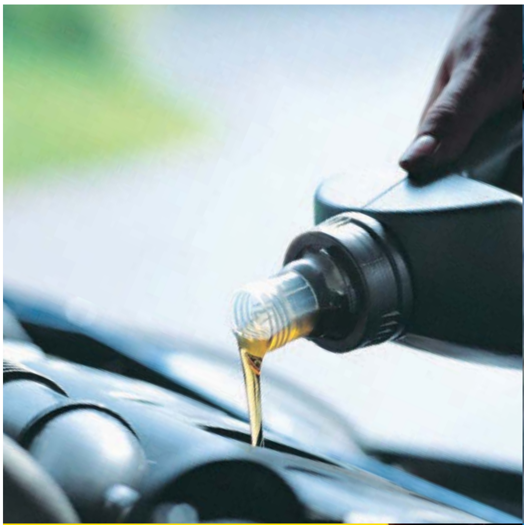
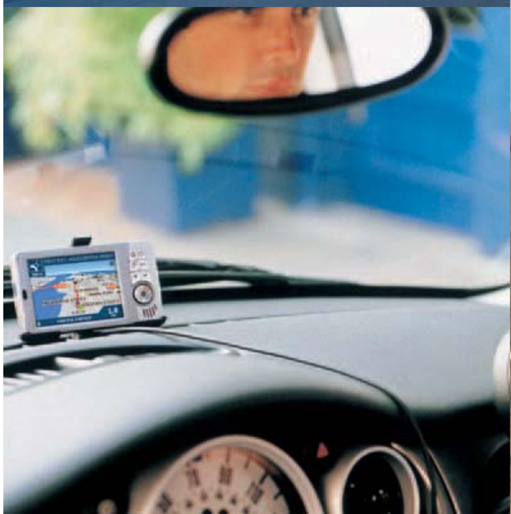
halfords

Annual Report and Accounts 2005





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Financial Highlights

£m		% Change
Turnover		
628.4	+	8.6
Operating profit before goodwill amortisation and exceptional operating items		
92.2	+	16.4
Operating profit		
78.3	+	19.5
Pre-tax profit		
64.1	+	130.6
Net debt		
169.7	-	51.4

pence		
Basic earnings per share before goodwill amortisation and exceptional items		
24.4	+	37.9
Basic earnings per share		
18.5	+	122.9
Dividend per ordinary share		
12.0		n/a

Halfords at a glance

We operate from nearly 400 stores throughout the UK, with 3.2m sq.ft. of selling space and employ almost 10,000 people.

Halfords has leading market positions in auto, leisure and cycling products, selling over 11,000 different product lines.

Strong earnings growth and cash generation.

A highly trusted brand name, with national recognition and broad appeal.

Store of first choice with dedicated, knowledgeable sales employees.

A balanced mix of defensive and growth markets.

Chairman's Statement
Rob Templeman

This first set of full year results as a publicly listed company demonstrates the strength and growth potential of our business, which has a unique position as the UK's leading auto, leisure and cycling products retailer.

Halfords continued to improve performance and grow market share by building on its unique advantages of greater scale than its competitors, a differentiated customer service proposition through the "We'll Fit It" initiative and from the continued development programme of new and exciting products.

In the 52 weeks to 1 April 2005, and against a backdrop of a more challenging retail market, we achieved sales growth across all four of our key product categories of car maintenance, car enhancement, cycling and travel solutions, whilst continuing to keep firm control of costs.

By the end of the financial year, the Group was operating from 398 stores across the UK and the Republic of Ireland as we continued to roll out our store development programme of introducing mezzanine floors, improving store layouts and opening in new locations.

Our success would not have been possible without the huge contribution from our 9,940 employees, whose passion, knowledge and enthusiasm are crucial in giving Halfords competitive advantage in the retail marketplace.

The Board would also like to place on record its appreciation for the valuable contribution made by David Hamid, our former Chief Executive, who announced his retirement from the Group in March this year because of ill health.

We were fortunate in being able to appoint Ian McLeod as Chief Executive. Ian has outstanding credentials for the job. He has been with the Group since September 2003 and as Chief Operating Officer played an important role in running the business alongside David and the senior management team.

The Board is committed to the highest standards of corporate governance and corporate social responsibility, as explained in more detail later in this report.

The Board is recommending a final dividend of 8.3p per share in addition to the 3.7p per share interim dividend already paid, bringing the total dividend for the year to 12.0p per share.

Although the UK retail climate has become more subdued, we have a strong and differentiated business with a proven strategy for growth, which provides a solid platform from which to build and gives us confidence about the growth prospects for the future.

Rob Templeman, Chairman
8 June 2005

"We have a strong and differentiated business with a proven strategy for growth, which provides a solid platform from which to build and give us confidence about the growth prospects for the future."

Employee focus

Isla Rowntree
Halfords Head of Bike Design & Sourcing

Andy Smallwood
Halfords Cycle Accessories Assistant Product Manager

Glorious mud

Former British Cycle Champion, Isla, and Halfords Development Squad road rider, Andy, have turned their passion into their profession, and are dedicated to designing and sourcing cycles and cycle accessories for Bikehut. Isla is pictured putting Halfords' own brand Carrera bike through its paces.

Chief Executive's Report
Ian McLeod

Halfords has a very strong brand name, synonymous with quality, reliability and trust and has delivered 17 consecutive years of sales growth.

The financial year ended 1 April 2005 has been notable for continuing the pace of change in the business and the substantial improvement in store performance and company profitability.

Sales increased by 8.6% to £628.4m compared with the previous year, while pre-tax profits have risen by 130.6% to £64.1m over the same period.

We aggressively pursued the store opening, refurbishment and product development programmes outlined to investors at the time of the Company's successful listing on the London Stock Exchange in June 2004.

Halfords has a unique retailing proposition. We are about 12 times the size of our nearest competitor and are market leaders in all of our key product categories. We are a store of first choice for cycling and automotive requirements and have successfully widened our product offer into new areas including camping equipment and a broader range of leisure products.

A key competitive advantage is the Halfords "We'll Fit It" programme; we have fitted close to one million products, ranging from car parts, to child seats, CD players, DVD's and the latest satellite navigation equipment. The Company's staff are passionate about our products and are trusted by our customers.

"We'll Check It" and "We'll Repair It" underpin our Bikehut sub-brand, which sells more than one in every four cycles in the UK.

Our key objectives following last year's listing are to maintain and develop Halfords' core strengths by:

- Expanding the store portfolio
- Broadening the product offer
- Supply chain and active trading
- Marketing the Halfords' service proposition

The financial results for the year clearly demonstrate that these actions are being translated into improved profitability and shareholder value.

Expanding the store portfolio

Supermezzanine Format

The roll out of "supermezzanine" stores continued with the number of supermezzanines increasing from 11 at the beginning of the financial year to 57 stores by the end of March 2005. Typically a supermezzanine store will add a further 40% of selling space to a standard superstore.

These stores allow us to design an in-store environment, which includes much better sight lines and clearer product segmentation creating an automotive ground floor and a leisure mezzanine. It also creates space for product range enhancement and for new product categories such as Active Leisure and Kidszone.

Supermezzanine conversions have generated significant uplifts in like-for-like sales and 35 further conversions are planned for the new financial year.

"During the last 12 months we have worked hard to further consolidate our leading market position within our core categories, extend sales potential through leveraging our brand equity into new markets and accelerate Halfords' new store and portfolio improvement programmes."

Store Development

Halfords is developing its property portfolio by converting existing stores and opening new stores. Pictured is a smaller format "Metro" store, located on high streets and a supermezzanine out of town store.

"By the end of the financial year Halfords was trading from 398 stores in the UK and the Republic of Ireland."

This will add over 100,000 square feet of retailing space without increasing our rent levels and will enable Halfords to broaden its product offer to the consumer.

New Stores

Halfords trades from 398 stores in the UK and the Republic of Ireland. During the year Halfords opened 18 new stores and closed seven. In addition, supermezzanine conversions were added to a total of 38 stores.

We have also developed a smaller store footprint and been encouraged by the results generated by this type of store format.

The decision to expand beyond the UK into the Republic of Ireland has also proved to be a success. Halfords now trades from three stores in the Republic of Ireland and eight in Northern Ireland and is continuing to seek further sites, following the encouraging results from these developments.

Over the next 12 months we plan to open 16 new stores including four site relocations.

Our property team is actively continuing to progress our expansion plans through seeking suitable new locations for both our supermezzanine and small store formats.

Broadening the product offer

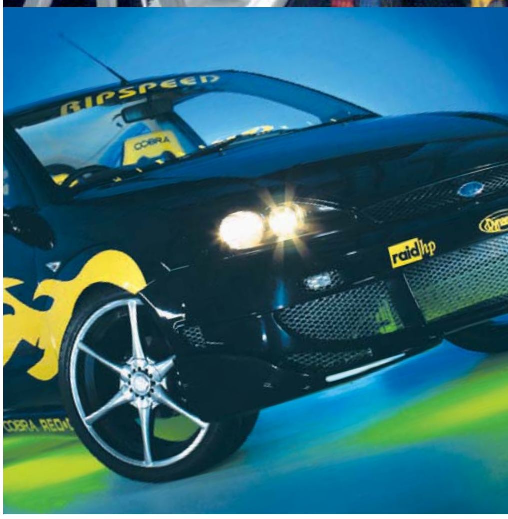
During the year Halfords has succeeded in growing like-for-like sales in all four key categories of Car Maintenance, Car Enhancement, Cycling and Travel Solutions.

Car Maintenance

Halfords is the largest supplier of car parts in the UK, in a market worth almost £1 billion annually despite longer service intervals and increased complexity of vehicle engines.

