Card Factory

Card Factory plc Annual Report and Accounts 2015

Company Overview

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

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

The Group operates through its nationwide chain of over 750 Card Factory stores, as well as through its online offerings: www.gettingpersonal.co.uk (which sells personalised cards and gifts) and www.cardfactory.co.uk (which sells a selection of the products available in Card Factory stores).

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

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

Over the last 10 years Card Factory has developed a vertically integrated business model with an in-house design team, an in-house printing facility and central warehousing capacity of over 360,000 sq. ft. This model differentiates the Group from its competitors by significantly reducing external costs and adding value to customers in terms of both price and quality.

FINANCIAL HIGHLIGHTS

GROUP REVENUE
£353.3m Increase of +8.1%

NET NEW STORE OPENINGS
51 Total store estate 764

LIKE-FOR-LIKE STORE SALES[1]
+1.8% Positive LFLs every year since formation

GETTING PERSONAL REVENUE
£15.5m Increase of 23.1%

UNDERLYING EBITDA[2]
£88.2m Increase of +9.6%

UNDERLYING EBITDA MARGIN
25.0% Increase of 0.4 ppts

STATUTORY PROFIT BEFORE TAX[3]
£42.7m FY14: £30.1m

LEVERAGE
1.17x Reduction from 2.0x at IPO[4]

Notes
1. See definition on page 8.
2. As defined in note 5 to the financial statements on page 88.
3. Reflects pre-IPO financing charges and non-underlying expenses principally relating to charges associated with the IPO and senior debt refinancing.
4. Calculated on a proforma basis.

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"Compare the quality, compare the price"

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Market Overview

The revenue generated from the physical store network represents c95% of Group revenue and can be analysed into three principal areas: single cards, non-card items and Christmas box cards.

The Group's online offering (not included in the figures below) is currently principally focused on the complementary personalised gifts segment where limited reliable market data is available.

	SHARE OF FY15 REVENUE[1]	ESTIMATED TOTAL UK MARKET VALUE	ESTIMATED CARD FACTORY VALUE SHARE[2]
SINGLE GREETING CARDS	57.9%	£1.3 billion	c 17%
NON-CARD ITEMS	39.9%	£1-2 billion	Less than 10%
CHRISTMAS BOX CARDS	2.2%	£0.1 billion	Less than 10%
TOTAL	100.0%	£2.4-3.4 billion	

1. **Excludes online**
2. **Source: OC&C for calendar year 2013**

SINGLE CARDS

Single cards comprise individual cards for everyday occasions (eg birthdays, anniversaries, weddings, thank you, get well soon, good luck, congratulations, sympathy and new baby cards) and seasonal occasions (eg Christmas, Mother's Day, Father's Day, Valentine's Day and Easter). Within the singles segment, approximately 3% by volume relates to personalised physical cards sold online, with an element of personalisation as part of the purchase (eg to add the recipient's name or a photograph).

NON-CARD

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

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

CHRISTMAS BOX CARDS

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

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

Card purchasing is occasion-driven, focused around key events (eg birthdays, anniversaries and seasons such as Christmas). A person's age and stage of life are major drivers of their propensity to purchase greeting cards, with purchasing levels significantly higher in older consumers and those with families.

Market research suggests that card purchasing behaviour is broadly stable within generations which, with both a growing and ageing UK population, is expected to help support future card purchasing levels in the UK.

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

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

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

This small segment is expected to continue to decline in the medium term.

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

- **SPECIALIST CHAINS:** destination locations for greeting cards (eg Card Factory, Clintons, Hallmark, Paperchase and Cards Galore);
- **GROCERS:** primarily capture convenience and distressed purchases (eg ASDA, Tesco and Sainsbury's); and
- **OTHERS:** including generalists (eg WH Smith and M&S), online operators (eg Moonpig, Funky Pigeon), stationers, discount chains (eg Poundland, Home Bargains and Wilkinsons), the Post Office and hundreds of small independent retailers.

Other sector participants can compete on either price or quality but not both as highlighted by various extensive pieces of market research undertaken by the Group. This competitive advantage is highlighted by the following consumer research from OC&C which demonstrates the scale of differentiation in Card Factory's clear and distinctive value proposition.

CONSUMER PERCEPTION

Source: OC&C March 2015

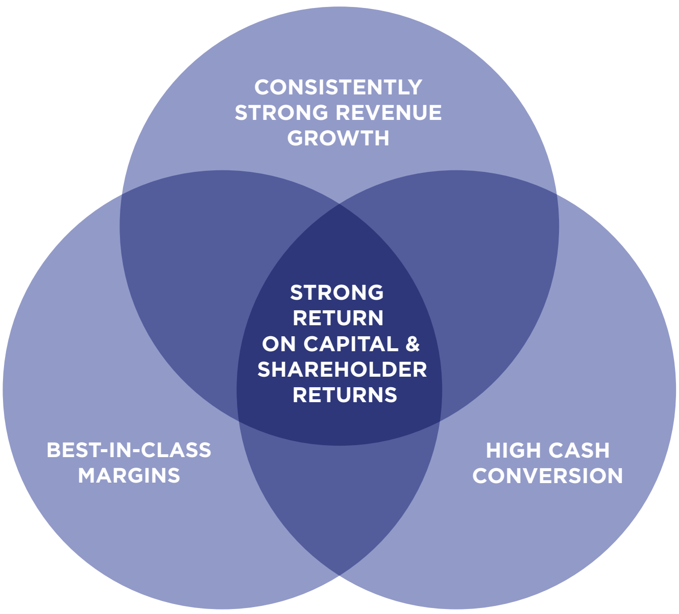
Business Model

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

The Group has developed and strengthened this model over the past decade, investing over £50m in the process and building significant management expertise in all of these specialist areas, beyond the traditional retail operations.

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

"Compare the quality, compare the price"



1997
FIRST STORE OPENED IN WAKEFIELD, YORKSHIRE

2003
WAREHOUSE AND DISTRIBUTION FACILITY ACQUIRED

2005
ACQUIRED DESIGN STUDIO

2009
ACQUIRED PRINTCRAFT

2011
ACQUIRED GETTING PERSONAL
PRINTCRAFT RELOCATED AND EXPANDED

2012
LAUNCHED CARD FACTORY TRANSACTIONAL WEBSITE

2013
NEW HEAD OFFICE OPENED

2014
FLOTATION ON THE LONDON STOCK EXCHANGE

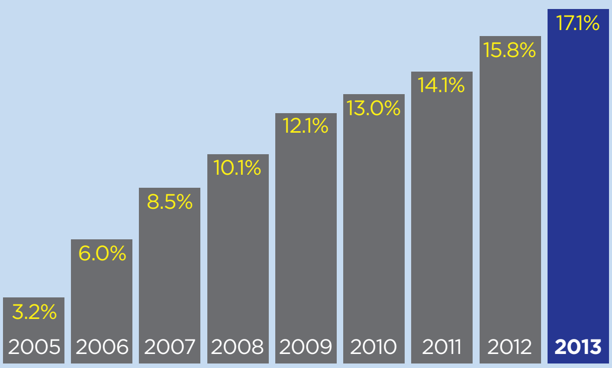
KEY COMPETITIVE STRENGTHS

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

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

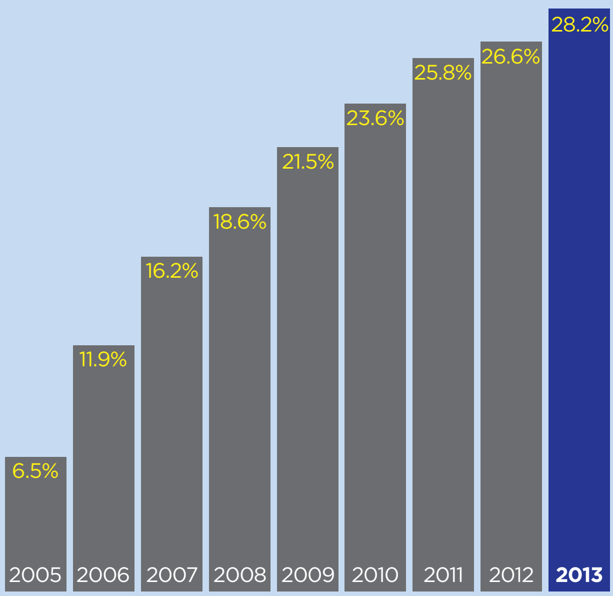
Card Factory has consistently and significantly grown its share of the UK greetings card market since formation in 1997. As the charts below highlight, this is particularly apparent in the period from 2005, the year the Group acquired a design studio and commenced the journey of vertical integration. Based on the latest available market data from OC&C for the 2013 calendar year, Card Factory is the market leader in terms of both value (17.1%) and volume (28.2%):

UK CARD MARKET VALUE SHARE



Source: OC&C March 2015

UK CARD MARKET VOLUME SHARE



Source: OC&C March 2015

Business Model continued

DESIGN

- Strong team built gradually over a 10 year period, now designing almost all Card Factory store products
- Broad skill set including illustrators, verse writers, packaging specialists, editorial, technical constructors and designers
- Typically redesign over 4,000 cards and hundreds of non-card items each year
- Extensive database of thousands of creative designs, captions and verses

SOURCING

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

PRINTING

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

WAREHOUSING

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

DISTRIBUTION

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

STORE NETWORK

- Nationwide network of over 750 stores, principally built from individual openings rather than acquisition
- High quality estate – less than 1% of portfolio loss-making at store contribution level
- Versatile, high returns model operating successfully in a wide range of locations and demographic areas
- Detailed target location database supports estimated total estate of up to 1,200 stores in the UK and Republic of Ireland

MERCHANDISING

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

ONLINE

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

Our Four Pillar Strategy

LIKE-FOR-LIKE SALES GROWTH

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

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

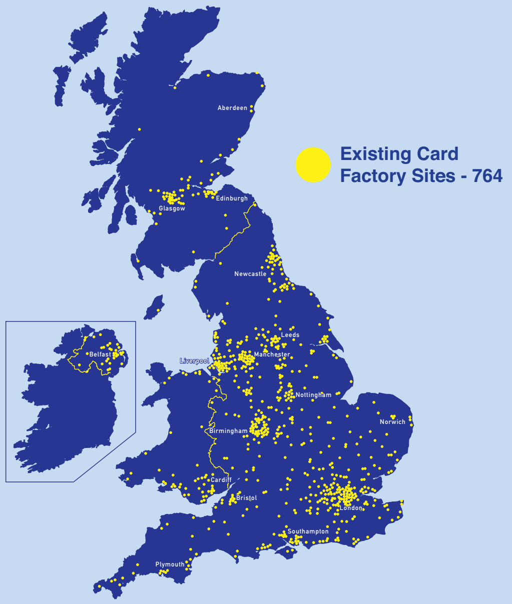
The Group also expects to benefit from ongoing revenue growth as recent store openings continue to grow their share of the local market in line with the typical store maturity curve of four to six years. At the point of maturity, annual sales in individual stores are typically 30% to 40% higher than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

Like-for-like definition
The Group defines like-for-like sales as the year-on-year growth in sales for Card Factory stores which have been opened for a full year, calculated on a calendar week basis. As such, this reported like-for-like sales figure excludes sales:

- relating to Card Factory stores that have not yet been open for a full 52 weeks;
- from the Card Factory transactional website, www.cardfactory.co.uk;
- made via the separately branded personalised card and gift website, Getting Personal, www.gettingpersonal.co.uk;
- by Printcraft, the Group's printing division, to external third-party customers; and
- from stores closed for all or part of the relevant period (or the prior year comparable period).

NEW STORE ROLL OUT

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



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

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

BUSINESS EFFICIENCIES

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

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

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

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

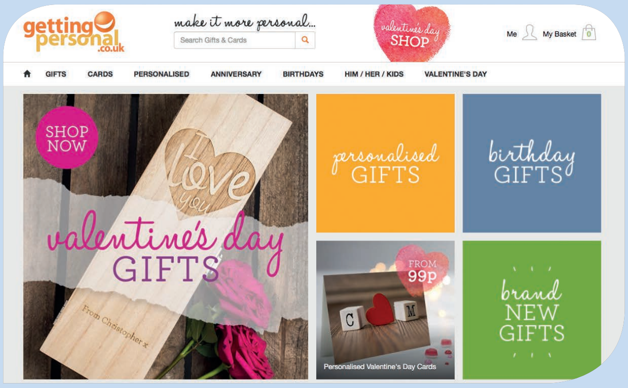
Over the past five years, in anticipation of planned long-term growth, the Group has invested heavily in its infrastructure, including:

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

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

ONLINE DEVELOPMENT

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



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

While the personalised online segment of the greeting cards market remains small, according to OC&C representing just 6% of the total greeting cards market, by value, and 3%, by volume, in 2013, the segment is projected by OC&C to grow at a CAGR of 10% per annum, by value, during the period to 2020.

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

The Group also offers a selection of non-personalised cards, dressings and gifts on the Card Factory transactional website www.cardfactory.co.uk. The Directors plan to grow the offering from its current relatively small base, albeit it is expected that this will remain a relatively small proportion of total Group sales.

Chairman's Statement

"The Group continues to generate best-in-class margins and excellent free cashflow"

Geoff Cooper
Chairman

Card Factory achieved an important milestone in 2014 with its successful listing on the London Stock Exchange in May, followed by inclusion in the FTSE 250 in September. These were significant steps for a business only formed in 1997.

Throughout this past year, and despite the inevitable distractions that an IPO can bring, the Group continued to deliver its successful strategy, focused on four pillars of growth:

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

Our management team is well-established and has a strong track record of consistent delivery against each of these strategic priorities. As a consequence, Card Factory has further enhanced its status as the UK's market-leading specialist retailer of greeting cards, dressings and gifts, and is building an increased online presence through its relatively young but fast growing, online operations.

The Group continues to generate best-in-class margins and excellent free cashflow, benefiting significantly from its unique vertically integrated business model. Given this continuing strong performance, the Board is recommending a total dividend of 6.8p per share, giving a dividend cover of 2.5x based on adjusted proforma earnings, comprising an interim dividend of 2.3p per share together with a final dividend of 4.5p per share. As indicated at the time of the IPO, we are paying a dividend for the full 2015 financial year, as opposed to for the period since IPO.

The Board has also considered further the capital structure of the Group and continues to recognise the benefits of financial leverage, whilst also wanting to ensure sufficient flexibility to invest in the growth of the business. Over the medium term, the Board expects to maintain a leverage ratio broadly in the range of 1.0 to 2.0 times net debt to underlying EBITDA. To the extent there is surplus capital within the business, having considered investment opportunities and other cash requirements, the Board expects to return that capital to shareholders.

Overall the Group has performed in line with the Board's expectations at the time of listing. As we approach our first anniversary as a public company, I am confident that this track record of success will continue in the years ahead.

Geoff Cooper
Chairman

24 March 2015


TO MY SPECIAL
Husband
HAPPY BIRTHDAY
GRANDAD
Being
FORTY
40
HAPPY
BIRTHDAY
MUM
FOR YOU
MEGA
BIG
BIRTHDAY
TODAY


La Rose
COLLECTION
HOME, happiness
& LOVE
are always where
YOU are
£1.99
£2.49
£2.99


The
candle
factory


To my special
Girlfriend
TO MY SPECIAL
Husband
HAPPY BIRTHDAY
£1.29
PERFECT
Especially
for
BEST FRIENDS
SUPER DAD
Notebook

Chief Executive Officer's Review

"Our strong value proposition, underpinned by our unique vertically integrated model, remains highly differentiated"

Richard Hayes
Chief Executive Officer

OVERVIEW

Card Factory has had another record year, generating strong growth in both revenues and profits, as well as successfully completing the initial public offering of the Company.

As set out in the IPO prospectus, the Group intends to continue with its successful and proven strategy to further enhance its status as the UK's market-leading specialist retailer of greeting cards, dressings and gifts.

Our strategy is to maintain the Group's clearly differentiated value proposition, focusing on four pillars of growth. Good progress has been made with each of these:

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

The Group has a strong track record of consistently delivering like-for-like sales growth whilst maintaining our core value proposition. This is highlighted by the performance in the past five financial years with annual like-for-like sales growth ranging from +1.4% to +3.2%, and averaging +2.5%. The Board continues to target medium term like-for-like sales in line with this five year historic average.

A number of factors have contributed to this consistent like-for-like performance, including the introduction of various new merchandising initiatives; continuous improvements to the overall product quality and ranges for both card and non-card products; and further market share gains as stores mature. Our best-in-class Design Studio, established almost a decade ago and now comprising a team of some fifty strong, is an important contributor to a number of these factors and to the continued success of the Group as a whole.

In FY15, Card Factory's like-for-like store sales grew by +1.8% despite a strong prior year comparative of +3.1%. This growth remained within the recent historic range but was slightly below the five year historic average reflecting a number of factors in the second half of the year, including higher than normal levels of promotional activity from established competitors, our own investment in localised pricing strategies, and the continuing decline of the relatively small, lower margin Christmas box card segment.

2. Continue to roll out profitable new stores

In addition to growth in like-for-like sales from existing stores, the Group's established new store roll out programme remains an important driver of sales growth for the business.

In the year under review, 51 net new stores were opened, bringing the total estate to 764 stores as at 31 January 2015. Nine stores were relocated during the period.

We are pleased with the quality of our new store openings and their performance to date and we remain disciplined in considering the terms of new leases and renewals, regularly rejecting new opportunities if forecast returns are not considered satisfactory.

We are confident that our proposition, which is focused on value, can continue to be successful in a wide range of locations nationwide. This true versatility of our model is reflected in the performance of our existing estate with less than 1% of our stores loss making, delivering an aggregate loss of less than £0.1m at store contribution level. In addition, we continue to perform well against established and newer competitors, with the majority of our openings in the year being in locations where established competitors already trade.

The Board remains confident of the potential to expand the store portfolio to up to 1,200 stores in total. As we continue our successful roll-out, in a market which remains highly fragmented, we expect to continue to grow our share of the market with gains from a wide range of competitors, both large and small.

3. Continue to focus on delivering business efficiencies

The Group is focused on achieving efficiencies, particularly through its vertically integrated business model, and has consistently delivered some of the best operating profit margins in the retail sector over a number of years. These high margins have been slightly improved in FY15 notwithstanding the incremental recurring operating costs associated with being a listed company.

The Board continues to focus on maintaining and, where possible, improving these margins through an ongoing focus on cost control, leveraging investments in both people and infrastructure, further improving the supply chain and general economies of scale whilst at the same time balancing these with ongoing investment in the business to drive future growth.

During the year, Card Factory has continued to roll out its new electronic point of sale (EPOS) system which was deployed in over 50% of the estate as at 31 January 2015. Each new store is now fitted with the new EPOS system from the date of opening and the Board anticipates that the balance of the existing estate will be converted to the new EPOS system within the next two years.

The Group is already utilising this new system for data mining and for both strategic and operational planning and expects a wide range of benefits to be delivered over the medium term.

Having invested significantly in the Group's IT infrastructure over the past five years, we created a new role of Chief Information Officer in 2014 and expanded our wider IT team. We will continue to make incremental additions to this team in order to maximise returns on these infrastructure investments.

A more detailed cost breakdown is given in the Chief Financial Officer's review below.

4. Increase penetration of the complementary online market

The Group is a relatively new entrant in the complementary online market segments for personalised online card and non-card products. Getting Personal, acquired in FY12, currently represents the majority of the Group's online revenues with a focus on personalised gifts and other non-card products.

Getting Personal has made excellent progress in the year with revenues growing by over 23% to £15.5m and EBITDA increasing by two thirds to £2.8m. This extremely strong profit growth is particularly pleasing given that EBITDA more than doubled in FY14.

This performance has been driven by a combination of new product development, improved marketing and the recent relaunch of the website (www.gettingpersonal.co.uk) to more effectively cater for the growing use of smartphones and tablet devices.

Paul McCrudden, EMEA Head of Content Marketing at Twitter, joined the Group as a Non-Executive Director in December 2014 and brings a wealth of digital marketing experience which will be particularly helpful as we continue to develop our online activities over the medium term.

Having only entered the online market in FY12, the Group is making good progress in this relatively new area of our business with EBITDA of this division more than trebling over the past two years and EBITDA margin improving significantly. We have a number of further growth initiatives underway and in planning and are optimistic about the future growth prospects of this division over the medium term. We continue to target double digit revenue growth but with such tough comparatives we would not necessarily expect the revenue and profit growth seen in FY15 to continue at the same rate in the coming financial year, particularly in the second half.

BOARD, MANAGEMENT TEAM AND EMPLOYEES

During the year we expanded and strengthened our Board with the appointment of Geoff Cooper as Non-Executive Chairman, Octavia Morley as Senior Independent Non-Executive Director and David Stead and Paul McCrudden as Independent Non-Executive Directors.

We have also strengthened and expanded the capabilities of our operational management team with the appointments of Tim Lloyd (Property Director), John Nother (Chief Information Officer) and Shiv Sibal (General Counsel and Company Secretary).

Shortly after the year end, we announced the resignation of Graeme Coulthard as a Non-Executive Director of the Company. Following the reduction in their shareholding to below 20%, the Charterhouse funds were obliged to procure Graeme's resignation as a Director of the Company and the relationship agreement entered into prior to IPO was automatically terminated. We would like to thank Graeme, as well as other members of the Charterhouse team, for the constructive support and challenge provided throughout the time from their investment in 2010. We wish them well for the future.

Finally, and most importantly, we would also like to thank all our employees for their support and commitment throughout this period which saw the Group continue to expand and grow, delivering another record year of revenue and profit generation and maintaining our position as the clear market leader.

Chief Executive Officer's Review continued

SUMMARY AND OUTLOOK

The continued strong performance of the Group and the additional profile from our successful flotation has clearly led to increased focus on the greeting cards sector. We saw a slight increase in competition in the second half of the year, particularly in the final Christmas quarter. Whilst clearly no company is immune to such competition, the impact on our overall performance was limited and the Group has continued to take market share and strengthen its competitive position.

Our strong value proposition, underpinned by our unique vertically integrated model, remains highly differentiated. In addition, each year we continue to innovate and develop new products and ranges to further strengthen our retail proposition. We have made good progress in FY15 and we expect this momentum to continue in the year ahead.

The Group continues to have a strong pipeline of additional new store opportunities and remains confident of opening a total of approximately 50 net new stores in the new financial year, in line with the average historic opening rate over the last decade.

In the period since 31 January 2015 the Group has continued to trade in line with the Board's expectations.

We remain highly confident in the Group's future prospects, and in its ability to continue to grow sales profitably and to increase market share consistently over the medium term.

Richard Hayes
Chief Executive Officer

24 March 2015

"If it's the thought that counts why do others charge so much?"

Chief Financial Officer's Review

"To the extent there is surplus capital within the business, the Board expects to return that capital to shareholders"

Darren Bryant
Chief Financial Officer

The "FY15" accounting period refers to the year ended 31 January 2015 and the comparative period "FY14" refers to the year ended 31 January 2014.

REVENUES

Total Group revenues during the year grew by 8.1% to £353.3m (FY14: £326.9m), a similar growth rate to the prior year, with both of the Group's businesses contributing to this increase.

The Card Factory business grew revenue by 7.5% to £337.8m (FY14: £314.3m). A total of 51 net new stores were added during the year. Like-for-like sales in existing stores grew by 1.8%, notwithstanding a strong prior year comparative of +3.1%.

Both single cards and non-card products contributed to this like-for-like sales growth, with a particularly strong performance in non-card as a number of new ranges were introduced into store. The relatively small, lower margin Christmas box cards segment continued to decline and this was particularly relevant in the second half of the year given the seasonal weighting of these sales. As a consequence, there was a marginal mix shift to non-card, the full year mix being 57.9% single cards (FY14: 59.1%), 39.9% non-card (FY14: 38.5%) and 2.2% Christmas Box Cards (FY14: 2.4%).

Getting Personal revenues grew by 23.1% to £15.5m (FY14: £12.6m). Revenue growth was strong throughout the year, particularly in the second half, as a number of strategic initiatives bore fruit. Whilst the growth prospects of this business remain strong, it has less of an established track record than the Card Factory store network. The rate of growth can therefore be less consistent and the business will clearly be facing much tougher comparatives in the year ahead.

OPERATING COSTS

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

	FY15		FY14		Increase	
	£'m	**% of revenue**	£'m	% of revenue	£'m	%
Cost of goods sold	**110.3**	**31.2%**	102.0	31.2%	8.3	8.2%
Store wages	**57.3**	**16.2%**	52.9	16.2%	4.4	8.3%
Store property costs	**56.7**	**16.1%**	53.7	16.4%	3.0	5.7%
Other direct expenses	**15.7**	**4.4%**	14.7	4.5%	1.0	6.4%
Cost of sales	**240.0**	**67.9%**	223.3	68.3%	16.7	7.5%
Operating expenses*	**25.1**	**7.1%**	23.2	7.1%	1.9	8.1%

* Excluding depreciation and amortisation.

The overall ratio of cost of sales to revenue improved marginally to 67.9% on an underlying basis (FY14: 68.3%) with the following movements in sub-categories:

- Cost of goods sold: principally comprises cost of raw materials, production costs, finished goods purchased from third-party suppliers, import duty, freight costs, carriage costs and warehouse wages. The ratio of cost of goods sold to revenue remained consistent with the prior year, notwithstanding the slight mix shift to Getting Personal and non-card products in the Card Factory business.
- Store wages: includes wages and salaries (including bonuses) for store based staff, together with National Insurance, pension contributions, overtime, holiday and sick pay. This cost increased as new stores opened but remained consistent as a ratio of revenue.
- Store property costs: consists principally of store rents (net of rental incentives), business rates and service charges. This cost also increased as new stores opened but reduced slightly as a ratio of revenue. Many of the Group's existing stores remain on leases taken out before the recession when the property market was stronger and the Company's covenant was weaker. The improvement in this cost ratio reflects changes to these factors for both new stores and breaks and expiries on existing leases. There remains the potential for further cost savings in this area but these potential savings are not certain and will not necessarily be realised in a straight line trajectory.
- Other direct expenses: includes store opening costs, store utility costs, waste disposal, store maintenance, point of sale costs, card charges and pay per click expenditure. This cost category is largely variable in respect of existing stores and increases with new store openings. The ratio of other direct expenses to revenue remained broadly consistent with the benefits of various business efficiency initiatives having offset cost pressures in other areas, in particular utility costs and card charges, the latter impacted by the increased use of payment cards by customers as the EPOS conversion project continued.

