celebrating **100** years

halfords

Halfords Group plc
Annual Report 2007

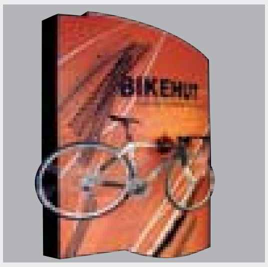
Halfords Group plc Annual Report 2007

Welcome to Halfords

celebrating 100 years

Halfords is the UK's leading retailer, on the basis of turnover, in each of the three product markets in which it operates.

www.halfordscompany.com
www.halfords.com



Leisure

Car Maintenance

Car Enhancement

CONTENTS

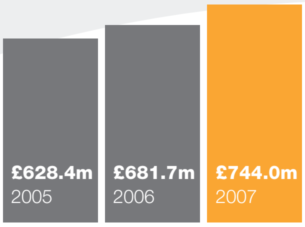
halfords wefit

halfords werepair

REVENUE

+9.1%

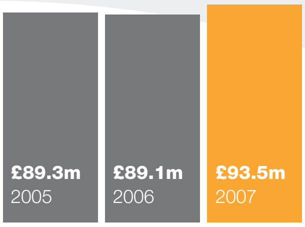
to £744.0m (2006: £681.7m)



OPERATING PROFIT

+4.9%

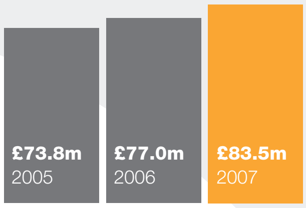
to £93.5m (2006: £89.1m)



PROFIT BEFORE TAX AND EXCEPTIONAL FINANCE COSTS

+8.4%

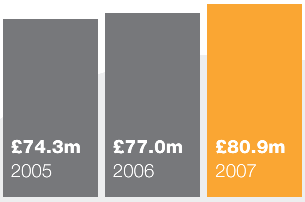
to £83.5m (2006: £77.0m)



PROFIT BEFORE TAX

+5.1%

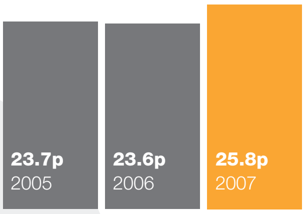
to £80.9m (2006: £77.0m)



BASIC EARNINGS PER SHARE

+9.3%

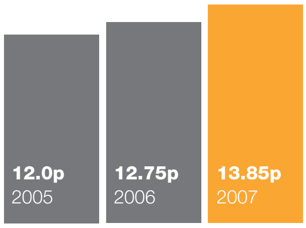
to 25.8p (2006: 23.6p)



DIVIDEND PER ORDINARY SHARE

+8.6%

to 13.85p (2006: 12.75p)



HIGHLIGHTS

- Revenue up 9.1%, with like-for-like sales up 6.0%
- Growth in all key categories of Car Maintenance, Car Enhancement and Leisure
- Far East sourcing penetration increased to 20%
- Partnership with Chris Boardman to launch new range of Boardman Bikes announced
- First Central European store opens in Prague on 29 June 2007
- 426 Halfords stores now trading including two stand-alone Bikehut stores opened in Brighton and Putney
- 23 new store openings

we go the extra mile

OUR EUROPEAN COVERAGE

Halfords has 426 stores across the UK and Republic of Ireland adding a further 18 stores for the complete year.

SUPERSTORES

Halfords 376 superstores are located on prime retail park sites across the UK and Republic of Ireland. Each superstore typically spans around 9,000 square feet and holds over 10,000 product lines and is Halfords format of choice. The majority of stores include a mezzanine option adding around 40% of additional selling space.

- **376 stores**
- **12 planned for 2007**

NEIGHBOURHOOD STORES

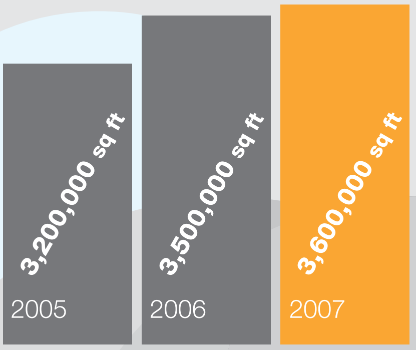
Located in either market towns or urban infill sites, there are now 15 Neighbourhood stores successfully bringing the Halfords brand to smaller catchments. The next financial year will see a further six open in the same format, with a retail footprint of 4,000 square feet and each carry around 6,000 product lines.

- **15 stores**
- **6 planned for 2007**

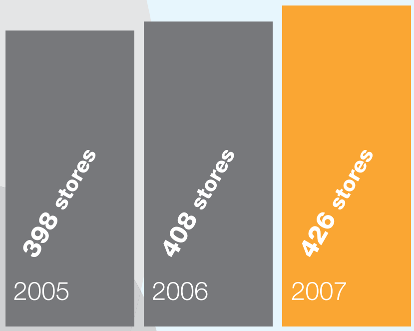
BIKEHUT

Run by cyclists, for cyclists, there are two Bikehut stores open in Putney and Brighton, with plans for a further four by Christmas 2007. Enthusiastic and highly knowledge colleagues set the tone for these stand alone stores which offer leading cycle and cycle accessory brands such as Condor, De Rossa, Endura and Gore-Tex.

- **2 stores**
- **4 planned for 2007**



FLOOR SPACE INCREASE



STORE GROWTH

REPUBLIC OF IRELAND

Halfords product offering and store formats have been very well received, showing strong return on investment. By the end of 2007, the store portfolio will total 18 stores, with further potential to exceed 20 stores in the near future.

- **12 stores**
- **6 planned for 2007**

CZECH REPUBLIC

The first Halfords store in the Czech Republic opened its doors in Prague on 29 June. There will be three stores trading in the country by the end of the year.

- **First store opened 29 June 2007**
- **Two further stores opening autumn 2007**
- **Three extra stores targeted for 2008**

CZECH REPUBLIC

Our first major step to the internationalisation of the Halfords brand has been the establishment of a regional office in Prague, complete with a local team with extensive retail and buying expertise.

A full product offer has been developed for Central Europe, with over 10,000 lines evaluated to meet the needs of the local market.

Pilot stores opening in the Czech Republic.

CHAIRMAN'S STATEMENT

Richard Pym

I am pleased to report that Halfords has delivered a strong set of results. Sales growth of 9.1% has been achieved which, with reduced margin dilution, has generated earnings per share growth of 9.3%.

These results, together with the Board's confidence in the business strategy, enable the Board to recommend a final dividend of 9.50 pence, which, with the interim dividend of 4.35 pence, takes the total dividend for the year to 13.85 pence, representing growth of 8.6% on last year's dividend of 12.75 pence.

Following Nick Carter's resignation, the Board was pleased to announce the appointment of Nick Wharton as Finance Director, with effect from 3 February 2007. Paul McClenaghan was also appointed to the Board with effect from 31 March 2007. On behalf of the Board I would like to thank Nick Carter for his contribution to Halfords and wish him well in his future career.

Nick Wharton is a Chartered Accountant and has been a member of the senior management team at Halfords for five years, having played pivotal roles in both Halfords' separation from Boots Company plc in 2002 and Halfords' listing on the London Stock Exchange in 2004. Through his role as Business Development Director, Nick has been instrumental in developing the international expansion strategy and new trading formats, including the stand-alone Bikehut proposition.

Paul McClenaghan joined Halfords in 2005 as Trading Director. In his time at Halfords, Paul has implemented strategies focused on developing Halfords' market leading positions in its core markets, as well as expanding the product and service offerings into new markets.

Nick and Paul join a strong Board team. The business is very effectively led by our Chief Executive, Ian McLeod, and our capable non-executive team of Nigel Wilson, Keith Harris and Bill Ronald bring a wide range of experience to Board discussions.

The entire Halfords team, from colleagues based in stores through to those in our head office and distribution centres, share a common purpose of delivering market leading knowledge, choice and service to our customers. Their hard work and dedication has generated these strong results.

The Halfords brand was established in 1907, and it is encouraging in our centenary year 2007 that the business is trading successfully and we have every reason to be confident in the future of Halfords.

Richard Pym, Chairman
6 June 2007

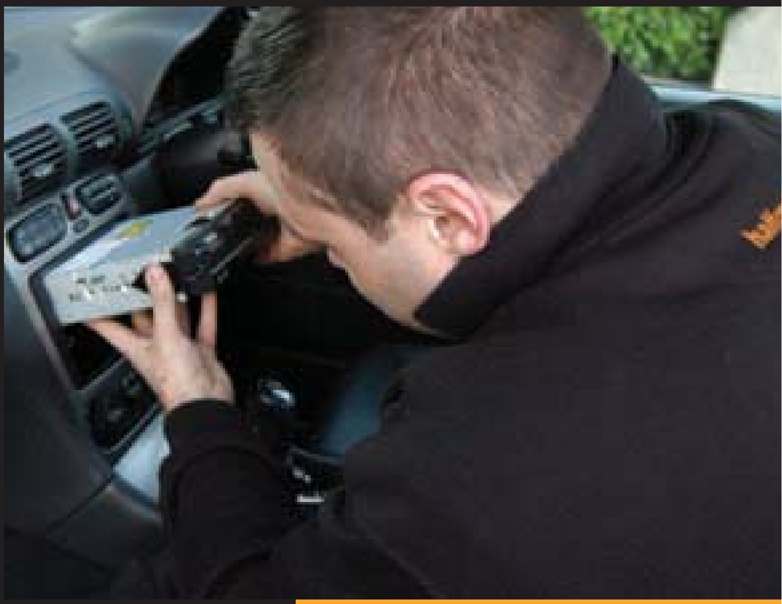
celebrating 100 years

SERVICE EXPERTISE

With over 1.2m fitting jobs completed during the year, Halfords ***we* fit** Service continues to enhance our product offering, differentiates us from our competitors and positions store colleagues as experts in their field.

Halfords comprehensive training programme delivered through a combination of on the job training and 42 designated training stores has resulted in:

- 2,000 trained and accredited child seat fitters
- 1,500 specialists delivering our unique sat nav 'set up and demo'
- 700 trained hard wire (in-car entertainment) fitters



COMPREHENSIVE SERVICE OFFERINGS

"The hard work and **dedication of the entire Halfords team** has generated these strong results."

CHIEF EXECUTIVE'S REVIEW

Ian McLeod

During the financial year, Halfords has continued to deliver further growth, demonstrating strong resilience to both a challenging retail environment and changing market dynamics through a combination of a differentiated offer, our unique service proposition and a proactive trading approach.

The essence of Halfords' successful business model lies in our range differentiation, our service and strong defensive characteristics. We are both market leader and store of first choice in each of our key markets. We have the UK's largest range of car parts, a third of the UK cycle market and are now clearly established as the UK's leading provider of In-Car Technology solutions. Our product offer is delivered from a portfolio of 426 stores, the significant majority of which are located in popular retail parks throughout the country.

Our breadth of range and our scale of stores across the UK and also within the Republic of Ireland, are underpinned by the competitive advantage provided by the informed service and product fitting capability of our store-based colleagues. Halfords therefore possesses a combination of characteristics which continue to provide a strong defence against any material form of scale competition.

During the financial year, Halfords has built on its strong performance in previous years by delivering a year-on-year sales increase of 9.1% which includes growth across each of our key categories. As well as maintaining sales momentum through a similar sales growth profile in each half year, a proactive management of the product mix and supplier base has also enabled us to grow cash margin and significantly arrest the level of percentage margin dilution experienced in the previous financial year.

We continue to successfully focus on each of the four key elements of our business strategy:

- Investing in the store portfolio
- Leveraging the Halfords brand
- Improving the supply chain
- Marketing the Halfords service proposition

INVESTING IN THE STORE PORTFOLIO

In recent years our focus has been on reinvesting in the existing store estate, to ensure that our store environment remains contemporary and our customers are presented with our latest offer. This programme, involving varying degrees of re-invigoration, is now essentially complete.

A combination of investment in our existing stores, often increasing capacity through the addition of mezzanine floors, and the opening of new stores has added 32% of space to our portfolio since 2001. We believe our market leading position can be further enhanced by the development of at least 130 further stores across the UK and the Republic of Ireland. Our portfolio investment emphasis will now move towards a stronger store opening programme.

The Halfords Group now has 376 Superstores, with well over half in a mezzanine format and over 100 stores in a supermezzanine format, which remains our format of choice. As at 30 March 2007, Halfords Group had a total of 426 stores trading, including two stand-alone Bikehuts.

BOARDMAN BIKES

The new Boardman range of bikes designed by Olympic and triple world champion Chris Boardman MBE (pictured above), places Halfords at the forefront of specialist bike development offering superior quality products at the most competitive prices. The range of bikes and accessories available exclusively at Halfords and standalone Bikehut stores includes road, mountain and commuter bikes.

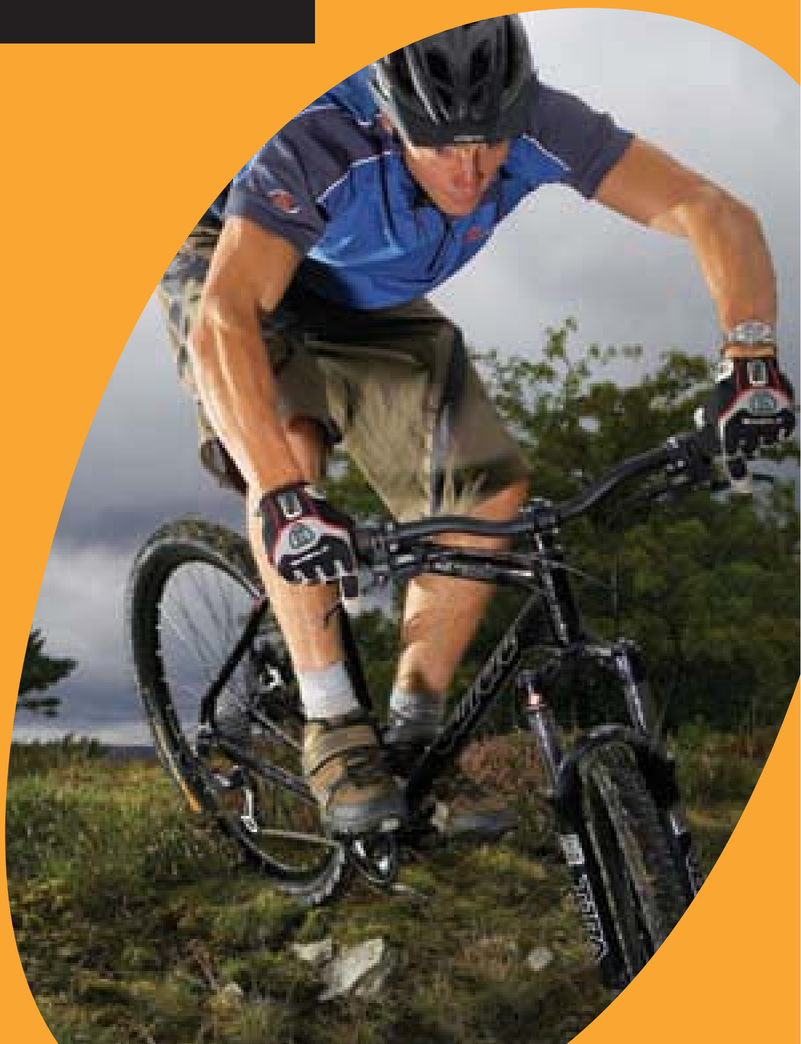
CAMPING RANGE

On the back of our success in 2006, we have further developed our range for 2007 with the introduction of our Urban Escape premium camping range. Product development continues to drive sales growth in this attractive market, while a newly re-branded sub shop identity has provided range clarity.

CARRERA

Fifty new models of the Carrera range have been introduced this year. Carrera is Britain's best selling premium cycle brand and continues to grow supported by positive reviews from the specialist cycling media.

"The essence of Halfords' successful business model lies in our range differentiation and strong defensive characteristics."



CHIEF EXECUTIVE'S REVIEW
continued

The Halfords re-branding strategy is complete with all stores now in our orange livery (with the exception of three, which will close this year). We will continue to invest in our existing estate through ongoing mezzanine introduction, complemented by a series of refresher activity and space rebalancing programmes, to ensure that our current estate continues to benefit from improvements in product display and adjacency. 35 such space rebalances took place last year, with a similar level of activity planned for 2007/08.

Most of our store portfolio is located on prime retail parks with A1 consents, where an increasing number of retailers wish to participate. Given our destination store status, this additional demand enables us, in certain circumstances, to readjust our store size (by introducing a mezzanine for example) or by relocating completely. As this activity frees up incremental rental space within the park we are able to negotiate contributions from landlords to facilitate our portfolio programme.

Stores involved in such activity benefit from portfolio investment either as a newly built replacement store or receive an upgrade to the latest footprint. Significantly, each of the stores impacted by these changes in the last two years has remained located in its existing retail park, and achieved above average sales growth following the change.

Recognising the quality of our store portfolio and our destination status in the minds of our customers, we would envisage such opportunities continuing at a similar level for the foreseeable future.

Rental inflation has been accelerating in recent years, which has proved challenging given the inherent cost growth. However, it has become evident that rental inflation is now decelerating, which will clearly be beneficial at future rent reviews.

NEW FORMATS
We continue to develop new store formats and have focused on two different customer propositions:

- Neighbourhood stores
- Stand-alone Bikehut

NEIGHBOURHOOD STORES
Complementing Halfords' traditional focus on full offer Superstores, we have developed a smaller store format, known internally as the Neighbourhood store. Stores of this nature typically operate from a retail footprint of 4,000 ft^2 and carry 6,000 product lines compared to 9,000 ft^2 and 10,000 lines in a Superstore.

These stores are proving successful in bringing the Halfords brand to smaller catchments, such as Midsummer Norton and Aberdare. The performance of the Neighbourhood stores opened to date has proved encouraging, generating payback periods very similar to our current Superstore portfolio. These stores will be located in either market towns or urban infill sites and we believe there are opportunities to develop about 60 stores in this format in the UK over time.

TOURING SUB-SHOP

The new travel and touring sub shop has been introduced to 249 stores providing a dedicated shopping environment for customers. New products, new packaging and in-store communications enable customers to better understand the choices between different ranges and sales have shown an increase since the introduction of the sub shop concept.

We have opened 15 of these stores to date, with a further six stores planned to open in the Neighbourhood format in the new financial year.

STAND-ALONE BIKEHUT

Halfords has steadily grown its cycle and cycle accessory business in recent years and established *Bikehut* as a credible sub-brand within the market.

Our Apollo and Carrera own brand cycles have developed considerably and now arguably lead the market in terms of value. We have successfully supported the product offer with the recruitment and training of specialist colleagues to advise customers and also build and safety check their bikes for them. In addition, *Bikehut* branded parts and accessories are now established as an authoritative range of private label products and an accredited cycle repair and full maintenance programme has also been introduced.

This has placed us in a strong position to launch a number of stand-alone specialist cycle shops under the Bikehut brand. Our visible commitment to the premium sector of the market has also attracted a broader range of specialist cycling brands to be available in these stores, including Condor, De Rossa, Pashley, Marzocchi, Endura and Gore-Tex.

Two initial pilot stores have opened in Brighton (November 2006) and Putney (February 2007) with encouraging results. Compared to our overall market share, we are under-represented in the premium cycle market, which is characterised by a fragmented population of independent specialist stores. We are confident we can compete very effectively and through Bikehut can grow share in this sector.

The store look and feel is completely different to a *Bikehut* sub-shop within a Halfords store. It has a clear individual identity and a large range which has a 60% difference to our Superstore offering, in order to appeal to the specialist consumer.

We anticipate operating from six stores by the end of this year as an extended pilot project and assuming success, intend to roll out to approximately 50 stores across the country.

INTERNATIONAL DEVELOPMENTS

The Republic of Ireland has been a very successful market entry for Halfords with above average returns on investment being generated from those stores opened to date. From only two stores trading in January 2005, we are now trading from 12, with six opening during the current financial year.

There is scope for approximately 20 Superstores in total with further potential provided by our Neighbourhood format for smaller catchments.

BIKEHUT STAND-ALONE STORE

The Bikehut stand-alone
introduced in November
are now two stores trad
Brighton with encourag
dedicated and inform
product ranges are 6
those in mainstream
cater for the specia
cycling enthusiast.

