of goods sold[1]	118.1	41.4%
Store wages	59.7	20.9%
Store property costs	9.6	3.4%
Other direct expenses	18.3	6.4%
Cost of sales	***205.7***	***72.1%***
Operating expenses[2]	33.6	11.8%
Depreciation, amortisation and impairment	53.3	18.7%
Total operating costs	***86.9***	***30.5%***

1 Cost of goods sold includes FX losses previously described as non-underlying in FY21.
2 Excluding depreciation, amortisation and impairment.

The overall ratio of cost of sales to revenue decreased to 68.1% (FY21: 71.7%). This decrease was driven by the following movements in sub-categories and by the increase in sales compared to the prior year:

- ***Cost of goods sold ('COGS'):*** comprises the direct costs of goods sold in the period (principally cost of raw materials, production costs, finished goods purchased from third party suppliers, import duty, freight costs, carriage costs and warehouse wages). In addition to the impact from the increase in sales and improved stock management, product COGS in FY22 was affected by the global shipping crisis and a significant increase in freight costs. Whilst the absolute cost of purchases increased as a result, the knock-on impact of shipping delays to inventory values contributed to a reduction in the overall level of provision compared to FY21, lowering COGS as an overall percentage of revenue. Provisions as a percentage of the gross inventory balance remain broadly consistent with the prior year.
- ***Store wages:*** comprises all staff costs for store-based staff, including employer taxes and contributions, and is shown net of Government support received through the CJRS. The main driver behind the absolute increase in store wages year-on-year is the reduction in store closure periods and associated reduction in CJRS income. The increase as a percentage of revenue (0.7ppts compared to FY21) reflects national living wage increases partially offset through productivity gains.
- ***Store property costs:*** principally comprises business rates and service charges. Property costs for FY22 and FY21 reflect rates reliefs available across the store portfolio in both periods. Overall property costs increased in FY22 as a result of a reduction in the amount of business rates relief available in England from July 2021.
- ***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 predominantly variable in proportion to the number of stores. Other direct expenses decreased as a percentage of revenue in FY22 reflecting reduced lockdown periods and increased trading days, as certain cost categories (such as insurance and maintenance) do not change in direct proportion with revenue from store trading.
- ***Operating expenses:*** includes remuneration for central and regional management and business support functions, design studio costs and business insurance together with other central overheads and administration costs. Indirect salary costs increased compared to the prior year, which reflects investment in people related to future growth, reduced CJRS claims and also the payment of staff bonuses for FY22 as a result of the improvement in financial performance. Total operating expenses (excluding depreciation and amortisation) increased by 15.8% to £38.9 million, representing a decrease from 11.8% to 10.7% as a percentage of revenue.

Depreciation and amortisation charges include depreciation and impairment in respect of right-of-use assets, which predominantly relate to the Group's store portfolio. In FY22, depreciation and amortisation includes £5.0 million of impairment charges in relation to right of use assets (FY21: £2.6 million), predominantly reflecting the effect of the Covid-19 pandemic and continued cost headwinds expected in future periods, particularly in relation to freight and the impact of inflation on staff wages and utility costs. As a result, total depreciation and amortisation charges increased to £54.0 million (FY21: £53.3 million)

In addition to support from CJRS and rates relief described above, the Group recognised £8.0 million of other operating income in respect of various government grant schemes related to Covid-19 lockdowns.

EBITDA

	FY22 £'m	FY21 £'m	(Increase) /decrease
EBITDA	**85.6**	45.8	£39.8m
EBITDA margin	**23.5%**	16.1%	7.4ppts

The increase in EBITDA (defined as earnings before interest, tax, depreciation, amortisation and impairment charges) reflects, in particular, the improvement in trading performance described above due to the reduction in non-essential retail closure periods in FY22, compared to the prior year. The business has continued to focus on delivering close control over its cost base, with approximately 2% of the store portfolio marginally loss-making on a variable contribution basis, reflecting the subdued footfall during the year.

The cessation of all restrictions in relation to Covid-19 in the UK gives cause for optimism going forward; however, we anticipate ongoing inflationary headwinds through FY23 – a significant proportion of which has been pre-emptively mitigated through a combination of efficient management of costs and working capital, as well as targeted price increases – including the increasing cost of freight and also the impact of inflation on staff costs and utilities; plus investment in headcount, IT and development of the online platform to support the delivery of the Group's 'Opening Our New Future' strategy.

Net financing expense

The interest charge pertaining to the Group's loan facilities increased to £6.8 million (FY21: £5.1 million) reflecting an increase to the Group's average effective interest rate following the refinancing of the Group's facilities in May 2021. In addition, the Group recorded a £10.4 million charge in respect of loan issue costs amortised to the income statement in the period. This represented a significant increase from similar fees in prior periods owing to the fees associated with the May 2021 refinancing, which included costs associated with the potential equity raise, since removed in the April 2022 refinancing, and an accelerated amortisation profile that reflected our expectation of a further refinancing in the first quarter of FY23. See note 6 on page 133 and note 17 on pages 141 and 142. Net finance costs are expected to normalise to historical levels in FY23.

Including IFRS 16 Leases interest charges, the total net financing expense increased to £20.5 million (FY21: £8.9 million).

	FY22 £'m	FY21 £'m	(Increase)/ decrease
Finance expense			
Interest on loans	6.8	5.1	(1.7)
Loan issue cost amortisation	10.4	0.4	(10.0)
IFRS 16 Leases interest	3.3	3.4	0.1
Net finance expense	***20.5***	***8.9***	***(11.6)***

Profit before tax and tax charge

As a result of all of the factors described above, the profit before tax for the financial year amounted to £11.1 million (FY21: Loss before tax of £16.4 million).

The tax charge for FY22 of £3.0 million reflects an effective tax rate ('ETR') of 27.0% (FY21: Tax credit of £2.8 million and an ETR of 17.1%). The ETR is higher than the standard rate of corporation tax in the UK of 19%, reflecting the impact on deferred tax balances of the budget announcement in March 2021 that the Corporation tax rate will increase to 25% from 1 April 2023.

Earnings per share

Basic and diluted earnings per share for the year were 2.4 pence (FY21: Loss per share of 4.0 pence).

	FY22 pence	FY21 pence	(Increase)/ decrease pence
Basic and Diluted EPS	2.4p	(4.0p)	6.4p

Capital expenditure

Capital expenditure, excluding IFRS 16 right–of-use assets, amounted to £6.9 million (FY21: £7.5 million), principally in relation to new stores, online investment and ERP implementation. Additions to right of use assets, reflecting new and renewed leases in the store portfolio in the period, were £29.8 million (FY21 £22.8 million).

Capital expenditure in FY22 continued to be tightly controlled as the business emerged from Covid-19 restrictions. The Group remains subject to restrictions under its banking facilities, which limit the total value of capital expenditure that can be incurred over the next two years. Whilst operating within these limits, we anticipate continuing to support our 'Opening Our New Future' strategy in FY23 by investing £23 million across key initiatives, including the next phase of our ERP implementation, continuing the roll out of new stores, and building our e-commerce, omnichannel and manufacturing capabilities.

Foreign exchange

Approximately half of the Group's annual cost of goods sold expense relates to products that are purchased from overseas suppliers denominated in US dollars.

The Group has an established approach to hedging the risk of exchange rate fluctuations, which adopts a conservative approach to risk but retains flexibility to respond to both business and market events. The Board-approved policy permits the use of a combination of vanilla forwards and structured options to hedge the exposure over a rolling three-year period. 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 achievable or permitted in some instances.

At the year end, the Group had commercial hedges in place giving significant coverage for both FY23 and FY24 with anticipated average delivered rates of c.$1.35, although this remains subject to future variation 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.

Chief Financial Officer's review *continued*

Cash generation

In the year, the Group remained cash generative, driven by improved trading performance, favourable working capital movements and close control of operating costs and capital expenditure.

Net Debt and covenants

	FY22 Net Debt £'m	FY22 Leverage Multiple	FY21 Net Debt £'m	FY21 Leverage Multiple
Borrowings				
Current liabilities	25.5		0.2	
Non-current liabilities	85.5		118.8	
Total borrowings	111.0		119.0	
Lease liabilities	119.8		144.9	
Capitalised debt costs	1.5		1.2	
Gross debt	232.3		265.1	
Less cash	(38.3)		(12.5)	
Net Debt (inc. leases)	**194.0**		**252.6**	
Leverage (inc. leases)		**2.3x**		**5.5x**
Remove lease liabilities	(119.8)		(144.9)	
Net Debt (exc. leases)	**74.2**		**107.7**	
Leverage (exc. leases)		**0.9x**		**2.4x**

The Group focuses on Net Debt calculated to exclude lease liabilities, as this reflects the way the Group's covenants are calculated within its financing facilities.

Net Debt excluding lease liabilities was £74.2 million at 31 January 2022 (FY21: £107.7 million), the improvement reflecting careful cash and working capital management through continued Covid-19 restrictions.

Leverage, calculated as Net Debt excluding lease liabilities divided by EBITDA and expressed as a multiple, was 0.9 times at 31 January 2022 (FY21: 2.4 times). The Group expects Leverage to increase slightly as it returns to normal trading patterns.

In May 2021, the Group renewed its financing facilities with its banking partners, which at the balance sheet date comprised a £75 million Term Loan, £50 million CLBILS and a Revolving Credit Facility of £100 million. Under the revised covenant terms, the Group was required to achieve defined quarterly covenant tests of Interest Cover and Leverage, alongside customary reporting requirements which are considered to be administrative in nature.

In addition to financial covenants, under the terms of the CLBILS facility the Group is prohibited from making distributions to shareholders until the CLBILS facility has been repaid. The terms of the facilities require the term loan and CLBILS facility to be repaid pro-rata.

The facilities have an expiry date of 24 September 2023 (unchanged from the previous arrangement). The Group concluded a further refinancing of its debt facilities on 21 April 2022, described in further detail below. The Group expects to operate within the restrictions of its financing facilities and meet its covenant tests for the foreseeable future.

Post-balance sheet refinancing

Subsequent to the year end, on 21 April 2022, the Group agreed revised terms on its financing package with its existing banking syndicate, which reduced the overall quantum but extended the term of the Group's debt facilities. Following this refinancing, the Group's facilities comprise term loans of £30 million, CLBILS of £20 million and a Revolving Credit Facility of £100 million.

The CLBILS and £11.25 million of the term loans are subject to an amortising repayment profile to September 2023, and January 2024 (respectively), with the Revolving Credit Facility and remaining term loan repayable by September 2025. The revised agreement removed the obligation on the Group to use best efforts to raise further equity to make prepayments of the debt facilities. The dividend restrictions under the CLBILS facilities continue to apply.

The Group's strategic plan has been updated to reflect the new facilities and is subject to scenario testing. The Board believes that the Group has access to sufficient liquidity to execute its strategy under a range of different scenarios.

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 ceased payment of dividends, and as noted above the terms of the Group's financing facilities now prohibit dividend payments until certain elements of the Group's facilities are repaid.

As a result, no dividends were paid in FY21 nor FY22. The Board does not propose payment of a final dividend in respect of FY22.

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.

Looking forward, the Board intends to maintain a leverage ratio (calculated as Net Debt excluding lease liabilities to EBITDA) of between 0.5 and 1.5 times, targeting the lower end of this range in the medium term. Provided leverage remains in this range, the Board envisages considering dividends at the year-end of FY24, at which point the CLBILS facilities and £11.25 million of the term loan facilities will have been fully repaid. It is the Board's intention, subject to these conditions, maintaining an appropriate Leverage ratio and achieving financial performance in line with the strategic plan, to pay ordinary annual dividends from this point.

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
3 May 2022

Risk management

Risk management framework

Card Factory's risk management framework embeds 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 identifying emerging risks and implementation of mitigation plans. Each risk is subject to regular review on a rolling basis by the senior management team. A complete review of all the risks and review of adequacy of process to identify emerging risks has been undertaken at the end of the financial year.

Risk register and review processes

Card Factory plc Board

The Board has overall responsibility for identification, evaluation and management of risks, that may affect the achievement of strategic and operational objectives, with monthly oversight through KPI reporting.

Audit & Risk Committee

The Audit and Risk Committee oversees the Group's risks, with regular reviews (at least 3 times pa), and engagement of the Internal Audit function to assess and report on areas of concern which support risk mitigation. See pages 69 to 73 – Audit & Risk Committee report.

Senior management team

The senior management team manage risks within their area of accountability, with responsibility to mitigate risks (where appropriate). The senior management team undertake reviews of and updates to each risk on a rolling monthly basis. This group is also primarily responsible for monitoring, identifying and reporting emerging risks as they arise.

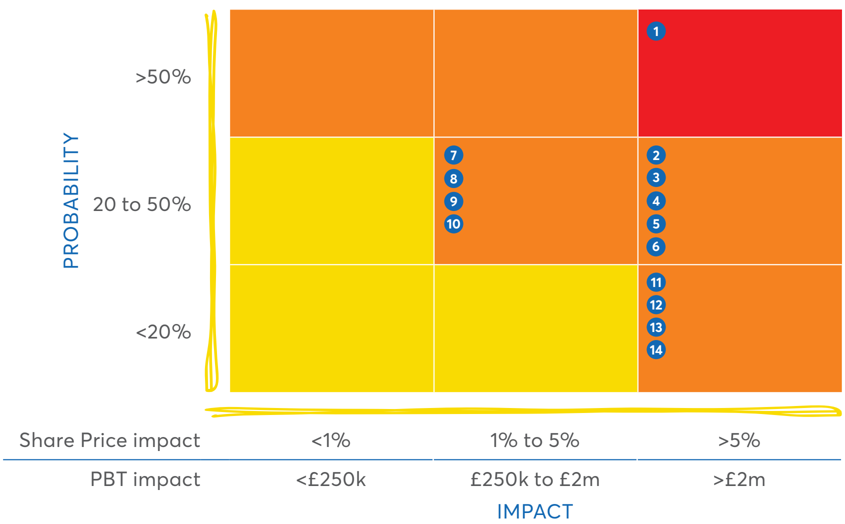
Operations

All colleagues are responsible for managing risk, overseen by each senior management team member, for their operational areas of responsibility, supported by the Health & Safety team, the People team and the Loss Prevention team.

The CEO, CFO and Company Secretary are engaged on risk across the key governance forums.

The risk register is updated monthly as risks are monitored, reviewed and reassessed and emerging risks are identified.

Risk management and mitigation are embedded within the operations of the Card Factory Group. The external Board effectiveness review undertaken in late 2021 recognised that risk is more firmly on the agenda, with the Board fulfilling its duties with thoughtful scrutiny and assurance as to risk materiality. It recommended further clarity on risk appetite/risk tolerance which is currently under review.



1 Shipping
2 ERP implementation
3 IT infrastructure & security
4 Investor relations
5 Geopolitical instability
6 Business continuity
7 Loss of key personnel & organisational culture
8 ESG compliance & climate change risks
9 Supplier CSR breach
10 Retail partner
11 Impact of coronavirus
12 Finance & Treasury
13 Adapting to customer preference
14 Brand customer experience

Pending the outcome of the current risk appetite review, the Board currently requires 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 Shipping, 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.

Risk trend: ↑ Increasing — Stable ↓ Decreasing

Link to strategy:
- 01 Increasing breadth of product offering
- 02 Create a full omnichannel offer
- 03 A robust and scalable central model

Financial	Description	Mitigation
Shipping NEW Link: 03	Shipping delays: Delays realised on incoming stock from the Far East arising from capacity constraints, delaying supply of stock to customers. Shipping costs: Significant increase in container importation costs (from c.USD2,000 to current average of USD12,000) impacts profitability.	Shipping delays: Stock orders brought forward to address anticipated delays and use of multiple shipping partners to secure shipping capacity. Shipping costs: Retail pricing increases applied and being planned, with ongoing review of country of supply (including on-shoring supply), container volumes and fill to reduce overall costs.
Geopolitical instability Risk: Stable Link: 03	Suppliers: Specific categories of product rely on one supplier, region or country. China remains as a substantial source of supply. Customers: Restricted supply may impact availability or require price increases for the consumer. Profitability could be impacted from lost or reduced sales. Tariffs: Duties and tariffs could force need for alternative supply.	Suppliers: Diversification of supply base, including on-shoring supply to the UK. No product exposure to Russia or Ukraine. Planned global review of supply chain to identify alternatives. Customers: Diversification of supply mitigates availability, with price increases being implemented with analysis on price elasticity. Tariffs: Ongoing identification of changes to duties and tariffs to respond as required.
Impact of Covid-19 Risk: Decreasing Link: 01 02 03	New variants or outbreaks may require mandatory store closure or reduce store footfall, impacting revenue and profitability, however, risk of further government restriction is considered increasingly remote.	Processes, training, signage and PPE capable of being deployed as required. Planned omnichannel and growth of retail partnerships will provide additional revenue outside of our store estate. Headroom in banking covenants provides some scope to absorb impact of mandatory store closures.
Finance & Treasury Risk: Stable Link: 01 02 03	Bank facilities: Future lockdowns or restrictions on trade causing underperformance could cause cash flow constraints or risk breach of banking covenants. FX/Commodities: The Group is exposed to foreign currency exchange rate fluctuations and commodity pricing (including wood pulp and energy). Margin pressure: Inflation and price increases may impact operating margins for the business.	Bank facilities: Headroom in banking covenants and cash flow forecasts are kept under review, with contingency planning to address any identified issues. FX/Commodities: Hedging for US Dollars currency requirements and energy effected for up to three years. Margin pressure: Regular review of retail pricing and maintain margins and efficiency improvements and cost controls adopted to manage overheads.

Operational	Description	Mitigation
ERP implementation Risk: Stable Link: 02	Ongoing design and phased implementation of ERP systems (Enterprise Resource Planning) to replace end-of-life core IT infrastructure. Significant risk of business disruption, data loss or inefficiencies if design, planning, testing and transition are not successful. Risks that the solution may not fully realise the expected benefits and provide the required platform to realise the strategic plan, including development of the omnichannel offer to customers, improvement of engagement with retail partners and operational efficiencies in our retail stores.	Initial phase implementation (including finance and master data) completed without any material disruption. Re-phasing to include incremental implementation phases has been undertaken to reduce risks on cut-over and to reduce reliance on legacy systems at risk of failure in advance of peak trading seasons and to enable realisation of key components of the strategic plan. Additional focus on business process engineering, resourcing and change management being deployed support successful implementation.

Risk management continued

Operational continued	Description	Mitigation
IT infrastructure and security Risk Link: 02 03	IT infrastructure: Unsupported and legacy software, some of which is subject to material tailoring, requires ongoing support to maintain functionality and significant transactional volumes. Realisation of strategic objectives is partially restricted by current system limitations. IT security: Reliance on IT systems to support all operations could be exposed to cyber risks.	IT infrastructure: The IT strategy implementation is ongoing, which includes ongoing specialist support for legacy systems and migration to new systems, including the ERP implementation (see above). IT security: Cyber expertise is employed within the business, with appropriate measures and future plans to continue to address multiple cyber risks, alongside further risk mitigations arising from replacement of legacy systems.
Business continuity Risk ↑ Link: 02 03	Production failure: The business places significant reliance on its Printcraft (single site) facility which prints 70% of cards and a significant proportion of personalised online orders. If this site is unable to operate, there could be a significant impact on operations. Online fulfilment: Online orders are primarily fulfilled from the same Printcraft single site, with reliance on specialist packaging equipment. Capacity limitations, if not addressed, may limit sales opportunities in peak seasons.	Production failure: Business Continuity and Disaster Recovery plans have been fully assessed and updated with scenario planning and training scheduled. This includes identification of alternative suppliers for impacted production processes, although outsourcing will impact profitability. Insurance is also maintained. Online fulfilment: Short-term outages can be mitigated by adjustment of delivery times for online orders. Business Continuity plans include use of third parties, with the ongoing IT infrastructure improvements and ERP implementation expected to further improve IT resilience and functionality. Planning permission has been obtained to construct an additional building to create capacity for online fulfilment, to relieve capacity constraints.
Loss of key personnel and organisational culture Risk Link: 03	Loss of key personnel: Risk that the business doesn't have the expertise and capacity to meet the requirements of the business, in particular to deliver complex change to realise the strategic targets. Organisational culture: Failure to maintain and develop a cohesive culture capable of realising the Group's strategic objectives.	Loss of key personnel: A number of changes to the management team have been effected with additional capacity constraints having been identified and appropriate appointments prioritised. Organisational culture: Improvements to pay and benefits, values review, leadership framework and DE&I consultations and strategy developments, demonstrate progress against colleague engagement feedback.
Supplier CSR breach Risk Link: 01	Supply base audits: Risk of failure by suppliers to maintain compliance standards in their supply chains (e.g. Modern Slavery, Anti Bribery & Corruption) and for products supplied (e.g. safety and labelling standards) which could damage Card Factory's reputation. Getting personal: Suppliers to the Getting Personal business (who do not also supply Card Factory) have not been subject to the same supply base requirements adopted by Card Factory brands.	Supply base audits: Processes adopted for suppliers to agree to appropriate standards, which are subject to regular audit to validate compliance, with a strict 'no audit – no order' policy in place. Getting personal: The risk profile for most suppliers to Getting Personal is significantly lower, with limited supplies from the Far East. Plans are in development to extend the quality control and technical team's scope to include these suppliers with adoption of appropriate requirements to mitigate risks.
Retail partner exposure NEW Link: 02	Underperformance: Card Factory may not realise the growth in profitable revenue from retail partners, which is a significant component for future growth of the business. Brand impact: Card Factory's brand or reputation could be damaged by actions by retail partners.	Underperformance: Following a period of transition, a Business Development team is being formed to build relationships with existing partners and develop a pipeline of future partners. Brand impact: Brand standard requirements are being developed to provide a clear framework for partners, with regular reviews adopted. Enhanced requirements will be incorporated in any future retail partner requirements.

Risk trend: Increasing Stable Decreasing

Link to strategy:
01 Increasing breadth of product offering
02 Create a full omnichannel offer
03 A robust and scalable central model

Strategic	***Description***	***Mitigation***
Investor relations ***Risk*** Stable ***Link*** 03	Risk that investor regard for Card Factory investment is restricted, with limited conviction that the strategy and targets can be achieved.	Additional investor relations expertise recruited to improve investor communications, to ensure clearer articulation of the strategy and to demonstrate progress made and to share additional data and insight in respect of the card and gifting markets.
ESG compliance & climate change risks ***Risk*** Stable ***Link*** 01 03	Investors: Failure to develop sufficiently ambitious targets and demonstrate progress could result in reduced investment appetite in Card Factory, depressing share price. Customers: Customer demand may be impacted if ESG brand perceptions are not realised, impacting long-term prospects. Energy and GHG emissions: Availability, reliability of energy supply and increased costs could impact trade.	Investors: Ongoing development of ESG planning and target setting, including material progress on DE&I strategy. Customers: Ongoing brand strategy development will include articulation of ESG policy and developments to customers. Energy and GHG emissions: Electricity prices fixed for a number of years with specialist third party expertise engaged to assess and develop a trajectory towards being carbon neutral.
Adapting to customer preferences ***Risk*** Stable ***Link*** 01 02	Product and range development: Realisation of strategic targets relies upon successful adaptation to changing customer preferences for purchase via our developing sales channels, including increased focus on omnichannel and retail partners. Customer and marketing insight: Card Factory has historically adopted no meaningful customer and marketing insight to drive empirical decision making. Customer service and fulfilment: Realisation of a true omnichannel experience for customers will require enhanced fulfilment and service expectations, which must be achieved for successful ongoing growth.	Product and range development: Design, buying and merchandising teams are using increased insight and data analysis to inform product and range decisions, with greater customer and competitor analysis. Customer and marketing insight: Marketing and insight capabilities are being developed, with support from partners such as Kantar and Brandvue Savanta to improve understanding of our customers and to embed customer insight into decision making. Customer service and fulfilment: Development of systems and capabilities is in progress to launch click and collect during FY23, with further enhancements scheduled thereafter.
Brand customer experience ***NEW*** ***Link*** 01 02 03	Brand perception: Card Factory's brand recognition has fallen since 2019. If not addressed it could lead to transactional decline. VFM proposition: Card Factory's strength in its value offering has been impacted by Covid-19 and increased competition from supermarkets. Price increases may also impact the value proposition to customers. LFL declines: The UK card market is realising reduced volume demand, and if not addressed, growth targets may not be achieved.	Brand perception: A customer marketing function is in development to develop and implement a brand strategy to elevate the brand's key attributes. VFM proposition: The newly formed customer marketing team will increase marketing activity, to elevate the VFM messaging and perception. LFL declines: Implementation of the strategic plan is designed to address LFL declines, including an increase in range and sales of complementary categories, increasing customer retention and use of marketing to extend brand appeal to new customers.

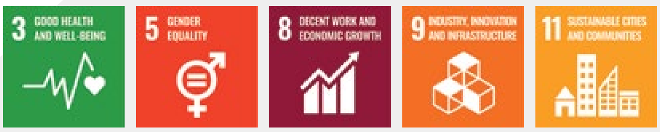
ESG strategy

Environmental and social governance

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 has identified the following supporting goals:



In a year that has reinforced the necessity of contributing to global solutions, we have continued to make progress to becoming an increasingly sustainable and responsible organisation.

Card Factory's ESG strategy reflects our ongoing commitment to delivering more than just profit and our ambitious plans for future growth and evolution are mirrored in our sustainability plans. We are aligned behind specific objectives which seek to address the challenges where we can make long-term, meaningful impacts for our stakeholders, our communities and the environment. These objectives reflect the risks and issues prioritised by our colleagues, customers and suppliers in our FY21 commissioned materiality assessment and align with the ambitions of United Nations Sustainable Development Goals ('SDGs').

The initial climate-related risks 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 38. The completion of the planned Scope 1, 2 and 3 emission assessment will provide the business with a very clear understanding of the current emissions status as well as solid recommendation to mitigate further risk and improve the environmental credentials of the business. Card Factory has engaged a specialist consultancy to further assess the Group's environmental impact and advise on opportunities to reduce its impact, taking account of the British Retail Consortium's Climate Action Roadmap. This includes undertaking a more rigorous climate-related scenario planning assessment, tailored to Card Factory's business and supply chain, assessment of the Group's Scope 3 Greenhouse Gas (GHG) emissions alongside Scope 1 and 2, development of a strategy to reduce our emissions to allow us to set an informed and realistic target for being a carbon neutral business. Alongside the improved understanding of emissions, this specific piece of work will also identify systems and processes to make improvements, engagement plans across the organisation and clear timeframes for implementation underpinned by a continuous review process.