We have increased sales and grown market share through a combination of good availability on specialist car parts (either held at branch or through special order) and by driving up average transaction value on consumable servicing products. We offer special deals on added value products, as well as offering a comprehensive "We'll Fit It" service on items such as wiper blades and bulbs.

We are developing the Ripspeed brand by sponsoring events, targeting young enthusiasts and marketing the brand in specialist publications that appeal to the young modifier.



We have also made good progress through our business-to-business initiatives. We have reached agreement to supply a range of Halfords branded merchandise to over 300 BP forecourt sites. Products are purchased, merchandised and managed by BP, with range recommendations provided by the Halfords category team.

We have also introduced a Halfords trade card into virtually all stores to encourage more committed home car mechanics and smaller garage proprietors to purchase an increasing amount of their parts requirements from our stores. Early results from both initiatives are encouraging.

Car Enhancement

The £850m car enhancement market is growing at more than 7% a year and as market leader Halfords has seen significant growth in its sales and market share.

The largest growth area has been in in-car entertainment and technology. Eighteen months ago, satellite navigation units were a difficult aftermarket installation with few units available below £1,000. In recent months, as technology has advanced, we have reduced the entry price point to as little as £300 and demand has grown substantially. We have a wide range of products and have invested heavily in training our store teams to advise the customer of the products' capability and fit products into customers' cars. We are now satellite navigation specialists and are successfully marketing this together with our expertise in fitting in-car DVD and safety camera detectors.

The Halfords' "We'll Fit It" programme provides sustainable competitive advantage across our product categories and combined with our strong sales performance, gives us real confidence for the future.

We continue to enjoy a healthy business selling and fitting CD players to cars already on the road. About 50% of the cars on the UK roads are over six years old, which presents us with a continued growth opportunity. Younger drivers, in particular, create a strong market for trading up to an audio unit which is MP3 compatible.

Ripspeed

Ripspeed is an exclusive brand to Halfords, and is firmly established as one of the country's leading brands in the growing market of car enhancement and modification. Whilst all of our stores have Ripspeed branded merchandise, we have seen strong sales growth from the introduction of a dedicated Ripspeed sub-shop into our supermezzanine stores.

As we introduce more super-mezzanine formats into our stores we are able to allocate extra space to create more dedicated Ripspeed sub-shops and to widen the product offer through the introduction of new and exciting ranges such as the latest alloy wheels and LED lights.

We continue to develop and raise awareness of the Ripspeed brand by sponsoring events targeting car enthusiasts and marketing the brand through specialist publications that appeal to the target consumer for this large and growing market.

BIKEHUT

The Halfords Bikehut brand has gone from strength to strength since 1998. It is now being successfully extended to include own label cycle accessories, and in-store specialists have helped to broaden Bikehut's appeal to both families and enthusiasts.

Bikehut

Halfords, with its successful Bikehut brand, continues to consolidate and grow its position as the market leader within the UK cycling market.

Our exclusive Apollo brand is firmly established as the number two cycle brand within the UK and with the recent launch of our new Apollo range we are confident that we can further improve its sales performance and market share.

We are also successfully growing our sales in the premium and specialist sectors of the cycle market. As well as offering recognised premium brand products such as Kona, GT and Saracen, we have also been able to establish our Carrera brand as a credible alternative within this market, particularly within the emerging Town and Trail category. Our specialist buying team have secured a cycle range with the right quality and design at highly competitive prices through sourcing product directly from Far East suppliers.

Bikehut is one of the main areas of the store where we experience strong sales uplifts following store conversion to supermezzanine format.

We have improved the in-store marketing of Bikehut as our cycling sub-brand in mezzanine stores in order to broaden general appeal and add credibility with enthusiasts. Employees who work in Bikehut are frequently enthusiasts themselves which further helps in building customer confidence.

Our Bikehut colleagues' expertise enables us to also provide additional fitting, maintenance and repair services to our customers, which differentiate us from other mainstream multiples.

Bikehut also sponsors teams of employee and professional cyclists to heighten brand awareness and encourage independent product reviews or recommendations. Specialist press is also used to advertise Bikehut and Carrera branded merchandise to leverage credibility amongst enthusiasts.

The Bikehut brand has been extended to include own label cycle accessories to complement the highly successful Carrera and Apollo cycle brands.

Travel Solutions

This market is worth around £700m a year nationally and Halfords is market leader in this highly fragmented sector which includes travel equipment and travel accessory products such as roof boxes, roof bars and cycle carriers. We have updated certain key areas and this, together with a strong promotion programme brought about good year-on-year growth with Halfords continuing to grow market share.

New Category Development

Active Leisure has been rolled out across all stores nationally, providing camping solutions to satisfy all needs, including developing a multi-purchase offer for families embarking on their first camping trip. Our new combined tent and sleeping equipment packs at very competitive prices have proved extremely popular.

A range of Halfords branded tents and sleeping bags has also been introduced for the 2005 season.

Kidszone has been developed for supermezzanine stores and includes a broader range of child safety seats, an extended range of wheeled products (both pedal driven and electric) and a range of larger outdoor activity products. Sales of child seats, underpinned by an aggressive marketing and pricing campaign (including fitting advice in store), have increased significantly. The widening of the product offer, particularly wheeled toys over the Christmas period, was also very successful and will provide a good base to build on next year.

Supply chain and active trading

A number of stores benefited from a low cost store renewal programme ahead of last year's listing, providing better linear merchandising and improved sales intensity.

As well as delivering range extension benefits, these store layout changes have also freed space at the front of the store which allows us to accommodate bulk displays of product, creating greater impact. The benefits are an increase in incremental sales from impulse purchases, the development of a "test bed" for the trial of new product ideas and giving consumers more reasons to shop at our stores.

The organisation has responded extremely well to the active trading philosophy and we are reaping the benefits from it.

The roll-out of the Active Leisure range and the speed of development of the special purchase programme are good examples of the successful change in approach, with a focused trial period and scale roll-out following rapidly.

The development of Halfords Asia has proved invaluable in supporting the special purchase programme, facilitating bulk purchase of product at source, specifically for promotion activity within the recently created bulk display space created in-store. There has also been a sustained effort to increase the number of product ranges we source directly from the Far East. This strategy has proved highly successful through the creation of a dedicated Far East sourcing team based in Hong Kong. The growth of directly sourced products enables us to reduce cost and utilise the benefit to either grow margin or reduce prices to grow market share. The penetration of product sourced directly from the Far East has grown significantly in the last year and is targeted to rise further.

Marketing the Halfords service proposition

Halfords has traditionally had a reputation for providing good service through knowledgeable employees. This, together with our enhanced product fitting capability, gives us a strong and unique competitive advantage.

The Halfords' "We'll Fit It" programme is now an integral element of all our marketing communications and central to the service message inherent within our latest TV advertising campaign.

Improving Product Sourcing Channels

Increasing our direct product sourcing from the Far East has meant that Halfords has been able to further improve sales, margin and profitability. Most of Halfords' cycle and cycle accessory ranges are manufactured in the Far East.

Travel Solutions

A new range of tents and sleeping bags have been introduced in 2005 to further strengthen our Active Leisure offer. We are also selling a greater range of child seats which combined with strong deals and trained fitters has supported a substantial growth in sales.

We have underpinned the marketing communication message with a series of in-store training programmes to ensure that the service communicated can be comprehensively provided.

At a local level, colleagues are trained to deliver fitting services on servicing consumables such as wiper blades and car bulbs. They are also trained to build bikes and perform safety checks prior to customers receiving their bike and also service them with a free six week post purchase check.

Halfords always endeavours to employ colleagues in areas where they have a natural affinity or preference. Cycling and car enthusiasts will be available in most stores to advise customers. Halfords has been awarded official status as an Approved Assessment Centre for the Institute of the Motor Industry and over 500 colleagues have been trained and accredited to deliver hardwire electronic equipment installation, extending our fitting capabilities from in-car audio, to include satellite navigation, safety camera detectors and in-car DVD.

Frequently the individual who sells an electronic device will be the same individual who fits it in the customer's car. This provides additional customer reassurance and is a strong competitive advantage. None of our competitors provide such a comprehensive service nationally.

During the year, we also relaunched our Child Seat Fitting service. Approximately 1,000 employees have been trained and certified in child seat fitting during the year, which combined with strong deals has supported a substantial growth in sales volume.

80% of child seats in cars are fitted incorrectly so the advice that Halfords provides in child seat fitting is significant in providing reassurance to parents and guardians.

Outlook

Following what we regard as a very successful first year since our Stock Exchange Listing, Halfords has reported its seventeenth year of consistent sales growth. This strong track record demonstrates Halfords' ability to defend itself against cyclical economic change.

During the last 12 months we have worked hard to further consolidate our leading market position within our core categories, extend sales potential through leveraging our brand equity into new markets and accelerate Halfords' new store and portfolio improvement programmes.

We are encouraged by these results and are confident that the continued diligent application of our strategy provides the opportunity to deliver further positive results in the future.

Ian McLeod
Chief Executive
8 June 2005

Employee focus

Bryan Wilson
Ripspeed specialist

High profile

Bryan has worked for Halfords Ripspeed for four years including working at Ripspeed shows and on special projects. He is a car modifying specialist and spends his free time working on his own Nissan Skyline.

Finance Director's Report
Nick Carter

"The Group's operating profit before goodwill amortisation and exceptional operating items increased by £13.0m to £92.2m, with the corresponding operating margin improving to 14.7% from 13.7%."

The 52 week period ended 1 April 2005 saw a successful maiden year as a public company. A good sales and profit performance with continued strong cash generation enabled the company to deliver the plan outlined at the time of the Initial Public Offering ("IPO").

Operating result

Group sales increased 8.6% to £628.4m, 10.5% adjusting for the 53rd week in the previous year. Like-for-like sales growth including the contribution from new mezzanines was 8.9%. The Group experienced growth in each of the four categories in which it operates.

