halfords

halfords

we
go the extra mile

Halfords Group plc
Annual Report 2008

CONTENTS

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

Car Maintenance
Car Enhancement
Leisure

Halfords' customer offer covers an unrivalled spectrum of product across Car Maintenance, Car Enhancement and Leisure. Delivered from our portfolio of 450 superstores, neighbourhood, metro and *Bikehut* stores.

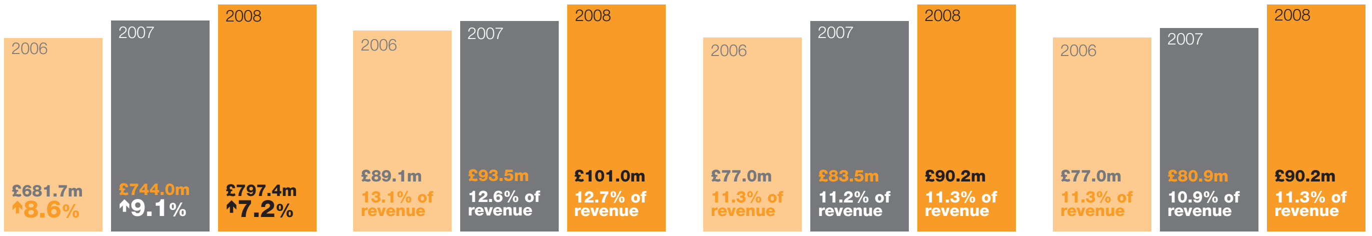
FINANCIAL AND OPERATIONAL HIGHLIGHTS
THE YEAR IN BRIEF

£797.4m ↑7.2% revenue

£101.0m ↑8.0% operating profit

£90.2m ↑8.0% profit before tax and exceptional finance costs

£90.2m ↑11.5% profit before tax

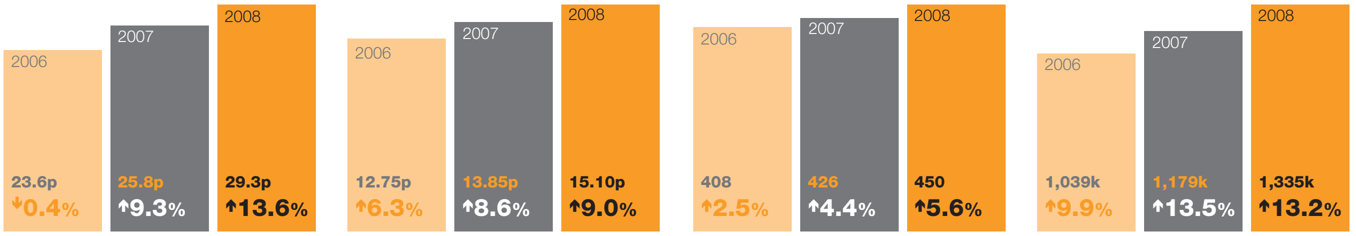


29.3p ↑13.6% basic earnings per share

15.10p ↑9.0% dividend per ordinary share

450 ↑5.6% store growth

1,335k ↑13.2% *wefit/werepair* jobs



- Revenue up 7.2%, with like-for-like sales up 4.3%
- Growth in all key categories of Car Maintenance, Car Enhancement and Leisure
- Sponsorship of the Great Britain Olympic cycling squad
- First Polish store to open in 2008
- 450 Halfords stores now trading including 17 in the Republic of Ireland and three in the Czech Republic
- 29 new store openings

wefit

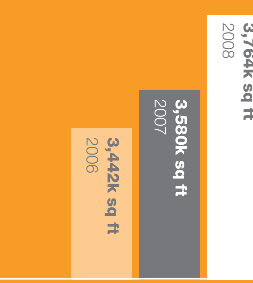
werepair

halfords

HALFORDS AT A GLANCE

The business has benefited from steady growth with consistent store expansion

Floor Space



↑5.1% 3,764k sq ft

HALFORDS SUPERSTORES

Superstores are large stores, often with mezzanine floors, that allow the full benefit of our *Bikehut*, Technology and Travel sub-shops to be delivered. Superstores are located edge of town, in retail parks or stand-alone sites.

- Remains Halfords' format of choice.
- Currently there are 390 stores, of which 231 have mezzanine floors.

HALFORDS NEIGHBOURHOOD STORES

Small format stores designed to introduce a comprehensive Halfords offer to smaller catchments and to meet our customers' needs.

- 19 stores opened in the period, including our first neighbourhood store in Ireland.
- Range selection criteria clearly defined to optimise consumer offer.

HALFORDS METRO STORES

Metro stores are a smaller format store located in High Street and other urban locations

- Serves local markets where no superstore is located.
- Customer offer favoured towards convenience products.

halfords we

sell 1 in every 3 bikes in the UK

halfords

halfords we

have a database of 3.2 million car parts available to our customers

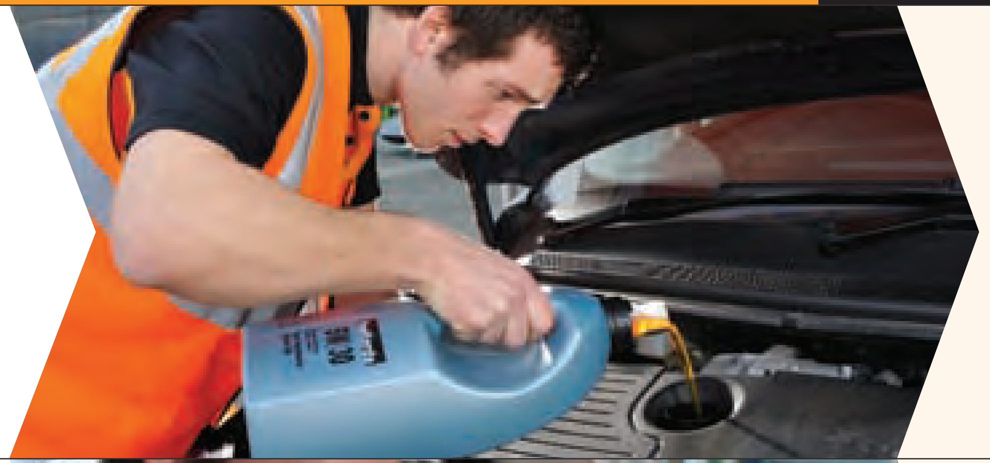
HALFORDS AT A GLANCE

Halfords' management team is focused on delivering additional sales growth and improving operating margins by:

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

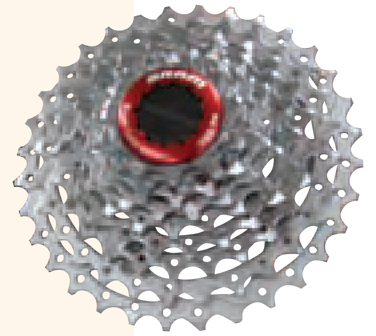
Our Business

HALFORDS CAR MAINTENANCE



HALFORDS CAR ENHANCEMENT

HALFORDS LEISURE



Products

Car Maintenance

The car maintenance category represents the largest market that Halfords participates in, with servicing consumables such as car bulbs, wiper blades, batteries and oils driving our market leading offer with unrivalled range and availability.

It continues to be the resilient backbone of our business given the needs driven nature of the product range combined with our unique fitting service and high level of colleague expertise.

halfords trade

Car Enhancement

Halfords continues to retain its position as market leading retailer for car enhancement products ranging from car cleaning products and in-car accessories through to styling and technology products. Halfords also remains the number one destination retailer for sat nav products including the world's best selling Garmin Nuvi 200. We have also recently launched the UK's first affordable in dash "factory fit" style sat nav through our own brand marque Navsure.

Leisure

The majority of our leisure sales are driven from our cycling category. Once again, Halfords maintains a leading position in this market, selling around one in three cycles in the UK. The *Apollo* brand is firmly established as the UK's biggest cycle brand whilst our *Carrera* own label tops the premium cycle market.

Travel solutions, which includes tents, roof boxes, child seats, roof bars and cycle carriers, continues to deliver strong growth in sales and profitability, with improved in-store displays, new ranges and outstanding customer service underpinned by a store wide training programme engaging over 2,000 store colleagues.

Multi-channel Growth

Halfords.com

Halfords.com continues to show encouraging growth and is our biggest shop window with around 17 million visitors each year. During 2007 our website was ranked the number one leisure site by Hitwise, the leading online competitive intelligence service.

Multi-channel Growth

Customers continue to demand choice in the way they shop and despite the growth in online shopping, many still prefer the in-store experience or a mixture of both. Halfords has responded to this by launching the "Reserve and Collect" service, giving customers the choice of reserving online and collecting in store.

***Ripspeed* Website**

Ripspeed.com is the recently launched online lifestyle and shopping site for the *Ripspeed* brand. It features more than 2,200 interior and exterior styling products, alloy wheels and the latest technology and performance parts as well as the MyRipspeed forum for customers and *Ripspeed* experts to exchange views, tips and show off their cars.

Services

wefit

1.3 million customers experienced Halfords unique "***we***fit" and "***we***repair" services last year, a key point of service difference that sets us apart from our competitors. Customer research backs this up, with 70% of customers who had a product fitted saying that they would be likely to visit Halfords more frequently in the future.

werepair

We have over 850 fully trained cycle mechanics who can offer an extensive menu of servicing and repair for cycling customers, further reinforcing our expert credentials.

"***we***repair" is complemented by our "Bike Care" cycle maintenance plan which saw sales grow significantly last year.

Car Care Services

Halfords "Scratch, Chip and Dent Repair" service continues to offer a real alternative to more expensive bodyshop prices with recent research confirming that 82% of customers were "very satisfied" with the quality of work carried out by our bodyshop trained technicians.

Continuous training

In addition to our trained cycle mechanics, we now have over 2,000 trained child seat fitters, 800 colleagues capable of hardwire technology fitting and more than 2,000 able to advise customers on sat nav "set up and demo" as part of a continuing programme of training and development.

apollo Carrera BIKEHUT SONICHI URBAN escape RIPSPEED NAVSURE SENDAI halfords

“The essence of Halfords’ successful business model lies in our range differentiation and strong defensive characteristics.”

CHAIRMAN’S STATEMENT
RICHARD PYM

I am pleased to report that Halfords has delivered a strong set of results as we continue to build on our consistent and well-executed strategy.

During the financial year we achieved sales growth in all of our product categories. Total sales growth was 7.2%, which generated profit before tax of £90.2m, representing earnings per share of 29.3 pence, up 13.6%.

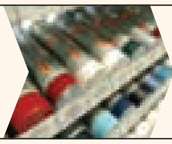
These results, together with the Board’s confidence in the strategy, enable the Board to recommend to shareholders a final dividend of 10.35 pence, which, with the interim dividend of 4.75 pence, takes the total dividend for the year to 15.10 pence, representing growth of 9.0% on last year’s dividend of 13.85 pence.

Our successful business model offers customers a wide range of competitively priced products in each of our areas of focus that we further differentiate from our competitors by service excellence. We have the UK’s largest range of car parts, we are the leading player in the UK cycle market, and we are the UK’s leading provider of in-car technology solutions.

Halfords employs around 10,500 people and the entire Halfords team, from colleagues based in stores throughout the UK, Republic of Ireland and Czech Republic to those in our offices and distribution centres, share a common goal to deliver market leading knowledge of a wide choice of products, and great service to our customers. It is the hard work and dedication of all our colleagues that has generated these strong results.

We have continued to develop our store portfolio. At the financial year end we had a total of 450 stores, including 390 superstores, with the significant majority located in popular retail parks. We are developing our smaller, neighbourhood store format in smaller communities, and we have five stand-alone specialist cycle shops under the *Bikehut* brand. Internationally, we have 17 stores in the Republic of Ireland, and we are growing our presence in Central Europe, with three stores now trading in the Czech Republic and we have plans to open in southern Poland.

halfords **we**



can colour match and mix over 48,000 paint colours

The financial year also saw us successfully introduce replacement IT systems into our stores. This completes a five-year programme during which all of our key business systems have been upgraded from a vintage set of bespoke platforms to a modern, integrated set of leading software packages.

We have incorporated into the Annual Report a more comprehensive Corporate Social Responsibility report than in previous years, and this includes extensive details of our activities to improve our environmental impact at every stage in the supply chain. We have also introduced new products that allow our customers to purchase with environmental consideration in mind. As an example during the year we have introduced a range of car cleaning products under the *Naturals* brand, that are water based and biodegradable, ensuring minimal environmental impact.

During the year, the business partnered its first ever Charity of the Year, the Meningitis Trust. Through a series of charitable events across our stores, awareness of the causes and symptoms of meningitis has been increased for both colleagues and customers, and we have been successful in raising over £100,000. We are also proud to have formed a unique partnership with the Great Britain Cycling Team

“During the year we have introduced a range of car cleaning products under the *Naturals* brand, that are water based and biodegradable, ensuring minimal environmental impact.”

in this important Olympic year, as the first ever commercial sponsor of the entire team.

Our former Chief Executive Ian McLeod resigned earlier in the year to take up a senior retail position in Australia and he left Halfords on 29 February 2008. On behalf of the Board I would like to thank Ian for his contribution to Halfords, and we wish him well in his future career.

Paul McClenaghan, Director of Trading, and Nick Wharton, Finance Director, are acting joint Managing Directors in the interim period, reporting to me. With their senior team they have continued to manage the business very effectively since Ian left and I would like to thank them for their efforts. As regards filling the Chief Executive vacancy, we are making good progress and we will update shareholders when the process is complete.

We are supported by a very capable non-executive team of Nigel Wilson, Keith Harris and Bill Ronald who bring to the business a wide range of experience and who are very committed to the success of Halfords. We have undertaken an annual assessment of the Board’s effectiveness and there were no material issues requiring rectification, and some interesting ideas were generated for further improving the performance of individuals and the Board.

Through share ownership and share incentive schemes, over 2,400 of our colleagues have a personal stake in Halfords. In June 2007 we awarded approximately 3.9 million shares to 2,961 colleagues under our Company Share Option Scheme and over 2,000 colleagues now participate in our annual Sharesave schemes.

The wider economy in the UK is currently undergoing a period of adjustment which is affecting many households and as a result the retail sector of the economy is likely to experience subdued demand. Halfords has many defensive characteristics and the Board is confident in the strength of the Halfords customer proposition and business model. However, we must be cautious on the effects of the wider economic changes now occurring, which the stock market has already reflected in the valuation of retail companies. This period of slower growth in the UK economy is a cyclical event, one of many Halfords has endured over its 100 years, and we look forward with confidence to the next period in our development.

Richard Pym
Chairman

4 June 2008

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"Halfords has a unique retail proposition; it is both first choice for its customers and market leader in each of its three core categories: Car Maintenance, Car Enhancement and Leisure."

BUSINESS REVIEW
NICK WHARTON
PAUL McCLENAGHAN

Nick Wharton

Paul McClenaghan

Halfords has a unique retail proposition; it is both store of first choice for its customers and market leader in each of three core product categories in which it participates. In each category Halfords' differentiation lies in the breadth of our range, innovation and the unique service proposition offered through the knowledge and fitting capability of our store-based colleagues.

Halfords' customer offer covers an unrivalled spectrum of product; from the resilient and defensive characteristics of our needs driven, low average transaction value, car maintenance business through to the growth provided by a resurgent cycling market and the technological drivers within car enhancement.

Operating across a series of disparate markets, characterised by fragmentation of the competition, Halfords' turnover is more than 15 times greater than its nearest direct competitor. This scale advantage, further evidenced by Halfords' national coverage in the UK of 430 stores located mainly on prime out of town retail parks, enables the Group to deliver outstanding value to its customers.

In an environment where consumers are becoming more selective with regard to higher ticket expenditure, the defensiveness of the Halfords business model together with ongoing effective trading strategies has delivered a further year of strong sales growth, with sales 7.2% higher than the previous financial year. Demonstrating the underlying resilience of our business this represents the 20th consecutive year of such growth, with sales growth over the last two decades averaging more than 7% per annum.

halfords **we** 

carried out 1.3 million fitting and repair jobs last year

Halfords continues to make good progress against each of the four elements of its business strategy:

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

and we believe that these financial results demonstrate that our strategy is being translated into improved profitability and shareholder value.

INVESTING IN THE STORE PORTFOLIO

Store Portfolio

Halfords traded at the end of the financial year from a total of 450 stores including 17 in the Republic of Ireland and three in the Czech Republic, after opening 29 stores during the period and closing five stores.

Through the investment in superstores with mezzanine floors and development of the neighbourhood store, we have clearly defined formats for both large and medium sized catchments respectively and we estimate that there is capacity for at least a further 100 Halfords stores across the UK and Republic of Ireland. Our focus on a strong store opening programme, taking advantage of improved availability of retail property, will see a further 15 to 20 new Halfords stores in the UK and Republic of Ireland during the current financial year.

halfords

“The stand-alone *Bikehut* pilot continued and as the UK’s leading cycle retailer, we remain confident that we can transfer our unrivalled capability into this premium sector.”

BUSINESS REVIEW CONTINUED

Superstores remain our preferred format, with a mezzanine floor being included wherever appropriate. Supermezzanine stores allow Halfords to trade from an additional floor level, which is dedicated to our cycling offer, and provides up to 40% extra sales space. This additional space enables optimal range breadth to be introduced to each store and for the full benefit of our *Bikehut*, Technology and Travel sub-shops to be achieved. Of the 29 stores opened during the year, 17 were superstores, of which 13 were of supermezzanine format. At 28 March 2008, through a combination of new store development and conversion of stores within the existing Halfords estate, we had a total of 131 supermezzanine stores trading. While our focus remains on the opening of new stores we will continue with the store development programme to introduce supermezzanine floors to existing stores.

Neighbourhood stores meet the needs of customers located within smaller catchments, such as market towns or urban infill locations. These stores provide a comprehensive Halfords offer, carrying some 6,000 product lines compared to 10,000 within an average superstore, and provide a full range of our differentiating fitting services.

Having developed this format less than two years ago we are now rolling out neighbourhood stores to complement our more traditional superstore format. In this financial year, Halfords opened a further eight neighbourhood stores, and with one store conversion this brought the total number to 24, including our first neighbourhood store within the Republic of Ireland. Early indications from this store, which is located in Longford, support our confidence that there is strong potential for this format in the Republic of Ireland in addition to the potential for at least a further 50 stores across the UK.

Halfords continues to invest in its existing estate to ensure that the store environment is contemporary and benefits from the experience of the supermezzanine programme, particularly regarding effective use of

space and improved product display and adjacencies. 38 space rebalances were completed during the financial year, which has enabled the optimisation of space dedicated to car maintenance, improved the projection of car enhancement to reflect its increasing prominence and provided more space and better visibility for newer categories such as Active Leisure.

During the year we successfully completed the “Inspire” project, resulting in the complete refresh of all Halfords in-store communication, from high level inspirational images and signs, to low level information and promotional messages. Inspire creates a more modern and fresh shopping environment, that has been specifically designed to help customers find what they need quickly, encourage wider purchasing opportunities and, through improved projection of our service and information messages, increase customer awareness of Halfords’ added value proposition.

Consumer research has been overwhelmingly positive, demonstrating that the above objectives are being met and this in-store communications treatment will now be introduced to all stores over the forthcoming year.

Stand-alone *Bikehut*

The stand-alone *Bikehut* pilot continued with the launch of three new stores this year, bringing the total number of *Bikehut* stores to five. Performance remains encouraging with customer and supplier feedback and market research all indicating that our offer has wide appeal to the serious cycling enthusiast and that *Bikehut* has established itself as a credible retailer within the premium sector.

As the UK's leading cycle retailer, we remain confident that we can transfer our unrivalled capability in this area to compete extremely effectively in this market. Our offer is increasingly attracting prestigious cycle brands such as Condor, Pashley, Van Nicholas, Rocky Mountain and Merida that enable us to offer a comprehensive range that covers all cycling disciplines.

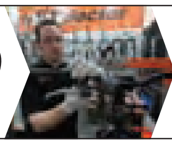
The accessories offer continues to go from strength to strength, with product offers from Shimano, Sram, Cateye, Gore and Endura amongst others. The range is under continual review to ensure it is fresh and competitive, and is supported by a customer order service that covers more than 50,000 products, mainly on a next day delivery basis. The latest aspirational brands to join the portfolio are Animal and Oakley, further enhancing this exciting customer offer.

The in-store workshop, under the Bike Doctor brand, is an essential part of the *Bikehut* proposition and is a significant revenue driver. Our service and repair menu offers both expertise and great value, with all work being carried out by trained cycle mechanics. Each store has rapidly established a reputation for high quality servicing within its market, becoming a destination store for service and repairs and establishing a loyal customer base.

In line with our development model, improvements from the original trial stores have increased sales and reduced investment costs. The store design has been refined to intensify merchandising and aid customer selection. This has allowed us to trade in a smaller store footprint without compromising the shopping experience.

We anticipate trading this format from 10 stores by the end of this year as the pilot is expanded nationally, supported by a dedicated web site. A satisfactory outcome to the evaluation of this pilot, we believe, will provide scope to roll out to at least 50 stores nationwide.

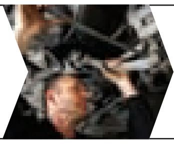
halfords **we**



have over 850 trained cycle mechanics in our stores

“Halfords continues to extend its international brand with five new stores in the Republic of Ireland, three in the Czech Republic and its first Polish store due to open in 2008.”

we offer a fast fit garage service operation in our Czech Republic stores



International

The Halfords brand continues to receive strong acceptance in each of the catchments we enter in the Republic of Ireland. During the financial year we opened a further five stores, each of which has performed strongly, growing the portfolio from its original two trial stores in spring 2005 to its present 17. Above average returns on investment continued to be generated and we remain confident in our ability to further grow our store portfolio. We now anticipate operating 25 superstores, compared to the up to 20 stores envisaged at the time of the last market report, in addition to the opportunity offered through the neighbourhood format.

After a detailed evaluation phase, the continued internationalisation of the Halfords brand saw Halfords open its first three stores in the Czech Republic during 2007, establish a regional office in Prague and complete the recruitment of a local management team with significant retail and buying expertise.