Operating expenses (excluding depreciation and amortisation) include items such as head office remuneration, costs relating to regional and area managers, design studio costs and insurance together with other central overheads and administration costs. The Group has invested heavily in central infrastructure and people in recent years to support the ongoing planned growth. Total operating expenses (excluding depreciation and amortisation) increased to £25.1m (FY14: £23.2m). This cost line remained at 7.1% of revenue as economies of scale and business efficiencies offset additional recurring operating costs now being incurred following the Company's flotation in May 2014. As this transaction occurred part way through FY15, in the coming financial year these recurring IPO related operating costs will annualise and increase this cost line as a full year charge is recognised and also as further LTIP awards are made, as the associated share based payment charge is amortised to the Income Statement over the three year vesting period. We also propose to introduce a new SAYE share scheme for employees during the coming financial year.

Depreciation and amortisation increased from £7.5m to £8.8m reflecting significant one-off investments made in recent years, in particular, the expansion of the central distribution centre, the relocation and expansion of our printing division, Printcraft, and the initial phases of the EPOS rollout and conversion project.

UNDERLYING EBITDA AND OPERATING PROFIT

The underlying EBITDA margin of the Group improved to 25.0% (FY14: 24.6%).

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

			Increase	
	FY15 £'m	FY14 £'m	£'m	%
Underlying EBITDA[1]				
Card Factory	**85.4**	78.7	+6.7	+8.4%
Getting Personal	**2.8**	1.7	+1.1	+67.6%
Group	**88.2**	80.4	+7.8	+9.6%
Underlying EBITDA margin				
Card Factory	**25.3%**	25.1%		+0.2ppts
Getting Personal	**18.0%**	13.2%		+4.8ppts
Group	**25.0%**	24.6%		+0.4ppts

1. As defined in note 5 to the financial statements on page 88.

The Group's underlying operating margin improved slightly to 22.5% (FY14: 22.3%), despite the higher depreciation charge referred to above.

Excluding the incremental recurring operating costs associated with the IPO, underlying EBITDA and operating margins improved by 0.7ppts and 0.5ppts respectively.

As expected, whilst there is some seasonality in our business, the Group continued to deliver positive operating profit in each month of the year.

Chief Financial Officer's Review continued

IPO AND SENIOR DEBT REFINANCING

The IPO of the Company was completed with formal unconditional admission to the Official List and to trading on the London Stock Exchange on 20 May 2014 and a senior debt refinancing was completed on 30 May 2014. Given the change in capital structure as a result of both of these events, a year-on-year comparison of financing costs, profit before tax and profit after tax is not meaningful.

Following the IPO and refinancing, proforma opening senior debt of approximately £160m consisted of £180m senior debt and approximately £20m of cash (after all anticipated transaction costs). The new debt facility of £200m also included a £20m revolving credit facility. The fees and expenses of this debt refinancing which totalled £2.6m have been capitalised and will be amortised to the Income Statement over the five year term of the new senior debt facility in accordance with accounting standards. Debt costs capitalised in relation to the previous senior debt facility of £7.7m were written off as a non-cash, non-underlying item at the same time. The new senior term loan and revolving credit facility are subject to a margin ratchet dependent upon leverage levels with interest currently charged at 2.00% above LIBOR and 1.75% above LIBOR respectively. A £100m LIBOR swap at 0.795% provides interest rate protection until 31 October 2015.

NET FINANCING COSTS

Net financing costs in the period include approximately four months with the previous capital structure with higher levels of leverage, a significant proportion of accrued loan note interest and a higher weighted average interest cost.

Had the IPO and senior debt refinancing completed on 31 January 2014, the net financing costs expensed in the Income Statement in the year would have totalled approximately £5.4m (including a non-cash charge of c£0.5m of amortising debt costs), rather than the underlying net financing expense of £13.9m reported.

STATUTORY RESULTS

As mentioned above, as a consequence of the IPO and refinancing completed during the period, statutory results differ materially from the underlying results and can be reconciled as follows:

	FY15 £'m	FY14 £'m
Underlying profit before tax	**65.5**	32.0
Losses on foreign exchange derivatives not designated as a hedge	**(0.1)**	(1.9)
IPO costs	**(3.8)**	–
Residual management equity share based payment	**(11.2)**	–
Refinanced debt issue cost amortisation	**(7.7)**	–
Statutory profit before tax	**42.7**	30.1

Further detail on the non-underlying reconciling items is set out in note 3 of the financial statements on page 87.

CAPITAL EXPENDITURE AND WORKING CAPITAL

Capital expenditure totalled £10.1m in the year of which £2.6m related to the EPOS rollout. In the prior year, capital expenditure totalled £12.0m of which £5.3m related to one-off strategic projects, principally EPOS and the building of a fourth warehouse and a new Head Office.

The Board anticipates that, in the coming year, annual recurring capital expenditure will continue to run at approximately £8m per annum, similar to the recent historic level, with further budgeted expenditure of approximately £4m allocated for one-off strategic projects, the largest of which continues to be the ongoing EPOS conversion project.

There was a slight cash inflow of £1.1m from working capital movements in the year (FY14: £0.6m).

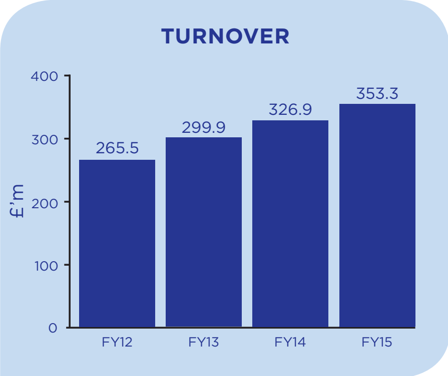
STRONG FINANCIAL POSITION

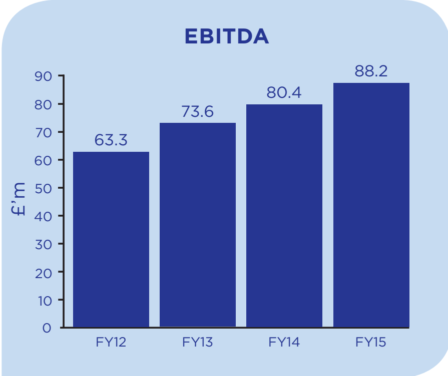
The Group remains highly cash generative.

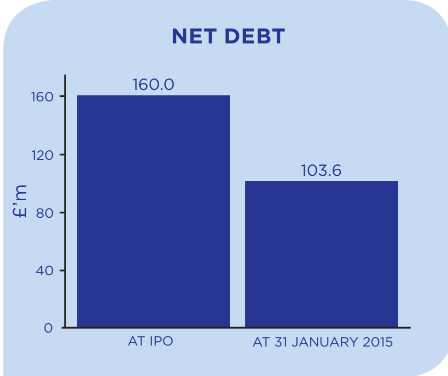
As at 31 January 2015, net debt (excluding debt issue costs of £2.2m) had reduced to approximately £103.6m, analysed as follows:

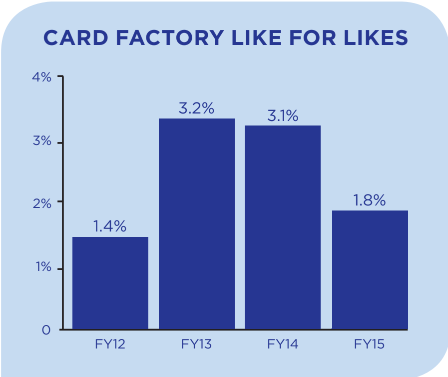
	£'m
Borrowings	
Current liabilities	14.5
Non-current liabilities	155.9
Total borrowings	170.4
Add debt costs capitalised	2.2
Gross debt	172.6
Less cash	(69.0)
Net debt	103.6

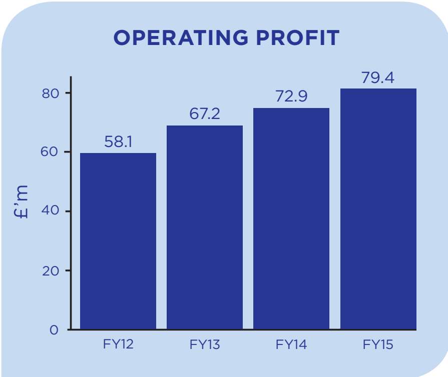
Net debt at the year end represented less than 1.2 times underlying EBITDA.

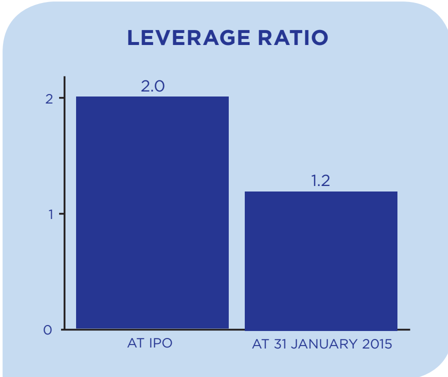












All figures shown on an underlying basis.

DIVIDENDS

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

For the year ending 31 January 2015, the Board is recommending a total dividend of 6.8p per share, giving a dividend cover of 2.5 times based on adjusted proforma earnings of 16.85p per share. This dividend has been calculated as if the IPO and senior debt refinancing had completed on 31 January 2014.

This dividend comprises an interim dividend which the Directors are declaring of 2.3p per share together with a final dividend which the Directors are recommending of 4.5p per share. The final dividend will, subject to shareholders' approval at the Company's first Annual General Meeting on 27 May 2015, be paid alongside the interim dividend on 5 June to shareholders on the register on 1 May.

CAPITAL STRUCTURE

As stated at the time of the IPO, the Board is focused on maintaining a capital structure that is conservative yet efficient in terms of providing long-term returns to shareholders. The Board has considered further the capital structure of the Group and continues to recognise the benefits of financial leverage, whilst also wanting to ensure that the Company has sufficient flexibility to invest in the growth of the business.

Over the medium term, the Board expects to maintain leverage broadly in the range of 1.0 to 2.0 times net debt to underlying EBITDA. Given that the business does see working capital swings through the cycle, at times the net debt position of the Company may fall outside the above range. It should be noted that, at the year end, net debt is typically lower than the average for the previous 12 months given the particularly strong cash generation during the Christmas period.

To the extent there is surplus capital within the business, the Board expects to return that capital to shareholders. The Board will consider the most appropriate method of returning such surplus cash from time to time, taking into account, amongst other things, views of shareholders and the liquidity of the shares.

Darren Bryant
Chief Financial Officer

24 March 2015

Principal Risks and Uncertainties

The Board and the senior management team are collectively responsible for managing risks and uncertainties across the Group. In determining the nature and extent of the risks the Group is willing to take and how these are managed, the Board, Audit and Risk Committee and the senior management team look to ensure an appropriate balance is achieved which enables the Group to achieve its strategic and operational objectives and facilitates the long-term success of the Group.

Risks are identified across all of the Group's business and, once identified, the Executive Directors and the senior management team evaluate the likelihood and impact of risks and how they can be mitigated to manage their impact on the Group. Risks are monitored and any mitigation strategies are implemented within the relevant teams in the business and these teams are then responsible for reporting to the Executive Directors through their representatives in the senior management team.

A risk register for the Group is maintained that reflects the principal risks identified across the Group and the Board and senior management team's assessment of the significance of each of the risks based on their likelihood and impact. It also identifies those members of the senior management team who have been given ownership of these risks.

The most significant risks are reviewed regularly by the Executive Directors to ensure the extent and effectiveness of the controls and mitigation strategies the Group has in place are the subject of rigorous assessment and challenge. The Group's Audit and Risk Committee is responsible for reviewing the Group's risk management framework and monitoring how relevant and effective it is in supporting the Group. The Board reviews the Group's most significant risks at least twice a year, in addition to periodically challenging the Executive Directors in relation to any specific concerns and as to what they consider to be the risks which would "keep them awake at night".

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

MARKET

Description

The Group generates almost all of its revenue from the sale of greeting cards, dressings and gifts, which may be subject to changing customer tastes and trends.

For example, consumers could reduce their purchases of physical greeting cards or increasingly make use of e-cards and other electronic communications instead of buying physical cards.

Additionally, there is a risk that the Group may not be able to effectively predict and respond to changing consumer demands and market trends.

Mitigation

The Group benefits from the ingrained culture of giving greeting cards in the UK and performs regular consumer research to review these trends.

The Group has continued to invest significantly in its in-house design capability and designs a significant proportion of its products. Designs are continuously being refreshed as the Group moves through its key trading seasons. Detailed sales analysis guides design and purchasing decisions.

Additionally, the Group has invested in its commercial finance and buying teams which analyse sales data and consumer research to ensure these are taken into account in buying decisions. This provides the Group with a strong platform from which to approach its third-party suppliers in sufficient time to ensure the Group has new products on sale in time to meet customer demand.

The combination of these activities and the continuing benefits of its vertically integrated model help the Group position itself to respond to changes in the markets in which it operates.

COMPETITION

Description
The greeting cards sector is highly competitive, including with respect to product selection and quality, store location and design, inventory, price and customer service. We compete with a wide range of retailers that offer competing products of varying quality and price. Some of our competitors, particularly supermarkets, general merchandise discounters and stationery retailers, may have greater market presence, name recognition, financial resources and purchasing economies of scale, any of which could give them a competitive advantage.

Mitigation
Our in-house design and print operations help maintain and improve the quality of our offering and the value we deliver to our customers. This strong focus on product development helps to strengthen our specialist proposition with a large proportion of our product range being redesigned each year.

Competitor activity is closely monitored including locations, price points, promotional activity, product choice and quality. When considered appropriate, local pricing strategies are rapidly implemented to protect the Group's competitive position.

We continuously review individual store performance and customer trends, for example by analysing like-for-like sales. We also conduct regular consumer surveys and market research.

We regularly invest in and monitor the functions, systems and people that combine to support our vertically integrated business model which underpins our competitive position.

OUR BRANDS

Description
The "Card Factory" and "Getting Personal" brands are important assets of the Group. If we are unable to protect our brand names or there is an event which materially damages the reputation of our brands and/or we fail to sustain our appeal to our customers, this could have an adverse impact on our sales and future prospects.

Mitigation
We regularly review customer trends and competitor activity, and conduct consumer surveys so we can understand our customers' perception of the Group's brands.

We have a dedicated quality control function that works closely with our internal design and print divisions and third-party suppliers to ensure product quality and safety.

Where possible, we seek formal legal protection of our brands and designs and brand protection is the subject of increased focus with the support of external advisers. The Group has appointed a General Counsel to the senior management team to enable the Group to further develop its brand and design protection strategy.

BUSINESS STRATEGY

Description
Our business strategy has been developed with the aim of achieving long-term value for our shareholders. The Board recognises that if the strategy of and vision for the business are inappropriately developed, communicated or delivered there could be an adverse impact on our business and its prospects.

Mitigation
The implementation of and performance against Group strategy are regularly reviewed at Board and senior management team level.

Competitor analysis, consumer research and increasingly EPOS data are being used to bring additional focus to the development of the Group's retail proposition and product mix to ensure customer satisfaction and experience are maintained and where possible enhanced, these being central to the sustainability of our strategy.

Principal Risks and Uncertainties continued

STORE PORTFOLIO EXPANSION

Description
Growth in the Group's sales and profits over the period will depend on our ability to find suitable locations for new stores which, when trading, will have a positive impact on the profitability of the Group. Competition among retailers for store sites and our ability to acquire them on acceptable terms are key to us achieving our growth objectives. Our ability to support this growing portfolio through our operational infrastructure (including our production and distribution capabilities and our supplier base), financial systems and managerial controls and procedures will be critical to the Group's success as it continues to grow.

Mitigation
Management undertakes a formalised appraisal process for new location opportunities which includes an assessment of potential store sales and profitability. This process is well established and has been undertaken for each of the identified sites in the Group's new store roll-out plan. The result of this exercise is stored in a database of new store opportunities which is continually updated and refreshed.

Regular commercial analysis is conducted on new stores to assess their performance including any cannibalisation impact where a particular location has multiple stores in close proximity.

We carefully monitor developments in the real estate market and look to adjust our strategy where a change may adversely affect the potential profitability of a proposed new location.

The significant investments that have been made to date into the Group's operational capabilities support the current portfolio expansion strategy in the UK.

SOURCING/SUPPLY CHAIN

Description
We rely on third-parties, including many in the Far East, for the supply of nearly all of our non-card products, our handcrafted greeting cards and raw materials. Any failure by them to satisfy orders on acceptable terms (including as to scale and timing) may adversely affect our business or result in us having to seek alternative suppliers, who may not be able to fulfil our requirements. We are also exposed to changes in supplier dynamics and vulnerable to increases in the prices of raw materials.

The international nature of our supplier base means we are also subject to the risks of manufacturing and importing of goods from overseas including, but not limited to, freight costs and duty as well as the risk of interruptions in supply and reputational risk arising from the labour practices of suppliers.

Mitigation
The Group maintains strong relationships with its principal suppliers. The Group's strategy is to continuously develop and broaden its supplier base, where appropriate, to help mitigate the risk of the failure of any one supplier.

We carry out inspections and audits of the factories operated by our major suppliers either by visiting them periodically or using external companies. The external audits carried out on our behalf provide us with reports on the condition and capacity of the supplier's operations which we can then act upon as appropriate.

External audits of suppliers are conducted and the Group is a member of Sedex (the Supplier Ethics Data Exchange).

The Group has a dedicated quality control function that tests samples of our products and also inspects products on arrival and before they are delivered to our stores.

STRATEGIC REPORT GOVERNANCE FINANCIALS

KEY PERSONNEL

Description

The successful implementation of the Group's strategy and the success of our business in general depend on our ability to continue to attract, motivate and retain management and employees. We also rely on our in-house design team to design nearly all of the cards and non-card merchandise. The loss of or inability to attract key members of these teams could adversely affect our business.

Mitigation

The aim of the Group's remuneration policy is to attract, retain and motivate high calibre senior management and to focus them on the delivery of the Group's strategic and business objectives, to promote a strong and sustainable performance culture, to incentivise high growth and to align the interests of Executive Directors and members of the senior management team with those of Shareholders through encouraging equity ownership. In promoting these objectives the policy aims to ensure that no more than is necessary is paid and with remuneration structured so as to adhere to the principles of good corporate governance and appropriate risk management.

Where necessary to support the implementation of its strategy, the Group has supplemented its teams by recruitment across all of its functions including recent senior management hires of a Chief Information Officer and General Counsel/Company Secretary.

The Nomination Committee has discussed the development of a formal succession plan for the Executive Directors and members of the senior management team.

Details of the Group's remuneration policy are set out in the Directors' Remuneration Report on pages 51 to 59.

FINANCE AND TREASURY

Description

Our funding arrangements and the fact that we source the majority of our non-card merchandise, as well as certain raw materials used in the production and printing of our greeting cards, from suppliers located in the Far East mean that a lack of appropriate levels of covenant headroom and/or cash resources in the Group, or significant variations in interest or exchange rates, could have an impact on our operations and performance.

Mitigation

Our current financing arrangements provide the Group with appropriate financial support to underpin the delivery of its growth strategy for the foreseeable future. Following the Group's IPO, its cash generative nature has continued to reduce net debt levels without adversely affecting cash resources available to the Group.

The Group has clear treasury management processes and a Group treasury policy in place to govern cash management strategies and to manage any exposure to fluctuations in currency exchange and interest rates. All foreign exchange and interest rate contracts are pre-approved directly by the Chief Financial Officer and communicated to the Board monthly. All cash deposits are with reputable banks and are placed to balance the flexibility needed by the Group with its cash assets with the desire to obtain a competitive return on deposits.

Further details of the Group's financial position are described in the Chief Financial Officer's review on pages 18 and 19.

Principal Risks and Uncertainties continued

BUSINESS CONTINUITY

Description
Any major disruption to any of the parts of our vertically integrated business model, in particular to our in-house printing facility, Printcraft, and our design studio, could severely affect our ability to supply our stores which would, in turn, affect the performance of the business. Disruption to any of these functions could also force us to use third-party providers and this could be expensive and may be on onerous terms.

Mitigation
A business continuity plan has been developed which highlights the processes currently in place across the Group and where these can be further developed and improved. The plan will be regularly reviewed to ensure it evolves with and remains suitable for the Group.

The plan identifies the steps that need to be taken to ensure minimum disruption to the Group's trading activities in the event of any major incident or interruption affecting the Group's key systems and facilities.

In addition to the matters specifically addressed in the business continuity plan, the Group also holds stock across multiple locations to mitigate the risk to the business of a catastrophic event at any one of our storage facilities. Excess stocks of key lines are also held in separate locations.

The Group also maintains appropriate business interruption insurance cover.

COMPLIANCE

Description
Many aspects of our business and operations are governed by legislation, regulations and other standards and rules in areas including, but not limited to, corporate governance, the listing and trading of our shares, employment, product quality, trading, the environment, health and safely, bribery and data protection. Any failure to comply with these could lead to penalties, fines, damages claims or reputational damage which could, in turn, have an impact on the financial performance of the business.

Mitigation
We have a range of policies and procedures in place within the business governing behaviours in all key areas, some of which address mandatory requirements and some which we have adopted voluntarily. These are regularly reviewed and updated and include a whistle-blowing procedure and helpline that ensures colleagues can raise any concerns in complete confidence.

Responsibility for managing and monitoring compliance within each of the Group's key operational teams sits with the relevant member of the senior management team.

The Group has appointed a combined General Counsel and Company Secretary to oversee and co-ordinate compliance in the Group as a whole with the senior management team being required to liaise with him and external advisers to ensure that potential issues are identified and managed.

In addition, the responsibility for compliance by the Group with governance and listing requirements sits with General Counsel and Company Secretary.

INFORMATION TECHNOLOGY

Description
The Group is dependent on reliable and efficient information technology (IT) systems and processes. These include all systems and processes supporting our retail operations (both physical and online), our head office function and our in-house design and printing operations. A failure to adequately maintain the Group's IT systems or any prolonged system performance problems could seriously affect our ability to implement the Group's strategy and to carry on the business.

Mitigation
In early 2014, the Group appointed a Group Chief Information Officer to further develop and oversee the implementation of the Group's IT strategy and to ensure it is aligned with the long-term strategy of the Group as a whole.

The Group's IT strategy is reviewed regularly to ensure it supports the day-to-day operational needs of the business. IT strategy and governance generally form part of the Audit and Risk Committee's remit for review.

The continuing rollout of EPOS systems across the Group's store network is a core part of the Group's IT strategy to continue the rollout plan in line with expectations.

The Group's principal IT risks are documented and agreed service levels for recovery of key business systems are in place and form part of the Group's overall business continuity plan.

ONLINE

Description
The Group's online presence in the personalised greeting card and gift market, principally via our Getting Personal transactional website, is relatively new to our business. There can be no assurance that our transactional websites will compete effectively in a very competitive market with relatively low barriers to entry. If we fail to develop our transactional websites in line with changing customer tastes and evolving technology, they may not deliver the anticipated growth in sales. This may also adversely impact our reputation and our customers' perception of our brands.

Mitigation
Development of the Group's online offering is one of our four growth pillars. Following the acquisition of Getting Personal in 2011, the Group has further developed the extensive in-house web development capabilities that were acquired with that business.

Responsibility for review and development of online strategy has been given to a steering group chaired by the Group's Chief Information Officer and whose members include the Group's Chief Executive Officer, Getting Personal's Managing Director and other key members of the senior management team. The steering group has responsibility for developing all areas of the strategy from technical delivery to the strength of the online retail proposition and customer experience.

The online strategy also forms part of the Group's wider IT strategy to ensure it remains aligned with the Group's overall technology goals.

Corporate Social Responsibility Report

OUR AIMS

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

Our aim is for CSR to be embedded within the culture at Card Factory, for it to guide management and employee behaviour and for there to be clear responsibility and accountability within the business for our CSR strategy.

We do not have a separate CSR function as it is an intrinsically important part of the way we do business. The Board has overall responsibility for our CSR policies and how we manage and monitor performance.

Our CSR activity focuses on the following key areas:

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

CUSTOMERS

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

Key achievements during the year:

- we have continued to roll out EPOS terminals across our stores improving customer in store experience;
- we have achieved a significant number of redesigns across our existing card ranges and launched new ranges, both everyday and seasonal, ensuring our customers have a great choice of new products;
- exciting new non-card product ranges were introduced across our store network increasing customer choice and diversifying our range;
- we invested significantly in new fixtures and fittings across our store network which enable us to better showcase some of our new products to customers;
- our Getting Personal business re-launched its website with a more responsive platform enhancing customer experience across tablets and smartphones;
- we have recruited a dedicated Customer Service and Store Relationship Manager to ensure that all of our stores are providing consistently excellent service and that we respond to any concerns and queries from customers as quickly as possible;
- we have launched a "Tell Card factory" campaign that gives customers the opportunity to feedback any comments they have on our products and stores; and
- we have continued to build on our extensive communication programme with our stores and on the training we provide to employees which is supported by the policies and procedures the Group has put in place.

It is our customers who have put us in the privileged position of being the UK's leading specialist greeting card retailer and we are committed to ensuring that our value for money product offering and customer service keeps us in this position.