At the gross profit level there has been a 23 percentage points improvement from 53.5% to 53.7% and reflects good margin management. The growth in the number of "special purchase" offers and ranged products sourced directly from the Far East provides the Group with a degree of price flexibility as it can either improve margin or pass on the benefit to customers through price reductions.

As noted in the Interim Report the continued growth of the Car Enhancement category has had a small dilutive impact upon the margin percentage.

The Group's operating profit before goodwill amortisation and exceptional operating items increased by £13.0m to £92.2m, with the corresponding operating margin improving to 14.7% from 13.7%. Total operating expenses, excluding goodwill amortisation and exceptional items, as a percentage of net sales fell by 70 percentage points to 39.1%.

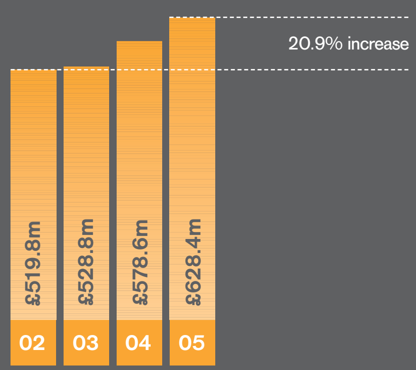
Operating exceptional items in the 52 weeks to 1 April 2005, relate to a non-cash charge of £4.2m in respect of employee share options that were exercised at the time of the Group's IPO and income of £4.0m in respect of a premium received in relation to the sub-lease of garage premises by the Group to the Automobile Association Limited. Further details are included in note 3 to the Financial Statements.

A full explanation of the trading performance of the Group is given in the Chief Executive's Report on pages 5 to 10.

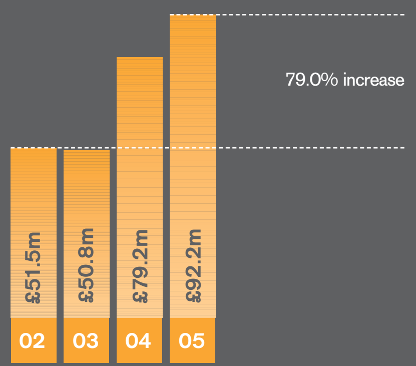
"Like-for-like sales growth including the contribution from new mezzanines, was 8.9%."

During the last four financial years turnover and operating profit before goodwill amortisation and exceptional operating items have increased by 20.9% and 79.0% respectively.

Turnover (£m)



Operating profit before goodwill amortisation and exceptional operating items (£m)



Net interest payable

Net interest payable before exceptional items was £14.7m compared with £35.4m last year. A net exceptional interest credit of £0.5m was taken to the profit and loss account and the details of these transactions are noted below.

Halfords Group floated on 8 June 2004 and the Company used the net proceeds of the Global Offer together with borrowings under new banking facilities to repay its indebtedness under its existing senior credit agreement, deep discount bonds, shareholder loan notes and to pay fees and expenses associated with the new bank facilities. As a consequence, an exceptional charge of £1.7m (53 weeks to 2 April 2004: £6.3m) was made in respect of accelerated amortisation of the issue costs associated with these borrowings.

On repayment of the Group's borrowings at the time of the IPO, the Group hedged its new borrowing facilities using new interest rate swaps and received £2.2m of exceptional income on the termination of its former interest rate swaps.

Profit on ordinary activities before taxation

Profit on ordinary activities before taxation was £64.1m compared with £27.8m in the prior year, an increase of 130.6%.

Taxation

The taxation charge on profit before exceptional items for the financial year was £24.8m (2004: £15.0m) resulting in a full year effective tax rate of 32.0% (2004: 34.2%) applied to profit before taxation excluding exceptional items and goodwill amortisation.

The tax charge exceeds the charge based on the statutory rate of UK corporation tax rate of 30% principally due to the non-deductibility of depreciation charged on capital expenditure in respect of mezzanine floors and other store infrastructure.

Cash flow and net debt

The Group continues to be a strong generator of cash and during the year generated an operating cash inflow of £116.2m. Included within the working capital movement of £1.6m there is an £8.2m benefit arising from the timing of the Group's VAT payment.

Underlying net debt at 1 April 2005 was £169.7m, a reduction of £179.8m on the prior year comparative, which also reflects the debt repayment and restructuring following the IPO.

Capital expenditure

As outlined at the time of the IPO, the Group is planning an investment programme that will amount to approximately £80m over a three year period. The majority will be spent on improving the store environment via the supermezzanine programme and new stores. Capital investment in the period totalled £27.7m, an increase of £7.5m on last year. This included spend of £7.1m on new store and relocation investment, and £11.1m on the store conversion programme. Other capital expenditure included the investment in head office IT systems, which is now close to completion.

We'll Fit It

The award winning "We'll Fit It" programme has fitted close to one million products in the past year ranging from wiper blades and bulbs to roof boxes and satellite navigation systems.

Operating leases

All the Group's stores are held under operating leases, the majority of which are on standard lease terms, typically with a 15 year term at inception. The Group has an annual commitment under non-cancellable operating leases of £66.6m.

Earnings per share

Earnings per share before exceptional items and goodwill amortisation at 24.4p (2004: 17.7p) is an excellent maiden performance and reflects the increase in operating profit combined with a lower interest charge. Basic earnings per share was 18.5p (2004: 8.3p).

Dividend

The Board is recommending a final dividend of 8.3p per share in addition to the 3.7p per share interim dividend already paid, bringing the total dividend for the year to 12.0p per share.

Subject to shareholder approval at the Annual General Meeting on 13 July 2005, the final dividend will be paid on 1 August 2005 to shareholders on the register at the close of business on 17 June 2005. Shares will be quoted ex-dividend from 15 June 2005.

Accounting policies

These financial statements comply with all accounting standards issued by the Accounting Standards Board applicable to financial statements for the year ended 1 April 2005. The Group's Accounting Policies are set out on pages 43 and 44, and are consistent with the prior year, except for the adoption of UITF 38 'Accounting for ESOP Trusts' and UITF 17 (revised 2003) 'Employee share schemes'.

Retirement benefits

All employees following three months service are offered membership of Halfords Pension Plan, a defined contribution pension arrangement.

International Financial Reporting Standards ('IFRS')

As required by European Union legislation, the Group will first publish a report under IFRS for the 26 weeks ending 30 September 2005 and financial statements for the 52 weeks ending 31 March 2006.

IFRS implementation will have an impact on the presentation of the Group's results although it should be noted that it will have no impact upon the Company's trading or its cash flow. The principal differences are expected to arise in goodwill amortisation, share based payments, accounting for derivatives (the Group hedges against foreign exchange and interest rate movements), property leases, and deferred taxation.

Treasury policies and financial risk management

The Group's treasury function is principally responsible for managing the Group's funding, as well as certain financial risks described below. Treasury manages these risks using policies approved by the Board.

Liquidity risk

The Group has committed bank facilities comprising an amortising five year term loan of £140m and a revolving credit facility of £120m, which, together with a series of uncommitted bank facilities and occasional cash surpluses, provide sufficient funding for the Group's operations. The Treasury Committee reviews liquidity on a monthly basis.

A supermezzanine store will typically add a further 40% of selling space to a standard superstore and create space for product range enhancement and new product categories such as Active Leisure and Kidszone.

In accordance with the committed facility dated 17 May 2004, the Group repaid £10m of term debt on 31 March 2005, and will repay £10m six monthly for the remaining term of the facility. At 1 April 2005, the Group had undrawn committed bank facilities totalling £119m.

Interest rate risk

The Group's bank term debt carries a variable rate of interest linked to prevailing interest rates. In order to mitigate the risk of a rise in UK interest rates, the Group has entered into a single interest rate swap until 8 June 2009, such that 90% of the net bank loans and 81% of total bank borrowings at 1 April 2005 carry a fixed rate of interest.

The position is reviewed regularly and the Group's policy of hedging at least 75% of the following financial year's forecast interest rate exposure is satisfied for the period ending 31 March 2006.

At 1 April 2005, £32.8m of net debt was floating rate. The weighted average pre-tax cost of debt as at 1 April 2005 was 6.4%.

During the year the Group cancelled its interest rate contracts that did not match the new, post-IPO debt structure, and entered into a new single interest rate swap.

The Group received £2.2m to close out these contracts, although this will be offset by pro-rata higher interest payments under the new contract.

Counterparty risk

Treasury occasionally deposits cash and transacts foreign exchange and derivative contracts according to the counterparty's credit rating. The Group ensures that such counterparties hold at least an AA credit rating.

Foreign exchange risk

The Group uses a combination of forward foreign exchange contracts and zero-cost options to hedge the foreign exchange risk of imports (paid in US dollars) from the Far East.

Nick Carter
Finance Director
8 June 2005

Board of Directors

Group Board

1 Rob Templeman
2 Ian McLeod
3 Nick Carter
4 Richard Pym
5 Keith Harris
6 Bill Ronald
7 Nigel Wilson
8 Jonathan Feuer








Halfords Limited Management Board (left to right)

Nick Wharton
Business Development and HR Director

Steve Whyman
Supply Chain and Business Systems Director

Nick Carter
Finance Director

Phil Parker
Company Secretary

Andy Torrance
Retail Operations Director

Paul McClenaghan
Trading Director

Ian McLeod
Chief Executive

Rob Templeman (47)
Non-executive Chairman
Rob was appointed to the Board as Chairman in March 2003, following Halfords' acquisition by CVC in August 2002. Previously, he was Chief Executive of Homebase Group Limited, where he managed a leveraged buy-out with Permira from Sainsburys. Prior to this Rob held several retail executive positions, including Chief Executive of Harveys Furnishing plc. Rob has over 20 years experience in the retail sector. Currently Rob is Chief Executive of Debenhams.