CHIEF EXECUTIVE'S REVIEW
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Building upon the success and learning from our expansion into the Republic of Ireland in recent years, this year has seen unprecedented levels of activity in pursuing opportunities to take the Halfords brand to new international markets.

Our first major step to the internationalisation of the Halfords brand has been the establishment of an office in Prague in the Czech Republic, complete with a local team with retail and buying expertise, supported by functional experts in the UK.

A full product offer has been created for the Central European market, with over 10,000 lines evaluated to meet the needs of the local market with product sourced either locally in Central Europe, or through our UK and global supply partners. A complementary in-country logistics infrastructure has been developed and systems implemented.

The first store will open in Prague in the first half of this financial year, to be followed by two further stores in the third quarter. The combination of our wide and extensive ranges, high levels of customer service and a full garage-servicing offer, will bring a highly differentiated retail proposition to the Czech market.

A programme of site identification and evaluation is under way to take advantage of the growing and attractive market in the Czech Republic and expansion in adjacent territories will follow after evaluation of the pilot stores.

LEVERAGING THE HALFORDS BRAND

The Halfords product portfolio comprises three major categories: Car Maintenance (Car Parts and Servicing Consumables), Car Enhancement (In-Car Technology and Performance Styling) and Leisure (Cycling, Touring and Camping).

CAR MAINTENANCE

Car Maintenance provides an underlying strength and stability to our business, given the needs-driven nature of the product ranges and we are pleased to see continued sales growth in this area.

Servicing consumables such as car bulbs, wiper blades, batteries and oils comprise the significant majority of sales within this category and benefit from two favourable dynamics. Firstly, they inevitably need replacing if the consumer wishes to maintain a legal and reliable vehicle on the road, providing Halfords with a dependable customer stream given our 'store of first choice' status and breadth of range. Secondly, these products are non-discretionary, needs-driven purchases with low price elasticity.

Our comprehensive stock of 3 million car parts (covering approximately 93% of cars in the UK) and our market leading authority ensures Halfords has strong product availability consistent with consumer demand. A good example of our range authority is that we carry over 80 different product lines of oil, acting as a real competitive advantage as manufacturers become increasingly specific about the oil that they recommend to owners of their marque.

CAR MAINTENANCE
Through our authority in car bulbs, wiper blades, batteries and oils, this category provides an underlying resilience to our business. Car maintenance products have continued to grow from needs driven purchases, where extensive range breadth and high levels of availability give Halfords a competitive advantage.

SCRATCH, CHIP AND DENT REPAIR SERVICE
Customers across the country are now benefiting from this service that rolled out nationally in October 2006. With instant quotes available from all Halfords stores, our Car Care Service offers convenience and quality from the UK's leading car parts retailer. Services are performed by body shop trained technicians and guaranteed for three years and include scratch, chip and dent repair, bumper scuff repair, alloy wheel refurbishment and professional valeting.

"Car maintenance provides underlying strength and stability to our business . . . and we are pleased to see continued sales growth in this area."

CHIEF EXECUTIVE'S REVIEW
continued

CAR ENHANCEMENT

Car Enhancement continued to show growth during the year reflecting an increasing emphasis, particularly by the younger consumer, on enhancing the interior as opposed to the exterior of their vehicles.

Targeting those customers, we have introduced new and enhanced ranges aimed at broadening the appeal of our interior accessory offer and have benefited from encouraging sales growth as a result.

The changing dynamics of the in-car electronics market has also had a major impact, driven by innovation in technology and an increase in own brand products. Our combination of market leading range, knowledgeable colleagues and unique fitting capability ensures that Halfords has the right technology solution to meet customers' requirements. Reflecting this service advantage, across the total car enhancement category we fitted over 275,000 technology solutions into our customers' cars.

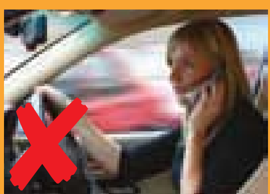
The trend towards digital music devices such as the iPod and MP3 players and the desire to use these devices in-car has been met with new product ranges being developed that allow the customer to play their digital music through their car speakers.

This changing technology mix increased average retail prices within this sector of the market in the second half of the year. Own label mix of business has also significantly increased year on year through the successful introduction of a number of own brand products, including satellite navigation, in-car DVD and CD players. Own brand accounted for over 20% of CD audio sales in the year, driven by *Ripspeed*, which is now a top 5 UK in-car entertainment brand in its own right.

New mobile phone legislation that came into effect at the end of February 2007 resulted in strong sales of hands free phone solutions. Motorists caught using a mobile phone in their car now risk a three points penalty and a £60 fine. Halfords range of Hands Free Phone Kits covers all solutions from bluetooth earpieces through to professionally, fully fitted hard wire solutions.

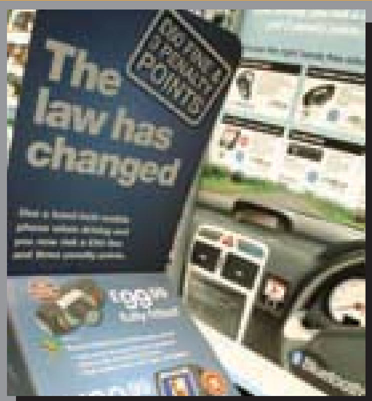
The satellite navigation market continued to grow strongly during the last 12 months and Halfords continues to be the pre-eminent retailer for these products, given our range strength, product knowledge and unique "Set Up and Demo" proposition.

We have enjoyed good relations with all key suppliers within this sector and our improved forward planning of range activity and marketing has enabled us to both grow sales and improve profitability. Industry estimates vary, but a consensus would place total car parc penetration for satellite navigation at approximately 10% of the 33 million cars on the road in the UK, indicating that a combination of market potential and product innovation will continue to drive growth in this category.



HANDS FREE LEGISLATION

New mobile phone legislation that came into effect in February 2007 resulted in strong sales of hands free phone solutions. In line with Halfords profile as the UK's leading retailer of in car technology, all stores now feature vibrant imagery and clear point of sale allowing customers to choose from our market leading range from Bluetooth earpieces through to professionally, fully fitted hard wire solutions.



IN-CAR TECHNOLOGY

As the UK’s number one retailer of in-car technology, Halfords is committed to sourcing market-leading products at competitive prices. This financial year saw continued range development and included the successful introduction of private label electronics under our Ripspeed brand, offering customers yet more choice.

CAR ENHANCEMENT

“Our combination of market leading range, knowledgeable colleagues and unique fitting capability, ensures that Halfords has the right technology solution to meet customers’ requirements.”

CHIEF EXECUTIVE'S REVIEW
continued

LEISURE

Two-thirds of leisure sales are driven from our Cycling category. Through Apollo, the UK's best selling bike brand, and Carrera, the UK's leading premium cycle brand, our reputation for bikes and cycle accessories continues to be enhanced by the evolution and development of these private label products by our specialist cycle team.

During the year we continued to serve more customers, with one in three bikes bought in the UK being purchased from Halfords. Further development of our Apollo brand, across a number of consumer segments such as Kids, Junior, BMX, Adult and the recently introduced Folding Bike ranges, has been recognised by customers who have made Apollo the UK's best selling bike brand.

The Carrera range was relaunched in September 2006, with bold new designs and specifications designed around the needs of the enthusiast cyclist with greater choice across Road, Hybrid, Mountain and with more women specific variants. The Carrera range now includes carbon fibre frame components for the first time and a new All Terrain Mountain Bike — the Banshee X that takes Carrera above the £600 price point for the first time. The new Carrera Subway 1 was awarded 10/10 with a Best Buy Award by Cycling Plus Magazine in March 2007.

All these cycle ranges are good examples of our ability to source directly from the Far East with improved cost prices but also improved quality and specification of individual models as we have a direct influence on the final specification. This allows us to provide quality bikes that deliver both competitive retail prices and improved buying margins.

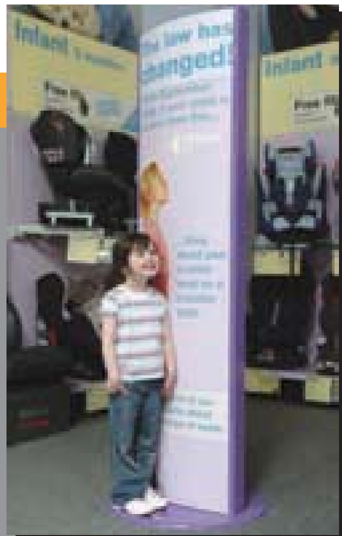
Working in collaboration with GT, a recognised worldwide premium cycle brand based in the US, a completely new and exclusive range of bikes was designed in direct discussion with Halfords and launched exclusively in our stores in October. The response from customers and specialist press has been excellent, with the new GT I Drive 5 XCR voted a test winner and receiving a Gold Award in What MTB magazine.

For the new financial year we have also been developing further specialist premium ranges in support of further sales opportunities in this sector. Voodoo, an exclusive product range from the USA, will be launched in Bikehut stand-alones and our better performing *Bikehut* sub-shops.

Our most exciting development for 2007/08 will be the launch of an exclusive range of premium cycles under the Boardman brand. 30 frame sizes across nine different models are the fruition of two years' development with Chris Boardman, Olympic gold medallist and the best cyclist Britain has ever produced. Bikes will be made to a very high specification but priced very competitively within this sector of the market.

CHILD SEAT LEGISLATION

When new child seat legislation was introduced in September 2006, Halfords stock levels were increased to take full advantage of increased customer demand. Our marketing programme heightened awareness of the impending legislation change and our 2000 trained colleagues enabled our customers to make an informed product choice for their child.



The continued roll-out of the supermezzanine format has helped support additional product and brand choice within *Bikehut* at Halfords. *Bikehut* sub-shops are now in place in all of our 376 Superstores across the country. Each includes a bike workshop that adds credibility to the *Bikehut* sub-brand as a specialist bike retailer. An increasing number of customers are recognising the quality of bikes and service at Halfords, which is why more consumers purchased a bike from Halfords than from all the independent cycle retailers in the UK added together.

The extension of *Bikehut* from a retail brand to a product brand through a range of premium cycle accessories has been well received by customers who are looking for high quality accessories at affordable prices. The *Bikehut* brand is our fastest growing accessory brand with many products sourced directly through Halfords Asia which ensures direct control over product design and quality delivering competitive retail prices, strong buying margins and exclusivity. Sales of *Bikehut* accessories are now close to £10m, only two years after their launch.

On 18 September 2006, legislation was introduced which made it a legal requirement to place all children under 12 years old or 135 cm in height on a booster seat in a car, as well as wearing a safety belt. Demand for such child seats increased considerably immediately prior to and also after the legislative change. In anticipation, we increased our stocks of these products and reaped the sales benefit of the demand surge as a consequence. Clearly such sales were beneficial but, placed in context, child travel products still remain a relatively small proportion of our total sales mix.

Changes to our travel and camping ranges and managing the price architecture within travel products generated encouraging sales growth and improved profitability across these product areas. Travel has now been developed as a clearly defined sub-shop within the store in time for 2007 summer period and we would anticipate the category growth to continue.

“Increasing numbers of customers are recognising the quality of bikes and service at Halfords, which is why more consumers purchased a bike from us than from all the independent cycle retailers in the UK added together.”

Within Camping considerable effort was made to source products directly from the Far East that would appeal to the Halfords customer. Family tent packs were introduced under the Halfords brand name and sales exceeded our expectations. Equally, the move to private label enhanced profitability. On the back of 2006 success, we anticipate further growth in this attractive market and have further developed our range for 2007 with the introduction of our Urban Escape premium camping range.

IMPROVING THE SUPPLY CHAIN

A further key element of the Halfords strategy has been to increase the proportion of product, predominantly private label, which is sourced directly from the Far East. This objective enables our sourcing teams both in the UK and in Asia to exercise far greater influence and control over the specification, quality and functionality of products, often influencing manufacturers in their own product development strategy, given the level of expertise and market understanding our trading teams possess.

A further material benefit is that by sourcing directly and avoiding the requirement to source through agents we also benefit from improved cost prices.

Price benefits are either reflected in our margin, or reinvested in price or product specification to grow sales and market share or a combination of both. Given the relatively low stock-turn of our product range, some of these benefits agreed with suppliers during the last financial year will continue to flow during the forthcoming year as the new product becomes available.

In June 2004, our sales penetration of product directly sourced from the Far East was 7%. We set an initial target of 20% penetration within three years and have now achieved that target ahead of schedule. We now source directly from eight different countries in the Far East.

CHIEF EXECUTIVE'S REVIEW
continued

In recent months we have recruited individuals with sourcing expertise in electronics and as a result we have been able to introduce a series of own brand in-car technology products, including Satellite Navigation, In-car DVD, and In-car CD players, which also include functionality to play music downloaded onto MP3 hardware (e.g. the iPod).

These new product developments (often market leading) within in-car technology have supported the early achievement of our penetration target and give us confidence that we can achieve greater levels of sales penetration in the future.

ENVIRONMENTAL CONSIDERATION

We are naturally aware of the increasing need for all companies to operate responsibly with regard to their impact on the environment. During the year, we have put in place a series of initiatives that will, over time, see further improvements and economies generated from Halfords operations. These initiatives include:

- improved efficiency of our transport fleet
- improvements in cardboard recycling
- improved energy efficiency from stores

During the course of the year, through a combination of engine selection on new tractor units, fuel consumption efficiency training for drivers, and more efficient vehicle loading, we have seen an increase in weight of product carried per kilometre by 6%. This means that fewer vehicles were required to deliver our product supply requirement to stores and also used less fuel doing so, as fuel efficiency improved by 7%.

The cardboard recycling scheme was extended to all stores during the year, such that over 95% of all cardboard waste generated is recycled. We have also reduced the level of waste consigned to landfill year on year by around 35%.
Within our stores, a three year plan has been agreed in partnership with the Carbon Trust to reduce store emissions by a further 8% over that period.

MARKETING THE HALFORDS PROPOSITION

Halfords continued to develop its service offering and delivered another strong year in its fitting and repair services. Almost 1.2 million customers experienced our professional "we fit" and "we repair" services, an increase of 13% over 2006. Further research conducted during the year confirmed the brand enhancement and loyalty-driving qualities of these services, with 70% of customers who had a product fitted by Halfords indicating a likelihood to visit Halfords more often in the future.

We continued to invest in store colleague training via the launch of our training stores network with 700 colleagues now capable of hardwire technology fitting and almost 2,000 trained to professionally and safely install child seats. We also now have over 1,500 colleagues trained to deliver our unique satellite navigation "Set up and Demo" service. Sales of our "Bike Care" bike maintenance and warranty product improved during the year, helping to deliver a 25% increase in repair jobs.

We also rolled out nationally our unique "Scratch, Chip and Dent" repair service, where customers can have minor bodywork marks repaired at a fraction of the cost of bodyshops, with pleasing levels of early customer uptake.

ENVIRONMENTAL CONSIDERATION

Halfords are continually improving measures to understand and reduce its carbon footprint. As part of our ongoing initiatives within our transport fleet our fuel efficiency has improved by 7% through a combination of engine selection on new tractor units, fuel consumption efficiency training for drivers and more efficient vehicle loading.

Developing and increasing the level of uptake for our services will remain a key focus for us in the coming year as we continue to differentiate ourselves in the retail marketplace.

Work was also undertaken during the year to align store team rotas to better meet customer demand patterns for our fitting services in order to deliver higher levels of “on demand” fitting for products such as wiper blades, bulbs and batteries.

A monitoring system was implemented within store operations, allowing us to interrogate current in-store rota construction. We have re-engineered store rotas to optimise the percentage of hours available at weekends to meet customer footfall. All stores achieved their optimum rotas during the second quarter of the year and these have been maintained since that time.

The consumer trend towards greater levels of on-line usage seen in the retail and broader consumer market was also felt in Halfords with an extremely pleasing performance from Halfords.com. Significant growth was achieved in website visitors, as well as on-line sales and conversion. Improvements in our website navigation also help customers more easily research on-line before buying either on the site or in store.

During the year, we implemented a new e-commerce fulfilment system providing flexibility and scalability for future growth. With the Internet continuing to influence a growing proportion of retail sales, we will continue to develop our site to ensure we meet the needs of Halfords’ customers. Developments are planned to further improve our customers’ research and shopping experience and we expect to introduce a “reserve on line, collect in store” service in 2007 as part of our plans for multi-channel development.

OUTLOOK

The financial year ended 30 March 2007 is the third year since Halfords became a listed company and in each of these years we have delivered like-for-like sales growth. Active margin management across all categories has arrested the margin dilution effect of the previous year and we expect to maintain a broadly neutral margin position in the forthcoming year, generating gross margins in excess of 50%.

Our strategic focus remains to consolidate our position further within our key markets, deliver additional growth from new product areas, proactively source product directly from manufacturers, wherever possible, and enhance our store portfolio through opening new stores across each of our formats as well as internationally.

We have a disciplined reinvestment policy. Following on from the success of our investments in the Republic of Ireland we are on track to develop our international portfolio. Although at an early stage, we also see clear potential for the success of new formats such as Neighbourhood and our stand-alone bike retailing format Bikehut.

The combination of our category sales and margin initiatives, our space growth and the unique service advantage pursued through the hard work of our colleagues continue to give us confidence in Halfords’ future prospects and optimism for the delivery of further growth in the forthcoming year.

Ian McLeod, Chief Executive
6 June 2007

HALFORDS ONLINE

Now currently establishe
One store, Halfords.com
encouraging increases
visitors and conversio
will continue to exten
offer, including impro
imaging and a reser
in-store initiative pl
financial year.

FINANCE DIRECTOR'S REPORT

Nick Wharton

FINANCIAL RESULTS

Group sales for the 52 weeks ended 30 March 2007 were £744.0m (2006: £681.7m), an increase of 9.1% on the comparable period last year and representing a like-for-like sales increase of 6.0%. The absence of an Easter in the 52 weeks ended 31 March 2006 has meant that the underlying like-for-like sales performance was 5.3%.

Gross profit at £376.1m (2006: £346.7m) is 50.6% as a percentage of net sales and compares to last year's figure of 50.9%. The 30 basis points ("bps") dilution in gross profit per cent represents a significant improvement on the 260 bps dilution reported at the preliminary results last year. With reported margin dilution in the first half of the year at 40 bps there was a second half improvement, which saw year-on-year dilution of 20 bps. This improvement reflects active margin management; the flow-through of Far East sourcing benefits and continued sales growth in higher margin categories.

Operating expenses as a percentage of revenue are 20 bps higher than last year at 38.0% (2006: 37.8%). Continued improvements in store labour productivity and a slowdown in rental inflation has been offset by the increase in administrative expenses driven by the costs associated with the three store Czech Republic pilot, increased costs of long and short-term incentives and legal costs associated with the Group's capital restructure.

Net finance costs for the year excluding exceptional interest were £10.0m (2006: £12.1m). Exceptional finance costs totalling £2.6m were incurred as part of the debt re-financing exercise. The write-off of previously capitalised loan fees arising from the repayment of the Group's term debt totalled £1.5m and the cost of closing out of an interest rate swap was £1.1m.

Profit before tax was £80.9m compared with £77.0m in the prior year, an increase of 5.1%, which rises to a year-on-year increase of 8.4% when excluding the exceptional finance costs noted above.

LANDLORD CONTRIBUTIONS

Halfords actively manages its store portfolio to maximise value creation through generating cash, making profits and increasing the ongoing contribution from each store. Halfords' high quality portfolio, with 60% of its superstores on retail parks with A1 planning consents, together with its destination status provides further potential from these activities and the Group anticipates a similar level of contributions in the current financial year. Landlord contributions during the year totalled £4.5m, compared to £6.9m last year.

OPERATING LEASES

All of the Group's stores are occupied under operating leases, the majority of which are on standard lease terms, typically with a 15-year term at inception. The Group has a total commitment under non-cancellable operating leases of £810m (2006: £795m).

TAXATION

The taxation charge on profit for the financial year was £23.5m (2006: £23.4m) resulting in a full year effective tax rate of 29.0% (2006: 30.4%). This tax rate has been driven by the treatment of intercompany Loan Notes raised at the time of the Group's refinancing. It should be noted that although there is expected to be a similar effective tax rate in 2007/08, the underlying tax rate is 31.6%, which reflects the non-deductibility of depreciation charged on capital expenditure in respect of mezzanine floors and other store infrastructure.