This team is responsible for tailoring the Halfords UK offer to ensure its acceptability to the Central European consumer. Reflecting Continental norms, most significantly, this has involved the development of a fast fit garage operation to augment our retail offer.

This operation enables our differentiating fitting offer to be delivered throughout the year, adds an additional source of revenue and allows Halfords to service the demand for seasonal tyre changes.

Halfords first store opened in Cestlice, southern Prague, in July 2007. This flagship store is in the supermezzanine format, while the second and third stores that opened in Letnany in the north of Prague in November, and in Pilsen during early December, are both single trading floor superstores.

Customer feedback on this new highly differentiated retail proposition to the Czech market has been extremely positive, particularly in regard to our range, pricing and customer service. The financial performance of the trial operation is in line with our internal expectations, with the success of these stores to date, in particular in the key growth areas of technology and cycling, allied to strong performances in workshop and tools, child travel and car accessories providing confidence to accelerate our store opening programme. Plans are now in place to at least double the number of stores in the Czech Republic during the next financial year, and to introduce the concept to Poland.

Similar to other countries in Central Europe the Polish economy is fast growing, with a substantial and

marginally older car parc than Western Europe. The population is approaching 40m and has more than 30 catchments with greater than 100,000 population. Our first Polish store will open in Wroclaw, southern Poland, in 2008.

LEVERAGING THE HALFORDS BRAND

Car maintenance

Our car maintenance business is largely made up of consumable products, including oil, car batteries, bulbs and wiper blades, and represents the largest market in which we participate. Reflecting the needs driven nature of the majority of these purchases together with increasing numbers of cars in the UK and their increased mileage, car maintenance provides a consistent, resilient backbone to our business.

We have continued to increase sales and grow market share through a "back to basics" focus in our stores that successfully counters customers' perception of increasing complexity driven by the number of marque and model variants. Our offer provides unrivalled range and availability of replacement parts (either in store or via special order) that, combined with our unique fitting proposition, product innovation and high levels of colleague expertise ensure that the customer purchases the correct product for their vehicle and need.

On average a Halfords store will stock parts appropriate for over 90% of the cars in the UK, with the remainder available to order, often with a 24-hour turnaround. We work hard to maintain this market leading range authority and during the financial year, mirroring the trend of manufacturers introducing car specific formulations, we have introduced a number of new oils into our own brand portfolio to ensure we have the right oil for every car, every time. Most notably we have added specific oil for BMW, Audi and Volkswagen with further marques under development.

We also work closely with suppliers to bring the latest technology available on higher specification new cars to the aftermarket. During 2007 this included Extreme Brilliance bulbs offering up to 90% brighter vision versus standard headlight bulbs.

Our *Tradecard* offer, which provides a dedicated pricing structure to committed home mechanics and small garages that would traditionally not shop at Halfords, continues to grow encouragingly with 77,000 cardholders at the end of the financial year.

Car enhancement

Halfords' car enhancement range totals some 2,800 SKUs ranging from car cleaning products, core accessories such as tax disc holders and car mats through to styling and technology products. The in-car technology market continues to grow with new and

"Reflecting ongoing manufacturer innovation and the relatively low level of car parc penetration, the satellite navigation market continues to grow year on year and Halfords remain the number one destination retailer for such solutions."

innovative products being introduced to the aftermarket. Halfords' importance as a point of distribution for such new technology helped Halfords retain its position as market leader for car enhancement products during the past year.

The market trend towards enhancing the interior of vehicles rather than the exterior continues. Reflecting this trend, we have re-merchandised our car accessories offer to concentrate it within a single drive aisle rather than fragmented across the store. This development, completed during the second half of the financial year, has enabled our customers to more easily select from our full range of product, increasing conversion and sales.

Car cleaning products are an important element of our car enhancement offer providing a more frequent reason to visit Halfords. Our unrivalled range and breadth of product has been further augmented in the past year by the introduction of an environmentally friendly range of "*Naturals*" products into our car cleaning range and the relaunch of the "*Halfords Advanced*" range that is positioned against premium branded alternatives.

Reflecting ongoing manufacturer innovation and the relatively low level of car parc penetration, the satellite navigation market continues to grow year on year and

Halfords remain the number one destination retailer for such solutions. Halfords' strength in this category has been delivered by ensuring that we are always offering the best range, exclusive products, market leading product knowledge as well as customer reassurance through our unique and free in-car "set up and demo" proposition. Halfords' strength of position in this market place is well demonstrated by our exclusive UK distribution of a number of products across a range of branded manufacturers including LG, Sony and the world's best selling satellite navigation unit during 2007, the Garmin Nuvi 200.

Building on Halfords' strong satellite navigation credentials and its understanding, developed through the collaboration with Autobacs, of the evolution of this market in Japan, the Group has developed and introduced a product innovation to the UK market. Utilising the *Navsure* own brand marque, we have worked with hardware, mapping and software partners to introduce the UK's first affordable in-dash satellite navigation unit. Offering a seven inch motorised touch screen this product offers customers a "factory fit" style satellite navigation experience, fully installed for a fraction of the price offered by a dealership or at any other retailer.

The trend towards digital music continues to progress and Halfords CD Audio solutions offer a substantial range of CD Audio head units that are able to connect to digital music devices, allowing customers to play their digital music through their car speakers.

Leisure

The majority of our leisure sales are driven by sales of cycles and cycle accessories. Once again Halfords maintains a leading position in this market, selling around one in three of the cycles sold in the UK.

This market leading position is achieved through offering the broadest range of cycles and accessories complemented by strong service differentiators. Through the expertise of our *Bikehut* colleagues we are able to provide fitting, build, maintenance and repair services to all customers, differentiating us from more mainstream multiples. We continually invest in colleague capability to maintain this service differential and will, in the forthcoming financial year, train the majority of our *Bikehut* specialists to meet the exemplar standard in this area, Cytech.

Our improving credentials within this market are evidenced by the performance of our own brands, whether targeted at the mainstream, premium or now, through the *Boardman* range, the prestige customer. Our own brand *Apollo* range continues to gain market share and is firmly established as the UK's biggest cycle brand whilst our *Carrera* brand leads the premium cycle market.

The new range of *Boardman* bikes, launched in June 2007 after more than two years of development with Britain's most successful cyclist, Chris Boardman MBE, has performed ahead of expectations with tremendous recognition from the specialist cycling media and new customers visiting Halfords to purchase their *Boardman* bike and related accessories.

The new *Apollo* adult range features class leading design with high quality branded componentry to ensure that the bike not only looks good but also performs. The launch of the *Apollo SE* range at £199 extended *Apollo* presence above the £150 price point for the first time.

A range of 31 *Apollo* children's bikes was launched in September 2007, engineered to comply with European Cycle Safety Standards. These standards are significantly more stringent than the British Standard equivalent and as the first retailer in the UK to ensure that all its own brand cycles achieve this standard we are uniquely positioned to give parents peace of mind and ensure that children gain the best possible cycling experience. In

halfords **we**  **have now opened six stand-alone Bikehut stores**

halfords

conjunction with these improved safety benefits, the range was supported by new in-store merchandising displays featuring “Info Zones” to help parents select the right bike for their child with colour coded layouts guiding customers through the range.

Development of Halfords’ premium cycling sector also continued during 2007. In addition to the introduction of Voodoo branded cycles, an established top end mountain bike brand from the United States, the award winning *Carrera* brand picked up further industry accolades with the range now including a full carbon fibre frame cycle extending the *Carrera* brand reach to £999.

Building upon the success of the *Carrera* adult brand and in response to customer feedback, the *Carrera* brand values of performance, innovation and design were applied for the first time to a range of eight children’s bikes. These have performed ahead of our expectation reinforcing the appeal of the *Carrera* brand.

Despite the disappointing and unseasonal summer weather during 2007, our travel category delivered strong growth in both sales and profitability.

Our most significant development was the introduction of a dedicated sub-shop for this area. This development consolidated the whole category in one location with improved and more logical product adjacencies. Innovative displays promoted new ranges, and through strong new own label packaging and greater point of sale information improved the shopping experience, enhancing conversion and trade up. Advances in product and merchandising were further underpinned by outstanding customer service with a store-wide training campaign involving over 2,000 store colleagues.

halfords **we**

are the UK’s leading retailer for travel and touring products

“The launch of our ‘Reserve & Collect’ service prior to the Christmas period was an immediate success with over 200,000 reservations to date.”

BUSINESS REVIEW CONTINUED

Range development continued with the launch of our exclusive premium *URBAN Escape* camping brand and the new *Halfords Advanced* brand. Each proved successful in improving brand mix and increasing average transaction levels within tents, roof boxes, roof bars and cycle carriers.

Halfords Multi-Channel

The trend towards greater levels of online shopping in the UK was mirrored in Halfords. *Halfords.com* is our biggest shop window with around 17 million visitors to the site each year and experienced encouraging growth, supported by increased visitor numbers and improved conversion.

Despite the growth in the online shopping population, many of our customers still prefer the experience of shopping in stores, where they can take full benefit of our range breadth and service expertise.

We responded to this consumer enthusiasm for multi-channel shopping by launching a “Reserve & Collect” service before the Christmas trading period. With the comprehensive store network at the heart of our multi-channel strategy, Halfords is favourably positioned to provide a highly convenient service to customers. This was proven by the immediate success of Reserve & Collect that has seen over 200,000 reservations to date assisted by communication of the proposition in both press and TV advertising.

Enhancing our online offer and extending our multi-channel offer remains a clear investment priority. Improvements in 2007 included improved onsite search and better product imaging to help customers easily find product before buying on the site or in store and the introduction of more convenient delivery options including the choice of next and named day deliveries. Recognising our intention that the same levels of service experienced in store are delivered to online customers, we have introduced new customer contact systems for customers who call or email us in connection with their orders.

As part of our strategy of growing our online presence and developing targeted sub-brands, we also introduced a new dedicated website, *Ripspeed.com*, targeted at a younger car enhancement customer.

“We have further differentiated our market leading positions by expanding the breadth of services offered to our customers and increasing the penetration of our existing ‘*we*fit’ and ‘*we*repair’ services.”

The current financial year will see further redesign of the core *Halfords.com* site to improve the shopping experience, introduce customer reviews and ratings, more intuitive navigation and expand the content available to customers to support the online research process. We are confident that these improvements will deliver further growth in traffic and conversion.

IMPROVING THE SUPPLY CHAIN

The supply chain

We continue to progress our stated strategy to increase the level of product sourced directly by Halfords without the cost of third party agents. Such a strategy delivers greater influence over manufacturers as well as improving cost prices that can be utilised to enhance profitability either directly or through quality or specification improvements or improved retail prices to increase competitiveness.

Having achieved our initial goal of trebling the sales penetration of products directly sourced from the Far East from 7% in 2004, such sourcing has now become an operational norm for Halfords and we anticipate further increases in penetration in the medium term.

Business systems

During the year we completed a two-year project to implement a new generation of software and hardware in all Halfords stores. The project has transformed the technology in store from a disconnected and complex set of legacy applications to a modern suite of integrated systems, providing powerful new features to support our store colleagues in both customer and business facing activities.

We will more fully exploit the new system during 2008 as store colleagues’ experience with the new system increases and as targeted efficiencies are delivered, greater colleague hours will be invested in customer service. The new system introduced numerous benefits including as examples, the introduction of hand-held terminals for the first time into Halfords stores to increase the efficacy of inventory management and a new colleague scheduling and payment system will allow a greater level of visibility and control on individual store labour planning and spend.

The customer offer will also see improvements. Central to the new system is “product finder”, a system that uses the vehicle registration number to quickly and accurately identify the correct part or accessory for every car and customers will now also be in a position to order any product sold within Halfords from any of our stores.

This project also marks the completion of a five-year and four phase strategy to refresh all of Halfords' core systems. This transformation from a largely bespoke platform to a modern, integrated set of leading software packages from premium software companies such as SAP and IBM leaves us well positioned to take advantage of this new technology.

MARKETING THE HALFORDS SERVICE PROPOSITION

Service

Halfords continues to develop its unique service proposition, ensuring that each core category benefits from a core point of service difference versus the competition, and delivered another strong year of growth in its fitting and repair services. Over 1.3m customers experienced our professional "***we***fit" and "***we***repair" services, an increase of 13% on 2007.

Within our automotive categories the "***we***fit" service spans a wide range of products from car bulbs, wiper blades and batteries to hardwire fitting and set up and demonstration of technology products. The ability of "***we***fit" to drive brand reputation and future loyalty is underlined by research which confirms that 70% of customers who had a product fitted by Halfords indicate a likelihood to visit Halfords more frequently in the future.

The "***we***repair" service is a key part of our *Bikehut* service advantage and spans an extensive bike servicing and repair menu complemented by our Bike Care bike maintenance plan, sales of which grew significantly during the year.

The fitting and repair capability of our store-based colleagues is key to professional delivery of our service offer, and we invest strongly in colleague training through our national training stores network. With support from external professional bodies such as The Institute of the Motor Industry, Cytech and RoSPA, we now have over 750 colleagues capable of hardwire technology fitting, over 2,000 trained to professionally and safely install child seats, over 1,500 trained to deliver satellite navigation in-car "set up and demo" and 800 fully trained bike mechanics.

Our "Scratch, Chip and Dent Repair" service continues to strengthen our foothold in this market. Customers are responding positively to the opportunity to have minor bodywork damage repaired by bodyshop trained technicians at a fraction of bodyshop costs.

Sponsorship

Halfords continues to use a series of sponsorship activities to cement our front of mind status with key customer groups. In addition to our eighth year as a sponsor of the British Touring Car Championships, Halfords has made history by signing the first ever commercial sponsorship deal with British Cycling. Through this relationship the entire Great Britain cycling squad, encompassing road, track, BMX and mountain bike riders, are now sporting the Halfords *Bikehut* brand on their racing kit. Many of the Great Britain cycling team are also members of the newly formed Team Halfords *Bikehut* race team, who exclusively ride the *Boardman Pro* road bike in all events including the Beijing Olympics.

In a further first for the Company, Halfords now sponsors all motoring related programmes on "Dave". The purpose of this sponsorship is to communicate our complete service proposition through 'idents' at the beginning and end of all the motoring programmes on this channel, primarily Top Gear repeats.

halfords **we** reserve & collect ***have taken, to date, more than 200,000 reservations through 'Reserve & Collect***

“We believe that the underlying strength of the Halfords brand, together with the continued, considered execution of our strategy, provides confidence in Halfords’ prospects for its current financial year.”

The sponsorship has proved extremely successful and since the channel was re-branded “Dave” and made available via Freeview, over 25 million viewers have watched these programmes with very good reach amongst both our target audience and our most regular customers.

Summary and Outlook

The 52 week period ended 28 March 2008 has delivered strongly against both our financial and strategic objectives. Financially, we continue to deliver positive like-for-like sales growth, achieving growth across each of our core categories, and through effective trading strategies have maintained each of our gross and operating margins. Earnings per share have been further enhanced via our continued share buy-back programme.

While maintaining our disciplined investment policy, progress continues to be achieved against each of our four strategic goals. During the year we opened 29 stores including, as intended, our first three stores in Central Europe and further *Bikehut* stores to achieve our pilot scale. Our multi-channel offer has been significantly enhanced via the successful introduction of “Reserve and Collect” and the first of our intended dedicated web-sites, *Ripspeed.com*.

We have further differentiated our market leading positions by expanding the breadth of services offered to our customers and increasing the penetration of our existing “***we***fit” and “***we***repair” services.

We are encouraged by these results that further evidence Halfords’ ability to remain resilient in more challenging economic conditions. We remain focused on our strategy and believe that the underlying strength of the Halfords brand, together with the continued, considered execution of our strategy, provides confidence in Halfords’ prospects for its current financial year.

Nick Wharton
Finance Director

Paul McClenaghan
Director of Trading

4 June 2008

halfords

Financial results
Group sales for the 52 weeks to 28 March 2008 were £797.4m (2007: £744.0m), an increase of 7.2% on the comparable period last year and representing a like-for-like sales increase of 4.3%, where like-for-like sales are multi-channel sales and also those from stores that had traded for 12 months or more at the beginning of the financial year being reported.

Gross profit at £402.5m (2007: £376.1m) is 50.5% as a percentage of net sales and compares to last year's figure of 50.6%. The 10 basis points ("bps") dilution in gross profit per cent represents a further improvement in the quantum of dilution, with reported margin dilution in the first half of the year similar to the second half at 10 bps. This improvement in the rate of decline reflects effective trading strategies within each category, the flow-through of Far East sourcing benefits and continued sales growth in higher margin categories.

Operating expenses as a per cent of revenue is 20 bps lower than last year at 37.8% (2007: 38.0%). This performance reflects our intention, measured over the near term, to contain our cost growth in line with the growth in sales after absorbing the investment in multi-channel and pilot operations in each of stand-alone *Bikehut* and Central Europe. This goal has been achieved in this financial year, which has seen continued improvements in store labour productivity and a slowdown in rental inflation more than offsetting costs associated with the introduction of new store-based systems and the increase in administrative expenses driven by the full year costs associated with the Czech Republic pilot.

Net finance costs before exceptional items for the year were £10.8m (2007: £10.0m). The increased charge for the year is attributable to the non-cash costs associated with forward foreign exchange contracts and an increase in the cost of servicing debt as a result of an increase in the weighted average rate of interest, which has been partially offset by an increase in interest income.

Profit before tax was £90.2m compared with £80.9m in the prior year, an increase of 11.5%. After adjusting for the £2.6m exceptional finance costs incurred in the previous financial year, this year-on-year increase becomes 8.0%.

Landlord contributions
Halfords actively manages its store portfolio to maximise value creation through generating cash, making profits and reducing the ongoing rental charge. Landlord contributions from the seven transactions completed during the year totalled £4.5m, in line with that reported last year. While not requiring such planning consent for its customer offer, Halfords has over 220 stores on retail parks that carry A1 consent and Halfords has completed 22 such transactions to date centred on such locations. Ongoing demand for premium edge of town locations, allied to Halfords' destination status, provides further potential from these activities and the Group expects a comparable level of contributions, at approximately £4.5m, in the forthcoming financial 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 £818.6m (2007: £809.6m).

Taxation
The taxation charge on profit for the financial year was £26.2m (2007: £23.5m) resulting in a full year effective tax rate of 29.0% (2007: 29.0%). This tax rate has been driven by the treatment of intercompany loan notes raised at the time of the Group's refinance in 2006. With the reduction, from April 2008, in the rate of Corporation Tax to 28% the underlying tax rate next year is expected to be around 29.5% and this rate reflects the non-deductibility of depreciation charged on capital expenditure in respect of mezzanine floors and other store infrastructure and the closure of the convertible loan note benefit.

Earnings per share
Basic earnings per share ("EPS"), excluding exceptional items, were 29.3 pence (2007: 26.6 pence), a year-on-year increase of 10.2%. Basic EPS was 29.3 pence (2007: 25.8 pence), a year-on-year increase of 13.6%. This level of EPS growth reflects the increase in earnings driven by a strong trading performance and the share buy-back programme.

Capital expenditure
Capital investment in the period totalled £29.5m (2007: £23.9m). The Group continued its focus on adding new selling space through expanding the store portfolio, opening 29 new stores, and closing five stores, growing the portfolio from 426 to 450 stores. This financial commitment underpins our strategy of expanding the Superstore portfolio and developing and rolling out new complementary formats with a further three stand-alone *Bikehut* stores opened during the year, taking the total to five. As noted in last year's report the Group continues to invest significantly in the development of its infrastructure, particularly on the national roll-out of new store systems. This development successfully concludes the Group's ambitious programme to replace all of the core retail, operational and financial systems allowing the business to concentrate its efforts going forward on the realisation of the operational benefits these systems provide.

Cash flow, net debt, and capital structure
The debt facility comprises a £180m five-year term non-amortising loan, falling due for repayment in July 2011, with a £120m revolving credit facility.

Total net debt at 28 March 2008 was £181.7m (2007: £180.0m) and includes £12.3m (2007: £12.4m) in respect of the head office finance lease.

The Group continues to generate strong net cash flows from operations, which were £111.6m to 28 March 2008 (2007: £112.6m), representing 91.2% (2007: 98.4%) of earnings before interest, tax, depreciation and amortisation ("EBITDA") and reflecting in part the timing of Easter included a working capital outflow of £11.7m (2007: £4.5m). The Group continues to invest in inventory to ensure high levels of availability and range breadth, with stock at 28 March 2008 £151.6m (2007: £141.6m). Stock levels remain well managed, with the year-on-year increase of 7.1% generating an improvement in stock turn after the necessary stock investment in new stores.

Dividend and share buy-back
Halfords remains strongly cash generative. The Company is committed to both a progressive dividend policy and continued investment in the growth of the business, both through organic development and other business development opportunities as they might arise.

The Board is recommending a final dividend of 10.35 pence per share (2007: 9.50 pence per share), which, in addition to the interim dividend of 4.75 pence per share, generates a total dividend of 15.10 pence (2007: 13.85 pence), an increase of 9.0%.

Subject to shareholder approval at the Annual General Meeting the final dividend will be paid on 30 July 2008 to shareholders on the register at the close of business on 13 June 2008.

The share buy-back programme continues to progress. During the year, Halfords purchased 9.5m of its own shares at a consideration of £30.3m, an average of 319.6 pence per share, and in the period from June 2006 to 28 March 2008 the Group purchased 18.5m shares for £60.3m, an average of 325.6 pence per share. With the completion of the £50m buy-back programme, announced in June 2006, and in accordance with the Board's intention to maintain an efficient capital structure and retain financial flexibility, the Group has continued to use share buy-back as a flexible tool in balance sheet management. While not setting an absolute target number of shares it is the Group's intention to operate key performance debt ratio indicators, consistent with optimising the balance sheet and enhancing shareholder returns.

On 3 April 2008 the Group announced that it had given an irrevocable instruction to its brokers to continue the buy-back process during the close period up to a maximum of £9.0m.