Ian McLeod (46)
Chief Executive
Ian joined Halfords in September 2003, and was appointed to the Board in May 2004. He became Chief Executive in March 2005. Previously, he was Chief Executive of Celtic plc for two years. Prior to this, Ian was on the Executive Board of WalMart, Germany, and held several positions within Asda over the course of 20 years and was Director of Asda Stores Limited between 1997 and 2001. Ian is a Non-executive Director of Fulham Football Club (1987) Limited.

Nick Carter (38)
Finance Director
Nick was appointed Finance Director in August 2003. Prior to this, he was Finance Director at Birthdays Group Limited and held a number of finance and commercial roles at Superdrug Stores plc and Kingfisher plc. Nick qualified as a Chartered Accountant at KPMG.

Richard Pym (55)
Senior Independent Director
Richard joined the Board as the Senior Independent Director in May 2004. He is Group Chief Executive of Alliance & Leicester plc. He has also been a Non-executive Director of Selfridges plc and has held various roles at Thompson McLintock & Co, British Gas plc, BAT Industries plc and The Burton Group plc.

Keith Harris (52)
Non-executive Director
Keith was appointed a Non-executive Director in May 2004. He has been Executive Chairman of Seymour Pierce Limited since its acquisition from Investment Management Holdings plc. Prior to this, Keith was Chairman of the Football League and Chief Executive of HSBC Investment Bank plc. Keith is currently on the Board of Wembley National Stadium Limited.

Bill Ronald (49)
Non-executive Director
Bill joined the Board as a Non-executive Director in May 2004. He is Deputy President of the Food and Drink Federation. Previously, Bill was Chief Executive of Uniq plc. Prior to this, he was Managing Director of the UK confectionery operation of Mars Incorporated and a Vice-President of Masterfoods Europe. Bill has also held various director roles at the BCCCA (The Biscuit, Cake, Chocolate and Confectionery Association), ISBA (Incorporated Society of British Advertisers) and the IGD (Institute of Grocery Distribution).

Nigel Wilson (48)
Non-executive Director
Nigel joined the Board as a Non-executive Director in May 2004. Currently, he is Chief Financial Officer of United Business Media plc. Prior to this he was Group Finance Director of Viridian Group plc from 1996 to 2000, and became Managing Director of Viridian Capital in 2000. Previous appointments include Group Finance Director at Waste Management International plc, Head of Corporate Finance and Group Commercial Director of Dixons Group plc, Managing Director of Stanhope Properties plc and a consultant at McKinsey and Company.

Jonathan Feuer (42)
Non-executive Director
Jonathan joined Halfords in July 2002. He is also a partner of CVC Capital Partners and a Director of Debenhams Retail Holdings Limited. Jonathan joined CVC Capital Partners in 1988, having previously worked in the Corporate Finance Department of Baring Brothers & Co. Ltd and for Ernst & Whinney, where he qualified as a Chartered Accountant.

Employee focus

Becky Wiberg
Child Seat Fitter

Travel in safety

Becky has worked for Halfords for five years and is a trained child seat fitting specialist. She has advised on and fitted over 1,000 child car seats into her customers' cars. "Safety is paramount and my job is to make sure the customer gets the right seat for their child. More than eight out of ten seats are incorrectly fitted, which is a frightening statistic"

Corporate Social Responsibility

Halfords has an ongoing corporate social responsibility programme, which is designed to promote understanding amongst our stakeholders of the important issues for our business and to facilitate appropriate management approaches. It is our aim to continually improve our management of social, environmental and economic issues throughout the business and our global supply network. In doing this, we will develop shared business objectives with our business partners.

A summary of our challenges and achievements over the past year is given below. A full copy of our Corporate Social Responsibility report for 2005 can be found on the Company's website, www.halfordscompany.com

1. In the Marketplace

Our policy is to meet or exceed the requirements of legislation, industry standards, international conventions and codes of practice. We oppose the exploitation of children and young people, and the exploitation of workers generally, and we support fair and reasonable rewards and conditions for workers. To this end, we conduct factory, warehouse and tied accommodation inspections and audits to ensure that our standards are being implemented.

The health and safety of our workers is paramount. We require all activities to be carried out under conditions that have proper and adequate regard for the health and safety of those involved.

2. In the Workplace

Engaging with our employees has been one of our main objectives. One of our greatest achievements regarding employee engagement has been our ability to reward our people following flotation and let them share in our future success as a listed company. To do this we successfully launched a Company share option scheme that invited employees to accept a grant of options through the scheme. The most innovative aspect of this scheme was the decision to include all of our people, subject to eligibility criteria, irrespective of their seniority. We are particularly proud of this achievement, as similar schemes are usually designed for the executive or senior management population.

Employee engagement and support are vitally important to the Company and several initiatives are in place to achieve this. In addition, training and development programmes are in place throughout the business to maximise people's skills and advancement.

3. In the Community

The Company is the technical sponsor of the BHF ("British Heart Foundation"), London to Brighton cycle ride, providing 100 cycle specialists from our stores to keep the fund-raisers on the road. Our cycle mechanics provide help and service to the estimated 50,000 riders who take part. The BHF is the UK's leading charity on heart disease and its prevention and this is the second year of sponsorship for Halfords, as part of a three year partnership with the BHF.

In areas of family safety Halfords is the major sponsor of the Mother and Baby campaign, which raises awareness of child seat fitting in cars, run by the leading parenting magazine, Mother and Baby. Around eight out of ten child seats in the UK are wrongly fitted in cars, sometimes leading to injury or death of young babies and toddlers. As one of the UK's leading retailers of child seats, Halfords has invested in training around 1,000 store staff in their demonstration and fitting. We also run roadshows at Halfords' stores, working with road safety officers to give free advice and fitting services to parents and guardians. We also run our own national child seat fitting week at all superstores, to raise awareness of the issue.

4. In the Environment

Our commitment is to understand and improve the performance and management of our environmental impact throughout the Halfords supply chain. We aim to achieve a high standard of responsible care for people and the environment, whilst maximising business efficiency and growth. To this end, we will review our policy regularly and update it accordingly.

Our key areas of concern cover ethical sourcing, our use of natural resources, pollution prevention, waste management, supplier and contractor relationships and the impact of our products and services. Our policy commitments will be translated into actions, using quantifiable objectives, targets and key performance indicators, which will be reviewed and updated annually.

Directors' Report

The Directors of Halfords Group plc (the "Company") present their annual report to shareholders, together with the audited consolidated financial statements of the Company and its subsidiaries for the financial year ended 1 April 2005.

Principal Activities

The principal activity of the Group is the retailing of auto, leisure and cycling products. As at 1 April 2005 the Group traded from 395 outlets in the UK and 3 in the Republic of Ireland.

Review of Activities

A review of the Group's activities and of its future development is contained within the Chairman's Statement, the Chief Executive's Report, and the Finance Director's Report on pages 3 to 15.

Results and Dividend

The Group's results for the year, together with the appropriations made and proposed, are set out in the Group Profit and Loss Account on page 38.
The profit on ordinary activities of the Group before taxation amounted to £64.1m (53 weeks ended 2 April 2004: £27.8m) and the profit on ordinary activities after taxation amounted to £39.9m (53 weeks ended 2 April 2004: £13.5m).

Subject to approval by shareholders at the Annual General Meeting to be held on 13 July 2005, a final dividend of 8.3p per ordinary share will be paid on 1 August 2005 to shareholders whose names are on the register of members at the close of business on 17 June 2005. This payment, together with the interim dividend of 3.7p per ordinary share paid on 10 January 2005, makes a total for the year of 12.0p per ordinary share. The total dividend payable to shareholders charged to the profit and loss account is £27.4m (53 weeks ended 2 April 2004: nil). The Directors propose to transfer the retained profit of £12.5m (53 weeks ended 2 April 2004: £13.5m) to reserves. Arrangements are in place for Hill Samuel Offshore Trust Limited, as trustee of the Halfords Employees Share Trust, to waive entitlements to dividends.

Directors

Profiles of the Directors are given on page 17.

The following have served as Directors during the financial year ended 1 April 2005:

Rob Templeman	appointed	4 March 2003
David Hamid	appointed	27 June 2003
	resigned	29 March 2005
Ian McLeod	appointed	17 May 2004
Nick Carter	appointed	19 September 2003
Richard Pym	appointed	17 May 2004
Keith Harris	appointed	17 May 2004
Nigel Wilson	appointed	17 May 2004
Bill Ronald	appointed	17 May 2004
Jonathan Feuer	appointed	24 July 2002
Christopher Woodhouse	appointed	4 March 2003
	resigned	30 May 2004
Soren Vestergaard-Poulsen	appointed	28 July 2002
	resigned	30 May 2004

David Hamid resigned on 29 March 2005, due to ill health. In his place, Ian McLeod was, on the same date, appointed as Chief Executive.

In accordance with the Company's Articles of Association, Rob Templeman is retiring by rotation at the forthcoming Annual General Meeting and, being eligible, has indicated that he will offer himself for re-election at that meeting. Jonathan Feuer was appointed to the Board to represent the "CVC Shareholders" (as defined in the Company's Articles of Association, in essence, being the investment funds advised, directly or indirectly, by CVC Capital Partners Limited). In accordance with the Company's Articles of Association, he also retires at the forthcoming Annual General Meeting and, being eligible, has indicated that he will offer himself for re-election at that meeting. In addition, Ian McLeod, Richard Pym, Bill Ronald, Keith Harris and Nigel Wilson were all appointed as Directors by the Board in May 2004 (shortly before the flotation in June 2004) and, under the Articles of Association, each retires at the forthcoming Annual General Meeting and each has indicated that he will offer himself for election at that meeting. Each of the Directors standing for election or re-election are recommended by the Board for appointment at the Annual General Meeting.