MANUFACTURING AND SOURCING

We are proud that the majority of cards sold in our stores are designed and manufactured within the Group from Yorkshire in the UK. The balance of our procurement is from a broad supplier base throughout the UK, Europe and the Far East, principally China.

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

The audit programme continues to be developed but all suppliers outside of the EU where purchases exceed £50,000 per annum have appropriate ethical and technical audits in place commissioned by the Group and undertaken by recognised third-parties with either an assessed rating in excess of 85% or where below this a detailed corrective action plan is in place for non-material issues to allow ongoing trade to occur. When such issues are either material or not resolved within 3 months we will cease to trade with that supplier.

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

The ethical audits we commission and the information attained through our Sedex membership assist the business in effectively managing human rights through our supply chain and management of this area is also supported with factory visits by our sourcing team.

We work with our suppliers to ensure that our products are produced to all applicable standards and appropriate tests are undertaken to ensure product safety is not compromised and associated labelling is undertaken to a high standard. We ask all our suppliers to sign our supplier compliance manual before trading commences.

We continue to strengthen our quality assurance and inspection team utilising third-party partners in the Far East to complement our own teams.

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

ENVIRONMENT

We recognise our business impacts the environment and the policies we adopt are important to the business and our customers. Our objective is to reduce the impact our business has on the Environment and the key areas we focus on are:

Waste recycling

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

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

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

Packaging

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

The majority of our products offered for sale are designed in house which has allowed the business to effectively reduce packaging waste associated with the products and the transit packaging attached to the items. There is further work required to optimise this area and we see this as an opportunity to reduce waste and cost within the business which will include both the packaging costs and positive impact on container and road transport costs.

Energy

The Group has been analysing electricity usage across its store portfolio to better understand how we can reduce the consumption of electricity by the Group. The two key areas of focus during the year have been:

Installation of automatic meter reading smart meters

This year we have installed more than 100 smart meters into our existing and new stores to allow us to measure electricity usage on a half hourly basis. This will enable us to reduce electricity usage by:

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

Installation of LED lighting

To date, and predominantly during this year, we have installed energy-efficient LED lighting in 70 of our stores. This has enabled us to reduce electricity usage by:

- reducing the amount of non-LED lighting units installed in those stores which were high energy consuming; and
- reducing the additional electricity used in those stores with cooling systems that had to work harder to counteract the heat created by the inefficient lighting.

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

Fuel efficiency

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

We operate a fleet of company cars and vans and the vehicles available have been reviewed and changed to take into account more fuel-efficient vehicles.

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

Corporate Social Responsibility Report continued

Greenhouse Gas (GHG) Emissions

Greenhouse Gas Statement for the Group

Summary of GHG emissions for the year ended 31 January 2015:

Tonnes of carbon dioxide equivalent (CO_2e):	
Scope 1	1,097
Scope 2	22,873
Out of Scopes	23
Intensity Metric:	
Tonnes of carbon dioxide equivalent per £'m revenue generated (CO_2e/£'m):	67.8

The GHG emission disclosures have been prepared in accordance with The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (Revised Edition). Any company specific applications of the standard have been disclosed on Card Factory's investor website (www.cardfactoryinvestors.com).

HEALTH AND SAFETY

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

It is the responsibility of all employees to ensure that stores and our working environments are safe and without significant risks which is why we incorporate Health and Safety into our day to day practices and support this through training within the business.

Although the Board has ultimate responsibility for Health and Safety this is managed on a daily basis by our Compliance and Safety team who liaise with line managers in all areas of the business to ensure that appropriate checks take place at regular intervals and that all staff receive the appropriate training that is tailored to support their specific roles within the business.

The Compliance and Safety team also has responsibility for analysing trends and taking a pro-active approach to managing the health and safety practices and systems we have in place across the Group.

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

Occupational Health assessments have also been a focus for this year and, through the commitment of our insurer, we have provided health surveillance for a specific group of workers.

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

EMPLOYEES

Card Factory's employees are critical to its success. The Group employs more than 6,500 permanent staff across our stores, head office, online business, warehouses and manufacturing locations. This number rose to more than 12,000 when taking into account the temporary seasonal workers the Group employs during the important Christmas trading period.

The commitment and dedication of our employees has enabled us to grow quickly and to consistently deliver great value and service to all of our customers.

We want all of our employees to feel valued and to see themselves as part of the Card Factory family. Highly engaged and well trained employees are fundamental to our success to date and critical to us being able to deliver on our four growth pillars.

We fully support the development and progression of our employees throughout the business. There are many examples of employees who have joined us as retail assistants in our stores and who have now progressed into important roles in our head office supporting different functions in the business which have benefitted from their shop floor and customer facing know-how.

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

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

	% Male	% Female
Board	83	17
Senior management team	89	11
All employees	18	82

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

- weekly retail news bulletins which provide operational guidance to all of our stores on matters including products, layouts and displays;
- online message boards communicate key operational messages to all of the stores via the Group's intranet;
- regional and area managers' regular planning and review meetings for all of the Group's key trading periods. Regional and area managers are then responsible for cascading the key messages delivered in these meetings to store employees;

- store manager visits to head office to discuss and review Card Factory's retail proposition;
- Card FACTually is a quarterly magazine which contains a message from the CEO and takes a more light-hearted look at the business. It included details of the community and charity events we are involved in and aims to celebrate and share achievements and successes by employees across the Group;
- Board and senior management team members regularly visit stores to assess the retail proposition and get feedback from employees, particularly during key trading periods; and
- our Mock Shop is a representative Card Factory store at our Head Office which is prepared to reflect the layout of a typical Card Factory store as it progresses through the various trading periods. This not only provides a visual representation of what we are trying to achieve in our stores but also gives employees the opportunity to provide feedback on our retail proposition.

In a retail environment that has, in recent times, been very challenging, Card Factory looks to be a responsible member of the communities in which we trade and to provide employment opportunities not only in large towns and cities but also smaller high street shopping locations.

COMMUNITY

The Group and its employees recognise the importance of being responsible members of our community. The Group looks to support charitable causes that can benefit from the growth in our business.

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

To date we have raised more than £3 million and we intend to continue this successful partnership with Macmillan whose valuable work helps to ensure that no one faces cancer alone.

AN INCREDIBLE PARTNERSHIP

Card Factory

£3,200,452.17

WE ARE MACMILLAN. CANCER SUPPORT

TOTAL TO DATE

Directors and Officers

Geoff Cooper
Non-Executive Chairman

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

Other Current Commitments: Non-Executive Chairman of Dunelm Group plc and Bourne Leisure Holdings Ltd. Non-Executive Director of Informa plc. Adviser to Charterhouse Capital Partners LLP.

Richard Hayes
Chief Executive Officer

Richard was appointed Managing Director in 2008 (subsequently renamed Chief Executive Officer in 2010), prior to which he held the positions of Finance Director and Commercial Director of the Group. He was appointed to the Board of Card Factory plc on 30 April 2014. During his time at the Company, Richard has been actively involved in, and since 2008 has overseen, the Group growing from a 40-store discount chain to a vertically integrated value retailer with over 750 stores and two transactional websites. Richard led the 2010 MBO funded by Charterhouse and has overseen the continued growth under Charterhouse's ownership. Before he joined the Group in 2003, Richard spent 19 years at RBS working mainly in the Corporate Division.

Other Current Commitments: None.

Darren Bryant
Chief Financial Officer

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

Other Current Commitments: None.

Octavia Morley
Senior Independent Non-Executive Director

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

Other Current Commitments: Chief Executive of Oka Direct Limited and Non-Executive Director of John Menzies plc.

David Stead
Independent Non-Executive Director

David Stead joined the Board as an Independent Non-Executive Director in April 2014. He has over 15 years' experience as a director of companies in the UK retail sector. David has held the role of Finance Director of Dunelm Group plc since September 2003. Prior to this, David served as Finance Director for Boots The Chemists and Boots Healthcare International between 1991 and 2003. David is a chartered accountant, having spent the early part of his career with KPMG, and currently leads the Finance and HR departments for Dunelm Group plc.

Other Current Commitments: Finance Director of Dunelm Group plc.

Paul McCrudden
Independent Non-Executive Director

Paul joined the Board as an Independent Non-Executive Director in December 2014. Paul is currently EMEA Head of Content Marketing at Twitter and prior to that was Head of Social Media at advertising agency AMV BBDO. In his earlier career Paul was Account Director at Imagination (a creative brand agency) and a Consultant in New Technologies at Accenture.

Other Current Commitments: EMEA Head of Content Marketing at Twitter. Chairman of the board of trustees of Hoipolloi, a film and theatre production company funded by the Arts Council England.

Shiv Sibal
Company Secretary

Shiv joined the Company as General Counsel and Company Secretary in May 2014. Shiv is an experienced corporate finance lawyer with more than 12 years' experience in the legal sector. Prior to joining the Company, Shiv was a corporate partner with Bond Dickinson focused on supporting public companies with IPOs, equity fundraisings, mergers and acquisitions, governance and their continuing regulatory obligations. Prior to joining, Shiv also spent more than eight years working for Pinsent Masons having trained at Nabarro.

Other Current Commitments: Director of the White Rose Academies Trust.

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

Board Committees

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

* Geoff Cooper was a member of the Audit and Risk Committee during the year and until 24 February 2015.
** Paul McCrudden joined the Audit and Risk, Remuneration and Nomination Committees on 1 December 2014.

Chairman's Letter – Corporate Governance

Geoff Cooper
Chairman

Dear Shareholder

Following the admission of the Company's shares to the premium listing segment of the Official List maintained by the Financial Conduct Authority and to trading on the London Stock Exchange (IPO) on 20 May 2014, I am pleased to be able to present the Company's first Corporate Governance Report.

The Board recognises, understands and is committed to the high standards of governance that are expected of all premium listed companies.

Before completion of the IPO, we carried out a thorough review of the existing governance structure of the Group with various advisers including Linklaters LLP and KPMG LLP in their role as reporting accountant. This helped us identify any steps we needed to take before the IPO to ensure the business would operate within the applicable rules and principles. It also enabled the Directors to confirm that the Group has procedures in place which provide a reasonable basis for the Board to make proper judgements on a continuing basis as to the financial position and prospects of the Group.

From the review, we found that the following key actions would need to be taken by the Company before the IPO:

- appoint an independent Non-Executive Chairman to lead the Board;
- strengthen the independence of the Board and the Committees through the addition of three independent Non-Executive Directors;
- create an organised induction process for new Non-Executive Directors joining before and after the IPO;
- ensure that matters requiring the Board's approval are clearly identified;
- adopt suitable terms of reference for the Board and its sub-committees;
- agree an approach to investor relations with the Board; and
- facilitate the Remuneration Committee's creation of a formal remuneration policy.

The Company undertook a search and selection process to identify a suitable independent Non-Executive Chairman and independent Non-Executive Directors with myself (as Non-Executive Chairman), Octavia Morley and David Stead being appointed prior to the IPO. Paul McCrudden was appointed to the Board as an Independent Non-Executive Director on 1 December 2014. In addition, and pursuant to the terms of the Relationship Agreement (details of which are set out in the Director' Report on page 69), Graeme Coulthard was appointed as Charterhouse Capital Partner LLP's (Charterhouse) representative Non-Executive Director. At that time, funds managed by Charterhouse (when their shareholdings in the Company were taken together), comprised the Company's largest shareholder (Charterhouse Funds).

Up until the time of Paul's appointment, the Company did not technically comply with the UK Corporate Governance Code (the Code) recommendation that at least half of our Board, excluding myself, should comprise non-executive directors the Board considered to be "independent" (as described in the Code). The Board consisted of myself (Non-Executive Chairman) and three further Non-Executive Directors and two Executive Directors but the Board did not regard Graeme Coulthard as independent. It was the Board's intention to address this imbalance after completing the IPO and it has now done so having found a candidate that has the skills the Board felt would benefit the business.

Each Independent Non-Executive Director has a proven track record in business at a senior level and expertise of relevance to the Group and all of the new Directors have had the benefit of a full induction programme to enable them to gain a good understanding of the Group's business and operations.

We have put in place clear parameters governing matters that must be approved by the Board and these are summarised on page 35.

We have also put in a place a Committee structure in accordance with the requirements for a premium listed company. The membership, roles and activities of the Committees are detailed in separate sections of this report together with the reports of the Audit and Risk Committee, Remuneration Committee and the Nomination Committee.

Open and frequent communication with our shareholders is very important to us and, since the IPO, our investor relations programme has been led by the Chief Executive Officer and Chief Financial Officer with support from the Chairman and all of the Non-Executive Directors when needed. A summary of our investor relations activity in the period since the IPO is set out in this report on page 37. We have chosen not to appoint a dedicated investor relations person but this is something the Board will keep under review.

During the IPO process, Kepler Associates were engaged as the Group's remuneration adviser. They advised on the remuneration policy which sets down the Group's forward-looking policy on the remuneration of Executive and Non-Executive Directors and is contained at pages 51 to 59 of the Directors' Remuneration Report.

As a Board, we recognise that the way we apply the principles of good governance must evolve and adapt to the changing needs of the business and we look forward to using sound governance in a pragmatic way that supports the long-term, sustainable growth of the Group around its four growth pillars.

At our AGM this year, all of our Directors will be seeking reappointment but, following his resignation from the Board on 3 February 2015 (pursuant to the terms of the Relationship Agreement), I would like to take this opportunity to thank Graeme Coulthard for being such a highly supportive and effective Non-Executive Director, both during the important period of Charterhouse's ownership of the Company, and during its early months as a listed company.

Other than as highlighted above and in the report below, the Board considers that the Group has complied with the requirements of the UK Corporate Governance Code in the period from completion of the IPO to the financial year ended 31 January 2015.

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

Yours sincerely

Geoff Cooper
Chairman

24 March 2015

Corporate Governance Report

OUR APPROACH

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

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

POST-IPO GOVERNANCE SUMMARY

Key activities during the year:

- thorough review and assessment of existing governance arrangements in advance of the IPO and implementation of key recommendations before, and throughout the period since, completion of the IPO;
- in anticipation of the IPO, the Group's legal advisers, Linklaters LLP, provided training to the Board on the governance requirements for a premium listed company and this has been supplemented in the period since the IPO with legal and governance updates from the Group's Company Secretary;
- in anticipation of the IPO, a Non-Executive Chairman and Non-Executive Directors have been appointed and Board committees formed;
- following completion of the IPO, Paul McCrudden has been appointed as an additional Non-Executive Director and a member of all of the Board committees; and
- all Directors will be submitted for reappointment at the AGM.

Since the year end:

- Graeme Coulthard has resigned as a Non-Executive Director following a significant reduction in the share holding of the Charterhouse Funds and the related termination of the Relationship Agreement; and
- following the appointment of Paul McCrudden, Geoff Cooper has stepped down as a member of the Audit Committee.

CODE COMPLIANCE

Save as set out in the paragraphs below, since the completion of the IPO, the Board has complied with and intends to continue to comply with the requirements of the UK Corporate Governance Code published in September 2012 by the Financial Reporting Council (the UK Corporate Governance Code or the Code) a copy of which can be obtained from www.frc.org.uk. The Company will report to its shareholders on its compliance with the UK Corporate Governance Code in accordance with the Listing Rules (LRs).

ROLE OF THE BOARD

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

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

BOARD COMPOSITION, BALANCE AND INDEPENDENCE

The Board currently comprises six members.

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

At the time of the IPO, the Company did not comply with this recommendation as the Board consisted of the Non-Executive Chairman, two Independent Non-Executive Directors, one Non-Executive Director and two Executive Directors. In the period since completion of the IPO, the Company has carried out an extensive search and selection process to seek to redress the current imbalance in the Board and to appoint a further Independent Non-Executive Director. Paul McCrudden was appointed as an additional Independent Non-Executive Director on 1 December 2014. Additionally, Graeme Coulthard, who was considered by the Board to be non-independent under the Code, resigned from the Board on 3 February 2015 (pursuant to the terms of the Relationship Agreement).

Although the Board is small relative to some other similar premium listed companies, the current preference is for it to remain this way to ensure it continues to be an effective and efficient decision making body that supports the Group's growth.

Chairman – Geoff Cooper

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

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

In addition, Geoff Cooper was, after completion of the IPO, appointed as an adviser to Charterhouse, one of the Company's shareholders (through the Charterhouse Funds). Geoff's potential conflict of interest with the Company, through this role with Charterhouse, was approved by the Board on the basis that he has no involvement in any decisions by Charterhouse in connection with its shareholding in the Company.

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

Appointee of Charterhouse Funds - Graeme Coulthard
Pursuant to a relationship agreement (Relationship Agreement) that was entered into on 15 May 2014 between the Company and the Charterhouse Funds that governed and regulated the relationship between the Charterhouse Funds and the Company following completion of the IPO, the Company agreed with the Charterhouse Funds that they may appoint one Non-Executive Director to the Board for so long as the Charterhouse Funds (and/or any of their associates, when taken together) hold 20% or more of the voting rights over the Company's ordinary shares. The Charterhouse Funds nominated Graeme Coulthard as their representative and he was appointed accordingly as a Non-Executive Director of the Board. For further details of the Relationship Agreement, see the Directors' Report on page 69. At the time it was entered into the Directors believed that the terms of the Relationship Agreement would enable the Company to carry on its business independently of the Charterhouse Funds. Following the sale by the Charterhouse Funds of certain of their ordinary shares, resulting in them holding less than 20% of the voting rights over the Company's ordinary shares, the Relationship Agreement has terminated and Graeme has resigned as a Director.

The Board considers all of the other Non-Executive Directors, other than Graeme Coulthard, as independent non-executive directors (within the meaning of the UK Corporate Governance Code) and free from any business or other relationships that are likely to interfere with the exercise of their independent judgement.

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

BOARD RESPONSIBILITY

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

This clear division of responsibilities between the Chairman and the Chief Executive Officer, 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. The matters reserved for the Board (and, where appropriate, its committees) include:

- responsibility for the overall leadership of the Company and setting the Company's values and standards;
- approval of the Group's strategic aims and objectives;
- changes to the Group's capital structure;
- major changes to the Group's corporate structure including, but not limited to, acquisitions and disposals of shares which are material relative to the size of the Group;
- approval of major capital projects which involve material expenditure (whether capital or otherwise);
- ensuring maintenance of a sound system of internal control and risk management;
- ensuring a satisfactory dialogue with shareholders based on a mutual understanding of objectives;
- approval of financial reporting, dividend policy and significant changes in accounting policies and practices;
- Board membership and senior appointments within the Group;
- determining the remuneration policy for the Directors, Company Secretary and other members of the senior management team; and
- appointment, re-appointment or removal of the Group's major professional advisers.

Corporate Governance Report continued

BOARD ATTENDANCE

In the period between completion of the IPO and the end of this year, the Board held six meetings and various Board committee meetings were also held with attendance as follows:

Director	Role	Board Meetings (6 meetings)	Remuneration Committee (2 meetings)	Audit and Risk Committee (2 meetings)	Nomination Committee (2 meetings)
Geoff Cooper	Non-Executive Chairman and Chair of Nomination Committee	5	2	2	2
Octavia Morley	Senior Independent Director and Chair of Remuneration Committee	6	2	2	2
David Stead	Independent Non-Executive Director and Chair of Audit and Risk Committee	5	2	2	2
Paul McCrudden[1]	Independent Non-Executive Director	1	–	1	–
Graeme Coulthard[2]	Non-Executive Director	6	–	–	–
Richard Hayes	Chief Executive Officer	6	–	–	–
Darren Bryant	Chief Financial Officer	6	–	–	–

1. Appointed 1 December 2014.
2. Resigned 3 February 2015.

BOARD ACTIVITIES

Board meetings are structured to ensure they focus on key strategic and operational matters that are affecting the business as well as on consideration of any decisions that are within the matters reserved for the Board examples of which are set out below.

Given the shortened time period between completion of the IPO and the end of the current year, the Board only met six times during the year but it intends to meet at least eight times per year with additional meetings as required.

Following its establishment at the time of the IPO, the Board agreed a schedule of matters for discussion at Board meetings for the remainder of this year and, going forwards, a similar schedule will be agreed in advance of each financial year.

This schedule currently includes regular reports from the Chief Executive Officer and the Chief Financial Officer on the operational and financial performance of the Group together with regular feedback from the Non-Executive Directors on their engagement with the business. It also includes a rolling agenda of other key operational, strategic, governance and risk topics which is regularly updated to ensure the Board is responsive to the operational and strategic issues affecting the business.

The key topics discussed by the Board in the period since completion of the IPO were:

Strategy	Performance	Governance
Product and strategic initiatives	Review of store rollout programme	Group business continuity plan
Competitor activity review	Design Studio review	Governance and legal updates
Republic of Ireland	EPOS rollout review	Risk review
Online strategy and development	Sales analysis	Review of reserved matters
SAYE scheme	Market review	Post-IPO review
Bank deposit strategy		Investor relations programme
Dividend policy		Board and committee business plan

All Directors receive papers in advance of Board meetings including updates from the senior management team covering those parts of the business they are responsible for and which monitor achievement against the Group's key performance indicators, both financial and strategic. Members of the Group's senior management team are also regularly invited to present at Board meetings so that the Group's Non-Executive Directors remain informed of key developments within the Group.

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

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

INVESTOR RELATIONS

Following completion of the IPO, the Board recognises the importance of explaining financial results and key strategic and operational developments in the business to the Company's shareholders and understanding any shareholder concerns. The Board regularly communicates with shareholders and, as part of the IPO process, the Company met regularly with analysts and shareholders and such meetings will continue. A summary of the Group's principal investor relations related activities following the IPO is set out below:

- results presentations following the publication of its interim and preliminary results for this financial year;
- meetings with investors throughout the year;
- investor and analysts days at the Group's headquarters; and
- regular investor and analysts calls.

The Chief Executive Officer and Chief Financial Officer have overall responsibility for investor relations. They are currently supported by the Company's retained financial PR advisers, MHP Communications, and its corporate brokers, UBS, who help organise presentations and visits to the Group's operations and stores for analysts and shareholders.

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

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

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

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

SIGNIFICANT SHAREHOLDERS

Details of the Group's significant shareholders and of shareholder voting rights are set out in the Directors' Report on page 69.

NED MEETINGS

The Chairman and the other Non-Executive Directors met once in the year without Executive Directors being present and they intend to continue to meet regularly to ensure that any concerns can be raised and discussed outside formal Board meetings. The Senior Independent Director will also attend these sessions where possible and, if required, will discuss any important matters with the other independent Non-Executive Directors. It is important to the Group that all Directors understand external views of the Group.

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

BOARD COMMITTEES

As envisaged by the UK Corporate Governance Code, the Board has established three committees of the Board: an Audit and Risk Committee, a Nomination Committee and a Remuneration Committee. If the need should arise, the Board may set up additional committees.

The terms of reference of each of these committees can be found on Card Factory's investor website (www.cardfactoryinvestors.com) and are available on request from the Company Secretary.

AUDIT AND RISK COMMITTEE

The Audit and Risk Committee assists the Board in discharging its responsibilities with regard to financial reporting, external and internal audits and controls, including reviewing and monitoring the integrity of the Group's annual and interim financial statements, reviewing and monitoring the extent of the non-audit work undertaken by external auditors, advising on the appointment of external auditors, overseeing the Group's relationship with its external auditors, reviewing the effectiveness of the external audit process, reviewing the effectiveness of the Group's internal control review function and risk management systems, whistleblowing and fraud systems. The ultimate responsibility for reviewing and approving the Annual Report and Accounts and the half-yearly reports remains with the Board. The Audit and Risk Committee will give due consideration to laws and regulations, the provisions of the UK Corporate Governance Code and the requirements of the Listing Rules.

The UK Corporate Governance Code recommends that an audit committee should comprise at least three members who are Independent Non-Executive Directors, and that at least one member should have recent and relevant financial experience. The Audit and Risk Committee is currently chaired by David Stead, and its other members are Octavia Morley and (from 1 December 2014) Paul McCrudden. Geoff Cooper was a member of the Audit and Risk Committee in the period between its formation at the time of the IPO and 24 February 2015. Although Geoff's inclusion as a member of the Audit and Risk Committee at the time of its formation, was not technically compliant with the UK Corporate Governance Code, the Directors believed that the Company was compliant with the spirit of the UK Corporate Governance Code. The Directors consider that David Stead has recent and relevant financial experience. In the period between the completion of the IPO and 31 January 2015 the Audit and Risk Committee met twice and, in future, will meet no fewer than three times a year.

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

The Audit and Risk Committee has access to sufficient resources to carry out its duties, including the services of the Group General Counsel and Company Secretary and the Group's internal audit function. Independent external legal and professional advice can also be taken by the Audit and Risk Committee if it believes it necessary to do so.

The Audit and Risk Committee chair will be available at Annual General Meetings of the Company to respond to questions from shareholders on the activities of the Audit and Risk Committee.

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

REMUNERATION COMMITTEE

The Remuneration Committee assists the Board in determining its responsibilities in relation to remuneration, including making recommendations to the Board on the Company's policy on executive remuneration, setting the over-arching principles, parameters and governance framework of the Group's remuneration policy and determining the individual remuneration and benefits package of each of the Company's Executive Directors, its Company Secretary and other members of the Group's senior management team. The Remuneration Committee will also ensure compliance with the UK Corporate Governance Code in relation to remuneration and is responsible for preparing an annual remuneration report for approval by the Company's members at its Annual General Meeting.

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

The UK Corporate Governance 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, could or would be likely to, or appear to, affect their judgement and that a chairman of the board of directors may also be a member provided he is considered independent on appointment. The Remuneration Committee is chaired by Octavia Morley, and its other members are Geoff Cooper, David Stead and (from 1 December 2014) Paul McCrudden. Although the inclusion of the Chairman (Geoff Cooper) as a member of the Remuneration Committee at the time of its formation, was not technically compliant with the UK Corporate Governance Code, the Directors believed that the Company was compliant with the spirit of the UK Corporate Governance Code. In the period between the completion of the IPO and 31 January 2015, the Remuneration Committee met twice and, in future, will meet not less than twice a year.