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 46 to 51 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 objectives 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 and a number of the markets in which Halfords operates may experience price deflation caused by technology development. 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 store and internet-based 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 Nick Wharton (Finance Director) or Paul McClenaghan (Director of Trading) and were unable to employ suitable replacements in a timely manner, its business could be adversely affected.

Our Remuneration Policy outlined on pages 53 and 54 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 and the Corporate Social Responsibility report details the Group's attitudes toward such areas as the environment and ethical trading.

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.

Reliance on foreign manufacturers
Halfords sources a significant proportion of the merchandise it sells in its stores from outside of the UK, either directly or via third-party suppliers. 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, inflation, 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.

Information technology ("IT") systems and infrastructure
In common with most retail businesses, Halfords is reliant on the reliability and suitability of a number of important IT systems where any sustained performance problems, particularly with regard to store or warehouse and distribution systems, could potentially compromise our operational capability for a period of time.

Extensive controls are in place to maintain the integrity of our systems and to ensure that systems changes are implemented in a controlled manner. Halfords key trading systems are hosted within a secure data centre operated by a specialist company remote from our Head Office. These systems are also supported by a number of disaster recovery arrangements including a comprehensive back-up strategy and access to a further data centre elsewhere in the UK in case of a major incident.

(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 risks 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 has a syndicated five-year term facility totalling £300m of 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 an interest rate swap, which mirrors rollover dates and the maturity profile of the term loan that matures on 13 July 2011. As at 28 March 2008, 59% (2007: 58%) of bank debt position carried a fixed rate of interest and the weighted average pre-tax cost of debt was 5.9% (2007: 5.6%).

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 3 April 2009. As at 28 March 2008, £99.3m (2007: £97.3m) of net 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 and the Corporate Default Swap market.

All such counterparties, which constitute the syndicated bank group, have maintained at least an 'A' credit rating since the time of the facility agreement. The Treasury Policy recognises that an exposure to a counterparty arises in relation to investments, derivatives and financial instruments.

Nick Wharton
Finance Director

4 June 2008

Halfords is committed to managing its business in a socially responsible manner. Our corporate social responsibility ("CSR") programme is designed to address the important CSR issues that we face, to facilitate appropriate management behaviour and be aligned with the Group's business strategy. Our aim is to continually improve our management of the social, environmental and economic issues within our control or influence throughout the business and our supply network.

We believe the management of CSR is not only the right thing to do, it also makes good business sense, and we see it as a core business consideration as it gives us strategic, commercial and reputational benefits. We aim to achieve standards of responsible care across a number of key areas, including: customers, trading, health and safety, the environment, employee welfare and the community.

Our customers are more likely to enter our stores because they trust our advice and our offer. They are more likely to buy from us because they trust us to provide products of the highest quality that are safe and easy to use and that have been sourced in an ethical manner ensuring that no community associated with such sourcing has been abused or destroyed, and that the effect of our products on the environment has been minimised as far as possible. Prospective and current employees are more likely to join and stay with us if they feel valued, are treated fairly and equally and feel that their contributions are recognised and rewarded and that they are helped to realise their potential.

The Group is currently reviewing its ongoing CSR policy to ensure it meets the changing nature of the markets and communities in which it operates and that the associated Key Performance Indicators ("KPIs") accurately reflect the Group's success or otherwise in implementing this policy. The policy commitments will be translated into actions using quantifiable objectives and targets. Paul McClenaghan, Director of Trading, takes the lead in ensuring that the policy supports the strategic objectives of the business. The Halfords executive will monitor performance with regard to these objectives and targets via an internal report. It is however, the Board's responsibility to ensure that the Group operates in a responsible manner, and the Board will review the policy and our performance against that policy annually.

CUSTOMERS

Overview

We market high quality products that meet or exceed the requirements of appropriate legislation, international conventions and codes of practice. Where external guidance does not exist, we apply our own exacting standards. With a complex product range of over 10,000 items, we talk with our customers every day to ensure that our range meets their requirements and that they understand how to use our products safely.

The quality of our products is fundamental to the continued growth and success of the Halfords brand. Our aim is to ensure that our product offer exceeds customer expectations in terms of safety, performance and value for money. Through fresh insights and innovation driven by our customer focus we also seek to offer customers new products that are stylish, imaginative and which provide effective solutions.

Our products are manufactured to consistently high standards, meeting our own internal standards and complying with local regulatory standards. We also aim to develop a programme to manage materials used in own-brand products, and to influence, where possible, the same for proprietary products. We will identify products containing ingredients which, whilst not illegal, are designated as chemicals of concern by non-governmental organisations and work with suppliers to develop or substitute these with lower risk alternatives.

Halfords strives to achieve rapid introduction of new and improved products by adopting a disciplined and customer focused approach to product development. We recognise the importance of keeping abreast of new concepts and technologies within our chosen product ranges and we are keen to work with suppliers who continually bring forward innovative and exciting new concepts. For example, in April 2008 we launched the first in-dashboard satellite navigation system for under £400.

Service

We are committed to putting our customers first. Our store managers are accountable for delivering consistently high service in our stores, giving our customers complete peace of mind, fully supported by a dedicated Customer Service team based at our Head Office in Redditch where our customers are able to contact us by phone, email, letter or fax. This year we enhanced our support by increasing our availability to seven days a week.

All contacts into our Customer Service team are treated in the order in which they arrive and each customer's query is logged and allocated to an adviser who will personally see the query through to the end. We aim to respond to all queries within seven days unless further investigation is required, with most telephone queries being resolved the same day. We also use collated feedback data to focus our training and development programmes and further improve the service we provide.

Lifestyle

At a time when the issues surrounding health and obesity have become increasingly important, Halfords, as the largest retailer and advertiser of cycling, actively encourages people to participate in this outdoor activity. We currently stock about 160 different bikes, of which more than 60 are aimed at children between three and eight years of age. We design these bikes with the customer in mind and our children's bikes are specifically designed for the measurements and stature of small children as the relative dimensions of the bike are very different from those of an adult.

Through our Business Services department we continue to market "Cycle 2 Work" schemes, arrangements that allow employers to offer to their employees the use of a bike for work. The scheme offers significant savings, making use of the Government-backed initiative to increase more sustainable means of transport to work. We currently manage 869 schemes (2007: 576) on behalf of employers, allowing their employees the opportunity to embrace a keep-fit lifestyle.

In 2005 we introduced our Halfords branded range of camping and outdoor equipment and in 2006 we complemented these, with the launch of the premium brand *URBAN Escape* range. We aim to treble this range through product innovation and development by the end of summer 2008.

Accessibility

Halfords treats its responsibilities under the Disability Discrimination Act very seriously, in respect of both our customers and colleagues. We have taken various actions in order to help us to fulfil our responsibilities, including training our store colleagues in disability awareness, responding to some of the physical obstacles in our stores and other access issues, and auditing our website for ease of navigation. We have 447 stores in the UK and in the Republic of Ireland in three different formats. Of these, 231 have mezzanine floors and accessibility to these floors is dependent on the age of the stores and whether it has been possible to install lifts. In total, 59% of these stores have lifts, and wherever possible fit-outs will be made in the remaining 41%.

Halfords is a member of the Employers' Forum on Disability, which is a not-for-profit employers' organisation, with over 375 members, who employ approximately 20% of the national workforce. The forum provides self-help, bringing its members together to share best practice on disability. It provides events at both a regional and national level where members meet, share best practice and keep up to date with disability issues. Additionally, members benefit from a dedicated information line to help them understand and manage both the legislation and the best practice approach to disability.

Products and the environment

In developing our products, packaging, procedures and services we continue to make assessments of environmental impacts at appropriate stages, e.g. design, procurement, supply, sale, use and disposal. As our business is strongly influenced by consumer choice we will promote good practice in the provision of environmental communication to customers and colleagues.

We are in the process of developing a full range of environmental friendly car cleaning products, and in January 2008 launched our *Naturals* range which includes: shampoo, polish, and cleaners for alloy wheels, glass, carpets, cloth and leather upholstery and dashboards, bug and tar remover and trim revitaliser. *Naturals* products are water based and do not contain phosphates, solvents or petroleum distillates and will biodegrade to water, CO_2 and mineral salts. *Naturals* contain coconut, corn, potato and wheat. *Naturals* are not tested on animals and do not contain ingredients with animal origins. They are packaged in bottles manufactured from 30% recycled High Density Polyethylene ("HDPE") and 70% virgin HDPE which may cause the outer bottle to vary slightly in colour, but allows recycling at local recycling banks. The label is also fully recyclable and features the recycling logo.

Also under the *Naturals* range we have introduced a range of cleaning cloths manufactured from bamboo which is one of the fastest growing plants in the world. It reaches maximum height in around three months making it truly sustainable and reducing the need for pesticides and fertilisers used to grow similar materials. Bamboo is 100% biodegradable, 100% natural, untreated and free from dyes. It is also more absorbent than cotton and can hold up to 10 times it's own weight in water. It is naturally antibacterial, antifungal and antistatic, characteristics which are retained in its fabric form. Bamboo fibre is not only extremely strong and durable, it is silky soft and comfortable to use. The bamboo we use is not a source of food for pandas and therefore does not impact on their food supply.

From July 2007 all UK Retailers had obligations under the Waste Electrical and Electronic Equipment ("WEEE") Regulations to provide recycling facilities for their customers free of charge. In April 2007, Halfords joined the UK WEEE Distributor Take-back Scheme ("DTS") because we felt that joining was the most responsible decision for the environment; making it easier for our customers to recycle, aiming to increase the overall amounts of waste electrical items recycled, and ensuring a secure route for re-use of materials. Additionally, customers returning any old car batteries to our stores are now offered a £2 voucher to be spent in the store. This promotes recycling and assures the correct disposal of hazardous waste as well as allowing proper recycling of a battery's component parts. Further customer awareness of this recycling route is planned for next year, in preparation for the Hazardous Waste — Special Waste Regulations that are likely to come into force during 2008.

We also offer customers a £20 money-back replacement service for alternators and starter-motors. These are then returned to our distribution centre for refurbishment.

Our stores in Ireland have also implemented the WEEE Regulations, which became law in 2007. This assures in-store like-for-like take back of products, and contributions to the Producer Recycling Fund, to ensure responsible recycling of this electrical waste.

Product quality and safety

We have always treated safety and quality as absolute priorities in the products we sell.

Halfords operates a rigorous product introduction procedure to ensure that all products are safe, legal, fit for purpose and meet the requirements of our exacting technical specifications. We take into account all appropriate British, European and International standards and ensure compliance with all relevant legislation and codes of practice. Our product testing methodologies vary by product type and are primarily driven by the requirement to ensure safety. For example, our roof bars and cycle carriers are subjected to rigorous testing on automotive test tracks, cycle clothing is assessed to ensure that materials give the desired performance (colour fastness, breathability, waterproofness, etc.) and hand tools are analysed to verify materials are sufficiently robust.

Our *Apollo* children's bikes are designed to the new European Standard for bikes (Comité Européen de Normalisation, "CEN") and are subject to very rigorous fatigue testing, particularly the frame, cranks, and pedals. These tests aim to replicate the use that a customer puts a cycle through.

A key element of the new standards is safety, and all bikes are designed or sourced with this in mind. To ensure safe use we demand a minimum content requirement for the owners' manual, which ensures that it is as comprehensive a document for the customer as possible.

Most of our products are subjected to user trials in real life situations, so that we can verify that instructions are correct and easy to understand and, most importantly, that the products actually work.

Halfords is committed to not only supplying safe products, but also to ensuring that they are used safely. As one of the UK's leading retailers of child seats, we have invested in the training of more than 2,000 store colleagues in the demonstration and free fitting of child seats and have recently received accreditation from RoSPA for our in-house training programme. We also run roadshows at Halfords stores across the UK, working with road safety officers to give free advice and fitting services to parents and guardians, and we also promote our own national child seat safety week at all superstores to raise awareness of the issue.

We continuously review concerns reported by our customers and where improvements are identified, we endeavour to instigate speedy product enhancements.

SUPPLY CHAIN

Overview

We place great importance on the selection of our suppliers and, where appropriate, will visit manufacturing sources to verify that effective quality procedures are in place and that supply chain costs are minimised. We are always striving for improvement and we believe it is important that our suppliers are responsive to feedback from our customers and store colleagues. Halfords recognises that the development of close supplier partnerships is essential for the ongoing provision of an innovative and value-for-money product offer.

Suppliers

Halfords Asia has a Sourcing Code of Conduct (“the Code”), which can be viewed on the Company’s website (*halfordscompany.com*). This is sent to potential new suppliers within the Far East, as part of the Supplier Questionnaire, before orders are placed with the supplier. Compliance with the Code is independently audited. The response to the questionnaire is reviewed and, if the supplier does not provide an acceptable alternative assessment report, an audit by an independent auditor such as Bureau Veritas is arranged at the supplier’s expense.

We recognise that this Code must be developed to reflect practical experience and changing circumstances. We will continue to develop and share best practice with our suppliers, other retailers, non-government organisations and Government.

Halfords will only trade with those companies who fully comply with our policy or those taking verifiable steps towards complying with the policy. In the event of any failure to comply, we reserve the right to end the business relationship and cancel outstanding orders. We do, however, recognise that withdrawal of our business in the event of non-compliance may cause severe hardship to those employed. We aim, therefore, to work with our suppliers, to achieve compliance and carefully review progress made before considering severing the relationship.

Following the independent audit of the Code any supplier that receives a score of D or lower is required to issue a corrective action plan. The corrective action plan is reviewed by Halfords Asia Quality Department, and if approved, a date is set for follow-up with the supplier. Depending on the type of non-compliance this follow-up may include a specific factory visit, or be included at the next planned visit. The timescales will, again, depend on the nature of the non-compliance.

In 2007, audits were performed on suppliers providing 77% of our Far East purchases. Of these audits, three required corrective action plans to be formulated due to minor shortcomings in one of health and safety or employment conditions. During 2007, the Group set up a further 45 new suppliers which, in line with our Code of Conduct, will be fully audited a maximum of six months after set-up, with the intention of auditing prior to supply.

The Code of Conduct assessment results and progress on any corrective action plans are issued in a monthly report and reviewed between Halfords Asia and UK Head Office senior management.

Ethical trading

The Code states our policy on legislation, child labour, conditions of employment, wages and benefits, health and safety and environmental policy.

We undertake all reasonable and practical steps, including factory, warehouse and tied accommodation inspections and audits, to ensure that our standards are being implemented throughout the businesses of our suppliers and that local legislation and regulations are complied with. We will assess any instances of non-compliance on a case-by-case basis and will then tailor remedial action appropriately. We will only trade with those who fully comply with this policy or those who are taking verifiable steps towards compliance.

We oppose the exploitation of children and young people and, in addition to national employment laws, we require of our suppliers that children under the age of 14 years, or those below the age for completion of compulsory schooling, must not be employed full-time.

We oppose the exploitation of workers and we will not tolerate forced labour, or labour which involves physical, verbal or psychological harassment, or intimidation of any kind. We will not permit the exploitation of, or discrimination against, any vulnerable group. Workers must have the right to form and join organisations to facilitate freedom of association and collective bargaining and all workers must have written employment details, which must pay due regard to the welfare of individuals. We support fair and reasonable rewards for workers. Wages should reflect local norms and should meet or exceed any legal minimum wage levels. Wages must be paid in cash, or by cheque or bank transfers. Workers must receive full written details of their pay. While local and cultural differences will be observed, workers must not be expected to work in excess of 60 hours per week on a regular basis, including overtime. Any overtime must be voluntary. Workers will be entitled to at least one day off in seven. Individual workers have the right to choose not to take their days off should they so wish.

We require that appropriate health and safety training, including training in fire safety, be provided for all people in all working areas. All activities must be carried out under conditions that have proper and adequate regard for the health and safety of those involved. Management arrangements must be in place to detect, avoid and respond to potential threats to health and safety.

We promote our own business objectives with those in our supply chain to minimise the environmental impact of our operations and also encourage the consideration of social issues in business.

Supply chain transportation

Many of the products delivered into our national distribution centres (“NDCs”) are imported in containers via sea deliveries for onward road transportation, although some are delivered via air freight. We have worked hard during the year to reduce the number of containers transferred from ports via road and in 2007/08 40.7% of all containers delivered were moved by rail to a hub in the Midlands.

The air freighting of products from suppliers is only used in cases of extreme urgency, and in 2008, through improved supply planning and forecasting, volumes shipped in this way reduced from 187,043 kg in 2007 to 67,641 kg in 2008, a reduction of 64%.

EMPLOYEE WELFARE

Overview

Our growth in stores and turnover would not have been possible without the unfailing support and commitment of our 10,500 colleagues employed across stores, distribution centres and Redditch head office. Thus we recognise that our colleagues are our single most valuable asset and we are committed to a fair but robust approach to equal opportunities in all areas of our business, with people gaining promotion on merit. We have high expectations of all colleagues and everyone is required to perform and deliver value. This creates an environment that is both challenging and rewarding, thus enabling colleagues to develop quickly and pursue new opportunities.

We are committed to being seen as an employer of choice within the communities in which we operate, and as well as providing training and development to colleagues, in 2007/08 we were finalists in the National Council for Work Experience Awards for Best Work Experience Provider; Over 250 Employees — long-term placements. We also offer a range of benefits and incentive schemes.

Opportunity and diversity

We recruit, train, promote and retain skilled and motivated people irrespective of sex, age, marital status, disability, sexual orientation, race, religion, ethnicity or nationality. In line with this commitment we also promote a culture of openness and responsibility within our business. The Group has in place specific disciplinary and grievance procedures, and welcomes the reporting of genuine and serious grievances or alleged breaches of policy. No colleague will suffer as a consequence of notifying such alleged breaches in accordance with the Fraud and Whistle-blowing Policy.

In accordance with our core values, we believe that every colleague should be treated with the same respect and dignity and we are committed to providing a working environment that is free from bullying and harassment. We will not tolerate bullying or harassment in the workplace either as a management style or between work colleagues, and will take disciplinary action against any colleague who is proven to have bullied or harassed others.

Development

In order to promote career development, the Group provides all colleagues with access to relevant training and development schemes. With a complex product range of over 10,000 items alongside portfolio reformatting, colleague training and development is seen as crucial to the success of our business. Sales advisers at Halfords need expertise in many product fields and be able to meet a wide variety of customers’ needs. Specialists need to be able provide their ‘specialist’ services and also demonstrate an ability to sell other products.

Training is key to encouraging our store teams to embrace new initiatives that are critical in delivering our targets. The Halfords’ point of difference is excellent product knowledge, fitting capability and enthusiasm of our teams to serve and assist the customer. Good examples of this are in-house certification for all those who successfully completed the training to fit electronic products for our customers in their cars and in 2008 we introduced Cytech training for all our *Boardman* specialists.

In addition, a career pathway has been created, with several development programmes to develop our people internally to maximise their opportunities, examples of which are:

- A Deputy Manager Development programme, enabling us to source and develop store-based deputy managers, thus providing opportunity and incentive for our Sales Advisory teams.
- A Store Manager Development programme to create opportunities for deputy managers to further progress their careers.
- In our offices, Management Development programmes provide a balance between pragmatic business skills and core people skills for junior and senior managers.
- Graduate Development Programme. Graduate trainees follow a structured development programme, which gives them:
  - an all-round appreciation of the business, taking in experience in both stores and head office;
  - an in-depth focus in the areas of buying, supply and marketing; and
  - a variety of off-job workshops and seminars.

These programmes are part of Halfords' continued ambition to develop its own senior managers of the future and are supported by active talent and performance management processes.

Through our talent management process, the senior management teams in Head Office have undergone an extensive, objective review of the performance and capability of their teams. This has resulted in some explicit succession planning, an identification of development needs, and will lead to personal development plans in the coming year. This process will feed participants into the Management Development programmes.

There is a performance management process, whereby performance objectives for the year are agreed and reviewed between line manager and colleague. To support this process we run a series of workshops aimed at ensuring that both line managers and colleagues are fully equipped with all of the skills required to make the process effective.

Incentives
Our range of bonus schemes include, within stores, a sales adviser quarterly bonus scheme and store specialist, manager and deputy manager annual bonus schemes. We also operate office and management annual bonus schemes and there is also a bonus scheme in the distribution centre. Bonus payments are dependent on an achievement of a variety of Group, team and individual measures.

All colleagues are eligible to join, after a qualifying employment period, the Group's money purchase pension scheme where contributions are made jointly from both employer and colleague. Currently, the pension scheme has approximately 1,400 members in the UK and Republic of Ireland. As well as providing retirement benefits, the plan provides colleagues with life assurance.

The Group actively encourages its colleagues to own its shares and more closely align an element of employee reward to business value enhancement. The Halfords Sharesave scheme has operated each year since 2004, open to all colleagues with three months service or more. Colleagues were granted a share option and invited to save between £5 and £250 per month for three years. These savings could then be used to purchase shares at a price of up to 20% discount to the market value at the date of the grant.

The 2004 scheme matured in 2007 and over 1,500 colleagues were able to share in Halfords' success. The average colleague had saved £75 per month since 2004. They received an average of £3,950 in 2007, a tax-free gain of £1,250.

In 2007, all colleagues were, again, invited to participate in the Sharesave scheme; 1,058 colleagues in the UK, Republic of Ireland and Hong Kong chose to participate. Over 2,000 Halfords colleagues currently participate in at least one of these annual schemes.

We also operate a Company Share Option Scheme ("CSOS"). This scheme was first launched in 2004 to all colleagues with at least three years' service in recognition of their hard work and dedication leading up to the Company's flotation. These colleagues had the opportunity to exercise their options in June 2007. A typical colleague, with 750 share options made an average tax-free gain of £1,000.

Awards have also been granted in 2005, 2006 and again in 2007 when they were granted to approximately 640 colleagues to the store manager level and managerial grades in the UK Head Office, Republic of Ireland, Hong Kong and Czech Republic.

We also mirror to our own colleagues the Cycle 2 Work scheme that we provide to other employers (see page 29). The scheme offers significant savings, making use of the Government-backed initiative to increase more sustainable means of transport to work. This means that by sacrificing a proportion of their salary our colleagues can save income tax and National Insurance that would otherwise have been payable. Colleagues can also make use of their 15% discount to make it an outstanding scheme. This scheme was first made available in 2004 and has been relaunched annually. Each year we see approximately 300 colleagues acquire bikes through the scheme at overall discounts that can exceed 50%.