Directors' Interests

The Directors' interests in shares and options over shares in the Company are shown in the Directors' Remuneration Report on pages 34 to 35. No Director has any other interest in any shares or loan stock of any Group company.

No Director was or is materially interested in any contract, other than his service contract, subsisting during or existing at the end of the financial year, which was significant in relation to the Group's business.

To ensure that the Company could act independently of the CVC Shareholders following the IPO, on 3 June 2004, the Company entered into a relationship agreement with each of the CVC Shareholders. The agreement provides, among other things, that whilst they hold at least 15% of the Company's ordinary shares, the CVC Shareholders are entitled to appoint one Director to the Board. The CVC Shareholders can require that such Director be appointed to any committee of the Board or be invited to attend such meetings of such a committee. Where the CVC appointed Director receives information in a capacity other than as a Director of the Company which imposes on him a duty of confidentiality, the Director is not obliged to disclose that information to the Company. The agreement also provides that, excluding the Chairman, at least half of the Board must comprise Directors who are independent.

During the year the Company maintained liability insurance for its Directors and officers.

Charitable Donations and Political Contributions

During the year, the Group contributed £36,000 (2004: £44,000) to charities in the UK. The Group's policy is not to make any donations for political purposes. However, the Political Parties, Elections and Referendums Act 2000 has redefined 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 will be proposed at the forthcoming Annual General Meeting to provide limited authority for such expenditure.

Employees

The Board seeks to instill high standards of customer care and service in the Group and the commitment of every employee to this business requirement is considered to be critical. The Company has established a communication framework for employees concerning business performance (including financial and economic factors affecting performance), company benefits (including share options) and innovation. Group-wide training reinforces the Group's commitment to employee involvement and development.

The Group is committed to the principle of equal opportunity in employment and to ensuring that no applicant or employee 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 ensure 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 an employee 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 includes the risk of things going wrong or of malpractice taking place such as fraud, risks to health and safety, etc. 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.

The Company's pension arrangements for the UK-based employees of the Group are summarized in note 26 on page 60.

Directors' Report

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

Corporate Social Responsibility

The Group takes its obligations to employees, customers, suppliers, and to the environment and society generally, very seriously. To this end, a detailed statement of corporate social responsibility has been developed and can be found on the Group's website. The statement includes the Group's environmental policy, including waste management and recycling, prevention of pollution and damage to the environment, compliance with applicable industry standards and legislation; and its social responsibility policy which, amongst other matters, sets out the Group's commitment to fair employment practices, working arrangements and pay and working hours, health and safety matters, and a prohibition on the exploitation of the labour of children and young people. Further details of our approach to Corporate Social Responsibility is on page 19.

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 53 days (2004: 58 days). The Company is a holding company and had no trade creditors at the end of the financial year.

Major Shareholders

At 31 May 2005, the Company's share register of substantial shareholdings showed the following interests in three per cent. or more of the Company's issued ordinary shares:

Holder	Number of shares	% of issued shares
CVC Capital Partners[1]	45,198,433	19.8
F&C Asset Management	12,530,222	5.5
Fidelity	12,440,708	5.5
Barclays Global Investors	10,847,360	4.8
Britannic Asset Management	9,951,004	4.4
Legal & General Investment Management	8,160,297	3.6

Note

(1) Funds managed or advised by CVC Capital Partners Advisory Company Limited, or an affiliate thereof, hold a total of 45,198,433 shares; included within that total the following funds have substantial holdings:

- CVC European Equity Partners III LP: 18,868,089 shares (8.3%)
- CVC European Equity Partners II LP: 12,811,705 shares (5.6%)

Auditors

PricewaterhouseCoopers LLP have indicated their willingness to accept reappointment as the Auditor of the Company and a resolution proposing their reappointment is contained in the notice of the Annual General Meeting and will be put to shareholders at the Annual General Meeting.

Annual General Meeting

The Annual General Meeting will be held at the Stratford Moat House Hotel, Bridgefoot, Stratford on Avon, Warwickshire, CV37 6YR, on Wednesday 13 July 2005 at 11.30 a.m. The notice of the Annual General Meeting and explanatory notes regarding the special business to be put to the meeting are set out in a separate circular to shareholders accompanying this Annual Report and Accounts.

By Order of the Board

Philip Parker
Company Secretary
8 June 2005

Corporate Governance

The Board is responsible for the governance of the Company, governance being the systems and procedures by which the Company is directed and controlled. A prescribed set of rules does not of itself determine good governance or stewardship of a company and, in fulfilling their responsibilities, the Directors believe that they govern the Company in the best interests of shareholders, whilst having due regard to the interests of other "stakeholders" in the Group including, in particular, customers, employees and creditors. For the period from flotation to 1 April 2005, the policy of the Board has been to manage the affairs of the Company in accordance with the principles of good governance and the code provisions set out in Section 1 of the Combined Code on Corporate Governance ("the Combined Code").

Compliance with the Combined Code

The Directors consider that the Company has fully complied with the requirements of the Combined Code for the period since flotation, with the exception that the Chairman, Rob Templeman, is deemed by the Board not to have been independent for the purposes of paragraph A.2.2 of the Combined Code, due to him having been an executive chairman of the Company prior to the flotation.

The Directors

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, ensure that good corporate governance is practiced and that the Group meets its other responsibilities to shareholders, customers and other stakeholders. The Board is also responsible for ensuring that appropriate processes are in place in respect of succession planning for appointments to the Board and to senior management positions.

Currently, the Board is composed of eight members, consisting of two Executive Directors, a Non-executive Chairman and five Non-executive Directors. Four of the Non-executive Directors are considered by the Board to be independent, namely Richard Pym, Nigel Wilson, Keith Harris and Bill Ronald. Accordingly, no individual or group of individuals dominates the Board's decision-making and the requirement of the Combined Code that at least half the Board (excluding the Chairman) should comprise independent Non-executive Directors is satisfied.

The Chairman, Rob Templeman, was Executive Chairman prior to the flotation of the Company in June 2004, but on flotation relinquished his executive role and became Non-executive Chairman. Jonathan Feuer is deemed by the Board not to be independent due to him being an employee of CVC Capital Partners Limited, which provides advice, whether directly or indirectly, to the CVC Shareholders who, collectively, held 19.8 per cent. of the Company's issued shares at 1 April 2005. Jonathan Feuer is also the appointee of the CVC Shareholders under Article 73 of the Company's Articles of Association.

It is the policy of the Nomination Committee and the Board to maintain an appropriate balance between Executive and Non-executive Directors in line with the provisions of the Combined Code. As reflected in the profiles of the Directors on page 17, the Directors have wide experience which enables them to contribute fully to the Board and to the Group's business and ensures that independent judgement is exercised on issues such as strategy and performance and that a proper balance of power is maintained for full and effective control. The Non-executive Directors devote sufficient time and attention as necessary in order to perform their duties.

The Company recognises that its Executive Directors may be invited to become Non-executive Directors of companies outside the Group and exposure to such duties can broaden experience and knowledge, which will be to the benefit of the Company. Subject to Board approval (which will not be given if the proposed appointment is with a competing company, would otherwise lead to a conflict of interest or could have a detrimental effect on a Director's performance), the Board's policy is that an Executive Director can accept no more than one Non-executive Directorship and may retain the fees. Ian McLeod is currently a Non-executive Director of Fulham Football Club (1987) Limited.

The Board has appointed Richard Pym as the Senior Independent Director. 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 Executive Directors has either failed to resolve, or for which such contact is inappropriate.

Corporate Governance

The Board initially appoints all new Directors having first considered recommendations made to it by the Nomination Committee. Following such appointment, the Director is required to retire and seek re-appointment at the next Annual General Meeting. Under the Company's Articles of Association there is also a process of rotation, which ensures that approximately one third of all Directors are required to retire and seek re-appointment at each Annual General Meeting and that no Director serves for more than three years without being proposed for re-appointment at an Annual General Meeting.

Non-executive Directors are appointed for specified terms (normally three years) subject to re-appointment under the Company's Articles of Association and subject to Companies Act provisions relating to the removal of a Director. The Chairman will confirm to shareholders when proposing an appointment or re-appointment that, following formal performance evaluation, the individual's performance continues to be effective and to demonstrate commitment to the role. Any term beyond six years for a Non-executive Director would be subject to particularly rigorous review and will take into account the need for progressive refreshing of the Board. Any Non-executive Director serving longer than eight years would be subject to annual re-appointment.

Profiles of the Directors are set out on page 17.

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

The Board meets on a regular basis. During the financial year ended 1 April 2005, the Board met formally nine times. In addition to the scheduled Board meetings, the Board held an additional meeting to review corporate strategy. Appropriate documentation and financial information is provided on a monthly basis and also in advance of each Board meeting. These normally include monthly management 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 are made on business or strategic issues, when appropriate. The Board also receives information from management on current trading and prospects and the market position of the Group, together with key issues being addressed by the management team. Minutes of committee meetings are circulated to all Board members, unless a conflict of interest has arisen. These procedures are intended to ensure that the Board is supplied in a timely manner with information appropriate to enable the Board to discharge its duties.

The number of meetings of the Board and of each of the Audit, Remuneration and Nomination Committees held during the financial year ended 1 April 2005, together with a record of the attendance of the current Directors who are their respective members, is set out below:

Number of meetings attended

	Board Meetings	Audit Committee	Remuneration Committee	Nomination Committee
Rob Templeman	9	–	–	–
Ian McLeod	8	–	–	–
Nick Carter	9	–	–	–
Richard Pym	7	2	2	3
Nigel Wilson	8	2	2	–
Bill Ronald	9	2	–	3
Keith Harris	7	–	2	3
Jonathan Feuer	8	–	–	–
Total meetings in year	9	2	2	3

Note: - denotes that a Director is not a member of the relevant Committee

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

The make up and roles of the three key committees – the Audit, Remuneration and Nomination Committees – are described below and (in relation to the Remuneration Committee) in the Directors' Remuneration Report on pages 30 to 35.