The Card Factory approach to ESG is managed through the sustainability governance framework outlined on page 49 and is led by the Chief Commercial Officer. Additionally, ESG is discussed as part of the regular colleague forums throughout the organisation, comprising colleagues from across the business, at all levels.

Our core principles

Card Factory's policy is to pursue and grow its business responsibly to minimise its impact on the environment and have 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 and objectives

It is a priority to engage with all Card Factory colleagues on ESG matters, to promote the ESG strategy and to develop opportunities for further improvements.

Our FY21 commissioned materiality assessment allowed us to hear directly from customers, colleagues and suppliers about the ESG issues that are most important and relevant to them.

A total of 18 priorities were identified, grouped under five areas of importance:

(1) Employee Health & Wellbeing
(2) Good Governance
(3) Environment & Climate Change
(4) Communities
(5) Ethical Supply Chain

Environment and climate change priorities were of peak priority for customers and suppliers, with sustainable packaging and waste concerns ranking most highly.

Colleagues' greatest concerns fall within employee health & wellbeing, particularly regarding mental health, and health and safety.

The output of the materiality assessment has helped to drive the decision making within the overall ESG plan ensuring a balance that reflects the needs of the business, suppliers, colleagues and customers.

ESG strategic objectives

The insights delivered by the materiality assessment have been used to form the basis of our ESG strategy and its specific short-term objectives and commitments, pending development of a longer-term roadmap to being carbon neutral. We have identified five workstreams in which to focus our efforts and resources. This approach is key to ensuring that we move forward in a socially and environmentally responsible way, that is meaningful for our stakeholders.

Environmental

1. Reduction in carbon footprint

a. ***We are progressing with assessment of realistic and achievable carbon neutrality targets.***

These are to be identified through careful exploration of the British Retail Consortium's Climate Action Roadmap, which provides a framework for the retail industry to realise Net Zero in 2040, ahead of the UK Government target of 2050. See page 42.

b. ***We will obtain premier partnership with the Woodland Trust (including options to carbon-offset) and work towards a continual reduction in emissions.***

Within this partnership we will consider and agree options to support the creation, protection and restoration of woodlands.

c. ***Assessment (using third party experts) to provide full clarity on Scope 1, 2 and 3 emissions, including recommendation for greener energy infrastructure to drive a continual reduction.***

d. ***Within 12 months 50% of company car fleet will be electric/hybrid with the residual 50% converted within the following 12 months.***

Once complete our fleet carbon will be reduced by 90%.

e. ***We will continuously improve our supply chain efficiencies and increasingly move product manufacturing from the Far East to the UK and Europe whereby there is a clear benefit to the customer and organisation.***

2. Waste and sustainability

a. ***Waste reduction***

i. We will remove single-use plastic from 90% of our products sold to customers by end of FY24.
ii. All products will be 100% glitter free by end of FY24.
iii. We will reduce point of sale usage by 50% across our retail estate by late FY24.

b. ***Recycling***

i. Recycling will be increased in stores, support centre and distribution centres and we will continue to improve recyclability of our product and packaging, whilst also offering our customers more recycling opportunities in addition to our foil balloon and banner recycling service in 500 stores.
ii. All new cards sold from April 2022 are 100% recyclable.
iii. All new wrap sold from the end of FY24 will be 100% recyclable.
iv. All 10p plastic bags are 100% recyclable and manufactured using a minimum of 30% consumer waste.

c. ***Sustainability***

i. All cards are FSC certified.
ii. All wrap will be FSC certified by end of FY23 (98.5% FSC by April 2022).

Social

3. DE&I

a. Colleagues

i. We will create the right culture within the business including the adoption of our five-year DE&I strategy.
ii. We are a signatory to the BRC's Diversity and Inclusion Charter and have signed up to the DWP Disability Confident Employer Scheme.

b. Customers/Communities

We will demonstrate greater awareness of DE&I within local communities and customer bases.

c. Product

Our products and store environments will be developed to reflect society and our current and future customer base.

4. Colleagues & social mobility

a. Career pathways & talent mapping:

We will provide all colleagues with a clear view of their career progression within the business.

b. Performance management/KPIs.

Clear KPIs set for internal promotions alongside the completion of business-wide role benchmarking for all positions and relevant succession planning in place.

c. Development

i. A comprehensive suite of development opportunities will be made available to all colleagues, including voluntary learning, in-house training and courses as well as the apprenticeship levy being utilised across select business areas.
ii. We will embed our leadership behaviour framework for all leaders and people managers.

d. Colleague engagement

We will continually improve our colleague engagement survey scores, improve colleague retention and reduce colleague turnover.

e. Employee health and wellbeing

i. We will continue to support colleagues' wellbeing through initiatives such as mental health first aiders, our employee assistance programme and online wellbeing portal.
ii. We will continue to invest in quality Health & Safety training to ensure that all colleagues are able to work safely.

5. Charity & community

a. Internal charity:

We are committed to continually funding and supporting The Card Factory Foundation in all its present endeavours including supporting colleagues and communities by match funding, family funding and community grant funding.

b. Our external partners:

i. We will continue to identify and support charity and community partners that align with our values and business, e.g. our ongoing charity partners for Christmas boxed cards.
ii. We will continue to support colleagues who are engaged with local causes and charities.

ESG strategy *continued*

Governance

Underpinning our ESG strategy is good governance. We have always sought to act with integrity and to do the right things, in the right way, and that continues. We comply with guidelines and best practices and actively manage ESG considerations and risks effectively with good governance informing our decision making.

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 engages its 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:

- Committing, where possible, to using our product ranges to support charities which resonate with our shoppers.
- Raising £125,000 to be split equally between Macmillan Cancer Support, Teenage Cancer Trust, Mind and Alzheimer's Society, from the sale of Christmas cards.
- Raising over £1,371,887.11 for The Card Factory Foundation from plastic carrier bag sales.
- Raising £368,468 for Macmillan from coffee mornings, raffles and in-store donations.
- Supporting career development opportunities for our colleagues including:
  - 25% of vacancies during FY22 (excluding seasonal roles) were filled by internal candidates.
  - Five colleagues completed apprenticeships during FY22.

Underpinning our ESG strategy is good governance. We have always sought to act with integrity and to do the right things, in the right way, and that continues."

Charity

We recognise the importance of being responsible members of the communities in which we operate and we 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.

Match Fund

Government restrictions limited opportunities for our colleagues to participate in fundraising events, especially in the first half of the financial year. The Card Factory Foundation has provided match funding to support 31 charity fundraising initiatives during FY22.

Helping Hand

The Card Factory Foundation's 'Helping Hand' Hardship Fund helped colleagues through one-off grant payments to relieve the stress and burden that having no income can bring whilst being impacted by life-changing events. We contributed over £18,000 towards home adaptations to help colleagues and their families return home following life-changing illness or injury, specialist wheelchairs and mobility equipment, contributed towards funeral costs in the event of unexpected loss, and supported colleagues escaping domestic violence situations.

Community Fund

Our Community Grant Fund funded over 25 grants in the financial year, despite the fund being closed since November 2020 due to a backlog of applications.

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. The Covid-19 Fund closed in September 2021 and we continue to support our colleagues through the Hardship Fund.

The Foundation established a partnership with the Wakefield Hospice in 2019 through its sponsorship of the Wakefield 10k. As the event was unable to take place for the last two years, we provided alternative support through the purchase of a catering truck in 2021. The proceeds from which were used by the hospice to provide symptom management and care for people who have advanced active, progressive and life-threatening illnesses.

Our Charity Partners

We continued supporting our charity partners through the sale of our boxed Christmas cards, donating over £125,000 during the financial year to four UK charities and for every €1.00 raised in ROI Card Factory donated €0.10 to Make a Wish Ireland.

Card Factory's partnership with Macmillan Cancer Support reached £399,718 during the financial year.

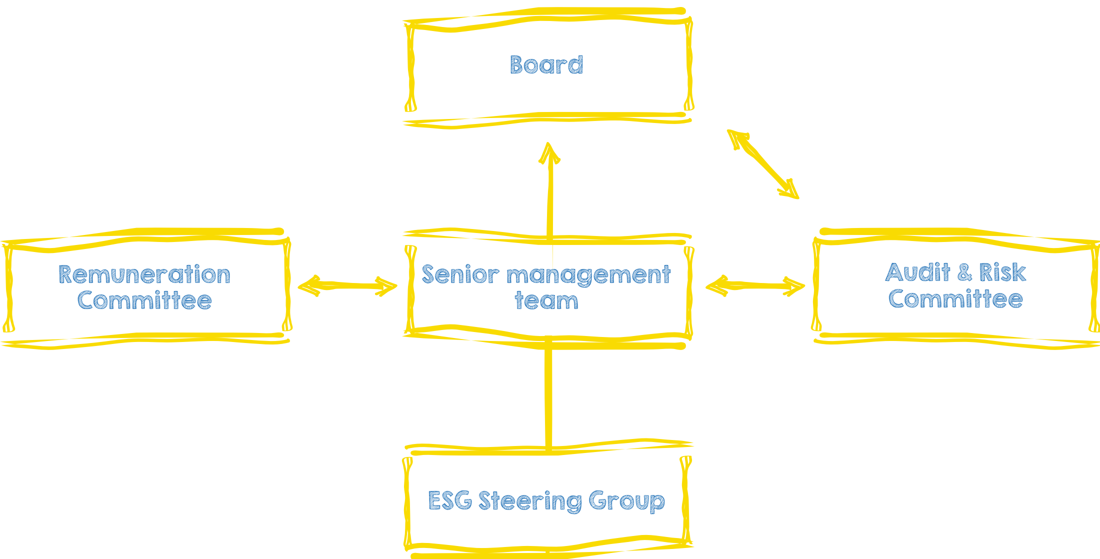
£7,265,378

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

Climate-related 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 38. The Board review the Group's approach to ESG and climate-related risks twice per year, which include an overview of the ESG framework, development of the Group's ESG strategy and progression against goals and targets. The Board has resolved not to nominate a Board member with key responsibility for ESG or climate-related responsibilities, which is the responsibility of the entire Board, however, the CEO is required to oversee the Group's ESG and climate-related priorities and the Chief Commercial Officer leads ESG within the senior management team. The organisational structure of the governance framework can be seen below.



The Chief Commercial Officer has the key responsibility to lead the overall ESG strategy with members of the senior management team taking lead responsibility for aspects within their area of responsibility forming the overall ESG steering group. Throughout the year, management continually review the progress and deliverables of each element within our ESG strategy ensuring all risks and opportunities are captured and appropriate action taken. ESG is a consideration when building specific business plans, including examples such as route of supply and product development. The completion of the planned consultancy work (see page 42) will provide the group with an even greater understanding of the Group's environmental impact, therefore providing greater consideration in guiding the overall strategy, major plans and annual budgeting. In addition to the information being provided through the completion of the planned consultancy work, we also have processes in place to ensure developments on climate-related issues are identified and accounted for, e.g. introduction of new packaging legislation via the Quality Control team. ESG remains a key part of the overall business wide risk management process described from page 38. The Board effectiveness review conducted in 2021 acknowledged the progress made against ESG matters and the need for prioritisation across the organisation.

Strategy

Climate-related risks and opportunities identified to date, pending the more extensive impact assessment referred to on page 42 being completed, are set out on pages 50 and 51. To date, these have not had any signifiant impact on the Group's business or strategy. As the financial implications in the shorter term are de minimus, they are not a material consideration in financial planning to date.

ESG strategy *continued*

	Climate-related risks	Climate-related opportunities	Implication for Card Factory
Short-term (1-2 years)	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 targets increasing volumes of complementary product sales, which without mitigation will increase our carbon footprint.	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. UK manufacturing of roll wrap has created an opportunity to reduce overseas dependency. Growth in UK manufactured gift products such as confectionery opens new supply routes.	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 redundancy of stock results in increased waste.	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 significantly reduces exposure to stock wastage. Any disposal of stock is managed through suppliers with green credentials for waste management avoiding the need for 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 in artificially grown 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, whist managing costs and improving Card Factory's credentials.
	Levies and surcharges are to be applied for packaging, Greenhouse 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. Opportunity to remove single-use plastic from gifting range and handmade cards.	Planned levies and surcharges to be monitored and action taken to minimise the implications for such charges on Card Factory.

	Climate-related risks	Climate-related opportunities	Implication for 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.
	The Group's business strategy includes sale of balloons, many of which are helium-filled. Helium is a non-renewable natural element with limited supply, which may be subject to increased cost as supply reduces.	Opportunity for Card Factory to innovate on alternative product ranges to anticipate availability falling and/or Helium price increases.	Long-term strategy to be developed to recognise this risk and develop alternative ranges and products to meet customer appetite for party and celebration events.
Long-term (10-15 years)	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.

Risk management

Climate-related risk is managed in accordance with the overall risk management framework described on page 38, which provides for members of the senior management team being primarily responsible for identifying emerging risks and assessing, managing and mitigating risks, with support from internal and external specialists, as appropriate. These risks are reviewed twice per year as part of the risk review process, with an appropriate member of the senior management team being nominated to manage each risk and to lead development and implementation of mitigation including assessing the size and scope of the identified risk. The Chief Commercial Officer is responsible for the overall risk management of ESG and climate-related risks. The ESG steering group review all climate-related risks within the ESG plan ensuring all key points are identified, assessed and incorporated into the overall risk management process. Updates are provided to the Board and its Audit & Risk Committee.

The climate-related priorities take account of the risks identified and the priorities for our stakeholders, which have been identified from the materiality assessment referenced on page 44.

The scheduled assessment of the Group's Scope 1, 2 and 3 emissions by a specialist consultancy (see page 42) will provide the business with a very clear understanding of the current emissions status. The assessment will make strong recommendations to the business, improving understanding and driving decisions whereby choices to mitigate, transfer, accept or control the particular element of risk can be taken. This specific piece of work will:

1. Allow us to understand the scope of emissions associated with the business.
2. Identify the types of systems/processes in place/needed to make improvements.
3. Set a credible target in line with Net Zero and identify the associated costs.
4. Drive engagement of the target plan across the wider business.
5. Implement the plan from new processes/technology/training.
6. Provide a basis for continual review of progress against the pathway to identify at any necessary mitigation.

Metrics and targets

Card Factory's key ESG targets relating to waste reduction and reduction of carbon footprint are described at page 44. 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 Greenhouse Gas emissions target for the next financial year, to 31 January 2023, is not to exceed total CO_2 emissions generated in FY20 (i.e. Scope 1 and Scope 2 emissions not to exceed 7,817t CO_2). The FY21 and FY22 GHG emissions data isn't representative of a full year of trade due to periods of suspended operations across our store estate. We have maximised much of our opportunities to reduce GHG emissions through adoption of low energy solutions, including LED lighting, voltage optimisation technology across stores, support centre and distribution facilities and efficiencies in our logistics operations. 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.

Greenhouse Gas emissions

During FY22, the Card Factory Group's Greenhouse Gas ('GHG') emissions (with comparison for FY21) have been as follows:

		FY22 tCO_2e	FY22 %	FY21 tCO_2e	FY21 %
Scope 1 emissions (combustion of fuel – direct emissions)	UK	672	99.6	777	99.6
	RoW	3	0.4	3	0.4
	Total	675	100	780	100
Scope 2 emissions (purchased energy – indirect emissions)	UK	4,238	99.0	4,245	99.0
	RoW	45	1.0	44	1.0
	Total	4,283	100	4,289	100
Total energy use (kWh)	UK	22,269,584	99.0	20,476,623	99.1
	RoW	225,256	1.0	189,524	0.9
	Total	22,494,840	100	20,666,147	100

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 CO_2) per £m of turnover:

	FY22 tCO_2e	FY21 tCO_2e	Reduction (increase)
Total emissions	4,958	5,069	2.19%
Emissions intensity (tCO_2e/£m turnover)	13.61	17.78	25%

As the period commenced with all of the store estate subject to mandatory closure, followed by a period of relaxation of government restrictions, the opportunities for introduction of further energy efficiency measures was limited, particularly taking account of the progress made in prior years. Details of future energy efficiency measures are set out on page 44.

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 SECR guidance. DEFRA emission factors have been used for all emission sources to allow an activity to be converted into carbon dioxide equivalent (CO_2e).

Climate change and TCFD disclosures

Card Factory has made climate-related disclosures consistent with eight of the 11 recommendations of the TCFD listed below. Card Factory is not compliant in respect of three of the 11 recommendations and the recommendation (if appropriate) to report Scope 3 GHG emissions on a fourth recommendation and is actively engaged in initiatives that will enable it to address these remaining TCFD recommendations and to further improve disclosures in subsequent years, as noted in the final column of the table below:

TCFD Recommendation	Recommendation satisfied	Status of progress to address the recommendation
Governance: Disclose the organisation's governance around climate-related risks and opportunities.		
a. Describe the Board's oversight of climate-related risks and opportunities.	See 'Governance' section on page 49.	
b. Describe management's role in assessing and managing climate-related risks and opportunities.	See 'Governance' section on page 49.	
Strategy: Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's business, strategy and financial planning where such information is material.		
a. Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term.	See pages 50 and 51.	
b. Describe the impact of climate-related risks and opportunities on the organisation's business, strategy and financial planning.	See pages 50 and 51.	
c. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.		See page 42 and page 51 ('Risk Management') in respect of consultancy appointment to accelerate future compliance.
Risk Management: Disclose how the organisation identifies, assesses and manages climate-related risks.		
a. Describe the organisation's process for identifying and assessing climate-related risks.	See 'Risk Management' section on page 51.	
b. Describe the organisation's processes for managing climate-related risks.	See 'Risk Management' section on pages 51.	
c. Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.	See 'Risk Management' section on pages 51.	

Climate change and TCFD Disclosures *continued*

TCFD Recommendation	Recommendation satisfied	Status of progress to address the recommendation
Metrics and Targets: Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.		
a. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	Targets and metrics for short- term objectives are set out on pages 44 and 45.	Aligned to our strategy and risk management, additional metrics and targets to assess climate-related risks and opportunities will be developed as part of the consultancy work referred to on page 42 and the 'Risk Management' section of page 51.
b. Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas ('GHG') emissions and the related risks.	See Scope 1 and Scope 2 emissions on page 52.	In respect of Scope 3, see page 42 and page 51 ('Risk Management') in respect of consultancy appointment to accelerate future compliance.
c. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.		Targets to be adopted to manage climate-related risks and performance against them are to be developed in conjunction with the consultancy work referred to on page 42 and the 'Risk Management' section of page 51.

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 42 to 54	Page 43
2. The Company's employees.	• Pages 26 to 28	Page 27
3. Social matters.	• Pages 42 to 48	Pages 43, 46
4. Respect for human rights.	• Page 29	Pages 26 to 29, 43
5. Anti-corruption and anti-bribery matters.	• Pages 28 and 29	Pages 26 to 29, 43
Required information		
6. Description of the Company's business model.	See pages 10 and 11	
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 39 to 41	
10. Description of the non-financial key performance indicators relevant to the Company's business.	See pages 1, 9, 23, 25 to 28 and 44 to 45	
11. Where appropriate, references to and additional explanations of amounts included in the accounts.	The accounts are produced in accordance with UK-adopted international accounting standards and applicable law. See page 160 for alternative performance measures.	

The Strategic Report, which was approved by the Board on 2 May 2022 and is set out on pages 1 to 55, was approved by

Darcy Willson-Rymer
Chief Executive Officer
3 May 2022

Board of Directors

Paul Moody

Non-Executive Chair

R N

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 Chair of 4imprint Group plc, having been appointed in February 2016. Paul was Chair of Johnson Service Group plc between May 2014 and August 2018 and was a Non-Executive Director and Chair of the Remuneration Committee of Pets at Home plc from March 2014 until July 2020. Paul assumed the interim role of Executive Chair from 1 July 2020 to 8 March 2021.

Current external appointments:
Non-Executive Chair of 4imprint Group plc.

Octavia Morley

Senior Independent Non-Executive Director

AR R N

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 Chair 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:
Senior Independent Non-Executive Director of Crest Nicholson Holdings plc and Senior Independent Non-Executive Director of Marston's plc. Chair of Banner Group and Non-Executive Director of Ascensos Limited (both unlisted).

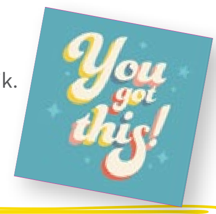
Darcy Willson-Rymer

Chief Executive Officer

Date of appointment:
8 March 2021

Prior to joining the Company, Darcy served as CEO of Costcutter Supermarkets Group 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 and other senior finance positions at Brighthouse, Phones4U, JD Sports, all:sports, BMI Healthcare, 20:20 Mobile Logistics, Barclays and 3663 Distribution. He is a Chartered Accountant and has a Bachelor of Arts in Accountancy Studies.

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.

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, a role he will step down from on 17 May 2022. 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.

Robert McWilliam (Rob)

Independent Non-Executive Director

AR R N

Date of appointment:
1 November 2021

Rob was Chief Financial Officer of Asda from 2018 to 2021; and between 1997 and 2012, held a number of senior roles within the Asda group including Commercial Finance & Strategy Director and Business Change Director. In between his two periods with Asda, Rob was Vice President, UK, Finance Director and then Vice President of Consumables at Amazon UK. Rob was Independent Director of YPO (from 2017 to September 2021) and was previously a Non-Executive Director of Ten Entertainment Group plc where he was also the Chair of the Risk and Audit Committee.

Current external appointments:
Rob is currently Non-Executive Director and Trustee of Jisc, Non-Executive Director of Venture Simulations Limited and Non-Executive Director of Fruugo plc (all of which are unlisted).

Committee membership

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

Chair's Letter – Corporate Governance

The last financial year has been a period of stabilisation for the Card Factory business. It has also been an important period to establish the foundations of future growth.

Paul Moody
Chair

Dear Shareholder

The last financial year has been a period of stabilisation for the Card Factory business, particularly since reopening of non-essential retail from April 2021. It has also been an important period to establish the foundations of future growth. Following Darcy Willson-Rymer's appointment in March 2021, his subsequent full-scale review of the strategy for growth has ensured the plan comprehensively reflects the latest view on the impacts of the pandemic.

The Board has been able to re-engage in normal activities following reopening, including progressing many initiatives and opportunities that were deferred or de-prioritised. We have also had more opportunity to engage with our many stakeholders.

The Board has made progress on many key areas over the year, including development of a DE&I policy with extensive colleague consultation and input, developing a clear understanding of succession for the senior teams and making notable progress in developing its ESG strategy. Several significant appointments have been made over the year to support realisation of the Group's strategy, including a Business Development Director, a Customer Marketing Director, a new Chief Information Officer and a Digital Director.

I am pleased to welcome Rob McWilliam to the Board. Rob brings insights from other retail and online businesses and has significant financial experience to ensure he is equipped to Chair the Audit and Remuneration Committee.

I also wish to recognise the Directors who have stepped down from the Board in the last year, including David Stead, who retired in November 2021 and Paul McCrudden who served until the end of the financial year. Both David and Paul have served the Board since 2014 and have made significant contributions to the business. We are actively recruiting an independent Non-Executive Director to support the Company as it pursues its strategic objective of becoming the UK's first truly omnichannel card and gift retailer. We wish David and Paul all the best for the future.

I am extremely pleased by the performance of the management team, including the material reduction in debt requirements which have been instrumental in securing a release of the undertakings to raise equity. With further reduction of our debt we look forward to being able to review payment of dividends from early 2024.

Yours sincerely

Paul Moody
Chair
3 May 2022

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 and in the achievement of long-term sustainable success, whilst successfully managing risks for 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 included:

- reassessment of the five-year strategy to account for the known impact of the Covid-19 pandemic, which is supported by a more detailed implementation plan;
- management and improvement of the liquidity position of the Group, including completion of a refinancing in May 2021, in addition to securing appropriate government support, where available;
- substantial progress in satisfying the Company's undertakings to its banking syndicate to use the best efforts to raise equity or secure alternative funding, including consultation with certain stakeholders;
- the recruitment of additional expertise into the Group including a Business Development Director, a Customer Marketing Director, a Chief Information Officer, a Digital Director and development of a marketing team, to further align the customer at the heart of our business;
- the refining and enhancing of key performance indicators that are aligned to the refreshed strategy, adopted to monitor performance and drive colleague objectives;
- the further development of our ESG policy and advancement of our key environmental, social governance objectives, including colleague engagement in a number of strategic priorities, such as DE&I and a review of our values;
- the undertaking of a full succession planning review across the senior management team and their direct reports to understand skill gaps to support further development needs, with initial skills training via the learning and development team and external consultants;
- the successful induction of Darcy Willson-Rymer as CEO, to lead the Group to the next stage of its development;
- the appointment of Rob McWilliam as a Non-Executive Director;
- the improvement of our colleague engagement, support and development to aid retention, including benchmarking of job roles to start to address improvements and fairness in reward across the Group; and
- maximising the Group's liquidity position in response to the Covid-19 pandemic by 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 Board has focused on ensuring it provides strategic challenge and direction to the management team and supports the management team in the framing of the strategic priorities, which include reassessment of values, cultural development and addressing stakeholder feedback. Specific examples include progress being made on investor relations and engagement, and improving colleague engagement and terms and conditions of employment to improve recruitment and retention.

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

- During the first five weeks of the financial year, Paul Moody retained the interim role as Executive Chair, pending appointment as Darcy Willson-Rymer as CEO on 8 March 2021. 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 Chair had good knowledge and understanding of the business and 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 Chair 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.
- Prior to adoption of the updated Remuneration Policy at the Company's Annual General Meeting on 27 July 2021, no formal policy for post-employment shareholding requirements had been adopted as the previous Remuneration Policy, adopted in 2018, 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 77 to 85) adopted at the 2021 AGM introduced the 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 38 of the Code. As described in the Remuneration Report (page 75), full alignment will be effective from the end of 2022, consistent with Investment Association guidance. This provision of the Code has not been complied with due to historical enhanced pension contribution terms which had been awarded to the CFO, where the Board had resolved to address this imbalance from the end of 2022 in accordance with Investment Association guidance.

TCFD reporting
For the purposes of LR 9.8.6, please see pages 53 and 54 which assesses the consistency of our climate-related financial disclosures against the TCFD Recommendations and Recommended Disclosures and identifies the items where reporting is not yet in compliance with TCFD Recommendations.

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 seven members. The Code recommends that at least half the board of directors of a UK-listed company, excluding the chair, 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.20.01%) 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 three members of the Board being judged to be independent and (excluding the Chair) three being non-independent (i.e. two Executive Directors and Tripp Lane, as a non-independent Non-Executive Director). As reported on 20 December 2021, the Board has begun a process to appoint an independent non-executive director to support the Company as it pursues its strategic objective of developing Card Factory into the UK's first truly omnichannel card and gift retailer.