Feedback

Every year we run a colleague engagement survey to measure how successful our engagement improvement action plans have been. All responses are analysed and follow-up action will be taken forward, as necessary. In 2007, the overall engagement score was 63%, which compares favourably with the UK benchmark, which is also 63%. Action planning, at Group and local level is implemented, following detailed analysis of these results, to help drive colleague engagement. The 2008 survey will take place in October and November.

HEALTH AND SAFETY

Overview

Halfords is committed to operating high standards of Health and Safety, designed to minimise the risk of injuries and ill health to employees, contractors, visitors and others who come into contact with the business. The Group believes that Health and Safety is a fundamental ingredient to a successful business and we constantly review our standards for effectiveness, driving through and embedding a Health and Safety culture throughout the organisation. Regular audits are undertaken as part of the Group's improvement strategy to help benchmark against both legal requirements and the Group's procedures.

Risk reduction

Our philosophy is to enable confident proportionate occupational Health and Safety management and actively pursue targeted risk reduction measures.

We are encouraged by the successes from our risk-focused agenda throughout the year:

- A comprehensive site transport safety strategy has been applied and shared with our main haulage partner, waste collection company, third party carriers and direct delivery suppliers.
- Storage and handling at height has been made safer through supply chain initiatives, clearer storage disciplines, improved means of access and additional handholds on bicycle packaging.
- Fire detection, warning and evacuation measures in our older high street stores have been upgraded.
- Evacuation chairs have been retrofitted into super mezzanine stores to provide an additional means for prompt, safe evacuation of persons with limited mobility from the mezzanine area.
- A programme to upgrade water systems in stores with calorifiers and storage tanks was commenced to remove environments where legionella could proliferate.
- A new ***we***fit canopy has been introduced incorporating safe construction and use principles.

Achievements
Our annual injury incident rate for colleagues remains below the industry benchmark.

We have put great emphasis on producing occupational safety documentation information for distribution and retail operational colleagues that is tailored for them to use effectively. Our first priority is for safety procedures to be suitable for the user rather than compliance with the textbook requirements. Over the past twelve months the following actions have been taken:

- The occupational safety and fire monitoring processes were combined into a "one stop" safety review tool.
- Risk specific training guides were issued for stores e.g. for working safely around large goods vehicles and with roll cages.
- A new induction process and DVD were produced for stores with extensive occupational fire and safety coverage.
- Occupational safety elements were integrated into new guides and DVDs and supplier training for store colleagues for ***we***fit activities such as air conditioning checking and recharging, battery and bulb fitting.

Occupational and risk assessment workshops have been held for store and deputy managers, store safety coordinators and DC team leaders. The workshops have all included emphasis on analysis of corporate safety culture and individual safety behaviour to build the confidence to shift behaviour and challenge accepted practices.

We introduced our occupational safety risk management model to our store operational colleagues in the Czech Republic, which their safety consultancy wove into the Czech store safety management procedures.

We have continued to build on our relationships with our lead authority partners. We have liaised closely with our occupational safety lead authority partners at Stoke City Council on our risk reduction strategy. This has assisted us to ensure that our actions and timescales are appropriate. We have a unique tripartite lead authority partnership with Stoke City Council Building Control and North Staffordshire Fire and Rescue Service. This has enabled us to consistently and effectively improve fire safety management.

IN THE ENVIRONMENT

Overview
Our stores, offices, and fleet of delivery vehicles have direct impacts on the environment. We also know that there are indirect impacts caused by the production and use of our products.

Our commitment is to understand and to continually improve the performance and management of our environmental impact throughout the Halfords supply chain.

Good environmental performance demonstrates high standards of corporate responsibility and generates cost saving opportunities. We believe that every individual has an important role to perform in ensuring that environmental standards are properly applied. The Group has in place emergency procedures to minimise the environmental impact of potential incidents.

An Environmental Steering Group has been formed, consisting of senior managers from all operational activities of the business. The Group monitors performance in regard to our objectives, targets and indicators and provides advice and guidance ensuring compliance with relevant environmental legislation.

We aim to create a culture of awareness of the cost and impact of environmental issues across the business, including assessing the environmental impact of capital projects. The Group considers the environmental impact of the products that we sell, taking care to minimise the use of materials that deplete our natural resources, and recognises its responsibility with regards to the use of chemicals in our supply chain. We have developed an energy strategy and this involves evaluating alternative energy sources that we consider to be appropriate to our business needs. We operate a utility reduction programme, the results of which are tracked on a Carbon Trust funded database.

In managing our environmental responsibilities our overall objectives relate to the following key areas:

Natural resources and pollution prevention
We place emphasis on resource use, in order to understand and improve the efficiency of our use of raw materials, energy and water throughout Halfords operations, as well as our products and our packaging. Our goal is to minimise our potential for causing pollution to air, water and land as follows.

Water — To reduce our overall usage of water in the business

Independent assessments of usage have continued to be carried out in our stores, head office and distribution centres. A water specialist is surveying all of our sites to establish if correct charging is taking place, but also to identify leaks and wastage.

A list of sites with no or defective washroom controls has been compiled in 2007, and Aqualogic Hydrocell+ controls have been fitted. This resulted in substantial savings on volumes, totalling 12,000 m^3. This site surveying programme continued into 2008 and an additional 1,226 m^3 was saved.

The annual billed consumption of water for our stores from 1 April 2007 to 28 March 2008 was 83,397 m^3 (2007: 80,451 m^3). When aligned with the increase in the number of stores from 426 to 450 this represents a reduction per store of 2% year on year. This excludes stores where water billing is to the landlord direct.

In order to improve water usage with our head office and distribution centres, we have installed an electronic 'smart' water meter to the sites' water infeed pipe. This will allow accurate monitoring of water usage patterns throughout the day and identify water leaks at an early stage.

Waste management
We aim to prevent waste generation in our activities, including product and packaging design, warehousing, distribution and sale and reuse of materials, and to maximise recovery and recycling of wastes prior to disposal through our management of waste recycling and reduction in the amount of packaging we use in our products.

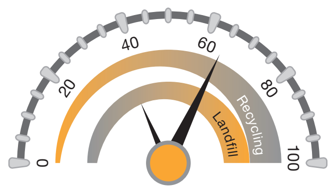
Landfill and recycling — To increase the quantity of cardboard, paper, and plastic waste we recycle in the business and reduce landfill.

Stores and Distribution Centres

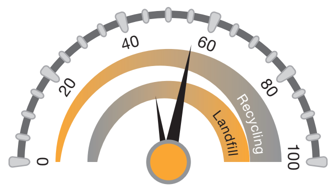
In order to prevent inefficient transportation of waste material the majority of recycling activity is through localised collection from individual stores. Where, however, greater levels of recycling can be achieved cardboard and other materials are backhauled for central recycling at our Redditch distribution centre. This is an addition to recycling 100% of the cardboard produced in both our Redditch-based distribution centres.

As a result of this strategy the volumes of waste material recycled versus that sent to landfill increased from 56.5% to 64.1% during the financial period ended 28 March 2008.

Landfill V Recycling 2008 %



Landfill V Recycling 2007 %



Further improvements in this area are anticipated in 2008 from the small number of stores where recycling is significantly below the Group average and through increased product refurbishment which is subsequently sold from the distribution centre.

Offices

The Group continues to use paper recycling and shredding initiatives and in 2008 all desk waste bins were removed and recycling bins were introduced for the segregation of aluminium cans, plastics and general waste. This has increased the amount of waste recycled by *circa* 60%.

During the last 12 months all A4 paper usage has been transferred to recycled paper, including stationery and high production paper. Paper shredded and recycled under our confidential waste scheme saved 135 Trees (independently verified by Shred-it Ltd). The introduction of highly efficient 'airblade' hand dryers has led to the removal of all paper towels and saved 1,200 kg p.a. of landfill.

Product packaging — To achieve an overall reduction in the weight of packaging used year-on-year

We have a proactive Packaging Cost Reduction Project and Halfords complies with the Producer Responsibility Obligations (Packaging Waste) Regulations 1997, which requires UK companies to recover and recycle packaging against specific targets. Halfords meets this obligation through membership of an industry compliance scheme. The Group has been audited by the Environment Agency to ensure full understanding and compliance with the regulations and we passed this audit successfully.

Greenhouse gases and CO_2 emissions

Greenhouse gases ("GHGs") are so called because they contribute towards the greenhouse effect. There are six main GHGs, mainly emitted by burning fossil fuels. CO_2 accounts for some 80% of UK emissions. The contributing role of man-made GHGs to climate change is accepted by most countries. The most significant contributor to GHG production is the combustion of fossil fuels, and like any business that burns fuel, Halfords in our transport fleet (diesel fuel) and heating (gas) will have direct GHG emissions. Halfords also has indirect GHG emissions incurred in the generation of electricity consumed.

To begin to understand and achieve CO_2 emissions reduction objectives, Halfords has estimated our CO_2 emissions. This is based on DEFRA reporting guidelines for UK business, using conversion factors for energy and fuel usage. For future years the turnover conversion factor will also be used to enable the setting of targets and make year-on-year comparisons.

Fuel and transport fleet efficiency

In line with European Emissions Directives, Euro 4 emission standards for commercial vehicles were introduced in October 2006. This will mean improvements in Carbon Monoxide, Hydrocarbon, Nitrogen Oxide and particulate emissions that cause harm to the environment. All of Halfords fleet complies with Euro 3 emissions standard (introduced in October 2003), and new vehicles delivered from September 2006 conform to the new Euro 4 standards.

To more fully understand our impact on GHG emissions, we have converted the transport fleet fuel usage to total CO_2 emissions. The CO_2 equivalent usage, calculated based on DEFRA reporting guidelines, shows a five per cent improvement year on year.

	FY 2008	FY 2007	FY 2006
Kilometres driven	9,651,775	9,491,422	8,725,957
CO_2 equivalent (kgs)	9,201,762	9,048,884	8,319,108
CO_2kg/revenue (£m)	11,545	12,162	12,216

This improvement has been achieved from a series of activities across the transport operation and will continue into the forthcoming year. Key initiatives include:

- Continued improvements by operating vehicles with more efficient engines and gearboxes, including leasing of additional tractor units, that have higher fuel efficiency, used for moving trailers at our distribution centres.
- Completing a comprehensive driver training programme carried out with our logistics partner, DHL. This emphasises responsible driving and safe vehicle checking, in addition to fuel efficiency and smooth driving and braking.
- Reductions in the number of empty-running vehicles, by collecting (back-hauling) loads from our suppliers following delivery to our stores. This, clearly, reduces the number of vehicles on the roads, but does not directly contribute to Halfords fuel reduction or CO_2 emissions. We currently have 10 suppliers where we back-haul regularly, returning to one or more of our distribution centres.
- Evaluation of Euro 4 and Euro 5 tractor units and rigid vehicles.
- Evaluation of tyre pressures checks, adjustments and idling time for their impact on fleet fuel economy and efficiency.
- Continual evaluation of our fleet requirements with DHL. This will ensure the optimum design of transport to maximise capacity, improve aerodynamics, and will consider increased double-decker options.

All Company essential user cars must be diesels. Where colleagues can choose a Company car as part of their benefits package, CO_2 emissions for the list of cars they can choose from are published and whether those cars are Euro 4 compliant (greener, more tax efficient). The majority of colleagues who can choose a Company car continue to choose diesel.

The Group currently provides approximately 200 colleagues with either a Company car or car allowance and the average emissions per Company car is 160g/km. We aim to continually reduce this, through a variety of measures, including driver training, enforcing an engine efficiency ceiling on car choice and greater control of mileages driven.

Energy

(a) To reduce energy use
We are moving into the second year of a three-year bespoke action plan with the Carbon Trust for implementing energy saving measures both in the Redditch head office and in stores.

The first year of this three-year programme has focused on improving measurement of all utilities so that comparisons can be made between stores, thereby leading to understanding of good and bad practice. In order to achieve this we have installed SMART metering into the majority of our stores. This metering allows us to remotely analyse energy used every half hour in every store. The data is loaded into a central database and provided to suppliers as well as feeding a Web-based reporting tool to enable us to monitor and target store energy consumption.

Sub metering has been installed into head office to enable separate monitoring of facilities in the distribution centre and offices. The data from these meters will feed into the online system to provide information that can be used to understand and reduce energy consumption at head office.

We have completely revised the lighting and heating that we install into new stores. Lighting has moved from inefficient Hi bay lighting and halogen spotlights to modern efficient T5 tubes with electronic ballast linked to dimming systems and occupancy sensors. This has been seen on a sample of stores to produce a 15% reduction in energy used per square metre. We are using ECA approved HVAC and Heat Pump systems in order to heat these stores with the highest efficiency.

Actions planned for the remainder of the programme include:

- Benchmark and implement online energy management and a ‘Monitor and Target’ system.
- Develop and implement energy conscious design guide for store development.
- Engage and empower facilities contractors to participate in the above plan.
- Provide training for store managers.
- Develop and disseminate Energy Use guides for store managers.
- Develop plan to incorporate renewable energy sources in stores.

(b) To reduce CO_2 emissions
For our stores, we are setting a challenging reduction target of 15% to 20% over three years (5% to 7% per year) against the baseline year of 2007. Individual store targets will be set once the scope for savings has been identified and an action plan and a method of monitoring performance agreed store by store. This target represents a potential 7,000 tonnes of CO_2 savings.

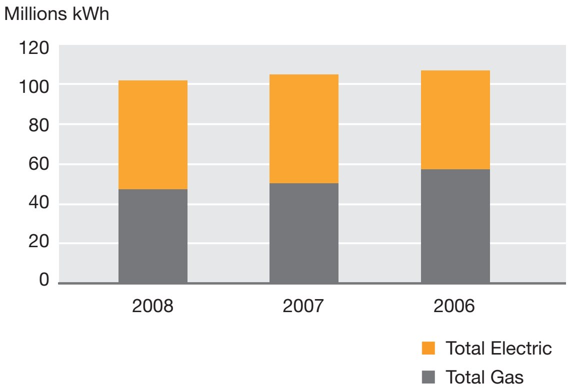
Working in partnership with ENER·G, actions to deliver this reduction include:

- Developing specific action plans for our 50 highest carbon footprint stores.
- Implementing energy management systems and voltage reduction plans.
- Installing improved photo-cell and tamper proof timers for store signage.

This year we have reduced energy consumption by 3.04% in total, which translates to a decrease of 8.14% per square metre. Carbon equivalent of energy used has reduced by 1.68% in total, or 6.85% per square metre. Individual store targets will be set for 2009 once store colleagues have been trained to monitor their progress.

The following graph represents the energy use by our stores and our Redditch office and distribution centre.

Energy Usage



IN THE COMMUNITY

Overview
Our policy on charitable giving is to concentrate on one main charity. However, we are also committed to supporting the communities we serve and individual stores also support local initiatives.

Charity partnerships
In 2007, Halfords centenary year, the business partnered its first ever Charity Of The Year, the Meningitis Trust. Colleagues reached the fundraising target of £100,000 for the Trust with stores selling special pin badges, holding events and individual colleagues undertaking a variety of challenges ranging from running marathons to charity auctions. This has helped to not only raise the profile of the Meningitis Trust but has also highlighted the causes and symptoms of the disease to both colleagues and customers. In 2008 we have chosen to work with the Meningitis Trust for a further 12 months.

We are also supporting the high profile Help For Heroes charity to raise money for wounded servicemen and women returning from Afghanistan and Iraq by becoming the title sponsor of the Halfords Help For Heroes Bike Ride. The ride took place at the end of May 2008, covering all the key First World War and Second World War battle sites in France before returning to London where the sponsored team of 300 were joined by other bike riders for the ride to the Cenotaph.

Sponsorship
We have made history by signing the first ever commercial sponsorship deal with British Cycling. In this Olympic year, the entire GB cycling squad, encompassing road, track, BMX and mountain bike riders, are now sporting the Halfords *Bikehut* brand on their racing kit.

The Halfords *Bikehut* brand received its first national TV exposure on the BBC during the World Championships in March when the British squad won an impressive nine gold medals.

This sponsorship is further evidence of our desire to build credibility amongst premium cycle enthusiasts. Many of the GB cycling team are also members of the newly formed Team Halfords *Bikehut* race team who exclusively ride the *Boardman Pro* road bike, launched in partnership with Halfords in 2007. The sponsorship is being fully supported with marketing and PR plans and in all stores with high profile branding and imagery of the GB team.

We are also entering into our eighth year as a sponsor of the British Touring Car Championships with Team Halfords' two distinctive orange and black Hondas. The Championship runs from March until the end of September and is shown live on ITV and also on the Setanta Sports channel.

Industry Forums
Halfords values opportunities to work closely with trade associations, research institutes, standards authorities, universities and government organisations to improve performance standards and safety. Representatives from the quality department are members of British and International standards technical committees associated with automotive accessories and cycles.

THE BOARD

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 was Group Chief Executive of Alliance & Leicester plc, 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. He is currently a non-executive Director of Old Mutual plc and non-executive Chairman of Brighthouse Group Limited.

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 Chartered Accountant.

With effect from 1 March 2008 Nick has been acting joint Managing Director while maintaining his existing responsibilities.

PAUL McCLENAGHAN
DIRECTOR OF TRADING

Paul was appointed as Director of Trading in 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.

With effect from 1 March 2008 Paul has been acting joint Managing Director while maintaining his existing responsibilities.

KEITH HARRIS
NON-EXECUTIVE DIRECTOR

Keith joined the Board as 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 Benfield plc and Sellar Investments Limited.

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 Deputy Chief Executive and Chief Financial Officer of United Business Media plc. Previous appointments include Group Finance Director and subsequent Managing Director of Viridian Group plc, Group Finance Director at Waste Management International, Head of Corporate Finance and Group Commercial Director at Dixons Group PLC and a consultant at McKinsey & Co.

BILL RONALD
NON-EXECUTIVE DIRECTOR

Bill joined the Board as a non-executive Director in May 2004. He is Chairman of Bexier 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.

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 52 weeks to 28 March 2008.

Principal activities

Halfords Group plc is a public limited company incorporated in England, registered number 04457314, with its registered office at Icknield Street Drive, Washford West, Redditch, Worcestershire, B98 0DE.

The principal activity of the Group is the retailing of auto, leisure and cycling products. The Group operates from 430 stores in the UK, and via overseas branches, 17 stores in the Republic of Ireland and three in the Czech Republic. The principal activity of the Company is that of a holding Company.

Business review

The Chairman's statement on pages 6 to 9, the Business Review on pages 10 to 23 and the Finance Director's report on pages 24 to 27 provide a review of the business and progress against its key performance indicators during the year and descriptions of possible future developments and the principal risks and uncertainties facing the Group, and form part of this Directors' Report.

Corporate governance

The Corporate Governance report on pages 46 to 51 forms part of this Directors' Report.

Performance monitoring

The successful delivery of the Group's strategic objectives is monitored by the Board through Key Performance Indicators ("KPIs") and the periodic review of various aspects of the Group operations. The Board considers the KPIs below as appropriate measures for the delivery of the Group's strategy.

Profits and dividends

The Group's results for the year are set out in the Consolidated Income Statement on page 62.

The profit before tax on ordinary activities was £90.2m (2007: £80.9m) and the profit after tax amounted to £64.0m (2007: £57.4m).

The Directors propose that a final dividend of 10.35p per ordinary share be paid on 30 July 2008 to shareholders whose names are on the register of members at the close of business on 13 June 2008. This payment, together with the interim dividend of 4.75p per ordinary share paid on 7 January 2008, makes a total for the year of 15.10p per ordinary share. The total final dividend payable to shareholders for the year is estimated to be £22.2m. Lloyds TSB Offshore Trust Limited, trustee of the Halfords Employee Share Trust, has waived its entitlement to dividends.

Donations

During the year the Group contributed £30,000 (2007: £40,000) to charities in the UK, including donations to BEN, a charity supporting individuals and families linked to the motor industry and associated trades, and a donation to the Warwickshire Firefighters' Fund following the death of four locally stationed firemen in a fire at Atherstone-on-Stour in November 2007.

During 2007 Halfords partnered its first ever Charity Of The Year, the Meningitis Trust. Colleagues throughout Halfords reached a target of £100,000 for the Trust with stores selling special pin badges, holding events and individual employees undertaking all sorts of challenges ranging from running marathons to holding charity auctions.

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, and as such the Company will be asking for this limited authority to be renewed at the Annual General Meeting to be held on 23 July 2008.

Financial and operational KPIs	Definition
Revenue and like-for-like sales	Growth in revenue measures delivery against our store growth objectives and, through like-for-like revenue, the strength of our customer offer.
Operating profit	Continued growth of operating profits enables the Group to invest in its future and provide a return for shareholders. Targets are set relative to expected market performance.
Number of store openings	The Group is committed to bringing its products offering to as many consumers as possible through the development of its property portfolio. This also contributes to revenue growth.
wefit/***we***repair jobs	Halfords' unique service fitting proposition is key to maintaining our differentiation from more mainstream operators. Fitting and repair jobs completed represents a good measure of awareness and execution of this core proposition.

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 wrongdoing or 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 Group therefore encourages the Group's colleagues to participate in its Sharesave Scheme.

Directors
The following persons were Directors during the 52 weeks to 28 March 2008:

Richard Pym
Ian McLeod (resigned 29 February 2008)
Nick Wharton
Paul McClenaghan (appointed 31 March 2007)
Nigel Wilson
Keith Harris
Bill Ronald

In accordance with the Company's Articles of Association, Nigel Wilson and Keith Harris are retiring by rotation at the forthcoming Annual General Meeting and, being eligible, will offer themselves for re-election at that meeting.

Directors' interests
The Directors' interests in shares and options over shares in the Company are shown in the Directors' Remuneration Report on pages 52 to 59.

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.