In preparation for and in the period since the IPO, the Board and the Remuneration Committee have employed Kepler Associates, a consulting agency which specialises in executive remuneration, to advise and assist in formulating and introducing a sustainable remuneration policy. Kepler Associates, who were appointed by the Board, also provide remuneration advice to the Group. Kepler Associates do not provide any other services to the Group.

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

NOMINATION COMMITTEE

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

The UK Corporate Governance Code recommends that a majority of the members of a nomination committee should be Independent Non-Executive Directors. The Nomination Committee is chaired by Geoff Cooper, and its other members are Octavia Morley, David Stead and (from 1 December 2014) Paul McCrudden. The Directors therefore believe that the Company is in compliance with the UK Corporate Governance Code. In the period between the completion of the IPO and 31 January 2015, the Nomination Committee met twice and, in future, will meet not less than once a year.

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

TRAINING AND INDUCTION

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

New Directors receive a full, formal and tailored induction on joining the Board, including meeting other members of the Board, the senior management team and other key members of staff and the Group's advisers. The induction includes visits to the Group's stores, Head Office, its Design Studio, Printcraft (the Group's print facility) and the headquarters of its online subsidiary, Getting Personal (www.gettingpersonal.co.uk).

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

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

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

Please see the Directors' biographies on pages 30 and 31 for details of the skills and experience of each Director.

EVALUATION

As the Board has only been in existence for a relatively short period of time, an evaluation of performance has not yet been undertaken. The first full internal evaluation is scheduled for later this year and will assess the effectiveness of the Chairman, individual Directors, the standing committees of the Board and the Board as a whole. Thereafter evaluation will be undertaken on an annual basis and the Board will, every third year, as required by the UK Corporate Governance Code, engage with an external agency to assist in the process.

CONFLICTS OF INTEREST

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

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

The Directors are able to impose limits or conditions when giving authorisation if they feel this is appropriate. All Directors are required to disclose any actual or potential conflicts to the Board and the following existing conflicts have been considered and approved:

- Graeme Coulthard is a Partner in Charterhouse Capital Partners LLP which, through the Charterhouse Funds, is a significant shareholder in the Company. It is pursuant and subject to the terms of the Relationship Agreement (details of which are set out in the Directors' Report on page 69) that Graeme was appointed as a Non-Executive Director of the Company. Following the disposal by the Charterhouse Funds of some of their ordinary shares in the Company, they now hold an interest representing, in aggregate, 17.8% of the total voting rights in the Company. Accordingly, the Relationship Agreement has automatically terminated under its terms and Graham has resigned from his position as a Director of the Company on 3 February 2015; and
- Geoff Cooper is an adviser in a professional capacity to Charterhouse Capital Partners LLP. This conflict was authorised on the basis that Geoff must not be involved in any decisions relating to Charterhouse Capital Partners LLP's shareholding (through the Charterhouse Funds) in the Company.

There were no other matters disclosed that are considered by the Board to give rise to a potential conflict of interest. Any conflicts are considered by the Board and any authorisations given are recorded in the Board minutes and reviewed annually by the Board.

The Board considers that its procedures to approve conflicts of interest and potential conflicts of interest are operating effectively.

APPOINTMENT AND REMOVAL OF DIRECTORS

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

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

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

In accordance with the UK Corporate Governance Code, all Directors will retire from the Board and offer themselves for re-election at the Annual General Meeting. Non-Executive Directors will also be subject to a separate vote by shareholders independent of the Charterhouse Funds as required by the Listing Rules of the Financial Conduct Authority.

POWERS OF DIRECTORS

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

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

ADVICE, INDEMNITIES AND INSURANCE

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

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

ARTICLES OF ASSOCIATION

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

GOVERNANCE AND RISK

The Board, as a whole, takes overall responsibility for ensuring that the Company has a continuous process in place to identify, evaluate and manage any significant risks that may affect the achievement of the Group's strategic and operational objectives. Given the nature of our business and our operating model, we do not have a separate Risk Committee. Our Audit and Risk Committee oversees our risk management framework as part of its activities.

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

- the Board and the senior management team take a leadership role in managing risk within the business and look to embed the principles of sound risk management in the teams they are responsible for managing;
- responsibility for monitoring and managing risks, which are assessed in terms of impact and likelihood, identified in the Group's risk register on a day-to-day basis is given to the relevant members of the Group's senior management team who then provide regular updates to the Group's Executive Directors. In the event there is a change in their assessment of the impact the risk may have on the Group or they identify a new risk which the Group may face, the Group's risk register is updated accordingly;

- the Audit and Risk Committee regularly reviews the Group's risk register and gives detailed consideration to those risks which have been identified as key risks affecting the Group and the actions being taken and processes in place to mitigate them;
- the Board carries out a review of the key risks affecting the Group twice a year as well as assessing whether the Group is striking an appropriate balance between its appetite for risk and the achievement of its strategic goals; and
- certain key risks, for example, competitor activity and business strategy are additionally the subject of separate and regular detailed discussions at Board meetings and meetings of the senior management team.

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

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

The Board and the Audit and Risk Committee have reviewed the effectiveness of the Group's risk management framework and the Company's risk register and their alignment with the Company's strategic objectives in accordance with the UK Corporate Governance Code for the period ended 31 January 2015 and up to the date of approving the Annual Report and Accounts. The Board considered the key risks and relevant mitigating actions and determined that they were acceptable for a retail business of the size and complexity as that operated by the Group.

INTERNAL CONTROL AND AUDIT

Overall responsibility for the system of internal control and reviewing its effectiveness lies with the Board. As highlighted above, KPMG LLP carried out a comprehensive review of our internal controls prior to completion of the IPO and, in the period since then, the Group has continued to assess the performance of its system of internal controls as well as implementing some of the recommendations KPMG LLP made in terms of further enhancing our control environments.

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

Board
Takes collective responsibility for internal controls Reserves certain matters that can only be decided upon by the Board Oversees the control framework in place setting out responsibilities Approves key policies and procedures Monitors development and performance
Audit and Risk Committee
Oversees effectiveness of internal control framework Receives reports from external auditors Agrees audit strategy Approves internal audit programme Receives reports generated through the internal audit programme
Senior Management Team
Responsible for operating within the control framework Reviews and monitors compliance with policies and procedures Recommends changes to controls/policies where needed Monitors performance
Internal Audit Function
Focus on cash losses and fraud in stores
Risk Assessors/Operational Audit Team
Reviews compliance with certain internal procedures in stores and at other locations
Co-sourced internal audit function
Deloitte LLP

Specific elements of the current internal control framework include:

- a list of matters specifically reserved for Board approval, examples of which are set out above on page 35;
- 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 internal audit 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 Group has appointed Deloitte LLP to help supplement the valuable work being performed by the Group's current internal audit function, which is focused on reducing financial losses across the Group's store portfolio with a primary focus on cash losses. This focused approach is a reflection of the relative importance to the Group of controlling cash losses given that a significant proportion of transactions in our stores are conducted in cash and the low relative unit value of stock. It is also a reflection of the Group's existing controls and procedures and the close involvement of the Executive Directors in the day-to-day operation of the business.

During the year, certain other internal audit activities were carried out by internal teams, reporting to the Board and the Audit and Risk Committee. Topics covered included business continuity planning and the Group's IT strategy, governance and controls. It is intended that some of these activities will also be the subject of review by Deloitte LLP as part of the programme of internal audit activities they have been appointed to assist us with.

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

The Board and the Audit Committee have reviewed the effectiveness of the Group's internal control systems in accordance with the UK Corporate Governance Code for the period ended 31 January 2015 and up to the date of approving the Annual Report and Accounts and confirmed that they are satisfactory.

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

DISCLOSURES UNDER DTR 7.2.6R

The disclosures the Company is required to make pursuant to DTR 7.2.6R are contained in the Directors' Report on pages 69 and 70.

SHARE DEALING CODE

The Company has adopted, with effect from the completion of the IPO, a code of securities dealings in relation to the ordinary shares which is based on, and is at least as rigorous as, the Model Code as published in the Listing Rules. The code adopted applies to the Directors, Senior Managers and to other relevant employees of the Company.

ANTI-BRIBERY

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

WHISTLEBLOWING

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

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

This report was reviewed and approved by the Board on 24 March 2015.

Geoff Cooper
Chairman

24 March 2015

Chairman's Letter – Audit and Risk Committee

David Stead
Chairman of the Audit and Risk Committee

Dear Shareholder

I am pleased to have taken on the role of Audit and Risk Committee Chairman at an exciting time in the development of the Group. This is the Group's first report following its IPO and I hope that it will give shareholders a helpful insight into how the Committee carries out its responsibilities.

Thanks to the work done both by the Card Factory team and KPMG LLP, as reporting accountants on the IPO, the Committee began its role in the public company arena with a thorough understanding of the strengths of the business's control framework and with a clear agenda of items to evolve further.

Both in anticipation of and following the IPO, the Committee has made progress in a number of areas:

- before the IPO, the Group carried out a thorough review of the existing governance and control structure of the Group with its advisers KPMG LLP and Linklaters LLP to ensure it had procedures in place which provided a reasonable basis for the Board to make proper judgements as to the Group's financial position and prospects;
- immediately prior to the IPO, the independence of the Committee was strengthened to ensure that it complied with the requirements of the UK Corporate Governance Code and it is now entirely made up of Independent Non-Executive Directors;
- the Committee has formalised the Group's policies with regard to auditor rotation and use of the auditors for non-audit services;
- the Group has decided to expand its internal audit function to reinforce controls and procedures and to supplement the work of the Group's existing operational audit function which is focused on loss prevention; and
- the Group has developed a more formalised approach to risk management with regular reviews by the senior management team and the Committee of the key risks affecting the Group's business.

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

I look forward to meeting shareholders at the AGM.

Yours sincerely

David Stead
Chairman of the Audit and Risk Committee

24 March 2015

Audit and Risk Committee Report

This report provides details of the role of the Audit and Risk Committee and the work it has undertaken during the year. Prior to the IPO, the Group had in place a Committee which comprised three representatives from the Charterhouse Funds together with the Chief Executive Officer and Chief Financial Officer of the Company. The last meeting of the previous Committee took place on 24 March 2014 and references to the Committee in this report include activities during the year both before and after the IPO.

ROLE OF THE AUDIT AND RISK COMMITTEE

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

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

A more detailed explanation of the Audit and Risk Committee's role is set out in the Corporate Governance Report on page 37 and the Committee's terms of reference, which are published on Card Factory's investor website (www.cardfactoryinvestors.com), comply with the UK Corporate Governance Code.

MEMBERSHIP

Since the IPO, the Audit and Risk Committee has been chaired by David Stead, and its other members are Octavia Morley and (from 1 December 2014) Paul McCrudden. Geoff Cooper was also a member of the Committee during the year and until 24 February 2015.

As David Stead is a chartered accountant and is currently the Finance Director of Dunelm Group plc, the Board considers that his financial experience is both recent and relevant in accordance with the requirements of the Code.

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

MEETINGS

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

One Committee meeting was held prior to the completion of the IPO on 24 March 2014 at which KPMG LLP's audit findings for the year ended 31 January 2014 were presented and the Committee also considered various matters in connection with the IPO. Additionally, a number of meetings were held with KPMG LLP during the IPO process in their capacity as reporting accountants.

ROUTINE ACTIVITIES DURING THE YEAR

During the year but predominantly in the period since the IPO, the work of the Committee has principally fallen under the following areas:

- implementing the recommendations of KPMG LLP as regards the systems and controls which the Group has in place to enable the Board to make proper judgements on a continuing basis as to the financial position and prospects of the Group;
- reviewing the process for identifying and managing risk within the business, including a review of the Group's risk register in December 2014;
- reviewing the Group's current IT strategy and the structure of and resource within the IT team;
- reviewing the Group's current business continuity plan and processes;
- verifying the independence of the Group's auditors, approving the audit plan and the audit fee proposal and setting performance expectations for the auditors;
- approval of the Group's half-year results published in September 2014;
- developing the Group's policy for use of auditors for non-audit work (see below);
- considering and approving the Group's tax strategy which covers, amongst other things, the roles and responsibilities of those who input into its tax processes, the objectives of the Group's tax function, the Group's key tax policies and principles, the Group's attitude to tax risk and our relationship with HMRC and our tax advisers;
- reviewing the scope of the work currently carried out by the Group's operational audit function and supplementing this through the appointment of Deloitte LLP to provide certain internal audit services (see below); and
- reviewing fraud detection controls and the reporting of incidents in accordance with the Group's whistleblowing policy.

ACTIVITIES AFTER THE YEAR END

In the period following the year end, the Committee met once in March 2015 and covered the following:

- a review of the integrity of the draft financial statements for the year ended January 2015, the appropriateness of accounting policies and going concern assumptions and considering the auditors' report regarding their findings on the annual results;
- a review of the systems and controls which the Group has in place to enable the Board to make proper judgements on a continuing basis as to the financial position and prospects of the Group;
- a review of whether the 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 strategy, business model and performance;
- a review and recommendation for approval of the Annual Report and Accounts for the year ended January 2015; and
- a review of the performance, effectiveness and qualifications of the auditors and recommendation for their re-appointment.

SIGNIFICANT AREAS OF JUDGEMENT

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

At its meeting in March 2015, the Committee: reviewed the Group's results for the financial year; considered a paper prepared by KPMG LLP, which included comments on significant reporting and accounting matters; and reviewed a paper from the Chief Financial Officer to support the Directors' going concern statement.

The major accounting issues discussed by the Committee concerned:

- the accounting relating to the Company's IPO;
- the accounting relating to the Group's foreign exchange hedging instruments; and
- the Group's inventory.

Accounting for the IPO

The Group's corporate structure prior to the completion of the IPO on 20 May 2014 was relatively complex in nature and structured to meet the needs of the Group and its shareholder base prior to the IPO. The Group engaged appropriate legal, accounting and tax advisers to develop a Group structure which would facilitate the Company's admission to the premium listing segment of the Official List of the Financial Conduct Authority.

The detailed plan developed for the Group included a comprehensive articulation of the accounting treatments necessary both before and after the IPO and the Group has worked closely with its advisers to ensure the accounting entries necessary have been executed in accordance with the plan.

Subsequent to the IPO, we have considered the appropriate presentation of our first results as a premium listed company and the key areas of technical consideration were the application of the principles of reverse acquisition accounting to the Group and the presentation of the significant costs incurred in the year in connection with the IPO.

The Group has deployed significant accounting resource to review the accounting in connection with the Company's IPO and is satisfied that the transactions concerned have been accurately reported.

Accounting for foreign exchange hedging instruments

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

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

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

Inventory

Due to the nature of the Group's business, it holds significant volumes, and a broad range, of inventory. Certain of the Group's inventory valuation procedures are largely manual in nature as are certain controls around inventory once it has left the Group's distribution centre and has been delivered to stores.

Given the volume and nature of inventory held and the manual nature of certain controls, there is a risk that a material misstatement could arise due to the volume or cost of inventory being incorrectly recorded.

Audit and Risk Committee Report continued

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

- full inventory counts twice yearly both in-store and in the Group's distribution centre;
- additional store counts of seasonal inventory at the end of the key trading seasons for the business;
- reviews of inventory levels by store; and
- detailed analytical review to assess the reasonableness of the inventory figure.

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

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

INTERNAL AUDIT

The Group's operational audit function was established a number of years ago and is primarily focused on fraud and loss prevention in Card Factory stores which it monitors through compliance checks and internal investigations. The work of this function and its operational processes are set out in a detailed manual that is reviewed on a regular basis by the Chief Financial Officer.

As described on page 41 in the Corporate Governance Report, all of the Group's other internal controls are currently managed and monitored by the Group's senior management team (including the Chief Executive Officer and the Chief Financial Officer). Whilst the current system was reviewed and found to be effective in anticipation of the IPO, the Committee, taking into account the continued growth of the Group, has appointed Deloitte LLP to provide additional internal audit services to the Group.

Deloitte LLP were appointed on 24 March 2015 following a competitive tender process. Their work will be focused on evaluating the effectiveness and robustness of the Group's current system of internal control and its approach to identifying and mitigating risks that the business is faced with. The Committee will report on the work of Deloitte LLP in next year's annual report.

EXTERNAL AUDITORS

KPMG LLP have conducted the statutory audit for the financial year ended 31 January 2015 and they attended the Committee meetings in September 2014, December 2014 and March 2015. The Committee had the opportunity to meet privately with them during the period.

The fee paid to KPMG LLP for the statutory audit of the Group and Company financial statements and the audit of Group subsidiaries pursuant to legislation was £107,000. A breakdown of fees paid to KPMG LLP during the financial year is set out in note 4 to the financial statements on page 88.

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

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

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

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

USE OF AUDITORS FOR NON-AUDIT WORK

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

Prior to completion of the IPO, the Group's approach to procuring non-audit services was to select the most appropriate provider based on their knowledge, experience, cost and there not being a conflict of interest, with some services being the subject of formal tender processes.

At the time the IPO process commenced, the Board felt our auditors, KPMG LLP, were the most appropriate firm to carry out the substantial amount of work that was required to complete the IPO in the required timescales given their extensive knowledge of the Group.

Since completing the IPO, the Group has adopted a formal policy regarding its use of audit firms for non-audit services, a copy of which is available on Card Factory's investor website (www.cardfactoryinvestors.com). The Committee, in addition to being responsible for the oversight of our auditors on behalf of the Board, also has responsibility for monitoring how this policy is implemented.

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

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

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

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

The aggregate fees paid to KPMG LLP for non-audit work during the year were £465,000; however, excluding activity related directly to the Listing, the relevant amount was £31,000 (equivalent to 29.0% of the audit fee). Subsequent to the IPO, we have also retained the services of KPMG LLP to provide tax advice, to perform an independent review of our half-year results, and for sundry additional assignments flowing from the IPO. Full details are given in note 4 to the financial statements on page 88.

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

This report was reviewed and approved by the Committee on 24 March 2015.

David Stead
Chairman of the Audit and Risk Committee

24 March 2015

Chairman's Letter – Remuneration Committee

Octavia Morley
Chairman of the Remuneration Committee

Dear Shareholder

Following the completion of the IPO in May 2014, I am pleased to present the Company's first Directors' Remuneration Report for the year ended 31 January 2015.

Since the IPO, the Remuneration Committee has carefully considered all relevant aspects of Executive Director remuneration at Card Factory against market practice for listed companies in the UK and in particular those in the retail sector, and against the requirements of the UK Corporate Governance Code to ensure they are appropriate and balanced, support the Company strategy to deliver shareholder value through driving our four pillar approach, and align executive and shareholder interests.

Key remuneration decisions during the year have included:

- the review of Executive Director salaries in advance of the IPO, to ensure they are market competitive. Salaries were reviewed against UK-listed companies of similar size and complexity, and against other listed retail companies;
- the introduction of an annual bonus that is aligned to current best practice, which primarily rewards delivery of EBITDA (earnings before interest, tax, depreciation and amortisation), and is subject to a personal performance underpin. The maximum bonus opportunities for the CEO and CFO have been set with reference to market levels at 125% and 100% of salary, respectively. A portion of bonuses will be deferred if executives have not yet met their shareholding guidelines (see below). The Committee will have discretion to reduce the amount of any bonus entitlement, or defer awards and make them subject to additional conditions, in the event of material misstatement, gross misconduct or reputational damage. In addition, from 2015/16, bonus awards will be subject to clawback for up to two years after payment;
- bonuses for the year ended 31 January 2015 were awarded at 77% of maximum and targets for the next financial year were agreed;
- the introduction of the Long Term Incentive Plan (LTIP), and granting of awards in May. The LTIP incentivises EPS growth over a three-year time period, and vesting is also subject to a return on capital underpin. LTIP opportunities for the CEO and CFO have been set with reference to market levels at 175% and 150% of salary, respectively. Vested LTIP awards are also subject to a two-year holding period. The Committee will have discretion to reduce unvested LTIP awards, in the event of material misstatement, gross misconduct or reputational damage. In addition, from 2015/16 LTIP awards will be subject to clawback for up to two years after payment;
- the introduction of executive shareholding requirements of 200% of salary for the CEO and 150% for the CFO. Both Executive Directors currently significantly exceed this requirement; and
- consideration of a UK tax-qualified all-employee SAYE (Save As You Earn) scheme to promote share ownership among our wider employee population which will be put to shareholders for approval at the Annual General Meeting of the Company to be held on 27 May 2015.

The intention of this remuneration report is to provide a transparent explanation of our policies, and describe their implementation during our first year as a listed company. Our Annual Report on Remuneration summarises the 2014/15 remuneration for the Executive Directors including, for each Executive Director, a single figure for their total remuneration which reflects a strong first set of results for the Company as a listed company.
The remuneration framework for 2015/16 will be similar to 2014/15.

Our remuneration framework ensures that we are well placed to motivate our Executive Directors to achieve the business objectives of the Group and to continue the Company's strong performance record in order to achieve our aim of creating long-term shareholder value. We will continue to review our remuneration policies to ensure they are in line with market best practice and we value all feedback from shareholders and hope to receive your support at the forthcoming AGM.

Octavia Morley
Chairman of the Remuneration Committee

24 March 2015

Directors' Remuneration Report

INTRODUCTION

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

The Directors' Remuneration Policy sets out the policy, which will be put to shareholders for approval at the Annual General Meeting on 27 May 2015. Subject to shareholder approval, the policy will be effective as of 27 May 2015. The shareholder vote on the Directors' Remuneration Policy will be binding, and, if not passed, the Directors' Remuneration Policy must be amended and put to a further vote at a specially convened General Meeting.

Once the Directors' Remuneration Policy has been approved, no payment may be paid to a Director or past Director unless it is consistent with the approved policy unless shareholder approval is sought. The exception to this is if the payment is made pursuant to a contractual obligation that was in force at 27 June 2012 (when the new Regulations came into force).

The Annual Report on Remuneration sets out how the policy has been applied during the financial year being reported on and how it will be applied in the coming year. This report will also be put to shareholders for approval at the Annual General Meeting on 27 May 2015, although the vote on the Remuneration Report is advisory. If this vote were not passed, the Company would consult with shareholders and would be obliged to put the Directors' Remuneration Policy back to shareholders for approval at the Annual General Meeting of the Company in 2016.

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

DIRECTORS' REMUNERATION POLICY

This section provides Card Factory's Directors' Remuneration Policy (Policy) which will apply from the date of the Company's forthcoming Annual General Meeting, subject to approval at that date.

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

FUTURE 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 with reference to companies of a similar size and other retail companies, inflation and salary increases across the Group Increases will normally be effective 1 May	Whilst no maximum level of salary has been set by the Remuneration Committee, Executive Directors' salary increases will normally be in line with those for the wider employee population at Card Factory In certain circumstances (including, but not limited to, a material increase in job size or complexity, promotion, recruitment or development of the individual in the role, or a significant misalignment with market) the Committee has discretion to make appropriate adjustments to salary levels to ensure they remain fair and competitive	Business and individual performance are considerations in setting base salary
Pension To provide post-retirement benefits	Executive Directors are entitled to receive the same auto enrolment DC pension arrangements as other employees	The maximum permitted by pensions auto enrolment legislation New appointees may be offered pension arrangements based on market competitive contribution rates	None
Benefits To provide Executive Directors with a reasonable level of benefits and to ensure overall remuneration is market competitive	Benefits currently 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	Benefits values vary by role and are reviewed periodically relative to market It is not practical to provide a maximum opportunity for benefits, as there may be factors outside of the Company's control which change the cost to the Company (eg increases in insurance premiums) 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 performance The ability to deliver a portion of bonuses in shares helps towards achieving an appropriate balance between year-on-year financial performance and longer-term value creation	Performance measures and targets are set at the start of the financial year by the Remuneration Committee At the end of the financial year, the Remuneration Committee determines the extent to which the targets have been achieved Awards are normally delivered in cash, but the Committee can decide that some or all of it will instead be paid in shares and deferred for up to three years. If participants have not met the shareholding requirement, up to one third of any bonus will be mandatorily deferred in shares for three years An additional benefit is provided in cash or shares equal to dividends that would have been paid over the vesting period on awards that vest The Committee has discretion to reduce the amount of any deferred bonus entitlement, or defer vesting of awards or make them subject to additional conditions, in the event of, for example, material misstatement, misconduct or reputational damage. In extreme cases, the Committee may further determine to claw back previous annual bonus payments for up to two years post-vesting	Up to 125% of salary	Performance is determined by the Committee on an annual basis by reference to financial measures (eg EBITDA) and personal performance The annual bonus for 2015/16 will be based on EBITDA performance with a personal performance underpin, as in 2014/15 (see further details in the Annual Report on Remuneration) For achievement of threshold performance, up to 15% of maximum bonus is earned In determining the bonus outcome the Committee also takes into account personal, business unit or Company performance and can reduce bonus awards accordingly The Committee retains discretion to introduce operational or strategic measures at the start of each year, to ensure alignment with the business priorities for the year. The weighting on financial measures will remain at least 80%

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Long Term Incentive Plan (LTIP) To align the interests of executives with shareholders in growing the value of the business over the long-term	The Committee has the ability to grant annual awards of performance shares or nil-cost options Performance is measured over a three-year period. Shares are then subject to an additional two-year holding period (apart from any sold to pay tax), before being released to participants An additional benefit is provided in cash or shares equal to dividends that would have been paid over the vesting period on awards that vest The Committee have discretion to reduce unvested long term incentive awards, defer vesting of awards or make them subject to additional conditions (including those awards in a holding period) in the event of, for example, material misstatement, misconduct or reputational damage In extreme cases, the Committee may further determine to claw back vested LTIP awards for up to two years post-vesting	Up to 175% of salary face value at grant	Subject to continued employment, awards will vest on achievement of financial performance measures (eg EPS growth, return measures), measured over a three-year performance period Up to 25% of awards will vest for achievement of threshold performance, then increase on a straight-line basis to full vesting for achieving stretch performance Measures used for LTIP awards in 2015/16 will be based on three-year EPS growth with a returns underpin, as in 2014/15 (see further details in the Annual Report on Remuneration)
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. They are granted an option to acquire shares at up to a 20% discount to the price on grant. The number of shares under option is that which can be acquired at that price using the proceeds of the savings. This scheme is subject to approval at the 2015 Annual General Meeting	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

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Shareholding guidelines To encourage share ownership and ensure alignment of executive interests with those of shareholders	Requirement to build up and maintain a beneficial holding of shares in the Company defined as a % of salary	Details of the current guidelines and Executive Director shareholdings are included in the Annual Report on Remuneration	None

NOTES TO THE POLICY TABLE

The remuneration policy above is consistent with that included in the prospectus published by the Company in connection with the IPO. Equity plans shall be operated in accordance with the relevant rules as amended from time to time in accordance with those rules, and within the limits of the remuneration policy.