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.

During the year the Board considered and approved additional external appointments, with the appointment of David Stead on 12 November 2021 as a Non-Executive Director of ProCook Group plc and the appointment of Rob McWilliam as a Non-Executive Director of Fruugo plc (unlisted). The Board considered that these appointments gave rise to no conflict of interest and did not interfere with the time commitments to the Company. It was noted that in respect of David Stead's external appointment, there was a minimal period of four weeks when David Stead remained on the Board of the Company and held the additional role with ProCook Group plc.

Chair – Paul Moody
The Code recommends that, on appointment, the chair 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. The Board has considered whether the Chair's independence may have been compromised as a result of his interim role as Executive Chairman, but concurred that he remains appropriately independent, but with additional insights to support his challenge of the management team.

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 chair and to serve as an intermediary for the other directors when necessary. The senior independent director should be available to shareholders if they have concerns, which contact through the normal channels of the chief executive officer have failed to resolve or for which such contact is inappropriate. Octavia Morley has been appointed as the Senior Independent Director of the Company and has considerable experience of acting as an Independent Non-Executive Director.

Board responsibility
The Company has a clear division of responsibilities between the Non-Executive Chair and the Chief Executive Officer. In general terms, the Non-Executive Chair 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 11 scheduled meetings and 22 other ad hoc Board or Committee meetings. The Committees of the Board also convened meetings during the year, with attendance as follows:

Director	Role	Scheduled Board meetings (11 meetings)	Other Board or Committee meetings	Remuneration Committee (6 meetings)	Audit & Risk Committee (6 meetings)	Nomination Committee (3 meetings)
Paul Moody	Non-Executive Chair and Chair of Nomination Committee	11 of 11	20 of 20	6 of 6	–	3 of 3
Octavia Morley	Senior Independent Director and Chair of Remuneration Committee	11 of 11	15 of 15	6 of 6	6 of 6	3 of 3
David Stead[1]	Independent Non-Executive Director and Chair of Audit & Risk Committee	9 of 10	14 of 19	4 of 5	5 of 5	2 of 3
Paul McCrudden[2]	Independent Non-Executive Director	11 of 11	12 of 15	5 of 6	5 of 6	3 of 3
Roger Whiteside	Independent Non-Executive Director	10 of 11	12 of 15	5 of 6	5 of 6	3 of 3
Nathan (Tripp) Lane	Non-Independent Non-Executive Director	10 of 11	18 of 19	–	–	–
Rob McWilliam[3]	Independent Non-Executive Director	3 of 3	1 of 1	1 of 1	1 of 1	1 of 1
Darcy Willson-Rymer[4]	Chief Executive Officer	10 of 10	17 of 17	–	–	–
Kristian Lee	Chief Financial Officer	11 of 11	21 of 21	–	–	–

1 David Stead stepped down from the Board on 30 November 2021.
2 Paul McCrudden stepped down from the Board on 31 January 2022.
3 Rob McWilliam was appointed 1 November 2021.
4 Darcy Willson-Rymer was appointed 8 March 2021.

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, which includes 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

- Group strategy
- Group budget
- Covid-19 response and business protection
- Debt funding, refinancing and compliance with undertakings given to the banking syndicate
- Commercial strategy and delivery of strategic projects
- Review of competition and customer preferences and opportunities
- Business development strategy
- HR strategy, colleague engagement and job role benchmarking
- Online strategy
- Capex review
- IT strategy, cyber security and ERP investment review

Performance

- Annual results
- Interim results
- Seasonal trading updates
- Key project updates
- KPIs and Balanced Scorecard performance
- Capital investment review
- Operational reviews
- Online trading reviews

Governance

- Externally conducted Board evaluation
- Regular reviews of performance against Board objectives
- Director and senior management appointments
- People strategy review, colleague engagement, culture and values and job protection
- Shareholder engagement
- DE&I
- Succession planning
- 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
- 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 KPIs, 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 KPIs.

Minutes of all Board and Committee meetings are taken by the Company Secretary. The minutes record actions, decisions and resolutions arising out of the topics discussed and summary resolutions of actions accompany the minutes which enables the Board to regularly monitor progress.

Board strategy day

In addition to the review of performance against the strategic plan and the development of the strategy to account for the Covid-19 impact, the Board held its annual strategy day in July 2021. This focused primarily on furthering understanding of the customer proposition and the competitors and opportunities to enhance the customer offering, particularly through data, insights and available technology solutions to develop a true omnichannel offer.

Investor relations

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

The Chief Executive Officer and Chief Financial Officer have overall responsibility for investor relations. They are currently supported by the Company's financial PR advisors, Tulchan, and its joint corporate brokers, UBS and Investec, who help organise presentations and advise on investor engagement.

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, the majority of which were held virtually during the last year. We have continued to broadcast results presentations online, making them accessible to all current and prospective shareholders. We facilitate the pre-submission of attendees' questions to allow answers to be provided live, thereby affording greater interaction with retail investors. We propose to continue to adopt these technological solutions.

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 Chair and the Non-Executive Directors occasionally meet or speak with shareholders separately to discuss the Group's approach to governance and other 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 Chair 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.

The Board was pleased to have been able to hold its 2021 AGM in person whilst also facilitating submission of questions and provision of responses before shareholder proxy votes were required to be submitted.

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 Chair and the other Non-Executive Directors met on three separate occasions in the year without Executive Directors being present. 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 Chair to discuss his performance.

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

Board committees

The Board has three Committees:

- an Audit & Risk Committee;
- a Nomination Committee; and
- a Remuneration Committee.

If the need should arise, the Board may set up additional Committees.

Audit & Risk Committee

The Audit & Risk Committee assists the Board in discharging its responsibilities required by DTR 7.1.3 R 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 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 & 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 & Risk Committee was chaired by David Stead prior to 30 November 2021, with Rob McWilliam, who joined the Board and the Committee on 1 November 2021, assuming the role of Chair of this Committee from 1 December 2021. The Audit & Risk Committee's other members are Octavia Morley, Paul McCrudden (until 31 January 2022) and Roger Whiteside. The Directors consider that each of David Stead and Rob McWilliam has recent and relevant financial experience.

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

The Audit & 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 & Risk Committee if it believes it is necessary to do so.

The Audit & 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 & Risk Committee during the year, a report on which is set out on pages 68 to 73 of the Governance section of this Annual Report.

The Audit & 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 undertook a triennial review of the Company's Remuneration Policy which was approved by shareholders at the 2021 AGM. The Remuneration Committee considers this Policy (on pages 77 to 85) is appropriate and does not propose any changes.

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

The Code provides that a remuneration committee should comprise at least three members who are independent non-executive directors, free from any relationship or circumstance which may or would be likely to, or appear to, affect their judgement and that the chair 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 (from 8 March 2021), David Stead (until 30 November 2021), Paul McCrudden (until 31 January 2022), Roger Whiteside and Rob McWilliam (from 1 November 2021).

The Remuneration Committee met six 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 does 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 76 and pages 86 to 97 of the Governance section of this Annual Report.

Corporate Governance Report *continued*

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 (until 30 November 2021), Paul McCrudden (until 31 January 2022), Roger Whiteside and Rob McWilliam (from 1 November 2021). 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 98 and 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.

The refreshed Board induction programme was implemented for the inductions of Darcy Willson-Rymer (CEO) and Rob McWilliam (Independent Non-Executive Director). New Directors receive a full, formal and tailored induction on joining the Board, including meetings with each member of the Board, with each member of the senior management team, other key team members and the Group's advisors. The typical induction process includes visits to the Group's stores, support centre, its design studio and Printcraft (the Group's print facility).

Since stores were able to reopen and trade from April 2021, and with relaxation of government restrictions, Non-Executive Directors were able to undertake site visits and face-to-face meetings 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.

Board evaluation

The Board undertook an externally conducted Board evaluation during 2021, deferred from 2020, in accordance with guidance, partly due to Covid-19. The Board effectiveness review was undertaken by Toby Lapage-Norris of Trusted Advisors Partnership Limited ('TAP'). TAP's review included assessment of prior year internally conducted reviews and conclusions, objective setting and reviews of performance by the Board and answers to a bespoke detailed questionnaire addressing how the Board and its Committees operate and their effectiveness, followed up by one-to-one interviews with each Director and some other regular attendees at Board meetings. TAP presented their conclusions and recommendations to the Board for discussion, which were then used to set new Board objectives.

In addition to reviews of the collective effectiveness of the Board, the Chair 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 Chair.

The external evaluation identified the following areas of strength:

- The Board has embraced its commitment to continually improve and has made sound progress on many of the themes identified in prior internal reviews and is keen to ensure observations from TAP's independent review, to help to reset the Board for the future.
- The Board is collectively self-aware and recognises that lessons have been learned which it is keen to prevent from reoccurring.
- The quality of Board discussion is generally regarded as strong and with an appropriate focus on the strategic priorities. While views, on occasion, may be diverse, the depth of experience that supports opinion is well respected.
- The CEO's transition into the business has gone exceptionally well.
- The Board remains very conscious of the need to apply focus and energy on shareholder and stakeholder engagement.
- The Board is constituted with a cohort of experienced, capable and engaged Non-Executive Directors able and willing to fulfil their responsibilities, without any conflict of interest; the Board Committees operate well and the Board is also well Chaired. The Board is constructive, respectful and allows for open and honest discussion and debate.
- The relationship between the Board and management has evolved with changes in executive leadership and appears suitably strong and highly supportive.

The Board set the following collective objectives in January 2021, which are subject to regular reviews:

- **Strategic Priorities:** Provide leadership and mentoring to support the management team to realise the key strategic priorities for FY23 including:
  - — Implementation of the transformation programme required to deliver the strategic plan and to be capable of implementing scheduled changes in subsequent periods.
  - — Development of Complementary Categories, in conjunction with 'card first'.
  - — Successful implementation of pricing architecture and increases to address inflationary pressure.
  - — Supporting development of the online business platforms and capability to realise the targeted strategic growth.
- Challenge members of the management team to adopt a more strategic perspective and challenge in their decision making.
- Support the evolution from product to a customer-centric business, encouraging greater innovation, pace and energy in the way the Board thinks, acts and applies scrutiny and challenge.
- Support the management team in refinancing the Group.
- **Investor Communications:** Board to support the management team in a more efficient, streamlined process to allow Board to input into strategic narrative in key investor announcements and other communications.
- **Board Composition:** Use recruitment following current Board/NED vacancy to increase the diversity of the Board.

In addition to the external evaluation, the Board reflected on the achievement of the objectives adopted in November 2020 and refreshed in February 2021, as a result of the previous year's internal evaluation. It was agreed that the priority objectives had been achieved, which included the successful refinancing effected in May 2021, successful reopening of stores in April 2021 when restrictions were lifted and implementation of Phase 1 of the ERP system, however, with hindsight, planning for subsequent phases in parallel with that implementation would have facilitated earlier implementation of subsequent phases. As reported in the externally moderated Board effectiveness review, the induction of Darcy Willson-Rymer has gone exceptionally well. Succession planing for the Board, the senior management team and their direct reports has been undertaken, with opportunities to address gaps identified. Finally, progress has been made to develop a clear and focused ESG strategy (see pages 42 to 54).

Board evaluation will continue to be conducted on an annual basis. The Company will conduct an internally facilitated evaluation in the financial year ending 31 January 2023, with the next externally conducted review scheduled to be held during the year ending 31 January 2025.

Conflicts of interest

The Companies Act 2006 allows the board of a public company to authorise conflicts and potential conflicts of interest of individual directors where the articles of association of the company contain an enabling provision.

The Company's Articles of Association give the Board this authority subject to the following safeguards:

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

The Directors are able to impose limits or conditions when giving authorisation if they feel this is appropriate. All Directors are required to disclose any actual or potential conflicts to the Board and there are no current matters disclosed that are considered by the Board to give rise to a conflict of interest. All conflicts are considered by the Board and any authorisations given are recorded in the Board minutes and reviewed annually by the Board. The Board considers that its procedures to authorise conflicts of interest and potential conflicts of interest are operating effectively.

Appointment and removal of Directors

All Directors have service agreements or letters of appointment in place and the details of their terms are set out in the Directors' Remuneration Report on pages 83 and 85. 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 every year. The Code recommends that all directors should be subject to annual re-election. The Company complies with this recommendation.

Directors may be removed by a special resolution of shareholders or by an ordinary resolution of which special notice has been given in accordance with the Companies Act 2006. The Articles of Association of the Company also provide that the office of a Director shall be vacated if he or she 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.

Corporate Governance Report continued

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 Chair 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 (and of each other Group company) has (and those appointed as Directors during FY22, had) 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.

Governance and risk

The Board has adopted the risk management framework described on page 38 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 & 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 & 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 2022 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. Since the financial year end, a Head of Internal Audit has been appointed to coordinate 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, if appropriate. Prior to this appointment, the General Counsel & Company Secretary undertook a coordination role of internal audit projects. Details of the investigations carried out during the last year are set out in the report of the Audit & Risk Committee on page 71.

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 & 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 during the period was overseen by the General Counsel & 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 & 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 & 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 2022 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.

Since the year end, the Group has engaged a Head of Internal Audit to provide dedicated expertise to provide enhanced assurance and regular review of internal controls.

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.

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, 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 & Risk Committee is notified of any whistleblowing reports.

This report was reviewed and approved by the Board on 2 May 2022.

Paul Moody
Chair
3 May 2022

Chair's Letter – Audit & Risk Committee

The Audit & Risk Committee has continued to assess and review existing and emerging issues to ensure Card Factory has appropriate controls in place which underpin its resilience.

Rob McWilliam
Chair of the Audit & Risk Committee

Committee members
Rob McWilliam (Chair)
Octavia Morley
Roger Whiteside

Dear Shareholder

I am pleased to take over the Chair of the Audit & Risk Committee from 1 December 2021 and am extremely grateful to David Stead for his guidance and direction, having chaired this Committee since IPO in 2014.

The Audit & Risk Committee has continued to assess and review existing and emerging 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 the management of our principal risks, including business continuity, disaster recovery, IT and cyber risk, inventory management, HR and payroll, 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 FTSE 350 before that date. Card Factory proposes to effect the audit tender one year earlier than the mandatory requirement, following which the successful firm will be proposed for appointment at the AGM to be held in 2023 in advance of the audit for the financial year to 31 January 2024.

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 period of mandatory 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 June 2022.

Yours sincerely

Rob McWilliam
Chair of the Audit & Risk Committee
3 May 2022

Audit & Risk Committee Report

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

Role of the Audit & 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 & Risk Committee's role is set out in the Corporate Governance Report on page 63.

Membership

The Audit & Risk Committee was chaired by David Stead until 30 November 2021, at which stage Rob McWilliam, who joined the Board and the Audit & Risk Committee on 1 November 2021, assumed the role as Committee Chair. The Committee's other members during the period were Octavia Morley, Paul McCrudden and Roger Whiteside.

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. Rob McWilliam is a qualified chartered management accountant, having previously been Chief Financial Officer of Asda between 2018 and 2021.

The Board considers that each of David Stead and Rob McWilliam have both recent and relevant financial experience in accordance with the requirements of the Code. Within the Committee as a whole there is significant experience of the retail sector in which the Group operates.

The Chief Executive Officer, the Chief Financial Officer and the Chair 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 General Counsel & Company Secretary acts as secretary to the Committee.

Meetings

The Committee met six 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 2021, the appropriateness of accounting policies with a particular focus on stock provisions, going concern and viability statements and assumptions to account for the uncertainty arising from the Covid-19 pandemic and the auditor's report regarding its findings on the annual results.
- Assessing whether the Annual Report and Accounts for the year ended January 2021, 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 2021.
- 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.
- Overseeing 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 June, September and January.
- Approving the appointment of KPMG LLP on certain non-audit related engagements, in respect of projects that ultimately did not complete.
- Reviewing the activity by the Group's loss prevention team, with a particular emphasis on the team's work analysing and mitigating cash and stock loss.

- The Group received a letter on 16 December 2021 from the Financial Reporting Council ('FRC') noting it had reviewed the Company's Annual Report and Accounts for the year ended 31 January 2021. The FRC requested responses to a number of questions in respect of the accounting policies applied in respect of IFRS 16 (Leases) and provided some further observations where they considered users of the accounts would benefit from improvements to existing disclosures in connections with KPIs, alternative performance measures, leases, inventory, financial instruments and corporate governance. As a result, the Company has sought to improve the disclosures in respect of IFRS 16 (Leases) and the other areas noted by the FRC. 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 2021 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.
- 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 March and April 2022 and reviewed the following:

- The Group's risk register, including a review of the emerging risks identified by the management team, as supplemented by the Committee and review of how risks are assessed and the potential adoption of a risk appetite/tolerance framework.
- 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 pages 102 and 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 2022, 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.

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 matters, judgements and estimates contained in them.

At its meeting in April 2022, the Committee reviewed the FY22 financial year, considered a paper prepared by KPMG LLP, the external auditor, which included comments on significant accounting and reporting matters relevant to the year under review, and received papers from the Chief Financial Officer to support the Directors' going concern statement.

The major accounting issues discussed by the Committee in respect of FY22 were:

- inventory valuation and provisioning;
- accounting for grant income;
- goodwill recoverability and impairment;
- store asset recoverability and impairment; and
- going concern.

Inventory

The Group holds significant volumes, and a broad range, of inventory. The Group makes use of technology, such as hand-held terminal devices, to support stock control processes; however the process still relies upon manual elements. A full inventory count process is undertaken at both the half-year end the year-end. The Committee reviewed the process by which the year end inventory valuation had been prepared, and challenged management to ensure key risk areas had been given due consideration.

The Group continues to hold material inventory provisions which, by their nature, involve a significant degree of estimation. The provision is calculated with reference to the Group's merchandising plans and considers the age and turn of inventory on a line-by-line basis. Lines that are old, not on-plan for future sales, or where the Group holds large volumes of inventory compared to recent sales data are provided against either in part or in full. The nature of this estimation is such that the range of reasonable outcomes is material and, as a result, inventory provisioning is considered a source of significant estimation uncertainty for the financial statements.

As part of its review, the Committee considered the calculation of the provision and challenged management's assumptions. As part of the review, it was noted that global shipping challenges during the year had a material impact on both the sale of stock that was previously considered obsolete, and late delivery of seasonal stock, particularly for the FY22 Christmas season.

Having considered these matters, and the views of the external auditor, the Committee concluded that the inventory valuation, and the provision, included in the financial statements was materially appropriate.

Grant income

During the period, the Group received significant values of income from government schemes intended to support businesses affected by national and regional Covid-19 lockdown restrictions.

Under IAS 20, the Group is only permitted to recognise government grant income when there is reasonable certainty that any conditions attached to the grant will be complied with. The grant income received by the Group is subject to UK subsidy control conditions, as well as specific conditions attached to the grants themselves. The unprecedented nature of Covid-19 support funding means application of these conditions is open to a degree of interpretation.
The Group has recognised grant income in the period of £8.0 million, as other operating income in the income statement.

The Committee reviewed management's calculation of the value of grant income recognised in the year and challenged the assumptions made around retention of both the amounts recognised and not recognised. Having considered the view of the external auditor, the Committee concluded that the position adopted was based on a conservative interpretation of available guidance but appropriate in light of the inherent uncertainty. In reaching its conclusion, the Committee noted that the estimation uncertainty had been disclosed in the notes to the accounts.

Impairment reviews

Whilst not considered an area of significant estimation uncertainty, the Committee noted that the continuing uncertainty in respect of Covid-19 recovery and the Group's market capitalisation being below the carrying amount of the Group's net assets represented indicators of potential impairment. Accordingly, the Committee considered both the goodwill and store impairment reviews.

The reviews concluded that no impairment was required in respect of the Card Factory goodwill; however impairment charges totalling £5.0 million were required in respect of store right-of-use assets.

The Committee considered the key assumptions made in performing the impairment reviews and the sensitivity of the results to those key assumptions. Having challenged management regarding the application of those assumptions, the Committee was satisfied the review performed was appropriate and had been satisfactorily disclosed in the financial statements.

Going concern

The Board's consideration of going concern is set out in the Directors' report on pages 102 and 103.

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 did not have its own dedicated internal audit function during the financial year to which these accounts relate, as the Board had previously considered that the size and complexity of the Group's business did not justify such dedicated resource. During the financial year, the Group engaged appropriate third-party experts. At the direction of the Committee, the main areas covered by the internal audit programme during the last year were:

- the closure of internal audit actions from the previous year, including stock management processes, cyber risks and National Living/Minimum Wage requirements;
- reviews of substantial upgrades to the Group's business continuity and disaster recovery planning;
- review of payroll processes and risks; and
- the identification of risks arising from changes to operations and ways of working due to the Covid-19 pandemic, which included detailed reviews of claims for Coronavirus Job Retention Support and Covid-19 grants and rates allowances in respect of the retail store estate.

Internal audit reports are shared with KPMG LLP, who also attend the Audit & 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 Group has decided to enhance the approach to internal audit, with the appointment of an experienced internal auditor, since the year-end. This Head of Internal Audit and Loss Prevention is invited to attend Committee meetings.

Audit and Risk Committee Report continued

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 during the period, the head of loss prevention attended the Committee meetings.

External auditor

KPMG LLP have conducted the statutory audit for the financial year ended 31 January 2022 and they attended all six of the Committee meetings held during that year, as well as the Committee meetings held in March and April 2022. The Committee had the opportunity to meet privately with them during the period.

The Audit Committee discussed and agreed the scope of the audit with the external auditor and agreed their fees in respect of the audit. The Committee reviewed the audit quality and the effectiveness of the external audit in line with the Financial Reporting Council's 'Practice aid for audit committees' (December 2019). It considered the results of external quality inspections by the Audit Quality Inspection Team on other KPMG clients. It also surveyed colleagues who were engaged in the audit process to receive feedback on how the audit was conducted, to allow it to make its own assessment of the effectiveness of the audit process with particular reference to audit planning, design and execution of the audit.

The Committee also considered the effectiveness of the audit through the reporting from and communications with the auditor and an assessment of the auditor's approach to key areas of judgement and any errors identified during the course of the audit. The Committee concluded that the audit was effective.

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 £370,000. A breakdown of fees paid to KPMG LLP during the financial year is set out in note 3 of the financial statements on page 132.

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 2022, one year earlier than required (for the appointee's first audit following the retender to be the audit for the period to 31 January 2024).

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 Committee considers that KPMG LLP is sufficiently independent, as it is only engaged in audit and there are no conflicts of interest effective in auditing the Group.

The Committee has taken appropriate steps to ensure that KPMG LLP is independent of the Company and has obtained written confirmation that it complies with guidelines on independence issued by the relevant accountancy and auditing bodies. The Committee took account of the auditor approach to the prior year and current year audit, the proposed audit strategy and the fact that the current audit is being led by the Audit Partner for only his third year, well within the five years provided for in FRC guidance. The Committee recognises that audit regulation has increased in recent years, to improve audit process and independence, which it recognises has been adopted by KPMG LLP, which includes greater independence of audit practices within accounting practices. Although, during the year, the Company engaged KPMG LLP in respect of certain audit-related, non-audit services, the fact the FRC had given its prior waivers to KPMG LLP undertaking such non-audit engagements and taking account of the other safeguards applied, the Committee concluded KPMG LLP remain independent to provide objectivity in the conduct of the current audit.

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:

- £45,000 (equivalent to 12.2% of the audit fee). This related to the half-year review; and
- £288,000 (equivalent to 77.8% of the audit fee). This related to provision of audit-related assurance services in accordance with the Company's policy on external auditors supplying non-audit services. The appointments were made to provide assurance services in connection with the Company's financial information for the reregistration of CF Bidco Limited as a public limited company and transactions that did not proceed. The Audit & Risk Committee concluded that the appointment of KPMG LLP to undertake such non-audit services would not compromise audit quality or threaten auditor independence, prior to approving such appointments. The Committee, in reaching that decision, noted that the nature of the appointment (which was undertaken by a different team within KPMG) was in accordance with standard practice and the FRC had given its express approval to KPMG's role on these specific engagements.

Further details are given in note 3 to the financial statements on page 132.

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 & Risk Committee on 2 May 2022.

Rob McWilliam
Chair of the Audit & Risk Committee
3 May 2022

Chair's Letter – Remuneration Committee

The Committee is pleased with the performance of the senior management team...having delivered a financial performance that significantly exceeded original expectations; significantly reducing net debt...securing release of undertakings to use best efforts to raise equity.

Octavia Morley

Chair of the Remuneration Committee

Committee members
Octavia Morley (Chair)
Paul Moody[1]
Roger Whiteside
Rob McWilliam

1 Paul Moody stepped down from the Remuneration Committee whilst he undertook the interim role of Executive Chair, 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 2022 (FY22).

Introduction

This Directors' Remuneration Report is divided into three sections: this Letter (pages 74 to 76; the Directors' Remuneration Policy (pages 77 to 85); and the Annual Report on Remuneration for the year to 31 January 2022 (pages 86 to 97).

This Letter and the Annual Report on Remuneration will be put to shareholders for approval at the AGM on 23 June 2022, although the vote is advisory.

The Remuneration Committee is pleased with the performance of the Executive Directors and the senior management team during FY22, having steered the business following an initial period of mandatory store closures, to reopen the retail estate and deliver a financial performance that significantly exceeded original expectations, which has allowed the Group to significantly reduce its net debt and bank facilities. This has allowed, since the period end, release of undertakings to use best efforts to raise equity or prepay bank facilities from other sources of debt. In parallel with successful trading, the team have undertaken a full review of our strategy and developed a comprehensive plan to ensure phasing and effective implementation to realise key strategic objectives, which includes recruitment of new expertise to support realising these targets. Over the period our colleague engagement has improved, with significant progress made on development of our people, with introduction of a leadership framework, review of our culture and valuesand further enhancement to our ESG strategy.

The Committee has concluded that the actions of management during the year have been instrumental in laying solid foundations for future growth and development. The financial performance achieved during the year significantly exceeded expectations, which was not funded by government support, but through management action significantly above and beyond what the Board expected.

Remuneration Policy

Following adoption of the Remuneration Policy at the 2021 AGM, with 94.98% of shareholder votes supporting the revised Remuneration Policy, the Remuneration Committee considers that this policy continues to support the business strategy and operates as intended, with no changes required prior to the next triennial vote expected at the 2024 AGM. Within the current policy framework, the Committee intends to introduce ESG metrics to annual bonus targets in FY24 and will include ESG within the performance underpin condition to RSP awards to be granted after release of the FY22 results.