Directors' indemnities
Article 141 of the Company's Articles of Association provides that every Director is entitled to be indemnified out of the assets of the Company against all costs and liabilities incurred by him in the execution of his duties or the exercise of his powers or otherwise in connection with his duties, powers or office including any liability incurred by him in defending any proceedings, civil or criminal, which relate to anything done or omitted to have been done or omitted by him as an officer of the Company and in which judgement is given in his favour or in which he is acquitted.

Directors' responsibilities
The statement of Directors' responsibilities in preparing the Annual Report and the Financial Statements can be found on page 60 of the Annual Report.

Disclosure of information to auditors
The Directors of the Group have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any information needed by the Group's Auditors in connection with preparing their report and to establish that the Auditors are aware of that information and so far as the Directors are aware there is no such information of which the Group's Auditors are unaware. The Directors are responsible for maintaining the integrity of financial information which includes the Annual Report, together with other financial statements, presentations and announcements on the Group's website *halfordscompany.com*. Legislation in the UK concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 43 days (2007: 38 days). The Company is a holding company and had no trade creditors at the end of the financial year.

Major Shareholders
At 4 June 2008, the Company's share register of substantial shareholdings showed the following interests in 3% or more of the Company's issued ordinary shares:

Holder	% of issued shares
Newton Investment Management Ltd	9.14
Artemis Investment Management Ltd	6.56
M&G Investment Management Ltd	6.33
F&C Asset Management Plc	4.98
Jupiter Asset Management Ltd (UK)	4.97
JPMorgan Asset Management (UK) Ltd	4.50
Legal & General Investment Management Ltd	4.23
Capital Research Global Investors	4.08
Resolution Asset Management Ltd	3.84
Aberforth Partners LLp	3.42

The Takeover Directive
As at 28 March 2008, the Company's authorised share capital was £2,950,000 divided into 295,000,000 ordinary shares of 1p each nominal value ("ordinary shares"). On 28 March 2008 there were 214,348,661 ordinary shares in issue. These ordinary shares are listed on the London Stock Exchange.

All ordinary shares rank equally with respect to voting rights and the rights to receive dividends. Shares acquired through Company share schemes and plans rank *pari passu* with the shares in issue and have no special rights.

The holders of ordinary shares are entitled to receive the Company's Annual Report and Accounts; to attend and speak at general meetings of the Company; to appoint proxies and to exercise voting rights.

There are no restrictions on transfer or limitations on the holding of any class of shares and no requirements for prior approval of any transfers. None of the shares carry any special rights with regard to control of the Company.

There are no known arrangements under which the financial rights are held by a person other than the holder of the shares and no known agreements on restrictions on share transfers or on voting rights.

The rules about the appointment and replacement of Directors are contained in the Company's Articles of Association. Directors may be appointed by the Company by ordinary resolution or by the Board. A Director appointed by the Board holds office only until the next Annual General Meeting ("AGM"). At each AGM one-third of the Directors (rounded down) will retire by rotation and be eligible for re-election. The Directors to retire will be those who wish to retire and those who have been longest in office since their last appointment or reappointment, with the proviso that all must retire within a three-year period.

Changes to the Articles of Association must be approved by the shareholders in accordance with the legislation in force from time to time.

The Company does not have agreements with any Director or employee that would provide compensation for loss of office or employment resulting from a takeover except that provisions of the Company's share schemes and plan may cause options and awards granted to employees under such schemes and plans to vest on a take over.

The Company has Term and Revolving facilities and under the terms of these credit facilities, the Company is required, in the event of a change of control, to give notification to the facility agent and if so required by the majority lenders the facilities may be cancelled.

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 ("AGM") on 25 July 2007 shareholders approved a special resolution authorising the Company to purchase a maximum of 22,204,640 shares, representing 10% of the Company's issued share capital at 22 June 2007, such authority expiring at the conclusion of the AGM to be held in 2008. The £50m share buy-back programme was completed ahead of schedule on 31 January 2008, and the Directors will continue to optimise the Group's balance sheet to enhance shareholder returns and intend to continue the share buy-back as a flexible tool in balance sheet management. In the 52 weeks to 28 March 2008 9,453,738 shares of 1p each (2007: 9,003,956), representing a nominal value of £94,537 (2007: £90,040), have been purchased and cancelled, representing 4.4% of the Company's issued share capital as at 28 March 2008. The aggregate consideration (including stamp duty) paid for the shares was £30.3m.

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 AGM 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 AGM will be held at the Alveston Manor Hotel, Clopton Bridge, Stratford-upon-Avon, Warwickshire, CV37 7HP, on Wednesday 23 July 2008 at 12.30 pm. The notice of the AGM 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

Alex Henderson
Company Secretary

4 June 2008

The Board is responsible for the Group's system of corporate governance. The Board is committed to high standards of corporate governance not only in the areas of accountability and risk management but also as a positive contribution to business prosperity. The Board believes in conducting the Group's affairs in a fair and transparent manner and in maintaining the highest ethical standards in its business dealings.

Statement of compliance with the Combined Code

The Directors consider that the Group has applied the principles and complied with the provisions of Section 1 of the Combined Code on Corporate Governance for the financial period to 28 March 2008. This report describes how the Group has complied with the Code.

THE BOARD

Board structure

The Board is currently composed of six members, consisting of a non-executive Chairman, three non-executive Directors and two executive Directors. Up to 29 February 2008 the Board had three executive Directors, on which date the Company's Chief Executive Ian McLeod resigned and the remaining executive Directors Nick Wharton and Paul McClenaghan were appointed acting joint Managing Directors.

The three non-executive Directors are considered by the Board to be independent in character and judgement and within the definition of the Combined Code. 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. At the same time in accordance with the Combined Code, separate individuals have been appointed to the positions of Chairman and Chief Executive respectively. Richard Pym and following the resignation of Ian McLeod, Chief Executive Officer, the remaining executive Directors Nick Wharton and Paul McClenaghan were appointed acting joint Managing Directors. Nigel Wilson has been appointed the Senior Independent Director.

The Chairman and the non-executive Directors contribute external expertise and experience in areas of importance to the Group such as marketing, customer and consumer focus, corporate finance, general finance and corporate governance. They also contribute independent challenge and rigour to the Board's deliberations and the Board believes that all of the Directors devote sufficient time and attention as is necessary in order to perform their duties.

Details of the Directors' service contracts, emoluments, the interests of the Directors and their immediate families in the share capital of the Company and options to subscribe for shares in the Company are shown in the Directors' remuneration report on pages 52 to 59. The Directors have wide experience and expertise and their biographical details are given on pages 40 and 41.

Operation 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, employees 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. The Board meets on a regular basis. During the financial period ended 28 March 2008, the Board met formally ten times. Details of the number of Board and Committee

Directors and their interests

The following Directors held office during the financial period ended 28 March 2008:

	Designation	**Appointment/ Reappointment date**
Richard Pym	Chairman	8 June 2007
Ian McLeod	Chief Executive	Resigned 29 February 2008
Nick Wharton	Finance Director	3 February 2007
Paul McClenaghan	Director of Trading	31 March 2007
Nigel Wilson	Senior Independent Director	8 June 2007
Keith Harris	Non-executive Director	8 June 2007
Bill Ronald	Non-executive Director	8 June 2007

meetings and the attendance at those meetings are set out below. 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.

The Chairman is primarily responsible for the workings of the Board and is not involved in day-to-day operational issues. He sets the agendas in consultation with the executive Directors and Company Secretary. Board papers are circulated in advance of each meeting. The Chairman periodically holds meetings with the non-executive Directors without the executive Directors present.

Save for matters reserved for decision by the Board, the executive Directors are 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.

The Chairman, Richard Pym is currently a non-executive Director of Old Mutual plc and Chairman of Brighthouse Group Ltd. The Board is satisfied that these appointments do not conflict with the Chairman's ability to carry out his duties and responsibilities effectively for 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 Group is supportive of executive Directors who wish to take on 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 Group. Executive Directors may retain any fees they receive. Ian McLeod served as a non-executive Director of Fulham Football Club during the period, retaining fees of £25,000 per annum (2007: £25,000).

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. Where a Director has a concern over any unresolved business he is entitled to require the Company Secretary to minute that concern. Should that Director later resign over this issue, the Chairman will bring it to the attention of the Board.

The Group purchases Directors' and officers' liability and indemnity insurance to cover its Directors and officers against the costs of defending themselves in civil proceedings taken against them in that capacity and in respect of damages resulting from the unsuccessful defence of any proceedings.

Meetings

The following table sets out the number of meetings of the Board and its Committees and individual attendances thereat during the financial period to 28 March 2008. In addition to the meetings detailed below, additional Board or Board Committee meetings were held during the year for the consideration of specific business.

	Group Board	Audit	Nomination	Remuneration
Number of meetings held	10	3	5	3
Richard Pym	10	3*	5	3
Ian McLeod[(1)]	9	1*	2	—
Nick Wharton	10	3*	—	1*
Paul McClenaghan	9	—	—	—
Nigel Wilson	10	3	5	3
Keith Harris	9	2	5	3
Bill Ronald	10	3	5	3

(1) Ian McLeod resigned from the Board on 29 February 2008 and had attended all Board and committee meetings up to that date.

* Indicates attendance by invitation.

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Directors' interests in contracts
No Director had a material interest at any time during the year in any contract of significance, other than a service contract (see Directors' Remuneration report on pages 52 to 59), with the Company or any of its subsidiary undertakings.

Remuneration
The Directors' Remuneration report sets out the status of the Company's compliance with the requirements of the Combined Code with regard to remuneration matters and includes a statement on the Company's policy on Directors' and senior managers' remuneration, benefits, share scheme entitlements and pension arrangements. A resolution to approve the Directors' Remuneration report will be proposed at the forthcoming Annual General Meeting ("AGM").

Appointment of Directors
The Company's Articles of Association require Directors appointed by the Board during the year to retire and offer themselves for reappointment at the first AGM following their appointment. Paul McClenaghan, Director of Trading was appointed to the Board on 31 March 2007 and was subsequently reappointed at the AGM on 25 July 2007.

Under article 76 of the Company's Articles of Association there is also a process of retirement by rotation, which ensures that approximately one-third of all Directors (rounded down) are required to retire and seek re-election at each AGM and that no Director serves for more than three years without being proposed for re-election at an AGM. Accordingly, Nigel Wilson and Keith Harris will retire and offer themselves for re-election at this year's AGM.

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 confirms 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 an effective Committee structure to assist in the discharge of its responsibilities. The terms of reference of these Committees comply with the provisions of the Combined Code and are available for inspection on the Company's website, *halfordscompany.com*.

The Company Secretary acts as secretary to the Audit, Nomination and Remuneration 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 Auditors 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 financial period to 28 March 2008, 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 Auditors.

The Audit Committee is responsible for making recommendations to the Board on the appointment of the external Auditors and their remuneration, for reviewing the accounting principles, policies and practices adopted in the preparation of the interim and annual accounts and reviewing the scope and findings of the audit. The Committee assists the Board in achieving its obligations under the Combined Code in areas of risk management and internal control, focusing particularly on compliance with legal requirements, accounting standards and the Listing Rules, and ensures that an effective system of internal financial and non-financial controls is maintained. The ultimate responsibility for reviewing and approving the annual report and accounts remains with the Board.

The Committee will keep under review the external Auditors' independence including any non-audit services that are to be provided by the external Auditors. The Auditors are also requested to confirm their independence at least annually. A formal policy has been developed and implemented, which ensures that the nature of the advice to be provided could not impair the objectivity of the external Auditors' opinion on the Group's financial statements. The policy incorporates a fee limit of £25,000, above which a formal tender process must be undertaken and approval of the Committee obtained prior to any proposed appointment.

The Committee has approved a formal whistle-blowing policy whereby staff may, in confidence, disclose issues of concern about possible malpractice or wrongdoings by any of the Group's businesses or any of its employees without fear of reprisal. This includes arrangements to investigate such matters and for appropriate follow-up action.

In addition to ensuring the integrity of the Group's half-year and full-year financial statements before publication, during the year the Committee:

- Considered the external auditors' report for the period ended 30 March 2007 and 30 September 2007.
- Received regular reports from the internal auditors and agreed the annual audit plan.
- Conducted an internal review of its own effectiveness.
- Reviewed, amended and approved its own Terms of Reference.
- Reviewed and approved the Company's whistle-blowing policy.
- Reported to the Board on matters it had identified as requiring action or improvement.
- Recommended for approval the Group's risk management and internal control policies.
- Approved the external auditors' audit strategy for the period ended 28 March 2008.

Nomination Committee
For the financial period to 28 March 2008 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 Combined Code states that the test of independence is not appropriate in relation to the Chairman after his appointment.

The Committee, which will normally meet not less than twice a year, has responsibility for considering the size, structure and composition of the Board of the Company, retirements and appointments of additional and replacement Directors and making appropriate recommendations so as to maintain an appropriate balance of skills and experience on the Board.

The Nomination Committee has established a process for Board appointments that it considers to be formal, rigorous and transparent. This process includes a review of the skills, experience and knowledge of the existing Directors, to assess which of the potential shortlisted candidates would most benefit the balance of the Board having regard also to the need for succession planning.

During the year, the committee:

- Discussed the resignation of the Company's CEO and approved the search process for a new CEO.
- Discussed the long-term succession planning of the Board.
- Reviewed the size, structure and composition of the Board.
- Reviewed, amended and approved its own Terms of Reference.
- Approved Directors for reappointment at the AGM.
- Considered the composition of the Board's committees.
- Conducted an internal review of its own effectiveness.

The terms of appointment for the non-executive Directors are available for inspection on the Company's website *halfordscompany.com*.

Remuneration Committee
For the financial period to 28 March 2008, 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.

Executive Directors attend Remuneration Committee meetings at the invitation of the Committee Chairman. The Remuneration Committee will normally meet at least twice a year.

The Remuneration Committee has responsibility for making recommendations to the Board on the Company's policy on remuneration of executive Directors, the Company Secretary and senior managers. It also determines, within agreed terms of reference, specific remuneration packages for each of the Chairman, the executive Directors and Company Secretary of the Company and such members of senior management as it is delegated to consider. This includes pension rights; any compensation payments; and the implementation of executive incentive schemes. In accordance with the Committee's terms of reference, no Director may participate in discussions relating to their own terms and conditions of service or remuneration.

Further information on the activities of the Remuneration Committee is set out in the Directors' remuneration report on pages 52 to 59.

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 is invited to comment on the performance of the individual, the Board, or the appropriate Committee and submits replies to the questionnaires, which are then collated. Following a review of these responses by the Board or by the appropriate Committee, 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 discusses with the Chairman the responses to the Chairman's effectiveness questionnaire, whilst the Chairman discusses the non-executive Directors' performance evaluation with the individual non-executive Directors.

Relationships 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 (*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 AGM as a forum to meet with shareholders and to hear their views and answer their questions about the Group and its business. The AGM of the Group is to be held on 23 July 2008 at The Alveston Manor Hotel, Stratford-upon-Avon. Notice of this meeting, together with an explanatory circular describing any items of special business, will be sent out at least 21 days before the date of 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 AGM. 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 100.

Internal control and risk management
The Board has overall responsibility for the system of internal control and for reviewing its effectiveness throughout the Group and ensuring that there is a process in accordance with the guidelines laid down by the Turnbull Report to identify, evaluate and manage any significant risks that may affect the achievement of the Group's strategic objectives.

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 Board and the Audit Committee have reviewed the effectiveness of the Group's systems of internal control and risk management in accordance with the Combined Code for the financial period to 28 March 2008, and up to the date of approving the Annual Report and Accounts.

Deloitte & Touche LLP, as independent adviser, is formally engaged to provide internal audit services, reporting to the Board, via the Audit Committee. Their principal role in fulfilling the Internal Audit function is to review the effectiveness of the controls operating within the business by undertaking an agreed schedule of independent audits each year. The nature and scope of this annual audit programme is determined by the

Audit Committee at the beginning of each calendar year and may be revised from time to time according to changing business circumstances and requirements.

The findings of these risk-based audits are reported initially to executive management and any necessary corrective actions are agreed. Summaries of these reports are presented to, and discussed with, the Audit Committee along with details of progress against action plans as appropriate.

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; and
- 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 ongoing 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 and Logistics, Store Assurance and Internal Audit functions.

Through its normal business operations, the Company is exposed to a number of principal risks and uncertainties which could impact the on the results of the Company. These, together with their mitigating controls, are described in the Finance Directors' report on pages 25 to 27.

By order of the Board

Alex Henderson
Company Secretary

4 June 2008

This report, prepared by the Remuneration Committee ("the Committee") on behalf of the Board, has been prepared pursuant to Schedule 7A of the Companies Act 1985. Part 3 of Schedule 7A requires designated parts of the Remuneration Report to be subject to audit. In preparing this report, consideration has been given to the Listing Rules issued by the Financial Services Authority and to the Combined Code on Corporate Governance 2006.

The report has been approved both by the Remuneration Committee and by the Board, and a resolution to approve the report will be proposed at the Annual General Meeting ("AGM") of the Company on 23 July 2008.

PART A — UNAUDITED INFORMATION

Remuneration Committee

Membership

The Committee comprised the following non-executive Directors during the financial period to 28 March 2008:

Keith Harris (Committee Chairman)
Nigel Wilson
Bill Ronald
Richard Pym

Meetings

During the financial period to 28 March 2008 the Committee met on three occasions. All members attended all meetings. The Executive Directors are invited to attend the Committee's meetings, when appropriate, but are not present when their own remuneration is discussed.

Role

The Board has delegated to the Remuneration Committee responsibility for reviewing and recommending the pay and benefits and contractual arrangements of the Chairman, Executive Directors and the Company Secretary and for overseeing the Group's share schemes.

The Committee recommends and monitors the structure and levels of remuneration for senior managers throughout the Group and ensures that contractual terms on termination, and any payments made, are fair to the individual and the Company, ensuring that failure is not rewarded and that the departing manager's duty to mitigate loss is fully recognised.

It is committed to principles of accountability and transparency to ensure that remuneration arrangements demonstrate a clear link between reward and performance. In its work, the Committee considers fully the principles and provisions of the Combined Code on Corporate Governance and its terms of reference are available on the Group's website, *halfordscompany.com*.

Responsibilities

- To review and recommend the remuneration policy of executive Directors and senior managers.
- Within this policy, agreeing individual remuneration packages for the Chairman, executive Directors and senior managers, including the Company Secretary.
- Reviewing and recommending the terms and conditions to be included in service agreements for executive Directors.
- Reviewing and recommending any employee share-based incentive schemes.
- Reviewing and recommending changes to the rules of employee share-based incentive schemes.
- Reviewing and recommending appropriate performance conditions and targets for the variable element of remuneration packages.

Advisers

During the year the Hay Group have continued to provide advice to the Committee on matters relating to remuneration, including market comparison data and best practice. During the year the Committee has also received advice from the Miles Partnership in connection with the recruitment of a new Chief Executive Officer. Neither of these companies has any other connection with the Group.

The Committee consults with the Chief Executive and, since his resignation, with the acting joint Managing Directors, as appropriate, and is also supported by the Director of Human Resources.

Activities

During the year the Committee:

- Reviewed and recommended the annual bonuses for the Chief Executive, executive Directors and senior managers in respect of 2008.
- Approved proposals and targets to the variable discretionary bonus schemes that affect the Chief Executive, other executive Directors and senior managers in respect of 2009.
- Reviewed the performance conditions of the 2005 and 2006 Long-Term Incentive Plans ("LTIP").
- Granted awards under the LTIP 2007 to a maximum of 12, previously 10, senior managers. Paul McClenaghan was granted an award equivalent of 200% of his salary as a consequence of his appointment as a Director on 31 March 2007.
- Conducted an internal effectiveness review, which concluded that there were no items of concern needing to be considered by the committee.
- Reviewed the remuneration policy for executive Directors and senior managers, including the Company Secretary.

- Carried out 2007 salary reviews for executive Directors and senior managers, including the Company Secretary.
- Approved the maturity of options granted to employees under the Company Share Option Scheme ("CSOS") 2004, having first taken advice on determination of the performance conditions.
- Granted awards under the employee sharesave scheme ("SAYE") 2007, which included all eligible employees in the United Kingdom and Ireland.
- Approved the Directors Remuneration Report for inclusion in the Annual Report & Accounts 2007.
- Reviewed and amended the committees Terms of Reference and in response to the Combined Code, made these available on the Company's website.
- Approved the granting of awards over Halfords Group shares under the CSOS 2007.
- Considered the principles behind the establishment of share option schemes in 2008.
- Considered the appropriate action to be taken following the change in roles/additional responsibilities created by the resignation of the CEO.

REMUNERATION POLICY

Broad 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 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.

Annual salaries continue to be rigorously tested and reviewed and set at levels not normally exceeding median. In relation to bonuses and long-term incentive plans, the policy will continue to be to provide an opportunity for executives to earn total remuneration packages in the upper quartile range, provided that stretching and demanding performance conditions are met.

The Committee has reviewed all aspects of the remuneration policy, including pay benchmarking for the most senior roles and consideration of the performance measures used, and has not made any changes to the remuneration policy.

While committed to the use of equity-based performance-related remuneration as a means of aligning Directors' interests with those of shareholders, the Committee is aware of shareholders' concerns on dilution through the issue of new shares to satisfy such awards. Therefore, when reviewing remuneration arrangements, the Committee takes into account the effects such arrangements may have on dilution.

In determining the remuneration arrangements for executive Directors, the Committee is sensitive to the pay and employment conditions elsewhere in the Group, especially when determining base salary increases.

Shareholding

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.

Remuneration for executive Directors

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. The executive Directors have also benefited from participation in the Company's share option scheme as set out below, on page 58. 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 55.

In arriving at the balance between fixed and variable remuneration it is agreed that the fixed portion will relate only to annual salary, whilst the variable portion includes both annual bonuses and long-term incentive arrangements.

Base salaries
Basic salary for executive Directors takes into account the individual's experience, roles, responsibilities and performance. This is normally reviewed annually unless responsibilities change. 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. For 2008 the salaries of each of the Executive Directors will be £255,000.