EARNINGS PER SHARE

Basic earnings per share (EPS) were 25.8 pence (2006: 23.6 pence). An alternative EPS measure, excluding exceptional items, reflects the Group's underlying performance. Consequently, basic EPS, excluding exceptional finance costs, were 26.6 pence (2006: 23.6 pence), a year-on-year increase of 12.7%. This level of EPS growth reflects the increase in earnings driven by a strong trading performance, a lower tax rate and the share buy-back programme.

CAPITAL EXPENDITURE

Capital investment in the period totalled £23.9m (2006: £27.5m), with a major focus on adding new selling space though expanding the store portfolio. The Group opened 25 new stores, of which seven were relocations, growing the portfolio from 408 to 426 stores. This financial commitment underpins our strategy of expanding the Superstore portfolio and rolling out new formats, including the introduction of two stand-alone Bikehut stores in Brighton and Putney. As noted in last year's report the Group continues to invest in the development of its infrastructure and particularly new store systems. After a trial period these systems are being rolled out nationally, successfully concluding the Group's five year programme to replace all of the core retail, operational and financial systems.

CASH FLOW, NET DEBT, AND CAPITAL STRUCTURE

Having undertaken a comprehensive review of the Group's capital structure, the Board took the decision to undertake a debt re-financing exercise, which was completed on 14 July 2006. The debt facility now comprises a £180m five-year term non-amortising loan, with a £120m revolving credit facility.

Total net debt at 30 March 2007 was £180.0m (2006: £173.7m) and includes £12.4m (2006: £12.5m) in respect of the head office finance lease.

The Group continues to generate strong net cash flows from operations, which were £112.6m to 30 March 2007 (2006: £100.9m) and included a working capital outflow of £4.5m (2006: £11.5m). Stock levels remain well managed at £141.6m (2006: £127.2m), an increase of 11.3%. This increase reflects stock investment in new stores, together with the seasonal stock build ahead of Easter, which fell in the second week of the new financial year.

DIVIDEND AND SHARE BUY-BACK

The Board is recommending a final dividend of 9.50 pence per share (2006: 8.75 pence per share), which, in addition to the interim dividend of 4.35 pence per share, generates a total dividend of 13.85 pence (2006: 12.75 pence).

Subject to shareholder approval at the Annual General Meeting, the final dividend will be paid on 1 August 2007 to shareholders on the register at the close of business on 29 June 2007.

At the preliminary results presentation on 8 June 2006, Halfords announced a share buy-back programme to purchase, for cancellation, up to £50m of share capital over a two year period. The strongly cash generative nature of the business allows the Group to maintain its investment in new stores and other strategic opportunities, while improving capital efficiency and total shareholder returns via this share buy-back. In the period from 8 June 2006 to 30 March 2007, Halfords purchased 9.0m of its own shares for an aggregate consideration of £30.0m, at an average of 333.2 pence per share.

PRINCIPAL RISKS AND UNCERTAINTIES

The Board considers risk assessment, identification of mitigating actions and internal control to be fundamental to achieving Halfords' strategic corporate objectives. The Corporate Governance report on pages 26 to 29 describes the systems and processes through which the directors manage and mitigate risks. The Board considers that the principal commercial and financial risks to achieving its objects are those identified below. The Board recognises that the nature and scope of risks can change and so regularly reviews the risks faced by the Group as well as the systems and processes to mitigate them.

(A) COMMERCIAL

ECONOMIC AND MARKET CONDITIONS

The economy is a major influence on consumer spending. Trends in employment, inflation, taxation, consumer debt levels and interest rates impact consumer expenditure in discretionary areas. Whilst many of the products that Halfords sell are non-discretionary in their nature and predicting future trends is difficult, Halfords reflects the latest independently sourced estimates in its internal plans.

Furthermore, international expansion not only provides opportunities for sustainable growth and returns but also economic diversification.

COMPETITION

The retail industry is highly competitive. The Group competes with a wide variety of retailers of varying sizes and faces competition from UK retailers, as well as international operators. Failure to compete with competitors on areas including price, product range, quality and service could have an adverse effect on the Group's financial results.

We aim to have a broad appeal in price, range and store format in a way that allows us to compete in different markets and to use service as a point of differentiation in each market segment. We have an established training infrastructure to ensure that our colleagues receive ongoing product and service training. We track performance against a broad range of measures that customers tell us are critical to their shopping experience and monitor customer perceptions of ourselves to ensure we can respond quickly if required.

DEPENDENCE ON KEY MANAGEMENT PERSONNEL

The success of Halfords' business depends upon its senior management closely supervising all aspects of its business, in particular the operation of its stores and the design, procurement and allocation of its merchandise. Retention of senior management is especially important in Halfords' business due to the limited availability of experienced and talented retail executives.

If Halfords were to lose the services of members of its senior management such as Ian McLeod, its Chief Executive Officer, Nick Wharton, its Finance Director, or Paul McClenaghan, its Trading Director, and were unable to employ a suitable replacement in a timely manner, its business could be adversely affected.

Our Remuneration Policy outlined on page 30 details the strategies in place to ensure that high calibre executives are attracted and retained. The Group also operates a "Talent Management" process to help individuals achieve their full potential within Halfords and to ensure that appropriate succession plans are in place to meet the future needs of the business.

REPUTATIONAL RISK

The Halfords name is a key asset of the business and as the largest retailer in its markets, expectations of the Group are high. Failure to protect the Group's reputation and brand could lead to a loss of trust and confidence. This could result in a decline in the customer base and affect the ability to recruit and retain good people.

The Group has a Quality Assurance team and legal and regulatory control processes both in-house and externally to advise and take action on existing and emerging risk management issues. We continually monitor loyalty to the Halfords brand through independent surveys and seek through activities such as Charity of the Year, to contribute to society more widely. Our various Codes of Practice regulate our behaviour in our dealings with all stakeholders including customers, suppliers and colleagues.

FINANCE DIRECTOR'S REPORT
continued

RESPONSIVENESS TO CHANGING CONSUMER PREFERENCES

Some of the products that Halfords sells, particularly in the car enhancement category, are subject to rapidly changing consumer preferences. Halfords has recruited experienced, knowledgeable colleagues who can identify and interpret trends and consequently respond in a timely manner to changes in consumer preferences. Some of the products Halfords sells, such as children's cycles, face competition from alternative products (such as games consoles) and our colleagues monitor developments in these areas.

INFORMATION TECHNOLOGY (IT) SYSTEMS AND INFRASTRUCTURE

Halfords is reliant on efficient IT systems throughout its business operations. Recognising the key role that IT plays in improving operating effectiveness and improving the customer experience in our stores, we continue to invest in upgrading our IT infrastructure. Any significant failure within our network during any systems change would potentially compromise our operational capability for a period of time.

Extensive controls are in place to maintain the integrity of our systems infrastructure and to ensure that any systems changes are implemented in a managed and controlled manner. Halford's core commercial and retail systems are sourced from leading global providers and continuity plans are in place for all core systems.

RELIANCE ON FOREIGN MANUFACTURERS

Halfords sources a significant proportion of the merchandise it sells in its stores from outside of the UK. Consequently, the Group is subject to the risks associated with international trade (particularly those which are common in the import of goods from developing countries), including, but not limited to the imposition of taxes or other charges on imports and exposure to different legal standards and the burden of complying with a variety of foreign laws and changing foreign government policies.

Extensive research is conducted before the Group procures product from any new country or supplier. The Group's strong management team in the Far East has been recruited from local nationals who understand the local culture, market regulations and risks.

(B) FINANCIAL
TREASURY POLICY

The Group's Treasury Policy is structured to ensure that adequate financial resources are available for the development of its business whilst managing its currency, interest rate and counterparty credit risks. The Group's Treasury strategy, policy and controls are approved by the Board.

The main elements of Treasury activity and associated risk are outlined below:

FUNDING

The Treasury function arranges sufficient secure financial resources to enable the Group to meet its medium-term business objectives, whilst arranging facility maturities appropriate to its projected needs.

The Group successfully renegotiated a syndicated five-year term facility during the financial year and has committed bank facilities comprising a non-amortising five-year term loan of £180m and a revolving credit facility of £120m, which, together with cash surpluses, provide adequate funding for the Group's operations.

CURRENCY

The Group's main currency translation exposure is limited to movements in exchange rates to the extent that they affect balances held on its currency bank accounts. Foreign currency bank balances are controlled by the Treasury function and are actively managed to a level that minimises currency translation exposures. The Group's main currency exposure is its transaction exposure through movements in exchange rates on its purchases overseas that are not denominated in sterling. These are mainly imports from Asia denominated in US dollars and imports from Europe denominated in euros.

The Treasury Policy sets out a framework through which the majority of the Group's forecast foreign currency transactions are hedged.

INTEREST

The Group's bank term debt carries a variable rate of interest linked to prevailing LIBOR rates. In conjunction with the new syndicated loan facility and, in order to mitigate the risk of a rise in UK interest rates, the Group has entered into a single rate swap until 13 July 2011. As at 30 March 2007, 45% (2006: 83%) of net bank debt position carried a fixed rate of interest and the weighted average pre-tax cost of debt was 5.6% (2006: 6.2%).

The position is regularly reviewed and the Group's policy of hedging at least 40% of the following year's forecast interest rate exposure is satisfied for the period ending 30 March 2008. As at 30 March 2007, £86.0m (2006: £114.9m) of net bank debt was at a floating rate.

COUNTERPARTY CREDIT RISK

The Group actively manages its relationships with a panel of high quality financial institutions. Credit risk is controlled by the Treasury function setting counterparty credit limits by reference to published rating agency credit ratings, ensuring that such counterparties hold at least an A credit rating. The Treasury Policy recognises that an exposure to a counterparty arises in relation to investments, derivatives and financial instruments.

Nick Wharton, Finance Director
6 June 2007

CORPORATE SOCIAL RESPONSIBILITY

Halfords' corporate social responsibility programme is designed to align the Group's operations with the important corporate social responsibility issues for our business and to facilitate appropriate management approaches.

Our aim is to continually improve our management of those social, environmental and economic issues within our control or influence throughout the business and our supply network.

A summary of our policies and developments in these areas over the past year is given below. Our full Corporate Social Responsibility Report 2007 can be found on the Company's corporate website, www.halfordscompany.com.

We group our areas of engagement into four broad categories: how we source our products and market them, how we deal with our colleagues, how we affect the environment and how we interact with the communities in which we operate. Our principles within these areas are given below.

In selling our products and services we aim to meet or exceed the requirements of legislation, regulation, industry standards, international conventions and codes of practice. We oppose the exploitation of children and young people, and the exploitation of workers generally, and we support fair and reasonable rewards and conditions for workers. To this end, we conduct factory, warehouse and tied accommodation inspections and audits to ensure that our standards are being implemented. Further, the health and safety of workers employed in our supply chain is a key concern for us. We require all activities to be carried out under conditions that have proper and adequate regard for the health and safety of those involved.

In the workplace, engaging with our colleagues is a key objective for Halfords. One of our greatest achievements regarding this engagement was our ability to reward our people following the flotation of the Company in 2004 and let them share in our future success as a listed company. To do this we successfully launched a company share option scheme that invited employees to accept a grant of options. The most innovative aspect of this scheme was the decision to include all of our people, subject to a service requirement, irrespective of their position within the business. We are particularly proud of this achievement, as similar schemes are usually designed for the executive or senior management population. This grant of options becomes eligible for exercise in June 2007. We also encourage wider share ownership within the business through a sharesave scheme, which is available to colleagues, subject to eligibility criteria.

Colleague engagement and support are vitally important to the Group and several initiatives are in place to achieve this, e.g. an intranet site has been set up enable colleagues to post comments on any business matter and a Group-wide colleague engagement survey was launched towards the end of the year. Specific support sessions have been created for major business changes, such as the introduction of new systems. In addition, training and development programmes are in place throughout the business to maximise people's skills and advancement.

With environmental issues our commitment is to understand and improve the performance and management of our environmental impact throughout the Halfords supply chain. We aim to achieve a high standard of responsible care for people and the environment, whilst maximising business efficiency and growth.

As a part of our community engagement the Group has chosen The Meningitis Trust as our Charity of the Year. This involves all of our employees in the UK and the Republic of Ireland in fund-raising initiatives to support the Trust. On average, one person in the UK dies every day from meningitis and it kills more children under five than any other infectious disease. The Halfords partnership will focus on raising awareness amongst our staff and customers and raising money to support the charity's many campaigns.

BOARD OF DIRECTORS

Richard Pym

Non-executive Chairman
Richard joined the Board as the Senior Independent Director in May 2004 and was appointed Chairman on 1 April 2006. He is Group Chief Executive of Alliance & Leicester plc. He was a non-executive director of Selfridges plc and has held various roles at Thomson McLintock & Co, British Gas plc, BAT Industries plc and The Burton Group plc.

Ian McLeod

Chief Executive
Ian joined Halfords in September 2003 and was appointed to the Board in May 2004. He became Chief Executive in April 2005. Previously, he was Chief Executive of Celtic plc for two years. Prior to this Ian was on the Executive Board of Wal-Mart, Germany and held several positions within Asda over the course of 20 years and was Director of Asda Stores Limited between 1997 and 2001. Ian is a non-executive director of Fulham Football Club Ltd.

Nick Wharton

Finance Director
Nick was appointed as Finance Director in February 2007. He joined Halfords Limited as Finance and Planning Director in March 2002, becoming Business Development Director in 2003. Nick has also held Board responsibility at Halfords Limited for Information Systems and Human Resources. Prior to this Nick held senior finance positions with Boots Opticians, Boots Healthcare International, Do-it-All Limited and also within Cadbury Schweppes. He is a qualified Chartered Accountant.

Paul McClenaghan

Director of Trading
Paul was appointed as Director of Trading on 31 March 2007. He joined Halfords Limited as Trading Director in May 2005. Prior to this Paul worked for the Dixons Group, most recently as Trading Director for its Vision and Audio division. He also held the positions of Buying Director for Brown Goods and Commercial Director for Dixons Asia.

Keith Harris

Non-executive Director
Keith was appointed a non-executive director in May 2004. He has been Executive Chairman of Seymour Pierce Limited since its acquisition from Investment Management Holdings Plc. Prior to this Keith was Chairman of the Football League and Chief Executive of HSBC Investment Bank plc. Keith is currently on the boards of Wembley National Stadium Limited, Benfield plc and CLS Holdings plc.

Nigel Wilson

Non-executive Director
Nigel joined the Board as a non-executive director in May 2004 and was appointed Senior Independent Director on 1 April 2006. Currently he is Chief Financial Officer of United Business Media plc. Prior to that he was Group Finance Director of Viridian Group plc from 1996 to 2000, and became Managing Director of Viridian Capital in 2000. Previous appointments include Group Finance Director at Waste Management International, Chief Executive, Corporate G.P.A., Head of Corporate Finance and Group Commercial Director of Dixons Group plc, Managing Director of Stanhope Properties plc and a consultant at McKinsey & Co. Nigel has a PhD from the Massachusetts Institute of Technology.

Bill Ronald

Non-executive Director
Bill joined the Board as a non-executive director in May 2004. He is Chairman of Bezier Limited and Chairman of Europackaging Limited. He is also a non-executive director of Alfesca. Previously he was Chief Executive of Uniq plc for three years, prior to which Bill spent 23 years in a variety of roles within the Mars Corporation. His final positions there were Managing Director of the UK confectionery operation and Vice-President of Masterfoods Europe.

Directors' Report

The directors present their report and the consolidated financial statements of Halfords Group plc (the "Company") together with its subsidiary undertakings (the "Group") for the financial year ended 30 March 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Group is the retailing of auto, leisure and cycling products. The principal activity of the Company is that of a holding company.

BUSINESS REVIEW

The Chief Executive's Review and the Finance Director's Report on pages 6 to 20 review the Group's business and performance during the year and contain or cross-reference the information required by section 234ZZB of the Companies Act 1985, such information being incorporated in this report by reference.

RESULTS AND DIVIDENDS

The Group's results for the year are set out in the Consolidated Income Statement on page 38.

The profit before tax amounted to £80.9m (2006: £77.0m) and the profit after tax amounted to £57.4m (2006: £53.6m).

The directors propose that a final dividend of 9.5p per ordinary share be paid on 1 August 2007 to shareholders whose names are on the register of members at the close of business on 29 June 2007. This payment, together with the interim dividend of 4.35p per ordinary share paid on 8 January 2007, makes a total for the year of 13.85p per ordinary share. The total dividend payable to shareholders for the year is estimated to be £30.5m. Lloyds TSB Offshore Trust Limited, trustee of the Halfords Employee Share Trust, has waived its entitlement to dividends.

DIRECTORS

Profiles of the current directors are given on page 22.

The following persons were directors during the 52 weeks to 30 March 2007:

Richard Pym
Ian McLeod
Nick Carter (resigned 2 February 2007)
Nick Wharton (appointed 3 February 2007)
Nigel Wilson
Keith Harris
Bill Ronald

Paul McClenaghan was appointed on 31 March 2007.

In accordance with the Company's Articles of Association, Ian McLeod and Bill Ronald are retiring by rotation at the forthcoming Annual General Meeting and, being eligible, will offer themselves for re-election at that meeting. Having been appointed as directors by the Board since the last Annual General Meeting, Nick Wharton and Paul McClenaghan will offer themselves for reappointment at the Annual General Meeting.

DIRECTORS' INTERESTS

The directors' interests in shares and options over shares in the Company are shown in the Directors' Remuneration Report on pages 30 to 35.

No director had a material interest at any time during the year in any contract with the Company or any of its subsidiary undertakings, other than his service contract.

During the year the Company maintained liability insurance for its directors and officers. The directors of the Company, and the directors of each of the Company's subsidiaries, have the benefit of an indemnity provision in the Company's Articles of Association. The indemnity provision, which is a qualifying third-party indemnity provision as defined by section 309A of the Companies Act 1985, was in force throughout the year and is currently in force.

CORPORATE SOCIAL RESPONSIBILITY

A summary of the Group's Corporate Social Responsibility Report is set out on page 21. The Chief Executive's Review includes a report on the Group's performance against relevant environmental criteria.

CHARITABLE DONATIONS AND POLITICAL CONTRIBUTIONS

During the year the Group contributed £40,000 (2006: £20,000) to charities in the UK, comprising donations to Ben, a charity supporting individuals and families linked to the motor industry and associated trades, and a donation to help persons suffering from the failure of the Farepak Christmas hamper scheme. The Group's policy is not to make any donations for political purposes. However, the Companies Act 1985 defines the term "donations" very widely and, as a result, certain expenses legitimately incurred as part of the process of talking to Government at all levels and making the Group's position known, are now reportable. Although during the year no such expenditure or political donations were made, resolutions were passed at the 2005 Annual General Meeting that provided for limited authority for such expenditure, such authority remaining valid until the conclusion of the Annual General Meeting to be held in 2008.

COLLEAGUES

The Board seeks to instil high standards of customer care and service in the Group and the commitment of every colleague to this business requirement is considered to be critical. The Group has established a framework of communication for colleagues concerning business performance and company benefits. Group-wide training reinforces the Group's commitment to colleague involvement and development.

The Group is committed to the principle of equal opportunity in employment and to ensuring that no applicant or colleague receives less favourable treatment on the grounds of gender, marital status, race, ethnic origin, religion, disability, sexuality, age, or is disadvantaged by conditions or requirements which cannot be shown to be justified. The Group applies employment policies which are fair and equitable and which seek to promote entry into and progression within the Group. Appointments are determined solely by application of job criteria, personal ability and competency.

The Group gives full and fair consideration to applications for employment made by disabled persons, having regard to their particular aptitudes and abilities, wherever suitable opportunities exist, and training and career development support are provided, where appropriate. Should a colleague become disabled when working for the Group, efforts are made to continue their employment and retraining is provided, if necessary.

A "whistle-blowing" policy and procedure is in place and has been notified to staff. The policy enables them to report any concerns on matters affecting the Group or their employment, without fear of recrimination, and reduces the risk of things going wrong or of malpractice taking place and remaining unreported. In addition, the Group takes a zero-tolerance approach to matters of discrimination, harassment and bullying in all aspects of its business operations, whether they relate to sex, race, national origin, disability, age, religion or sexual orientation, and policies and procedures are also in place for reporting and dealing with these matters.

Owning shares in the Company is an important way of strengthening colleagues' involvement in the development of the Group's business and bringing together their and shareholders' interests. The Company therefore encourages the Group's colleagues to participate in its Sharesave Scheme.

The Group's pension arrangements for the UK-based colleagues of the Group are summarised in note 22 on page 62.