Application of the Remuneration Policy during FY22

The Covid-19 pandemic continued to impact the Group through store closures for the first ten weeks of the financial period, with government support taken in the form of furlough payments and business rates relief and grants. The Committee recognises the investor guidance on exercise of discretion where government support is received. It applied discretion in FY21 to reduce variable pay entitlements (including withholding earned annual bonus awards, reduction in the Restricted Share Awards on vesting by 50% and introduction of additional discretion for scale back on the grant of new RSP awards). The Committee also recognised that the budget for the period, (which was achieved and exceeded), had been set taking account of the expected government support for a relatively short initial part of the financial year.

The Committee has deliberated at length to balance shareholders' interests, the interests of other stakeholders, including colleagues and the public purse in the exercise of discretion for making variable pay decisions. The considerations fully recognise the investor guidelines on executive remuneration, whilst also considering the long-term interests of investors and other stakeholders, including the strong performance of the management team over the period. Although government support was taken in respect of the initial part of the financial year, the Committee cannot disregard the excellent performance over the remainder of the year, with cash flow from operating activities exceeding the stretch target by £65 million and pre-IFRS 16 EBITDA double the stretch target: an increase of £20.3 million, where the stretch thresholds had been set taking account of the expected government support. Total government support for the period amounted to £38 million. This government support comprised Coronavirus Job Retention Scheme ('CJRS') funding (all of which was passed on to colleagues) and business rates relief and grants for the retail store estate. The Group also accessed CLBILS loan facilities, which are part supported by the government. The amount of the CLBILS facilities have been materially reduced after the period end following refinancing of the Group in April 2022.

Although the government support has not been repaid, the Committee did not think it appropriate to reduce the Directors' bonus payments to zero given the fact that the bonus targets were originally set taking into account the support received. The Committee exercised downward discretion by disregarding the benefit of the government support received by the Group during the period, in assessing whether the financial targets had been achieved. As a result of this downward discretion, for the 30% of bonus based on pre-IFRS 16 EBITDA, the pay-out was reduced from the full 30% to 9.4%. For the 30% of bonus based on Cash Flow from Operating Activities the performance exceeded the stretch target, even following the adjustment to remove the benefit of government support, and so the Committee was comfortable to pay at the full 30%. In relation to the 40% of the bonus based on the achievement of strategic objectives, the Committee recognised that the CEO and CFO had delivered strongly on the performance and the consequent pay-out was 26.25% and 35% out of 40% (respectively). Overall the total bonus payable to the CEO and CFO was 66.07% and 74.4% of maximum, respectively. The Committee is satisfied that the consequence of applying this adjustment achieves a proportionate outcome, recognising the interests of our shareholders, whilst rewarding the exceptional performance and significant outperformance after stores were able to reopen, to ensure appropriate incentivisation and reward of the Executive Directors, in the longer-term interests of all stakeholders. This level of outcome is marginally below the percentage of maximum bonus potential paid to colleagues throughout the business.

In accordance with the Remuneration Policy, the Executive Directors are required to reinvest one third of bonuses received (after tax) to acquire Card Factory shares, which ensures that these Directors are incentivised to build longer-term shareholder value.

The Committee also assessed whether the performance underpin had been achieved in respect of the RSP awards granted in 2019, due to vest from 14 May 2022, in respect of the three-year period to (and including) FY22. The Committee recognised that this period was significantly impacted by the Covid-19 pandemic, with material improvement made in the last financial year, with net debt and leverage at its lowest levels at the end of the period. The Committee, recognising the foundations that have been implemented which provide a solid platform for future growth and development, has resolved to approve vesting of the RSP awards, as it considered the business performance over the three-year period was robust, sustainable and was strengthened by management's actions.

How we intend to apply the proposed Remuneration Policy in FY23

The Committee proposes to proceed as follows:

- The Committee reviewed annual salaries for Executive Directors, for any increases to take effect on 1 April 2022, to align pay awards with the majority of the workforce. Following an extensive benchmarking exercise against all roles within the Group, average wage increases amounted to 6.3%, which is largely attributable to increases in National Living Wage and National Minimum Wage rates. Greater pay awards were made to colleagues whose pay deviated most from market rates. The Committee resolved to award the Executive Directors a 2% increase to basic salary and commend Darcy Willson-Rymer's decision to decline such an increase, despite current salary being below benchmarked rates.
- Pension entitlements will be maintained at current levels, with downward adjustment required to Kris Lee's pension contributions (3.37% of basic salary from 1 April 2022) from the end of 2022 to fully align with the current 3% of salary rate applicable to the majority of colleagues.

Chair's Letter – Remuneration Committee continued

- The maximum annual bonus entitlement will be maintained at 125% and 100% of basic salary for the CEO and CFO (respectively). As the Covid-19 restrictions have been removed, with reduced onus on cash flow, the Committee has elected to revert from a 60:40 to 70:30 apportionment between financial and strategic objectives and to revert to adopting a single financial EBITDA measure. The remaining 30% of total bonus will be determined by the following strategic objectives, aligned to the strategy:
  - cardfactory.co.uk sales growth;
  - growth of the retail partnership business; and
  - sales growth generated from a number of strategic initiatives.
- These objectives and achievements against them will be reported in the next Annual Report on Remuneration in 2023.
- The Committee proposes to proceed to award Restricted Shares after publication of the results for FY22. 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 assessment of improvement to the business's impact on society and the environment and we propose to retain the additional discretion to scale back awards on vesting, if necessary, 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. The Committee will continue to exercise its discretion, taking account of 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
Chair of the Remuneration Committee
3 May 2022

Directors' Remuneration Report

Introduction

The Directors' Remuneration Policy section (pages 77 to 85) sets out the policy which was approved by shareholders at the 2021 AGM, which is intended to operate for the full three-year period as permitted under the regulations.

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.

Policy table for Executive Director remuneration

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

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
FIXED PAY			
Base salary			
To attract and retain talent by ensuring base salaries are competitive in the relevant talent market and to reflect an Executive's skills and experience.	Base salaries are reviewed annually, with reference to scope of role, individual performance, experience, market competitiveness of total remuneration, inflation and salary increases across the Group. Increases will normally be effective from 1 May. The Committee have since agreed to align annual pay reviews of the Executive Directors with the annual pay reviews for the majority of colleagues to 1 April, effective from 1 April 2022.	Whilst there is no maximum salary, Executive Directors' salary increases will normally be in line with the average percentage increase for the wider employee population. In certain circumstances (including, but not limited to, a material increase in job size or complexity, promotion, recruitment or development of the individual in the role or a significant misalignment with the market) the Committee has discretion to make appropriate adjustments to salary levels to ensure they remain fair and competitive.	Business and individual performance are both considerations in setting base salary.

Directors' Remuneration Report *continued*

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Pension To provide post-retirement benefits.	Executive Directors may receive a Company contribution into a pension plan or a cash allowance in lieu of pension.	The maximum Company contribution or cash allowance 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. Kris Lee will receive an annual pension contribution of c. £943 per month (3.37% of basic salary) until 31 December 2022, when it will align to the percentage rate available to the majority of the workforce, at that time.	None
Benefits To provide Executive Directors with a reasonable level of benefits.	Benefits include private medical insurance, life insurance, income protection and the provision of a car or car allowance. Where appropriate, other benefits may be offered, for example including, but not limited to, relocation allowances.	There is no maximum opportunity for benefits, as there may be factors outside of the Company's control which change the cost to the Company (e.g. increases in insurance premiums). The cost of providing benefits for the year under review are disclosed in the Annual Report on Remuneration.	None

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

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Restricted Shares To align the interests of Executives with shareholders in growing the value of the business over the long term.	The Committee may grant annual awards of Restricted Shares, structured as conditional awards or nil-cost options. 50% of an award vests after three years, 25% after four years and 25% after five years, subject to service. All shares will be held for at least five years from grant (except for sales to meet tax on vesting). The holding period and vesting period will continue post cessation of employment to the extent that awards do not lapse on cessation. An additional benefit is provided in cash or shares equal to dividends that would have been paid over the vesting period or holding period on awards that vest. Robust clawback and malus provisions apply. The Committee has discretion to reduce the amount of any unvested award and repayment of any vested award within two years of vesting, in the event of material misstatement, error, misconduct, company failure or reputational damage. The Remuneration Committee may exercise its discretion to override a formula-driven incentive plan outturn if this is inappropriate in the circumstances.	87.5% of salary face value at grant.	In order for Restricted Shares to be capable of vesting, the Committee must be satisfied that business performance is robust and sustainable and that management has strengthened the business over three financial years commencing with the year in which the award is made. In assessing performance, the Committee will consider financial and non-financial KPIs of the business as well as delivery against strategic priorities. To the extent it is not satisfied with performance 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.

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
SAYE To encourage share ownership across the workforce.	A UK tax-qualified scheme under which eligible employees (including Executive Directors) may save up to the maximum monthly savings limit (as determined by prevailing legislation) over a period of three or five years. Participants are granted an option to acquire shares at up to a 20% discount to the price on grant. The number of shares under option is that which can be acquired at that price using savings made.	Savings are capped at the prevailing HMRC limit at the time eligible employees are invited to participate or such lower limit as determined by the Remuneration Committee.	None
Shareholding guidelines To encourage share ownership and ensure alignment of Executive interests with those of shareholders, 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

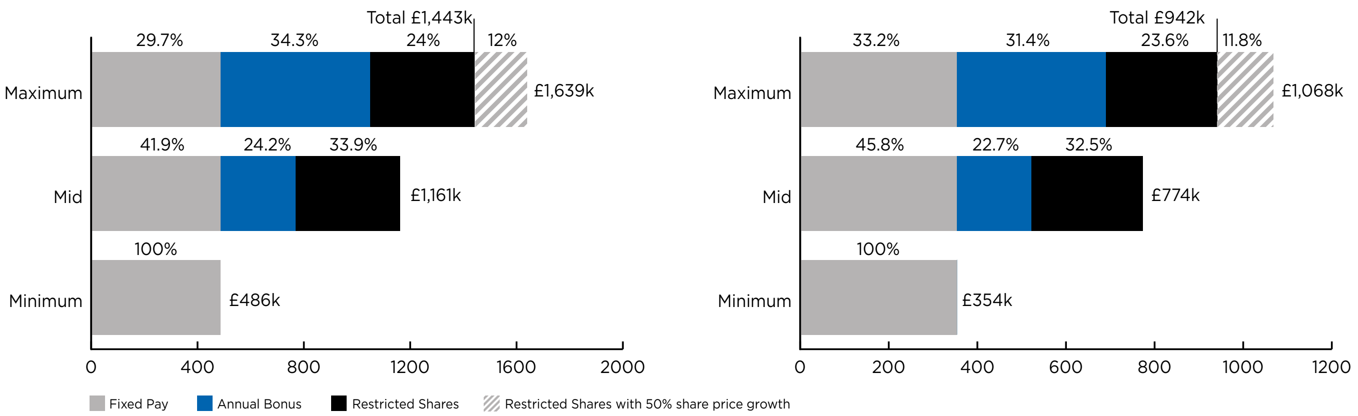
The policy and practice with regard to the remuneration of the senior management team below the Board will be consistent with that of the CEO. The senior management team will participate in the same annual bonus scheme and will receive Restricted Share awards alongside the Executive Directors.

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.

Reward 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 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 April 2022.	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 until 31 December 2022.	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.

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.
Restricted Shares	Default treatment	Awards lapse	n/a
	Death, injury or disability, redundancy, retirement, the sale of the employing company or business out of the Group or any other reason as the Committee may determine.	Normal vesting date and holding period would normally continue to apply, although the Committee has discretion to accelerate vesting and remove the holding requirement in exceptional circumstances.	Any outstanding awards will normally be prorated for service over the three financial years starting with the year in which the award is made and over which the underlying performance of the Company will be reviewed to determine vesting. The Committee may disapply time prorating in exceptional circumstances.
SAYE	Treated in line with HMRC rules.		

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 Chair 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 Chair 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
Roger Whiteside	27 November 2017
Nathan (Tripp) Lane	9 April 2020
Rob McWilliam	11 October 2021

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 their 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 was consulted on the draft of this 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 consulted with 11 of its largest shareholders and three recognised investor bodies to receive their feedback and reflect their comments prior to proposal of this Remuneration Policy to shareholders at the 2021 AGM. 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 incorporated in the current 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 Chair. 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 Chair 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 2022. This report sets out how the Remuneration Policy has been applied in the financial year being reported on and how it 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 2022 and the prior year:

	Paul Moody[1]		Darcy Willson-Rymer[2]		Kris Lee	
	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21
Salary	£22,020	£268,154	£406,154	–	£327,726	£327,726
Salary supplement[3]	–	–	–	–	£44,000	£28,000
Pension benefit[4]	–	–	£12,016	–	£11,302	£11,313
Taxable benefits[5]	–	–	£20,759	–	£12,440	£8,401
Non-taxable benefits[6]	–	–	£6,517	–	£4,198	£1,816
Total Fixed Remuneration	£22,020	£268,154	£445,446	–	£399,666	£377,256
Annual bonus[7]	–	–	£334,634	–	£243,828	–
LTIP (Restricted Shares)[8]	–	–	–	–	£87,774	£32,580
SAYE[9]	–	–	£961	–	£961	£1,099[10]
Total Variable Remuneration	£nil	£nil	£335,595	–	£332,563	£33,679
Total Remuneration	£22,020	£268,154	£781,041	–	£732,229	£410,935

1 Paul Moody held the position as Interim Executive Chair from 1 July 2020 until 8 March 2021. During this period he was entitled to his Non-Executive Chair fee of £144,000 pa plus £30,000 per month supplement for assuming the Interim Executive Chair role. Paul Moody waived his entitlement to his additional fee (£30,000 per month) as Executive Chair for the period from 1 January 2021 to 28 February 2021. Details of fees paid before 1 July 2020 and after 8 March 2021 are set out in the table 'Single figure total fees paid to Non-Executive Directors – audited'. The table reports all fees paid to Paul Moody for the period of his interim appointment as Executive Chair, from 1 July 2020 to 8 March 2021.

2 Darcy Willson-Rymer was appointed as an Executive Director (CEO) on 8 March 2021.

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

4 Pension benefit comprises payments to a stakeholder pension scheme (defined contribution) and/or a cash payment in lieu of pension contributions.

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

6 Darcy Willson-Rymer and Kris Lee are members of the Group Life Assurance and Income Protection Schemes. The amounts stated relate to insurance premiums paid by the Group.

7 See details of 2021/22 bonus payments in the Remuneration Committee Chair's letter and below.

8 The value for 2021/22 is the value of all Restricted Share awards granted in 2019, with a performance period that ends on 31 January 2022, which vest from 14 May 2022, applying the closing share price on 31 January 2022 of 58.5 pence. The value includes the dividend equivalent entitlement of 7.9 pence per share and a nominal bonus award of 1 pence per share to fund the Companies Act 2006 requirement for payment of nominal value on allotment of the shares. The value for 2020/21 is the value of all Restricted Share awards granted in 2018, with a performance period that ended on 31 January 2021, which vest from 11 July 2021, applying the closing share price on 31 January 2021 of 35.85 pence. The value includes the dividend equivalent entitlement of 22.2 pence per share and a nominal bonus award of 1 pence per share to fund the Companies Act requirement for payment of nominal value on allotment of the shares.

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

10 The value of SAYE awards made in 2020/21 was stated as being £2,203 in the FY21 Annual Remuneration Report, however, the actual value was £1,099.

Annual bonus payments and link to performance

Bonus opportunities for 2021/22 were 125% of salary for Darcy Willson-Rymer (prorated for the proportion of the period when appointed) and 100% of salary for Kris Lee.

The bonus was subject to achieving a range of Cash Flow from Operating Activities targets (30% of total maximum bonus opportunity); EBITDA targets (pre-IFRS 16 adjustment for Leases) (30% of the opportunity) and Strategic Objectives (40% of the opportunity). These bonus targets were set when the period of mandatory store closures was ascertained and accounted for subdued footfall recovery following staged removal of government restrictions. As noted in further detail on page 75, the bonus earned (after further adjustment applied in the exercise of discretion) were reduced to 66.07% of maximum to the CEO and 74.4% of maximum to the CFO.

Cash Flow from Operating Activities (30% of bonus opportunity)

The Cash Flow from Operating Activities performance targets for the year and performance achieved against this element are as set out below. The performance achieved reported below reflects a reduction in the Cash Flow from Operating Activities by the amount of the government support received by the Group during the financial year, as explained by application of a downward adjustment by the Remuneration Committee, as noted on page 75. This remains significantly in excess of the stretch target even after this downward adjustment.

Performance level	2020/21 cash flow from operating activities target range	Percentage of total cash flow from operating activities bonus pool available if performance level achieved	Cash flow from operating activities realised (after adjustments)	Percentage of total bonus pool payable (% of maximum)
Threshold	**£(32.7)m**	15%		
Target	**£(22.7)m**	50%	£14.3m	30% of 30%
Maximum	**£(12.7)m**	100%		

EBITDA (30% of bonus opportunity)

The EBITDA (pre-IFRS 16 adjustment for Leases) performance targets for the year and final performance achieved against this element are as set out below. The performance achieved reported below reflects a reduction in the EBITDA by the amount of the government support received by the Group during the financial year, as explained by application of a downward adjustment by the Remuneration Committee, as noted on page 75.

Performance level	2020/21 EBITDA (pre-IFRS 16) target range	Percentage of total EBITDA (pre-IFRS 16) bonus pool available if performance level achieved	EBITDA (pre-IFRS 16) realised (after adjustments)	Percentage of total bonus pool payable (% of maximum)
Threshold	**£9.6m**	15%		
Target	**£14.6m**	50%	£11.9m	9.4% of 30%
Maximum	**£19.6m**	100%		

Achievement against strategic objectives (40% of bonus opportunity)

The strategic objectives for the CEO and CFO were set at the start of the year and outlined in last year's report.

The strategic objectives have been reviewed in detail with one objective not being achieved and three objectives being partly or fully realised, giving a potential achievement for 26.67% of the maximum 40% of the total bonus opportunity for the CEO and 35% of the maximum 40% of the total bonus opportunity for the CFO.

Directors' Remuneration Report continued

The specific outcomes for each objective were as follows:

Strategic objective	Link to strategy	Target and stretch performance set	Outcome	Bonus achieved (% of maximum)
cardfactory.co.uk sales growth	Multichannel is one of the key strategic sales channels targeting sales and market share growth	**Threshold:** cardfactory.co.uk sales to exceed £11.875 million **Target:** cardfactory.co.uk sales to achieve £12.5 million (for 50% of maximum potential bonus opportunity) **Stretch:** cardfactory.co.uk sales to achieve £13.125 million (for 100% of maximum potential bonus opportunity) Straight-line adjustment applies between Threshold, Target and Stretch.	£10.9 million Reopening of stores resulted in a reduction in demand online as customers returned to the high street. Delays to implementation of upgrades to increase online ranges was the primary cause of financial targets not being achieved.	CEO: nil of 13.33% CFO: nil of 5%
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).	The Group effected a refinancing on 21 May 2021, which included an increase of total available debt facilities from £200 million to £225 million, securing increased liquidity, if required, and avoiding shareholder dilution.	CEO: 13.33% of 13.33% CFO: 15% of 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).	As a result of substantial progress during the period, after the year end, the undertaking to the banks to raise equity to reduce borrowings was successfully removed. Profits and cash flow from trade during the period (in excess of original expectations) was used to reduce debt requirements. This preserves shareholder value by removing a dilutive share issuance.	CFO: 15% of 15%
Enhance employee engagement	Engagement is a key component in the advantaged, robust and scalable central model strategic plan.	**Threshold:** FY22 'Be Heard' colleague engagement score of 650 points. **Target:** FY22 'Be Heard' colleague engagement score of 675 points. **Stretch:** FY22 'Be Heard' colleague engagement score of 681 points. Straight-line adjustment between Threshold, Target and Stretch.	Colleague Engagement score of 692.8 achieved in January 2022, a 5.6% increase from 655.7 in June 2021 and up 7.3% from 645.4, pre-pandemic. This shows material progress towards achieving a three-star employer, as assessed by Best Companies.	CEO: 13.33% of 13.33% CFO: 5% of 5%

Grants of Restricted Shares 2021/22 – audited

Awards of Restricted Shares were granted to the Executive Directors on 14 June 2021. 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 included a further condition to the Restricted Shares, providing the Committee with an additional discretion on vesting to permit further scale back, if necessary, 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
Darcy Willson-Rymer	514,436	87.5%	£393,750	1.2.21–31.1.24
Kris Lee	321,132	75%	£245,795	1.2.21–31.1.24

1 Based on the average share price for the three months to and including 11 June 2021 of 76.54 pence.

For Restricted Shares to vest, the Committee must be satisfied that business performance over the three years commencing 1 February 2021 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'.

Upon determination by the Company's Remuneration Committee of the full or partial satisfaction of the performance underpin condition, any 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.

2019 LTIP Restricted Share award vesting – audited

Restricted Share awards granted in May 2019 under the LTIP were subject to substantially the same performance underpin summarised above in respect of the 2021/22 Restricted Shares, for the three financial years to and including FY22, 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 14 May 2022), 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 performance had then been significantly impacted by the Covid-19 pandemic, which was outside the control of the management team. A material improvement was made in the last financial year, with trading performance exceeding expectations, demonstrating exceptional performance, with net debt and leverage at its lowest levels at the end of the period. The Committee also recognised the solid platform for future growth and development from material management team actions. The Committee took account of the investor guidance on executive pay, with a full review of stakeholder interests, including the interests of shareholders, colleagues, the public purse and the longer-term interests of all stakeholders, including customers, from rewarding the exceptional performance realised in the most recent year to retain and incentivise executives. The Committee noted that the value of the awards on vesting is nil for the CEO and £87,774 for the CFO (applying the share price at the end of the period of 58.5 pence per share, and including the value of the dividend equivalent and nominal bonus). On this basis, the Committee resolved to approve vesting of the RSP awards as they considered the business performance over the three-year period was robust, sustainable and was strengthened by management's actions.

Directors' Remuneration Report continued

SAYE – audited

Awards under the HMRC-approved SAYE plan were granted to all participating employees on 8 July 2021. Options were granted at a discount of 20% to the share price on grant and vest after three years subject to continued employment. As the annual award was oversubscribed, monthly savings reduced from the £250 maximum, to £201.

Executive Director	Number of SAYE options awarded	Face/maximum value of awards at grant date[1]	% of award vesting at threshold	Performance period
Darcy Willson-Rymer	13,526	£2,261	n/a	n/a
Kris Lee	13,526	£2,261	n/a	n/a

1 Value stated is the value of the 20% discount to the exercise price based on the share value determined over the three days to and including 11 June 2021, of 66.87 pence.

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 2022 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 (in 2020/21), 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 month's fees.

	Committee membership[4]			Base fee paid		Additional fees		Total	
Non-Executive Director				2021/22	2020/21	2021/22	2020/21	2021/22	2020/21
Paul Moody[1] (Chair)	R		N*	**£128,903**	£60,000	**£0**	£0	**£128,903**	£60,000
Octavia Morley (SID)	R*	AR	N	**£48,183**	£48,183	**£7,867**	£7,867	**£56,050**	£56,050
David Stead[2]	R	AR*	N	**£33,750**	£37,500	**£6,000**	£6,667	**£39,750**	£44,167
Paul McCrudden	R	AR	N	**£44,250**	£44,250	**£0**	£0	**£44,250**	£44,250
Roger Whiteside	R	AR	N	**£44,250**	£44,250	**£0**	£0	**£44,250**	£44,250
Nathan (Tripp) Lane				**£45,000**	£35,389	**£0**	£0	**£45,000**	£35,389
Rob McWilliam[3]	R	AR*	N	**£11,250**	-	**£2,000**	£0	**£13,250**	-

1 The figures report only the fees paid to Paul Moody in his capacity as a Non-Executive Director prior to 30 June 2020 and after 8 March 2021. Additional fees paid in respect of his interim executive role are reported above on page 86 (Total remuneration paid to Executive Directors – audited).
2 David Stead stepped down from the Board on 30 November 2021.
3 Rob McWilliam was appointed on 1 November 2021.
4 Committee Memberships are R=Remuneration Committee; AR=Audit & 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 Chair.

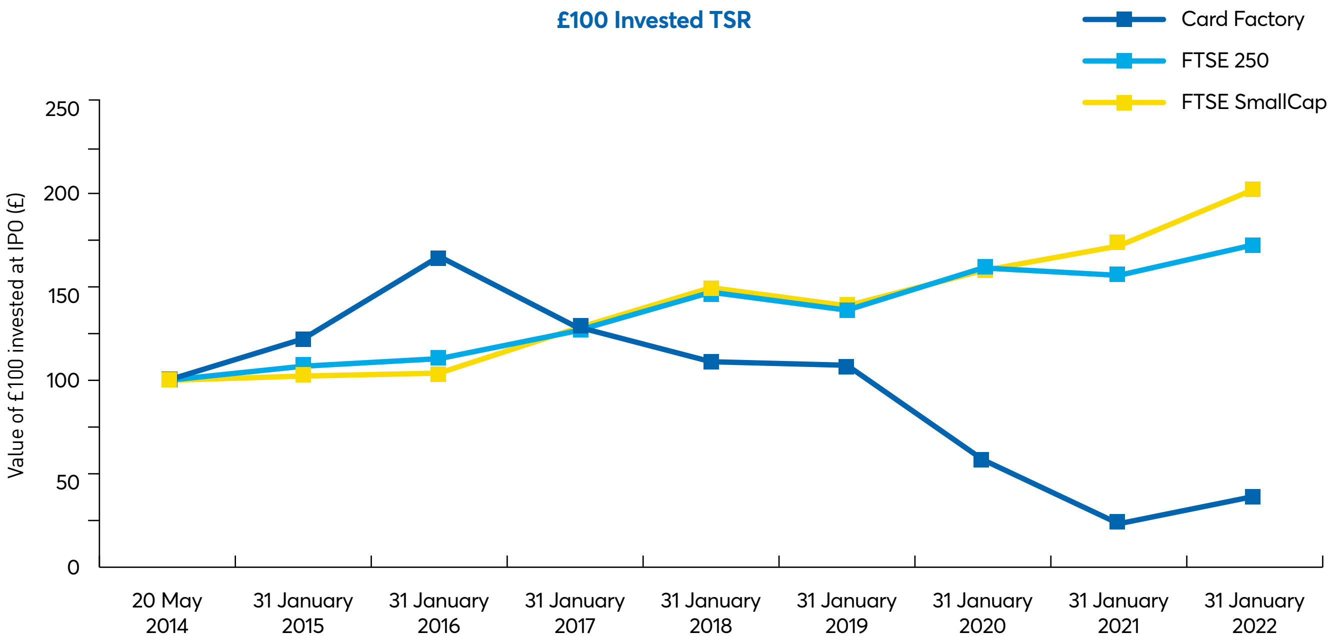
Payments to former Directors – audited

During the year, certain agreed payments were made to former CEO, Karen Hubbard, in accordance with the terms reported in the FY21 Annual Report. Following assessment of the performance underpin for the three-year period to 31 January 2022 in respect of the Restricted Shares granted in May 2019, as Karen Hubbard was deemed a good leaver, after scale back of awards to account for the part of the performance period to 30 June 2021, during which she was involved in the business, a maximum of 143,985 shares were capable of vesting, in aggregate, of which 71,992 shall vest from 14 May 2022; 35,996 shall vest from 14 May 2023; and 35,997 shall vest from 14 May 2024, subject to the rules of the Long Term Incentive Plan and the terms of grant.