Performance measure selection and approach to target setting

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

Discretion

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

Differences in remuneration policy operated for other employees

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

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

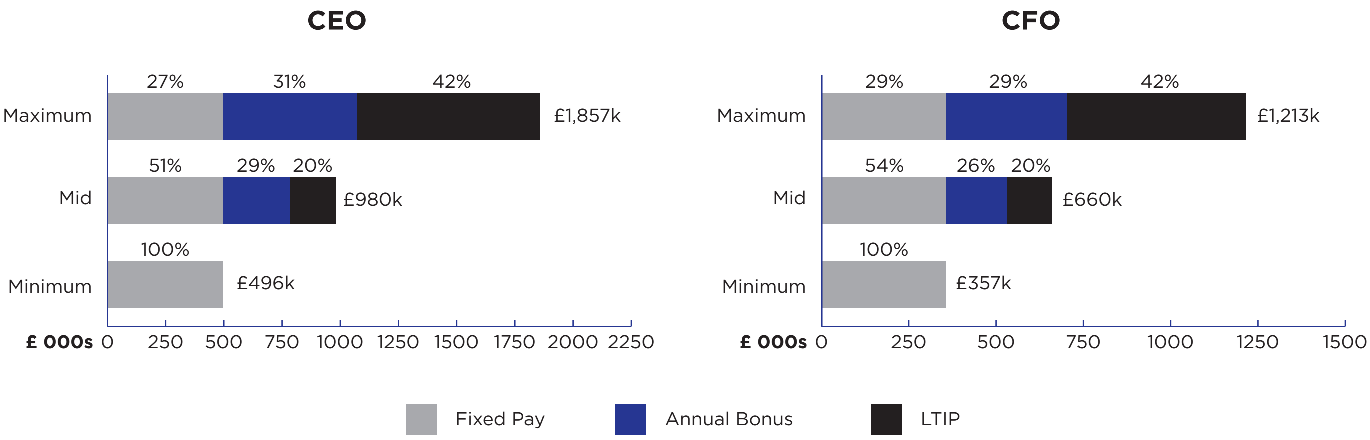
All employees, including the current Executive Directors, are eligible to participate in the same pension scheme (as the relevant legislation provides) with the same maximum contribution, and permanent employees will be eligible participate (subject to certain eligibility criteria) in the UK tax-qualified SAYE scheme (to be put to shareholders for approval at the 2015 Annual General Meeting) on identical terms.

Other

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

PERFORMANCE SCENARIOS

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



Potential reward opportunities illustrated above are based on the policy which will apply from 27 May 2015, applied to the base salaries that will be in force on 1 May 2015. The projected value of LTIP amounts assumes LTIP grants at the maximum level and excludes the impact of share price movement or dividend accrual.

In illustrating potential reward opportunities the following assumptions are made:

Scenario	Fixed Pay	Annual Bonus	LTIP
Minimum	Salary as at 1 May 2015	No annual bonus payable	Threshold not achieved (0%)
Mid	Pension contribution is currently 1% of qualifying band earnings for the CEO (the CFO has opted out of the pension scheme)	On-target annual bonus payable (50% of maximum)	Performance warrants threshold vesting (25% of maximum)
Maximum	Benefits for the most recent financial year	Maximum annual bonus payable	Performance warrants full vesting

APPROACH TO REMUNERATION FOR NEW DIRECTOR APPOINTMENTS

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

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

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

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

In recruiting a new Non-Executive Director, the Remuneration Committee will use the Policy as set out in the table on page 59.

SERVICE CONTRACTS AND EXIT PAYMENT POLICY

Executive Directors

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

Executive Director	Date of service contract
Richard Hayes	30 April 2014
Darren Bryant	30 April 2014

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

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

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

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

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

Non-Executive Directors

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

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

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

Other than the one-off option grant awarded to the Chairman pre-IPO in connection with his appointment (as detailed on page 63 of the Annual Report on Remuneration), Non-Executive Directors are not eligible to participate in the annual bonus or any equity schemes, do not receive any additional pension or benefits on top of the fees disclosed on page 63, and are not entitled to a termination payment.

CONSIDERATION OF EMPLOYEE REMUNERATION AND EMPLOYMENT CONDITIONS IN GROUP

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

CONSIDERATION OF SHAREHOLDER VIEWS

Card Factory listed on the London Stock Exchange on 20 May 2014. This Directors' Remuneration Policy will be the first for which a shareholder vote will be sought. Although recently listed, the Committee is conscious of the importance of building good relationships with our shareholders. In determining the remuneration arrangements implemented at the time of the IPO, the Committee reviewed best practice for listed companies, and sought to implement a remuneration framework that supported delivery of the Company's strategy whilst recognising established remuneration practices in the listed company environment in the UK, and to promote alignment between Executive Directors and shareholder interests.

When determining remuneration going forward, the Committee intends to take into account the guidelines of shareholder bodies and shareholders' views. The Committee is open to feedback from shareholders on remuneration policy and arrangements, and commits to undergoing consultation in advance of any significant changes to remuneration policy.

EXTERNAL DIRECTORSHIPS

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

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

FUTURE POLICY TABLE FOR NON-EXECUTIVE DIRECTOR REMUNERATION

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

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

ANNUAL REPORT ON REMUNERATION

This is the Annual Report on Remuneration for the financial year ended 31 January 2015. Notwithstanding that the Directors' Remuneration Policy has not yet been formally approved by shareholders, this report sets out how the policy has been applied in the financial year being reported on, and how it will be applied in the coming year.

REMUNERATION COMMITTEE MEMBERSHIP AND ADVISERS

The Remuneration Committee was established on 30 April 2014 and consists of three independent Non-Executive Directors; Octavia Morley (Chairman), David Stead and Paul McCrudden (from 1 December 2014), and the Non-Executive Chairman, Geoff Cooper. A more detailed explanation of the Remuneration Committee's role is set out in the Corporate Governance Report on page 38 and a copy of its terms of reference, which comply with the UK Corporate Governance Code, are available on Card Factory's investor website, (www.cardfactoryinvestors.com).

The Committee fulfils its duties with a combination of both formal meetings and informal consultation with relevant parties internally. Its principal external advisers are Kepler Associates, who were appointed by the Committee, and who also provide remuneration advice to the Company. Kepler Associates do not provide any other services to the Company. Kepler is a signatory to the Code of Conduct for Remuneration Consultants in the UK, details of which can be found on the Remuneration Consultants Group's website at www.remunerationconsultantsgroup.com. Accordingly, the Committee is satisfied that the advice received from Kepler Associates is objective and independent. Fees paid to Kepler Associates for the financial year were £44,600 which were charged on the basis of time and materials.

COMMITTEE ACTIVITIES

During 2014/15, the Committee met to consider the following remuneration matters:

- the Directors' Remuneration Policy for 2015/16 which is to be put to shareholders for approval at the forthcoming Annual General Meeting;
- 2014 grants of LTIP awards;
- to approve the terms of the proposed SAYE Share Scheme to be put to shareholders of the Company for approval at the forthcoming Annual General Meeting;
- to agree proposed salary reviews and bonuses for the Executive Directors and members of the senior management team for 2014 ; and
- to formally approve the Directors' Remuneration Report set out in this Annual Report.

SINGLE FIGURE OF TOTAL REMUNERATION FOR EXECUTIVE DIRECTORS – AUDITED

The table below sets out a single figure for the total remuneration received by each Executive Director employed by the Company during the period for the year ended 31 January 2015 and the prior year:

	Richard Hayes		Darren Bryant	
	2014/15	2013/14	**2014/15**	2013/14
Salary[1]	**£414,000**	£301,158	**£323,850**	£233,493
Pension benefit	**£360**	£209	**–**	–
Taxable benefits[2]	**£33,373**	£32,484	**£8,000**	£8,000
Non-taxable benefits[3]	**£3,130**	£2,383	**£1,829**	£1,353
Annual bonus[4]	**£433,510**	£300,000	**£411,800**	£450,000
Share Award[5]	**n/a**	n/a	**£4,200,000**	n/a
LTIP[6]	**n/a**	n/a	**n/a**	n/a
Total	**£884,373**	£636,234	**£4,945,479**	£692,846

1. The Company was incorporated on 17 April 2014. In addition to the remuneration received by the Executive Directors from the Company from that date, the table above includes the remuneration the Executive Directors received from CF Topco Limited, the Group's holding company prior to the IPO, in the period from 1 February 2014 to 16 April 2014 and for the financial year ended 31 January 2014.
2. Taxable benefits include: car or car allowance (Richard Hayes 2014/15: £24,498 2013/14: £24,218 Darren Bryant: £8,000 allowance); fuel allowance (Richard Hayes 2014/15: £7,558 2013/14: £7,330); and family private medical insurance.
3. Both Richard Hayes and Darren Bryant are members of the Group Life Assurance Scheme. The amounts stated relate to insurance premiums paid by the Group.
4. Annual bonus paid for performance over the relevant financial year. Annual bonus was paid in cash only. Further details on performance criteria, achievement and resulting awards for the financial year ended 31 January 2015 can be found on pages 61 and 62. In the financial year ended 31 January 2014 a separate performance related bonus scheme was in place. In the financial year ended 31 January 2015, Darren Bryant received a bonus in connection with the completion of IPO.
5. As disclosed in the prospectus published by the Company in connection with the IPO, a share based payment arose during the year in favour of Darren Bryant relating to management entitlements under the investment agreement that was in place between the shareholders of the Company prior to the IPO. Immediately after completion of the IPO, 1,875,000 ordinary shares were issued and allotted to Darren Bryant for the nominal value of 1p per ordinary share. The IPO offer price was 225p per share.
6. No LTIP awards vested during the reported periods.

SALARY

The Remuneration Committee reviewed salaries as part of the thorough review of remuneration arrangements prior to completing the IPO. Following this review, the Board determined that Executive Director salaries for 2014/15 would be set at a level that is competitive with UK-listed companies of broadly similar size and complexity:

Executive Director	**1 May 2015**	1 May 2014[1]
Richard Hayes	**£459,000**	£450,000
Darren Bryant	**£346,800**	£340,000

1. Before 1 May 2014 Richard Hayes' salary was £306,000 and Darren Bryant's salary was £275,400. Increase reflects a resetting of salaries as part of the review of remuneration at the time of the IPO. Salaries were set for 2014/15 at a level that is competitive with UK-listed companies of broadly similar size and complexity.

EXECUTIVE DIRECTORS' PENSION ARRANGEMENTS

Executive Directors participate in the same defined contribution pension scheme as other employees in line with auto-enrolment legislation. Pension contributions for Richard Hayes in 2014/15 were 1% of qualifying band earnings. Darren Bryant opted-out of the auto-enrolment pension arrangements and no pension contributions were made for him for the year under review. For 2015/16, the Executive Directors will continue to receive pension contributions in line with the stated remuneration policy.

ANNUAL BONUS

The Group operates an annual performance-related bonus scheme for a number of the senior management team including Executive Directors. Bonus opportunities for 2014/15 were 125% of salary for Richard Hayes and 100% of salary for Darren Bryant. Annual bonus awards granted to Executive Directors' in respect of 2014/15 were as follows:

Executive Director	**Bonus[1]**
Richard Hayes	£433,510
Darren Bryant[2]	£261,800

1. All bonuses will be paid in cash.
2. In the financial year ended 31 January 2015, Darren Bryant also received a cash bonus in connection with the completion of the IPO.

The awards in respect of 2014/15 were based on EBITDA and subject to a personal performance underpin. The EBITDA performance targets for the year were:

Performance level	2014/15 EBITDA target	Percentage of maximum bonus awarded
Threshold	£86m	15%
Maximum	£89m	100%

For levels of performance between the points set out in the tables, vesting would be determined on a straight-line, pro-rata basis. No bonus is awarded for performance below the threshold. The range between threshold and maximum has been drawn relatively tightly in line with the relative consistency of business performance. In the financial year ended 31 January 2015, Card Factory achieved EBITDA of £88.2m. The Committee assessed the personal performance underpin to have been achieved, and as such, annual bonuses were awarded at 77% of maximum.

ANNUAL BONUS FOR 2015/16

For the financial year ending 31 January 2016, the Committee will operate the annual bonus using the same measures as were used in 2014/15. The EBITDA targets have been set by the Committee and will require Executive Directors to deliver significant stretch performance. Given the close link between these targets and Card Factory's competitive strategy, EBITDA targets are considered commercially sensitive but will be published in the following year's Annual Report on Remuneration, subject to them no longer being considered commercially sensitive.

The use of an EBITDA performance measure, in the opinion of the Committee, focuses management on strong annual financial performance and is heavily dependent on the Company's success in achieving its short and long-term strategic goals. The overall assessment of personal performance helps ensure that the Executive's behaviours support longer-term value creation.

LONG TERM INCENTIVE PLAN (LTIP) – AUDITED

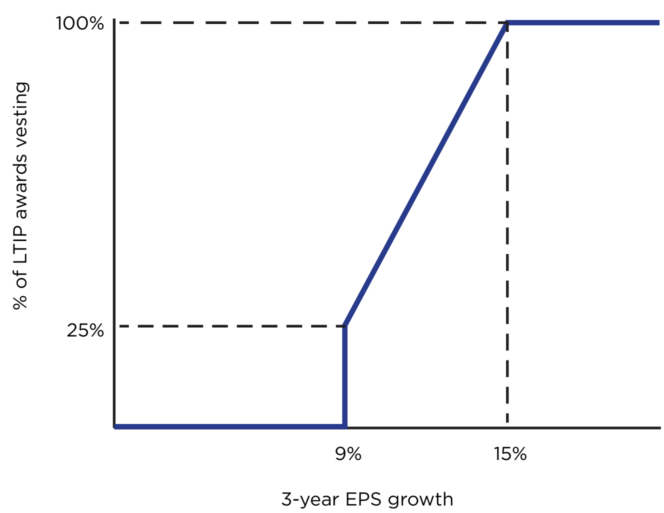
Grants of awards under the LTIP in 2014

Awards under the LTIP were first granted to the Executive Directors on 20 May 2014. Awards were made over shares worth 175% of basic salary for Richard Hayes and 150% of salary for Darren Bryant (based on the IPO offer price of £2.25). Awards that vest (after any sales required to pay tax and social security contributions) will be subject to a 2-year holding period.

Executive	Number of LTIP shares awarded	Face/Maximum Value of Awards at Grant Date[1]	% of Award Vesting at Threshold and (Maximum)	Performance Period
Richard Hayes	350,000	£787,500	25% (100%)	01.02.14 – 31.1.17
Darren Bryant	226,666	£510,000	25% (100%)	01.02.14 – 31.1.17

1. Based on IPO offer price of £2.25.

2014 LTIP vesting schedule



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

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

LTIP awards in 2015
For 2015, the Committee intends to grant LTIP awards to Executive Directors in line with the stated remuneration policy and using the same measures and targets as were used in 2014 (see above). As this Annual Report on Remuneration was approved prior to the 2015 LTIP grant date, details of LTIP awards in 2015 will be set out in next year's report.

NON-EXECUTIVE DIRECTOR FEES

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

	2015/16	2014/15
Base fees		
Chairman	**£125,000**	£125,000
Senior Independent Director	**£49,000**	£49,000
Non-Executive Director	**£45,000**	£45,000
Additional fees		
Chair of the Remuneration Committee	**£8,000**	£8,000
Chair of the Audit and Risk Committee	**£8,000**	£8,000

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

The table below sets out a single figure for the total remuneration received by each Non-Executive Director for the year ended 31 January 2015. Non-Executive Directors were appointed at Card Factory for the first time on 30 April 2014, no remuneration was therefore received by Non-Executive Directors during the year ended 31 January 2014.

	Base fee		Additional fees		Total	
Non-Executive Director	**2014/15[4]**	2013/14	**2014/15**	2013/14	**2014/15**	2013/14
Geoff Cooper[1]	**£125,000**	n/a	**–**	n/a	**£125,000**	n/a
Graeme Coulthard[2]	**£43,739**	n/a	**–**	n/a	**£43,739**	n/a
Octavia Morley	**£40,833**	n/a	**£6,667**	n/a	**£47,500**	n/a
David Stead	**£37,500**	n/a	**£6,667**	n/a	**£44,167**	n/a
Paul McCrudden[3]	**£7,500**	n/a	**–**	n/a	**£7,500**	n/a

1. In connection with his appointment, Geoff Cooper was given the option to invest £330,000 in the Company by means of an acquisition of ordinary shares as part of, or alongside, the offer of shares conducted in conjunction with the IPO at the offer price of 225p per share. Geoff took up this offer at the time of the IPO and agreed to acquire 146,666 ordinary shares and this has entitled him, on each of the second and third anniversaries of the date of the completion of the IPO, to make further investments of £330,000 in the Company by purchasing a further 146,666 ordinary shares at the offer price. Geoff's entitlement to make such purchases is conditional upon and subject to his remaining as Chairman of the Company on the relevant dates. It is not intended to offer the Chairman or Non-Executive Directors participation in similar arrangements in the future. These options are valued in the table above based on the embedded value at the year end.
2. Graeme Coulthard's fees were paid directly to Charterhouse and Graeme resigned from his position as a Non-Executive Director with effect from 3 February 2015. The Company was incorporated on 17 April 2014. The table above includes fees paid to Graeme Coulthard by CF Topco Limited, the Group's holding company prior to the IPO, in the period from 1 February 2014 to 16 April 2014.
3. Paul McCrudden was appointed to the Board on 1 December 2014.
4. Payments made to Geoff Cooper, Octavia Morley and David Stead in 2014/15 include payments made for work undertaken in the period preceding the completion of the IPO.

PAYMENTS FOR LOSS OF OFFICE

No exit payments were made during the year.

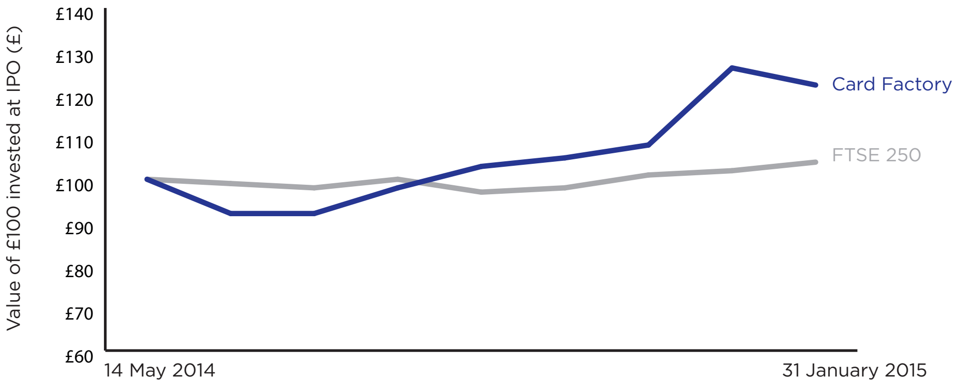
PAYMENTS TO PREVIOUS DIRECTORS

No payments were made to past Directors in the year.

HISTORICAL PERFORMANCE GRAPH AND CEO SINGLE FIGURE OF REMUNERATION

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

£100 invested TSR



Richard Hayes	**2014/15**
Single figure of remuneration (£'000)	**884**
Annual bonus outcome (% of max)	**77%**
LTIP vesting (% of max)	**n/a**

INCREASE IN CEO CASH REMUNERATION, 2013/14 TO 2014/15

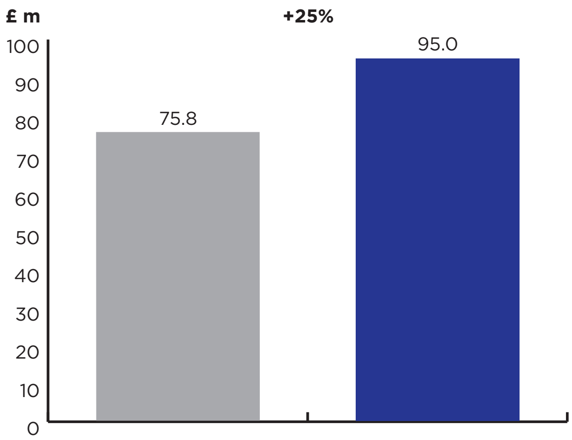
	Increase in CEO pay over the year	Average increase across all employees[1]
Salary	37.5%[2]	2.2%
Taxable benefits	2.7%	0.0%
Annual variable	44.5%	-9.0%

1. Permanent store employees (representing c.90% of all permanent employees).
2. Increase reflects a resetting of salaries as part of the review of remuneration at the time of the IPO. Salaries were set for 2014/15 at a level that is competitive with UK-listed companies of broadly similar size and complexity.

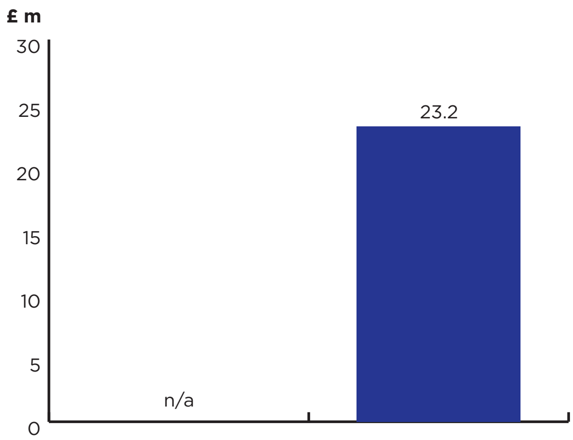
DISTRIBUTION STATEMENT

The charts below illustrate the year-on-year change in total remuneration for all employees and total shareholder distributions. No distributions were made to shareholders for the financial year ended 31 January 2014.

Total remuneration for all employees



Total shareholder distributions



2013/14 2014/15

STATEMENT OF SHAREHOLDER VOTING

Card Factory listed on the London Stock Exchange on 20 May 2014. The Directors' Remuneration Policy and Annual Report on Remuneration herein contained will be the first for which a shareholder vote will be sought.

DIRECTORS' SHAREHOLDINGS AND INTEREST IN SHARES

Card Factory Executive Directors each own significant shareholdings in the Company. The Committee sets shareholding guidelines for Executive Directors. The current guideline is to build and maintain, over time, a personal (and/or spousal) holding of shares in the Company equivalent in value to at least 150% of the Executive Director's annual base salary (200% for the CEO). Both Executive Directors currently significantly exceed this requirement. The guidelines also state that an Executive Director is expected to (i) retain at least half of vested LTIP shares, after the sale of sufficient shares to cover tax and national insurance triggered by the exercise (and associated dealing costs); and (ii) defer one third of any earned net bonus into shares for three years, until the guideline level is achieved.

	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[3])	Shareholding requirement (% of salary/ fee)	Guideline met?
Executive Directors								
Richard Hayes	14,555,976	n/a	350,000	n/a	n/a	8,895%	200%	Yes
Darren Bryant	7,095,107	n/a	226,666	n/a	n/a	5,738%	150%	Yes
Non-Executive Directors								
Geoff Cooper	146,666	n/a	n/a	n/a	293,332	323%	n/a	
Graeme Coulthard[2]	60,609,953	n/a	n/a	n/a	n/a	370,394%		
Octavia Morley	13,333	n/a				64%		
David Stead	22,222					115%		
Paul McCrudden	–					–		

1. Including shares owned by connected persons.
2. Graeme Coulthard resigned as a Director on 3 February 2015. Graeme is a partner at Charterhouse Capital Partners LLP (Charterhouse) and, at the time of his resignation, the various funds through which Charterhouse held its shares in the Company held, in aggregate, 60,609,953 ordinary shares.
3. Calculated using the closing share price of the Company on 30 January 2015 of 275p.

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

DETAILS OF DIRECTORS' INTERESTS IN SHARES IN INCENTIVE PLANS

	Date of grant	Share price at grant	Exercise price	Number of shares awarded	Face value at grant	Performance period	Exercise period
Richard Hayes							
LTIP	20.05.14	225p	n/a	350,000	£787,500	01.02.14 – 31.1.17	n/a
Darren Bryant							
LTIP	20.05.14	225p	n/a	226,666	£510,000	01.02.14 – 31.1.17	n/a
Geoff Cooper							
Pre-IPO options[1]	20.05.14	225p	225p	293,332	£660,000	n/a	20.05.16 and 20.05.17

1. In connection with his appointment, Geoff Cooper was given the option to invest £330,000 in the Company by means of an acquisition of ordinary shares as part of, or alongside, the offer of shares conducted in conjunction with the IPO at the offer price of 225p per share. Geoff took up this offer at the time of the IPO and agreed to acquire 146,666 ordinary shares and this has entitled him, on each of the second and third anniversaries of the date of the completion of the IPO, to make further investments of £330,000 in the Company by purchasing a further 146,666 ordinary shares at the offer price. Geoff's entitlement to make such purchases is conditional upon and subject to his remaining as Chairman of the Company on the relevant dates. It is not intended to offer the Chairman or Non-Executive Directors participation in similar arrangements in the future. These options are valued in the table above based on the embedded value at the year end.