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 businesses.

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 submits replies to the questionnaires, which are collated into a report for the Board. Following a review of the report by the Board, any appropriate action will be taken to ensure that the performance of the Board as a whole, its principal committees and individual Directors is such that each can perform at the optimum level for the benefit of the Company. The Senior Independent Director and the other independent Non-executive Directors conduct the annual performance evaluation of the Chairman.

The Company maintains an appropriate level of Directors' and Officers' liability insurance to provide cover for its Directors and Officers for claims and liabilities or legal actions arising out of the performance of their duties or roles.

Board Committees

The Board has established Nomination, Remuneration and Audit Committees, with formally delegated duties and responsibilities and written terms of reference. The Company Secretary acts as secretary to all three committees. Only the members of each committee are entitled to attend its meetings, although other Directors, professional advisers and members of the senior management team attend when invited to do so. The Audit Committee will normally invite the external Auditor to its meetings. In the cases of the Nomination and Remuneration Committees, no member is present when business pertinent to him is under discussion.

A Treasury Committee, chaired by Nick Carter, has also been established to manage the day-to-day treasury needs of the Group. The Treasury Committee's membership is drawn from senior members of the Group's finance and treasury teams. From time to time, separate ad hoc Committees may be set up by the Board to consider specific issues when the need arises.

Audit Committee

The Audit Committee comprises Nigel Wilson, Richard Pym 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. Richard Pym, a Chartered Accountant and Group Chief Executive of Alliance & Leicester plc, and Bill Ronald, formerly Chief Executive of Uniq plc, both have significant, recent and relevant experience of financial and accounting issues.

The Committee has formal terms of reference and meets at least two 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 to discuss the performance of the Group, its management and their ongoing stewardship of the Group. The independent Non-executive Directors also have the opportunity at this time to raise any issues of concern with the Auditor.

In addition to monitoring the internal and external audit functions and ensuring the integrity of the Group's interim and full-year financial statements before publication, the Committee also has responsibility for monitoring a number of other areas of activity including:

- the integrity, performance, and independence of the Group's relationship with the external auditors;
- reviewing the nature and extent of non-audit services by the auditors (in order to seek to balance the maintenance of objectivity and independence, and value for money). In this context, the Committee requires any proposal for expenditure of over £25,000 on non-audit services to be referred to it for scrutiny and approval;

Corporate Governance

- the effectiveness of the Group's internal controls and the Group's risk management policies and systems, and objective assurance on the control environment across the Group;
- making recommendations to the Board on the appointment of auditors and the level of audit fees; and
- keeping under review the scope and results of the audit and its cost effectiveness.

Nomination Committee

The Nomination Committee comprises Richard Pym (Chairman), Keith Harris and Bill Ronald, all of whom are independent Non-executive Directors and Ian McLeod (who joined the Committee in April 2005). David Hamid was also a member of the Committee until his resignation as Chief Executive on 29 March 2005.

The Nomination Committee has formal terms of reference and meetings are held as and when required, although the Committee is required to meet at least twice each year. During the period under review, it met to consider succession planning for the Board and senior management generally and to agree the appointment of a new Chief Executive.

In addition, its remit includes:

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

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

During the year, the Committee nominated Ian McLeod for appointment as Chief Executive. In making its nomination, the Committee took account of his contribution to the success of the Group and the breadth of his experience in the retail sector. The Board subsequently approved the nomination and Mr McLeod was appointed as Chief Executive on 29 March 2005.

Remuneration Committee

The Remuneration Committee comprises Keith Harris (Chairman), Richard Pym and Nigel Wilson, all of whom are independent Non-executive Directors.

The Committee has formal terms of reference and meetings are held as and when required, although the Committee is required to meet at least twice each year.

The Committee, on behalf of the Board, determines all elements of the remuneration packages of the Executive Directors and certain senior executives of the Group. It approves the terms of service contracts with Executive Directors and would also approve any compensation arrangements resulting from the termination by the Company of a Director's service contract. The Committee also approves the grant of share options. The terms of reference of the Committee include the following:

- to make recommendations to the Board on the Company's framework of executive remuneration and its cost;
- to review and determine, on behalf of the Board, the remuneration and incentive packages of the Company's Executive Directors and certain senior executives of the Group to ensure that they are fairly rewarded for their individual contributions to the Group's overall performance;
- to determine the basis on which the employment of the Company's Executive Directors and certain senior executives of the Group is terminated; and
- to supervise the operation and administration of the Company's share option schemes and employee benefit trust.

To assist the Committee in its work, the services of remuneration consultants, Watson Wyatt LLP, were retained to provide advice on appropriate levels of remuneration for Executive Directors and for other senior executives in the Group and from Clifford Chance LLP in respect of share schemes.

The Committee also assists the Board in preparing the annual report on Directors' remuneration. The Directors' Remuneration Report for the year ended 1 April 2005 is set out on pages 30 to 35 of this report.

Accountability and audit

The respective responsibilities of the Directors and the Auditor in connection with the Company's financial statements are explained below under the headings "Statement of Directors' Responsibilities" on page 36 and "Respective Responsibilities of Directors and Auditors" on page 37. The Directors are responsible for presenting a clear and balanced assessment of the financial situation and prospects of the Group and, as part of this assessment, the Chief Executive's Report is set out on pages 5 to 10 and the Finance Director's Report is set out on pages 12 to 15.

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness throughout the Group. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss. It is also recognised that it is the nature of any business that commercial risk must be taken and, for a business to succeed, enterprise, initiative and motivation are key elements to success which should not be unduly stifled. The effectiveness of the Group's system of internal control is reviewed by the Audit Committee on behalf of the Board.

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 procedures in place to enable this responsibility to be discharged are as follows:

- reviews of Group risk assessment reports by the Audit Committee and the Board;
- production and regular updating of summaries of key controls;
- reviews of reports prepared throughout the year by management;
- the Chairman of the Audit Committee reports the outcome of the Audit Committee meetings to the Board and the Board receives minutes of those meetings; and
- regular review of the role of insurance in transferring risk from the Group.

The Board's internal control system focuses on a wide range of business and financial risks as follows:

Business risks: There is an ongoing process for identifying, evaluating and managing the business risks faced by the Group and this process was in place for the year under review and up to the date of this Report. Business risks are identified and evaluated through senior management's ongoing review of progress against strategic objectives agreed with the Board and a system of formal risk assessments within each part of the Group. The risks which are reviewed through the formal risk assessment system include:

- external business risks including regulatory and compliance obligations;
- operational risks arising from, for example supplier dependency, fire and explosion;
- financial risks, such as the management of payroll controls;
- legal risks, for example, the risks arising under leases of retail units and under contracts with suppliers;
- informational risks, including the integrity of IT systems and the security of information; and
- the risks to members of staff from crime.

The risk assessment system is supported by internal risk reviews carried out by functional managers. The results of this work are reported to the Audit Committee which reviews the effectiveness of these controls on behalf of the Board and may lead to risk improvement recommendations being agreed for implementation by the relevant operating unit.

Financial risks: The key internal financial control procedures which operated in the Group throughout the period covered by the financial statements are as follows:

- **Control environment:** There is a clear organisational structure in which levels of authority and accountability are well defined. The Group's business operates within a framework of procedures laid down in written policy documents and the Group's personnel are required to comply with these procedures as relevant to their functions and responsibilities. Financial reporting follows generally accepted accounting practice in all areas.
- **Identification and evaluation of risks and control objectives:** The process of risk assessment and the evaluation of its related financial impact is an ongoing process reflected in decision-making at Group and operating levels.

- **Monitoring and management of risk:** Central review and approval procedures are in place in respect of the major areas of risk such as acquisitions and disposals, major contracts, capital expenditure, litigation, treasury management, taxation and environmental issues. Wherever practical, duties are segregated and a high degree of management control is also exercised through review by executives of historical and forecast financial information. Conformity with procedures is monitored on an ongoing basis. In addition, the Group has reporting systems which identify major financial and other business risks within the Group. Policies and procedures have been laid down for the regular review and management of these risks, underpinned where appropriate by insurance.

- **Information and communication:** Comprehensive information systems are maintained at Group and operating unit levels and are subject to scrutiny by the Board as follows:
  - detailed budgeting procedures with an annual budget approval;
  - monthly consideration of actual results compared with budgets and forecasts;
  - regular reviews of rolling profit and cash flow forecasts;
  - regular reviews of the Group's capital expenditure plan; and
  - reporting of legal and accounting developments.

  Regular executive and Board meetings and operational reviews are held with a view to ensuring variances and discrepancies are identified and investigated in a timely way. The Company also reports to shareholders half-yearly.

- **Control procedures:** Extensive systems of internal financial control (including systems control) are operated throughout the Group with authority levels established which limit exposure. There is recognition of personal responsibility and accountability by the members of the management team.

- **Corrective action:** Reviews of the comprehensive management information or issues arising under the annual audit are brought to the attention of the Audit Committee and the Board and corrective action agreed and implemented. The Auditor reports directly to the Audit Committee.

The Audit Committee has reviewed the status of internal controls within the Group post-flotation and, in particular whether it is appropriate for the Group to establish an internal audit function.

It concluded that, whilst as a private company it was not necessary to have an established internal audit function, the requirements of a listed company are different and the Committee therefore recommended to the Board that an internal audit function be established and that the Company undertake a review of the effectiveness of the assurance framework. This assurance framework had previously centred largely on a store focused internal audit resource, a framework considered inappropriate for the requirements of a public company. Deloitte & Touche LLP, as independent advisers, are currently engaged on a project, based on a systematic risk assessment of the business, to evaluate appropriate lines of assurance and recommend options for resourcing in these areas.