Annual bonus
Executive Directors, including the acting joint Managing Directors, may earn up to an additional 100% (120% in the case of the Chief Executive) of their basic salaries as a performance bonus. Bonuses are not pensionable.

Share plans
Halfords Group plc has adopted three 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. In July 2005 the Company adopted the Performance Share Plan ("PSP"), under which annual awards are made to senior executives.

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 earnings per share ("EPS") for the financial year last preceding the third anniversary of the grant date to equal or exceed the percentage growth in Retail Price Index ("RPI") plus an additional percentage determined as appropriate at the time of the grant. These additional percentages were 5% for options granted in 2005 and 3.5% for options granted in 2006 and 2007 respectively.

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

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. Executive Directors may also join the Halfords Sharesave Scheme.

Performance Share Plan
Under the PSP, approved by shareholders at the AGM in 2005, conditional rights to receive shares will be awarded to participants. LTIP Awards have been made in 2005, 2006 and 2007.

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.

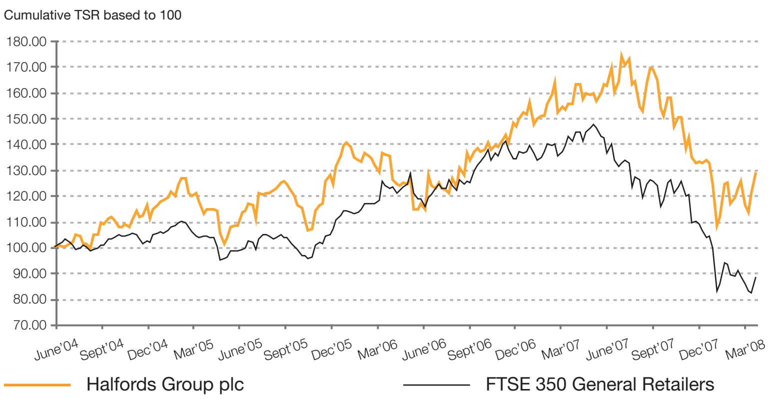
No retesting will be permitted. In order to ensure that the performance targets for the 2007–2010 scheme remain stretching but achievable, the earnings per share performance spread will be RPI plus 4% compound at entry to RPI plus 11% per annum compound at maximum.

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. As disclosed last year, 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.

Details of options granted to executive Directors that are outstanding and further details of the share option schemes, including performance conditions, are set out on page 58.

Performance graph
The following graph shows the TSR performance of the Company since listing in July 2004, against the FTSE 350 General Retailers (which was chosen because it represents a broad equity market index of which the Company is a constituent).

TSR was calculated by reference to the growth in share price, as adjusted for reinvested dividends.



Directors' interests in ordinary shares

The beneficial interests of Directors, serving at the end of the financial period, in shares in Halfords Group plc were:

	Fully paid ordinary shares of 1p each	
	As at 28 March 2008	As at 30 March 2007
Richard Pym	**31,538**	21,538
Nick Wharton	**227,850**	225,000
Paul McClenaghan (appointed 31 March 2007)	**15,000**	—
Nigel Wilson	**20,000**	10,000
Keith Harris	**3,846**	3,846
Bill Ronald	**11,538**	11,538

Directors' share interests include the interests of their spouses, civil partners and infant children, or step children as required by Section 822 of the Companies Act 2006. There were no changes in the beneficial interests of the Directors in the Company's shares between 28 March 2008 and 4 June 2008.

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 57.

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.

Other Directorships

The Group is supportive of executive Directors who wish to take on a non-executive Directorship with a publicly quoted company in order to broaden their experience. They are entitled to retain any fees they may receive.

Service agreements

The Committee periodically reviews the Group's policy on the duration of Directors' service agreements, and the notice periods and termination provisions contained in those agreements. Whilst the Company is aware that companies are strongly encouraged to consider notice periods of less than 12 months, the Committee believes that the current policy whereby notice periods contained in executive Directors' service contracts should be limited to 12 months (other than in exceptional circumstances, such as for the purposes of recruitment) is more in line with the Company's overall remuneration policy that is designed to attract and retain high calibre executives.

	Date of service agreement	**Notice period**
Ian McLeod(1)	29 March 2005	12 months
Nick Wharton(2)	17 May 2004	12 months
Paul McClenaghan(2)	9 May 2005	12 months

(1) Ian McLeod resigned on 29 February 2008 and subject to the service agreement terms no special discretions were applied.

(2) Revised service agreements were not issued on appointment to the Board as the existing agreements contained all required provisions.

The Company may terminate any of the above agreements by giving not less than 12 months notice. In the event of early termination (other than for a reason justifying summary termination in accordance with the terms of the service agreement) the Company may (but is not obliged to) pay to the executive Director, in lieu of notice, a sum equal to the annual value of the executive Director's then salary, benefits, pension contributions and on-target bonus (calculated on a pro rata daily basis) which he would have received during the contractual notice period the sum of which shall be payable in 12 monthly instalments. In such instances the executive Director shall use their best endeavours to secure an alternative source of remuneration, thus mitigating any loss to the Company, via the provision of his services as expediently as possible in the prevailing circumstances and shall provide the Board with evidence of such endeavours upon their reasonable request. If the Director fails to provide such evidence the Board may cease all further payments of compensation. To the extent that the executive Director receives any sums as a result of alternative employment or provision of services while he is receiving such payments from the Company, the payments shall be reduced by the amount of such sums.

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.

The service contracts of executive Directors do not provide for any enhanced payments in the event of a change of control of the Company.

Details of individual Directors' remuneration and share options are set out on pages 56 to 59.

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

None of the non-executive Directors has an employment contract with the Company. However, each has entered into a letter of appointment with the Company confirming their appointment for a period of three years, unless terminated by either party giving the other not less than three months' notice or by the Company on payment of fees in lieu of notice. The appointments are subject to the provisions of the Companies Act 1985 and 2006 and the Company's Articles of Association, in particular the need for periodic re-election. Continuation of an individual non-executive Director's appointment is also contingent on that non-executive Director's satisfactory performance, which will be evaluated annually. 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.

There are no provisions for compensation being payable upon early termination of an appointment of a non-executive Director.

Details of non-executive appointment periods appear below:

	Date of appointment	Date of current reappointment	Expiry date	Unexpired term at the date of this report
Richard Pym	17 May 2004	8 June 2007	7 June 2010	24 months
Nigel Wilson	17 May 2004	8 June 2007	7 June 2010	24 months
Keith Harris	17 May 2004	8 June 2007	7 June 2010	24 months
Bill Ronald	17 May 2004	8 June 2007	7 June 2010	24 months

PART B: AUDITED INFORMATION

The following section provides details of the remuneration, pension and share interests of the Directors for the 52 weeks to 28 March 2008 and has been audited.

Remuneration of Executive Directors
Details of the payments made to executive Directors were as follows:

	52 weeks to 28 March 2008				
	Salary & fees £'000	**Bonuses £'000**	**Benefits £'000**	**Total £'000**	2007 Total £'000
Ian McLeod[(1)]	**399**	**—**	**18**	**417**	679
Nick Wharton	**220**	**130**	**14**	**364**	62
Paul McClenaghan	**220**	**130**	**15**	**365**	—
Nick Carter[(2)]	**—**	**—**	**—**	**—**	206
	839	**260**	**47**	**1,146**	947

(1) Ian McLeod resigned on 29 February 2008 and no additional payments were made.
(2) Nick Carter resigned on 2 February 2007.

Benefits include payments made in relation to private health insurance and the provision of a Company car.

Pension entitlements

Pension contributions to defined contribution money purchase schemes made by the Group during the 52 weeks to 28 March 2008 in respect of executive Directors were as follows:

	52 weeks to 28 March 2008 £'000	52 weeks to 30 March 2007 £'000
Ian McLeod[1]	**58**	56
Nick Wharton	**58**	10
Paul McClenaghan[2]	**33**	—
Nick Carter[3]	**—**	30
	149	96

[1] Ian McLeod resigned on 29 February 2008.
[2] Paul McClenaghan was appointed on 31 March 2007.
[3] Nick Carter resigned on 2 February 2007.

Remuneration of non-executive Directors

The remuneration of the non-executive Directors is determined by the Chairman and executive members of the Board, and the remuneration of the Chairman is determined by the Remuneration Committee. Details of the payments made to non-executive Directors is shown below:

	52 weeks to 28 March 2008			
	Fees £'000	**Committee Chairman's Fees £'000**	**Total £'000**	2007 Total £'000
Richard Pym	**145**[1]	**5**	**150**	125
Nigel Wilson	**55**	**5**	**60**	60
Keith Harris	**40**	**5**	**45**	45
Bill Ronald	**40**	**—**	**40**	40
	280	**15**	**295**	270

[1] Included in Richard Pym's fees is an additional sum of £25,000 to recompense him for additional duties undertaken during the absence of a Chief Executive Officer.

In April 2006 the remuneration of the non-executive Directors was fixed for two years. Following a benchmarking review by Hay Group, in April 2008, the fees for the Chairman and non-executive Directors were increased and fixed for a further two years. The basic fee for the Chairman was increased to £165,000, for the Senior Independent Director it was increased to £60,000 and for non-executive Directors to £45,000. The Chairmen of the Remuneration and the Audit Committees continue to receive an additional £5,000. There will be no additional fee to the Chairman in his role as Chairman of the Nomination Committee.

The Chairman and the other non-executive Directors are not eligible to participate in the Company's bonus arrangements, share option schemes, long-term incentive plans or pension arrangements.

Directors' interests in share options

At the beginning of the year and at 28 March 2008, the following Directors had options to subscribe for shares granted under the terms of the Halfords Company Share Option Scheme ("CSOS") or Halfords Sharesave Scheme ("SAYE"):

	Options as at 30 March 2007	Granted in the period	Exercised in the period	Lapsed in the period	**Options as at 28 March 2008**	Exercise price £	Exercisable from	Exercisable to
Ian McLeod								
2004 CSOS	192,308	—	(176,923)	(15,385)	**—**	2.60	—	—
2005 SAYE	3,086	—	—	(3,086)	**—**	3.07	—	—
Total	195,394	—	(176,923)	(18,471)	**—**	—	—	—
Nick Wharton								
2004 CSOS	125,000	—	(115,000)	(10,000)	**—**	2.60	—	—
2004 SAYE	2,850	—	(2,850)	—	**—**	2.65	—	—
2007 SAYE	—	2,934	—	—	**2,934**	3.22	1 Oct 2010	1 April 2011
Total	127,850	2,934	(117,850)	(10,000)	**2,934**			
Paul McClenaghan								
2006 SAYE	3,106	—	—	—	**3,106**	3.01	1 Sept 2009	1 Mar 2010

Options granted under CSOS 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 5% per year for the 2005 scheme and RPI plus 3.5% for options granted in 2006 and 2007. 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 the RPI plus 10% per year. For increases in excess of 6% but not less than 10%, a proportion of the option on excess of 150% of salary can be exercised. Exercise of an option is subject to continued employment on the exercise date.

The SAYE scheme 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), £3.07 (2005 scheme), £3.01 per share (2006 scheme) and £3.22 per share (2007 scheme) if the option holder completes his saving contract for a period of three years and then not more than six months thereafter.

The unexercised share options held by Ian McLeod lapsed in full on his resignation from the Board on 29 February 2008.

During the period, and subject to the performance criteria, executive Directors participating in the 2004 CSOS were able to exercise up to 92% of their respective awards, the balance of the awards lapsing as the performance criteria was not met in full.

The table below shows gains made by individual Directors from the exercise of share options during 2008. The gains are calculated as at the exercise date, although the shares may have been retained.

	2008 £'000	2007 £'000
2004 CSOS		
Ian McLeod	**264**	—
Nick Wharton	**171**	—
2004 SAYE		
Nick Wharton	**4**	—
Total gains on share options	**439**	—

Long-Term Incentive Plan
The following table shows the executive Directors' interests in shares awarded under the long-term incentive plan.

These figures represent the maximum potential award.

	Award date	Mid-market price on date of awards £	Awards held 30 March 2007	Awarded during the period	Lapsed during the period	**Awards held 28 March 2008**	Perform-ance period 3 years to
Ian McLeod	4 August 2005	3.07	100,977	—	(100,977)	**—**	—
	11 July 2006	3.01	124,584	—	(124,584)	**—**	—
	12 July 2007	4.02	—	105,721	(105,721)	**—**	—
Nick Wharton	4 August 2005	3.07	47,321	—	—	**47,321**	1 April 2008
	11 July 2006	3.01	50,000	—	—	**50,000**	1 April 2009
	12 July 2007	4.02	—	54,726	—	**54,726**	1 April 2010
Paul McClenaghan	4 August 2005	3.07	55,375	—	—	**55,375**	1 April 2008
	11 July 2006	3.01	60,465	—	—	**60,465**	1 April 2009
	12 July 2007	4.02	—	109,452	—	**109,452**	1 April 2010

Vesting of awards is subject to the fulfilment of two performance conditions, 50% of the award is subject to the fulfilment of a TSR-based performance condition measured over a three-year period against appropriate comparators. Relative TSR performance will be measured against a FTSE 350 general retailer comparator group.

The vesting of the remaining 50% of the award will be subject to the minimum requirement that Halfords Group's EPS performance spread will be RPI plus 4% compound at entry to RPI plus 11% per annum compound at maximum. After measurement of the performance conditions 37.5% of the total awards made on 4 August 2005 will vest in August 2008.

The Register of Interests, which is open to inspection, contains full details of Directors' shareholdings and options. No options have expired unexercised during the financial year to 28 March 2008 and there were no changes in the options held by the Directors between 28 March 2008 and 4 June 2008.

On 28 March 2008 the market price of ordinary shares of Halfords Group plc was 293.75p and the range during the financial year was 243.00p to 411.75p. For details of the grant dates of options see note 20 on pages 89 to 92.

Keith Harris
Chairman of the Remuneration Committee

4 June 2008

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND FINANCIAL STATEMENTS

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the Company financial statements and the Directors' Remuneration Report in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The Group and Company financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the Group financial statements comply with IFRSs as adopted by the European Union, and with regard to the Company financial statements that applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the Group and Company financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the Group financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation and the Company financial statements and the Directors' Remuneration Report comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

By order of the Board

Alex Henderson
Company Secretary

4 June 2008

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF HALFORDS GROUP PLC ("the Group")

We have audited the Group financial statements of Halfords Group plc for the 52 weeks to 28 March 2008 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 28 March 2008 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 (IFRSs) 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 Chairman's Statement, the Business Review and the Finance Director's Report that is cross-referred 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 Combined Code 2006 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 Financial and Operational highlights, the Chairman's Statement, the Business Review, the Finance Director's Report, the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Corporate Governance Statement, the Corporate Social Responsibility Report and the Five Year Record. 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 28 March 2008 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
4 June 2008

CONSOLIDATED INCOME STATEMENT

For the period	Notes	52 weeks to 28 March 2008 £m	52 weeks to 30 March 2007 £m
Revenue		**797.4**	744.0
Cost of sales		**(394.9)**	(367.9)
Gross profit		**402.5**	376.1
Operating expenses	2	**(301.5)**	(282.6)
Operating profit	3	**101.0**	93.5
Finance costs	5	**(13.5)**	(14.0)
Finance income	5	**2.7**	1.4
Profit before tax		**90.2**	80.9
Taxation	6	**(26.2)**	(23.5)
Profit attributable to equity shareholders		**64.0**	57.4
Earnings per share			
Basic	8	**29.3p**	25.8p
Diluted	8	**29.3p**	25.6p

All results relate to continuing operations of the Group.

CONSOLIDATED BALANCE SHEET

	Notes	28 March 2008 £m	30 March 2007 £m
Assets			
Non-current assets			
Goodwill	9	**253.1**	253.1
Other intangible assets	9	**3.7**	4.7
Property, plant and equipment	10	**116.2**	107.5
Derivative financial instruments	18	**—**	1.3
		373.0	366.6
Current assets			
Inventories	11	**151.6**	141.6
Trade and other receivables	12	**41.6**	32.6
Derivative financial instruments	18	**1.9**	—
Cash and cash equivalents	13	**10.0**	24.8
		205.1	199.0
Total assets		**578.1**	565.6
Liabilities			
Current liabilities			
Borrowings	15	**(0.2)**	(13.3)
Derivative financial instruments	18	**(0.3)**	(2.3)
Trade and other payables	14	**(121.3)**	(113.5)
Current tax liabilities		**(12.3)**	(13.4)
Provisions	16	**(2.0)**	(1.6)
		(136.1)	(144.1)
Net current assets		**69.0**	54.9
Non-current liabilities			
Borrowings	15	**(191.5)**	(191.5)
Derivative financial instruments	18	**—**	(0.1)
Deferred tax liabilities	17	**(1.0)**	(0.9)
Accruals and deferred income — lease incentives		**(27.8)**	(25.9)
		(220.3)	(218.4)
Total liabilities		**(356.4)**	(362.5)
Net assets		**221.7**	203.1
Shareholders' equity			
Share capital	19	**2.1**	2.2
Share premium account		**145.6**	133.2
Capital redemption reserve		**0.2**	0.1
Retained earnings		**73.8**	67.6
Total equity		**221.7**	203.1

The notes on pages 73 to 92 are an integral part of these consolidated financial statements.

The financial statements on pages 62 to 92 were approved by the Board of Directors on 4 June 2008 and were signed on its behalf by:

Nick Wharton
Finance Director

Paul McClenaghan
Director of Trading

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 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:						
Cost of sales	—	—	—	1.2	—	**1.2**
Finance costs	—	—	—	1.1	—	**1.1**
Employee share options	—	—	—	—	2.1	**2.1**
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**
Profit for the period	—	—	—	—	64.0	**64.0**
Shares issued	—	12.4	—	—	—	**12.4**
Purchase of own shares — share buy-back	(0.1)	—	0.1	—	(30.3)	**(30.3)**
Purchase of shares for Employee Trust	—	—	—	—	(0.6)	**(0.6)**
Cash flow hedges:						
Fair value losses in the period	—	—	—	(1.2)	—	**(1.2)**
Transfers to inventory	—	—	—	3.2	—	**3.2**
Transfers to net profit:						
Cost of sales	—	—	—	0.2	—	**0.2**
Finance costs	—	—	—	1.2	—	**1.2**
Employee share options	—	—	—	—	1.0	**1.0**
Tax on employee share options	—	—	—	—	0.1	**0.1**
Dividends	—	—	—	—	(31.4)	**(31.4)**
Balance at 28 March 2008	**2.1**	**145.6**	**0.2**	**2.8**	**71.0**	**221.7**

CONSOLIDATED CASH FLOW STATEMENT

	Notes	52 weeks to 28 March 2008 £m	52 weeks to 30 March 2007 £m
Cash flows from operating activities			
Cash generated from operations	I	**111.6**	112.6
Finance income received		**2.9**	1.0
Finance costs paid		**(12.3)**	(9.3)
Taxation paid		**(27.1)**	(25.4)
Net cash generated from operating activities		**75.1**	78.9
Cash flows from investing activities			
Purchase of intangible assets		**(1.7)**	(0.7)
Purchase of property, plant and equipment		**(25.0)**	(23.2)
Net cash used in investing activities		**(26.7)**	(23.9)
Cash flows from financing activities			
Net proceeds from issue of ordinary share capital		**12.4**	—
Purchase of own shares		**(30.9)**	(30.0)
Repayment of bank borrowings		**—**	(144.0)
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		**(31.4)**	(29.5)
Net cash used in financing activities		**(50.2)**	(24.8)
Net (decrease)/increase in cash, cash equivalents and bank overdrafts	II	**(1.8)**	30.2
Cash, cash equivalents and bank overdrafts at the beginning of the period		**11.8**	(18.4)
Cash, cash equivalents and bank overdrafts at the end of the period	II	**10.0**	11.8

I. Cash generated from operations
For the period

	52 weeks to 28 March 2008 £m	52 weeks to 30 March 2007 £m
Operating profit	**101.0**	93.5
Depreciation — property, plant and equipment	**19.2**	19.2
Amortisation — intangible assets	**2.2**	1.7
Loss on sale of property, plant and equipment	**0.4**	0.2
Share option scheme charges	**1.0**	2.1
Fair value (gain)/loss on derivative financial instruments	**(0.5)**	0.4
Increase in inventories	**(10.0)**	(14.4)
Increase in trade and other receivables	**(9.2)**	(2.8)
Increase in payables	**7.1**	12.3
Increase in provisions	**0.4**	0.4
	111.6	112.6

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

	At 30 March 2007 £m	Cash flow £m	Other non-cash changes £m	**At 28 March 2008 £m**
Cash in hand and at bank	24.8	(14.8)	—	**10.0**
Bank overdraft	(13.0)	13.0	—	**—**
	11.8	(1.8)	—	**10.0**
Debt due within one year	—	—	—	**—**
Debt due after one year	(179.1)	—	(0.2)	**(179.3)**
Total net debt excluding finance leases	(167.3)	(1.8)	(0.2)	**(169.3)**
Finance leases due within one year	(0.3)	0.3	(0.2)	**(0.2)**
Finance lease due after one year	(12.4)	—	0.2	**(12.2)**
Total finance leases	(12.7)	0.3	—	**(12.4)**
Total net debt	(180.0)	(1.5)	(0.2)	**(181.7)**

Non-cash changes relate to finance costs of £0.2m in relation to the amortisation of capitalised debt issue costs and changes in classification between amounts due within and after one year.

ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements of Halfords Group plc ("the Company") and its subsidiary undertakings (together "the Group") are prepared under the historical cost convention, except where International Financial Reporting Standards ("IFRSs") require an alternative treatment. The principal variations relate to financial instruments (IAS39 "Financial instruments: recognition and measurement") and share-based payments (IFRS 2 "Share-based payment").

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

The accounts of the Group 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 28 March 2008, whilst the comparative period covered the 52 weeks to 30 March 2007.

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.

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.

Intercompany 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 28 March 2008 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.

Income from overseas operations will be disclosed as separate business segments when their activities become material to the Group.

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.

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 values are determined by use of an appropriate 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

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 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.