SUPPLIER PAYMENT POLICY

The Group does not follow any formal code or standard on payment practice, but agrees terms and conditions for its business transactions when orders for goods and services are placed, and includes the relevant terms in contracts, where appropriate. These arrangements are adhered to when making payments, subject to the terms and conditions being met by suppliers. The number of trade creditor days outstanding at the period end for the Group was 38 days (2006: 49 days). The Company is a holding company and had no trade creditors at the end of the financial year.

MAJOR SHAREHOLDERS

At 6 June 2007, the Company's share register of substantial shareholdings showed the following interests in 3 per cent or more of the Company's issued ordinary shares:

Holder	Number of shares	% of issued shares
Newton Investment Management	19,262,626	8.79
Resolution Asset Management	14,856,360	6.78
M&G Investment Management	13,228,678	6.04
Autobacs Seven Co. Ltd	11,400,000	5.20
Jupiter Asset Management	10,707,758	4.89
F&C Asset Management	10,594,977	4.84
Capital Group Companies	9,300,000	4.24
Legal & General Investment Management	8,886,850	4.06
Rathbones	8,858,453	4.04
Aberforth Partners	8,122,213	3.71
New Star Asset Management	7,891,274	3.60
Artemis Investment Management	7,724,171	3.53

AUTHORITY TO PURCHASE SHARES

On 8 June 2006 the Company announced a share buy-back programme, to be effected over the following two years, of up to £50m. At the Annual General Meeting on 2 August 2006 shareholders approved a special resolution authorising the Company to purchase a maximum of 22,736,499 shares, representing 10% of the Company's issued share capital at 16 June 2006, such authority expiring at the conclusion of the AGM to be held in 2007. Since the share buy-back programme began, 9,003,956 shares of 1p each, representing a nominal value of £90,040, have been purchased and cancelled, representing 4.1% of the Company's issued share capital as at 30 March 2007. The aggregate consideration (including stamp duty) paid for the shares was £29,881,121.

DISCLOSURE OF INFORMATION TO AUDITORS

Each of the persons who are directors at the date of approval of this report state that, so far as he is aware, there is no relevant audit information of which the Company's auditors are unaware, and that he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

AUDITORS

PricewaterhouseCoopers LLP has indicated its willingness to accept reappointment as the external auditor of the Company. A resolution proposing its reappointment is contained in the Notice of the Annual General Meeting and will be put to shareholders at the meeting.

GOING CONCERN

The directors confirm that they are satisfied that the Group has adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held at the Alveston Manor Hotel, Clopton Bridge, Stratford-upon-Avon, Warwickshire, CV37 7HP, on Wednesday 25 July 2007 at 12.30 pm. The notice of the Annual General Meeting and explanatory notes regarding the special business to be put to the meeting are set out in a separate circular to shareholders accompanying the Annual Report and Accounts.

By order of the Board

Philip Parker, Company Secretary
6 June 2007

Corporate Governance

CORPORATE GOVERNANCE
The Board is responsible for the Group's system of corporate governance. The Board is committed to high standards of corporate governance and its policy is to manage the affairs of the Company in accordance with the principles of good governance and the provisions set out in Section 1 of the Combined Code on Corporate Governance, issued by the Financial Reporting Council in July 2003 (the "Combined Code"). The following statement describes how the Company has applied the main and supporting principles set out in the Combined Code.

STATEMENT OF COMPLIANCE WITH THE COMBINED CODE
The directors consider that the Company has applied the principles and complied with the provisions of Section 1 of the Combined Code for the year ended 30 March 2007, with the exception of provision B.2.1, as the Chairman sits on the Remuneration Committee.

THE DIRECTORS
The following persons were directors of the Company during the year ended 30 March 2007:

Richard Pym (Chairman)
Ian McLeod (Chief Executive)
Nick Carter (Finance Director to 2 February 2007)
Nick Wharton (Finance Director from 3 February 2007)
Nigel Wilson (Senior Independent Director and non-executive director)
Keith Harris (non-executive director)
Bill Ronald (non-executive director)

Paul McClenaghan was appointed Director of Trading from 31 March 2007.

BOARD STRUCTURE
The Board is currently composed of seven members, consisting of three executive directors, a non-executive chairman and three non-executive directors. The three non-executive directors are considered by the Board to be independent. Accordingly, no individual or group of individuals dominates the Board's decision-making and the requirement of the Combined Code that at least half of the Board (excluding the chairman) should comprise independent non-executive directors is satisfied.

Biographical details of the directors are given on pages 22 and 23. The directors have wide experience and expertise and the Board believes that all of the directors devote sufficient time and attention as is necessary in order to perform their duties.

ROLE AND WORKINGS OF THE BOARD
The Board's role is to determine the long-term direction and strategy of the Group, create value for shareholders, monitor the achievement of business objectives and ensure that good corporate governance is practised and that the Group meets its other responsibilities to its shareholders, customers and other stakeholders. The Board is also responsible for ensuring that appropriate processes are in place in respect of succession planning for appointments to the Board and to senior management positions.

The Board has a formal schedule of reserved powers, which it retains for Board decision-making on a range of key issues, including the formulation of strategy, financial reporting and controls, corporate governance matters, and treasury and risk management. A procedure has been adopted for directors to obtain independent professional advice where appropriate, at the cost of the Company, and all directors have unrestricted access to the Company Secretary, who is an employee of the Company. In relation to non-reserved matters, the Board is assisted by a number of committees with delegated authority. The make-up and role of each of these committees is described below.

The Board meets on a regular basis. During the financial year ended 30 March 2007, the Board met formally ten times. The Board is supplied in a timely manner with information appropriate to enable it to discharge its duties. Appropriate management reports and financial information are provided to the Board on a monthly basis and in advance of each Board meeting. These normally include monthly management reports, accounts, reports on current trading and papers on matters in respect of which the Board makes decisions or is invited to give its approval. Specific presentations on business and strategic issues are made regularly. Minutes of committee meetings are circulated to all Board members, unless a conflict of interest arises.

The Chairman is primarily responsible for the workings of the Board and is not involved in day-to-day operational issues. Save for matters reserved for decision by the Board, the Chief Executive, with the support of the Finance and Trading Directors, is responsible for the running of the Group's business, carrying out the agreed strategy adopted by the Board and implementing specific Board decisions relating to the operation of the Group.

Nigel Wilson was the Senior Independent Director throughout the period under review. The Senior Independent Director is available to meet shareholders upon request if they have concerns which contact through the normal channels of the Chairman or the executive directors has failed to resolve, or for which such contact is inappropriate.

The Company is supportive of executive directors who wish to take one non-executive directorship with a company outside the Group, as exposure to such duties can broaden experience and knowledge, which will be to the benefit of the Company. Executive directors may retain any fees they receive. Ian McLeod is currently a non-executive director of Fulham Football Club. Fees retained in the year were £25,000 (2006: £25,000).

APPOINTMENT OF DIRECTORS
The Board will appoint any new directors having first considered recommendations made to it by the Nomination Committee. Following such appointment, the director will be proposed for reappointment at the next Annual General Meeting of the Company. Under the Company's Articles of Association there is also a process of retirement by rotation, which ensures that approximately one-third of all directors are required to retire and seek re-election at each Annual General Meeting and that no director serves for more than three years without being proposed for re-election at an Annual General Meeting. Ian McLeod and Bill Ronald will retire and offer themselves for re-election at this year's Annual General Meeting. Having been appointed as directors by the Board since the last Annual General Meeting, Nick Wharton and Paul McClenaghan will offer themselves for reappointment at this year's Annual General Meeting.

Non-executive directors are appointed for specified terms (normally three years), subject to reappointment under the

Company's Articles of Association and subject to the Companies Act provisions relating to the removal of a director. The Chairman will confirm to shareholders when proposing an appointment or reappointment that, following formal performance evaluation, the individual's performance continues to be effective and they demonstrate commitment to the role.

The Board has formally adopted an induction programme for new directors, which will be tailored to each new director who joins the Board and includes briefings regarding the activities of the Group and visits to stores. Documentation and training on their duties as directors are also available to all directors. In addition, directors are also informed regularly on relevant material changes to laws and regulations affecting the Group's business. All directors have access to the advice and services of the Company Secretary, who is also responsible for advising the Board on all governance matters.

BOARD COMMITTEES

The Board has established Nomination, Remuneration and Audit Committees, with formally delegated duties and responsibilities and written terms of reference. These terms of reference can be accessed on the Company's website, www.halfordscompany.com. The Company Secretary acts as secretary to all three Committees. Only the members of each Committee are entitled to attend its meetings, although other directors, professional advisers and members of the senior management team attend when invited to do so. The Audit Committee will invite the external auditor to certain of its meetings. In the cases of the Nomination and Remuneration Committees, no member is present when business pertinent to them is under discussion. A Treasury Committee, composed of senior members of the finance and treasury teams and chaired by the Finance Director, has been established to manage the day-to-day treasury needs of the Group. When the need arises, separate ad hoc committees may be set up by the Board to consider specific issues.

AUDIT COMMITTEE

For the year ended 30 March 2007, the Audit Committee comprised Nigel Wilson, Keith Harris and Bill Ronald, all of whom are independent non-executive directors. The Committee chairman is Nigel Wilson, who, being also Chief Financial Officer of United Business Media plc, is considered by the Board to have recent and relevant financial experience. Each of the other independent non-executive directors on the Committee has, through their other business activities, significant experience in financial matters.

The Audit Committee meets at least three times a year, according to the requirements of the Company's financial calendar. The meetings of the Audit Committee also provide the opportunity for the independent non-executive directors to meet without the executive directors present and also the opportunity to raise any issues of concern with the Company's external auditor.

In addition to ensuring the integrity of the Group's half-year and full-year financial statements before publication, the Audit Committee has responsibility for monitoring a number of other areas of activity, including:

- the effectiveness of the Group's internal controls and the Group's risk management policies and systems
- the integrity, performance and independence of the Group's relationship with the external auditor
- reviewing the nature and extent of non-audit services by the external auditor, with particular scrutiny as to whether the provision of such services may affect the objectivity and independence of the external auditor
- the Committee requires any proposal for expenditure of over £25,000 as non-audit services to be referred to it for scrutiny and approval
- making recommendations to the Board on the appointment of auditors and the audit fee
- keeping under review the scope and results of the audit and its cost effectiveness

At the end of the year the Audit Committee required the external auditor to confirm the safeguards it has in place to ensure that its objectivity and independence is not impaired with respect to its provision of non-audit services to the Company.

At least once a year the Audit Committee meets with the external auditor without any executive directors present.

NOMINATION COMMITTEE

For the year ended 30 March 2007 the Nomination Committee comprised Richard Pym (Chairman), Keith Harris, Bill Ronald, Nigel Wilson and Ian McLeod. Keith Harris, Nigel Wilson and Bill Ronald are independent non-executive directors.

The Nomination Committee is required to meet at least twice each year. During the period under review it met to consider succession planning for the Board and senior management generally, and to propose the appointment of the new executive directors.

The responsibilities of the Nomination Committee include:

- nominating candidates (both executive and non-executive) for appointment to the Board, to fill vacancies or appoint additional persons to the Board
- monitoring the size, structure, balance and composition of the Board
- evaluating the balance of skills, knowledge and experience of the Board's members
- making recommendations in respect of the membership of the Nomination, Audit and Remuneration Committees
- making recommendations in respect of the reappointment (or not) of non-executive directors and of the continuance in service (or not) of executive directors.

In discharging its duties, the Nomination Committee considers the challenges and opportunities facing the Group and the skills and expertise required for the future. In relation to any new appointments, the Committee evaluates the balance of skills, knowledge and experience on the Board and, in the light of this evaluation, prepares a description of the role and capabilities required for a particular appointment.

REMUNERATION COMMITTEE

For the year ended 30 March 2007, the Remuneration Committee comprised Keith Harris (Chairman), Richard Pym, Nigel Wilson and Bill Ronald. Keith Harris, Nigel Wilson and Bill Ronald are all independent non-executive directors. The Board has agreed that Richard Pym will remain a member of the Remuneration Committee, contrary to provision B.2.1 of the Combined Code, in anticipation of the 2006 Combined Code which is effective in the year ending 29 March 2008 and which allows company chairmen to sit on remuneration committees.

Corporate Governance
continued

The Remuneration Committee is required to meet at least twice each year.

The Remuneration Committee's responsibilities include:

- making recommendations to the Board on the Company's framework of executive remuneration and its cost
- reviewing and determining on behalf of the Board, the remuneration and incentive packages of the Company's executive directors and certain senior executives of the Group to ensure that they are fairly rewarded for their individual contributions to the Group's overall performance
- determining the basis on which the employment of the Company's executive directors and certain senior executives of the Group is terminated
- operating and administering the Company's share option schemes and employee benefit trust.

The Board's remuneration policy is described in detail in the Directors' Remuneration Report on pages 30 to 35.

EVALUATION OF THE BOARD AND ITS COMMITTEES

The Board has established a formal process for the annual evaluation of the performance of the Board, its principal committees and individual directors. Questionnaires are drawn up, which provide the framework for the evaluation process. Each member of the Board or appropriate Committee submits replies to the questionnaires, which are then collated. Following a review of these responses by the Board or by the appropriate Committee any appropriate action will be taken to ensure that the performance of the Board as a whole, its principal committees and individual directors is such that each can perform at the optimum level for the benefit of the Company. The Senior Independent Director and the other independent non-executive directors conduct the annual performance evaluation of the Chairman.

ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

The number of meetings of the Board and of each of the Audit, Remuneration and Nomination Committees held during the year ended 30 March 2007, together with a record of each member's attendance, is set out below. Any director not able to attend a meeting is supplied with all papers in advance of the meeting for their review and comment.

	Number of meetings attended			
	Board	Audit Committee	Remuneration Committee	Nomination Committee
Richard Pym	10	n/a	2	4
Ian McLeod	10	n/a	n/a	4
Nick Carter (resigned 02.03.07)	8	n/a	n/a	n/a
Nick Wharton (appointed 03.02.07)	2	n/a	n/a	n/a
Nigel Wilson	10	3	2	4
Bill Ronald	10	3	2	3
Keith Harris	9	3	2	3
Total meetings in year	10	3	2	4

Note: n/a denotes that a director was not a member of the relevant Committee.

In addition to the scheduled meetings numbered above, the Board held an additional meeting to review corporate strategy, visited stores to review operational and systems progress and attended the annual store managers conference. The Audit Committee also held additional meetings to review the various trading statements.

ACCOUNTABILITY, RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibility for the system of internal control and for reviewing its effectiveness throughout the Group. The assessment of effectiveness has been carried out this year. The system of internal control is designed to manage, rather than eliminate, the risk of failing to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss. The Audit Committee, on behalf of the Board, reviews the effectiveness of the Group's systems of internal control and risk management.

The Board considers risk assessment and control to be fundamental to achieving its corporate objectives within an acceptable risk/reward profile and there is an ongoing process for identifying and evaluating the significant risks faced by the Group and the effectiveness of related controls. The key elements of this process are:

- a comprehensive system of monthly reporting from key executives, identifying performance against budget, analysis of variances, major business issues, key performance indicators and regular forecasting
- well-defined policies governing appraisal and approval of capital expenditure and treasury operations
- reviews of key business risks and of management's controls and plans to mitigate these risks
- an annual corporate governance confirmation made to the Board by all directors on the effectiveness of the identification of major risks and of the monitoring of internal controls within their areas of responsibility.

As part of the process for identifying, evaluating and managing the key business risks faced by the Group the Board has established a Risk Management Group to oversee the implementation of the risk management framework, co-ordinate risk management activities throughout the business and to report to the Board and Audit Committee on risk issues. The Risk Management Group is chaired by the Company Secretary and includes senior managers from Finance, Business Systems, Supply Chain/Logistics, Store Assurance and Internal Audit functions.

The external auditor reports directly to the Audit Committee. Deloitte & Touche LLP, as independent adviser, is formally engaged to provide internal audit services, reporting to the Board, via the Audit Committee. These reports evaluate the adequacy and effectiveness of the Company's internal controls and recommend improvements, based on a systematic risk assessment of the business.

RELATIONSHIP WITH SHAREHOLDERS

The Board recognises the importance of establishing and maintaining good relationships with all of the Company's shareholders. The Chief Executive, Finance Director and the Chairman meet regularly with analysts and institutional shareholders to keep them informed of significant developments and report to the Board accordingly on the views of the major shareholders. The Senior Independent Director is also available to attend such meetings, if required. Each of the other non-executive directors is also offered the opportunity to attend meetings with major shareholders and would do so if requested by any major shareholder. The Company's investor relations programme includes formal presentations of full year and interim results. Feedback from these meetings is provided to the Board. The Company Secretary is also charged with bringing to the attention of the Board any material matters of concern raised by the Company's shareholders, including private investors.

The Interim Report and the Annual Report and Accounts are the primary means used by the Board for communicating during the year with all of the Company's shareholders. The Board also recognises the importance of the Internet as a means of communicating widely, quickly and cost-effectively and an investor relations website (at www.halfordscompany.com) has been developed to facilitate communications with shareholders. Information available online includes copies of the full and half-year financial statements, press releases and Company news, corporate governance information and statements and the terms of reference for the Audit, Nomination and Remuneration Committees.

The Board is committed to the constructive use of the Annual General Meeting as a forum to meet with shareholders and to hear their views and answer their questions about the Group and its business. The Company will dispatch the notice of the Annual General Meeting, with an explanatory circular describing any items of special business, at least 20 working days before the meeting. The Chairmen of the Remuneration, Nomination and Audit Committees will normally attend the meeting and will answer questions that may be relevant to the work of those Committees. If they are unable to attend they will appoint a deputy to attend in their place. It is the Company's practice to propose separate resolutions on each substantially separate issue at the Annual General Meeting. The Chairman will advise shareholders on the proxy voting details for each resolution after it has been put to the meeting.

The Company's financial calendar is set out on page 70.

By order of the Board

Philip Parker, Company Secretary
6 June 2007

Directors' Remuneration Report

The following report outlines the Company's policy on the remuneration of executive directors and gives details of the remuneration packages of executive directors and of the fees paid to non-executive directors for the year ended 30 March 2007. The Report has been prepared in accordance with the requirements of Schedule 7A to the Companies Act 1985. Part 3 of Schedule 7A requires designated parts of the Remuneration Report to be audited, whilst other parts are not. In preparing this report, consideration has been given to the Listing Rules of the UK Listing Authority and to the Combined Code and the report has been approved by both the Remuneration Committee and by the Board. A resolution to approve the report will be proposed at the Annual General Meeting of the Company.

Part A of the report, which is not subject to audit, sets out the Company's remuneration policy. Part B, which has been audited, provides details of the remuneration, pensions and share incentives of the directors for the 52 weeks to 30 March 2007.

PART A — UNAUDITED INFORMATION

REMUNERATION COMMITTEE

The Remuneration Committee, which met twice during the year, comprises Keith Harris (Chairman), Richard Pym, Bill Ronald and Nigel Wilson. The Committee's terms of reference, which set out the responsibilities of the Committee, are available from the Company's website, www.halfordscompany.com.

During the year, the Committee received external independent advice from the Hay Group and Watson Wyatt on remuneration matters. Neither company has any other connection with the Group.

REMUNERATION POLICY

The remuneration policy of the Committee and of the Board is to provide remuneration packages for the executive directors and other senior executives in the Group which are appropriate to the size and nature of the Group's business and which will attract and retain high calibre executives. It is the Company's policy that a substantial proportion of the executive directors' remuneration should be performance related in order to encourage and reward superior business performance and shareholder returns and that remuneration should be linked to both individual and Company performance. Accordingly, executive directors may earn up to an additional 80% (100% in the case of the Chief Executive) of their basic salaries as a performance bonus and have benefited from participation in the Company's share option scheme as set out below. No further awards will be made under the share option scheme to the executive directors but they were able to participate in the 2005 Performance Share Plan (The Long-Term Incentive Plan ("LTIP")). The executive directors are also able to participate in an all-employee save-as-you-earn scheme (the "Halfords Sharesave Scheme"), referred to on page 31.

It is the policy of the Committee and the Board to maintain the above approach to remuneration packages for executive directors and other senior executives of the Group for the current financial year and future financial years, subject to review in the light of any changes in relevant legislation, regulations or market practice. No significant changes to the remuneration arrangements for executive directors are currently anticipated. However, the Committee will continue to review base salaries and performance targets to ensure that they align with the remuneration policy of the Committee and the Board and with the Company's strategic objectives. The individual salary, bonus and benefit levels of the executive directors are, and will continue to be, reviewed annually by the Committee.