Approved by the Board of Card Factory plc on 24 March 2015 and signed on its behalf by

Octavia Morley
Chairman of the Remuneration Committee

24 March 2015

Chairman's Letter – Nomination Committee

Geoff Cooper
Chairman of the Nomination Committee

Dear Shareholder

I am pleased to have taken on the role of Nomination Committee Chairman as the Company, having completed its IPO, enters the next phase of its development.

Given the relatively short period of time since the completion of the IPO, the Committee met only twice in the year to approve the appointment of Paul McCrudden as an additional Independent Non-Executive and to discuss succession planning. However, I hope this report gives you a helpful insight into how the Committee intends to carry out its responsibilities as the Company begins its life as a premium listed company.

Immediately prior to the IPO, the Company undertook a search and selection process with the aim of introducing a level of balance to the Board that would be appropriate for a premium listed company and which would create the right diversity of skills within the Board. Following that process, myself (Independent Non-Executive Chairman), Octavia Morley (Senior Independent Non-Executive Director) and David Stead (Independent Non-Executive Director) were all appointed to the Board in anticipation of the IPO.

Looking forwards, Board composition will continue to be a focus of the Committee to ensure the Board benefits from skills and experience that can support the growth and development of the business from individuals who fit Card Factory's culture. Additionally, we will begin to develop a formal succession plan that addresses the future needs of the business.

Yours sincerely

Geoff Cooper
Chairman of the Nomination Committee

24 March 2015

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 as the Company begins its life as a premium listed company.

ROLE OF THE NOMINATION COMMITTEE

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

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

MEMBERSHIP

The Nomination Committee is currently chaired by Geoff Cooper, and its other members are Octavia Morley, David Stead and (from 1 December 2014) Paul McCrudden.

The Chief Executive Officer, the Chief Financial Officer and Graeme Coulthard (Non-Executive Director) attended the two meetings held this year by invitation and the Company Secretary acts as secretary to the Committee.

MEETINGS

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

COMMITTEE ACTIVITY IN 2014/15

The Committee's main activity during the year was to approve the appointment of Paul McCrudden as an Independent Non-Executive Director. Paul is EMEA Head of Content Marketing at Twitter and has a wealth of digital and marketing experience that will be particularly valuable as the Group continues to develop its online activities alongside the physical store portfolio.

In appointing Paul, we engaged a specialist recruitment firm, DRP, with a brief to shortlist candidates with skills and experience that would complement the development of our online offering, which is one of the four pillars of our growth strategy. DRP have no other connection with the Company.

Additionally the Committee met to consider an initial assessment of senior management succession. This will form the basis of the Group's formal succession planning that is to be further developed in the coming year.

COMMITTEE'S FOCUS FOR THE FUTURE

Although the Board has not yet adopted formal policies in these regards it understands and acknowledges:

- the importance of developing a formal succession plan for the Board that addresses the needs of the business over the medium to longer term and the importance of maintaining the appropriate balance of skills and experience across both the executive management team and among the Non-Executive Directors; and
- that the Group's best interests are served by ensuring that the individuals who lead the Group represent a range of skills, experiences, backgrounds and perspectives, including gender but who at all times are most suitable people for their roles. For example, in the process which led to Paul's appointment, we met an approximately equal number of male and female candidates.

GENDER AND ETHNIC DIVERSITY

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

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

Details of the gender balance within the Group are set out in the Corporate Social Responsibility report on page 28.

BOARD EVALUATION

As the Board has only been in existence for a relatively short period of time, an evaluation of performance has not yet been undertaken. The first full evaluation is scheduled for later this year and will assess the effectiveness of the Chairman, individual Directors, the standing committees of the Board and the Board as a whole. Thereafter evaluation will be undertaken on an annual basis and the Board will, every third year, as required by the UK Corporate Governance Code, engage with an external agency to assist in the process.

TENURE AND RE-ELECTION OF DIRECTORS

In accordance with the UK Corporate Governance Code, all Directors will seek re-election at the AGM.

This report was reviewed and approved by the Board on 24 March 2015.

Geoff Cooper
Chairman of the Nomination Committee

24 March 2015

Directors' Report

The Directors present their report together with the audited financial statements for the year ended 31 January 2015.

INTRODUCTION

This section of the Annual Report includes additional information required to be disclosed under the Companies Act 2006 (Companies Act), the UK Corporate Governance Code 2012 (Code or the UK Corporate Governance Code), the Disclosure and Transparency Rules (the DTRs) and the Listing Rules (the Listing Rules) of the Financial Conduct Authority.

Some of the information we are required to include in the Directors' Report is included in other sections of this Annual Report and 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 as a private limited company with registration number 9002747 and with the name CF Listco Limited.

On 30 April 2014, the Company acquired, the entire issued share capital of CF Topco Limited, which holds (through certain wholly owned intermediate holding companies) the Group's operating companies, to become the ultimate holding company of the Group.

On 30 April 2014, the Company was re-registered as a public limited company and changed its name to Card Factory plc.

On 20 May 2014, the entire issued ordinary share capital of the Company was unconditionally admitted to the premium listing segment of the Official List of the Financial Conduct Authority and to trading on the London Stock Exchange plc's main market for listed securities (the IPO).

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 24 March 2015 and is set out in on pages 2 to 29, contains a fair review of the Group's business, a description of the principal risks and uncertainties facing the Group and an indication of the likely future developments in the business of the Group.

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

As the Company is now a quoted company, the Strategic Report also includes, to the extent necessary for an understanding of the development, performance or position of the Group's business, the main trends and factors likely to affect the future development performance and position of the Group's business. It also includes information about environmental matters, the Group's employees and social and community issues.

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

RESULTS AND DIVIDENDS

The consolidated profit for the Group for the year after taxation was £33.2m (2014: £18.4m). The results are discussed in greater detail in the Chief Financial Officer's review on pages 16 to 19.

As noted in the Prospectus issued to prospective Shareholders in connection with the IPO, the Directors intended, subject to sufficient distributable reserves being available, that the first dividend for the Company would be a full year dividend (not pro-rated) payable in relation to this year.

With this in mind, the Board is recommending a total dividend of 6.8p per share for the year ended 31 January 2015. This dividend comprises an interim dividend which the Directors are declaring of 2.3p per share together with a final dividend which the Directors are recommending of 4.5p per share. The final dividend will, subject to shareholders' approval at the Annual General Meeting on 27 May 2015, be paid alongside the interim dividend on 5 June 2015 to shareholders on the register on 1 May 2015.

POST YEAR END EVENTS

There were no significant post year end events.

SHARE CAPITAL, SHAREHOLDERS AND RESTRICTIONS ON TRANSFERS OF SHARES

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

Further details of the Company's share capital, including changes in the issued share capital in the year under review are set out in note 19 to the financial statements which form part of this report on page 96. There have been no further changes in the Company's share capital between the end of the financial year under review and the date of the approval of this report.

Details of awards outstanding under share-based incentive schemes are given in note 25 to the financial statements which form part of this report on page 102. Details of the share-based incentive schemes in place are provided in the Directors' Remuneration Report on pages 50 to 65.

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

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

On 15 May 2014, the Company, the Directors, the Charterhouse Funds (being CCP IX LP No.1, CCP IX LP No.2 and CCP IX Co-investment LP), certain other members of the Group's senior management team and certain other individual pre-IPO shareholders and each of UBS Limited, Nomura International plc, Morgan Stanley Securities Limited and Investec Bank plc (the Underwriters) entered into the Underwriting Agreement (the Underwriting Agreement) in accordance with which: (i) the Company agreed that, subject to certain exceptions including, but not limited to, the operation of the any share schemes, not to issue, lend, mortgage, assign, charge, offer, sell or contract to sell, or otherwise dispose of any ordinary shares in the Company for a period of 180 days following the completion of the IPO without the prior written consent of the Underwriters; (ii) the Charterhouse Funds and certain other individual pre-IPO shareholders agreed not to dispose of any ordinary shares in the Company for a period of 180 days following the completion of the IPO without the prior written consent of the Underwriters; and (iii) each of the Directors and each member of the senior management team agreed not to dispose of any ordinary shares for a period of 365 days following the completion of the IPO without the prior written consent of the Underwriters. All of the above arrangements are subject to certain customary exceptions.

SHAREHOLDER AND VOTING RIGHTS

All members who hold ordinary shares are entitled to attend and vote at the Annual General Meeting. 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.

A relationship agreement (Relationship Agreement) was entered into on 15 May 2014 between the Company and the Charterhouse Funds that governed and regulated the relationship between the Charterhouse Funds and the Company following the completion of the IPO. The principal purpose of the Relationship Agreement was to ensure that the Company was capable at all times of carrying on its business independently of the Charterhouse Funds. The Relationship Agreement has been terminated pursuant to its terms as a result of the Charterhouse Funds (and any members of their group) ceasing to own in aggregate an interest, direct or indirect, of at least 20% or more of the issued ordinary shares in the Company. Until its termination, the Board believes that the Company and, so far as the Company is aware, the Charterhouse Funds complied with the Independence provisions in the Relationship Agreement.

SUBSTANTIAL SHAREHOLDERS

At 24 March 2015 the following had notified the Company of a disclosable interest in 3% or more of the nominal value of the Company's ordinary shares:

Shareholder	Number of ordinary shares	Percentage of share capital
Invesco Asset Management Ltd	62,599,533	18.4
Charterhouse Capital Partners LLP[1]	60,609,953	17.8
Artemis Investment Management LLP	41,422,745	12.2
Stuart Middleton	22,544,344	6.6
Richard Hayes	14,555,976	4.3

1. This interest is held in the Charterhouse Funds (being CCP IX LP No.1, CCP IX LP No.2 and CCP IX Co-investment LP). Graeme Coulthard, who was a Non-Executive Director of Card Factory plc until 3 February 2015, is a partner at Charterhouse Capital Partners LLP.

CHANGE OF CONTROL

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

The only significant agreement to which the Company is a party that takes effect, alters or terminates upon a change of control of the Company following a takeover bid, and the effect thereof, is the Company's committed bank facility dated 17 April 2014 which contains a provision such that, in the event of a change of control the facility will 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:

- the Relationship Agreement (referred to earlier in this report) entered into between the Company and the Charterhouse Funds;
- the Underwriting Agreement (referred to earlier in this report) entered into between the Company and the Principal Shareholder; and
- those transactions detailed in note 28 on page 103 of the Annual Report and Accounts.

DIRECTORS

The Directors of the Company and their biographies are set out on pages 30 and 31. Details of changes to the Board during the period are set out in the Corporate Governance Report on page 34. Details of how Directors are appointed and/or removed are set out in the Corporate Governance Report on page 40.

POWERS OF DIRECTORS

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

DIRECTORS' INDEMNITIES AND INSURANCE

Information relating to Directors' indemnities and the Directors and Officers liability insurance the Company has purchased is set out in the Corporate Governance Report on page 40.

EMPLOYEES

Information relating to employees of the Group is set out in the Corporate Social Responsibility report on pages 28 and 29.

Share incentive schemes in which employees participate are described in the Directors' Remuneration Report on page 53 and in note 25 to the financial statements on page 102.

HEALTH AND SAFETY

An overview of health and safety is provided in the Corporate Social Responsibility Report on page 28.

GREENHOUSE GAS EMISSIONS

The Corporate Social Responsibility Report on pages 26 to 28 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 23. In that section, beginning on page 20, there is also a list of the principal risks and uncertainties that affect or are likely to affect the Group. The financial position of the Group, its cash flow, liquidity position and borrowing facilities are described in the Chief Financial Officer's review on pages 18 and 19.

TAX

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

GOING CONCERN

Taking into account current and anticipated trading performance, current and anticipated levels of borrowings and the availability of borrowing facilities and exposures to and management of the financial risks detailed in the Strategic Report on pages 2 to 25, the Board is of the opinion that, at the time of approval of these financial statements, there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the financial statements continue to be prepared on a going concern basis.

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 Auditors are 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 Auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act. On behalf of the Board, the Audit and Risk Committee has reviewed the effectiveness, performance, independence and objectivity of the existing external Auditors, KPMG LLP, for the year ended 31 January 2015 and concluded that the external Auditors were in all respects effective. KPMG LLP has expressed its willingness to continue in office as Auditors. Accordingly, and in accordance with Section 489 of the Companies Act, resolutions to re-appoint KPMG LLP as Auditor and to authorise the Directors to determine its remuneration will be proposed at the forthcoming Annual General Meeting of the Company.

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

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

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held at 10.00am on Wednesday 27 May 2015 at the offices of Linklaters LLP, One Silk Street, London EC2Y 8HQ. A formal notice of meeting, explanatory circular and a form of proxy will accompany this report and accounts.

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

This statement is set out on page 72.

APPROVAL OF THE ANNUAL REPORT

The Strategic Report and the Corporate Governance Report were approved by the Board on 24 March 2015.

Approved by the Board and signed on its behalf by

Shiv Sibal
Company Secretary

24 March 2015

Statement of Directors' Responsibilities

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

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

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

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

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

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and a corporate governance statement that complies with that law and those regulations.

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

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

We confirm that to the best of our knowledge:

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

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

Richard Hayes
Chief Executive Officer

Darren Bryant
Chief Financial Officer

24 March 2015

Independent Auditors' Report to the Members of Card Factory plc

Opinions and conclusions arising from our audit.

1 OUR OPINION ON THE FINANCIAL STATEMENTS IS UNMODIFIED

We have audited the financial statements of Card Factory plc for the year ended 31 January 2015 set out on pages 76 to 114. 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 2015 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU); and
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

2 OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit were as follows:

IPO accounting and disclosures

Refer to page 45 (Audit and Risk Committee Report), page 81 (accounting policy) and page 87 (financial disclosures)

- The risk: The restructuring and subsequent listing of the Group in May 2014 led to a number of one-off unusual transactions including a share for share exchange on the introduction of a new holding Company and the issue of additional share capital. Further, a significant level of professional and legal costs arose. Due to the one-off, unusual nature of the transactions and the judgement involved in the classification of the IPO costs in the financial statements between profit and loss and equity, this has been an area of focus for our audit this year.
- Our response: We considered the appropriateness of presentation and the level of disclosures of the share for share exchange and issue of share capital by obtaining and reading the relevant agreements, external legal step plans and Board minutes. We evaluated the Group's classification of IPO costs as an expense or deduction from equity by obtaining supporting invoices for significant items and considering the nature and presentation of each cost.

Foreign exchange hedging

Refer to page 45 (Audit and Risk Committee Report), page 85 (accounting policy) and page 101 (financial disclosures)

- The risk: The Group hedges a high proportion of foreign currency stock purchases. Where appropriate, hedge accounting is adopted by the Group. Due to the degree of judgement and estimation in determining forecast cash flows there is a risk that the assumptions made in the prospective effectiveness testing are inappropriate, which would lead to the presentation of the fair value movement on the financial instruments in equity being incorrect.
- Our response: We have assessed whether the controls in place around foreign exchange hedging are sufficient, appropriate and operate effectively by assessing whether effectiveness testing has been carried out prospectively and retrospectively on a monthly basis. We have agreed all existing foreign exchange forward contracts at the year end to the hedge documentation prepared at the inception of the contract to assess whether this criteria for hedge accounting has been met. We have obtained and considered the Directors' assessment of prospective and retrospective hedge effectiveness and reperformed the calculation at the year end to assess their accuracy. We have assessed historical accuracy of forecast foreign currency purchases to assess the reliability of the Group's forecasting. We have determined whether the ineffective portion of the hedges have been charged to the income statement in line with accounting policies. The mark to market value of the forward contract has been agreed to third-party confirmation for all contracts outstanding at the year end. We assessed the adequacy of the financial instrument disclosures in the financial statements.

Inventory

Refer to page 45 (Audit and Risk Committee Report), page 86 (accounting policy) and page 93 (financial disclosures)

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

- Our response: Our audit procedures included attendance at a sample of store inventory counts to test whether the quantities are stated correctly. Because of the manual nature of the stock controls at the stores we performed additional testing which involved a comparison of actual store stock levels to our expectations, based on our understanding of the business, taking into consideration store size and the nature of the inventory. We formed an expectation of stock levels for each of the stores investigated. Where we found the level of stock was not in line with our expectations we evaluated the characteristics specific to the store to assess whether this supported the stock level held. We performed testing over a sample of inventory lines to assess whether all elements of the costs attributed to them had been accurately input into the costing calculations. We tested the cost inputs by obtaining supporting documentation and re-performing standard cost calculations. We assessed whether the disclosures in relation to inventory were appropriate.

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

The materiality for the Group financial statements as a whole has been set at £3.5m determined by reference to a benchmark of Group profit before taxation of £65.5m, normalised to exclude this year's exceptional IPO costs and amortisation of existing loan costs as disclosed in note 3; of which it represents 5%.

We report to the Audit Committee any corrected and uncorrected identified misstatements exceeding £50,000 in addition to other identified misstatements that warranted reporting on qualitative grounds. Of the Group's three reporting components we subjected one to an audit for Group reporting purposes. We conducted reviews of financial information to Group materiality (including enquiries) at the remaining two components as these entities were not material for Group reporting purposes. These procedures covered 100% of total Group revenue; 100% of Group profit before taxation and 100% of total Group assets.

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

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

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

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

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

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

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 70, in relation to going concern; and
- the part of the Corporate Governance Report on pages 34 to 42 relating to the Company's compliance with the ten provisions of the 2012 UK Corporate Governance Code specified for our review.

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

SCOPE AND RESPONSIBILITIES

As explained more fully in the Directors' Responsibilities Statement set out on page 72, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Chris Hearld (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 The Embankment
Neville Street
Leeds
LS1 4DW

24 March 2015

Consolidated Income Statement

FOR THE YEAR ENDED 31 JANUARY 2015

		2015			2014		
	Note	Underlying £'m	Non-underlying (note 3) £'m	Total £'m	Underlying £'m	Non-underlying (note 3) £'m	Total £'m
Revenue		**353.3**	**–**	**353.3**	326.9	–	326.9
Cost of sales		**(240.0)**	**(0.1)**	**(240.1)**	(223.3)	(1.9)	(225.2)
Gross profit/(loss)		**113.3**	**(0.1)**	**113.2**	103.6	(1.9)	101.7
Operating expenses		**(33.9)**	**(15.0)**	**(48.9)**	(30.7)	–	(30.7)
Operating profit/(loss)	4	**79.4**	**(15.1)**	**64.3**	72.9	(1.9)	71.0
Financial income	7	**0.3**	**–**	**0.3**	0.5	–	0.5
Financial expense	7	**(14.2)**	**(7.7)**	**(21.9)**	(41.4)	–	(41.4)
Net financing expense		**(13.9)**	**(7.7)**	**(21.6)**	(40.9)	–	(40.9)
Profit/(loss) before tax		**65.5**	**(22.8)**	**42.7**	32.0	(1.9)	30.1
Taxation	8	**(14.4)**	**4.9**	**(9.5)**	(12.1)	0.4	(11.7)
Profit/(loss) for the year		**51.1**	**(17.9)**	**33.2**	19.9	(1.5)	18.4

Earnings per share		**pence**		**pence**	pence		pence
– Basic and diluted	10	**16.3**		**10.6**	8.1		7.5

All activities relate to continuing operations.

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 JANUARY 2015

	2015 £'m	2014 £'m
Profit for the year	**33.2**	18.4
Items that are or may be recycled subsequently into profit or loss:		
Effective portion of changes in fair value of cash flow hedges	**7.0**	(1.0)
Net change in fair value of cash flow hedges recycled to profit or loss	**0.2**	–
Tax relating to components of other comprehensive income	**(1.4)**	0.2
Other comprehensive income/(expense) for the period, net of income tax	**5.8**	(0.8)
Total comprehensive income for the period attributable to equity shareholders of the parent	**39.0**	17.6

Consolidated Statement of Financial Position

AS AT 31 JANUARY 2015

	Note	2015 £'m	2014 £'m
Non-current assets			
Intangible assets	11	**331.0**	331.2
Property, plant and equipment	12	**38.2**	36.7
Deferred tax assets	13	**0.2**	1.2
Other receivables	15	**1.2**	1.5
		370.6	370.6
Current assets			
Inventories	14	**41.5**	39.3
Trade and other receivables	15	**17.7**	17.6
Derivative financial instruments	24	**5.8**	0.3
Cash and cash equivalents	16	**69.0**	40.7
		134.0	97.9
Total assets		**504.6**	468.5
Current liabilities			
Borrowings	17	**(14.5)**	(21.3)
Trade and other payables	18	**(35.3)**	(31.8)
Tax payable		**(5.2)**	(4.9)
Derivative financial instruments	24	**(0.1)**	(0.9)
		(55.1)	(58.9)
Non-current liabilities			
Borrowings	17	**(155.9)**	(366.3)
Trade and other payables	18	**(10.7)**	(11.8)
Derivative financial instruments	24	**–**	(0.4)
		(166.6)	(378.5)
Total liabilities		**(221.7)**	(437.4)
Net assets		**282.9**	31.1
Equity			
Share capital	19	**3.4**	2.5
Share premium	19	**201.6**	–
Hedging reserve		**5.0**	(0.8)
Reverse acquisition reserve		**(0.5)**	(0.5)
Merger reserve		**2.7**	2.7
Retained earnings		**70.7**	27.2
Equity attributable to equity holders of the parent		**282.9**	31.1

The financial statements on pages 76 to 104 were approved by the Board of Directors on 24 March 2015 and were signed on its behalf by:

Darren Bryant
Chief Financial Officer

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 JANUARY 2015

	Share capital £'m	Share premium £'m	Hedging reserve £'m	Reverse acquisition reserve £'m	Merger reserve £'m	Retained earnings £'m	Total equity £'m
At 1 February 2013	2.5	–	–	(0.5)	2.7	8.8	13.5
Total comprehensive income for the year							
Profit or loss	–	–	–	–	–	18.4	18.4
Other comprehensive income	–	–	(0.8)	–	–	–	(0.8)
	–	–	(0.8)	–	–	18.4	17.6
At 31 January 2014	2.5	–	(0.8)	(0.5)	2.7	27.2	31.1
Total comprehensive income for the year							
Profit or loss	–	–	–	–	–	33.2	33.2
Other comprehensive income	–	–	5.8	–	–	–	5.8
	–	–	5.8	–	–	33.2	39.0
Transactions with owners, recorded directly in equity							
Issue of shares – net of issue costs (note 19)	0.9	201.6	–	–	–	–	202.5
Share based payment charges (note 25)	–	–	–	–	–	10.3	10.3
Total contributions by and distributions to owners	0.9	201.6	–	–	–	10.3	212.8
At 31 January 2015	**3.4**	**201.6**	**5.0**	**(0.5)**	**2.7**	**70.7**	**282.9**

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 JANUARY 2015

	Note	2015 £'m	2014 £'m
Cash inflow from operating activities	20	**84.9**	79.1
Corporation tax paid		**(9.6)**	(12.1)
Net cash inflow from operating activities		**75.3**	67.0
Cash flows from investing activities			
Purchase of property, plant and equipment	12	**(9.2)**	(10.6)
Purchase of intangible assets	11	**(0.9)**	(1.4)
Payment of deferred consideration		**(0.8)**	(0.5)
Interest received		**0.3**	0.5
Net cash outflow from investing activities		**(10.6)**	(12.0)
Cash flows from financing activities			
Proceeds from bank borrowings		**177.4**	159.7
Interest paid		**(8.6)**	(108.7)
Repayment of borrowings		**(293.6)**	(129.8)
Payment of finance lease liabilities		**(0.1)**	(0.2)
Proceeds from new shares issued		**88.5**	–
Net cash outflow from financing activities		**(36.4)**	(79.0)
Net increase/(decrease) in cash and cash equivalents		**28.3**	(24.0)
Cash and cash equivalents at the beginning of the year		**40.7**	64.7
Closing cash and cash equivalents	16	**69.0**	40.7

Notes to the Financial Statements

1 ACCOUNTING POLICIES

General information

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

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

Basis of preparation

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

The financial statements have been prepared on a going concern basis under the historical cost convention, as modified for the subsequent measurement of derivative financial instruments and deferred contingent consideration at fair value.

Impact of the Group restructure prior to the Initial Public Offering

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

These are the first set of consolidated financial statements of Card Factory plc. By applying the principles of reverse acquisition accounting, the Group financial statements are presented as if Card Factory plc had always owned CF Topco Limited. Comparative figures for the year ended 31 January 2014 are the consolidated results of CF Topco Limited, adjusted to reflect the statutory share capital, share premium and merger reserve of Card Factory plc at the point of the restructure, thereby creating a reverse acquisition reserve.

The statutory accounts of CF Topco Limited for the year ended 31 January 2014 were prepared in accordance with UK GAAP. The historical financial information published in the initial public offering prospectus ('IPO prospectus'), dated 15 May 2014, presents the consolidated financial statements of CF Topco Limited for the years ended 31 January 2014, 31 January 2013 and 31 January 2012, prepared in accordance with EU IFRS and applying IFRS 1 'First time adoption of International Financial Reporting Standards'. The historical financial information published in the IPO prospectus includes details of the transition, reconciling UK GAAP to EU IFRS.

Significant judgements and estimates

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

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

IPO transactions

Classification of costs incurred in relation to the IPO is subject to judgement in determining the value of costs attributable to the issue of new share capital recognised as share issue costs within share premium and the value of costs attributable to the sale of existing shares expensed to the income statement.

Inventory provisions

The Group provides against the carrying value of inventories where it is anticipated that net realisable value ('NRV') will be below cost. NRV of aged inventory is assessed based on historical experience.

Goodwill impairment

Goodwill is assessed for impairment based on the recoverable amount of the cash generating units ('CGUs'). The recoverable amounts of the CGUs are based on a value in use calculation. The key assumptions in the calculation are disclosed in note 11.