The Group took the exemption available under IFRS 1 “First time adoption of International Financial Reporting Standards” for business combinations occurring before 3 April 2004. The carrying value of goodwill at 2 April 2004 under UK GAAP was deemed to be cost at 3 April 2004.

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 three to five years depending on the estimated useful economic life.

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 and measured at amortised cost.

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 remeasured at their fair value.

The Group uses the derivatives to hedge highly probable forecast transactions and therefore the instruments are designated as cash flow hedges.

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.

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.

The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than twelve months and as a current asset or liability, if the remaining maturity of the hedged item is less than twelve months.

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.

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. Commitment fees on borrowings not drawn down are expensed in the period in which they are incurred.

Finance income and costs
Interest receivable/payable is credited/charged to the income statement using an effective interest method.

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 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 rental 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. The benefit of incentives from lessors is recognised on a straight-line basis over the term of the lease.

Landlord contributions

Contributions received from landlords in respect of the surrender of all or part of units previously occupied by the Group, that do not represent an incentive for future rental commitments, are recognised in the income statement on the exchange of contracts where there are no further substantial acts to complete. 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

Employees 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 judgement 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 based on whether current or future events and circumstances suggest that their recoverable value may be less than their carrying value. 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 impairment review 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.

NEW ACCOUNTING STANDARDS

The following standards, amendments and interpretations became effective in the 52 weeks to 28 March 2008:

IFRS 7 "Financial instruments: disclosures" and the complementary amendment to IAS 1 "Presentation of financial statements — capital disclosures", introduces new disclosure requirements relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments. This standard has been adopted and adds to the Group's previous disclosures relating to financial instruments.

IFRIC 8, "Scope of IFRS 2" clarifies that the accounting standard IFRS 2 applies to arrangements where an entity makes share based payments for apparently nil or inadequate consideration. This standard does not have any impact on the Group's financial statements.

IFRIC 10 "Interim financial reporting and impairment" prohibits the reversal of impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost. This standard does not have any impact on the Group's financial statements.

Interpretations effective in the 52 weeks to 28 March 2008 but not relevant to the Group's operations:

The following interpretations to published standards are mandatory for adoption in the year ended 28 March 2008 but they are not relevant to the Group's operations:

— IFRIC 7 "Applying the restatement approach under IAS 29, Financial reporting in hyper-inflationary economies"; and
— IFRIC 9 "Re-assessment of embedded derivatives".

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group.

The following standards, amendments and interpretations to existing standards have been published but are not effective for the periods presented and the Group has chosen not to early adopt:

IFRS 8 "Operating segments" (effective from 1 January 2009) — This standard replaces IAS 14 "Segment reporting" and aligns the segment information on the same basis as that used for internal reporting purposes. The expected impact is still being assessed in detail by management. As goodwill is allocated to groups of cash-generating units based on segment level, the new standard may result in a reallocation of goodwill to any new segments. Management does not anticipate that this will result in any material impairment to the goodwill balance.

Revised IAS 1 "Presentation of financial statements" (effective for annual periods beginning on or after 1 January 2009) — The new standard requires "non-owner changes in equity" to be presented separately from owner changes in equity. The revised IAS 1 also states that entities making restatements or reclassifications of comparative information will be required to present a restated balance sheet at the beginning of the comparative period in addition to the current requirements. These revised presentation and disclosure requirements are not anticipated to have an impact on the Group's reported results.

The following standards, amendments to standards and interpretations have been published, are relevant to the Group, but are not expected to have a material impact on the Group's reported results or financial statements:

— IAS 23 (Amendment) "Borrowing costs".
— Amendment to IFRS 2 "Share-based payments".
— Amendment to IFRS 3 "Business combinations".
— Amendment to IAS 27 "Consolidated and separate financial statements".
— IFRIC 11 "IFRS 2 — Group and treasury share transactions".

The following interpretations to existing standards have been published but are not relevant to the Group's operations:
— IFRIC 12 "Service concession arrangements".
— IFRIC 13 "Customer loyalty programmes".
— IFRIC 14 "IAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction".

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 28 March 2008 £m	52 weeks to 30 March 2007 £m
Selling and distribution costs	**256.7**	240.1
Administrative expenses	**44.8**	42.5
	301.5	282.6

3. Operating profit

For the period

	52 weeks to 28 March 2008 £m	52 weeks to 30 March 2007 £m
Operating profit is arrived at after charging/(crediting) the following expenses/(incomes) as categorised by nature:		
Operating lease rentals:		
— plant and machinery	**0.8**	1.0
— property rents	**74.8**	70.9
— rentals receivable under operating leases	**(8.2)**	(9.8)
Landlord contributions	**(4.5)**	(4.5)
Loss on disposal of property, plant and equipment	**0.4**	0.2
Amortisation of intangible assets	**2.2**	1.7
Depreciation of:		
— owned property, plant and equipment	**18.5**	18.6
— assets held under finance leases	**0.7**	0.6
Trade receivables impairment	**0.1**	0.2
Staff costs (see note 4)	**116.5**	109.8
Cost of inventories consumed in cost of sales	**391.1**	364.1

The total fees payable by the Group to PricewaterhouseCoopers LLP and their associates during the period was £0.3m (2006: £0.5m) in respect of the services detailed below:

For the period	**52 weeks to 28 March 2008 £'000**	52 weeks to 30 March 2007 £'000
Fees payable for the audit of the Company's accounts	**33**	28
Fees payable to PricewaterhouseCoopers LLP and their associates for other services:		
The audit of the Company's subsidiaries, pursuant to legislation	**125**	119
Other services supplied pursuant to such legislation	**23**	21
Other services relating to taxation	**95**	263
Fees in respect of the audit of Halfords Pension Plan	**20**	20
All other services	**19**	95
	315	546

4. Staff costs

For the period	**52 weeks to 28 March 2008 £m**	52 weeks to 30 March 2007 £m
The aggregated remuneration of all employees including Directors comprised:		
Wages and salaries	**104.6**	97.5
Social security costs	**7.7**	7.1
Share-based payment charge (note 20)	**1.0**	2.1
Other pension costs (note 22)	**3.2**	3.1
	116.5	109.8

	Number	Number
Average number of persons employed by the Group during the period:		
Stores	**9,676**	9,637
Central warehousing	**197**	205
Head office	**544**	483
	10,417	10,325

Full details of Directors' remuneration and interests are set out in the Directors' Remuneration Report on pages 52 to 59 which form part of these financial statements.

Key management compensation

For the period	**52 weeks to 28 March 2008 £m**	52 weeks to 30 March 2007 £m
Salaries and short-term benefits	**2.0**	2.2
Social security costs	**0.3**	0.3
Pensions	**0.2**	0.2
Share-based payment charge	**0.3**	0.5
	2.8	3.2

Key management compensation includes the emoluments of the Board of Directors and the emoluments of the Halfords Limited Management Board.

5. **Net finance costs**

For the period	**52 weeks to 28 March 2008 £m**	52 weeks to 30 March 2007 £m
Finance costs:		
Bank borrowings	**(10.9)**	(10.0)
Amortisation of issue costs on loans	**(0.2)**	(0.3)
Commitment and guarantee fees	**(0.2)**	(0.2)
Costs of forward foreign exchange contracts	**(1.2)**	—
Interest payable on finance leases	**(0.8)**	(0.9)
Interest payable on rent reviews	**(0.2)**	—
Finance costs before exceptional finance costs	**(13.5)**	(11.4)
Exceptional finance costs:		
Accelerated amortisation of issue costs on loans[1]	**—**	(1.5)
Swap close out costs[2]	**—**	(1.1)
	—	(2.6)
Finance costs	**(13.5)**	(14.0)
Finance income: Bank and similar interest	**2.7**	1.4
Net finance costs	**(10.8)**	(12.6)

[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 its existing interest rate swap at a cost of £1.1m. On the same date, the interest on the £180m term loan was fixed for a three-month period. On 29 December 2006, 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 28 March 2008 £m**	52 weeks to 30 March 2007 £m
Current taxation		
UK corporation tax charge for the period	**27.4**	26.1
Adjustment in respect of prior periods	**(0.5)**	(0.4)
	26.9	25.7
Deferred taxation		
Origination and reversal of timing differences	**(0.6)**	(1.9)
Adjustment in respect of prior periods	**(0.1)**	(0.3)
	(0.7)	(2.2)
Total tax charge for the period	**26.2**	23.5

In addition to the above, a £0.9m (2007: £nil) current tax credit and a £0.8m (2007: £0.4m) deferred tax debit (2007: credit) is recognised in reserves in relation to employee share options.

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

For the period	**52 weeks to 28 March 2008 £m**	52 weeks to 30 March 2007 £m
Profit before tax	**90.2**	80.9
UK corporation tax at standard rate of 30% (2007: 30%)	**27.1**	24.3
Factors affecting the charge for the period:		
Depreciation on expenditure not eligible for tax relief	**0.9**	0.7
Employee share options	**0.2**	—
Impact of intra-Group financing	**(1.8)**	(1.4)
Other disallowable expenses	**0.5**	0.6
Change in deferred tax rate to 28%	**(0.1)**	—
Adjustment in respect of prior periods	**(0.6)**	(0.7)
Total tax charge for the period	**26.2**	23.5

The underlying tax rate was 31.7% (2007: 31.6%), principally due to the non-deductibility of depreciation charged on capital expenditure in respect of mezzanine floors and other store infrastructure. The lower tax rate of 29.0% (2007: 29.0%) in this financial year is mainly due to the financing structure put in place as part of the refinance on 14 July 2006. This benefit ceased on 15 November 2007.

7. Dividends

For the period	**52 weeks to 28 March 2008 £m**	52 weeks to 30 March 2007 £m
Equity — ordinary shares		
Final for the 52 weeks to 30 March 2007 — paid 9.5p (2007: 8.75p)	**21.0**	19.8
Interim — paid 4.75p (2007: 4.35p)	**10.4**	9.7
	31.4	29.5

In addition, the Directors are proposing a final dividend in respect of the financial year ended 28 March 2008 of 10.35p per share (2007: 9.50p per share), which will absorb an estimated £22.2m of shareholders' funds. It will be paid on 30 July 2008 to shareholders who are on the register of members on 13 June 2008.

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 28 March 2008.

For the period	**52 weeks to 28 March 2008 Number m**	52 weeks to 30 March 2007 Number m
Weighted average number of shares in issue	**219.3**	223.8
Less: shares held by the Employee Benefit Trust	**(0.9)**	(0.9)
Weighted average number of shares for calculating basic earnings per share	**218.4**	222.9
Weighted average number of dilutive shares	**—**	0.9
Total number of shares for calculating diluted earnings per share	**218.4**	223.8

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 28 March 2008 £m**	52 weeks to 30 March 2007 £m
Basic earnings attributable to equity shareholders	**64.0**	57.4
Exceptional items:		
Finance costs (see note 5)	**—**	2.6
Tax on exceptional finance costs	**—**	(0.8)
Underlying earnings before exceptional items	**64.0**	59.2

Earnings per share is calculated as follows:

For the period	**52 weeks to 28 March 2008**	52 weeks to 30 March 2007
Basic earnings per ordinary share	**29.3p**	25.8p
Diluted earnings per ordinary share	**29.3p**	25.6p
Basic earnings per ordinary share before exceptional items	**29.3p**	26.6p
Diluted earnings per ordinary share before exceptional items	**29.3p**	26.5p

9. Intangible assets

	Computer software £m	Product rights £m	Goodwill £m	Total £m
Cost				
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
Additions	1.2	—	—	1.2
At 28 March 2008	**10.7**	**0.2**	**274.8**	**285.7**
Amortisation				
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
Charge for the period	2.2	—	—	2.2
At 28 March 2008	**7.0**	**0.2**	**21.7**	**28.9**
Net book value at 28 March 2008	**3.7**	**—**	**253.1**	**256.8**
Net book value at 30 March 2007	4.7	—	253.1	257.8

Included in computer software are internally generated assets of £0.8m (2007: £0.2m).

The goodwill arose on the acquisition of Halfords Holdings Limited by the Company on 31 August 2002. The goodwill relates to a portfolio of sites, which have been allocated to groups of cash-generating units on a regional basis within the UK according to the level at which management monitors that goodwill.

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 with growth no higher than past experience and after consideration of all available information.

The key assumptions used to determine value-in-use of goodwill held at 28 March 2008 and 30 March 2007 are as follows:

	Note	2008	2007
Discount rate	1	**12.6%**	12.6%
Growth rate	2	**0.0%**	0.0%

Notes:
1. Pre-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 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
Additions	2.0	26.0	0.3	28.3
Disposals	(0.2)	(1.8)	(0.1)	(2.1)
Reclassifications	0.3	4.8	(5.1)	—
At 28 March 2008	**47.6**	**276.5**	**0.4**	**324.5**
Depreciation				
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
Depreciation for the period	2.2	17.0	—	19.2
Disposals	(0.1)	(1.6)	—	(1.7)
At 28 March 2008	**18.4**	**189.9**	**—**	**208.3**
Net book value at 28 March 2008	**29.2**	**86.6**	**0.4**	**116.2**
Net book value at 30 March 2007	29.2	73.0	5.3	107.5

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 28 March 2008			
Cost	12.7	0.8	13.5
Accumulated depreciation	(2.0)	(0.7)	(2.7)
Net book value	**10.7**	**0.1**	**10.8**
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

No fixed assets are held as security for external borrowings.

11. Inventories

	2008 £m	2007 £m
Finished goods for resale	**151.6**	141.6

Finished goods inventories include £5.8m (2007: £5.6m) 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

	2008 £m	2007 £m
Falling due within one year:		
Trade receivables	**4.8**	3.8
Less: provision for impairment of receivables	**(0.1)**	(0.3)
Trade receivables — net	**4.7**	3.5
Other receivables	**10.3**	8.5
Prepayments and accrued income	**26.6**	20.6
	41.6	32.6

During the period the Group created a provision of £0.1m (2007: £0.2m) for the impairment of trade receivables and utilised £0.3m (2007: £nil).

13. Cash and cash equivalents

	2008 £m	2007 £m
Cash at bank and in hand	**10.0**	24.8

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

	2008 £m	2007 £m
Cash at bank and in hand	**10.0**	24.8
Bank overdrafts	**—**	(13.0)
	10.0	11.8

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

	2008 £m	2007 £m
Trade payables	**59.3**	65.1
Other taxation and social security payable	**18.0**	16.5
Other payables	**9.1**	0.8
Deferred income — lease incentives	**3.4**	3.0
Accruals and other deferred income	**31.5**	28.1
	121.3	113.5

15. Borrowings

Current

	2008 £m	2007 £m
Bank loans and overdrafts due within one year or on demand — unsecured	—	13.0
Finance leases	0.2	0.3
	0.2	13.3
Non-current		
Bank loan — unsecured	179.3	179.1
Finance leases	12.2	12.4
	191.5	191.5

The above borrowings are stated net of unamortised issue costs of £0.7m (2007: £0.9m).

The Group completed a debt refinancing exercise on 14 July 2006. The debt facility now comprises a £180m five-year non amortising loan, maturing with 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.

16. Provisions

	Vacant property £m	Returns £m	Total £m
At 30 March 2007	0.7	0.9	1.6
Charged during the period	0.9	0.9	1.8
Utilised during the period	(0.5)	(0.9)	(1.4)
At 28 March 2008	**1.1**	**0.9**	**2.0**

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 £1.1m (2007: £0.7m) and a provision of £0.9m (2007: £0.9m) 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 28% (2007: 30%). The change in the UK tax rate effective from 1 April 2008 resulted in a £0.1m (2007: £nil) credit to the income statement, see note 6.

	2008 £m	2007 £m
The movement on the deferred taxation provision is shown below:		
At the beginning of the period	**0.9**	3.5
Income statement credit (note 6)	**(0.7)**	(2.2)
Debit/(credit) to equity	**0.8**	(0.4)
At the end of the period	**1.0**	0.9

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 31 March 2006	(8.4)
Credit to the income statement	0.5
At 30 March 2007	(7.9)
Credit to the income statement	0.7
At 28 March 2008	**(7.2)**

Deferred tax assets:

	Provisions and share options £m
At 31 March 2006	4.9
Credit to the income statement	1.7
Credit to equity	0.4
At 30 March 2007	7.0
Debit to equity	(0.8)
At 28 March 2008	**6.2**
Net deferred tax liability	
At 28 March 2008	**(1.0)**
At 30 March 2007	(0.9)

18. Financial instruments and related disclosures

Treasury policy

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.

Treasury activities are delegated by the Board to the Finance Director ("FD"). The FD controls policy and performance through the line management structure to the Group Treasurer and by reference to the Treasury Committee. The Treasury Committee meets regularly to monitor the performance of the Treasury function. Monthly Treasury Reports provide management information relating to treasury activity.

Policies for managing financial risks are governed by Board approved policies and procedures, which are reviewed on an annual basis.

The Group's debt management policy is to provide an appropriate level of funding to finance the Business Plan over the medium term at a competitive cost and ensure flexibility to meet the changing needs of the Group. The Group has a syndicated five-year term facility totalling £300m that provides the Group with committed bank facilities until July 2011.

The key risks that the Group faces from a treasury perspective are as follows:

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 Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") and the strength of the balance sheet.

Interest rate risk

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.

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 in US dollars. The Group's policy is to manage the foreign exchange transaction exposures of the business 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 businesses whilst they remain immaterial.

During the 52 weeks to 28 March 2008, the foreign exchange management policy was to hedge between 75% and 80% of the material foreign exchange transaction exposures on a rolling 15-month basis. Hedging is performed through the use of foreign currency bank accounts, spot rates and forward foreign exchange contracts.

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 extend the loan facilities when they expire. The Group ensured that such counterparties used for credit transactions held at least an A credit rating at the time of syndication (July 2006). Ancillary business, in the main, is directed to the eight banks within the syndicated Group.

The Treasurer is responsible for determining creditworthiness of each counterparty, based on the overall financial strength of the counterparty. The counterparty credit risk is reviewed in the Treasury report, which is forwarded to the Treasury Committee and the Treasurer reviews credit exposure on a daily basis.

18. Financial instruments and related disclosures continued

Liquidity risk

The Group ensures that it has sufficient cash or loan facilities to meet all its commitments when required. The Group ensures that there is sufficient cash or working capital facilities to meet the cash requirements of the Group for the current Business Plan. The minimum liquidity level is currently set at £30.0m.

Forecast liquidity is reviewed each month by the Treasurer to determine whether there are sufficient credit facilities to meet forecast requirements.

Covenants are monitored on a regular basis to ensure there are no significant breaches, which would lead to an "Event of Default". Calculations are submitted at least biannually to the syndication agent. Reporting on covenant compliance forms part of the Treasury Report. There have been no breaches of covenants during the reported periods.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Since June 2006, the Group has managed its capital partly through a share buy-back scheme, details of which are given in note 19.

The Group manages capital by operating within debt ratios. These ratios are lease adjusted net debt to EBITDA and fixed charge cover. Lease adjusted net debt is calculated as being net debt and leases capitalised at eight times, as a multiple of EBITDA plus operating lease charges. Fixed charge cover is calculated as being EBITDA plus operating lease charges as a multiple of interest and operating lease charges.

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 28 March 2008 and 30 March 2007.

	2008 Carrying value £m	**2008 Fair value £m**	2007 Carrying value £m	2007 Fair value £m
Cash and cash equivalents	**10.0**	**10.0**	24.8	24.8
Loans and receivables:				
Trade and other receivables	**7.1**	**7.1**	5.1	5.1
Held at fair value:				
Derivatives designated as accounting hedges				
Interest rate swap	**—**	**—**	1.3	1.3
Forward contracts	**1.9**	**1.9**	—	—
Total financial assets	**19.0**	**19.0**	31.2	31.2
Financial liabilities measured at amortised cost:				
Short-term borrowings	**—**	**—**	(13.0)	(13.0)
Long-term borrowings	**(179.3)**	**(179.3)**	(179.1)	(179.1)
Finance leases	**(12.4)**	**(12.4)**	(12.7)	(12.7)
Trade and other payables	**(94.7)**	**(94.7)**	(89.6)	(89.6)
Provision for vacant property	**(1.1)**	**(1.1)**	(0.7)	(0.7)
Held at fair value				
Derivatives designated as accounting hedges				
Forward contracts	**(0.3)**	**(0.3)**	(2.4)	(2.4)
Total financial liabilities	**(287.8)**	**(287.8)**	(297.5)	(297.5)
Net financial liabilities	**(268.8)**	**(268.8)**	(266.3)	(266.3)

18. Financial instruments and related disclosures continued

Fair value assumptions

Trade receivables, trade payables and finance lease obligations	The fair value on these items approximate to their carrying value.
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 markets rates at intervals of less than one year.
Forward currency contracts	The fair value of forward currency contracts are calculated by using the closing spot rate and respective forward points as of the balance sheet date and comparing this to the outright contract rate.
Interest rate swaps	The fair value of interest rate swaps are calculated by taking the closing UK market rate for the outstanding period and comparing this to the outright contract rate.

Trade and other receivables

The following table reconciles trade and other receivables which fall within the scope of IAS 39 to the relevant balance sheet amounts. Other assets include prepayments and accrued income which are outside the scope of IAS 39. The financial assets are non-interest bearing.

	2008 £m	2007 £m
Trade and other receivables	**41.6**	32.6
Analysed as:		
Financial assets in the scope of IAS 39	**7.1**	5.1
Other assets	**34.5**	27.5
	41.6	32.6

The following table shows the age of such financial assets which are past due and for which no provision for bad or doubtful debts has been raised:

	2008 £m	2007 £m
Past due by 1–30 days	**0.8**	1.1
Past due by 31–90 days	**0.4**	0.2
Past due by 91–180 days	**0.2**	0.2
	1.4	1.5

The Group has not raised bad or doubtful debt provisions against these amounts as they are considered to be recoverable based on previous trading history.

18. Financial instruments and related disclosures continued

Trade and other payables and other non-current liabilities

The following table reconciles trade and other payables which fall within the scope of IAS 39 to the relevant balance sheet amounts. Other liabilities include deferred income, lease incentives and tax and social security which are outside the scope of IAS 39. The financial liabilities are non-interest bearing.