The Directors have determined that the Company is a going concern and will continue in business for the foreseeable future, and have therefore prepared accounts on this basis. They have formed this opinion on the basis of the Group's annual budget for the year ending 31 March 2006 and capital expenditure and cashflow forecasts for the subsequent two years.

Relationship with shareholders

The Board recognises the importance of establishing and maintaining good relationships with all of the Company's investors. 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 are also offered the opportunity to attend meetings with major shareholders and would do so if requested by any major shareholder.

The 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 the Board has of communicating during the year with all of the Company's shareholders. However, the Board recognises the importance of the internet as a means of communicating widely, quickly and cost effectively. Accordingly, since flotation in June 2004, an extensive investor relations website (at www.halfordscompany.com) has been developed to facilitate communications to shareholders. Information available online includes copies of press releases and Group news, the terms of reference for the Audit, Nomination and Remuneration Committees, corporate governance information and statements, the schedule of matters reserved to the Board and the Listing Particulars relating to the flotation and other information relevant to shareholders. Copies of the full and interim financial statements will also be made available electronically following their publication.

The Board is committed to constructive use of the Annual General Meeting as a forum to meet with investors and to hear their views and answer their questions about the Group and its business. The Company will dispatch the notice of the Annual General Meeting, with an explanatory circular describing items of special business, at least 20 working days before the meeting. All shareholders have the opportunity formally and informally to put questions at the Company's Annual General Meeting. It is the Company's practice to propose separate resolutions on each substantially separate issue at the Annual General Meeting.

The Chairmen of the Remuneration, Nomination and Audit Committees expect to attend the Annual General Meeting and will answer questions which 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. The Chairman will advise shareholders on the proxy voting details for each of the resolutions after the resolution is put to the meeting.

The Company's financial calendar is set out on page 62.

Directors' Remuneration

Details of Directors' remuneration and emoluments (required to be disclosed by the Combined Code's requirements regarding remuneration matters and by schedule 7A of the Companies Act 1985) are set out in the Directors' Remuneration Report on pages 30 to 35. The Directors' Remuneration Report will be submitted for approval of shareholders at the forthcoming Annual General Meeting.

By Order of the Board

Philip Parker
Company Secretary
8 June 2005

Directors' Remuneration Report

The following Report outlines the Company's policy on the remuneration of Executive Directors and gives details of the remuneration packages of Executive Directors and of the fees paid to Non-executive Directors for the year ended 1 April 2005. The Report has been prepared in accordance with the requirements of Schedule 7A to the Companies Act 1985. Part 3 of Schedule 7A requires designated parts of the Remuneration Report to be audited, whilst other parts are not. In preparing this Report, consideration has been given to the Listing Rules of the UK Listing Authority and to the Combined Code and the Report has been approved by both the Remuneration Committee and by the Board. A resolution to approve the Report will be proposed at the Annual General Meeting of the Company.

Part A of the report, which is not subject to audit, sets out the Company's remuneration policy. Part B, which has been audited, provides details of the remuneration, pensions and share incentives and interests of the Directors for the year ended 1 April 2005.

Part A – Unaudited Information

Remuneration Committee

The Remuneration Committee, which met twice during the year, comprises three independent Non-executive Directors, Keith Harris (Chairman), Richard Pym and Nigel Wilson. The Committee's terms of reference, which are available from the Company's website, set out the responsibilities of the Committee and are described in more detail on pages 26 and 27.

During the year, the Committee received advice from Watson Wyatt LLP, who were appointed by the Committee to provide external independent advice.

Remuneration policy

The remuneration policy of the Committee and of the Board is to provide remuneration packages for the Executive Directors and other senior executives in the Group which are appropriate to the size and nature of the Group's business and which will attract and retain high calibre executives. It is the Company's policy that a substantial proportion of the Executive Directors' remuneration should be performance related in order to encourage and reward superior business performance and shareholder return and that remuneration should be linked to both individual and Company performance.

Accordingly, Executive Directors may earn up to an additional 80% of their basic salaries as a performance bonus and have benefited from participation in the Company's share option scheme as set out below. If the Halfords 2005 Performance Share Plan ("the New Plan") is approved by shareholders at the forthcoming Annual General Meeting, no further grants of options will be made under the share option scheme to the Executive Directors but they will be able in future to participate in the New Plan. This plan is described in the accompanying circular to shareholders and a summary of its principal features is set out in the Appendix to the circular. The Executive Directors are also able to participate in an all-employee SAYE scheme ("the Halfords Sharesave Scheme") referred to on page 34.

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. 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. This year the Committee has also undertaken a review of the longer term arrangements for the Executive Directors' remuneration, with particular emphasis on selecting longer term incentives. Accordingly, the Committee has recommended the adoption of the New Plan.

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

In relation to future appointments of Executive Directors, the Committees and Board's policy will remain one of restricting notice periods to 12 months.

Details of individual Directors' remuneration and share options are set out on pages 33 and 34 of this Report. The main components of the remuneration package for Executive Directors are:

Basic salary

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

Annual bonus

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

Share option schemes

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

Halfords Company Share Option Scheme

Options are granted at an exercise price not less than market value at the date of grant and may normally only be exercised if the performance conditions set at the time of grant have been achieved. Full details of the scheme are set out on page 59. As indicated above, if the 2005 LTIP is approved by shareholders at the forthcoming Annual General Meeting no further grants of options will be made to Executive Directors under this 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.

Details of options granted to Executive Directors which are outstanding and further details of the share option schemes are set out on pages 34 and 59.

Halfords 2005 Performance Share Plan ("the New Plan")

At the forthcoming Annual General Meeting, shareholders will be asked to approve the introduction of the New Plan, details of which are set out in the accompanying circular. If the New Plan is adopted, conditional rights to receive shares will be awarded to participants. 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 per cent. of the awards will be determined by the Company's relative total shareholder return ("TSR") performance and the vesting of the other 50 per cent. by the Company's EPS performance against RPI. The Company's TSR performance will be measured against the FTSE 350 general retailers as a comparator group. No retesting of the performance conditions will be permitted.

Pensions

The Halfords Pension Plan is a defined contribution scheme, which is open to the Executive Directors. The Company's contributions in respect of the Executive Directors during the year are shown in the table on page 34.

Other benefits

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

Non-executive Directors

The fees of the Non-executive Directors are determined by a special committee constituted by the Board, the members of which do not include the Non-executive Directors.

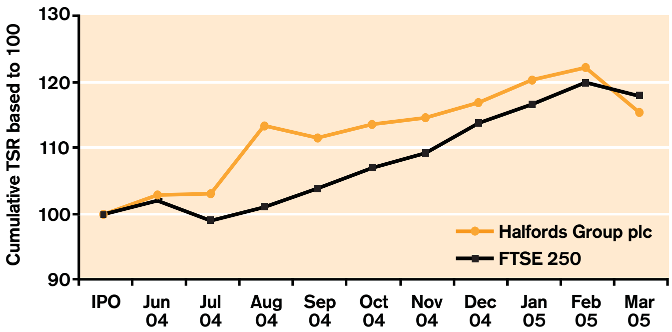
Directors' Remuneration Report

The Company's practice is to appoint Non-executive Directors under letters of engagement rather than under service contracts. Those letters of engagement set out fixed terms of appointment (normally three years) which may be extended with the agreement of the Board.

Performance graph

Schedule 7A of the Companies Act 1985 requires listed companies to provide, by graph, an analysis of the performance of the Company (being total shareholder return) over time as compared with an appropriate and broad equity market index. The FTSE 250 Total Return Index has been selected because it is a broad equity market index which includes the Company's shares.

The graph below shows the total shareholder return (with dividends reinvested) in terms of the change in value for the period following flotation of an initial investment in the Company's shares against a corresponding investment in a hypothetical holding of shares in the companies represented in FTSE 250 Total Return Index.



Executive Directors' Service Contracts

Details of the Executive Directors' service contracts are as follows:

	Date of service agreement	Notice period
Ian McLeod	29 March 2005	12 months
Nick Carter	17 May 2004	12 months

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

In concluding these service contracts for Ian McLeod and Nick Carter, the Company took into account the provisions of the Combined Code regarding notice periods for service contracts. In relation to future appointments of Executive Directors, the Committee's and Board's policy will remain one of restricting notice periods for terminating service contracts to twelve months, although the Committee and the Board may, in appropriate circumstances, offer longer initial notice periods which would reduce to twelve months.

Non-executive Directors: Letters of Engagement

The Company's practice for the appointment of Non-executive Directors is consistent with the provisions of the Combined Code. Non-executive Directors are appointed under letters of engagement (rather than under service contracts) which set out fixed terms of appointment (normally three years) which may be extended with the agreement of the Board.

Details of the Non-executive Directors' letters of engagement are as follows:

	Date of letter of engagement	Unexpired term at the date of this report
Robert Templeman	2 June 2004	9 mths
Richard Pym	2 June 2004	23 mths
Keith Harris	2 June 2004	23 mths
Nigel Wilson	2 June 2004	23 mths
Bill Ronald	2 June 2004	23 mths
Jonathan Feuer	2 June 2004	2 mths

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

Part B – Audited Information

Directors' Emoluments

The remuneration and taxable benefits provided by the Company for each Director during the 52 weeks ended 1 April 2005 are set out in the table below. The table excludes contributions to pension schemes (see page 34):

	Salaries/Fees	Bonuses (Cash)	Benefits(5)	52 weeks ended 1 April 2005 Total	53 weeks ended 2 April 2004 Total
Executive Directors	£'000	£'000	£'000	£'000	£'000
Ian McLeod	200	70	13	283	166
Nick Carter	155	54	11	220	138
David Hamid(1)	310	108	27	445	375
	665	232	51	948	679
Non-executive Directors(4)					
Rob Templeman(6)	70	–	1	71	761
Richard Pym	52	–	–	52	–
Keith Harris	35	–	–	35	–
Bill Ronald	31	–	–	31	–
Nigel Wilson	35	–	–	35	–
Jonathan Feuer	38	–	–	38	25
Christopher Woodhouse(2)	5	–	–	5	751
Soren Vestergaard-Poulsen(3)	5	–	–	5	25
	271	–	1	272	1,562

Notes:

(1) David Hamid resigned as a Director 29 March 2005.