The Company also paid, in aggregate, £81,590.86 to former CEO, Karen Hubbard on account of salary and contractual benefits to 26 March 2021, as payments in lieu of notice. No other payments for loss of office have been paid.

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	**2021/22[1]**	2020/21[2]	2019/20	2018/19	2017/18	2016/17[3]	2015/16	2014/15
Single figure of remuneration (£'000)	**829**	525	593	611	496	1,005	951	884
Annual bonus outcome (% of max)	**66%**	–	10%	15%	–	20%	79%	77%
LTIP vesting (% of max)	**n/a**	50%	–	–	n/a	46.6%	n/a	n/a

1 For 2021/22, the amounts set out in the single figure table on page 86 are grossed up, on a pro rata basis to show the position for comparison purposes assuming Darcy Willson-Rymer had been appointed from 1 February 2021 rather than 8 March 2021 (the date of his actual appointment).
2 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 vested in July 2021.
3 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, for each of the last two financial periods, 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 was appointed or resigned 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:

		Executive Directors			Non-Executive Directors						
Year-on-Year change %	Average employee[1]	Darcy Willson-Rymer[2]	Karen Hubbard[2]	Kristian Lee	Paul Moody	Octavia Morley	David Stead	Paul McCrudden	Roger Whiteside	Nathan (Tripp) Lane	Rob McWilliam
FY22 compared to FY21											
Salary/Fees	4.7%	1.0%	–	4.5%	-54.0%	0%	0%	0%	0%	0%	n/a
Bonus	45.9%	100%	–	100%	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Benefits	-35%	-60.8%	–	77%	n/a	n/a	n/a	n/a	n/a	n/a	n/a
FY21 compared to FY20											
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	–

1 The Average Employee is the FTE for all UK Group employees.
2 Darcy Willson-Rymer's remuneration information stated is on the basis of the details in note 1 to the preceding table, with comparison to the total salary paid to Karen Hubbard, former CEO, on the basis stated in note 2 to the preceding table.
3 Reduction in fees received is attributable to waivers of fees by Directors.

CEO to employee pay ratio

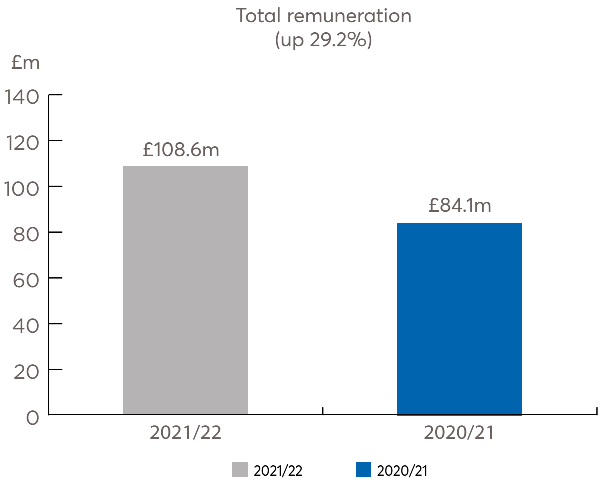
FY22	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
Ratio	Option A	31.9 : 1	24.8 : 1	23.5 : 1
Employee salary		£14,607	£18,765	£19,840
Employee total remuneration		£15,045	£19,364	£20,435
2020/21 ratio	Option A	31.4 : 1	30.6 : 1	29.5 : 1

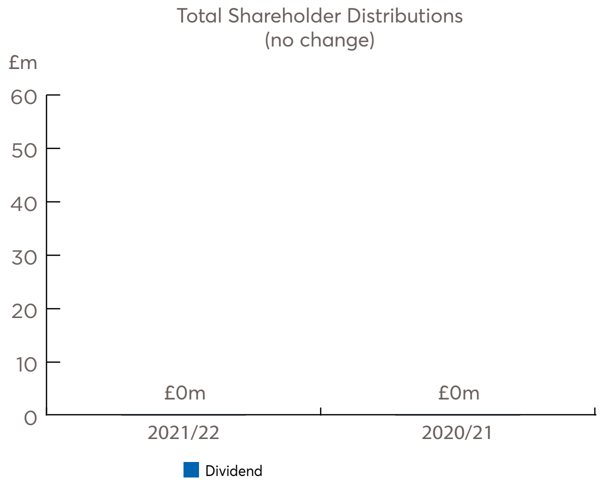
Card Factory has chosen Option A (pursuant to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended)), which provides a comparison of the Company's full-time equivalent total remuneration for all UK employees against the CEO for the FY22 financial year) as 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 CEO has been used, with an assumption that they had been appointed from the start of the financial year and the ratio for 2020/21 was produced on the basis set out in note 2 to the CEO pay table on page 91. As for the CEO pay ratio for the prior year, furlough payments (at 80% of pay) were grossed up to 100% to to ensure consistent basis for comparison purposes. Employee remuneration as at 31 January 2022 was used for determination of the FY22 pay ratio information reported above.

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 pay-outs 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 materially reduced total remuneration for 2020/21 is partly attributed to the fact that remuneration includes payments made to colleagues receiving reduced wages on furlough, pursuant to the Coronavirus Job Retention Scheme (and equivalent schemes in Ireland), where there were extended periods of reduced wage payments during 2020/21 as mandatory store closures applied for a larger proportion of the period.





Statement of shareholder voting

The following table shows the results of the shareholder votes on the Annual Report on Remuneration and for the Directors' Remuneration Policy at the 2021 Annual General Meeting:

	Remuneration Policy 2021		Annual Report on Remuneration 2021	
	Total number of votes	% of votes cast	Total number of votes	% of votes cast
For (including discretionary)	189,960,737	94.98	196,343,511	98.19
Against	10,033,932	5.02	3,618,099	1.81
Total votes cast (excluding withheld votes)	199,994,669	–	199,961,610	–
Total votes withheld[1]	29,676	–	62,735	–
Total votes cast (including withheld votes)	200,024,345	–	200,024,345	–

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

Directors' shareholdings and interest in shares – audited

The Committee sets shareholding guidelines for Executive Directors. The current guideline is to build and maintain, over time, a holding of shares in the Company equivalent in value to at least 250% and 200% of base salary for the CEO and CFO, respectively. The Executive Directors have not yet met the shareholding guideline.

	Shares held			Options held				
Director	Owned outright[1]	Unvested and not subject to performance	Unvested and subject to performance	Vested but not exercised	Unvested and subject to continued employment	Current shareholding (% of salary/ fee[2])	Shareholding requirement (% of salary/ fee)	Guideline met?
Executive Directors								
Darcy Willson-Rymer	84,112	–	514,436	–	13,526	10.9%	250%	No
Kris Lee	35,046	157,816	692,199	–	26,780	6.1%	200%	No
Non-Executive Directors								
Paul Moody	200,000	–	–	–	–			
Octavia Morley	13,333	–	–	–	–			
Roger Whiteside	22,520	–	–	–	–			
Nathan (Tripp) Lane	200,000	–	–	–	–			
Rob McWilliam	357	–	–	–	–			
Paul McCrudden[3]	–	–	–	–	–			

1 Including shares owned by connected persons.
2 Calculated using the closing share price of the Company on Friday 31 January 2022 of 58.5 pence.
3 Paul McCrudden stepped down from the Board on 31 January 2022.

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.

During the year, no share options under the SAYE plan were exercised by the Directors.

Directors' Remuneration Report continued

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

	Date of grant	Share price at grant	Exercise price	Number of shares awarded	Face value at grant	Performance period	Exercise period
Darcy Willson-Rymer							
Restricted shares[1]	14.06.21	76.54p	n/a	514,436	£393,750	01.02.21 – 31.01.24	n/a
SAYE	08.07.21	66.87p	53.496p	13,526	£9,044	–	01.08.24 – 31.01.25
Kris Lee							
Restricted shares[1]	14.06.21	76.54p	n/a	321,132	£245,794	01.02.21 – 31.01.24	n/a
Restricted Shares[1]	12.10.20	39.74p	n/a	371,067	£147,475[2]	01.02.20 – 31.01.23	n/a
Restricted Shares[1]	14.05.19	188.74p	n/a	130,229	£245,795	01.02.19 – 31.01.22	n/a
Restricted Shares[1 3]	11.07.18	214.1p	n/a	27,587	£59,064	01.02.18 – 31.01.21	n/a
SAYE[4]	08.07.21	66.87p	53.496p	13,526	£9,044	–	01.08.24 – 31.01.25
SAYE	27.10.20	33.95p	27.16p	13,254	£4,500	–	01.12.23 – 31.05.24

1 The number of shares comprising each RSP award was calculated based on the average, middle-market quotation of a share in the capital of the Company over the three months prior to the date of grant.
2 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.
3 Kris Lee's original award in 2018 was granted over 110,346 shares. This award was reduced to 55,173 following the Remuneration Committee's decision to permit only 50% of the award to vest. 50% of the award vested 11 July 2021, with the balance subject to future vesting.
4 As announced on 6 July 2021, on 6 July 2021 Kris Lee cancelled his option granted under the SAYE plan in July 2019 to acquire 5,844 shares at an option price of £1.54 per share, which was capable of exercise from 1 August 2022.

How the Policy will be applied in FY23

Covid-19 and exercise of discretion

The Committee is optimistic that the Covid-19 pandemic will have a diminishing impact on the Group during FY23, with targets set for variable pay in the expectation that footfall will continue to recover and trading performance will improve, with inflationary pressures believed to be fully accounted for the year ahead. The Committee recognises the need to consider whether any discretion should be exercised in respect of variable remuneration, in particular in connection with any excessive reward that may arise from recovery of share price, in respect of share awards. 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 April 2022 are as follows:

Executive Director	1 April 2022[1]	1 May 2021
Darcy Willson-Rymer	**£450,000[2]**	£450,000
Kris Lee	**£335,726**	£359,726[3]

1 The Committee has aligned timing for annual pay awards for the majority of all colleagues, including the Executive Directors, from 1 May to 1 April in each year, with effect from 1 April 2022.
2 Darcy Willson-Rymer declined a 2% increase to basic salary which was approved by the Committee.
3 Kris Lee's basic salary from 1 May 2021 was £327,726 p.a. The salary stated for the 12- month period from 1 May 2021 (which was the date annual pay awards were subject to review in 2021, took effect, includes a supplemental sum of £4,000 per month that was 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 (FY23) is capped at 125% and 100% of salary for the CEO and CFO (respectively), up to 70% of which can be realised if financial target of Group EBITDA (post IFRS 16) is achieved and the remaining 30% 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 compared to the budget approved by the Board for 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 2022/23, 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			**70% total**
EBITDA (post IFRS 16) based target	Group financial performance and improvement in profitability.	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 results between Threshold, Target and Stretch.	70%
Strategic objectives			**30% total**
cardfactory.co.uk growth	Omnichannel 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.	15%
Retail partnership growth	Development of retail partnerships is a key growth sales channel.	Threshold, Target and Stretch targets have been set based on developing retail partnerships and building foundations for further expansion of retail partnerships in FY24.	5%
Realisation of sales growth from strategic initiatives	Realisation of key strategic priorities.	Achievement of incremental sales during FY23 from core strategic initiatives: price increases; growth in complementary categories and Model Stores. 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.	10%

1 Quantums 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 2023.

Directors' Remuneration Report *continued*

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. The Committee has resolved to include an additional criterion to the performance underpin for new RSP awards granted from 2022, requiring the business to improves it impact on society and the environment. In assessing performance, the Committee will consider financial and non-financial KPIs of the business as well as delivery against its strategic priorities. To the extent it is not satisfied with performance the Committee may scale back the level of vested awards including to zero. The Remuneration Committee expects to include a further condition to the Restricted Shares, providing the Committee with an additional discretion on vesting to permit further scale back to avoid excessive returns.

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.

Non-Executive Director fees

The agreed Non-Executive Director fees are set out below. The Board resolved, and in respect of the Chair, the Remuneration Committee resolved, each having taken advice from Korn Ferry, and taking account of comparative data for similar companies, to increase the Non-Executive Director fees and the Chair's fees by 2% with effect from 1 April 2022.

	From 1 April 2022	Prior to 1 April 2022
Base fees		
Chair	***£146,880***	£144,000
Senior Independent Director	***£49,980***	£49,000
Non-Executive Director	***£45,900***	£45,000
Additional fees		
Chair of the Remuneration Committee	***£8,160***	£8,000
Chair of the Audit & Risk Committee	***£8,160***	£8,000

Remuneration Committee membership and advisors

The Remuneration Committee during the period comprised between four and six Non-Executive Directors, all of whom were independent before appointment: Octavia Morley (Chair), David Stead (prior to 30 November 2021), Paul McCrudden (prior to 31 January 2022), Roger Whiteside, Rob McWilliam (from 1 November 2021) and (save when he assumed an executive role) the Non-Executive Chair, 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 advisors 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 £14,967 (inc. VAT) were paid to Korn Ferry during the financial year.

Committee activities

During 2021/22, up to the approval of this Report, the Committee met to consider the following remuneration matters:

- to complete the consultation with shareholders and representative bodies on the proposed changes to the Remuneration Policy which was approved by shareholders at the 2021 AGM;
- to review the operation of the remuneration policy in 2021/22 and assess appropriateness of the policy;
- to consider performance against targets and resulting bonus payments for 2020/21 and vesting of the 2019 Restricted Share awards under the Long Term Incentive Plan;
- to finalise the financial targets for the 2021/22 annual executive bonus plan (after mandatory store closure periods were ascertained) and to consider measures and targets for the 2022/23 annual executive bonus;
- to review the recruitment and remuneration for several senior management roles;
- assessment of good leaver designations and approval of terms for certain senior leavers;
- 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 as 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 regulations and which are not covered elsewhere in this Directors' Remuneration Report.

Engagement with stakeholders

The Committee completed its consultation with shareholders on the changes proposed to be made to the Directors' Remuneration Policy that was approved by shareholders at the 2021 AGM. Support for the Directors' Remuneration Policy that was adopted at the 2021 AGM was almost 95% and the 2020/21 Directors' Remuneration Report at the 2021 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 our employee engagement scores increased significantly during the year, as assessed using a pulse survey from 'Be Heard', assessed by Best Companies Limited. Details are set out in the annual executive bonus outcomes for 2021/22, above. 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 ('CCAG')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. Following Paul McCrudden's resignation at the end of the financial year, Paul Moody has been appointed as Designated Director to lead the Board's consultation of colleagues via the CCAG. Further details of stakeholder engagement are set out on pages 23 to 31.

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 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 DE&I policy which is summarised on page 27 and in the Nomination Committee Report. The Committee has also considered the Group's wider review of remuneration across the entire workforce following an extensive grading of roles and benchmarking of remuneration and benefits associated with each role.

Approved by the Board of Card Factory plc on 2 May 2022 and signed on its behalf by

Octavia Morley
Chair of the Remuneration Committee
3 May 2022

Chair's Letter – Nomination Committee

The Committee has been active over the last year with a number of senior appointments, significant progress on DE&I, succession planning and values review, with an external board effectiveness review.

Paul Moody

Chair of the Nomination Committee

Committee members

Paul Moody (Chair)
Octavia Morley
Roger Whiteside
Rob McWilliam

Dear Shareholder

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

- Appointment of Rob McWilliam as a Non-Executive Director, with relevant financial experience to succeed David Stead as Chair of the Audit & Risk Committee;
- Initial engagement to commence a search to appoint an additional Non-Executive Director to address the vacancy arising from Paul McCrudden's decision to step down from the Board at the end of the financial year. This search is ongoing;
- Review of relevant experience and recommendation that Paul Moody be appointed as the Designated Director (for the purpose of engagement with the workforce), following Paul McCrudden's resignation;
- Review of recent and proposed appointments to the senior management team, including a Business Development Director, Customer Marketing Director, Chief Information Officer and a Digital Director;
- Review of succession planning for the Board, the senior management team and their direct reports and approach to succession plans being undertaken throughout the business;
- Overseeing the extensive colleague consultation leading to development of the DE&I strategy and a refresh of the Group's values; and
- Effecting the externally moderated annual Board effectiveness review.

The Committee has been active over the last year with a number of senior appointments, significant progress on DE&I, succession planning and values review, with an external Board effectiveness review.

The Committee recognises the importance of ensuring Card Factory is a truly diverse and inclusive employer and supports customers of all backgrounds to celebrate all occasions that are important to them. The Committee recognises that the Board is not representative of the diversity in our workforce or communities and aims to further address this in its current recruitment of a Non-Executive Director. The female representation on the Board currently comprises 14%, with 25% of the executive board being female. The Board recognises the need to improve on this.

The Company retained Spencer Stuart to undertake a market search to recommend candidates for the role of Non-Executive Director and Chair of the Audit & Risk Committee. The Committee reviewed a range of candidates and undertook multiple interviews of those shortlisted which resulted in the unanimous resolution to appoint Rob McWilliam. Odgers Berndtson have been retained to identify Non-Executive Director candidates following Paul McCrudden's decision to step down from the Board.

Neither Spencer Stuart, nor Odgers Berndtson have any connection to the Company or any of the Directors.

The succession planning undertaken to date has identified development opportunities and potential gaps for succession planning. The business continues to further develop the people offer, which includes focus on non-financial benefits, including learning and development opportunities to support career progression, which is also regularly reviewed as internal promotion data is constantly reviewed as a KPI.

In addition to further progressing the Group's DE&I strategy, the Committee will focus on addressing development opportunities identified from the succession planning undertaken for the senior management team and to progress succession planning for the direct reports to this team. An internally conducted Board effectiveness review will also be undertaken.

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
Chair of the Nomination Committee
3 May 2022

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 during the year were Octavia Morley, David Stead (until 30 November 2021), Paul McCrudden (until 31 January 2022), Roger Whiteside and (from 1 November 2021) Rob McWilliam. 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 Chair has, where necessary, consulted with Committee members on an ad hoc basis during the year.

Committee activity

The Committee's main activity during the year and its plans for the year ahead, are as described in more detail in the introductory letter to this report.

DE&I 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 can be found in the ESG Report from page 42.

We published our Gender Pay Gap Report in April 2022, which reports on the gender pay gap as at 5 April 2021. 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 3.9% 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 2022 within the Group are set out on page 28.

Board evaluation

The Company engaged Trusted Advisory Partnership Ltd (Toby Lapage-Norris) to conduct an independent evaluation of the Board's effectiveness. Neither Trusted Advisory Partnership Ltd nor Toby Lapage-Norris had any prior connection with the Company or any individual Director. Further details are set out in the Corporate Governance Report on page 64. Board evaluation will continue to be conducted on an annual basis, with an internally facilitated evaluation scheduled to be completed during the financial year to 31 January 2023.

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 23 June 2022.

Paul Moody
Chair of the Nomination Committee
3 May 2022

Directors' Report

The Directors present their report together with the audited financial statements for the year ended 31 January 2022.

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 Guidance 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, Wakefield 41 Industrial Estate, Wakefield, West Yorkshire, WF2 0XG. The telephone number of the Company's registered office is +44 1924 839150.

Strategic Report
The Strategic Report, which was approved by the Board on 2 May 2022 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 (including reporting in accordance with the Task Force on Climate-Related Financial Disclosures ('TCFD')), 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 4.1.8 R.

Results and dividends
The consolidated profit/(loss) for the Group for the year after taxation was £8.1 million (FY21: £(13.6) million). The results are discussed in greater detail in the Chief Financial Officer's Review on pages 32 to 37.

No final dividend is proposed in respect of the period ended 31 January 2022 (FY21 final dividend: nil). No interim dividend has been paid in respect of the period ended 31 January 2022 (FY21: nil).

Post year-end events
We completed a refinancing of the Group on 21 April 2022, details of which are set out in the Chief Financial Officer's Review on page 36.

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 1 pence each.

Further details of the Company's share capital, including changes in the issued share capital in the year under review, are set out in note 19 to the financial statements which form part of this report on page 143. No additional shares have been issued between the end of the financial year under review and the date of approval of this report. As such, the total issued share capital of the Company as at 2 May 2022 (being the latest practical date before publication of this report) is 341,878,341. 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 149 and 150. Details of the share-based incentive schemes in place are provided in the Directors' Remuneration Report on pages 80 and 81.

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 28 July 2021.

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) 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 2 May 2022 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	20.01
Artemis Investment Management LLP	34,575,569	10.01
Mr Stuart Middleton	18,035,477	5.28
Majedie Asset Management Limited	16,819,832	4.92
The Wellcome Trust	10,733,554	3.14

The shareholdings noted above reflect the notifications received as at 31 January 2022.

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) and the Coronavirus Large Business Interruption Loans, which contain a provision such that, in the event of a change of control, the facilities 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 151 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 58. Details of how Directors are appointed and/or removed are set out in the Corporate Governance Report on page 65.

Powers of Directors

Specific powers of the Directors in relation to shares and the Company's Articles of Association are referred to in the Corporate Governance Report on pages 65 and 66.

As at 31 January 2022, the Directors had shareholder authority, granted at the AGM in 2021, to effect a purchase by the Company of up to 34,167,993 of its own shares. None of this authority had been used during FY22. This authority is proposed to be renewed at the AGM to be held in 2022.

Directors' indemnities and insurance

Information relating to Directors' indemnities and the Directors' and Officers' liability insurance that the Company has purchased is set out in the Corporate Governance Report on page 66.

Employees

Information relating to employees of the Group is set out on pages 26 to 28.

Share incentive schemes in which employees participate are described in the Directors' Remuneration Report on pages 80 and 81 and in note 25 to the financial statements on pages 149 and 150.

Greenhouse gas emissions

The ESG Report on page 52 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 39. In that section, beginning on page 38, 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 32 to 37.

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 required 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 FY22 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.	Page 80
Details of any arrangements under which any Director has waived or agreed to waive any emoluments for FY22 or any future emoluments.	Pages 86 and 90
Details of cash allotments of shares by Card Factory plc or any major subsidiary undertaking, during FY22.	See note 7 to the notes to the Parent Company financial statements on page 158
Details of any contract of significance subsisting during FY22.	Not Applicable
Details of any contract for the provision of services to the Group by a controlling shareholder subsisting during FY22.	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

Disclosure required under Listing Rule 7 (Corporate Governance)
The Corporate Governance Report on pages 59 to 67 contains disclosures required under Listing Rules 7.2.2, 7.2.3, 7.2.5, 7.2.6 and 7.2.7, which form part of this Directors' Report.

Disclosure required under Listing Rule 9.8.6(8)R
The Company has included climate-related disclosures consistent with the TCFD recommendations and recommended disclosures (dated June 2017) as updated by the Task Force's 2021 Annex, on pages 53 and 54 of this Annual Report. The Company's compliance with the TCFD reporting and identification of the matters which the Company is not yet compliant with, are set out on pages 53 and 54. The sections referenced in the final column of the table on pages 53 and 54 explain the status of the Company's progress to be able to fully report against the TCFD requirements in future years.

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 Covid-19 pandemic and associated restrictions imposed by governments in the jurisdictions in which the Group operates, which required the Group's retail outlets to close for approximately eight months during the FY21 and FY22 financial years, have had a significant impact on the Group's financial performance. During this time, the Board has focused on careful management of cash flow and de-leveraging the business.

The Group has prepared cash flow forecasts for the 12 months following the date of approval of these accounts which incorporate the updated 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 cash flows 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, with negative overall LFL sales forecast in FY23 when compared to FY20.

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.

Whilst the current outlook is positive, the pandemic is not over. Accordingly, 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. The Group's assumptions regarding trading in lockdown periods and the impact on fixed and variable overheads was based on the Group's actual experience in FY21 and FY22 and included assumptions regarding government support, particularly in respect of salary costs and business rates, consistent with the support received during previous lockdowns. The projections did not assume any further grant income, nor additional discretionary cost savings.

In all cases, the scenario analysis indicated that, whilst the impact would be severe, the Group would meet the covenant thresholds in its financing facilities and maintain sufficient liquidity to meet its liabilities as they fall due.

The Group also modelled more extreme scenarios, beyond those considered reasonably foreseeable. The analysis demonstrated that the Group had additional headroom in its forecasts and the existence of further mitigations that could be taken, if required.

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 a period longer than that required in respect of going concern. The assessment has been made taking into account the Group's current position, business plan, and the principal risks and uncertainties described in the Strategic Report on pages 39 to 41.

In making this statement, the Board has 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, or liquidity.

Viability period

The Directors have determined that the five years to 31 January 2027 is an appropriate period over which to provide its viability statement, being the timeframe used by the Board in its strategic planning process, consistent with the Group's investment cycles, and covers the period over which the Group's available financing facilities extend to.

Board assessment

The Board has reviewed the Group's detailed five-year strategic plan (the 'Plan'), including an assessment of the key operational and financial assumptions, and considered downside scenarios and stress testing.

The Plan was updated to reflect the impact of the new financing facilities agreed in April 2022. See page 36 for further details.

The Plan assumes a conservative growth model as the Group emerges and recovers from the impact of the Covid-19 pandemic. In addition, the Plan includes expected cost headwinds arising from global freight costs, wage inflation, and the impact of rising prices on energy and utility costs. The plan indicates that the Group will remain profitable, cash generative, maintain adequate liquidity headroom against its available financing facilities, and be compliant with the financial covenants set out in its new facilities agreed in April 2022 across the five-year viability horizon.

In assessing viability, the Board has considered a variety of downside scenarios arising from the Group's principal risks and uncertainties. These downside risks included severe, but plausible, scenarios arising from further outbreaks of Covid-19 that require significant restrictions to be re-imposed. Whilst these reviews do not consider all the possible scenarios that the Group might face, the Directors consider that this assessment of the Group's prospects is reasonable in light of the particular uncertainties facing the Group at this time.