It is the Company's policy to employ executive directors under contracts with an indefinite term, subject to termination by notice given by either party of 12 months. Any compensation payable by the Company would be subject to the normal legal principles of mitigation of loss. No compensation would be payable if the service contracts were to be terminated by notice from the executive director or for lawful termination by the Company. There are no provisions for payment of pre-determined compensation under the service contracts.

Details of individual directors' remuneration and share options are set out on pages 33 and 35 of this report. The main components of the remuneration package for executive directors are:

BASIC SALARY

The Company's policy is that basic salaries for executive directors should take into account the individual's role and responsibilities, performance and experience. For an executive director who is experienced and fully effective in his role, basic salary is targeted at the retail market median for comparable roles.

ANNUAL BONUS

Executive directors are eligible to receive an annual performance bonus up to a maximum of 80% (100% in the case of the Chief Executive) of their annual basic salary at the time the bonus scheme is announced. The amount of bonus is based on the achievement of profit and earnings per share targets, specified and agreed at the beginning of the year. Bonus payments do not form part of the directors' pensionable earnings. The performance targets for bonus entitlements are intended by the Remuneration Committee to create incentives to perform at the highest levels.

SHARE OPTION SCHEMES

In May 2004 the Company adopted the Halfords Company Share Option Scheme and the Halfords Sharesave Scheme, under which employees are eligible for the grant of options to acquire ordinary shares in the Company.

HALFORDS COMPANY SHARE OPTION SCHEME

Options are granted at an exercise price not less than market value at the date of grant and may normally only be exercised if performance conditions set at the time of grant have been achieved. These performance conditions require EPS ("earnings per share") for the financial year last preceding the third anniversary of the grant date to equal or exceed the percentage growth in RPI (retail price index) plus an additional percentage determined as appropriate at the time of the grant. These additional percentages were 6%, 5% and 3.5% for options granted in 2004/05, 2005/06 and 2006/07 respectively.

Details of options granted to executive directors which are outstanding and further details of the share option schemes, including performance conditions, are set out on page 35.

The executive directors participate in the LTIP and no further awards to them under the Company Share Option Scheme will be made.

HALFORDS SHARESAVE SCHEME

Options are granted at an exercise price not less than 80% of market value at the date of grant. Options may not normally be exercised until the option holder has completed his or her savings contract (which will normally be three or five years) from the date of commencement of the savings contract.

THE LONG-TERM INCENTIVE PLAN

Under the LTIP, approved by shareholders at the Annual General Meeting in 2005, conditional rights to receive shares will be awarded to participants. The extent to which such rights vest will depend upon the Group's performance over the three-year period following the award date. The vesting of 50% of the awards will be determined by the Group's relative total shareholder return ("TSR") performance and the vesting of the other 50% by the Group's absolute earnings per share performance against RPI. The Group's TSR performance will be measured against the FTSE 350 general retailers as a comparator group. No retesting will be permitted. In order to ensure that the performance targets for the 2007–2010 scheme remain stretching but achievable, the earnings per share performance spread will be RPI plus 4% compound at entry to RPI plus 11% compound at maximum.

Annual awards under the LTIP are normally 100% of base salary. Paul McClenaghan was appointed to the Board of Halfords Group plc on 31 March 2007. In order to more closely align him with shareholders and with the equity participation of other current Board members, the Remuneration Committee has decided to make a one-off award of 200% of base annual salary under the LTIP. This award will be subject to the same stretching performance conditions as all other awards made under this plan. On the vesting of any of this award Paul McClenaghan will be encouraged to retain shares, so enabling him to achieve the shareholding guidelines more quickly.

The shareholding guidelines require executive directors, in post at the time of the adoption of the LTIP, to retain shares to a value equal to 200% of their basic annual salary. Newly appointed executive directors will be required to acquire and retain shares to a value equal to 100% of their basic annual salary over a five year period following their appointment to the Board.

PENSIONS

The Halfords Pension Plan is a defined contribution scheme, which is open to the executive directors. The Group's contributions during the year are shown in the table on page 34.

OTHER BENEFITS

Executive directors are entitled to be provided with a company car or an equivalent allowance, contribution to a personal pension scheme, permanent health insurance, life assurance cover, membership of a private medical insurance scheme and travelling and other expenses. Executive directors may also join the Halfords Sharesave Scheme.

NON-EXECUTIVE DIRECTORS

The Board as a whole, following a recommendation by the Chief Executive, determines the fees of the non-executive directors.

The Company's practice is to appoint non-executive directors under letters of appointment, rather than under service contracts. Those letters of appointment set out fixed terms of appointment (normally three years).

Directors' Remuneration Report

PERFORMANCE GRAPH

Schedule 7A of the Companies Act 1985 requires listed companies to provide, by graph, an analysis of the performance of the Company over time as compared with an appropriate and broad equity market index. The FTSE 350 general retail index has been selected because it is a broad equity market index which includes the Company's shares and the Committee believes that no other index would provide a more appropriate comparator, given the nature of the Group's activities.

The graph below shows the Total Shareholder Return ('TSR') performance of an investment of £100 in Halfords Group plc shares over the period following flotation (June 2004) compared with an equivalent investment in the FTSE 350 general retail index.

EXECUTIVE DIRECTORS' SERVICE CONTRACTS

Details of the executive directors' service contracts are given below.

	Date of service agreement	Notice period
Ian McLeod	29 March 2005	12 months
Nick Wharton	17 May 2004	12 months
Paul McClenaghan	9 May 2005	12 months

The Company may terminate any of the above service contracts by giving not less than 12 months' notice. Any compensation payable by the Company for early termination would be subject to the normal legal principles of mitigation of loss. No compensation would be payable if a service contract were to be terminated by notice from an executive director or for lawful early termination by the Company.

Performance graph

NON-EXECUTIVE DIRECTORS: LETTERS OF APPOINTMENT

The non-executive directors have letters of appointment for a three year period. For the non-executive directors below, the initial three year period from the date of their appointment expires on 7 June 2007. The Board has reappointed these directors for a further three year period, with effect from 8 June 2007.

	Date of appointment	Unexpired term at the date of this report
Richard Pym	17 May 2004	36 months
Keith Harris	17 May 2004	36 months
Nigel Wilson	17 May 2004	36 months
Bill Ronald	17 May 2004	36 months

Each letter of appointment is terminable by either party by giving not less than three months' notice or by the Company on payment of fees in lieu of notice. No compensation would be payable to a non-executive director if his engagement were terminated as a result of him retiring by rotation at an annual general meeting, not being elected or re-elected at an annual general meeting or otherwise ceasing to hold office under the provisions of the Articles of Association of the Company.

PART B — AUDITED INFORMATION

The following section provides details of the remuneration, pension and share interests of the directors for the year ended 30 March 2007 and has been audited.

DIRECTORS' REMUNERATION

The remuneration and taxable benefits provided by the Company for each director for the 52 weeks to 30 March 2007 were as follows:

		52 weeks to 30 March 2007				2006
Executive directors	Notes	**Salaries/Fees £'000**	**Bonuses £'000**	**Benefits(5) £'000**	**Total £'000**	Total £'000
Ian McLeod		**375**	**284**	**20**	**679**	330
Nick Carter	(2)	**194**	**—**	**12**	**206**	197
Nick Wharton	(3)	**37**	**23**	**2**	**62**	—
		606	**307**	**34**	**947**	527
Non-executive directors	(4)					
Richard Pym	(6)	**125**	**—**	**—**	**125**	60
Keith Harris		**45**	**—**	**—**	**45**	40
Bill Ronald		**40**	**—**	**—**	**40**	35
Nigel Wilson		**60**	**—**	**—**	**60**	40
		270	**—**	**—**	**270**	175
Total		**876**	**307**	**34**	**1,217**	702

(1) Share options (see page 35) and pension (see page 34) are excluded from the table above.
(2) Nick Carter resigned as a director on 2 February 2007.
(3) Nick Wharton was appointed as a director on 3 February 2007.
(4) All non-executive directors were appointed on 17 May 2004. The remuneration of the Chairman and the other non-executive directors consists only of annual fees for their services, both as members of the Board and of the Committees on which they serve.
(5) Benefits include all taxable benefits arising from employment by the Company, primarily the provision of a company car.
(6) With respect to Richard Pym's fee of £125,000 pa, £40,000 pa of the total fee is paid direct to his employer, Alliance & Leicester plc.

Directors' Remuneration Report
continued

DIRECTORS' PENSIONS
Pension contributions to defined contribution money purchase schemes made by the Group during the 52 weeks to 30 March 2007 in respect of executive directors were as follows:

	Notes	**52 Weeks to 30 March 2007 £'000**	52 Weeks to 31 March 2006 £'000
Ian McLeod		**56**	47
Nick Carter	(1)	**30**	28
Nick Wharton	(2)	**10**	—
		96	75

(1) Nick Carter resigned as a director on 2 February 2007.
(2) Nick Wharton was appointed as a director on 3 February 2007.

THE LONG-TERM INCENTIVE PLAN ("LTIP")
The following table gives details of the conditional awards of shares made to the executive directors under the LTIP:

	As at 31 March 2006	Lapsed in the period	Awarded in the period	**As at 30 March 2007**	Mid-market price on day of Award (£)	Performance Period
Ian McLeod						
2005 LTIP	100,977	—	—	**100,977**	3.07	3 yrs to 1 Apr 2008
2006 LTIP	—	—	124,584	**124,584**	3.01	3 yrs to 1 Apr 2009
Total	100,977	—	124,584	**225,561**	3.04	
Nick Wharton						
2005 LTIP	47,231*	—	—	**47,231**	3.07	3 yrs to 1 Apr 2008
2006 LTIP	—	—	50,000	**50,000**	3.01	3 yrs to 1 Apr 2009
Total	47,231	—	50,000	**97,231**	3.04	

* At date of appointment.

DIRECTORS' INTERESTS IN SHARE OPTIONS

The following table details share options held by executive directors and not exercised at 30 March 2007:

	Note	As at 31 March 2006	Granted in the period	Exercised during the period	Lapsed during the year	**As at 30 March 2007**	Exercise Price (£)	Exercisable from	Exercisable to
Ian McLeod									
Company Share Option Scheme	(1)	192,308	—	—	—	**192,308**	2.60	2 June 2007	2 June 2014
Sharesave Scheme	(2)	3,086	—	—	—	**3,086**	3.07	1 Oct 2008	1 Mar 2009
Total		195,394	—	—	—	**195,394**			
Nick Wharton									
Company Share Option Scheme	(1)	125,000*	—	—	—	**125,000**	2.60	2 June 2007	2 June 2014
Sharesave Scheme	(2)	2,850*	—	—	—	**2,850**	2.65	1 Aug 2007	1 Feb 2008
Total		127,850	—	—	—	**127,850**			

* At date of appointment.

(1) Options granted under the Halfords Company Share Option Scheme are subject to the achievement of a three year performance condition. For grants up to 150% of basic salary the options can only be exercised if the increase in the defined EPS over the period is not less than the increase in the Retail Price Index ("RPI") plus 6% per year. In the case of grants in excess of 150% of basic salary, the excess can only be exercised in full if the increase is not less than RPI plus 10% per year. For increases in excess of 6% but less than 10%, a proportion of the option in excess of 150% of salary can be exercised.

(2) The Halfords Sharesave Scheme is a Save-As-You-Earn scheme and is open to all full-time directors and employees with eligible employment service. Options may be exercised under the scheme at £2.65 per share (2004 scheme) and £3.07 (2005 scheme) if the option holder completes his saving contract for a period of three years and then not more than six months thereafter.

(3) The share options held by Nick Carter at 31 March 2006 lapsed in full on his resignation from the Board on 2 February 2007.

For details of the grant dates of options see note 20 on pages 60 and 61.

The closing share price on 30 March 2007 was 382.25 pence and the price range during the 52 weeks to 30 March 2007 was 284.2 pence to 395.25 pence.

The following table shows the beneficial interest of the directors and their families in the ordinary shares of the Company.

DIRECTORS' INTERESTS IN SHARES

	Shareholdings as at 30 March 2007	Shareholdings as at 31 March 2006
Executive directors		
Ian McLeod	**804,757**	804,757
Nick Wharton	**225,000**	475,000
Non-executive directors		
Richard Pym	**21,538**	11,538
Keith Harris	**3,846**	3,846
Bill Ronald	**11,538**	11,538
Nigel Wilson	**10,000**	10,000

From 30 March 2007 to 6 June 2007 there were no changes in the above interests. All of the above interests were beneficial at each of the above dates. Ian McLeod and Nick Wharton were, at 30 March 2007 and at 6 June 2007, deemed to be interested as discretionary beneficiaries of the Halfords Employees' Share Trust, in so far as it relates to the share options noted on page 35. 877,498 ordinary shares in the Company were held by the trustees of that Trust on those dates. Save as mentioned above, no director had any interest in any share capital of the Company or of any subsidiary.

Approved by the Board and signed on its behalf by

Keith Harris, Chairman of the Remuneration Committee
6 June 2007

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial period which provide a true and fair view of the state of the affairs of the Company and of the Group and of the profit or loss of the Group in that period. The directors have prepared the financial statements for the Company in accordance with UK GAAP. In preparing those statements the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are prudent and reasonable;
- state that the financial statements comply with IFRS or UK GAAP as appropriate;
- state whether applicable accounting standards have been followed, and to disclose and explain and any material departures from those standards; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for the financial statements on pages 38 to 62 complying with all of the above requirements. The maintenance and integrity of the Company's website is the responsibility of the directors and the Auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the Company's website. Legislation in the United Kingdom concerning the dissemination of financial statements may differ from legislation in other jurisdictions.

The directors are also responsible for maintaining adequate accounting records that disclose with reasonable accuracy at any time the financial position of the Company and of the Group and which allow them to ensure that the financial statements comply with the requirements of the Companies Act 1985. They also have a general responsibility at law for taking such suitable measures as are available to them to safeguard the assets of the Company and of the Group and to take reasonable steps to prevent and detect fraud and other irregularities.

By order of the Board

Philip Parker, Company Secretary
6 June 2007

Independent Auditors' Report to the Members of Halfords Group plc

We have audited the Group financial statements of Halfords Group plc for the 52 weeks to 30 March 2007 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Shareholders' Equity and the related notes. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Company financial statements of Halfords Group plc for the 52 weeks to 30 March 2007 and on the information in the Directors' Remuneration Report that is described as having been audited.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Group financial statements. The information given in the Directors' Report includes that specific information presented in the Chief Executive's Review and the Finance Director's Report that is cross-referenced from the Business Review section of the Directors' Report. In addition, we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Chief Executive's Review, the Finance Director's Report, the Five Year Record and the Corporate Governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements.

OPINION

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 30 March 2007 and of its profit and cash flows for the 52 weeks then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the Group financial statements.

PricewaterhouseCoopers LLP,
Chartered Accountants and Registered Auditors
Birmingham
6 June 2007

Consolidated Income Statement

For the period	Notes	52 weeks to 30 March 2007 £m	52 weeks to 31 March 2006 £m
Revenue		**744.0**	681.7
Cost of sales		**(367.9)**	(335.0)
Gross profit		**376.1**	346.7
Operating expenses	2	**(282.6)**	(257.6)
Operating profit	3	**93.5**	89.1
Finance costs	5	**(14.0)**	(12.5)
Finance income	5	**1.4**	0.4
Profit before tax		**80.9**	77.0
Taxation	6	**(23.5)**	(23.4)
Profit attributable to equity shareholders		**57.4**	53.6
Earnings per share			
Basic	8	**25.8p**	23.6p
Diluted	8	**25.6p**	23.6p

All results relate to continuing operations of the Group.

Consolidated Balance Sheet

	Notes	30 March 2007 £m	31 March 2006 £m
Assets			
Non-current assets			
Goodwill	9	**253.1**	253.1
Other intangible assets	9	**4.7**	5.7
Property, plant and equipment	10	**107.5**	104.1
Derivative financial instruments	18	**1.3**	—
		366.6	362.9
Current assets			
Inventories	11	**141.6**	127.2
Trade and other receivables	12	**32.6**	29.4
Derivative financial instruments	18	**—**	1.2
Cash and cash equivalents	13	**24.8**	1.5
		199.0	159.3
Total assets		**565.6**	522.2
Liabilities			
Current liabilities			
Borrowings	15	**(13.3)**	(63.5)
Derivative financial instruments	18	**(2.3)**	—
Trade and other payables	14	**(113.5)**	(101.9)
Current tax liabilities		**(13.4)**	(13.1)
Provisions	16	**(1.6)**	(1.2)
		(144.1)	(179.7)
Net current assets/(liabilities)		**54.9**	(20.4)
Non-current liabilities			
Borrowings	15	**(191.5)**	(111.7)
Derivative financial instruments	18	**(0.1)**	(2.1)
Deferred tax liabilities	17	**(0.9)**	(3.5)
Accruals and deferred income		**(25.9)**	(22.7)
		(218.4)	(140.0)
Total liabilities		**(362.5)**	(319.7)
Net assets		**203.1**	202.5
Shareholders' equity			
Share capital	19	**2.2**	2.3
Share premium account		**133.2**	133.2
Capital redemption reserve		**0.1**	—
Retained earnings		**67.6**	67.0
Total equity		**203.1**	202.5

The notes on pages 48 to 62 are an integral part of these consolidated financial statements.

The financial statements on pages 38 to 62 were approved by the Board of Directors on 6 June 2007 and were signed on its behalf by:

Nick Wharton, Finance Director **Ian McLeod, Chief Executive**

Consolidated Statement of Changes in Shareholders' Equity

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Retained earnings (hedging reserve) £m	Retained earnings £m	**Total equity £m**
Balance at 1 April 2005	2.3	132.9	—	(2.9)	40.5	**172.8**
Profit for the period	—	—	—	—	53.6	**53.6**
Shares issued	—	0.3	—	—	—	**0.3**
Cash flow hedges:						
Fair value gains in the period	—	—	—	3.2	—	**3.2**
Transfers to inventory	—	—	—	(0.8)	—	**(0.8)**
Transfers to net profit	—	—	—	(0.3)	—	**(0.3)**
Employee share options	—	—	—	—	1.3	**1.3**
Deferred tax on employee share options	—	—	—	—	0.4	**0.4**
Dividends	—	—	—	—	(28.0)	**(28.0)**
Balance at 31 March 2006	2.3	133.2	—	(0.8)	67.8	**202.5**
Profit for the period	—	—	—	—	57.4	**57.4**
Purchase of own shares	(0.1)	—	0.1	—	(30.0)	**(30.0)**
Cash flow hedges:						
Fair value losses in the period	—	—	—	(5.6)	—	**(5.6)**
Transfers to inventory	—	—	—	3.5	—	**3.5**
Transfers to net profit	—	—	—	2.3	—	**2.3**
Employee share options	—	—	—	—	2.1	**2.1**
Deferred tax on employee share options	—	—	—	—	0.4	**0.4**
Dividends	—	—	—	—	(29.5)	**(29.5)**
Balance at 30 March 2007	2.2	133.2	0.1	(0.6)	68.2	**203.1**

Consolidated Cash Flow Statement

	Notes	**52 weeks to 30 March 2007 £m**	52 weeks to 31 March 2006 £m
Cash flows from operating activities			
Cash generated from operations	I	**112.6**	100.9
Finance income received		**1.0**	0.4
Finance costs paid		**(9.3)**	(11.0)
Cost of forward foreign exchange contracts		**—**	(0.9)
Taxation paid		**(25.4)**	(24.8)
Net cash from operating activities		**78.9**	64.6
Cash flows from investing activities			
Purchase of intangible assets		**(0.7)**	(1.4)
Purchase of property, plant and equipment		**(23.2)**	(26.1)
Net cash used in investing activities		**(23.9)**	(27.5)
Cash flows from financing activities			
Net proceeds from issue of ordinary share capital		**—**	0.3
Purchase of own shares		**(30.0)**	—
Repayment of bank borrowings		**(144.0)**	(12.0)
Proceeds from new bank borrowings		**180.0**	—
Issue costs of new bank borrowings		**(1.0)**	—
Finance lease principal payments		**(0.3)**	(0.3)
Dividends paid to shareholders		**(29.5)**	(28.0)
Net cash used in financing activities		**(24.8)**	(40.0)
Net increase/(decrease) in cash, cash equivalents and bank overdrafts	II	**30.2**	(2.9)
Cash, cash equivalents and bank overdrafts at the beginning of the period		**(18.4)**	(15.5)
Cash, cash equivalents and bank overdrafts at the end of the period	II	**11.8**	(18.4)

Notes to the Consolidated Cash Flow Statement

I. Cash generated from operations

For the period	52 weeks to 30 March 2007 £m	52 weeks to 31 March 2006 £m
Operating profit	**93.5**	89.1
Depreciation — property, plant and equipment	**19.2**	19.6
Amortisation — intangible assets	**1.7**	1.9
Loss on sale of property, plant and equipment	**0.2**	0.5
Share option scheme charges	**2.1**	1.3
Fair value loss on derivative financial instruments	**0.4**	—
Increase in inventories	**(14.4)**	(18.9)
Increase in trade and other receivables	**(2.8)**	(5.8)
Increase in trade and other payables	**12.3**	13.6
Increase/(decrease) in provisions	**0.4**	(0.4)
	112.6	100.9

II. Analysis of movements in the Group's net debt in the period

	At 31 March 2006 £m	Cash flow £m	Other non-cash changes £m	At 30 March 2007 £m
Cash in hand and at bank	1.5	23.3	—	**24.8**
Bank overdraft	(19.9)	6.9	—	**(13.0)**
	(18.4)	30.2	—	**11.8**
Debt due within one year	(43.3)	44.0	(0.7)	**—**
Debt due after one year	(99.0)	(79.0)	(1.1)	**(179.1)**
Total net debt excluding finance leases	(160.7)	(4.8)	(1.8)	**(167.3)**
Finance leases due within one year	(0.3)	0.3	(0.3)	**(0.3)**
Finance lease due after one year	(12.7)	—	0.3	**(12.4)**
Total finance leases	(13.0)	0.3	—	**(12.7)**
Total net debt	(173.7)	(4.5)	(1.8)	**(180.0)**

Non-cash changes relate to finance costs of £1.8m in relation to the amortisation of capitalised debt issue costs.