1 ACCOUNTING POLICIES CONTINUED

Going concern

The Group has considerable financial resources, long standing relationships with a number of key suppliers and an established reputation in the retail sector across the UK. The Directors believe the Group is well placed to manage its business risks successfully and therefore have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

Information regarding the Group's business activities and factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 2 to 29. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Chief Financial Officer's review on pages 16 to 19. In addition, notes 23 and 24 to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

Principal accounting policies

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

EU Endorsed International Financial Reporting Standards effective in the year

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

- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IAS 27 Separate Financial Statements (2011)
- IAS 28 Investments in Associates and Joint Ventures (2011)
- Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39
- Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36
- IFRIC 21 Levies
- Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

IFRS 10 replaces those parts of IAS 27 that relate to consolidated financial statements and along with IFRS 11 and IFRS 12 forms a new suite of consolidation standards. The accounting policy for consolidation of subsidiaries has been revised to reflect the definition of control within IFRS 10. All entities within the Group are 100% owned and not subject to any contractual arrangements that might otherwise impact control of the entity. Consequently the new standards and the revised accounting policy do not impact the financial statements.

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

The Directors considered the impact on the Group of EU endorsed, new and revised accounting standards, interpretations or amendments. The following revised accounting standards are currently endorsed but effective for periods beginning on or after 1 July 2014. None are expected to have a significant impact on the financial statements.

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

New standards and amendments awaiting EU endorsement are not expected to have a significant impact on the financial statements.

Basis of consolidation

Subsidiaries

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

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

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

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

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

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

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

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

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

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

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

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

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

1 ACCOUNTING POLICIES CONTINUED

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

Underlying profit and earnings

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

Net fair value remeasurement gains and losses on derivative financial instruments

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

IPO costs

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

Residual management equity share based payment

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

Refinanced debt issue cost amortisation

Debt issue costs not yet amortised totalling £7.7 million were expensed to the income statement when the related bank borrowings were repaid and refinanced on 30 May 2014. See note 21 for details of net debt movements.

Dividends

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

Financial instruments

Financial assets

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

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

Financial liabilities

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

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

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

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

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

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

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

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

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

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

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

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

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

1 ACCOUNTING POLICIES CONTINUED

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

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

Fair value estimation

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

Property, plant and equipment

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

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

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

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

Intangible assets and goodwill

Goodwill

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

Software

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

Other intangible assets

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

Amortisation

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

Impairment of non-financial assets

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

Inventories

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

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

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

Share based payments
The Company issues equity-settled share based payments to certain employees. The cost of equity-settled share awards is measured as the fair value of the award at the grant date using the Black-Scholes model.

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

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

2 SEGMENTAL REPORTING

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

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

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

3 NON-UNDERLYING ITEMS

	2015 £'m	2014 £'m
Cost of sales		
Loss on foreign currency derivative financial instruments not designated as a hedge (note 24)	**(0.1)**	(1.9)
Operating expenses		
IPO costs	**(3.8)**	–
Residual management equity share based payment (note 25)	**(11.2)**	–
	(15.0)	–
Net finance expense		
Refinanced debt issue cost amortisation (note 7)	**(7.7)**	–

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

Notes to the Financial Statements continued

4 OPERATING PROFIT

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

	2015 £'m	2014 £'m
Employee costs (note 6)	**95.0**	75.8
Depreciation expense (note 12)		
– owned fixed assets	**7.7**	6.4
– assets held under finance lease	**–**	0.1
Amortisation expense (note 11)	**1.1**	1.0
Operating lease rentals:		
– land and buildings	**34.6**	32.9
– plant, equipment and vehicles	**0.5**	0.4
Foreign exchange gain	**–**	(1.9)

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

	2015 £'000	2014 £'000
Audit of the Company's and the consolidated financial statements	**11**	8
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the Company	**96**	87
Audit-related assurance services	**8**	–
Taxation compliance services	**13**	38
Other tax advisory services	**10**	–
Other assurance services	**–**	8
Total fees excluding IPO related fees	**138**	141
IPO related fees	**434**	32
Total fees	**572**	173

5 UNDERLYING EBITDA

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

	2015 £'m	2014 £'m
Underlying operating profit	**79.4**	72.9
Depreciation and amortisation	**8.8**	7.5
Underlying EBITDA	**88.2**	80.4

6 STAFF NUMBERS AND COSTS

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

	2015 Number	2014 Number
Management and administration	**289**	270
Operations	**8,908**	8,333
	9,197	8,603

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

	2015 £'m	2014 £'m
Wages and salaries	**79.0**	71.9
Equity-settled share based payment expense	**10.3**	–
Social security costs	**5.4**	3.8
Defined contribution pension costs	**0.3**	0.1
	95.0	75.8

The equity settled share based payment expense includes £9.8 million in relation to residual management equity recognised as a non-underlying expense. Social security costs include £1.4 million relating to residual management equity presented as a non-underlying expense. See note 25 to the financial statements for further details.

Key management personnel

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

	2015 £'m	2014 £'m
Salaries and short-term benefits	**3.4**	3.9
Equity-settled share based payment expense	**8.8**	–
Social security costs	**1.7**	0.5
Defined contribution pension costs	**–**	–
	13.9	4.4

The equity settled share based payment expense includes £8.4 million in relation to residual management equity awarded to key management personnel. Further details of Director's remuneration are disclosed in the Directors' Remuneration Report on pages 50 to 65.

7 FINANCE INCOME AND EXPENSE

	2015 £'m	2014 £'m
Finance income		
Bank interest received	**(0.3)**	(0.5)
Finance expense		
Interest on bank loans and overdrafts	**8.5**	9.5
Amortisation of loan issue costs	**9.0**	1.9
Interest on loan notes	**4.3**	29.9
Interest on deferred consideration	**0.1**	0.1
	21.9	41.4
Net finance expense	**21.6**	40.9

Amortisation of loan issue costs include £7.7 million expensed to the income statement on the repayment of borrowings as part of a refinancing on 30 May 2014 and are presented as non-underlying, see note 3.

8 TAXATION

Recognised in the income statement

	2015 £'m	2014 £'m
Current tax expense		
Current year	**10.6**	11.4
Adjustments in respect of prior periods	**(0.7)**	(0.7)
	9.9	10.7
Deferred tax (credit)/expense		
Origination and reversal of temporary differences	**(0.5)**	0.2
Adjustments in respect of prior periods	**0.1**	0.6
Effect of change in tax rate	**–**	0.2
	(0.4)	1.0
Total income tax expense	**9.5**	11.7

The effective tax rate of 22.3% (2014: 38.9%) is higher than the standard rate of corporation tax in the UK. The tax charge is reconciled to the standard rate of UK corporation tax as follows:

	2015 £'m	2014 £'m
Profit before tax	**42.7**	30.1
Tax at the standard UK corporation tax rate of 21.32% (2014 :23.16%)	**9.1**	7.0
Tax effects of:		
Interest expense not deductible for tax purposes	**–**	4.2
Other expenses not deductible for tax purposes	**1.1**	0.6
Non-taxable income	**(0.1)**	(0.2)
Adjustments in respect of prior periods	**(0.6)**	(0.1)
Effect of change in tax rate	**–**	0.2
Total income tax expense	**9.5**	11.7

The effective tax rate was higher in the prior year principally due to non-deductible interest costs in relation to shareholder loan notes. Shareholder loan notes were part repaid in October 2013 and the remaining balance settled by share exchange in May 2014 prior to the IPO. Furthermore, under a new thin capitalisation agreement approved in the year, shareholder loan note interest for the period October 2013 to May 2014 is now fully deductible giving rise to a £0.7 million non-underlying current period tax credit on interest accrued to 31 January 2014.

9 DIVIDENDS

The Board is recommending a total dividend in respect of the financial year ended 31 January 2015 of 6.8 pence per share, resulting in a total dividend of £23.2 million. The total dividend comprises an interim dividend which the Directors are declaring of 2.3 pence per share and a proposed final dividend of 4.5 pence per share. The final dividend will, subject to shareholders' approval at the Annual General Meeting on 27 May 2015, be paid alongside the interim dividend on 5 June 2015 to shareholders on the register at the close of business on 1 May 2015. No liability is recorded in the financial statements in respect of the dividends as they were not approved at the balance sheet date.

No dividends have been paid in the year (2014: £nil).

10 EARNINGS PER SHARE

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

The weighted average number of shares for the prior period reflects the weighted average number of ordinary shares of CF Topco Limited, multiplied for a 1:50 share split effected on the reverse acquisition (see note 1 for details of the reverse acquisition).

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 share incentive awards granted to employees in the period.

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

	2015 Number	2014 Number
Weighted average number of shares in issue	**312,568,527**	245,635,000
Weighted average number of dilutive share options	**15,919**	–
Weighted average number of shares for diluted earnings per share	**312,584,446**	245,635,000

	£'m	£'m
Profit for the financial year	**33.2**	18.4
Non-underlying items	**17.9**	1.5
Total underlying profit for underlying earnings per share	**51.1**	19.9

	pence	pence
Basic earnings per share	**10.6**	7.5
Diluted earnings per share	**10.6**	7.5
Underlying basic earnings per share	**16.3**	8.1
Underlying diluted earnings per share	**16.3**	8.1

11 INTANGIBLE ASSETS

	Goodwill £'m	Software £'m	Total £'m
Cost			
At 1 February 2014	328.2	5.4	333.6
Additions	–	0.9	0.9
At 31 January 2015	328.2	6.3	334.5
Amortisation			
At 1 February 2014	–	2.4	2.4
Provided in the period	–	1.1	1.1
At 31 January 2015	–	3.5	3.5
Net book value			
At 31 January 2015	**328.2**	**2.8**	**331.0**
At 31 January 2014	328.2	3.0	331.2
Cost			
At 1 February 2013	328.2	4.0	332.2
Additions	–	1.4	1.4
At 31 January 2014	328.2	5.4	333.6
Amortisation			
At 1 February 2013	–	1.4	1.4
Provided in the period	–	1.0	1.0
At 31 January 2014	–	2.4	2.4
Net book value			
At 31 January 2014	328.2	3.0	331.2
At 31 January 2013	328.2	2.6	330.8

11 INTANGIBLE ASSETS CONTINUED

Impairment testing

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

	2015 £'m	2014 £'m
Card Factory	**313.8**	313.8
Getting Personal	**14.4**	14.4

The recoverable amount has been determined based on value-in-use calculations. Value-in-use calculations are based on 5 year management forecasts and operating cash flows with a 2% terminal growth rate applied thereafter, representing management's estimate of the long-term growth rate of the sector. The key assumptions on which operating cash flows are based include sales growth and operating costs. The values assigned to each of these assumptions were determined based on historical performance of the Group and expected future trends. The forecast cash flows are discounted at a pre-tax discount rate of 10%. No impairment loss was identified in the current year (2014: £nil). The valuations indicate sufficient headroom such that a reasonably possible change to key assumptions would not result in an impairment of the related goodwill.

12 PROPERTY, PLANT AND EQUIPMENT

	Freehold property £'m	Leasehold improvements £'m	Plant, equipment, fixtures & vehicles £'m	Total £'m
Cost				
At 1 February 2014	16.7	26.1	35.6	78.4
Additions	0.3	2.9	6.0	9.2
Disposals	–	–	(0.2)	(0.2)
At 31 January 2015	17.0	29.0	41.4	87.4
Depreciation				
At 1 February 2014	1.3	19.2	21.2	41.7
Provided in the period	0.3	2.6	4.8	7.7
Disposals	–	–	(0.2)	(0.2)
At 31 January 2015	1.6	21.8	25.8	49.2
Net book value				
At 31 January 2015	**15.4**	**7.2**	**15.6**	**38.2**
At 31 January 2014	15.4	6.9	14.4	36.7
Cost				
At 1 February 2013	15.4	23.0	29.5	67.9
Additions	1.3	3.1	6.2	10.6
Disposals	–	–	(0.1)	(0.1)
At 31 January 2014	16.7	26.1	35.6	78.4
Depreciation				
At 1 February 2013	0.9	16.9	17.4	35.2
Provided in the period	0.4	2.3	3.8	6.5
At 31 January 2014	1.3	19.2	21.2	41.7
Net book value				
At 31 January 2014	15.4	6.9	14.4	36.7
At 31 January 2013	14.5	6.1	12.1	32.7

Finance leases

Assets held under finance leases have a net book amount of £nil (2014: £0.3 million).

13 DEFERRED TAX ASSETS AND LIABILITIES

Movement in deferred tax during the year:

	Fixed assets £'m	Interest deductible when paid £'m	Financial instruments £'m	Leases £'m	Other timing differences £'m	Total £'m
At 1 February 2014	0.1	0.1	0.2	0.8	–	1.2
Credit/(charge) to income statement	0.2	(0.1)	0.1	0.1	0.1	0.4
Charge to other comprehensive income	–	–	(1.4)	–	–	(1.4)
At 31 January 2015	**0.3**	**–**	**(1.1)**	**0.9**	**0.1**	**0.2**
At 1 February 2013	0.1	1.4	(0.4)	0.7	0.2	2.0
(Charge)/credit to income statement	–	(1.3)	0.4	0.1	(0.2)	(1.0)
Credit to other comprehensive income	–	–	0.2	–	–	0.2
At 31 January 2014	0.1	0.1	0.2	0.8	–	1.2

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

	2015 £'m	2014 £'m
Deferred tax assets	**2.9**	2.5
Deferred tax liabilities	**(2.7)**	(1.3)
Net deferred tax asset	**0.2**	1.2

A reduction in the Corporation tax rate to 20% from 1 April 2015 was substantially enacted on 2 July 2013. Deferred tax assets in respect of timing differences are expected to be recoverable against future taxable profits and are recognised at 20% (2014: 20%).

14 INVENTORIES

	2015 £'m	2014 £'m
Finished goods	**41.1**	38.9
Work in progress	**0.4**	0.4
	41.5	39.3

The cost of inventories recognised as an expense and charged to cost of sales in the year was £96.4 million (2014: £89.3 million).

15 TRADE AND OTHER RECEIVABLES

	2015 £'m	2014 £'m
Current		
Trade receivables	**0.2**	0.3
Other receivables	**3.0**	3.1
Prepaid property costs	**11.6**	11.4
Other prepayments and accrued income	**2.9**	2.8
	17.7	17.6
Non-current		
Prepaid property costs	**1.2**	1.5

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

Other receivables include £2.7 million (2014: £2.7 million) in relation to deposits paid on inventory purchases.

16 CASH AND CASH EQUIVALENTS

	2015 £'m	2014 £'m
Cash at bank and in hand	**69.0**	40.7

Included in cash and cash equivalents is £20.0 million (2014: £nil) of short term deposits, accessible at notice periods not exceeding three months.

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

	2015 £'m	2014 £'m
Sterling	**68.2**	37.2
US Dollars	**0.8**	3.5
	69.0	40.7

17 BORROWINGS

	2015 £'m	2014 £'m
Current liabilities		
Current portion of bank loans	**14.5**	21.2
Obligations under finance leases and hire purchase contracts	**–**	0.1
	14.5	21.3
Non-current liabilities		
Bank loans	**155.9**	256.6
Loan notes	**–**	109.7
	155.9	366.3

Bank loans

Bank borrowings are summarised as follows:

	Liability £'m	Interest rate %	Interest margin ratchet range %	Repayment terms
31 January 2015				
Unsecured bank loan	172.5	2.00 + 3M LIBOR	1.50 – 2.50	£7.5m bi-annual instalments.
Accrued interest	0.1			The facility terminates in April 2019
Debt issue costs	(2.2)			
	170.4			
31 January 2014				
Secured bank loans:				
Term loan A	36.1	4.50 + 3M LIBOR	3.75 – 4.50	Repaid in full on 30 May 2014
Term loan B	85.0	5.00 + 3M LIBOR	4.50 – 5.00	Repaid in full on 30 May 2014
Term loan C	165.0	5.00 + 3M LIBOR	4.50 – 5.00	Repaid in full on 30 May 2014
	286.1			
Accrued interest	0.1			
Debt issue costs	(8.4)			
	277.8			

In May 2014 the Group refinanced secured bank borrowings, utilising retained cash and proceeds from the IPO to reduce bank debt to £180.0 million. The new facilities agreement includes a term loan of £180.0 million and a £20.0 million multi-currency revolving credit facility ('RCF') for working capital purposes, both terminating in April 2019. The RCF attracts interest at 3 month LIBOR plus a margin in the range 1.25% to 2.25%, subject to an EBITDA leverage ratchet. The facilities are subject to financial covenants typical to an arrangement of this nature.

At the balance sheet date the Group had utilised £0.8 million (2014: £0.5 million) of the RCF facility in relation to letters of credit. The Group utilises letters of credit to facilitate contracts with certain third-party suppliers. The Group has not utilised the facility in respect of an overdraft during the year.

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

Loan notes

In May 2014, prior to the IPO, the Group issued shares at market value in full settlement of £114.0 million loan notes and accrued interest.

18 TRADE AND OTHER PAYABLES

	2015 £'m	2014 £'m
Current		
Trade payables	**13.4**	13.2
Other taxation and social security	**4.3**	4.1
Deferred consideration	**0.8**	0.8
Property accruals and deferred income	**5.5**	4.9
Other accruals and deferred income	**11.3**	8.8
	35.3	31.8
Non-current		
Deferred consideration	**–**	0.7
Property accruals and deferred income	**10.7**	11.1
	10.7	11.8

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

Deferred consideration includes £0.2 million (2014: £0.4 million) contingent on meeting certain performance targets.

The Group has net US Dollar denominated trade and other payables of £5.7 million (2014: £7.0 million).

19 SHARE CAPITAL AND SHARE PREMIUM

	2015 Number	2014 Number
Share capital		
Allotted, called up and fully paid ordinary shares of one pence:		
At the start of the period	**245,635,000**	245,635,000
Issued in settlement of shareholder loan notes	**50,686,235**	–
Issue of residual management equity	**4,375,000**	–
Issued on IPO	**40,000,000**	–
At the end of the period	**340,696,235**	245,635,000

	£'m	£'m
Share capital		
At the start of the period	**2.5**	2.5
Issued in settlement of shareholder loan notes	**0.5**	–
Issue of residual management equity	**–**	–
Issued on IPO	**0.4**	–
At the end of the period	**3.4**	2.5

	£'m	£'m
Share premium		
At the start of the period	**–**	–
Issued in settlement of shareholder loan notes	**113.5**	–
Issued on IPO	**89.6**	–
Share issue costs	**(1.5)**	–
At the end of the period	**201.6**	–

20 NOTES TO THE CASH FLOW STATEMENT

Reconciliation of operating profit to cash generated from operations:

	2015 £'m	2014 £'m
Profit before tax	**42.7**	30.1
Net finance expense	**21.6**	40.9
Operating profit	**64.3**	71.0
Adjusted for:		
Depreciation and amortisation	**8.8**	7.5
Cash flow hedging foreign currency losses	**0.4**	–
Share based payments charge	**10.3**	–
Operating cash flows before changes in working capital	**83.8**	78.5
Decrease in receivables	**0.7**	0.5
Increase in inventories	**(2.2)**	(4.7)
Increase in payables	**2.6**	4.8
Cash inflow from operating activities	**84.9**	79.1

21 ANALYSIS OF NET DEBT

	At 1 February 2014 £'m	Cash flow £'m	Non-cash changes £'m	**At 31 January 2015 £'m**
Unsecured bank loans	(277.8)	116.2	(8.8)	**(170.4)**
Loan notes and accrued interest	(109.7)	–	109.7	**–**
Finance leases	(0.1)	0.1	–	**–**
Total borrowings	(387.6)	116.3	100.9	**(170.4)**
Cash and cash equivalents	40.7	28.3	–	**69.0**
Total net debt	(346.9)	144.6	100.9	**(101.4)**

	At 1 February 2013 £'m	Cash flow £'m	Non-cash changes £'m	At 31 January 2014 £'m
Secured bank loans	(128.1)	(147.8)	(1.9)	(277.8)
Loan notes and accrued interest	(296.9)	217.1	(29.9)	(109.7)
Finance leases	(0.3)	0.2	–	(0.1)
Total borrowings	(425.3)	69.5	(31.8)	(387.6)
Cash and cash equivalents	64.7	(24.0)	–	40.7
Total net debt	(360.6)	45.5	(31.8)	(346.9)

In May 2014, prior to the IPO, the Group issued shares at market value in full settlement of the remaining £114.0 million loan notes and accrued interest.

In May 2014 the Group refinanced secured bank borrowings, utilising retained cash and proceeds from the IPO to reduce bank debt to £180.0 million. The new facilities agreement includes a term loan of £180.0 million and a £20.0 million RCF for working capital purposes, both terminating in April 2019. The term loan facility attracts interest at 3 month LIBOR plus a margin in the range 1.50% to 2.50%, subject to a leverage ratchet. The RCF attracts interest at 3 month LIBOR plus a margin in the range 1.25% to 2.25%, subject to a leverage ratchet. The facilities are subject to financial covenants typical to an arrangement of this nature.

In May 2013 the Group utilised retained cash balances to redeem £35.0 million 10% loan notes and pay £12.1 million related accrued interest.

In October 2013 the Group redeemed 14% loan notes and accrued interest, together totalling £170.0 million, funded by an additional £165.0 million secured bank loan facility and retained cash balances.

22 OPERATING LEASE COMMITMENTS

Future minimum rentals payable under non-cancellable operating leases:

	2015 £'m	2014 £'m
Aggregate future minimum lease payments:		
Within one year	**36.4**	36.0
Within one to two years	**33.1**	33.0
Within two to three years	**29.4**	29.2
Within three to four year	**24.2**	25.2
Within four to five years	**18.6**	20.6
Within five to ten years	**32.1**	46.2
Within eleven to fifteen years	**0.7**	0.8
	174.5	191.0

The Group enters into non-cancellable operating leases, primarily in respect of retail stores. The majority of the Group's operating leases provide for their renewal by mutual agreement at the expiry of the lease term. Certain leases have a break clause, enforceable at the discretion of the Group. The Group also leases its motor vehicle fleet and a small component of equipment and warehousing requirements.

23 FINANCIAL RISK MANAGEMENT

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

The Board have overall responsibility for managing risks and uncertainties across the Group. The principal financial risks and uncertainties and the actions taken to mitigate them are reviewed on an on-going basis. Further details of the Group's approach to managing risk are included in the Principal Risks and Uncertainties section of the Strategic Report on pages 20 to 25 and in the Corporate Governance Report on pages 34 to 42.

Liquidity risk

The Group generates significant operational cash inflows enabling the Group to maintain substantial cash balances. The Group also has a £20.0 million revolving credit facility to meet seasonal short term liquidity requirements. Cash flow forecasts are prepared to assist management in identifying future liquidity requirements.

Long-term bank funding is subject to certain agreed financial covenants. The risk of a breach of these covenants is mitigated by regular financial forecasting, detailed covenant modelling and monitoring of covenant compliance. As at 31 January 2015, the Group had adequate headroom against all of its financial covenants. Further details on Group borrowings are set out in note 17 of the financial statements.

The table below analyses the contractual cash flows of the Group's non-derivative financial liabilities as at the balance sheet date. The amounts disclosed in the tables are the contractual undiscounted cash flows, inclusive of interest, stated at balance sheet date interest rates in respect of floating interest rate liabilities.

	Less than one year £'m	One to two years £'m	Two to five years £'m	More than five years £'m	Total £'m
At 31 January 2015					
Unsecured bank loans	19.3	19.0	150.0	–	188.3
Trade and other payables	31.7	–	–	–	31.7
Deferred consideration	0.8	–	–	–	0.8
	51.8	19.0	150.0	–	220.8
At 31 January 2014					
Secured bank loans:					
– Term loan A	20.0	16.1	2.8	–	38.9
– Term loan B	6.4	4.6	89.4	–	100.4
– Term loan C	12.3	8.9	185.7	–	206.9
14% loan notes	–	–	–	246.7	246.7
Obligations under finance leases	0.1	–	–	–	0.1
Trade and other payables	28.3	–	–	–	28.3
Deferred consideration	0.8	0.8	–	–	1.6
	67.9	30.4	277.9	246.7	622.9

The table below analyses the contractual cash flows of the Group's derivative financial instruments as at the balance sheet date. The amounts disclosed represent the total contractual undiscounted cash flows at the balance sheet date exchange and interest rates.

	Less than one year £'m	One to two years £'m	Two to five years £'m	More than five years £'m	Total £'m
At 31 January 2015					
Foreign exchange contracts					
– Inflow	63.7	–	–	–	63.7
– Outflow	(58.2)	–	–	–	(58.2)
Interest rate contracts					
– Outflow	(0.2)	–	–	–	(0.2)
At 31 January 2014					
Foreign exchange contracts					
– Inflow	58.4	21.9	–	–	80.3
– Outflow	(59.1)	(22.3)	–	–	(81.4)
Interest rate contracts					
– Outflow	(0.1)	(0.1)	–	–	(0.2)

Foreign currency risk

A significant proportion of the Group's retail products are procured from overseas suppliers denominated in US Dollars. It is Group policy to maintain forward cover between 80% of the next 12 months and 100% of the next 24 months forecast exchange exposures using foreign exchange derivative contracts and US Dollar denominated cash balances.

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.

	2015		2014	
	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	**–**	**(3.4)**	(1.5)	(1.9)
10 cent decrease	**–**	**3.8**	2.4	2.2

Interest rate risk

The Group's principal interest rate risk arises from long-term borrowings. Bank borrowings are denominated in Sterling and are borrowed at floating interest rates. The Group utilises interest rate derivative financial instruments to mitigate the interest rate risk on an element of these borrowing costs.

The table below shows the impact on the reported results of a 50 basis point increase or decrease in the interest rate for the year.