In particular, the Directors noted that in the scenarios considered and in more severe, less plausible, scenarios, a reasonable degree of further actions would be available to the Group to mitigate the effects of downside risks. Such mitigating actions could include further curtailing of discretionary operating and capital expenditure.

Whilst there continue to be inherent risks and uncertainties in the Group's wider operating environment, the Board is confident that the Group continues to have access to sufficient liquidity to meet its liabilities as they fall due and manage reasonably foreseeable downside scenarios if they should arise. This assessment is based upon the Group's current financial position, supported by cash management and de-leveraging action taken over the preceding two years, and the headroom in the Group's newly agreed financing facilities. Accordingly, the Board confirms that it has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due in the period to 31 January 2027.

Directors' Report *continued*

Assumption	Assumption limitations
Available funding The Group renegotiated its financing facilities with its banking syndicate in April 2022 (see page 36), with the overall size of facilities reduced to £150 million over an extended term to September 2025.	The key limitation in respect of financing relates to the ability of the Group to meet its covenant requirements in order to continue to access available facilities. The Board is satisfied that, under the newly agreed facilities, the Group should have sufficient headroom to meet covenant requirements across the viability period, including in downside scenarios. Scenario analysis included consideration of a two-month lockdown scenario during FY23, when covenant headroom is expected to be at its tightest.
Store sales recovery The Plan assumes a gradual build-back to pre-Covid-19 levels of trade following lower revenues as a result of the pandemic in FY21 and FY22. The Board is mindful of continued uncertainty over how consumers will choose to shop post-pandemic; however this is reflected in the Group's omnichannel strategy.	Downside scenarios considered include considering the pace or extent of recovery and shopping habits as the wider economy emerges from the pandemic, reflected in consideration of lower than expected like-for-like sales.
Capital investment The Group's capital investment plans remain focused on supporting key strategic initiatives to deliver the Plan.	Capital investment is entirely within the control of the Board. Reducing capital expenditure, if required, reflects a key mitigation in severe downside scenarios.
Strategic initiatives The Plan reflects the Group's strategic initiatives and reflects the stated ambition to reach revenues of £600 million by FY26.	The Board undertakes a full review of principal risks and uncertainties, and downside scenarios taking into account the impact of the Group's ability to deliver its strategy are reviewed.
Distributions to shareholders The Group is currently prohibited from making distributions to shareholders until such time as its CLBILS facilities are fully repaid. The Board has considered the Group's capital management policy going forwards and expects to consider return to payment of dividends after repayment of the CLBILS and £11.25 million term loan facility (expected by January 2024), subject to the Leverage ratio being 1.5x or less.	Capital management is entirely within the control of the Board and accordingly there are no limitations to these assumptions.

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 & Risk Committee has reviewed the effectiveness, performance, independence and objectivity of the existing external auditor, KPMG LLP, for the year ended 31 January 2022 and concluded that the external auditor was in all respects effective, as explained on pages 72 and 73. 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 23 June 2022 at the Company's registered office at Century House, Brunel Road, Wakefield 41 Industrial Estate, Wakefield WF2 0XG. 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 in 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 2 May 2022 and signed on its behalf by

Ciaran Stone
Company Secretary
3 May 2022

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 UK-adopted international accounting standards 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 the Group's 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 UK-adopted international accounting standards;
- 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.

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

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

In accordance with Disclosure Guidance and Transparency Rule 4.1.14 R, the financial statements will form part of the annual financial report prepared using the single electronic reporting format under the TD ESEF Regulation. The auditor's report on these financial statements provides no assurance over the ESEF format.

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
3 May 2022

Kristian Lee
Chief Financial Officer
3 May 2022

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 2022 which comprise the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of financial position, Consolidated statement of changes in equity, Consolidated cash flow statement, Parent Company statement of financial position, Parent Company statement of changes in equity, Parent Company cash flow statement and the related notes, including the accounting policies in note 1 to both the Group and parent Company financial statements.

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 2022 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent Company financial statements have been properly prepared in accordance with UK-adopted international accounting standards 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.

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 8 financial years ended 31 January 2022. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality: Group financial statements as a whole	£2.3m (2021: £2m) 4.9% (2021: 5.0%) of average PBTCO
Coverage	98% (2021: 100%) of total profits and losses that made up Group profit before tax

Key audit matters vs 2021

Recurring risks	Recoverability of Group goodwill and of parent's investment in subsidiaries	◀▶
	Net realisable value of inventories	◀▶
	Completeness, existence and accuracy of the stock counts for store inventory and accuracy of the costing calculations for all inventory	◀▶
Event driven	**New:** Lockdown grants related to Covid-19	

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.

	The risk	Our response
Recoverability of group goodwill and of parent's investment in subsidiaries (Group goodwill: £313.8 million; 2021: £313.8 million; parent Company Investments in subsidiaries £316.2 million; 2021: £316.2 million) Refer to page 71 (Audit Committee Report), page 123 (other sources of estimation uncertainty), page 129 (accounting policy) and page 136 (financial disclosures).	***Forecast-based assessment*** There is a risk that the business may not meet expected growth projections in order to support the carrying value of the goodwill, or the parent Company's investment in subsidiaries. The risk remains significant in light of the fact that goodwill is not supported by the market capitalisation of the Group. Additionally forecasting future levels sales and costs is challenging in the current economic environment. The group of cash-generating units to which goodwill is allocated, predominantly comprises of subsidiary company, Sportswift (trading in the name of Card Factory), which makes up substantially all of the recoverable amount of the parent Company's investment in subsidiaries. The directors considered the recoverability of the goodwill balance and the parent Company investment subsidiaries through a value in use calculation that had underlying assumptions of varying sensitivity. The estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting a discounting future cash flows. The effect of these matters is that, a part of our risk assessment, we determined that the value in use of goodwill and the recoverable amount 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 statement as a whole. In conducting our final audit work, we concluded that reasonably possible changes to the value in use would not be expected to result in material impairment.	Our procedures also included: — **Sensitivity analysis:** Performed breakeven analysis on the key assumptions. — **Benchmarking assumptions:** Challenged and compared the Group's assumptions, including forecast sales, growth in future periods, discount rate and terminal value, to externally derived data in relation to key inputs such as projections of economic growth and inflation, sector analyses; and analysts' reports. — **Our valuation expertise:** Used 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 – Goodwill:** Compared the sum of the discounted cash flows to the Group's market capitalisation to assess the reasonableness of those cashflows. — **Comparing valuations – Parent's investment:** Compared the carrying amount of the investment with the expected value of the business based on the value-in-use determined in the goodwill. — **Assessing transparency:** Assessed 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. — **Assessing transparency:** Assessed the adequacy of the parent Company's disclosures in respect of the investment in subsidiaries. We performed the tests above rather than seeking to rely on any of the Group's controls because the nature of the balances are such that we would expect to obtain audit evidence primarily through the detailed procedures described. ***Our results:*** — We found the Group's conclusion that there is no impairment of goodwill and of the parent Company's investment in subsidiaries to be acceptable (2021: acceptable).

	The risk	Our response
Net realisable value of Inventories (£33.1 million; 2021: £36.4 million) Refer to page 70 (Audit Committee Report), page 122 (key sources of estimation uncertainty), page 129 (accounting policy) and page 140 (financial disclosures).	***Subjective estimate*** The Group has significant levels of inventory, which includes estimates to be made in relation to slow moving and obsolete inventory. The effect of these matters is that we determined that the net realisable value of inventory 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.	Our procedures also included: — **Our sector experience:** Assessed the appropriateness of the Group's inventory provisioning policies based on our understanding of the business and changes in the Group's merchandising strategy. — **Retrospective evaluation:** Critically assessed movements of the provision in the year to evaluate the historical accuracy of the inventory provision estimate. — **Re-performance:** Reperformed the provision calculations based on the Group's provisioning policy and for a sample of stock lines, agreed the categorisation of each line to underlying documentation. — **Expectation vs. outcome:** We formed our own expectation of the inventory provision using our own view of the key assumptions above and compared our expectation to the actual provision amount. This included consideration of historical experience, post yearend sales data and any changes in the Group's stock holding strategy. — **Test of detail:** Compared, by product, for a sample of inventory lines, inventory levels to sales data in the period leading up to the yearend to assess whether slow moving and obsolete inventories, had been appropriately identified and provided for by the Group based on the provisioning policy. — **Assessing transparency:** Assessed the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the net realisable value of inventories. 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. ***Our results:*** — We found the Group's assessment of the net realisable value of inventories to be acceptable (2021: acceptable).

Independent auditor's report continued

	The risk	*Our response*
Completeness, existence and accuracy of the stock counts for store inventory and accuracy of the costing calculations for all inventory (£33.1 million; 2021: £41.1 million) Refer to page 70 (Audit Committee Report), page 129 (accounting policy) and page 140 (financial disclosures).	***Physical quantities of store stock:*** Store inventory quantities held at the year end are determined by year end physical counts. Controls over the year end counts of store inventory are themselves manual in nature. Accordingly, given the high volume and broad range of inventory held there is a risk that quantities of store inventory could be incorrectly recorded. ***Calculation error:*** The inventory costing calculations across both store and warehouse stock are manual in nature. Given the high volume and broad range of inventory held there is a risk that cost could be incorrectly recorded.	Our procedures also included: — **Count design and attendance:** Assessed the design and implementation of the store count procedures through attendance at a sample of store inventory counts. — **Physical inspection:** Physical inspection of stock on a sample basis, through in-person attendance of a sample of store stock counts at year end. — **Test of details – Quantities:** Selected a sample of stock lines to assess whether the counted quantities agreed to the stock system and followed up on how variances (if any) within our sample were resolved. — **Analytical procedure:** 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. We 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. We performed the detailed tests above rather than seeking to rely on operating effectiveness of any of the Group's controls because our knowledge of these controls indicated that we would be unable to obtain the required evidence to support reliance on controls. ***Our results:*** — The results of our procedures were acceptable (2021: acceptable).

	The risk	*Our response*
Lockdown grants related to Covid-19 (£8.0 million Lockdown grant related income; 2021: £nil) Refer to page 71 (Audit Committee Report), page 123 (key sources of estimation uncertainty), page 126 (accounting policy) and page 132 (financial disclosures).	***Subjective estimate*** The Group have recognised £8.0 million in respect of lockdown grants related to Covid-19 but have received amounts in excess of this. These grants are subject to state aid caps and the external guidance around eligibility is evolving and complex. The effect of these matters is that we determined that the range of possible outcomes, with respect to the amounts the Group will be eligible to keep, exceeds our materiality for the financial statements as a whole.	Our procedures also included: — **Our sector experience:** Assessed Group's position against our interpretation of the available external guidance, with the assistance of our internal subject matter experts. — **Methodology implementation:** Critically assessed the calculation of possible outcomes and directors' point estimate to determine whether these aligned with the available external guidance. — **Re-performance:** Independently prepared our best estimate, through consultation with our internal subject matter experts using our interpretation of the guidance in place. — **Assessing transparency:** Assessed the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the amount for lockdown grants related to Covid-19 to be recognised in the financial statements. ***Our results:*** — We found the Group's assessment of the amounts recognised in respect of lockdown grants related to Covid-19 to be acceptable.

We continue to perform procedures over going concern. However, following the reopening of the store portfolio in the financial year and the refinancing agreed on 21 April 2022 which resulted in changes to the covenant arrangements in place we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year as a key audit matter.

Additionally, we continue to perform procedures over the recoverability of shop property, plant and equipment and right-of-use assets, however the improved performance in this financial year, following the reopening of the store portfolio, has removed the impairment trigger identified in the prior year. Consequently, we have not identified this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

Independent auditor's report continued

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 £2.3 million (2021: £2 million), determined with reference to a benchmark of Group profit before tax, normalised by averaging over the last five years (2021: averaging over last three years) mainly due to volatility caused by the Covid-19 pandemic. It represents 4.9% (2021: 5.0%).

Materiality for the parent Company financial statements as a whole was set at £1.4 million (2021: £1.4 million), determined with reference to a benchmark of parent Company total assets, of which it represents 0.4% (2021: 0.4%).

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% (2021: 75%) of materiality for the financial statements as a whole, which equates to £1.7 million (2021: £1.5 million) for the Group and £1.05 million (2021: £1.05 million) 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 £0.115 million (2021: £0.050 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 6 (2021: 6) reporting components, we subjected 4 (2021: 6) to full scope audits for Group purposes.

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

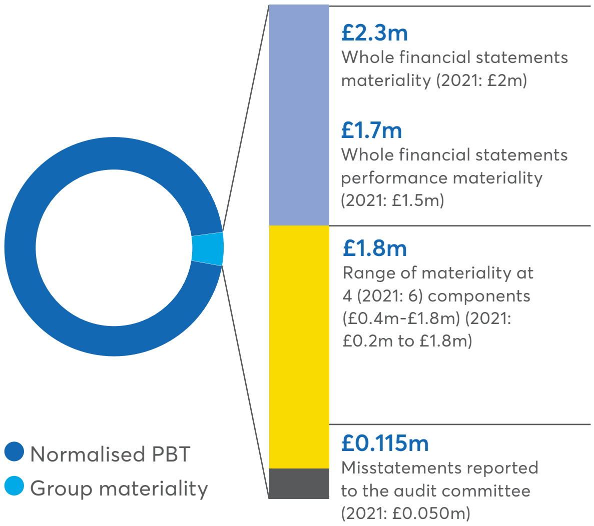
For the residual components in 2022, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

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.

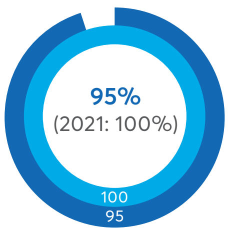
The scope of the audit work performed was predominately substantive as we placed limited reliance upon the Group's internal control over financial reporting.

Normalised Group profit before tax
£47.4m (2021: £40.4m)

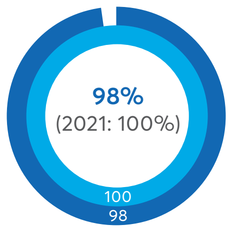
Group materiality
£2.3m (2021: £2m)



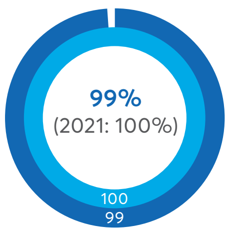
Group revenue



Total profits and losses that made up group profit before tax



Group total assets



- Full scope for group audit purposes 2022
- Full scope for group audit purposes 2021
- Residual components

4. We have nothing to report on going concern

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

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and parent Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and parent Company's available financial resources and metrics relevant to debt covenants over this period were:

- The impact of Covid-19 on the Group's ability to keep its store portfolio open and trading.

We considered whether this risk 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 thresholds indicated by the Group's financial forecasts taking account of severe, but plausible adverse effects that could arise from these risks individually and collectively.

Our procedures also included:

- Critically assessing assumptions in the directors' initial downside scenarios relevant to liquidity and covenant metrics, in particular in relation to Group's performance during previous Covid-19 lockdowns. We also compared past budgets to actual results to assess the directors' track record of budgeting accurately.
- 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 financing facility.

We considered whether the going concern disclosure in note 1 to the financial statements gives a full and accurate description of the directors' assessment of going concern, including the identified risks and dependencies.

Our conclusions based on this work:

- We consider that the directors' use of 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 no, a material uncertainty related to events or conditions that, individually or collectively, may cast doubt on the Group's or parent 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 doubt over the Group and parent Company's use of that basis for the going concern period, and we found the going concern disclosure in note 1 to be acceptable; and
- the related statement under the Listing Rules set out on page 102 to 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 parent 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, 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 and audit committee meeting minutes.
- Considering remuneration incentive schemes and performance targets for management and directors.
- Using analytical procedures to identify any unusual or unexpected relationships.
- 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, we perform procedures to address the risk of management override of controls, in particular the risk that Group and component management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates such as inventory provisions and lockdown grants related to Covid-19.

Further detail in respect of inventory provisions and lockdown grants related to Covid-19 are set out in the key audit matter disclosures in section 2 of the report.

On this audit, we do not believe there is a fraud risk related to revenue recognition because revenue transactions have low individual value with high volume, are routine and process driven and do not involve judgement or estimation. This reduces the opportunities for fraudulent activity.

We performed procedures including:

- Identifying journal entries and other adjustments to test for all full scope components, based on risk criteria and comparing the identified entries to supporting documentation. These included those posted with unusual account combinations (for cash and loans), rounded amounts to stock provision and rounded amounts to expenses close to year end.
- Assessing whether the judgements made in making accounting estimates are indicative of a potential 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, and through discussion with the directors and other management (as required by auditing standards) and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

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. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery and employment law recognising the nature of the Group's activities. 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. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach. 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 viability statement on pages 103 to 104 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 pages 103 to 104 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.

The Company is required to include these financial statements in an annual financial report prepared using the single electronic reporting formal specified in the TD ESEF Regulation. This auditor's report provides no assurance over whether the annual financial report has been prepared in accordance with that format.

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
3 May 2022

Consolidated income statement
For the year ended 31 January 2022

	Note	2022 £'m	2021 £'m
Revenue		**364.4**	285.1
Cost of sales		**(247.9)**	(205.7)
Gross profit		**116.5**	79.4
Other operating income	3	**8.0**	–
Operating expenses		**(92.9)**	(86.9)
Operating profit/(loss)	3	**31.6**	(7.5)
Finance expense	6	**(20.5)**	(8.9)
Profit/(loss) before tax		**11.1**	(16.4)
Taxation	7	**(3.0)**	2.8
Profit/(loss) for the year		**8.1**	(13.6)

	Note	2022 pence	2021 pence
Earnings per share			
– Basic and diluted	9	**2.4**	(4.0)

All activities relate to continuing operations.

Consolidated statement of comprehensive income
For the year ended 31 January 2022

	2022 £'m	2021 £'m
Profit/(loss) for the year	**8.1**	(13.6)
Items that may be recycled subsequently into profit or loss:		
Cash flow hedges – changes in fair value	**4.1**	(1.9)
Cost of hedging reserve – changes in fair value	**–**	(0.1)
Tax relating to components of other comprehensive income (note 13)	**(0.6)**	0.4
Other comprehensive income/(expense) for the period, net of income tax	**3.5**	(1.6)
Total comprehensive income/(expense) for the period attributable to equity shareholders of the parent	**11.6**	(15.2)

Consolidated statement of financial position
As at 31 January 2022

	Note	2022 £'m	2021 £'m
Non-current assets			
Intangible assets	10	**320.7**	320.3
Property, plant and equipment	11	**31.6**	36.8
Right of use assets	12	**98.5**	111.4
Deferred tax assets	13	**3.6**	5.3
Derivative financial instruments	24	**1.3**	–
		455.7	473.8
Current assets			
Inventories	14	**33.1**	36.4
Trade and other receivables	15	**8.1**	9.2
Tax receivable		**–**	0.5
Derivative financial instruments	24	**0.8**	0.1
Cash and cash equivalents	16	**38.3**	12.5
		80.3	58.7
Total assets		**536.0**	532.5
Current liabilities			
Borrowings	17	**(25.5)**	(0.2)
Lease liabilities	12	**(41.1)**	(39.4)
Trade and other payables	18	**(71.7)**	(57.4)
Provisions	22	**(12.2)**	–
Tax payable		**(1.5)**	–
Derivative financial instruments	24	**(0.2)**	(2.8)
		(152.2)	(99.8)
Non-current liabilities			
Borrowings	17	**(85.5)**	(118.8)
Lease liabilities	12	**(78.7)**	(105.5)
Derivative financial instruments	24	**–**	(1.9)
		(164.2)	(226.2)
Total liabilities		**(316.4)**	(326.0)
Net assets		**219.6**	206.5
Equity			
Share capital	19	**3.4**	3.4
Share premium	19	**202.2**	202.2
Hedging reserve		**1.3**	(3.1)
Cost of hedging reserve		**–**	0.4
Reverse acquisition reserve		**(0.5)**	(0.5)
Merger reserve		**2.7**	2.7
Retained earnings		**10.5**	1.4
Equity attributable to equity holders of the parent		**219.6**	206.5

The financial statements on pages 117 to 151 were approved by the Board of Directors on 2 May 2022 and were signed on its behalf by

Kris Lee
Chief Financial Officer

Consolidated statement of changes in equity

For the year ended 31 January 2022

	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 2020	3.4	202.2	(1.6)	1.1	(0.5)	2.7	14.2	221.5
Total comprehensive income for the period								
Profit or loss	–	–	–	–	–	–	(13.6)	(13.6)
Other comprehensive income	–	–	(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 8)	–	–	–	–	–	–	–	–
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
Total comprehensive expense for the period								
Profit or loss	–	–	–	–	–	–	8.1	8.1
Other comprehensive expense	–	–	3.3	–	–	–	0.2	3.5
	–	–	3.3	–	–	–	8.3	11.6
Hedging gains/(losses) and costs of hedging transferred to the cost of inventory	–	–	1.4	(0.5)	–	–	–	0.9
Deferred tax on transfers to inventory	–	–	(0.3)	0.1	–	–	–	(0.2)
Transactions with owners, recorded directly in equity								
Share-based payment charges (note 25)	–	–	–	–	–	–	0.8	0.8
Dividends (note 8)	–	–	–	–	–	–	–	–
Total contributions by and distributions to owners	–	–	–	–	–	–	0.8	0.8
At 31 January 2022	3.4	202.2	1.3	–	(0.5)	2.7	10.5	219.6

Consolidated cash flow statement
For the year ended 31 January 2022

	Note	2022 £'m	2021 £'m
Cash inflow from operating activities	20	**113.6**	79.9
Corporation tax paid		**0.1**	(6.3)
Net cash inflow from operating activities		**113.7**	73.6
Cash flows from investing activities			
Purchase of property, plant and equipment	11	**(3.6)**	(4.9)
Purchase of intangible assets	10	**(3.3)**	(2.6)
Proceeds from disposal of fixed assets		**–**	0.5
Net cash outflow from investing activities		**(6.9)**	(7.0)
Cash flows from financing activities			
Interest paid on bank borrowings		**(6.5)**	(5.0)
Proceeds from bank borrowings		**57.0**	–
Repayment of bank borrowings		**(65.0)**	(25.6)
Other financing costs paid		**(8.7)**	–
Payment of lease liabilities		**(54.5)**	(22.1)
Interest in respect of lease liabilities		**(3.3)**	(3.4)
Net cash outflow from financing activities		**(81.0)**	(56.1)
Net increase in cash and cash equivalents		**25.8**	10.5
Cash and cash equivalents at the beginning of the year		**12.5**	2.0
Closing cash and cash equivalents	16	**38.3**	12.5

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, Wakefield 41 Industrial Estate, Wakefield WF2 0XG.

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

Throughout these financial statements, references to 'FY22' refer to the financial year ending 31 January 2022, and references to 'FY21' refer to the financial year ending 31 January 2021.

Basis of preparation

These financial statements have been prepared in accordance with UK-adopted International Financial Reporting Standards ('UK IFRS') and applicable law.

The financial statements have been prepared on a going concern basis under the historical cost convention, except for certain assets and liabilities that are measured at fair value (principally derivative financial instruments).

Accounting judgements and estimates

The preparation of financial statements in conformity with UK IFRS requires judgement to be applied in forming the Group's accounting policies. It also requires the use of estimates and assumptions that affect the reported amount of assets, liabilities, income and expenses. Actual results may subsequently differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively in the period in which the estimate is revised.

The Group does not consider there to be any judgements made in the current period that have had a significant effect on the amounts recognised in the financial statements.

Key sources of estimation uncertainty

The key sources of estimation uncertainty, being those estimates and assumptions that carry the most significant risk of a material adjustment to the carrying amounts of assets and liabilities in the next financial year, are set out below.

Inventories

The Group holds significant volumes, and a broad range of inventory. The inventory provision is calculated in accordance with a documented policy, that is based on historical experience and the Group's 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 FY22, the total inventory provision was £20.6 million (FY21: £28.8 million), the decrease driven by global shipping constraints during FY22 resulting in more 'off-plan' stock than expected being sold through during the year. The overall proportion of gross inventory provided for remained broadly consistent with the prior year.

During the year, the Group reviewed its stock provisioning methodology and made changes to its policy. The purpose of these changes was to ensure alignment was maintained with the Group's updated stock management strategy and to adhere with the above principle of providing where it is anticipated the net realisable value of stock will be lower than the carrying amount. The most significant change as a result of this review arose from providing for stock lines where stock on hand exceeds the value the Group reasonably expects to sell, based on historical sales data and the Group's experience of customer preferences and trends. The total value of this element of the provision was approximately £3 million. In addition, where the Group expects to discontinue a particular line of stock, the updated policy gradually increases the level of provision applied to a particular stock line item as it approaches the discontinuation date, reflecting the increasing risk of stock obsolescence.

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 +/- £1.1 million.

Grant income

During the current financial year, the Group received financial assistance under various Government schemes intended to support businesses affected by local and national restrictions during the Covid-19 pandemic, including CJRS payments, business rates relief and lockdown grant payments. IAS 20 requires that the Group is reasonably certain of complying with the various conditions attached to Government grants before recognising the income in its financial statements.

Income received under the lockdown grant schemes is subject to conditions applied by the UK's subsidy control regime, in addition to the rules and conditions attached to each individual grant. The most material of these conditions relate to determining the eligible period for grant receipts and the calculation of the Group's 'uncovered fixed costs' in the eligible period, upon which the value of permitted relief is based. The nature of the grants received, and the unprecedented nature of the pandemic and the support mechanisms available, means the conditions and rules attached to each payment are complex and open to a degree of interpretation at the balance sheet date. Accordingly, the Group has had to make certain assumptions regarding which of the payments received it is reasonably certain to have met all of the conditions, and thus that the grants are unlikely to be repaid in a future period.

After making a provision for amounts the Group does not believe meet the above criteria (see note 22), the Group has recognised £8.0 million of other operating income in relation to such grants received (see note 3). The final value of income retained in relation to lockdown grants could be materially different, dependent upon final interpretation of the various scheme rules and conditions.

Other sources of estimation uncertainty

Impairment testing

An impairment review is conducted annually in respect of goodwill, and as required for other assets and cash-generating units ('CGUs') where an indicator of potential impairment exists. The carrying amounts of the assets involved and the level of estimation uncertainty inherent in determining appropriate assumptions for the calculation of the assets' recoverable amounts means impairment reviews are an area of significant management focus. However, whether that estimation uncertainty is significant to the financial statements is not known until the analysis is concluded. The Group generally considered the estimation uncertainty in impairment reviews to be significant if a reasonably possible change in the key assumptions would lead to a material change in the accounting outcome.