Accounting Policies

BASIS OF PREPARATION
The consolidated financial statements of Halfords Group plc (the "Company") and its subsidiary undertakings (the "Group") are prepared under the historical cost convention, except where IFRS requires an alternative treatment. The principal variations relate to financial instruments (IAS 39 "Financial instruments: recognition and measurement") and share-based payments (IFRS 2 "Share-based payment").

The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and International Finance Reporting Interpretation Committee ("IFRIC") interpretations as adopted by the European Union and with those parts of the Companies Act 1985 applicable to those companies reporting under IFRS.

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires the use of accounting estimates and management to exercise its judgement in the process of applying the Group's accounting policies. These judgements and estimates are based on historical experience and management's best knowledge of the amounts, events or actions under review and the actual results may ultimately differ from these estimates. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are, where necessary, disclosed separately.

NEW ACCOUNTING STANDARDS
Changes to accounting standards and interpretations and their likely impact on the Group's future accounting policies are set out below:

IFRS 7 "Financial instruments: disclosures" is effective for accounting periods beginning on or after 1 January 2007, and will therefore be applicable for the year ending March 2008, and IFRS 8 "Operating segments", effective for accounting periods beginning on or after 1 January 2010, will be applicable in the year ended March 2011. These amendments to disclosure requirements will have no effect on the Group's reported results.

The Group does not consider that any other standards or interpretations issued by the IASB, but not yet applicable, will have a significant impact on the consolidated financial statements.

BASIS OF CONSOLIDATION
SUBSIDIARIES
Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They cease to be consolidated from the date that the Group no longer has control. All subsidiaries have been consolidated.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The financial statements of all subsidiaries are prepared to the same reporting date as the Company.

The principal subsidiary undertakings of the Company at 30 March 2007 are as follows:

	Principal activity	% Ownership
Halfords Holdings (2006) Limited	Intermediate holding company	100
Halfords Holdings Limited	Intermediate holding company	100
Halfords Finance Limited	Intermediate holding company	100
Halfords Limited	Retailing of auto parts, accessories, cycles and cycle accessories	100

SEGMENTAL REPORTING
The Group has one main business segment, which is retail, and one main geographical segment, which is the United Kingdom. The business segmental reporting format reflects the Group's management and internal reporting structure.

REVENUE RECOGNITION
Revenue comprises the fair value of the sale of goods and services to external customers, net of value added tax, rebates, promotions and returns. Revenue is recognised on the sale of goods when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. Revenue on goods delivered is recognised when the customer accepts delivery. The Group operates a variety of sales promotion schemes that give rise to goods being sold at a discount to standard retail price. Revenue is adjusted to show sales net of all related discounts. A provision for estimated returns is made, representing the profit on goods sold during the year, which will be returned and refunded after the year end based on past experience. Revenue is reduced by the value of sales returns provided for during the year.

EXCEPTIONAL ITEMS
Income or costs that are both material and non-recurring, whose significance is sufficient to warrant separate disclosure in the financial statements, are referred to as exceptional items. These items are included and separately identified within their relevant income statement category.

Accounting Policies
continued

FOREIGN CURRENCY TRANSLATION
FUNCTIONAL AND PRESENTATION CURRENCY
The consolidated financial statements are presented in sterling, which is the Group's functional and presentation currency. Items included in the financial statements of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

TRANSACTIONS AND BALANCES
Transactions in foreign currencies are recorded at the exchange rate prevailing on the date of the transaction. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate prevailing at the balance sheet date. Translation differences on monetary items are taken to the income statement with the exception of differences on transactions that are subject to effective cash flow hedges.

Translation differences on non-monetary items are reported as part of the fair value gain or loss and are included in either equity or the income statement as appropriate.

SHARE-BASED PAYMENTS
The Group operates a number of equity-settled, share-based compensation plans.

The fair value of the employee services received under such schemes is recognised as an expense in the income statement. Fair value is determined by use of the Black Scholes Option Pricing Model. The amount to be expensed over the vesting period is determined by reference to the fair value of share incentives, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of share incentives that are expected to vest. At each balance sheet date, the Group revises its estimates of the number of share incentives that are expected to vest. The impact of the revision of original estimates, if any, is recognised in the income statement, with a corresponding adjustment to equity, over the remaining vesting period.

EQUITY DIVIDENDS
Final dividends are recognised in the Group's financial statements in the period in which the dividends are approved by shareholders. Interim equity dividends are recognised in the period they are paid.

PROPERTY, PLANT AND EQUIPMENT
Property, plant and equipment are held at cost less accumulated depreciation and any impairment in value.

Depreciation of property, plant and equipment is provided to write off the cost, less residual value, on a straight-line basis over their useful economic lives as follows:

- Leasehold premises with lease terms of 50 years or less are depreciated over the remaining period of the lease
- Motor vehicles are depreciated over 3 years
- Store fixtures are depreciated over the period of the lease to a maximum of 25 years
- Fixtures, fittings and equipment are depreciated over 4 to 10 years according to the estimated life of the asset
- Computer equipment is depreciated over 3 years
- Land is not depreciated
- Assets in the course of construction are not depreciated until commissioned

Residual values, remaining useful economic lives and depreciation periods and methods are reviewed annually and adjusted if appropriate.

GOODWILL AND INTANGIBLE ASSETS
Goodwill is the excess of the fair value of the consideration payable for an acquisition over the fair value of the Group's share of identifiable net assets of a subsidiary acquired at the date of acquisition. Fair value is attributed to the identifiable assets, liabilities and contingent liabilities that existed at the date of acquisition, reflecting their condition at that date. Adjustments are made where necessary to bring the accounting policies of acquired businesses into alignment with those of the Group.

Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is stated at cost less any impairment. Goodwill is not amortised but is tested annually for impairment. An impairment charge is recognised for any amount by which the carrying value of goodwill exceeds its fair value.

Costs that are directly associated with the production of identifiable and unique software products controlled by the Group and that will generate economic benefits beyond one year are recognised as intangible assets. These intangible assets are stated at cost less accumulated amortisation and impairment losses. Software is amortised over 3 to 5 years depending on the estimated useful economic life.

FINANCIAL INSTRUMENTS
The Group holds financial instruments that have been classified as financial assets and liabilities and loans and receivables.

LOANS AND RECEIVABLES
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

ACCOUNTING FOR DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES
Derivatives are recognised at fair value on the date a contract is entered into and are subsequently re-measured at their fair value.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The Group designates certain derivatives as:

- Fair value hedges — hedges of the fair value of recognised assets or liabilities or a firm commitment; or
- Cash flow hedges — hedges of highly probable forecast transactions

The Group documents the relationship between hedging instruments and hedged items at the hedge inception stage, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair value or cash flow hedged items. Movements on the hedging reserve in equity are shown in the consolidated statement of changes in shareholders' equity.

FAIR VALUE HEDGES
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

CASH FLOW HEDGES
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast purchase that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

NON-HEDGING DERIVATIVES
Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

FAIR VALUE ESTIMATION
The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date. The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate to their fair values.

TRADE RECEIVABLES
Trade receivables are recognised and carried at original invoice amount less provision for impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is recognised in the income statement.

INVENTORIES
Inventories are valued at the lower of cost and net realisable value. Cost comprises the purchase cost of goods, adjusted for rebates and costs related to distribution.

IMPAIRMENT OF ASSETS
Intangible assets that are attributed an indefinite useful life are not subject to amortisation but are tested annually for impairment. Other tangible and intangible assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Each store is deemed to be a cash-generating unit.

Accounting Policies
continued

CASH AND CASH EQUIVALENTS
Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet. For the purpose of the consolidated cash flow statement, cash and cash equivalents are as defined above, net of outstanding bank overdrafts.

BORROWINGS AND BORROWING COSTS
All loans and borrowings are initially recognised at the fair value of the consideration received net of issue costs associated with the borrowing. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowing costs are expensed in the period in which they are incurred, except for issue costs, which are amortised over the period of the borrowing.

BASIS OF CHARGE FOR TAXATION
The tax base of an asset is the amount that will be deductible for tax purposes against any taxable economic benefits that will flow to an entity when it recovers the carrying amount of the asset. If those economic benefits will not be taxable, the tax base of the asset is equal to its carrying amount.

The tax base of a liability is its carrying amount, less any amount that will be deductible for tax purposes in respect of that liability in future periods. In the case of revenue which is received in advance, the tax base of the resulting liability is its carrying amount, less any amount of the revenue that will not be taxable in future periods.

DEFERRED TAXATION
Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred taxation arises from initial recognition of an asset or liability in a transaction other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred taxation is calculated using rates that are expected to apply when the related deferred asset is realised or the deferred taxation liability is settled.

Deferred taxation assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

PROVISIONS
Provisions are recognised when:

- The Group has a present legal or constructive obligation as a result of past events;
- It is more likely than not that an outflow of resources will be required to settle the obligation; and
- The amount can be reliably estimated.

Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset when the reimbursement is certain.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

LEASES
FINANCE LEASES
Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as a finance lease. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and its lease term. In determining whether a lease is a finance lease, the building and land elements of the lease are reviewed separately.

OPERATING LEASES

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. Incentives from lessors are recognised as a systematic reduction in the charge over the lease term.

LANDLORD CONTRIBUTIONS

Contributions received from landlords that do not represent an incentive for future rental commitments are recognised in the income statement on the exchange of contracts. This income is netted off against selling and distribution costs.

SUBLEASE INCOME

The Group leases properties from which it no longer trades. These properties are often sublet to third parties. Rents receivable are recognised by offsetting the income against rental costs accounted for within selling and distribution costs in the income statement.

PENSIONS

Colleagues are offered membership of Halfords Pension Plan, a defined contribution pension arrangement. The costs of contributions to the scheme are charged to the income statement in the period that they arise.

ESTIMATES AND JUDGEMENTS

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from the estimates.

The judgements and key sources of estimation uncertainty that have a significant effect on the amounts recognised in the financial statements are detailed below:

IMPAIRMENT OF ASSETS

Goodwill and other assets are subject to impairment reviews if current or future events and circumstances suggest that their recoverable value may be less than their carrying value or if they are attributed an indefinite useful life. The recoverable amount is based on a calculation of expected future cash flows, which includes management assumptions and estimates of future performance. Details of the assumptions used in the valuation of goodwill are explained in note 9.

ALLOWANCES AGAINST THE CARRYING VALUE OF INVENTORIES

The Group reviews the market value of and demand for its inventories on a periodic basis to ensure that recorded inventory is stated at the lower of cost and net realisable value. In assessing the ultimate realisation of inventories, the Group is required to make judgements as to future demand requirements and to compare these with the current or committed inventory levels. Factors that could impact estimated demand and selling prices are the timing and success of product ranges.

PROVISIONS

Provisions have been estimated for onerous leases and estimated sales returns. These provisions are estimates of the actual costs of future cash flows and are dependent on future events. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made.

Notes to the Financial Statements

1. SEGMENTAL REPORTING

The Group has one main business segment, which is retail, and one main geographical segment, which is the United Kingdom. The business segmental reporting format reflects the Group's management and internal reporting structure.

2. OPERATING EXPENSES

For the period	52 weeks to 30 March 2007 £m	52 weeks to 31 March 2006 £m
Selling and distribution costs	240.1	221.5
Administrative expenses	42.5	36.1
	282.6	257.6

3. OPERATING PROFIT

For the period	52 weeks to 30 March 2007 £m	52 weeks to 31 March 2006 £m
Operating profit is arrived at after charging/(crediting):		
Operating lease rentals:		
— plant and machinery	1.0	0.8
— property rents	70.9	66.3
— rentals receivable under operating leases	(9.8)	(10.7)
Landlord contributions	(4.5)	(6.9)
Loss on disposal of property, plant and equipment	0.2	0.5
Amortisation of intangible assets (included in administrative expenses)	1.7	1.9
Depreciation of:		
— owned property, plant and equipment	18.6	18.9
— assets held under finance leases	0.6	0.7
Net foreign exchange gains	—	(2.0)
Trade receivables impairment	0.2	—

The total fees payable by the Group to PricewaterhouseCoopers LLP and their associates during the period was £0.5m (2006: £0.5m) in respect of the services detailed below:

For the period	52 weeks to 30 March 2007 £'000	52 weeks to 31 March 2006 £'000
Fees payable for the audit of the parent company and consolidated accounts	28	37
Fees payable to PricewaterhouseCoopers LLP and their associates for other services:		
The audit of the Company's subsidiaries, pursuant to legislation	119	111
Other services supplied pursuant to such legislation	21	21
Other services relating to taxation	263	232
All other services	95	77
Fees in respect of the audit of Halfords Pension Plan	20	20
	546	498

4. EMPLOYEE BENEFIT EXPENSE

For the period	**52 weeks to 30 March 2007 £m**	52 weeks to 31 March 2006 £m
The aggregated remuneration of all employees including directors comprised:		
Wages and salaries	**97.5**	88.5
Social security costs	**7.1**	6.8
Share-based payment charge	**2.1**	1.3
Other pension costs (note 22)	**3.1**	3.3
	109.8	99.9

	Number	Number
Average number of persons employed by the Group during the period:		
Stores	**9,637**	9,385
Central warehousing	**205**	223
Head office	**483**	461
	10,325	10,069

Full details of directors' remuneration and interests are set out in the Directors' Remuneration Report on pages 30 to 35.

Key management compensation

For the period	**52 weeks to 30 March 2007 £m**	52 weeks to 31 March 2006 £m
Salaries and short-term benefits	**2.2**	1.4
Social security costs	**0.3**	0.2
Pensions	**0.2**	0.2
Share-based payment charge	**0.5**	0.7
	3.2	2.5

Key management compensation includes the emoluments of the Board of Directors, which are disclosed separately in the Directors' Remuneration Report, and the emoluments of the Halfords Limited Board.

Notes to the Financial Statements
continued

5. NET FINANCE COSTS

For the period	52 weeks to 30 March 2007 £m	52 weeks to 31 March 2006 £m
Finance costs:		
Bank borrowings	**(10.0)**	(9.7)
Amortisation of issue costs on loans	**(0.3)**	(0.7)
Commitment and guarantee fees	**(0.2)**	(0.3)
Cost of forward foreign exchange contracts	**—**	(0.9)
Interest payable on finance leases	**(0.9)**	(0.9)
Finance costs before exceptional finance costs	**(11.4)**	(12.5)
Exceptional finance costs:		
Accelerated amortisation of issue costs on loans(1)	**(1.5)**	—
Swap close out costs(2)	**(1.1)**	—
	(2.6)	—
Finance costs	**(14.0)**	(12.5)
Finance income: Bank and similar interest	**1.4**	0.4
Net finance costs	**(12.6)**	(12.1)

(1) On 14 July 2006 the Group replaced its existing borrowings with a five-year term loan of £180m and a revolving credit facility of £120m. As a consequence, a charge of £1.5m was made in respect of the accelerated amortisation of the issue costs associated with the original borrowings.

(2) On 29 September 2006 the Group closed out the interest rate swap on its old borrowings at a cost of £1.1m. On the same date, the interest on the new £180m term loan was fixed for a three-month period. On 29 December the Group entered into a new interest rate swap for £70m for the length of the new facility.

6. TAXATION

For the period	52 weeks to 30 March 2007 £m	52 weeks to 31 March 2006 £m
Current taxation		
UK corporation tax charge for the period	**26.1**	25.8
Adjustment in respect of prior periods	**(0.4)**	(1.2)
	25.7	24.6
Deferred taxation		
Origination and reversal of timing differences	**(1.9)**	(1.5)
Adjustment in respect of prior periods	**(0.3)**	0.3
	(2.2)	(1.2)
Total tax charge for the period	**23.5**	23.4

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

For the period	52 weeks to 30 March 2007 £m	52 weeks to 31 March 2006 £m
Profit before tax	**80.9**	77.0
UK corporation tax at standard rate of 30.0% (2006: 30%)	**24.3**	23.1
Factors affecting the charge for the period:		
Depreciation on expenditure not eligible for tax relief	**0.7**	1.1
Deduction for employee share options	**—**	(0.3)
Impact of intra-group financing	**(1.4)**	—
Other disallowable expenses	**0.6**	0.4
Adjustment in respect of prior periods	**(0.7)**	(0.9)
Total tax charge for the period	**23.5**	23.4

7. DIVIDENDS

For the period	52 weeks to 30 March 2007 £m	52 weeks to 31 March 2006 £m
Equity — ordinary shares		
Final for the 52 weeks ended 31 March 2006 — paid 8.75p (2006: 8.3p)	**19.8**	18.9
Interim — paid 4.35p (2006: 4.0p)	**9.7**	9.1
	29.5	28.0

In addition, the directors are proposing a final dividend in respect of the financial year ended 30 March 2007 of 9.50p per share, which will absorb an estimated £20.8m of shareholders' funds. It will be paid on 1 August 2007 to shareholders who are on the register of members on 29 June 2007.

8. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period. The weighted average number of shares excludes shares held by an Employee Benefit Trust (see note 19) and has been adjusted for the issue/repurchase of shares during the period.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. These represent share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the 52 weeks to 30 March 2007.

For the period	52 weeks to 30 March 2007 Number m	52 weeks to 31 March 2006 Number m
Weighted average number of shares in issue	**223.8**	228.0
Less: shares held by the Employee Benefit Trust	**(0.9)**	(0.9)
Weighted average number of shares for calculating basic earnings per share	**222.9**	227.1
Weighted average number of dilutive shares	**0.9**	0.2
Total number of shares for calculating diluted earnings per share	**223.8**	227.3

The alternative measure of earnings per share is provided because it reflects the Group's underlying performance by excluding the effect of exceptional items.