	2015		2014	
	Impact on profit after tax £'m	**Impact on cash flow hedging reserve £'m**	Impact on profit after tax £'m	Impact on cash flow hedging reserve £'m
50 basis point interest rate increase	**(0.2)**	**(0.3)**	(0.5)	(0.7)
50 basis point interest rate decrease	**0.2**	**0.3**	0.5	0.7

23 FINANCIAL RISK MANAGEMENT CONTINUED

Counterparty credit risk

The Group is exposed to counterparty credit risk on its holdings of cash and cash equivalents and derivative financial assets. To mitigate the risk, counterparties are limited to high credit-quality financial institutions and exposures are monitored on a monthly basis. Group policy limits credit exposure on cash and cash equivalents with any single approved counterparty to £40.0 million.

The Group is also exposed to counterparty credit risk in relation to payments in advance of goods to overseas suppliers. At 31 January 2015 this exposure amounted to £2.7 million (2014: £2.7 million). The Group utilises letters of credit for certain overseas suppliers, thereby reducing the total exposure to advance payments.

As a retail business the Group has minimal exposure to credit risk on trade receivables.

Capital management

The Group's capital risk management policy is to maintain a capital structure that is conservative yet efficient in terms of providing long-term returns to shareholders.

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

The Group has a continued focus on free cash flow generation. The Board monitors a range of financial metrics together with banking covenant ratios, maintaining suitable headroom to ensure that the Group's financing requirements continue to be serviceable.

24 FINANCIAL INSTRUMENTS

Fair value

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

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

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

Derivative financial instruments

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

	2015 £'m	2014 £'m
Derivative assets		
Current		
Foreign exchange contracts	**5.8**	0.3
Derivative liabilities		
Current		
Interest rate contracts	**(0.1)**	–
Foreign exchange contracts	**–**	(0.9)
	(0.1)	(0.9)
Non-current		
Foreign exchange contracts	**–**	(0.4)

Interest rate swap

At 31 January 2015 the Group held fixed for floating interest rate swaps with notional principal amount of £100.0 million (2014: £100.0 million) to hedge a portion of the variable interest rate risk on bank loans. Fair value movements of £nil (2014: £nil) were credited to the income statement and £0.1 million (2014: £nil) were charged to other comprehensive income.

Foreign exchange contracts

At 31 January 2015 the Group held a portfolio of foreign currency derivative contracts with notional principal amounts totalling £58.2 million (2014: £81.4 million) to mitigate the exchange risk on future US Dollar denominated trade purchases. Foreign currency derivative contracts with a notional value of £nil (2014: £36.5 million) were not designated as hedging relationships. Fair value movements in foreign currency derivatives are recognised in other comprehensive income to the extent the contract is part of an effective hedging relationship. Fair value movements of £0.1 million (2014: £1.9 million) that do not form part of an effective hedging relationship have been charged to the income statement as a non-underlying item within cost of sales.

Classification of financial instruments

The table below shows the classification of financial assets and liabilities at the balance sheet date.

	Held for trading £'m	Cash flow hedging instruments £'m	Loans and receivables £'m	Other financial liabilities £'m
At 31 January 2015				
Financial assets measured at fair value				
Derivative financial instruments	–	5.8	–	–
Financial assets not measured at fair value				
Trade and other receivables	–	–	3.2	–
Cash and cash equivalents	–	–	69.0	–
Financial liabilities measured at fair value				
Derivative financial instruments	–	(0.1)	–	–
Financial liabilities not measured at fair value				
Unsecured bank loans	–	–	–	(170.4)
Deferred consideration	–	–	–	(0.8)
Trade and other payables	–	–	–	(31.7)
	–	5.7	72.2	(202.9)
At 31 January 2014				
Financial assets measured at fair value				
Derivative financial instruments	0.3	–	–	–
Financial assets not measured at fair value				
Trade and other receivables	–	–	3.4	–
Cash and cash equivalents	–	–	40.7	–
Financial liabilities measured at fair value				
Derivative financial instruments	(0.3)	(1.0)	–	–
Financial liabilities not measured at fair value				
Secured bank loans	–	–	–	(277.8)
Loan notes	–	–	–	(109.7)
Deferred consideration	–	–	–	(1.5)
Finance lease liabilities	–	–	–	(0.1)
Trade and other payables	–	–	–	(28.3)
	–	(1.0)	44.1	(417.4)

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. The Group does not trade in derivative financial instruments. However, in the prior year, certain historic derivatives not designated as a hedging relationship were classified as held for trading for accounting purposes.

25 EQUITY SETTLED SHARE BASED PAYMENT ARRANGEMENTS

Residual management equity

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

Card Factory Long Term Incentive Plan ('LTIP')

On completion of the IPO the Company granted awards of shares to the Executive Directors, members of the senior management team and senior employees under the terms of the LTIP. The award comprises a right to receive free shares or nil cost options. The shares will be issued within 30 days, or as soon as practicable, after the vesting date. The grants awarded in favour of senior employees are subject to a three year vesting period. The grants awarded in favour of the Executive Directors and members of the senior management team are subject to a three year vesting period and include performance conditions. The performance conditions specify a hurdle rate of adjusted return on capital employed below which zero awards will vest. Above the hurdle rate awards will vest on a sliding scale starting at 25% for proforma earnings per share compound annual growth of at least 9% and a maximum 100% for proforma earnings per share compound annual growth of 15% or greater. All shares received on vesting of Executive Director and senior management awards are subject to a two year holding period (sale of shares is permitted to cover personal tax and social security contributions arising on the awards).

Other options awarded

Under his terms of appointment dated 30 April 2014, Geoff Cooper, the Company's Non-Executive Chairman, was granted the option to purchase £330,000 of ordinary shares as part of, or alongside, the IPO at the offer price (£2.25), £330,000 of Ordinary Shares at the offer price (£2.25) on the date falling two years after the date of admission to the London Stock Exchange and £330,000 at the offer price (£2.25) on the date falling three years after the date of admission. The entitlement to make such purchases is conditional upon and subject to Mr Cooper remaining as Chairman of the Company on such date.

Reconciliation of outstanding awards

	Card Factory LTIP		Other options awarded	
	Number of options	Weighted-average exercise price	Number of options	Weighted-average exercise price
Outstanding at 1 February 2014	–	–	–	–
Granted during the year	1,092,222	£0.00	439,998	£2.25
Exercised during the year	–	£0.00	(146,666)	£2.25
Forfeited during the year	(66,667)	£0.00	–	–
Outstanding at 31 January 2015	**1,025,555**	**£0.00**	**293,332**	**£2.25**

No options were exercisable at 31 January 2015.

Fair value of awards
The fair value of awards has been measured using the Black-Scholes model assuming the inputs below.

	Card Factory LTIP	Other options awarded Award 1	Award 2	Award 3
Outstanding at 31 January 2015	1,025,555	–	146,666	146,666
Fair value at grant date	£2.25	£0.00	£0.33	£0.39
Share price at grant date	£2.25	£2.25	£2.25	£2.25
Exercise price	£0.00	£2.25	£2.25	£2.25
Expected volatility	30%	Nil*	30%	30%
Expected term	3 years	Nil*	2 years	3 years
Expected dividend yield	N/A**	Nil*	2.7%	2.7%
Risk free interest rate	1.18%	Nil*	0.82%	1.18%

* Award 1 was exercisable immediately on IPO.

** Card Factory LTIP awards have a £nil exercise price and accrue dividend equivalents over the vesting period, consequently the fair value at grant date is equal to the grant date share price.

The expected volatility is based on historical volatility of a peer group of companies over a relevant period prior to the awards.

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

	2015 £'m	2014 £'m
Residual management equity	**9.8**	–
Card Factory LTIP	**0.5**	–
Other options awarded	**–**	–
	10.3	–

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

26 CAPITAL COMMITMENTS
There were capital commitments of £nil at 31 January 2015 and £0.1 million at 31 January 2014.

27 CONTINGENT LIABILITIES
There were no material contingent liabilities at 31 January 2015 and 31 January 2014 except in relation to deferred contingent consideration as disclosed in note 18.

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

Transactions with Key Management Personnel
The key management personnel of the Group comprise the Card Factory plc Board of Directors and the Operational Board. Disclosures relating to remuneration of key management personnel are included in note 6 of the financial statements. Further details of Directors' remuneration are set out in the Directors' Remuneration Report on pages 50 to 65. Directors of the Company control 6.4% of the ordinary shares of the Company.

Charterhouse General Partners (IX) Limited, as general partner of funds managed by it, controlled 17.8% of the ordinary share capital on the date the financial statements were approved (41.3% immediately following the IPO) and were represented on the Board of Directors by Graeme Coulthard, Non-Executive Director, prior to his resignation on 3 February 2015. The total aggregate fee for Director services payable to Charterhouse was £45,000 per annum (pre IPO: £40,000 per annum).

28 RELATED PARTY TRANSACTIONS CONTINUED

Settlement of shareholder loan notes

In May 2014, as detailed in the IPO prospectus, the Company issued 50.7 million ordinary shares at market value in full settlement of all outstanding 14% loan notes totalling £114.0 million. Included in the settlement of the loan notes were amounts due to related parties as follows:

	Charterhouse £'m	Richard Hayes £'m	Darren Bryant £'m	Other key management personnel £'m	Non-related parties £'m	**Total £'m**
Balance at 31 January 2013	198.5	5.8	0.2	43.3	3.4	**251.2**
Interest accrued in the year	22.6	0.6	–*	4.9	0.4	**28.5**
Settled by cash in October 2013	(134.4)	(3.9)	(0.1)	(29.3)	(2.3)	**(170.0)**
Balance at 31 January 2014	86.7	2.5	0.1	18.9	1.5	**109.7**
Interest accrued in the year	3.4	0.1	–*	0.7	0.1	**4.3**
Settled by shares in May 2014	(90.1)	(2.6)	(0.1)	(19.6)	(1.6)	**(114.0)**
Balance at 31 January 2015	**–**	**–**	**–**	**–**	**–**	**–**

* Actual figure FY15: £2,326 (FY14: £15,463).

Residual management equity

In May 2014, as detailed in the IPO prospectus, the Company issued 4.375 million ordinary shares at nominal value in relation to residual management equity. Included in this amount were 1.875 million shares issued to Darren Bryant, Chief Financial Officer and 1.875 million shares to other key management personnel who are not Directors of Card Factory plc.

29 SUBSIDIARY UNDERTAKINGS

At 31 January 2015 the Group controlled 100% of the issued ordinary share capital of the following principal subsidiaries, all of which are registered in England and Wales, and all of which are included in the consolidated financial statements.

Subsidiary undertaking	Nature of business
CF Topco Limited	Intermediate holding company
CF Interco Limited*	Intermediate holding company
CF Bidco Limited*	Intermediate holding company
Short Rhyme Limited*	Intermediate holding company
Heavy Distance Limited*	Intermediate holding company
Sportswift Limited*	Sale of greeting cards, dressings and gifts
Sportswift Properties Limited*	Property letting
Lupfaw 221 Limited*	Property letting
Printcraft Limited*	Printers
Getting Personal Limited*	Sale of personalised products and gifts

* Shares held indirectly through subsidiary undertakings.

Parent Company Statement of Financial Position

AS AT 31 JANUARY 2015

	Note	2015 £'m
Non-current assets		
Investments	4	**5.1**
Deferred tax	5	**0.1**
		5.2
Current assets		
Trade and other receivables	6	**333.3**
Total assets		**338.5**
Current liabilities		
Trade and other payables	7	**(15.9)**
Net assets		**322.6**
Equity		
Share capital	8	**3.4**
Share premium	8	**201.6**
Merger reserve		**2.7**
Retained earnings		**114.9**
Equity attributable to equity holders of the parent		**322.6**

The financial statements on pages 105 to 114 were approved by the Board of Directors on 24 March 2015 and were signed on its behalf by:

Darren Bryant
Chief Financial Officer

Company number 09002747

Parent Company Statement of Changes in Equity

FOR THE PERIOD ENDED 31 JANUARY 2015

	Share capital £'m	Share premium £'m	Merger reserve £'m	Retained earnings £'m	Total equity £'m
Total comprehensive income for the period					
Profit or loss	–	–	–	104.6	104.6
Transactions with owners, recorded directly in equity					
Issue of shares - net of issue costs (note 8)	3.4	201.6	2.7	–	207.7
Share based payments (note 9)	–	–	–	10.3	10.3
	3.4	201.6	2.7	10.3	218.0
At 31 January 2015	**3.4**	**201.6**	**2.7**	**114.9**	**322.6**

Parent Company Cash Flow Statement

FOR THE PERIOD ENDED 31 JANUARY 2015

	Note	2015 £'m
Cash inflow from operating activities	12	**2.1**
Corporation tax paid		**–**
Net cash inflow from operating activities		**2.1**
Cash flows from investing activities		
Dividends received		**103.7**
Issue of loans to Group undertakings		**(198.7)**
Interest received from Group undertakings		**4.4**
Net cash outflow from investing activities		**(90.6)**
Cash flows from financing activities		
Proceeds from new shares issued		**88.5**
Net cash inflow from financing activities		**88.5**
Net increase in cash and cash equivalents		**–**
Cash and cash equivalents on incorporation		**–**
Closing cash and cash equivalents		**–**

Notes to the Parent Company Financial Statements

1 ACCOUNTING POLICIES

Basis of preparation

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

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

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

Income statement

The Company was incorporated on 17 April 2014 and made a profit after tax of £104.6 million for the period to 31 January 2015, including dividends received from subsidiary undertakings of £103.7 million. As permitted by section 408 of the Companies Act 2006, the income statement of the Company is not presented as part of the financial statements.

Investments

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

Trade and other receivables

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

Trade and other payables

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

Share capital

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

Merger reserve

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

Share based payments

The Company issues equity-settled share based payments to certain employees of the Company and subsidiary undertakings. The cost of equity-settled share awards is measured as the fair value of the award at the grant date using the Black-Scholes model.

The cost of awards to employees of the Company is expensed to the income statement, together with a corresponding adjustment to equity, on a straight line basis over the vesting period of the award. The cost of awards to employees of subsidiary undertakings is recognised as a capital contribution, immediately reimbursed by the subsidiary. The total cost of the awards is based on the Group's estimate of the number of share awards that will eventually vest in accordance with the vesting conditions. The awards do not include market-based vesting conditions. At each balance sheet date, the Group revises its estimate of the number of awards that are expected to vest. Any revision to estimates is recognised in the income statement, with a corresponding adjustment to equity. The expense recognised in the Company income statement is subsequently charged to subsidiary entities to the extent that management services are provided to those subsidiary entities.

Dividends

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

Taxation

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

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the balance sheet date.

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

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

New standards and interpretations
These are the first financial statements of the Company, consequently there are no changes in accounting policies arising due to changes in accounting standards.

EU Endorsed International Financial Reporting Standards in issue but not yet effective
The Directors considered the impact on the Group of EU endorsed, new and revised accounting standards, interpretations or amendments. The following revised accounting standards are currently endorsed but effective for periods beginning on or after 1 July 2014. None are expected to have a significant impact on the financial statements.

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

New standards and amendments awaiting EU endorsement are not expected to have a significant impact on the financial statements.

2 EMPLOYEE COSTS
The Company has no employees other than the Board of Directors. Full details of Directors' remuneration are set out in the Directors' Remuneration Report on pages 50 to 65.

3 DIVIDENDS
The Board is recommending a total dividend in respect of the financial period ended 31 January 2015 of 6.8 pence per share, resulting in a total dividend of £23.2 million. The total dividend comprises an interim dividend which the Directors are declaring of 2.3 pence per share and a proposed final dividend of 4.5 pence per share. The final dividend will, subject to shareholders' approval at the Annual General Meeting on 27 May 2015, be paid alongside the interim dividend on 5 June 2015 to shareholders on the register at the close of business on 1 May 2015. No liability is recorded in the financial statements in respect of the dividends as they were not approved at the balance sheet date.

4 INVESTMENTS IN SUBSIDIARIES

	2015 £'m
At incorporation	–
Additions	5.1
At 31 January 2015	**5.1**

Additions comprise the acquisition of 100% of the issued ordinary share capital of CF Topco Limited, on 30 April 2014, in a share for share exchange.

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

Notes to the Parent Company Financial Statements continued

4 INVESTMENTS IN SUBSIDIARIES CONTINUED

Principal subsidiary undertakings

At 31 January 2015 the Group controlled 100% of the issued ordinary share capital of the following principal subsidiaries, all of which are registered in England and Wales, and all of which are included in the consolidated financial statements.

Subsidiary undertaking	Nature of business
CF Topco Limited	Intermediate holding company
CF Interco Limited*	Intermediate holding company
CF Bidco Limited*	Intermediate holding company
Short Rhyme Limited*	Intermediate holding company
Heavy Distance Limited*	Intermediate holding company
Sportswift Limited*	Sale of greeting cards, dressings and gifts
Sportswift Properties Limited*	Property letting
Lupfaw 221 Limited*	Property letting
Printcraft Limited*	Printers
Getting Personal Limited*	Sale of personalised products and gifts

* Shares held indirectly through subsidiary undertakings.

5 DEFERRED TAX ASSET

	2015 £'m
At incorporation	–
Deferred tax in respect of share based payments	0.1
At 31 January 2015	0.1

6 TRADE AND OTHER RECEIVABLES

	2015 £'m
Amounts owed by Group undertakings	333.3

Amounts owed by Group undertakings are unsecured, repayable on demand and subject to an interest charge of 3% per annum.

7 TRADE AND OTHER PAYABLES

	2015 £'m
Amounts owed to Group undertakings	14.9
Accruals	1.0
	15.9

8 SHARE CAPITAL AND SHARE PREMIUM

	2015 Number
Share capital	
Allotted, called up and fully paid ordinary shares of one pence:	
Issued on incorporation	100
Issued to acquire CF Topco Limited	245,634,900
Issued in settlement of shareholder loan notes	50,686,235
Issue of residual management equity	4,375,000
Issued on IPO	40,000,000
At the end of the period	340,696,235

	£'m
Share capital	
Issued on incorporation	–
Issued to acquire CF Topco Limited	2.5
Issued in settlement of shareholder loan notes	0.5
Issue of residual management equity	–
Issued on IPO	0.4
At the end of the period	3.4

	£'m
Share premium	
At incorporation	–
Issued in settlement of shareholder loan notes	113.5
Issued on IPO	89.6
Share issue costs	(1.5)
At the end of the period	201.6

9 EQUITY SETTLED SHARE BASED PAYMENT ARRANGEMENTS

Residual management equity

On admission to the London Stock Exchange, shares with a fair value of £9.8 million were issued at nominal value in relation to residual management equity as detailed in the IPO prospectus. Employer national insurance of £1.4 million was incurred on the issue of the shares. The cost of these share based payments is recognised in the subsidiary receiving the employee services.

Card Factory Long Term Incentive Plan ('LTIP')

On completion of the IPO the Company granted awards of shares to the Executive Directors, members of the senior management team and senior employees under the terms of the LTIP. The award comprises a right to receive free shares or nil cost options. The shares will be issued within 30 days, or as soon as practicable, after the vesting date. The grants awarded in favour of senior employees are subject to a three year vesting period. The grants awarded in favour of the Executive Directors and members of the senior management team are subject to a three year vesting period and include performance conditions. The performance conditions specify a hurdle rate of adjusted return on capital employed below which zero awards will vest. Above the hurdle rate awards will vest on a sliding scale starting at 25% for proforma earnings per share compound annual growth of at least 9% and a maximum 100% for proforma earnings per share compound annual growth of 15% or greater. All shares received on vesting of Executive Director and senior management awards are subject to a two year holding period (sale of shares is permitted to cover personal tax and social security contributions arising on the awards).

Other options awarded

Under his terms of appointment dated 30 April 2014, Geoff Cooper, the Company's Non-Executive Chairman, was granted the option to purchase £330,000 of Ordinary Shares as part of, or alongside, the IPO at the offer price (£2.25), £330,000 of ordinary shares at the offer price (£2.25) on the date falling two years after the date of admission to the London Stock Exchange and £330,000 at the offer price (£2.25) on the date falling three years after the date of admission. The entitlement to make such purchases is conditional upon and subject to Mr Cooper remaining as Chairman of the Company on such date.

Notes to the Parent Company Financial Statements continued

9 EQUITY SETTLED SHARE BASED PAYMENT ARRANGEMENTS CONTINUED

Reconciliation of outstanding awards

	Card Factory LTIP		Other options awarded	
	Number of options	Weighted-average exercise price	Number of options	Weighted-average exercise price
At incorporation	–	–	–	–
Granted during the period	1,092,222	£0.00	439,998	£2.25
Exercised during the period	–	£0.00	(146,666)	£2.25
Forfeited during the period	(66,667)	£0.00	–	–
Outstanding at 31 January 2015	**1,025,555**	**£0.00**	**293,332**	**£2.25**

No options were exercisable at 31 January 2015.

Fair value of awards

The fair value of awards has been measured using the Black-Scholes model assuming the inputs below.

	Card Factory LTIP	Other options awarded		
		Award 1	Award 2	Award 3
Outstanding at 31 January 2015	1,025,555	–	146,666	146,666
Fair value at grant date	£2.25	£0.00	£0.33	£0.39
Share price at grant date	£2.25	£2.25	£2.25	£2.25
Exercise price	£0.00	£2.25	£2.25	£2.25
Expected volatility	30%	Nil*	30%	30%
Expected term	3 years	Nil*	2 years	3 years
Expected dividend yield	N/A**	Nil*	2.7%	2.7%
Risk free interest rate	1.18%	Nil*	0.82%	1.18%

* Award 1 was exercisable immediately on IPO.

** Card Factory LTIP awards have a £nil exercise price and accrue dividend equivalents over the vesting period, consequently the fair value at grant date is equal to the grant date share price.

The expected volatility is based on historical volatility of a peer group of companies over a relevant period prior to the awards.

Impact on the income statement

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

	2015 £'m
Expense recognised in the Company income statement	
Card Factory LTIP	**0.3**
Other options awarded	**–**
Residual management equity	**4.2**
	4.5
Expense recognised in subsidiary income statements	
Card Factory LTIP	**0.2**
Residual management equity	**5.6**
	5.8
Total expense recognised in the Group income statement	**10.3**

The expense recognised in the Company income statement was subsequently charged to subsidiary entities to the extent that management services were provided to those subsidiary entities.

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

10 FINANCIAL RISK MANAGEMENT

The financial risk management strategy of the Company is consistent with the Group strategy detailed in note 23 of the Group financial statements. The Company is not exposed to foreign currency risk other than to the extent it impacts the trade of its subsidiary investments. Trade and other receivables principally comprise amounts due from Group undertakings and consequently credit risk is limited. Interest income and expense relate solely to amounts due to or from Group undertakings and interest rates are set by reference to Group borrowing costs.

11 FINANCIAL INSTRUMENTS

Classification of financial instruments

Financial assets have all been classified as loans and receivables. Financial liabilities have all been classified as other financial liabilities.

Maturity analysis

All financial instrument assets and liabilities fall due in less than one year.

Fair values

The fair values of financial instruments have been assessed as approximating to their carrying values.

12 NOTES TO THE CASH FLOW STATEMENT

	2015 £'m
Profit before tax	**104.7**
Dividends received	**(103.7)**
Net finance income	**(4.4)**
Operating loss	**(3.4)**
Adjusted for:	
Share based payment charge	**4.5**
Operating cash flows before changes in working capital	**1.1**
Increase in payables	**1.0**
Cash inflow from operating activities	**2.1**

13 RELATED PARTY TRANSACTIONS

Amounts due to and from Group undertakings are set out in notes 6 and 7 of the financial statements. Transactions between the Company and its subsidiaries were as follows:

	2015 £'m
Management services	**7.1**
Interest receivable	**4.4**
Dividends received from Group undertakings	**103.7**
Shares issued in settlement of shareholder loan notes issued by subsidiaries	**(114.0)**
Funds placed with Group treasury	**(70.0)**
Settlement of subsidiary bank debt	**(90.0)**
Other funds advanced to subsidiaries	**(38.7)**

Transactions with key management personnel

The key management personnel of the Company comprise the Card Factory plc Board of Directors. Disclosures relating to Directors' remuneration are set out in the Directors' Remuneration Report on pages 50 to 65. Directors of the Company control 6.4% of the ordinary shares of the Company.

Charterhouse General Partners (IX) Limited, as general partner of funds managed by it, controlled 17.8% of the ordinary share capital on the date the financial statements were approved (41.3% immediately following the IPO) and were represented on the Board of Directors by Graeme Coulthard, Non-Executive Director, prior to his resignation on 3 February 2015. The total aggregate fee for Director services payable to Charterhouse was £45,000 per annum (pre IPO: £40,000 per annum).

Notes to the Parent Company Financial Statements continued

13 RELATED PARTY TRANSACTIONS CONTINUED

Settlement of shareholder loan notes

In May 2014, as detailed in the IPO prospectus, the Company issued 50.7 million ordinary shares at market value in full settlement of £114.0 million 14% loan notes outstanding in CF Topco Limited, a subsidiary undertaking. Included in the above were shares issued to related parties as follows:

- 40.1 million shares to funds managed by Charterhouse General Partners (IX) Limited in settlement of £90.1 million loan notes;
- 1.2 million shares to Richard Hayes, Chief Executive Officer, in settlement of £2.6 million loan notes; and
- 0.03 million shares to Darren Bryant, Chief Financial Officer, in settlement of £0.1 million loan notes.

Residual management equity

In May 2014, as detailed in the IPO prospectus, the Company issued 4.4 million ordinary shares at nominal value in relation to residual management equity. Included in this amount were 1.875 million shares issued to Darren Bryant, Chief Financial Officer.

Advisers and Contacts

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1. Calls to this number are charged at 8p per minute plus network extras or, if dialling internationally, on +44 (0) 121 415 7047. The helpline is open Monday to Friday 8:30am to 5:30pm, excluding bank holidays.

Notes

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