In FY22, an impairment assessment has been conducted in respect of the Card Factory business, which represents an aggregation of CGUs to which the Group's goodwill balance is allocated.

In addition, reflecting the impact of the Covid-19 pandemic and the expectation of future cost headwinds affecting the store estate, the Group conducted a store-level impairment review specifically covering right-of-use assets and property, plant and equipment insofar as directly allocable to stores.

The Group assessed the recoverable amount of both the Card Factory business and each individual store on a value in use basis, using consistent assumptions across both reviews, with estimates of future cash flows derived from forecasts included within the Group's approved budget. The assessment of future cash flows that underpin such impairment reviews inherently require the use of estimates, notably in respect of future revenues, operating costs, terminal growth rates, foreign currency exchange rates, discount rates and specific assumptions regarding likely recovery from the Covid-19 impacted trading environment.

The results of the impairment tests are set out in note 10 (goodwill) and note 12 (stores). The goodwill analysis had significant headroom and accordingly, having undertaken scenario analysis on the key assumptions, the Group does not believe there are any reasonably possible changes in those key assumptions that would lead to an impairment.

The Group booked an impairment charge in respect of stores of £5.0 million. Having considered scenarios consistent with those reviewed in respect of goodwill impairment testing, the Group is satisfied that reasonable changes in the key assumptions would not materially change the impairment charge for stores.

1 Accounting policies *continued*

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.

Over the course of the current and previous year, the Group has been materially affected by the Covid-19 pandemic, with stores forced to close for approximately eight months during that two-year period and revenues and trading results adversely affected as a result. Through a strong focus on cash management, de-levering the business and with support from Government (including the Coronavirus Job Retention Scheme ('CJRS'), business rates relief and lockdown grant payments) and its wider stakeholders the Group has emerged from this period with a robust balance sheet and a platform to execute its future strategy.

Trading since the end of lockdown, and since the balance sheet date, has been in line with expectations, with LFL sales in certain periods returning to pre-pandemic levels.

The Group renewed its financing facilities with its banking partners in April 2022, reducing the quantum of the Group's term loan facilities to £150 million and extending the tenure of the Group's debt to September 2025 (see notes 17 and 29). The first repayments under these facilities fall due in January 2023, with full repayment of the Coronavirus Large Business Interruption Loan Scheme ('CLBILS') facilities by September 2023. The Board believes the renewed facilities provide adequate liquidity and headroom for the Group to execute its strategic plan. At 31 January 2022, net debt excluding lease liabilities was £74.2 million.

The Group has prepared cash flow forecasts for the 12 months following the date of approval of these accounts which incorporate the updated debt facilities 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 cash flows 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, with negative overall LFL sales forecast in FY23 when compared to FY20. These forecasts indicate that the Group would have significant headroom within its agreed financing arrangements, 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 including repayment of borrowings in line with the terms of the new facility agreements.

Whilst the current outlook is positive, the pandemic is not over. Accordingly, the Group has 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. The Group's assumptions regarding trading in lockdown periods and the impact on fixed and variable overheads was based on the Group's actual experience in FY21 and FY22 and included assumptions regarding the availability of government support, particularly in respect of salary costs and business rates, on a basis consistent with the support received during previous lockdowns. The projections did not assume any further lockdown grant income, nor additional discretionary cost savings.

In all cases, the scenario analysis indicated that, whilst the impact would be severe, the Group would meet the covenant thresholds in its financing facilities and maintain sufficient liquidity to meet its liabilities as they fall due.

The Group also modelled more extreme scenarios, beyond those considered plausible. The analysis demonstrated that the Group had additional headroom in its forecasts and the existence of further mitigations that could be taken, if required.

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

The following new standards and amendments to IFRS were effective for the first time in the current financial year:

- Amendment to IFRS 16 – Covid-19-related rent concessions.
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest rate benchmark reform phase 2.

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

In addition, during 2021, the IFRS Interpretations Committee finalised its agenda decision regarding accounting for the costs of implementation and configuration for software purchased under 'Software as a Service' ('SaaS') arrangements. Having reviewed its software arrangements during the year, the Group concluded that the prevalence of SaaS arrangements was immaterial and no changes in accounting policy were required in order to comply with the agenda decision and accordingly the agenda decision has not had an impact on the Group's financial statements.

UK endorsed standards and amendments issued but not yet effective
The following new standards and amendments to IFRS have been issued but are not yet effective or yet to be endorsed by the UK Endorsement Board.

- Amendment to IFRS 16 – Covid-19-related rent concessions beyond 30 June 2021[1]
- Amendments to IFRS 3 – References to the conceptual framework[1,3]
- Amendments to IAS 16 – Proceeds before intended use[1,3]
- Amendments to IAS 37 – Onerous contracts – cost of fulfilling a contract[1,3]
- Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 – Annual improvements to IFRS standards 2018-2020 cycle[1,3]
- IFRS 17 – Insurance Contracts[2,3]
- Amendments to IFRS 17 – Initial application of IFRS 17 and IFRS 9 – comparative information[2,3]
- Amendments to IFRS 4 – Extension to the temporary exemption from applying IFRS 9[2]
- Amendments to IAS 1 – Classification of liabilities as current or non-current[2,3]
- Amendments to IAS 12 – Deferred tax related to assets and liabilities arising from a single transaction[2,3]

1 Effective for annual periods starting on or after 1 January 2022.
2 Effective for annual periods starting on or after 1 January 2023.
3 Not yet endorsed in the UK.

The application of these standards and amendments in future periods is not currently expected to have a material impact on the Group's financial statements.

Basis of consolidation
These consolidated financial statements incorporate the financial results of the Company and all of its subsidiaries made up to 31 January each year.

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 have historically been accounted for by applying the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group, as set out in IFRS 3.

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

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

1 Accounting policies *continued*

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

Income associated with Government support initiatives is 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. If costs have already been incurred, the grant income is recognised immediately at the point the above criteria are met.

Government support received by the Group in the current and previous year principally reflect amounts received under Covid-19 support initiatives, including the CJRS, business rates relief, and various other grants available to non-essential retailers that were forced to close during periods of local and national lockdown (collectively referred to in these financial statements as 'lockdown grants'). When considering its entitlement to grant income, the Group has considered the extent to which the amount received is within the limits imposed by relevant state aid and subsidy control rules.

Employee costs and business rates charges in the income statement are presented net of CJRS support and rates relief received respectively. Grant income received in relation to Covid-19 lockdown grants is presented separately as other operating income.

Where the Group has received income in connection with government grants but does not believe it will comply with all of the attached conditions, a provision is made for the Group's best estimate of amounts that will be repaid.

In addition, during the current year the Group was able to access financing facilities under the CLBILS. The CLBILS facilities are backed by a government guarantee. As this guarantee cannot reasonably have a value placed upon it, the Group considers the guarantee a form of government assistance under IAS 20. The Group has accounted for its CLBILS facilities in accordance with its usual policy for bank borrowings, described below under 'non-derivative financial liabilities'. The key terms of the CLBILS facilities are described in note 17.

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
The Group has currency transactions in respect of inventory purchases and certain sales to retail partners that are denominated in US Dollars. Transactions in foreign currencies are recorded at the exchange rate on the transaction date. 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.

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.

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.

1 Accounting policies *continued*

Derivative financial instruments *continued*

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.

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 CGUs 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 IAS 38 '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.

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.

Provisions are made for obsolete, slow-moving and discontinued inventories, based on experience and the Group's merchandising plans for current and future seasons.

Share capital

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

Merger reserve

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

Share-based payments

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

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

1 Accounting policies continued

Leases

Definition of a lease

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

The Group has assessed that its entire store lease portfolio, some warehousing locations, an office location and motor vehicles are 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 any significant lessor contracts.

Accounting as a lessee

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

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

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

The Group determines its incremental borrowing rate by reference to its own funding arrangements, which are subject to leverage margin ratchets, variable three-month SONIA 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 or renew. This period usually equates to the full term of the lease.

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.

From time to time, a lease may expire without a new lease being agreed. In such circumstances, if the Group has not served or received notice under the terms of the lease, it may continue to occupy the store whilst a new lease is agreed, referred to as a 'holdover arrangement'. Most of the store portfolio is protected by the Landlord and Tenant Act (1954), under which as tenant the Group has an automatic right to a new lease subject to certain specific grounds under which the landlord can cancel. Under a holdover arrangement, the lease typically continues on a rolling basis on the same financial terms as the previous lease until new terms are formally agreed. The Group accounts for holdover arrangements by assuming a new five-year lease with payments equivalent to those previously agreed. Five years represents the average term of a lease across the Group's store portfolio, inclusive of break periods considered reasonably likely not to be exercised. In rare circumstances, the holdover lease may be calculated using alternative assumptions that better reflect the Group's expectations regarding the likely cost and term of the new lease being negotiated. When new terms are agreed, the holdover lease is modified according to the Group's normal accounting policy for lease modifications, as described above.

Where a lease expires at the end of its contractual term, including where the store in question enters a holdover arrangement, the right-of-use asset cost and accumulated depreciation associated with that lease is treated as a disposal.

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 third-party retail partners. Getting Personal is an online retailer of personalised cards and gifts. The accounting policies applied in preparing financial information for each of the Group's segments are consistent with those applied in the preparation of the consolidated financial statements. The information reviewed by the Board is consolidated, except that revenue is shown separately for each segment.

Revenue for each segment, and a reconciliation to consolidated revenue, is provided in the table below:

	2022 £'m	2021 £'m
Card Factory revenue	**351.5**	268.6
Getting Personal revenue	**12.9**	16.5
Consolidated revenue	**364.4**	285.1
Of which derived from customers in the UK	**357.5**	277.6
Of which derived from customers overseas	**6.9**	7.5

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 c.£5.6 million in the year (2021: £6.6 million). Revenue from overseas reflects revenues earned from the Group's stores in the Republic of Ireland and retail partners based outside the UK.

Of the Group's non-current assets, £2.1 million relates to assets based outside of the UK, principally in relation to the Group's stores in the Republic of Ireland.

3 Operating profit/(loss)

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

	2022 £'m	2021 £'m
Staff costs (note 5)	**113.8**	90.9
Government grant income	**(8.0)**	–
Depreciation expense		
– owned fixed assets (note 11)	**8.8**	9.2
– right of use assets (note 12)	**37.4**	39.9
Amortisation expense (note 10)	**2.9**	1.6
Impairment of right-of-use assets (note 12)	**5.0**	2.6
Profit on disposal of fixed assets	**–**	–
Foreign exchange gain	**2.6**	(0.3)

3 Operating profit/(loss) *continued*

Government grants and Covid-19 support

During the 2022 and 2021 financial years, the Group has received government-backed financial support in the form of payments under the CJRS, business rates relief and income from lockdown grants.

The operating profit for 2022 includes c.£9.4 million (2021: c.£31.4 million) in respect of payments received under CJRS, £8.0 million (2021: £nil) of lockdown grant income, and c.£13.1 million (2021: c.£18.1 million) retail business rates relief. These values are stated net of provisions made where the Group expects to make repayments of amounts received in excess of the value the Group reasonably believes it is entitled to retain (see note 22).

Under the CJRS, grant income was claimed in respect of certain costs to the Group of furloughed employees. Staff costs above is stated net of CJRS support received.

Business rates relief for the Group's entire store portfolio commenced 1 April 2020, with no business rates payable in respect of retail locations until 1 July 2021, at which point retail locations in England received a 66% discount on the total rates bill with no rates payable in the rest of the UK. Property costs, included in cost of sales (where related to the store portfolio) and operating expenses (where related to administrative buildings) in the income statement, are presented net of business rates relief received.

Lockdown grant income is presented separately in the income statement as other operating income, and reflects the value of payments received in respect of lockdown grants, where the Group has reasonable assurance that it will comply with the conditions attached to the grants. Further detail in respect of the estimates and assumptions made in calculating the values recognised is provided in note 1.

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

	2022 £'000	2021 £'000
Audit of the consolidated and Company financial statements	**30**	34
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the Company	**340**	340
Audit-related assurance services	**45**	25
Other assurance services	**288**	–
Total fees	**703**	399

Other assurance services provided in the year were in respect of assurance services in connection with the Group's financial statements for transactions that did not proceed. The appointment of KPMG LLP to provide such services was made in accordance with the Group's policy on external auditors supplying non-audit services.

4 EBITDA

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

	2022 £'m	2021 £'m
Operating profit/(loss)	**31.6**	(7.5)
Depreciation, amortisation and impairment	**54.0**	53.3
EBITDA	**85.6**	45.8

5 Employee numbers and costs

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

	2022 Number	2021 Number
Management and administration	**434**	425
Operations	**8,736**	9,322
	9,170	9,747

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

	2022 £'m	2021 £'m
Employee wages and salaries	**99.8**	78.0
Equity-settled share-based payment expense	**0.8**	0.8
Social security costs	**6.5**	5.9
Defined contribution pension costs	**1.5**	1.3
Total employee costs	**108.6**	86.0
Agency labour costs	**5.2**	4.9
Total staff costs	**113.8**	90.9

Total employee costs are presented net of £9.4 million (2021: £31.4 million) recovered through the CJRS.

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:

	2022 £'m	2021 £'m
Salaries and short-term benefits	**4.4**	4.4
Equity-settled share-based payment expense	**0.6**	0.7
Social security costs	**0.6**	0.6
Defined contribution pension costs	**0.1**	0.1
	5.7	5.8

Remuneration of Directors

	2022 £'m	2021 £'m
Directors' remuneration	**1.8**	1.4
Amounts receivable under long-term incentive schemes	**0.1**	0.1
Company contributions to defined contribution pension plans	**–**	–
	1.9	1.5

The table above includes the remuneration of Directors in each year. Further details of the remuneration of the current directors are disclosed in the Directors' Remuneration Report on pages 74 to 97.

6 Finance expense

	2022 £'m	2021 £'m
Finance expense		
Interest on bank loans and overdrafts	**6.8**	5.1
Amortisation of loan issue costs	**10.4**	0.4
Lease interest	**3.3**	3.4
	20.5	8.9

Amortisation of loan issue costs includes £1.2 million in relation to the Group's previous financing facilities where amortisation was accelerated following the refinancing in May 2021, in addition to amounts relating to the debt facilities agreed in May 2021, and costs incurred associated with alternative financing options that ultimately did not complete. See note 17 for further details.

7 Taxation

The tax charge includes both current and deferred tax. The tax charge reflects the estimated effective tax on the profit before tax for the Group for the year ending 31 January 2022 and the movement in the deferred tax balance in the year, so far as it relates to items recognised in the income statement.

Taxable profit or loss differs from profit or loss before tax as reported in the income statement, because it excludes items of income or expenditure that are either taxable or deductible in other years or never taxable or deductible.

Recognised in the income statement

	2022 £'m	2021 £'m
Current tax charge/(credit)		
Current year	1.2	(0.8)
Adjustments in respect of prior periods	0.8	0.1
	2.0	(0.7)
Deferred tax charge/(credit)		
Origination and reversal of temporary differences	1.2	(1.9)
Adjustments in respect of prior periods	(0.7)	0.1
Effect of change in tax rate	0.5	(0.3)
	1.0	(2.1)
Total income tax charge/(credit)	3.0	(2.8)

The effective tax rate of 27.0% (2021: 17.1% credit) on the profit (2021: loss) before taxation for the year is higher than (2021: lower than) the average rate of mainstream corporation tax in the UK of 19% (2021: 19%). The higher effective tax rate is principally due to the effect of changes in future tax rates (see note 13).

The tax charge is reconciled to the standard rate of UK corporation tax as follows:

	2022 £'m	2021 £'m
Profit/(loss) before tax	11.1	(16.4)
Tax at the standard UK corporation tax rate of 19.0% (2021: 19.0%)		
Tax effects of:	2.1	(3.1)
Expenses not deductible for tax purposes	0.3	0.4
Adjustments in respect of prior periods	0.1	0.2
Effect of change in tax rate	0.5	(0.3)
Total income tax charge/(credit)	3.0	(2.8)

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

	2022			2021		
	Current £'m	Deferred £'m	Total £'m	Current £'m	Deferred £'m	Total £'m
Income statement	2.0	1.0	3.0	(0.7)	(2.1)	(2.8)
Other comprehensive income	–	0.6	0.6	–	(0.4)	(0.4)
Equity	–	0.2	0.2	–	(0.1)	(0.1)
Total tax	2.0	1.8	3.8	(0.7)	(2.6)	(3.3)

8 Dividends

There were no dividends paid in either the current or the previous year. The Board is not recommending a final dividend in respect of the financial year ended 31 January 2022 (2021: no final dividend).

Whilst the Group's CLBILS and term loan facilities, as drawn at 31 January 2022, remain outstanding (see note 17), the Group is prohibited from making distributions.

9 Earnings per share

Basic earnings per share is calculated by dividing the profit/(loss) 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.

	2022 (Number)	2021 (Number)
Weighted average number of shares in issue	**341,770,579**	341,626,396
Weighted average number of dilutive share options	**1,843,537**	128,446
Weighted average number of shares for diluted earnings per share	**343,614,116**	341,754,842

	£'m	£'m
Profit/(loss) for the financial period	**8.1**	(13.6)

	pence	pence
Basic earnings per share	**2.4**	(4.0)
Diluted earnings per share	**2.4**	(4.0)

10 Intangible assets

	Goodwill £'m	Software £'m	Total £'m
Cost			
At 1 February 2021	328.2	13.7	341.9
Additions	–	3.3	3.3
Disposals	–	–	–
At 31 January 2022	**328.2**	**17.0**	**345.2**
Amortisation/impairment			
At 1 February 2021	14.4	7.2	21.6
Amortisation in the period	–	2.9	2.9
Amortisation on disposals	–	–	–
At 31 January 2022	**14.4**	**10.1**	**24.5**
Net book value			
At 31 January 2022	**313.8**	**6.9**	**320.7**
At 31 January 2021	313.8	6.5	320.3

Notes to the financial statements continued

10 Intangible assets continued

	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
Impairment in the period	–	(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

Impairment testing

Goodwill arising on the acquisition of Getting Personal in 2011 of £14.4 million is allocated to the Getting Personal CGU, which corresponds to the Getting Personal operating segment (see note 2). Goodwill in respect of the Getting Personal CGU was fully written down in 2020.

All remaining goodwill is in respect of the Card Factory business, which is comprised of all of the Card Factory stores (each an individual CGU for impairment testing purposes), associated central functions and shared assets. Card Factory is the lowest level at which the Group's management monitors goodwill internally, and also corresponds with the Card Factory operating segment disclosed in note 2.

The total carrying amount of the Card Factory CGU, inclusive of liabilities that are necessarily considered in determining the recoverable amount of the CGU, at 31 January 2022 was £295.0 million. The recoverable amount of the Card Factory CGU has been determined based on a value-in-use calculation. This value-in-use calculation is based on the Group's most recent approved five-year plan with a 0% (2021: 0%) terminal growth rate applied thereafter, representing management's estimate of the long-term growth rate of the sector. The analysis does 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 forward curves for unhedged items, the Group's current expectations in relation to operational costs; and the wider macro-economic factors affecting the Group's trading environment. The values assigned to each of these assumptions were determined based on historical performance and expected future trends.

The forecast cash flows are discounted at a pre-tax rate of 12.0% (2021: 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 valuation indicates sufficient headroom such that any reasonably possible change to key assumptions would not result in an impairment of the related goodwill.

11 Property, plant and equipment

	Freehold property £'m	Leasehold improvements £'m	Plant, equipment, fixtures & vehicles £'m	Total £'m
Cost				
At 1 February 2021	17.8	40.2	67.6	125.6
Additions	0.1	0.7	2.8	3.6
Disposals	–	(0.1)	(0.1)	(0.2)
At 31 January 2022	**17.9**	**40.8**	**70.3**	**129.0**
Depreciation				
At 1 February 2021	3.9	34.8	50.1	88.8
Depreciation in the period	0.5	2.6	5.7	8.8
Depreciation on disposals	–	(0.1)	(0.1)	(0.2)
At 31 January 2022	**4.4**	**37.3**	**55.7**	**97.4**
Net book value				
At 31 January 2022	**13.5**	**3.5**	**14.6**	**31.6**
At 31 January 2021	13.9	5.4	17.5	36.8

	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
Provided 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

Notes to the financial statements *continued*

12 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 2021	316.3	1.6	317.9
Additions	29.7	0.1	29.8
Disposals	(45.2)	(0.4)	(45.6)
Effect of foreign exchange rates	(0.2)	–	(0.2)
At 31 January 2022	***300.6***	***1.3***	***301.9***
Depreciation and impairment			
At 1 February 2021	205.7	0.8	206.5
Depreciation in the period	37.0	0.4	37.4
Impairment in the period	5.0	–	5.0
Depreciation on disposals	(44.3)	(0.3)	(44.6)
Impairment on disposals	(0.8)	–	(0.8)
Effect of foreign exchange rates	(0.1)	–	(0.1)
At 31 January 2022	***202.5***	***0.9***	***203.4***
Net book value			
At 31 January 2022	***98.1***	***0.4***	***98.5***
At 31 January 2021	110.6	0.8	111.4

	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

Disposals and depreciation on disposals includes fully depreciated right-of-use assets where the lease term has expired, including amounts in respect of leases that have expired but the asset remained in use whilst a new lease was negotiated. The Group's full accounting policy in respect of leases and right-of-use assets is set out in note 1.

Reflecting the impact of Covid-19 on the Group's store portfolio and the expectation of future cost headwinds in the Group's strategic plan, both of which were considered to be an indicator of potential impairment, an impairment review of the Group's store assets was undertaken in the 2022 financial year. For this purpose, each of the Group's stores is considered to be a CGU, with each store's carrying amount determined by assessing the value of right-of-use assets and property, plant and equipment insofar as they are directly allocable to an individual store. The recoverable amount of each store was determined based on the expected future cash flows applicable to each store, assessed using a basis consistent with the future cash flows used in the goodwill impairment test described in note 10. As a result, the key assumptions are also considered to be consistent with those described in note 10, in addition to the allocation of central and shared costs to individual stores. Application of these assumptions resulted in an impairment charge of £5.0 million (2021: £2.6 million). Having conducted scenario analysis, the Group does not consider any reasonably possible change in the key assumptions would result in a material change to the impairment charge.

Lease liabilities

	2022 £'m	2021 £'m
Current lease liabilities	(41.1)	(39.4)
Non-current lease liabilities	(78.7)	(105.5)
Total lease liabilities (note 22)	(119.8)	(144.9)

Rent concessions agreed across FY21 and FY22 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 IFRS 16 in respect of Covid-19 concessions, lease liabilities have not been remeasured in respect of Covid-19 concessions except to the extent the rent concession was agreed as part of a lease renewal or extension.

Lease expense:

Total lease related expenses	2022 £'m	2021 £'m
Depreciation expense on right-of-use assets	37.4	39.9
Impairment of right-of-use assets	5.0	2.6
Profit on disposal of fixed assets	–	(0.3)
Lease interest	3.3	3.4
Expense relating to short-term and low value leases[1]	–	0.6
Expense relating to variable lease payments[2]	0.2	–
Total lease related income statement expense	45.9	46.2

1 Contracts subject to the election not to apply the requirements of IFRS 16 to short-term or low value leases.
2 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.

13 Deferred tax assets and liabilities

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of an asset or liability in the financial statements and the corresponding tax bases used in the computation of taxable profit/loss.

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 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
Charge 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
Credit/(charge) to income statement	0.5	0.2	–	(1.4)	0.5	(0.8)	(1.0)
Credit/(charge) to other comprehensive income	–	0.2	(0.8)	–	–	–	(0.6)
Charge to equity	–	–	(0.2)	–	–	–	(0.2)
At 31 January 2022	**0.8**	**0.5**	**(0.3)**	**–**	**2.2**	**0.4**	**3.6**

Notes to the financial statements continued

13 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 do so, otherwise they are shown separately in the balance sheet.

Deferred tax assets and liabilities are offset as follows:

	2022 £'m	2021 £'m
Deferred tax assets	**3.9**	5.3
Deferred tax liabilities	**(0.3)**	–
Net deferred tax asset	**3.6**	5.3

In 2016, changes in corporation tax rates were enacted which reduced the mainstream corporation tax rate to 17% with effect from 1 April 2020. Prior to 1 April 2020, the mainstream corporation tax rate was 19%. In 2020, the reduction in the mainstream corporation tax rate to 17% was cancelled, and the tax rate has remained unchanged at 19% since. Deferred tax balances at 31 January 2022 were measured with a tax rate of 19%.

The Finance Act 2021 contains legislation to increase the mainstream corporation tax rate from 19% to 25% with effect from 1 April 2023. This increase in tax rate has now been substantively enacted. The Group has therefore remeasured the deferred tax assets and liabilities at this higher rate of tax where these are expected to be realised or settled on or after 1 April 2024. For those deferred tax assets and liabilities that are expected to be realised or settled on or after 1 April 2023, a hybrid rate of 24% has been used as a basis upon which remeasurement has taken place.

14 Inventories

	2022 £'m	2021 £'m
Finished goods	**32.7**	35.9
Work in progress	**0.4**	0.5
	33.1	36.4

Inventories are stated net of provisions totalling £20.7 million (2021: £28.9 million). The value of inventories written down in the period was £11.6 million (2021: £18.1 million).

The cost of inventories recognised as an expense and charged to cost of sales in the year, net of movements in provisions, was £121.6 million (2021: £107.1 million).

15 Trade and other receivables

	2022 £'m	2021 £'m
Current		
Trade receivables	**3.0**	1.6
Other receivables	**–**	5.6
Prepaid property costs	**2.3**	–
Other prepayments and accrued income	**2.8**	2.0
	8.1	9.2

The Group has net US Dollar denominated trade and other receivables of £1.0 million (2021: £1.0 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 generated revenue of £5.6 million (2021: £6.6 million) in the year. No significant impairment loss has been recorded against trade receivables.

Other receivables in the prior year principally reflected amounts receivable under the CJRS.

16 Cash and cash equivalents

	2022 £'m	2021 £'m
Cash at bank and in hand	**38.3**	12.5
Bank overdraft (note 17)	**–**	–
Net cash and cash equivalents	**38.3**	12.5

Group cash and cash equivalents held in bank accounts within the Revolving Credit Facility ('RCF') facility described in note 17 are subject to a netting arrangement.