For the period	52 weeks to 30 March 2007 £m	52 weeks to 31 March 2006 £m
Basic earnings attributable to equity shareholders	**57.4**	53.6
Exceptional items:		
Finance costs (see note 5)	**2.6**	—
Tax on exceptional finance costs	**(0.8)**	—
Underlying earnings before exceptional items	**59.2**	53.6

Earnings per share is calculated as follows:

For the period	52 weeks to 30 March 2007	52 weeks to 31 March 2006
Basic earnings per ordinary share	**25.8p**	23.6p
Diluted earnings per ordinary share	**25.6p**	23.6p
Basic earnings per ordinary share before exceptional items	**26.6p**	23.6p
Diluted earnings per ordinary share before exceptional items	**26.5p**	23.6p

Notes to the Financial Statements
continued

9. INTANGIBLE ASSETS

	Computer software £m	Product rights £m	Goodwill £m	Total £m
Cost				
At 1 April 2005	7.4	0.2	274.8	282.4
Additions	1.4	—	—	1.4
At 31 March 2006	8.8	0.2	274.8	283.8
Additions	0.7	—	—	0.7
At 30 March 2007	**9.5**	**0.2**	**274.8**	**284.5**
Amortisation				
At 1 April 2005	1.2	0.2	21.7	23.1
Charge for the period	1.9	—	—	1.9
At 31 March 2006	3.1	0.2	21.7	25.0
Charge for the period	1.7	—	—	1.7
At 30 March 2007	**4.8**	**0.2**	**21.7**	**26.7**
Net book value at 30 March 2007	**4.7**	**—**	**253.1**	**257.8**
Net book value at 31 March 2006	5.7	—	253.1	258.8
Net book value at 1 April 2005	6.2	—	253.1	259.3

The Group has one main business segment, which is retail, and one main geographical segment, which is the United Kingdom, and as such goodwill is calculated assuming one cash-generating unit ("CGU").

The recoverable amount of goodwill is determined based on 'value-in-use' calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period.

The key assumptions used in the value-in-use calculation for goodwill held at 30 March 2007 and 31 March 2006 are as follows:

	Notes	2007	2006
Discount rate	(1)	**8.6%**	8.6%
Growth rate	(2)	**0.0%**	0.0%
Tax rate		**31.9%**	31.9%

Notes:
(1) Post-tax discount rate applied to the cash flow projections.
(2) Growth rate used to extrapolate cash flows beyond the budget period.

10. PROPERTY, PLANT AND EQUIPMENT

	Short leasehold land and buildings £m	Fixtures, fittings and equipment £m	Payments on account and assets in course of construction £m	Total £m
Cost				
At 1 April 2005	41.0	211.0	0.4	252.4
Additions	2.2	23.2	1.0	26.4
Disposals	(0.1)	(2.2)	—	(2.3)
Reclassifications	0.2	0.2	(0.4)	—
At 31 March 2006	43.3	232.2	1.0	276.5
Additions	2.1	16.0	4.7	22.8
Disposals	(0.1)	(0.9)	—	(1.0)
Reclassifications	0.2	0.2	(0.4)	—
At 30 March 2007	**45.5**	**247.5**	**5.3**	**298.3**
Depreciation				
At 1 April 2005	12.5	142.1	—	154.6
Depreciation for the period	1.9	17.7	—	19.6
Disposals	(0.1)	(1.7)	—	(1.8)
At 31 March 2006	14.3	158.1	—	172.4
Depreciation for the period	2.0	17.2	—	19.2
Disposals	—	(0.8)	—	(0.8)
At 30 March 2007	**16.3**	**174.5**	**—**	**190.8**
Net book value at 30 March 2007	**29.2**	**73.0**	**5.3**	**107.5**
Net book value at 31 March 2006	29.0	74.1	1.0	104.1
Net book value at 1 April 2005	28.5	68.9	0.4	97.8

Included in the above are assets held under finance leases as follows:

	Land and buildings £m	Fixtures, fittings, and equipment £m	Total £m
As at 30 March 2007			
Cost	12.7	0.8	13.5
Accumulated depreciation	(1.5)	(0.5)	(2.0)
Net book value	**11.2**	**0.3**	**11.5**
As at 31 March 2006			
Cost	12.7	0.8	13.5
Accumulated depreciation	(1.0)	(0.4)	(1.4)
Net book value	11.7	0.4	12.1

No fixed assets are held as security for external borrowings.

Notes to the Financial Statements
continued

11. INVENTORIES

	2007 £m	2006 £m
Finished goods for resale	**141.6**	127.2

The Group consumed £364.1m (2006: £335.2m) of inventories during the period.

Finished goods inventories include £5.6m (2006: £5.8m) of provisions to carry inventories at fair value less costs to sell where such value is lower than cost. The Group did not reverse any unutilised provisions during the period.

12. TRADE AND OTHER RECEIVABLES

	2007 £m	2006 £m
Falling due within one year:		
Trade receivables	**3.8**	4.0
Less: provision for impairment of receivables	**(0.3)**	(0.1)
Trade receivables — net	**3.5**	3.9
Other receivables	**8.5**	5.1
Prepayments and accrued income	**20.6**	20.4
	32.6	29.4

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers.

13. CASH AND CASH EQUIVALENTS

	2007 £m	2006 £m
Cash at bank and in hand	**24.8**	1.5

Cash and bank overdrafts include the following for the purposes of the cash flow statement:

	2007 £m	2006 £m
Cash at bank and in hand	**24.8**	1.5
Bank overdrafts	**(13.0)**	(19.9)
	11.8	(18.4)

The Group's banking arrangements are subject to a netting facility whereby credit balances may be offset against the indebtedness of other Group companies.

14. TRADE AND OTHER PAYABLES — CURRENT

	2007 £m	2006 £m
Trade payables	**65.1**	65.2
Other taxation and social security payable	**16.5**	17.0
Other payables	**0.8**	1.5
Accruals and deferred income	**31.1**	18.2
	113.5	101.9

15. BORROWINGS

Current	2007 £m	2006 £m
Bank loans and overdrafts due within one year or on demand — unsecured	**13.0**	63.2
Finance leases	**0.3**	0.3
	13.3	63.5
Non-current		
Bank loan — unsecured	**179.1**	99.0
Finance leases	**12.4**	12.7
	191.5	111.7

The above borrowings are stated net of unamortised issue costs of £0.9m (2006: £1.7m).

The exposure of borrowings to interest rate changes when borrowings reprice is as follows:

	1 year £m	1–5 years £m	Total £m
Total borrowings as at 30 March 2007	**192.1**	**—**	**192.1**
Effect of interest rate swaps	**(70.0)**	**70.0**	**—**
	122.1	**70.0**	**192.1**

	1 year £m	1–5 years £m	Total £m
Total borrowings as at 31 March 2006	162.2	—	162.2
Effect of interest rate swaps	(100.0)	100.0	—
	62.2	100.0	162.2

The effective interest rates at the balance sheet date were as follows:

	2007	2006
Bank overdraft	**6.25%**	5.50%
Bank borrowings	**5.49%**	5.22%
Finance leases	**7.14%**	7.14%

Notes to the Financial Statements
continued

15. BORROWINGS continued

Maturity of financial liabilities

The maturity profile of the carrying amount of the Group's non-current liabilities at 30 March 2007 was as follows:

	Debt £m	Finance leases £m	2007 Total £m	Debt £m	Finance leases £m	2006 Total £m
Expiring between 1 and 2 years	—	0.2	0.2	19.5	0.3	19.8
Expiring between 2 and 5 years	179.1	0.7	179.8	79.5	0.9	80.4
Expiring after 5 years	—	11.5	11.5	—	11.5	11.5
	179.1	12.4	191.5	99.0	12.7	111.7

The Group completed a debt refinancing exercise on 14 July 2006. The debt facility now comprises a £180m 5-year non-amortising loan, maturing with a bullet repayment on 13 July 2011 and a £120m revolving credit facility. This facility is underwritten by The Royal Bank of Scotland Group plc and the syndication group allocations were effected from 29 September 2006.

The term loan attracts interest rate of LIBOR plus a fixed margin of 0.45%, and the rate is set biannually. An interest rate swap is in place for £70m and mirrors the biannual rate setting of the term loan facility. The revolving credit facility permits further borrowings to a maximum of £120m. This facility matures on 13 July 2011 and drawings under the facility attract interest at LIBOR plus 0.45%–0.50% dependent upon covenant fulfilment.

Borrowing facilities

The Group has the following undrawn committed borrowing facilities available at the period end in respect of which all conditions precedent had been met at that date:

	2007 £m	2006 £m
Expiring within 1 year	1.0	1.0
Expiring between 2 and 5 years	120.0	106.9
	121.0	107.9

The facilities expiring within one year were annual facilities subject to review at various dates during the period. The other facilities were arranged to help finance the proposed expansion of the Group's activities. All these facilities incurred commitment fees at market rates.

The minimum lease payments under finance leases fall due as follows:

	2007 £m	2006 £m
Not later than one year	1.1	1.1
Later than one year but not more than five years	4.1	4.2
More than five years	19.0	20.1
	24.2	25.4
Future finance charges on finance leases	(11.5)	(12.4)
Present value of finance lease liabilities	12.7	13.0

16. PROVISIONS

	Vacant property £m	Returns £m	Total £m
At 31 March 2006	0.7	0.5	1.2
Charged during the period	0.5	0.9	1.4
Utilised during the period	(0.5)	(0.5)	(1.0)
At 30 March 2007	**0.7**	**0.9**	**1.6**

Both of the above provisions are classified as current as they are expected to be utilised in the next financial year.

Provisions include a vacant property provision of £0.7m (2006: £0.7m) and a provision of £0.9m (2006: £0.5m) in respect of estimated sales returns. The vacant property provision represents recognition of the net costs arising from vacant properties and sub-let properties.

17. DEFERRED TAX

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 30% (2006: 30%).

	2007 £m	2006 £m
The movement on the deferred taxation provision is shown below:		
At the beginning of the period	**3.5**	5.1
Income statement credit	**(2.2)**	(1.2)
Credited to equity	**(0.4)**	(0.4)
At the end of the period	**0.9**	3.5

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

Deferred tax liabilities:

	Accelerated tax depreciation £m
At 1 April 2005	(8.7)
Credit to the income statement	0.3
At 31 March 2006	(8.4)
Credit to the income statement	0.5
At 30 March 2007	**(7.9)**

Deferred tax assets:

	Provisions and share options £m
At 1 April 2005	3.6
Credit to the income statement	0.9
Credit to equity	0.4
At 31 March 2006	4.9
Credit to the income statement	1.7
Credit to equity	0.4
At 30 March 2007	**7.0**
Net deferred tax liability	
At 31 March 2006	3.5
At 30 March 2007	**0.9**

Notes to the Financial Statements
continued

18. DERIVATIVE FINANCIAL INSTRUMENTS

Fair value of derivative financial instruments

The Group's policy is to hedge the following exposures:

- Interest rate risk — using interest swaps.
- Forward foreign currency contracts are also used for currency exposures on future expected purchases.

All the gains and losses on the hedging instruments are expected to be matched by losses and gains on the hedged transactions or positions. Under the Group's accounting policy, foreign currency transactions, which are hedged using forward foreign currency contracts, are translated at the contracted rates. Consequently, the carrying value of the relevant asset or borrowings effectively includes the gain or loss on the hedging instrument.

	2007 Assets £m	**2007 Liabilities £m**	2006 Assets £m	2006 Liabilities £m
Interest rate swaps	**1.3**	**—**	—	2.1
Forward foreign currency contracts	**—**	**2.4**	1.2	—
Total	**1.3**	**2.4**	1.2	2.1
Less non-current portion				
Interest rate swaps	**(1.3)**	**—**	—	(2.1)
Forward foreign currency contracts	**—**	**(0.1)**	—	—
Current portion	**—**	**2.3**	1.2	—

Forward foreign exchange contracts

The notional principal amounts of the outstanding forward foreign exchange contracts at 30 March 2007 are £71.9m (2006: £63.5m). Gains and losses in equity on forward foreign exchange contracts as of 30 March 2007 will be released to the income statement at various dates between one and thirteen months from the balance sheet date.

Interest rate swaps

The notional principal amount of the outstanding interest rate swap contract at 30 March 2007 was £70m (2006: £120m). At 30 March 2007 the fixed interest rate was 5.165% and the floating rate is LIBOR.

Treasury policy

The Group's objective in using financial instruments is to minimise its exposure to financial risk. The Group's treasury department's main responsibilities are to:

- Ensure adequate funding and liquidity for the Group;
- Manage the interest risk of the Group's debt;
- Invest surplus cash;
- Manage the clearing bank operations of the Group; and
- Manage the foreign exchange risk on its non-sterling cash flows.

The main risk arising from the Group's financial instruments is interest rate risk. Policies for managing financial risks are governed by Board approved policies and procedures, which are reviewed on an annual basis. The latest policy review was performed in December 2006.

The Group's debt management policy is to provide an appropriate level of funding to finance the Business Plan over the next three to five years at a reasonable cost and ensure adequate flexibility to meet the changing needs of the enterprise.

Financial risk

The Business Plan and cash flow forecasts are subject to key assumptions such as interest rates and the significance of these risks is dependent upon the level of the trading profit and the strength of the balance sheet.

Interest rate risk

The Group maintains its policy to minimise interest rate risk on its borrowings and deposits by using interest rate derivatives where appropriate. The Group's policy aims to manage the interest cost of the Group within the constraints of the Business Plan and its financial covenants. The aim is to reduce exposure to the effect of interest rates movements by hedging at least 40% of the following period's net interest rate exposure, whilst maintaining the flexibility to minimise early termination costs.

18. DERIVATIVE FINANCIAL INSTRUMENTS continued

Foreign currency risk

The Group has a significant transaction exposure with increasing, direct source purchases of its supplies from the Far East, with most of the trade being specifically US dollar denominated. The Group's policy is to manage the foreign exchange transaction exposures of the business for a minimum period of twelve months forward to ensure the actual costs do not exceed the budget costs by 10% (excluding increases in the base cost of the product). The Group does not hedge either economic exposure or the translation exposure arising from the profits, assets and liabilities of non-sterling business whilst they remain immaterial.

Credit risk

The Group's policy is to minimise the risk that foreign exchange and interest rate derivative counterparties, the holders of surplus cash and the providers of debt will be unable to fulfil their obligations and also, in the case of lenders, unwilling to renegotiate the terms of the borrowings. The Group ensures that such counterparties used for credit transactions hold at least an A credit rating.

Liquidity risk

The Group ensures that it has sufficient cash or loan facilities to meet all its commitments when required. The Group ensures that it has sufficient funding to meet its Business Plan requirements so that it is not reliant on there being sufficient liquidity in the market when it needs the funding.

Fair values of non-derivative financial liabilities

The following table is a comparison by category of the carrying amounts and the fair values of the Group's financial assets and financial liabilities at 30 March 2007 and 31 March 2006.

	2007 Book value £m	**2007 Fair value £m**	2006 Book value £m	2006 Fair value £m
Trade and other receivables	**32.6**	**32.6**	29.4	29.4
Short-term borrowings	**(13.0)**	**(13.0)**	(63.2)	(63.2)
Long-term borrowings	**(179.1)**	**(179.1)**	(99.0)	(99.0)
Finance leases	**(12.7)**	**(12.7)**	(13.0)	(13.0)
Other financial liabilities — current	**(115.1)**	**(115.1)**	(103.1)	(103.1)
Other financial liabilities — non-current	**(25.9)**	**(25.9)**	(22.7)	(22.7)
Cash at bank and in hand	**24.8**	**24.8**	1.5	1.5

Fair value assumptions

Short-term deposits and borrowings	The fair value of short-term deposits, loans and overdrafts approximates to the carrying amount because of the short maturity of these instruments.
Long-term borrowings	The fair value of bank loans and other loans approximates to the carrying value reported in the balance sheet as the majority are floating rate where payments are reset to market rates at intervals of less than one year.

19. EQUITY SHARE CAPITAL

Ordinary shares of 1p each:	**2007 Number of shares**	**2007 £**	2006 Number of shares	2006 £
Authorised	**295,000,000**	**2,950,000**	295,000,000	2,950,000
Allotted, called up and fully paid	**219,046,537**	**2,190,465**	228,027,743	2,280,277

Allotted, called up and fully paid share capital decreased during the period due to the Company's £50m share repurchase programme. During the period the Company acquired 9,003,956 shares at a cost of £30.0m. Distributable reserves have been reduced by £30.0m, being the consideration paid for the shares.

The Company's share capital increased by 22,750 shares (2006: 91,000) due to the early exercising of share options by members of the Halfords Share Option Scheme. Early exercise of the options are allowed if an option holder ceases to be employed by reason of death, injury, disability, redundancy, retirement or on the sale of his employing company or business.

On 17 May 2007 the Company applied for block listing of a total of 6,000,000 ordinary shares of 1p each to be admitted on allotment to the Official List of the UK Listing Authority and to trade on the London Stock Exchange market for listed securities. The shares will be allotted under the Company's CSOP and SAYE share schemes and when issued, will rank *pari passu* with the existing ordinary shares of the Company.

Interest in own shares

At 30 March 2007 the Company held in Trust 877,498 (2006: 881,350) of its own shares with a nominal value of £8,774 (2006: £8,814). The Trust has waived any entitlement to the receipt of dividends in respect of its holding of the Company's ordinary shares.

Notes to the Financial Statements
continued

20. SHARE-BASED PAYMENTS
At present the Group has three share award plans:

1. Halfords Company Share Option Scheme ("CSOP")
2. Halfords Sharesave Scheme ("SAYE")
3. The Long-Term Incentive Plan ("LTIP")

1. The Halfords Company Share Option Scheme
The CSOP was introduced in June 2004. Options are granted with a fixed exercise price equal to the market price of the shares under option at the date of grant. The contractual life of an option is 10 years.

The Company has made annual grants in 2004/05, 2005/06 and 2006/07. Options granted will become exercisable on the third anniversary of the date of grant, subject to the achievement of a three-year performance condition. For grants up to 150% of basic salary the options can only be exercised if the increase in earnings per share ("EPS") over the period is not less than the increase in the Retail Price Index ("RPI") plus 6% for 2004/05 grants, 5% for 2005/06 grants and 3.5% for 2006/07 grants. In the case of grants in excess of 150% of basic salary, the excess can only be exercised in full if the increase is not less than RPI plus 10% per year. For increases in excess of 6% but less than 10% a proportion of the option in excess of 150% of salary can be exercised. Exercise of an option is subject to continued employment. Grants in excess of 150% of salary have only been made under the 2004/05 scheme.

The expected volatility is based on historical volatility of a peer group of companies since the IPO in June 2004. The expected life is the average expected period to exercise. The risk-free rate of return is the yield on zero-coupon UK government bonds.

Options were valued using the Black-Scholes option pricing models. No performance conditions were included in the fair value calculations. The fair value per option granted and the assumptions used in the calculations were as follows:

Grant Date	6 July 2006	13 July 2005	2 June 2004
Share price at grant date	£3.010	£2.955	£2.600
Exercise price	£3.010	£2.955	£2.600
Number of employees	36	42	3,598
Shares under option	252,000	294,000	6,556,953
Vesting period (years)	3	3	3
Expected volatility	35%	37%	40%
Option life (years)	10	10	10
Expected life (years)	4.85	4.85	3.85
Risk-free rate	4.70%	4.68%	4.68%
Expected dividend yield	4.00%	4.00%	4.00%
Possibility of ceasing employment before vesting	32%	32%	34%
Expectations of meeting performance criteria	100%	100%	100%
Fair value per option	£0.77	£0.79	£0.70
Number of options outstanding at 30 March 2007	252,000	259,000	4,709,030

2. Halfords Sharesave Scheme
The SAYE is open to all colleagues with eligible employment service. Options may be exercised under the scheme if the option holder completes his saving contract for a period of three years and then not more than six months thereafter. Special provisions allow early exercise in the case of death, injury, disability, redundancy, retirement or because the company or business which employs the option holder is transferred out of the Group, or in the event of a change in control, reconstruction or winding up of the Company.

The fair value per option granted and the assumptions used in the calculations were as follows:

Grant Date	1 August 2006	11 August 2005	7 June 2004
Share price at grant date	£3.01	£3.07	£2.64
Exercise price	£3.01	£3.07	£2.64
Number of employees	343	573	1,561
Shares under option	173,558	269,037	1,364,861
Vesting period (years)	3	3	3
Expected volatility	22%	36%	39%
Option life (years)	3	3	3
Expected life (years)	3.5	3.5	3.5
Risk-free rate	4.75%	4.68%	4.68%
Expected dividend yield	4.10%	4.00%	4.00%
Possibility of ceasing employment before vesting	44%	53%	36%
Expectations of meeting performance criteria	100%	100%	100%
Fair value per option	£0.44	£0.81	£0.65
Number of options outstanding at 30 March 2007	153,941	185,361	931,015

20. SHARE-BASED PAYMENTS continued

3. The Long-Term Incentive Plan

The introduction of a Long-Term Incentive Plan ('LTIP') was approved at the Annual General Meeting in August 2005 awarding the executive directors and certain senior management conditional rights to receive shares.

To date two schemes have been approved for 2005/06 and 2006/07. The extent to which rights vest will depend upon the Group's performance over the subsequent three financial years.