	2008 £m	2007 £m
Trade and other payables	**121.3**	113.5
Analysed as:		
Financial liabilities in the scope of IAS 39	**94.7**	89.6
Other liabilities	**26.6**	23.9
	121.3	113.5

Sensitivity analysis

Financial instruments affected by market risk include borrowings, deposits, trade payables and derivative financial instruments. The following analyses are intended to illustrate the sensitivity of such financial instruments to changes in relevant foreign exchange and interest rates.

Foreign exchange sensitivity

The table below shows the Group's sensitivity to foreign exchange rates on its US dollar financial instruments, the major currency in which the Group's financial instruments are denominated. The Group has considered the movement in the US dollar over the last two years and has concluded that 5% is a reasonable benchmark.

	2008 Increase/ (decrease) in equity £m	2007 Increase/ (decrease) in equity £m
5% appreciation of the US dollar	**4.7**	3.7
5% depreciation of the US dollar	**(4.3)**	(3.3)

There are no material movements in the income statement. The movements in equity relates to the fair value movements on the Group's forward contracts that are used to hedge future stock purchases.

It should be noted that the sensitivity analysis reflects the impact on income and equity on financial instruments held at the balance sheet date. It does not reflect changes in revenue or costs that may result from changing interest or exchange rates.

Interest rate sensitivity

The table below shows the Group's sensitivity to interest rates on its interest rate swap.

	2008 Increase in finance cost £m	**2008 Reduction in equity £m**	2007 Increase in finance cost £m	2007 Reduction in equity £m
1% increase in sterling interest rates	**(1.1)**	**(1.8)**	(1.1)	(1.8)

A 1% decrease in interest rates would have an equal and opposite effect.

The movement in equity includes the fair value movement on the fixed leg of the Group's interest rate swap. The movement in the income statement reflects the effect on finance costs on the unhedged borrowings of the Group as shown in the table below.

Interest rate movements on deposits, obligations under finance leases, trade payables, trade receivables, and other financial instruments do not present a material exposure to the Group's balance sheet.

18. Financial instruments and related disclosures continued

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

	1 year £m	1–5 years £m	Total £m
Total borrowings as at 28 March 2008	**179.3**	**—**	**179.3**
Effect of interest rate swaps	**(70.0)**	**70.0**	**—**
	109.3	**70.0**	**179.3**

	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

The following is an analysis of the anticipated contractual cash flows including interest payable for the Group's non-derivative financial liabilities on an undiscounted basis. Interest is calculated based on debt held at the 28 March 2008 (30 March 2007) and is estimated using the prevailing interest rate at the balance sheet date.

	2008 Bank borrowings £m	**2008 Finance leases £m**	**2008 Trade and other payables £m**	**2008 Vacant property provision £m**	**2008 Total £m**
Due less than one year	**11.0**	**1.0**	**94.7**	**1.1**	**107.8**
Expiring between 1 and 2 years	**11.2**	**1.0**	**—**	**—**	**12.2**
Expiring between 2 and 5 years	**196.9**	**3.1**	**—**	**—**	**200.0**
Expiring after 5 years	**—**	**18.0**	**—**	**—**	**18.0**
	219.1	**23.1**	**94.7**	**1.1**	**338.0**

	2007 Bank borrowings £m	2007 Finance leases £m	2007 Trade and other payables £m	2007 Vacant property provision £m	2007 Total £m
Due less than one year	23.8	1.1	89.6	0.7	115.2
Expiring between 1 and 2 years	11.0	1.0	—	—	12.0
Expiring between 2 and 5 years	208.1	3.1	—	—	211.2
Expiring after 5 years	—	19.0	—	—	19.0
	242.9	24.2	89.6	0.7	357.4

The contractual obligations under finance leases includes £10.7m (2007: £11.5m) of future finance charges to arrive at the present value of finance lease liabilities of £12.4m (2007: £12.7m).

18. Financial instruments and related disclosures continued

The following table provides an analysis of the anticipated contractual cash flows for the Group's forward currency contracts. Cash flow receivable in foreign currencies are translated using spot rates as at 28 March 2008 (30 March 2007).

	2008 Receivables £m	**2008 Payables £m**	2007 Receivables £m	2007 Payables £m
Due less than one year	**80.6**	**(79.9)**	61.1	(63.3)
Expiring between 1 and 2 years	**9.2**	**(9.5)**	8.6	(8.6)
	89.8	**(89.4)**	69.7	(71.9)

Cash flow hedges

Forward currency contracts

Forward dated foreign exchange contracts are undertaken to hedge known exposure to foreign purchases in US dollars. The fair value of such derivatives are shown in the table on page 84.

Interest rate swap

The term loan of £180.0m attracts interest of LIBOR plus a fixed margin of 0.45% and the rate is set biannually. An interest rate swap for £70.0m has been undertaken to fix an element of the interest rate exposure on the term loan. The fair value of the swap is shown in the table on page 84.

Borrowing facilities

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

	2008 £m	2007 £m
Expiring within 1 year	**1.0**	1.0
Expiring between 2 and 5 years	**120.0**	120.0
	121.0	121.0

The facilities expiring within one year were annual facilities subject to review at various dates during the period. The facility of £120.0m relates to the Groups' revolving credit facility were arranged to help finance the proposed expansion of the Group's activities. All these facilities incurred commitment fees at market rates.

19. Equity share capital

Ordinary shares of 1p each:	**2008 Number of shares**	**2008 £000**	2007 Number of shares	2007 £000
Authorised	**295,000,000**	**2,950**	295,000,000	2,950
Allotted, called up and fully paid	**214,348,661**	**2,143**	219,046,537	2,190

Allotted, called up and fully paid share capital decreased during the period due to the Company's share repurchase programme. During the period the Company acquired 9,453,738 (2007: 9,003,956) shares at a cost of £30.3m (2007: £30.0m). Distributable reserves have been reduced by £30.3m (2007: £30.0m), being the consideration paid for the shares.

The Company's share capital increased by 3,888,848 shares (2007: 22,750 shares) due to the exercise by employees of share options at £2.60 under the 2004 Halfords Share Option Scheme. In addition, a further 867,014 (2007: nil) options were exercised at £2.65 by members of the 2004 Halfords Sharesave Scheme. In total, the Company received proceeds of £12.4m from the exercise of these share options.

Interest in own shares

At 28 March 2008 the Company held in Trust 1,114,374 (2007: 877,498) of its own shares with a nominal value of £11,144 (2007: £8,774). The Trust has waived any entitlement to the receipt of dividends in respect of its holding of the Company's ordinary shares. In the period the trust acquired 236,876 of shares at a cost of £0.6m. Distributable reserves have been reduced by £0.6m, being the cost of these shares.

The market value of these shares at 28 March 2008 was £3.3m (2007: £3.4m).

20. Share-based payments

At present the Group has three share award plans:

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

1. Halfords Company Share Option Scheme

The CSOS was introduced in June 2004 and the Company has made annual grants since. 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.

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 5% per year for the 2005 scheme and 3.5% for options granted in 2006 and 2007 respectively. 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.

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.

20. Share-based payments continued

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	12 July 2007	6 July 2006	13 July 2005	2 June 2004
Share price at grant date	£3.9875	£3.010	£2.955	£2.600
Exercise price	£3.9875	£3.010	£2.955	£2.600
Number of employees	673	36	42	3,598
Shares under option	1,600,591	252,000	294,000	6,556,953
Vesting period (years)	3	3	3	3
Expected volatility	23%	35%	37%	40%
Option life (years)	10	10	10	10
Expected life (years)	4.85	4.85	4.85	3.85
Risk-free rate	5.67%	4.70%	4.68%	4.68%
Expected dividend yield	4.10%	4.00%	4.00%	4.00%
Possibility of ceasing employment before vesting	32%	32%	32%	34%
Expectations of meeting performance criteria	100%	100%	100%	100%
Fair value per option	£0.75	£0.77	£0.79	£0.70
Number of options outstanding at 28 March 2008	1,555,589	231,000	224,000	328,950

2. Halfords Sharesave Scheme

The SAYE is open to all employees 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	7 August 2007	1 August 2006	11 August 2005	7 June 2004
Share price at grant date	£4.02	£3.01	£3.07	£2.65
Exercise price	£3.22	£3.01	£3.07	£2.65
Number of employees	1,064	343	573	1,561
Shares under option	929,890	173,558	269,037	1,364,861
Vesting period (years)	3	3	3	3
Expected volatility	22%	22%	36%	39%
Option life (years)	3	3	3	3
Expected life (years)	3.5	3.5	3.5	3.5
Risk-free rate	5.54%	4.75%	4.68%	4.68%
Expected dividend yield	4.10%	4.10%	4.00%	4.00%
Possibility of ceasing employment before vesting	44%	44%	53%	36%
Expectations of meeting performance criteria	100%	100%	100%	100%
Fair value per option	£1.01	£0.44	£0.81	£0.65
Number of options outstanding at 28 March 2008	799,504	115,333	148,600	4,631

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, three schemes have been approved for 2005, 2006 and 2007.

The extent to which such rights vest will depend upon the Company's performance over the three-year period following the award date. The vesting of 50% of the awards will be determined by the Company's relative total shareholder return ("TSR") performance and the vesting of the other 50% by the Company's absolute EPS performance against RPI. The Company's TSR performance will be measured against the FTSE 350 general retailers as a comparator group. No retesting will be permitted.

The TSR element of the options granted under the 2007 scheme have been valued using a model developed by Deloitte. The Deloitte model uses the Group's share price volatility, the correlation between comparator companies and the vesting schedule attaching to the LTIP tranche rather than generating a large number of simulations of share price and TSR performance to determine the fair value of the award using a Monte Carlo model. For the 2005 and 2006 schemes the TSR element of the 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	**12 July 2007**	**11 July 2006**	**8 August 2005**
Share price at grant date	£4.02	£3.01	£3.07
Number of employees	21	18	17
Shares under option	539,893	596,908	537,417
Vesting period (years)	3	3	3
Expected volatility	22%	22%	31%
Option life (years)	3	3	3
Expected life (years)	3	3	3
Expected dividend yield	4.10%	4.25%	4.00%
Possibility of ceasing employment before vesting	30%	30%	30%
Expectations of meeting performance criteria	100%	100%	50%
Fair value per option	£2.69	£1.82	£2.19
Number of shares outstanding 28 March 2008	421,943	385,657	342,427

As the LTIP awards have a nil exercise price the risk-free rate of return does not have any effect on the estimated fair value and therefore is excluded from the above table.

A reconciliation of option movements for the CSOS, SAYE and LTIP performance plans over the year to 28 March 2008 is shown below:

	28 March 2008		30 March 2007	
	Number (000)	**Weighted average exercise price**	Number (000)	Weighted average exercise price
Outstanding at start of year	**7,455**	**2.71**	7,819	2.67
Granted	**3,070**	**3.76**	1,029	3.01
Forfeited	**(553)**	**3.23**	(171)	3.04
Exercised	**(4,756)**	**2.61**	(28)	2.61
Lapsed	**(658)**	**2.79**	(1,194)	2.64
Outstanding at end of year	**4,558**	**3.44**	7,455	2.71
Exercisable at end of year	**334**	**0.70**	—	—

20. Share-based payments continued

28 March 2008				30 March 2007			
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	**329**	**1.0**	**6.2**	£2.60	4,709	0.8	7.2
£2.65	**5**	**0.0**	**0.0**	£2.65	931	0.3	0.6
£2.95	**224**	**0.0**	**0.8**	£2.95	259	1.3	1.8
£3.01	**346**	**1.5**	**1.8**	£3.01	406	2.5	2.8
£3.07	**149**	**1.0**	**1.0**	£3.07	185	1.5	2.0
£3.22	**799**	**2.5**	**2.8**	—	—	—	—
£3.99	**1,556**	**2.5**	**2.8**	—	—	—	—
£0.00	**1,150**	**0.1**	**0.9**	£0.00	965	1.7	1.7

The weighted average share price during the period for options exercised was £2.61 (2007: £2.61). The total charge for the year relating to employee share-based payment plans was £1.0m (2007: £2.1m), all of which related to equity-settled share based payment transactions.

21. Commitments

	2008 £m	2007 £m
Capital expenditure: Contracted but not provided	**1.5**	2.8

At 28 March 2008, the Group was committed to making payments in respect of non-cancellable operating leases in the following periods:

	Land and buildings 2008 £m	**Other assets 2008 £m**	Land and buildings 2007 £m	Other assets 2007 £m
Within one year	**77.7**	**0.6**	73.7	0.6
Later than one year and less than five years	**302.3**	**0.7**	288.8	0.5
After five years	**437.3**	**—**	446.0	—
	817.3	**1.3**	808.5	1.1

The operating lease commitments are shown before receipts of sub-let income.

22. Pensions

Employees are 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 £3.2m (2007: £3.1m) 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 earning 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 guarantee, the bank has the right to recover the sum in full from the Group. The total amount of guarantees in place at 28 March 2008 amounted to £2.9m (2007: £3.2m).

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 2 April 2008, the Company entered into an agreement with its brokers to buy back shares in the closed period. The agreement was capped at £9m. At the date of signing of the report the Company had acquired 3,068,292 of shares at a total cost of £8.6m.

FIVE YEAR RECORD

	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	**52 weeks to 28 March 2008 £m IFRS**
Revenue	578.6	628.4	681.7	744.0	**797.4**
Cost of sales	(271.6)	(292.0)	(335.0)	(367.9)	**(394.9)**
Gross profit	307.0	336.4	346.7	376.1	**402.5**
Operating expenses	(244.1)	(247.1)	(257.6)	(282.6)	**(301.5)**
Operating profit before exceptional items and goodwill amortisation	76.6	89.5	89.1	93.5	**101.0**
Goodwill amortisation	(13.7)	—	—	—	**—**
Exceptional items	—	(0.2)	—	—	**—**
Operating profit	62.9	89.3	89.1	93.5	**101.0**
Profit on sale of fixed assets	6.4	—	—	—	**—**
Net finance costs	(44.1)	(15.0)	(12.1)	(12.6)	**(10.8)**
Profit before tax	25.2	74.3	77.0	80.9	**90.2**
Taxation	(14.3)	(23.2)	(23.4)	(23.5)	**(26.2)**
Profit attributable to equity shareholders	10.9	51.1	53.6	57.4	**64.0**
Basic earnings per share	6.7p	23.7p	23.6p	25.8p	**29.3p**
Basic earnings per share before goodwill amortisation and exceptional items	16.1p	23.7p	23.6p	26.6p	**29.3p**

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 of the Group.

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

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF HALFORDS GROUP PLC ("the Company")

We have audited the Company financial statements of Halfords Group plc for the 52 weeks to 28 March 2008 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 28 March 2008.

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 Chairman's Statement, the Business Review and the Finance Directors' Report that is cross-referred 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 Chairman's Statement, the Business Review, the Finance Director's Report, the unaudited part of the Directors' Remuneration Report, the Corporate Social Responsibility 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 28 March 2008;
- 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
4 June 2008

COMPANY BALANCE SHEET

	Notes	28 March 2008 £m	30 March 2007 £m
Fixed assets			
Investments	4	**5.3**	4.3
Current assets			
Debtors falling due within one year	5	**0.2**	0.2
Debtors falling due after one year	5	**217.9**	201.6
Cash at bank and in hand		**0.4**	0.9
		218.5	202.7
Creditors: amounts falling due within one year	6	**(4.1)**	(2.5)
Net current assets		**214.4**	200.2
Net assets		**219.7**	204.5
Capital and reserves			
Called up share capital	7	**2.1**	2.2
Share premium account	8	**145.6**	133.2
Capital redemption reserve	8	**0.2**	0.1
Profit and loss account	8	**71.8**	69.0
Equity shareholders' funds		**219.7**	204.5

The notes on pages 97 to 99 are an integral part of the Company's financial statements.

The Company has elected to prepare its financial statements under UK GAAP and the accounting policies are outlined on page 96.

The financial statements on pages 95 to 99 were approved by the Board of Directors on 4 June 2008 and were signed on its behalf by:

Nick Wharton
Finance Director

Paul McClenaghan
Director of Trading

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 28 March 2008, whilst the comparative period covered the 52 weeks to 30 March 2007. The accounts are prepared under the historical cost convention, except where Financial Reporting Standards require an alternative treatment, in accordance with the Companies Act 1985, applicable accounting standards and specifically in accordance with the accounting policies set out below. The principal variation to the historical cost convention relates to share-based payments

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.

The Company has taken the available exemption not to adopt FRS 29 “Financial instruments: disclosures”.

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 subsidiary financial statements, which benefit from the employee services. The Company has recognised the fair value of the options as an increase to equity with a corresponding adjustment to investments.

Fair values are determined using appropriate option pricing models. 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 Company’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.

1. Profit and loss account

The Company made a profit before dividends for the financial period of £64.1m (52 week period to 30 March 2007: £74.2m). 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 audit fees payable by the Group to PricewaterhouseCoopers LLP and their associates during the period were borne by Halfords Limited. In the 52 weeks to 28 March 2008 and 30 March 2007 the Company did not expense any fees relating to PricewaterhouseCoopers LLP.

3. Staff costs

The Company has no employees other than the Directors. Full details of the Directors' remuneration and interests are set out in the Remuneration Report on pages 56 to 59 which form part of the audited information.

4. Investments

	£m
Shares in Group undertaking	
Cost	
As at 30 March 2007	4.3
Additions — share based payments	1.0
At 28 March 2008	**5.3**

The investment represents shares in the following subsidiary undertaking as at 28 March 2008 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.

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 28 March 2008 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

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.

5. Debtors

	2008 £m	2007 £m
Falling due within one year:		
Amounts owed by Group undertakings	**0.2**	0.2
Falling due after one year:		
Amounts owed by Group undertakings	**217.9**	201.6

Amounts owed by Group undertakings that fall due after one year are subject to interest. At 28 March 2008 the amounts bear interest at a rate of 6.4% (2007: 5.89%).

6. Creditors: amounts falling due within one year

	2008 £m	2007 £m
Corporation tax	**3.5**	—
Accruals and deferred income	**0.6**	—
Amounts owed to Group undertakings	**—**	2.5
	4.1	2.5

7. Equity share capital

Ordinary shares of 1p each:	2008 Number of shares	2008 £000	2007 Number of shares	2007 £000
Authorised	**295,000,000**	**2,950**	295,000,000	2,950
Allotted, called up and fully paid	**214,348,661**	**2,143**	219,046,537	2,190

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 9,453,738 (2007: 9,003,956) shares at a cost of £30.3m (2007: £30.0m). Distributable reserves have been reduced by £30.3m (2007: £30.0m), being the consideration paid for the shares.

The Company's share capital increased by 3,888,848 shares (2007: 22,750) due to the exercise by employees of share options at £2.60 under the 2004 Halfords Share Option Scheme. In addition, a further 867,014 (2007: nil) options were exercised at £2.65 by members of the 2004 Halfords Sharesave Scheme. In total, the Company received proceeds of £12.4m from the exercise of these share options.

Potential issue of ordinary shares
The Company has three employee share option schemes, which were set up following the Company's flotation. Further information regarding these schemes can be found in note 20 to the Group financial statements.

Interest in own shares
At 28 March 2008 the Company held in Trust 1,114,374 (2007: 877,498) of its own shares with a nominal value of £11,144 (2007: £8,774). The Trust has waived any entitlement to the receipt of dividends in respect of its holding of the Company's ordinary shares. In the period the trust acquired 236,876 at a cost of £0.6m. Distributable reserves have been reduced by £0.6m, being the cost of these shares. The market value of these shares at 28 March 2008 was £3.3m (2007: £3.4m).

8. Reserves

	Share premium account £m	Capital redemption reserve £m	Profit and loss account £m	Total £m
At 30 March 2007	133.2	0.1	69.0	202.3
Profit for the financial period	—	—	64.1	64.1
Shares issued	12.4	—	—	12.4
Purchase of own shares	—	0.1	(30.9)	(30.8)
Employee share options	—	—	1.0	1.0
Dividends	—	—	(31.4)	(31.4)
At 28 March 2008	**145.6**	**0.2**	**71.8**	**217.6**

The Company settled dividends of £31.4m in the period, as detailed in note 7 of the Group accounts.

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 guarantee, the bank has the right to recover the sum in full from the Group. The total amount of guarantees in place at 28 March 2008 amounted to £2.9m (2007: £3.2m).

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

11. Post-balance sheet events

On 2 April 2008, the Company entered into an agreement with its brokers to buy back shares in the closed period. The agreement was capped at £9m. At the date of signing of the report the Company had acquired 3,068,292 shares at a total cost of £8.6m.

Analysis of shareholders

As at 28 March 2008, the number of registered shareholders was 2,777 and the number of ordinary shares in issue was 215,548,661.

	Number of holdings	% of total shareholders	Number of shares	% of issued share capital
Range of holdings				
1–5,000	2,295	82.6	3,053,217	1.4
5,001–10,000	116	4.2	858,984	0.4
10,001–50,000	153	5.5	3,574,999	1.7
50,001–100,000	37	1.3	2,627,975	1.2
100,001–500,000	99	3.6	23,702,191	11.0
500,001 and above	77	2.8	181,731,295	84.3
Total	**2,777**	**100.0**	**215,548,661**	**100.0**
Held by				
Individuals	1,427	51.4	2,633,092	1.2
Institutions	1,350	48.6	212,915,569	98.8
Total	**2,777**	**100.0**	**215,548,661**	**100.0**

The data above includes 1,200,000 shares awaiting cancellation, as part of the share buy-back programme.

Results and financial diary

Annual General Meeting: 23 July 2008
Final dividend payable: 30 July 2008
Pre-close statement: 2 October 2008
Half year report: 20 November 2008
Ex dividend date: 26 November 2008
Record date: 28 November 2008
Interim dividend payable: 7 January 2009

Annual General Meeting

The Annual General Meeting will be held at 12.30 pm on Wednesday 23 July 2008 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 30 July 2008 to shareholders on the register on 13 June 2008.

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

COMPANY INFORMATION

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B98 0DE

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B3 2DT

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WC2R 1BL

Joint Brokers
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