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

	2022 £'m	2021 £'m
Sterling	**21.5**	1.1
Euro	**1.4**	0.4
US Dollar	**15.4**	11.0
	38.3	12.5

17 Borrowings

	2022 £'m	2021 £'m
Current liabilities		
Bank loans and accrued interest	**25.5**	0.2
Bank overdraft	**–**	–
	25.5	0.2
Non-current liabilities		
Bank loans	**85.5**	118.8

Bank loans

Bank borrowings as at 31 January 2022 are summarised as follows:

	Liability £'m	Interest rate %	Interest margin ratchet range %	
31 January 2022				
Secured term loans	67.2	4.50 + SONIA	–	Interest rate increases 1.00% every six months
Secured CLBILs	44.8	See note.	–	
Secured revolving credit facility	–	4.50 + SONIA	2.75 - 4.50	Total facility size = £100 million
Accrued interest	0.5			
Debt issue costs	(1.5)			
	111.0			
31 January 2021				
Unsecured revolving credit facility	120.0	2.5 + LIBOR	1.00 - 2.50	Total facility size = £200 million
Accrued interest	0.2			
Debt issue costs	(1.2)			
	119.0			

On 21 May 2021, the Group concluded a refinancing of its borrowing facilities with its banking syndicate. The revised facilities comprised a £75 million Term Loan, £50 million CLBILS loan, and a RCF of £100 million. The facilities introduced security via fixed and floating charges over certain of the Group's assets.

17 Borrowings *continued*

The Term Loan interest rate margin was 4.5% over SONIA, increasing at 1% every six months until fully repaid. The CLBILS facilities attract interest rates of between 3.1% and 3.75% over SONIA or the Bank of England Base Rate. The RCF, when drawn, was subject to an interest rate ratchet of between 2.75% and 4.5% over SONIA based upon the Group's leverage position.

The Group drew down the Term Loan and CLBILS facility in full at the commencement date. The RCF was drawn during the period to support liquidity when needed; however these drawings have been repaid and the RCF is undrawn at the balance sheet date. The full RCF remains available to draw on if required.

All of the revised facilities were due to expire on 24 September 2023, with the Term Loan and CLBILS facilities subject to a defined repayment schedule, which commenced on 31 January 2022. Total repayments in respect of the Term Loan and CLBILS facilities during FY22 were £13 million, which included an additional prepayment of £8 million in accordance with the facility terms over and above the defined schedule.

At the balance sheet date, the Group remained subject to two financial covenants, tested quarterly from March 2022, in relation to leverage (ratio of net debt to EBITDA) and interest cover (ratio of interest and rent costs to EBITDA). Covenant thresholds were phased to return to 2.5x leverage and 2.0x interest cover by January 2023. In addition, the terms of the CLBILS facilities prevent the Group from making any distributions to shareholders whilst the CLBILS remain outstanding.

Debt issue costs in respect of the May 2021 refinancing totalled £6.7 million and included £5.0 million of deferred fees that were contingent upon prepayments being made by November 2021. The value of debt issue costs remaining deferred on the balance sheet at 31 January reflected the Group's expectation that a further refinancing would conclude in the first quarter of FY23. In addition, during FY22, the Group incurred £2.5 million of costs in respect of financing transactions that did not complete.

Subsequent to the balance sheet date, on 21 April 2022, the Group concluded a further refinancing of its bank facilities which reduced the quantum and extended the tenure of the facilities, alongside changes to the covenant terms. See note 29 for further details.

Contractual cash flows of financial liabilities as at the year-end date are disclosed in note 24.

18 Trade and other payables

	2022 £'m	2021 £'m
Current		
Trade payables	**31.1**	11.1
Other taxation and social security	**4.6**	19.3
Contract liabilities	**2.4**	0.9
Property accruals	**4.9**	6.0
Other accruals and deferred income	**28.7**	20.1
	71.7	57.4

The Group has net US Dollar denominated trade and other payables of £8.5 million (2021: £5.2 million).

19 Share capital and share premium

	2022 (Number)	2021 (Number)
Share capital		
Allotted, called up and fully paid ordinary shares of one pence:		
At the start of the period	341,626,396	341,626,396
Issued in the period (note 25)	251,945	–
At the end of the period	341,878,341	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

20 Notes to the cash flow statement

Reconciliation of operating profit to cash generated from operations:

	2022 £'m	2021 £'m
Profit before tax	11.1	(16.4)
Net finance expense	20.5	8.9
Operating profit	31.6	(7.5)
Adjusted for:		
Depreciation and amortisation	49.1	50.7
Impairment of right-of-use assets	5.0	2.6
Cash flow hedging foreign currency movements	(1.4)	(0.1)
Share-based payments charge	0.8	0.8
Operating cash flows before changes in working capital	85.1	46.5
Decrease/(increase) in receivables	1.1	2.2
Decrease in inventories	3.3	18.0
Increase/(decrease) in payables	11.9	13.2
Movement in provisions	12.2	–
Cash inflow from operating activities	113.6	79.9

Notes to the financial statements continued

21 Analysis of net debt

	At 1 February 2021 £'m	Cash flow £'m	Non-cash changes £'m	***At 31 January 2022 £'m***
Secured bank loans and accrued interest (note 17)	(119.0)	8.0	–	***(111.0)***
Lease liabilities	(144.9)	57.8	(32.7)	***(119.8)***
Total debt	(263.9)	65.8	(32.7)	***(230.8)***
Add: debt costs capitalised	(1.2)	(8.7)	8.4	***(1.5)***
Less: cash and cash equivalents (note 16)	12.5	25.8	–	***38.3***
Net debt	(252.6)	82.9	(24.3)	***(194.0)***
Lease liabilities	144.9	(57.8)	32.7	***119.8***
Net debt excluding lease liabilities	(107.7)	25.1	8.4	***(74.2)***

	At 1 February 2020 £'m	Cash flow £'m	Non-cash changes £'m	At 31 January 2021 £'m
Unsecured bank loans and accrued interest (note 17)	(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)
Add: debt costs capitalised	(1.0)	(0.6)	0.4	(1.2)
Less: cash and cash equivalents (note 16)	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)

22 Provisions

	Covid-19-related support £'m	Total £'m
At 1 February 2020, 31 January 2021 and 1 February 2022	–	–
Provisions made during the year	12.2	12.2
At 31 January 2022	***12.2***	***12.2***

Covid-19-related support provisions reflect amounts received under one-off schemes designed to provide support to businesses affected by Covid-19 restrictions, including lockdown grants and CJRS, in excess of the value the Group reasonably believes it is entitled to retain under the terms and conditions of those schemes. The provisions have been estimated based on the Group's interpretation of the terms and conditions of the respective schemes and, where applicable, independent professional advice. However, the actual amount that will be repaid is not certain (see page 123).

The Group is taking steps to confirm amounts repayable and settle its positions. This exercise is expected to conclude within the next financial year.

23 Financial risk management

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

The Board have overall responsibility for managing risks and uncertainties across the Group. The principal financial risks and uncertainties and the actions taken to mitigate them are reviewed on an ongoing basis. Further details of the Group's approach to managing risk are included in the Principal Risks and Uncertainties section of the Strategic Report on pages 38 to 41 and in the Corporate Governance Report on pages 58 to 67.

Liquidity risk

Despite the impact of Covid-19 on trading and profitability across FY21 and FY22, the Group has continued to generate significant operating 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 21) of £74.2 million (2021: £107.7 million) and an undrawn RCF facility of £100 million (see note 17).

On 21 May 2021 the Group renewed its financing facilities with its banking partners, which at that point comprised a £75 million Term Loan, £50 million CLBILS and a RCF of £100 million. Under revised covenant terms, the Group had to achieve defined Net Debt and EBITDA targets, measured on a monthly basis until March 2022, following which the business moved to quarterly covenant tests of Interest Cover and Leverage. Covenant thresholds were phased to return to 2.5x leverage and 2x interest cover by January 2023. The facilities had an expiry date of 24 September 2023 (unchanged from the previous arrangement).

The facilities were structured to incentivise an early reduction of overall debt with fees of up to £5 million payable if pre-payments were not made in line with specified dates from 30 November 2021 through until 30 July 2022.

Subsequent to the balance sheet date, on 21 April 2022, the Group agreed a further renewal of its financing facilities, which extended the term of the facilities and introduced a new amortising repayment schedule. See note 29 for further details.

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.

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. Where amounts are not yet fixed, principally in respect of interest payments linked to SONIA in the Group's bank facilities, the values have been determined with reference to forward curves at the balance sheet date.

	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 2022					
Bank loans	**31.7**	**88.9**	**–**	**–**	**120.6**
Lease liabilities	**46.8**	**32.0**	**44.7**	**6.7**	**130.2**
Trade and other payables	**71.7**	**–**	**–**	**–**	**71.7**
	150.2	**120.9**	**44.7**	**6.7**	**322.5**
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

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 2022					
Foreign exchange contracts					
– Inflow	**60.4**	**37.3**	**–**	**–**	**97.7**
– Outflow	**(59.7)**	**(36.4)**	**–**	**–**	**(96.1)**
Interest rate contracts					
– Inflow	**0.4**	**0.6**	**–**	**–**	**1.0**
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)

Notes to the financial statements continued

23 Financial risk management continued

Foreign currency risk

A significant proportion of the Group's retail products are procured from overseas suppliers with purchases denominated in US Dollars. The Group has an established currency hedging policy which aims to mitigate the risk of adverse currency movements whilst providing sufficient flexibility and available credit lines to act when markets are volatile.

The Group's policy requires forward cover, using a combination of currency on hand, expected receipts and derivative contracts, of between 50% and 100% of the next 12 months' rolling forecast US Dollar requirements, 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 continued 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. 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.

	2022		2021	
	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	**(1.2)**	**(5.3)**	(2.5)	(3.7)
10 cent decrease	**1.6**	**6.3**	3.1	4.4

Interest rate risk

The Group's principal interest rate risk arises from its long-term borrowings. Bank borrowings are denominated in Sterling and are borrowed at floating interest rates. The Group has an established policy that permits the use of 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, 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.

	2022		2021	
	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	**(0.3)**	**0.3**	(0.2)	0.6
50 basis point interest rate decrease	**0.3**	**(0.3)**	0.2	(0.7)

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 have historically been maintained at near zero or overdrawn within the facility to minimise interest expense on the RCF, thereby reducing counterparty credit risk on cash balances. However; during FY22 cash balances have increased, reflecting the Group's aim to deleverage the business during the Covid-19 pandemic.

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 in prepayments.

Credit risk in respect of trade receivables on revenues from retail partners and non-retail customers, and other receivables and prepayments, is not significant to the Group. Revenues from retail partners and non-retail customers represented c.£4.6 million in the year and trade receivables at 31 January 2022 were £1.4 million (2021: £1.6 million). Total trade and other receivables at 31 January 2022 are £8.1 million (FY21: £9.2 million). 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 management policy is to maintain a capital structure that is conservative yet efficient in terms of providing long-term returns to shareholders. The Board monitors the Group's capital structure principally through reviewing leverage – the ratio of net debt (excluding lease liabilities) to EBITDA. The Group's long-term target is to maintain a leverage policy of between 0.5 to 1.5 times.

The Group defines capital as equity attributable to the equity holders of the parent plus net debt. Net debt is shown in note 21.

Following the impact of Covid-19, the Group has prioritised de-levering the business and protecting liquidity to ensure it can continue to meet the needs of all stakeholders in the longer term. Alongside the restrictions imposed by the Group's CLBILS facility (see note 17), this has resulted in no distributions to shareholders being made during FY21 and FY22.

Whilst the CLBILs remain outstanding, the Group is prohibited from making distributions. Following the refinancing of the Group's facilities in April 2022, the remaining CLBILs facilities are due to be repaid over the period to September 2023. Therefore, the Board envisages the earliest point for dividend payments to be considered will be the end of FY24. Providing leverage remains within the range above, it is the Board's intention to pay annual ordinary dividends based on a targeted dividend cover of between 2.0 and 3.0 times the Group's consolidated post-tax profit.

Details on Group borrowings and new funding arrangements agreed after the balance sheet date are set out in notes 17 and 29 of the consolidated 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. Further detail regarding covenant restrictions and liquidity forecasts are provided on pages 102 to 104, 124 and 151.

24 Financial instruments

Fair value

IFRS 13 requires categorisation of the Group's financial instruments, where measured at fair value, in accordance with the fair value hierarchy to illustrate the basis upon which the fair value has been determined:

- Level 1: fair value measurements are derived from quoted prices in active markets for identical assets or liabilities;
- Level 2: fair value measurements are based on 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: fair value measurements derived from valuation techniques that use inputs that are not based on observable market data (unobservable inputs).

The fair value of the Group's foreign currency and interest rate derivative financial instruments are largely determined by comparison between forward market prices and the contract price; therefore, these contracts are categorised as Level 2.

Notes to the financial statements *continued*

24 Financial instruments *continued*

Derivative financial instruments

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

	2022 £'m	2021 £'m
Derivative assets		
Non-current		
Interest rate contracts	0.3	–
Foreign exchange contracts	1.0	–
	1.3	–
Current		
Interest rate contracts	0.2	
Foreign exchange contracts	0.6	0.1
	0.8	0.1
Derivative liabilities		
Current		
Interest rate contracts	–	(0.7)
Foreign exchange contracts	(0.2)	(2.1)
	(0.2)	(2.8)
Non-current		
Interest rate contracts	–	(0.6)
Foreign exchange contracts	–	(1.3)
	–	(1.9)
Net derivative financial instruments		
Interest rate contracts	0.5	(1.3)
Foreign exchange contracts	1.4	(3.3)
	1.9	(4.6)

Interest rate contracts

At 31 January 2022 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 £60.0 million for the period to October 2022 then reducing to £40 million for the period to October 2023 (2021: £80.0 million for the period to October 2021, reducing to £60.0 million for the period to October 2022 then reducing to £30.0 million for the period to October 2023). Unhedged fair value movements of £nil (2021: £nil) were expensed to the income statement within financial expense.

Foreign exchange contracts

At 31 January 2022 the Group held a portfolio of foreign currency derivative contracts with notional principal amounts totalling £97.7 million (2021: £105.7 million) to mitigate the exchange risk on future US Dollar denominated trade purchases. Foreign currency derivative contracts with a notional value of £23.1 million representing a fair value asset of £0.1 million (2021: £46.6 million representing a fair value liability of £1.2 million) were not designated as hedging relationships. Fair value movements in foreign currency derivatives are recognised in other comprehensive income to the extent the contract is part of an effective hedging relationship. The fair value movements of £1.3 million that do not form part of an effective hedging relationship have been charged to the income statement (2021: £1.2 million) within cost of sales.

Classification of financial instruments

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

At 31 January 2022	Mandatorily at FVTPL £'m	Cash flow hedging instruments £'m	Financial assets at amortised cost £'m	Other financial liabilities £'m
Financial assets measured at fair value				
Derivative financial instruments	0.1	2.0	–	–
Financial assets not measured at fair value				
Trade and other receivables	–	–	8.1	–
Cash and cash equivalents	–	–	38.3	–
Financial liabilities measured at fair value				
Derivative financial instruments	–	(0.2)	–	–
Financial liabilities not measured at fair value				
Secured bank loans	–	–	–	(111.0)
Trade and other payables	–	–	–	(71.7)
	0.1	1.8	46.4	(182.7)

At 31 January 2021	£'m	£'m	£'m	£'m
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)

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 ('RSAs') to the Executive Directors, members of the senior management team and senior employees within the Group under the terms of the Group's 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 are to 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 74 to 97.

25 Equity-settled share-based payment arrangements continued

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 2020	1,921,256	£0.01	1,037,266	£1.80
Granted during the year	2,618,058	£0.01	3,648,970	£0.27
Exercised during the year	–	£0.01	–	–
Forfeited during the year	(858,239)	£0.01	(724,827)	£1.72
Outstanding at 31 January 2021	**3,681,075**	**£0.01**	**3,961,409**	**£0.40**
Granted during the year	**1,911,815**	**£0.01**	**1,499,150**	**£0.29**
Exercised during the year	**(239,943)**	**£0.01**	**(12,002)**	**£0.27**
Forfeited during the year	**(903,945)**	**£0.01**	**(1,324,356)**	**£0.48**
Outstanding at 31 January 2022	**4,449,002**	**£0.01**	**4,124,201**	**£0.37**

At 31 January 2022 there were 2,459 options remaining exercisable at £1.61 under the SAYE scheme which lapsed on 1 April 2021.

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.

	2022		2021		
	RSA/LTIP (1)*	SAYE	RSA/LTIP (1)*	RSA/LTIP (2)	SAYE
Granted during the year	**1,911,815**	**1,499,150**	304,356	2,313,702	3,648,970
Fair value at grant date	**£0.68**	**£0.29**	£0.79	£0.35	£0.10
Share price at grant date**	**£0.68**	**£0.61**	£0.79	£0.35	£0.35
Exercise price**	**£0.01**	**£0.54**	£0.01	£0.01	£0.27
Expected volatility	**66%**	**67%**	40%	60%	60%
Expected term (years)	**3 to 5**	**3**	2	3 to 5	3
Expected dividend yield	**N/A*** **	**0%**	N/A***	N/A***	10%
Risk free interest rate	**0.16%**	**0.16%**	0.30%	0.00%	0.00%

* In the prior year, a special share award was granted on 28 February 2020 to certain senior employees vesting after two years.

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

*** RSA/LTIP awards have a £nil exercise price and accrue dividend equivalents over the vesting period, consequently the fair value at grant date is equal to the grant date share price.

The expected volatility is based on historical volatility of the Company over the expected term at the grant date.

Impact on the income statement

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

All amounts exclude national insurance costs	2022 £'m	2021 £'m
RSA or LTIP	**0.6**	0.7
SAYE	**0.2**	0.1
Total share-based payment expense	**0.8**	0.8

26 Capital commitments

There were no material capital commitments at 31 January 2022 (2021: £0.8 million).

27 Contingent liabilities

There were no material contingent liabilities at 31 January 2022 (2021: £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.

A full listing of the Group's subsidiary undertakings is provided in the notes to the Company accounts on page 157.

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 5 of the financial statements. Further details of Directors' remuneration are set out in the Directors' Remuneration Report on pages 74 to 97. 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 Subsequent events

Refinancing

On 21 April 2022, the Group agreed an updated and amended financing package with its banking partners, which reduced the quantum and extended the term of the Group's facilities.

The revised facilities comprise term loans of £30 million, CLBILS of £20 million and a RCF of £100 million. The aggregate value of the Group's facilities therefore reduced to £150 million. The CLBILs facilities are subject to an amortising repayment profile, with final maturity in September 2023. The term loans are subject to an amortising repayment profile with final maturity in September 2025. The RCF final maturity is in September 2025.

The interest rate attached to the CLBILs facilities is unchanged. The term loans will attract a fixed margin of 500bps and the RCF margin remains based on a ratchet between 275 and 450bps dependent upon the Group's leverage position.

The covenant package attached to the facilities remains based on quarterly tests of interest cover and leverage, tested quarterly. The Group must maintain interest cover of 1.5x to 31 October 2023 and 1.75x thereafter, and maintain leverage of below 3.75x to 31 October 2022, 3.0x to 31 October 2023, and 2.5x thereafter. The requirement for the Group to use best efforts to raise £70 million of equity proceeds to pay down debt has been removed.

Parent Company statement of financial position
As at 31 January 2022

	Note	2022 £'m	2021 £'m
Non-current assets			
Investments	4	**316.2**	316.2
Deferred tax assets		**0.5**	0.3
		316.7	316.5
Current assets			
Trade and other receivables	5	**2.5**	2.0
Total assets		**319.2**	318.5
Current liabilities			
Trade and other payables	6	**(4.2)**	(3.5)
Net assets		**315.0**	315.0
Equity			
Share capital	7	**3.4**	3.4
Share premium	7	**202.2**	202.2
Merger reserve		**2.7**	2.7
Retained earnings		**106.7**	106.7
Equity attributable to equity holders of the parent		**315.0**	315.0

The financial statements on pages 152 to 159 were approved by the Board of Directors on 2 May 2022 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 2022

	Share capital £'m	Share premium £'m	Merger reserve £'m	Retained earnings £'m	Total equity £'m
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	–	–	–	0.8	0.8
At 31 January 2021	3.4	202.2	2.7	106.7	315.0
Total comprehensive income for the year					
Profit or loss	–	–	–	(0.8)	(0.8)
Transactions with owners, recorded directly in equity					
Share-based payments	–	–	–	0.8	0.8
At 31 January 2022	**3.4**	**202.2**	**2.7**	**106.7**	**315.0**

The notes that accompany these financial statements are included on pages 155 to 159.

Parent Company cash flow statement
For the year ended 31 January 2022

	Note	2022 £'m	2021 £'m
Cash (outflow)/inflow from operating activities	10	–	–
Corporation tax paid		–	–
Net cash (outflow)/inflow from operating activities		–	–
Cash flows from investing activities		–	–
Dividends received		–	–
Net cash inflow from investing activities		–	–
Cash flows from financing activities		–	–
Dividends paid	3	–	–
Net cash outflow from financing activities		–	–
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 155 to 159.

Notes to the Parent Company financial statements

1 Accounting policies

Basis of preparation

These financial statements have been prepared in accordance with UK-adopted International Financial Reporting Standards ('UK IFRS') and applicable law.

The financial statements have been prepared under the historical cost convention and on the going concern basis. The Directors' assessment of going concern is set out on page 124 of the consolidated financial statements.

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.

Changes in significant accounting policies

New standards and amendments to existing standards effective in the period, which are set out in full on page 124 of the consolidated financial statements, have not had a material effect on the Company's financial statements.

UK endorsed standards and amendments issued but not yet effective

A full list of standards and amendments that are in issue but not yet effective is provided on page 125 of the consolidated financial statements.

The adoption of these standards and amendments in future periods is not expected to have a material impact on the Company's financial statements.

Income statement

The Company made a loss after tax of £0.8 million for the year ended 31 January 2022 (2021: £1.3 million loss), including £nil dividends received from subsidiary undertakings (2021: £nil). 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.

Notes to the Parent Company financial statements *continued*

1 Accounting policies *continued*

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 of the consolidated financial statements 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 74 to 97.

3 Dividends

No dividends were paid during either the current or the previous financial year. The Board is not recommending a final dividend in respect of the financial year ended 31 January 2022 (2021: no final dividend).

4 Investments in subsidiaries

	£'m
At 31 January 2021 and 31 January 2022	**316.2**

The market capitalisation of the Group at 31 January 2022 was below the Company's investment in subsidiaries. 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.

The key assumptions and sensitivity to those assumptions are consistent with those described in note 10 to the consolidated financial statements.

Subsidiary undertakings

At 31 January 2022 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.

Notes to the Parent Company financial statements *continued*

5 Trade and other receivables

	2022 £'m	2021 £'m
Amounts owed by Group undertakings	1.9	1.8
VAT recoverable	0.1	0.2
Prepayments and other debtors	0.5	–
	2.5	2.0

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

	2022 £'m	2021 £'m
Amounts owed to Group undertakings	2.9	3.0
Trade payables	1.0	0.2
Accruals	0.3	0.3
	4.2	3.5

7 Share capital and share premium

	2022 (Number)	2021 (Number)
Share capital		
Allotted, called up and fully paid ordinary shares of one pence:		
At the start of the period	341,626,396	341,626,396
Shares issued in the year	251,945	–
At the end of the period	341,878,341	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

The company has only one class of shares, which are ordinary shares of 1 pence each, carrying no right to a fixed income. No shareholders have waived their rights to dividends.

During the 2022 financial year, 251,945 shares (2021: nil shares) were issued in satisfaction of options vesting in accordance with the rules of the Group's employee share schemes. Full details in respect of the Group's employee share schemes, including remaining options outstanding, are included in note 25 to the consolidated financial statements.

8 Financial risk management

The financial risk management strategy of the Company is consistent with the Group strategy detailed in note 23 of the consolidated 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.

9 Financial instruments

Classification of financial instruments.

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

10 Notes to the cash flow statement

	2022 £'m	2021 £'m
(Loss)/profit before tax	(1.2)	(1.6)
Dividends received	–	–
Operating loss	(1.2)	(1.6)
Adjusted for:		
Share-based payment charge	0.2	0.3
Operating cash flows before changes in working capital	(1.0)	(1.3)
Decrease/(increase) in receivables	0.3	(0.5)
Increase in payables	0.7	1.8
Cash inflow/(outflow) from operating activities	–	–

11 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:

	2022 £'m	2021 £'m
Management services	1.1	1.4
Dividends received from Group undertakings	–	–
Inter-company working capital cash flows from Group undertakings	1.1	1.4

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 74 to 97. Directors of the Company control 0.02% of the ordinary shares of the Company.

Glossary

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

Introduction

In the reporting of the financial statements, the Directors have adopted various 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 performance and position of the Group and are intended to aid the user in understanding the Group's results.

The APMs presented in the Annual Report and Accounts are consistent with measures used internally by the Board and management for performance analysis, planning, reporting and incentive setting purposes.

Definitions of the APMs used in this report are as follows:

'EBITDA' is earnings before interest, tax, depreciation, amortisation and impairment charges. Earnings is equivalent to profit after tax calculated in accordance with IFRS and each adjusting item is calculated in accordance with the relevant IFRS. A reconciliation of EBITDA to profit after tax is provided in note 3 to the consolidated financial statements. The Group uses EBITDA as a measure of trading performance, as it usually closely correlates to the Group's operating cash generation.

'Leverage' is the ratio of Net Debt to EBITDA for the previous 12 months. The Group monitors and reports leverage as a key measure of its financing position and performance. Leverage is also a key covenant defined within the Group's financing facilities. A calculation of Leverage (both inclusive and exclusive of lease liabilities) is provided in the financial review on page 36 of this report.

'Like-for-like' or 'LFL' calculates the growth or decline in sales in the current period versus a prior comparative period, excluding any sales earned from new stores opened in the current period (or since the comparative period. Throughout this report, LFLs for Card Factory stores are two-year LFLs to FY20 (as the last full year of trading prior to Covid-related closure restrictions) and exclude any periods where stores were forced to close.

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;
- '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;
- 'Online': like-for-like sales for Card Factory Online and Getting Personal combined.

Sales by Printcraft, the Group's printing division, to external third-party customers are excluded from any LFL sales measure.

'Net Debt' is calculated by subtracting the Group's cash and cash equivalents from its borrowings. Net debt is a key measure of the Group's balance sheet strength, and is also a covenant in the Group's financing facilities. The Group presents net debt both inclusive and exclusive of lease liabilities, but focusses upon the value exclusive of lease liabilities, which is consistent with the calculation used for covenant purposes.

'Percentage Movements' have been calculated before figures were rounded to £0.1 million.

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

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