The vesting of 50% of the awards will be determined by the Group's relative total shareholder return ("TSR") performance and the vesting of the other 50% by the Group's absolute earnings per share performance against RPI. The Group's TSR performance will be measured against the FTSE 350 general retailers as a comparator group. No retesting will be permitted.

Options were valued using a Monte Carlo simulation option pricing model. The fair value per option granted and the assumptions used in the calculation were as follows:

Grant Date	**11 July 2006**	**8 August 2005**
Share price at grant date	£3.01	£3.07
Number of employees	18	17
Shares under option	596,908	537,417
Vesting period (years)	3	3
Expected volatility	22%	31%
Option life (years)	3	3
Expected life (years)	3	3
Risk-free rate	4.75%	4.30%
Expected dividend yield	4.25%	4.00%
Possibility of ceasing employment before vesting	30%	30%
Expectations of meeting performance criteria	100%	50%
Fair value per option	£1.82	£2.19
Number of shares outstanding 30 March 2007	510,241	454,803

A reconciliation of option movements for the CSOP, SAYE and LTIP performance plans over the year to 30 March 2007 are shown below:

	30 March 2007		31 March 2006	
	Number ('000)	**Weighted average exercise price**	Number ('000)	Weighted average exercise price
Outstanding at start of year	**7,819**	**2.67**	7,067	2.61
Granted	**1,029**	**3.01**	1,100	3.04
Forfeited	**(171)**	**3.04**	(7)	2.96
Exercised	**(28)**	**2.61**	(85)	2.60
Lapsed	**(1,194)**	**2.64**	(256)	2.67
Outstanding at end of year	**7,455**	**2.71**	7,819	2.67
Exercisable at end of year	**—**	**—**	3	2.60

30 March 2007				31 March 2006			
Weighted average exercise price	**Number of shares**	**Weighted average remaining life (years) Expected**	**Contractual**	Weighted average exercise price	Number of shares	Weighted average remaining life (years) Expected	Contractual
£2.60	**4,709**	**0.8**	**7.2**	£2.60	5,739	2.0	8.2
£2.64	**931**	**0.3**	**0.6**	£2.65	1,022	1.6	1.6
£2.95	**259**	**1.3**	**1.8**	£2.95	287	4.2	9.3
£3.01	**406**	**2.5**	**2.8**	£3.01	—	—	—
£3.07	**185**	**1.5**	**2.0**	£3.07	233	3.0	3.0
£0.00	**965**	**1.7**	**1.7**	£0.00	538	2.0	2.0

The weighted average share price during the period for options exercised was £2.61 (2006: £2.60). The total charge for the year relating to employee share-based payment plans was £2.1m (2006: £1.3m), all of which related to equity-settled share-based payment transactions.

Notes to the Financial Statements
continued

21. COMMITMENTS

	2007 £m	2006 £m
Capital expenditure: contracted but not provided	2.8	1.3

The Group leases various stores, warehouses and equipment under non-cancellable operating leases. These leases have varying terms, escalation clauses and renewal rights.

At 30 March 2007, the Group was committed to making payments in respect of these leases in the following periods:

	Land and buildings 2007 £m	Other assets 2007 £m	Land and buildings 2006 £m	Other assets 2006 £m
Within one year	73.7	0.6	69.6	0.7
Later than one year and less than five years	288.8	0.5	274.6	0.9
After five years	446.0	—	449.5	—
	808.5	1.1	793.7	1.6

The operating lease commitments are shown before receipts of sublet income.

22. PENSIONS

From 1 December 2002 employees have been offered membership of the Halfords Pension Plan, a defined contribution pension arrangement. The costs of contributions to the scheme are charged to the income statement in the period that they arise. The contributions to the scheme for the period amounted to £3.1m (2006: £3.3m) representing 3% of pensionable salaries for new employees and 5% to 12% of pensionable salaries for employees who transferred from the Boots Group pension scheme, plus a further 2% to 7% for employees whose earnings are above the upper earnings threshold.

23. CONTINGENT LIABILITIES

The Group's banking arrangements include the facility for the bank to provide a number of guarantees in respect of liabilities owed by the Group during the course of its trading. In the event of any amount being immediately payable under the guarantees, the bank has the right to recover the sum in full from the Group. The total amount of guarantees in place at 30 March 2007 amounted to £3.2m (2006: £3.1m).

The Group's banking arrangements are subject to a netting facility whereby credit balances may be offset against the indebtedness of other Group companies.

24. POST-BALANCE SHEET EVENTS

On 21 March 2007, it was announced that the full rate of UK corporation tax will be reduced from 30% to 28% from April 2008. Once this change is substantively enacted, when the Finance Bill has been approved, deferred tax assets and liabilities will be reassessed in the year ending 28 March 2008 to reflect the lower tax rate.

Five Year Record

	52 weeks to 28 March 2003 £m UK GAAP	53 weeks to 2 April 2004 £m UK GAAP	52 weeks to 1 April 2005 £m IFRS	52 weeks to 31 March 2006 £m IFRS	**52 weeks to 30 March 2007 £m IFRS**
Revenue	525.8	578.6	628.4	681.7	**744.0**
Cost of sales	(244.4)	(271.6)	(292.0)	(335.0)	**(367.9)**
Gross profit	281.4	307.0	336.4	346.7	**376.1**
Operating expenses	(247.9)	(244.1)	(247.1)	(257.6)	**(282.6)**
Operating profit before exceptional items and goodwill amortisation	50.8	76.6	89.5	89.1	**93.5**
Goodwill amortisation	(8.0)	(13.7)	—	—	**—**
Exceptional items	(9.3)	—	(0.2)	—	**—**
Operating profit	33.5	62.9	89.3	89.1	**93.5**
Profit on sale of fixed assets	—	6.4	—	—	**—**
Net finance costs	(21.9)	(44.1)	(15.0)	(12.1)	**(12.6)**
Profit before tax	11.6	25.2	74.3	77.0	**80.9**
Tax	(6.5)	(14.3)	(23.2)	(23.4)	**(23.5)**
Profit attributable to equity shareholders	5.1	10.9	51.1	53.6	**57.4**
Basic earnings per share	n/a	6.7p	23.7p	23.6p	**25.8p**
Basic earnings per share before goodwill amortisation and exceptional items	n/a	16.1p	23.7p	23.6p	**26.6p**

Halfords Group plc acquired Halfords Limited on 30 August 2002. Prior to this date Halfords Limited was a wholly owned subsidiary of Boots Company plc and therefore prior to 30 August 2002, the financial information above is based on the financial statements of Halfords Limited. In June 2004, Halfords Group plc listed on the London Stock Exchange. Consequently, the results across the periods reflect the differences in the capital and financing structure under the different ownerships.

An analysis of the main differences between UK GAAP and IFRS are detailed in note 25 to the 2006 Annual Report and Accounts.

Parent Company Accounts Under UK GAAP

Independent Auditors' Report to the Members of Halfords Group plc

We have audited the Company financial statements of Halfords Group plc for the 52 weeks to 30 March 2007 which comprise the Company Balance Sheet and the related notes. These Company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the Group financial statements of Halfords Group plc for the 52 weeks to 30 March 2007.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Company financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the Company financial statements give a true and fair view and whether the Company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Company financial statements. The information given in the Directors' Report includes that specific information presented in the Chief Executive's Review and the Finance Director's Report that is cross-referenced from the Business Review section of the Directors' Report. In addition, we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Company financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Chief Executive's Review, the Finance Director's Report and the Corporate Governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Company financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Company financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Company financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Company financial statements and the part of the Directors' Remuneration Report to be audited.

OPINION

In our opinion:

- the Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 March 2007;
- the Company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the Company financial statements.

PricewaterhouseCoopers LLP,
Chartered Accountants and Registered Auditors
Birmingham
6 June 2007

Company Balance Sheet

	Notes	As at 30 March 2007 £m	Restated As at 31 March 2006 £m
Fixed assets			
Investments	4	**4.3**	2.4
		4.3	2.4
Current assets			
Debtors falling due within one year	5	**0.2**	37.6
Debtors falling due after one year	5	**201.6**	149.3
Cash at bank and in hand		**0.9**	0.8
		202.7	187.7
Creditors: amounts falling due within one year	6	**(2.5)**	(2.2)
Net current assets		**200.2**	185.5
Net assets		**204.5**	187.9
Capital and reserves			
Called up share capital	7	**2.2**	2.3
Share premium account	8	**133.2**	133.2
Capital redemption reserve	8	**0.1**	—
Profit and loss account	8	**69.0**	52.4
Equity shareholders' funds		**204.5**	187.9

The notes on pages 67 to 69 are an integral part of these financial statements.

The Company has elected to prepare its financial statements under UK GAAP. These policies are outlined on page 66.

The financial statements on pages 65 to 69 were approved by the Board of Directors on 6 June 2007 and were signed on its behalf by:

Nick Wharton, Finance Director **Ian McLeod, Chief Executive**

Accounting Policies

BASIS OF PREPARATION

The accounts of the Company are prepared for the period up to the Friday closest to 31 March each year. Consequently, the financial statements for the current period cover the 52 weeks to 30 March 2007, whilst the comparative period covered the 52 weeks to 31 March 2006. The accounts are prepared under the historical cost convention, in accordance with the Companies Act 1985, applicable accounting standards and specifically in accordance with the accounting policies set out below.

A consolidated cash flow statement has been included in the Halfords Group plc consolidated accounts. The Company has therefore taken advantage of the exemption under FRS 1 (Revised 1996) "Cash flow statements" not to produce a cash flow statement.

PENSIONS

Employees are offered membership of Halfords Pension Plan, a defined contribution pension arrangement. The costs of the contribution to the scheme are charged to the profit and loss account in the period that they arise.

SHARE-BASED PAYMENTS

The Company operates a number of equity-settled, share-based compensation plans that are awarded to employees of the Company's subsidiaries.

In accordance with UITF Abstract 44 'FRS 20 (IFRS 2) — Group and treasury share transactions' the fair value of the employee services received under such schemes is recognised as an expense in the profit and loss account of the subsidiary that benefit from those services received. The Company has recognised the fair value of the options as an increase to equity with a corresponding adjustment to Investments. The impact of this change on the comparative period has been to increase investments by £2.3m with a corresponding £0.1m decrease in amounts owed by Group undertakings and £2.2m increase in amounts owed to group undertakings.

Fair value is determined by use of the Black-Scholes option pricing model for Options granted under the Halfords Company Share Option Scheme and Share Save Scheme. Rights granted under the Company's Long-Term Incentive Plan have been valued using the Monte Carlo simulation option pricing model.

The total fair value recognised is determined by reference to the fair value of share incentives, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of share incentives that are expected to vest. At each balance sheet date, the Company revises its estimates of the number of share incentives that are expected to vest. The impact of the revision of original estimates, if any, is recognised as an adjustment to equity, with a corresponding adjustment to investments, over the remaining vesting period.

INVESTMENTS

Investments in subsidiary undertakings are stated at the original cost of the investments. Provision is made against cost where, in the opinion of the directors, the value of the investments has been impaired.

EQUITY DIVIDENDS

Final dividends are recognised in the Group's financial statements in the period in which the dividends are approved by shareholders. Interim equity dividends are recognised in the period they are paid.

Notes to the Financial Statements

1. PROFIT AND LOSS ACCOUNT

The Company made a profit before dividends for the financial period of £74.2m (2006: £29.9m). The directors have taken advantage of the exemption available under section 230 of the Companies Act 1985 and not presented a profit and loss account for the Company alone.

2. AUDIT FEES

The total fees payable by the Company to PricewaterhouseCoopers LLP and their associates during the period were borne by Halfords Limited. In the 52 weeks to 30 March 2007 and 31 March 2006 the Company did not expense any fees relating to PricewaterhouseCoopers LLP.

3. EMPLOYEE BENEFIT EXPENSE

The Company has no employees other than the directors. Full details of the directors' remuneration and interests are set out in the Directors' Remuneration Report on pages 30 to 35.

4. INVESTMENTS

	£m
Shares in Group undertaking	
Cost	
At 31 March 2006	0.1
Restatement for UITF 44 — share-based payments	2.3
As at 31 March 2006 — restated	2.4
Additions	0.1
Additions — share-based payments	1.9
Disposal	(0.1)
At 30 March 2007	**4.3**

The investment represents shares in the following subsidiary undertaking as at 30 March 2007 and the recognition of share-based compensation plans that are awarded to employees of the Company's subsidiaries.

	Incorporated in	Ordinary shares percentage owned %	Principal activities
Halfords Holdings (2006) Limited	Great Britain*	100	Intermediate holding company

* Registered in England and Wales.

Halfords Holdings (2006) Limited was established on 7 June 2006 and was acquired by the Company on 27 June 2006. As part of a reconstruction of the Group, on 11 July 2006 Halfords Holdings (2006) Limited issued shares to the Company in exchange for the shares held in Halfords Holdings Limited.

In the opinion of the directors the value of the investment in the subsidiary undertaking is not less than the amount shown above.

Principal subsidiaries

The principal subsidiary undertakings of the Company at 30 March 2007 are as follows:

	Principal activity	% Ownership
Halfords Holdings (2006) Limited	Intermediate holding company	100
Halfords Holdings Limited†	Intermediate holding company	100
Halfords Finance Limited†	Intermediate holding company	100
Halfords Limited†	Retailing of auto, leisure and cycling products	100

† Indirect subsidiary undertakings.

All the above subsidiaries are incorporated in Great Britain and registered in England and Wales. All other subsidiary undertakings are dormant and did not trade during the year.

Notes to the Financial Statements

continued

5. DEBTORS

	2007 £m	Restated 2006 £m
Falling due within one year:		
Amounts owed by Group undertakings	**0.2**	37.6
Falling due after more than one year:		
Amounts owed by Group undertakings	**201.6**	149.3

Amounts owed by Group undertakings that fall due after one year are subject to interest. At 30 March 2007 the amounts bear interest at a rate of 5.89% (2006: 5.22%).

6. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2007 £m	Restated 2006 £m
Amounts owed to Group undertakings	**(2.5)**	(2.2)

7. EQUITY SHARE CAPITAL

Ordinary shares of 1p each:	2007 Number of shares	2007 £	2006 Number of shares	2006 £
Authorised	**295,000,000**	**2,950,000**	295,000,000	2,950,000
Allotted, called up and fully paid	**219,046,537**	**2,190,465**	228,027,743	2,280,277

Allotted, called up and fully paid share capital decreased during the period due to the Company's £50m share purchase programme. During the period the Company acquired 9.0m shares at a cost of £30.0m. Distributable reserves have been reduced by £29.9m, being the consideration paid for the shares.

The Company's share capital increased by 22,750 shares (2006: 91,000) due to the early exercising of share options by members of the Halfords Share Option Scheme. Early exercise of the options are allowed if an option holder ceases to be employed by reason of death, injury, disability, redundancy, retirement or on the sale of his employing company or business.

Potential issue of ordinary shares
The Company has three employee share option schemes. Further information regarding these schemes can be found in note 20 of the Group financial statements.

Interest in own shares
At 30 March 2007 the Company held in Trust 877,498 (2006: 881,350) own shares with a nominal value of £8,774 (2006: £8,814). The Trust has waived any entitlement to the receipt of dividends in respect of its holding of the Company's ordinary shares.

8. RESERVES

	Share premium account £m	Capital redemption reserve £m	Profit and loss account £m	Total £m
At 31 March 2006	133.2	—	52.4	185.6
Profit for the financial period	—	—	74.2	74.2
Purchase of own shares	—	0.1	(30.0)	(29.9)
Employee share options	—	—	1.9	1.9
Dividends	—	—	(29.5)	(29.5)
At 30 March 2007	**133.2**	**0.1**	**69.0**	**202.3**

The Company settled dividends of £29.5m in the period, as detailed in note 7 of the Group financial statements.

9. RELATED PARTY DISCLOSURES

Under FRS 8 "Related party disclosures" the Company is exempt from disclosing related party transactions with entities over which it has 90% control or more.

10. CONTINGENT LIABILITIES

The Group's banking arrangements include the facility for the bank to provide a number of guarantees in respect of liabilities owed by the Group during the course of its trading. In the event of any amount being immediately payable under the guarantees, the bank has the right to recover the sum in full from the Group. The total amount of guarantees in place at 30 March 2007 amounted to £3.2m (2006: £3.1m).

The Company's banking arrangements are subject to a netting facility whereby credit balances may be offset against the indebtedness of other Group companies.

Shareholder Information

ANALYSIS OF SHAREHOLDERS

As at 30 March 2007, the number of registered shareholders was 1,975 and the number of ordinary shares in issue was 220,577,287.*

	Number of holdings	% of total shareholders	Number of shares	% of issued share capital
Range of holdings				
1–5,000	1,517	76.8	2,182,007	1.0
5,001–10,000	98	5.0	735,468	0.3
10,001–50,000	155	7.8	3,715,648	1.7
50,001–100,000	37	1.9	2,660,355	1.2
100,001–500,000	89	4.5	23,109,291	10.5
500,001 and above	79	4.0	188,174,518	85.3
Total	**1,975**	**100.0**	**220,577,287**	**100.0**
Held by				
Individuals	868	43.9	1,973,011	0.9
Institutions	1,107	56.1	218,604,276	99.1
Total	**1,975**	**100.0**	**220,577,287**	**100.0**

* The data above does not take into account shares awaiting cancellation, as part of the share buy-back programme.

RESULTS AND FINANCIAL DIARY

Annual General Meeting: 25 July 2007
Final dividend payable: 1 August 2007
Pre-Close Statement: 4 October 2007
Half Year Report: 22 November 2007
Ex dividend date: 28 November 2007
Record date: 30 November 2007
Interim dividend payable: 9 January 2008

ANNUAL GENERAL MEETING

The Annual General Meeting will be held at 12.30 pm on Wednesday 25 July 2007 at the Alveston Manor Hotel, Clopton Bridge, Stratford-upon-Avon, Warwickshire, CV37 7HP.

Each shareholder is entitled to attend and vote at the meeting.

DIVIDEND PAYMENTS

The proposed final dividend (if approved) will be paid on 1 August 2007 to shareholders on the register on 29 June 2007.

PAYMENT OF DIVIDENDS BY BACS

Many shareholders have already arranged for dividends to be paid by mandate directly to their bank or building society account. The Company mandates dividends through the BACS ('Bankers' Automated Clearing Services') system. The benefit to shareholders of the BACS payment method is that the Registrar posts the tax vouchers directly to them, whilst the dividend is credited on the payment date to the shareholder's bank or building society account. Shareholders who have not yet arranged for their dividends to be paid direct to their bank or building society account and wish to benefit from this service should complete the mandate form attached to their dividend tax voucher or, alternatively, request the Company's Registrar (address below) to send them a dividend mandate form.

DIVIDEND REINVESTMENT PLAN

The Company offers a dividend reinvestment plan that gives shareholders the opportunity to use their cash dividend to buy Halfords Group plc ordinary shares. The plan is run by Capita Registrars ("Capita"). For further information on the plan and how to join please contact Capita at Northern House, Woodsome Park, Fenay Bridge, Huddersfield, West Yorkshire, HD8 0LA (tel: 01484 600904) or the Company Secretary.

SHAREHOLDER INFORMATION ON THE INTERNET

The Company maintains an investor relations section on its website (www.halfordscompany.com) which allows access to share price information, management biographies, copies of Company reports and other useful investor information.

Halfords Group plc is registered in England and Wales (Number 4457314).

A copy of this Annual Report is being sent to all shareholders. Copies are also available from the registered office shown below. The Report is also placed on the investor relations section of the Company's website, www.halfordscompany.com.

Shareholder Notes

Shareholder Notes

Company Information

REGISTERED AND HEAD OFFICE
Halfords Group plc
Icknield Street Drive
Redditch
Worcestershire
B98 0DE

Company no. 04457314
Registered in England and Wales

REGISTRARS
Capita IRG Plc
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
West Yorkshire
HD8 0LA

AUDITORS
PricewaterhouseCoopers LLP
Cornwall Court
19 Cornwall Street
Birmingham
B3 2DT

INTERNAL AUDITORS
Deloitte & Touche LLP
180 Strand
London
WC2R 1BL

JOINT BROKERS
Merrill Lynch International
2 King Edward Street
London
EC1A 1HQ

Citigroup
33 Canada Square
London
E14 5LB

SOLICITORS
Clifford Chance LLP
10 Upper Bank Street
London
E14 5JJ

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Halfords Group plc Annual Report 2007