(2) Christopher Woodhouse resigned as a Director 30 May 2004.

(3) Soren Vestergaard-Poulsen resigned as a Director 30 May 2004.

(4) All Non-Executive Directors were appointed on 17 May 2004, except Jonathan Feuer who was appointed on 24 July 2002 and Soren Vestergaard-Poulsen, who was appointed on 28 July 2002 . The remuneration of the Chairman and the other Non-executive Directors consists only of annual fees for their services, both as members of the Board and of the Committees on which they serve.

(5) Benefits include all taxable benefits arising from employment by the Company, being the provision of a company car, permanent health insurance, life assurance cover and membership of a private medical insurance scheme.

(6) Rob Templeman was an Executive Director for the part of the year prior to flotation.

Directors' Remuneration Report

Directors' Pensions

Pension contributions to defined contribution (money purchase) schemes made by the Company during the year ended 1 April 2005 in respect of Executive Directors are as follows:

	52 weeks ended 1 April 2005 £'000	53 weeks ended 2 April 2004 £'000
Ian McLeod	30	6
Nick Carter	23	5
David Hamid[(1)]	46	36
	99	47

Note
(1) David Hamid resigned as a Director 29 March 2005.

Details of the options over ordinary shares in the Company held by Executive Directors who served during the year are set out in the table below:

	Note	As at 02.04.04	Granted in the period	Exercised during the period	Lapsed in the period	As at 01.04.05	Exercise Price (£)	Exercisable From	Exercisable To
Current Directors									
Ian McLeod									
Share Option Scheme	(1)	–	192,308	–	–	192,308	2.60	02.06.07	02.06.14
Nick Carter									
Share Option Scheme		–	149,038	–	–	149,308	2.60	02.06.07	02.06.14
Sharesave Scheme	(2)	–	3,563	–	–	3,563	2.64	01.08.07	01.02.08
			152,601	**–**	**–**	**152,601**			
Rob Templeman	(3)								
Share Option Scheme		–	259,426	(259,426)	–	–	0.01		
Former Directors									
David Hamid	(4)								
Share Option Scheme		–	298,077	–	(298,077)	–			
Sharesave Scheme		–	3,563	–	–	3,563	2.64	01.08.07	01.02.08
			301,640	**–**	**(298,077)**	**3,563**			

Notes:
(1) Options granted under the Halfords Share Option Scheme were 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. 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 5% but less than 10%, a proportion of the option in excess of 150% of salary can be exercised.
(2) The Halfords Sharesave Scheme is a Save-As-You-Earn scheme and is open to all full time directors and employees with eligible employment service. Options may be exercised under the scheme at £2.64 per share if the option holder completes his saving contract for a period of three years and then not more than six months thereafter.
(3) Options granted under a share option scheme approved on 19 November 2003 (see Note 3 on page 45). Options were exercised on flotation. The amount of gain made by Rob Templeman on the exercise of share options during the year was £672,955.
(4) Resigned 29 March 2005.

For details of the grant dates of options see note 22 on pages 58 and 59.
The closing share price on 1 April 2005 was £3.00 and the price range during the period from flotation to 1 April 2005 was £2.60 - £3.34.

The beneficial interests of the Directors and their immediate families in the ordinary shares of the Company (including share options as above), according to the register required to be maintained pursuant to the Companies Act 1985 were as shown in the table below:

Directors' interests in shares

	Ordinary Shares		Options over Ordinary Shares	
	Shareholdings as at 1 April 2005	Shareholdings as at 2 April 2004	Options as at 1 April 2005	Options as at 2 April 2004
Rob Templeman[(1)]	966,672	836,856	–	259,426
Ian McLeod[(1)]	1,129,757	1,506,342	192,308	–
Nick Carter	1,338,972	1,673,713	152,601	–
Richard Pym	11,358	–	–	–
Keith Harris	3,846	–	–	–
Bill Ronald	11,358	–	–	–
Nigel Wilson	10,000	–	–	–
Jonathan Feuer	336,528	679,025	–	–
Christopher Woodhouse	480,077	679,025	–	–

Note:
(1) For all other Directors appointed during the year their shareholding on appointment was nil.

From 1 April 2005 to 8 June 2005 there were no changes in the above interests. All the above interests were beneficial at each of the above dates. Ian McLeod and Nick Carter were, at 1 April 2005 and at 8 June 2005 deemed to be interested as discretionary beneficiaries of the Halfords Employees' Share Trust, in so far as it relates to the share options noted on page 34. 887,068 ordinary shares in the Company were held by the trustees of that Trust on those dates. Save as mentioned above, no Director had any interest in any share capital of the Company or of any subsidiary.

Approved by the Board and signed on its behalf by

Keith Harris
Chairman of the Remuneration Committee
8 June 2005

Statement of Directors' Responsibilities

Company law requires the Directors to prepare financial statements for each financial period which provide a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group in that period. In preparing those statements the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgments and estimates which are prudent and reasonable; and
- state whether applicable accounting standards have been followed, and to disclose and explain and any material departures from those standards.

The Directors confirm that the financial statements on pages 38 to 60 comply with all of the above requirements. The maintenance and integrity of the Halfords Group plc website is the responsibility of the Directors; the work carried out by the Auditors does not involve consideration of these matters and, accordingly, the Auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

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

By Order of the Board

Philip Parker
Company Secretary
8 June 2005

Independent Auditors' Report to the Members of Halfords Group plc

We have audited the financial statements which comprise the Group Profit and Loss Account, the Balance Sheets, the Group Cash Flow Statement, the Reconciliation of Movements in Group Shareholders' Funds and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Directors' Remuneration Report ('the auditable part').

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' responsibilities. The Directors are also responsible for preparing the Directors' Remuneration Report.

Our responsibility is to audit the financial statements and the auditable part of the Directors' Remuneration Report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. 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 financial statements give a true and fair view and whether the financial statements and the auditable part of the Directors' Remuneration Report have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if 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 transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Chief Executive's Report, the Finance Director's Report and the Corporate Governance Statement.

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

Basis of Audit Opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the auditable part of the Directors' Remuneration Report. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and 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 financial statements and the auditable part of the Directors' Remuneration Report 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 financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 1 April 2005 and of the profit and cash flows of the Group for the period then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the Directors' Remuneration Report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Birmingham, 8 June 2005

Group Profit and Loss Account

For the period	Notes	52 weeks to 1 April 2005 £m	53 weeks to 2 April 2004 £m
Turnover	1	628.4	578.6
Cost of sales		(290.7)	(269.0)
Gross profit		337.7	309.6
Net operating expenses	2	(259.4)	(244.1)
Operating profit before goodwill amortisation and exceptional operating items		92.2	79.2
Goodwill amortisation		(13.7)	(13.7)
Exceptional operating items	3	(0.2)	–
Operating profit	4	78.3	65.5
Profit on disposal of fixed assets	5	–	6.4
Net interest payable, before net exceptional interest income/(charges)		(14.7)	(35.4)
Net exceptional interest income/(charges)		0.5	(8.7)
Net interest payable	7	(14.2)	(44.1)
Profit on ordinary activities before taxation		64.1	27.8
Taxation on profit on ordinary activities	8	(24.2)	(14.3)
Profit on ordinary activities after taxation		39.9	13.5
Equity dividends	9	(27.4)	–
Retained profit for the financial period		12.5	13.5
Earnings per 1p share			
Basic	11	18.5p	8.3p
Diluted	11	18.5p	8.0p
Earnings per 1p share before goodwill amortisation and exceptional items			
Basic	11	24.4p	17.7p
Diluted	11	24.4p	16.9p

i) All results relate to continuing operations of the Group.
ii) There is no material difference between the results as stated above and their historical cost equivalents.
iii) The Group has no recognised gains and losses other than the profits above and therefore no separate Statement of Total Recognised Gains and Losses has been presented

Reconciliation of Movements in Group Shareholders' Funds

For the period	52 weeks to 1 April 2005 £m	53 weeks to 2 April 2004 £m
Profit on ordinary activities after taxation	39.9	13.5
Dividends	(27.4)	–
	12.5	13.5
Movements arising from the exercise of share options (see note 3)	4.2	–
Proceeds from the issue of ordinary shares	140.0	–
Finance costs of share issue written off to share premium	(4.9)	–
Net increase in equity shareholders' funds	151.8	13.5
Opening shareholders' funds	4.5	(9.0)
Closing shareholders' funds	156.3	4.5

Balance Sheets

As at	Notes	1 April 2005 Group £m	2 April 2004 Group £m	1 April 2005 Company £m	2 April 2004 Company £m
Fixed assets					
Intangible assets	12	239.4	253.1	–	–
Tangible assets	13	91.8	82.5	–	–
Investments	14	–	–	0.1	0.1
		331.2	335.6	0.1	0.1
Current assets					
Stocks	15	112.2	107.1	–	–
Debtors falling due within one year	16	23.6	23.5	36.1	3.4
Debtors falling due after one year	16	–	–	141.6	–
Cash at bank and in hand		1.1	25.6	6.7	16.0
		136.9	156.2	184.4	19.4
Creditors: amounts falling due within one year	17	(183.1)	(293.8)	(20.0)	–
Net current (liabilities)/assets		(46.2)	(137.6)	164.4	19.4
Total assets less current liabilities		285.0	198.0	164.5	19.5
Creditors: amounts falling due after more than one year	18	(123.9)	(190.2)	–	(3.1)
Provisions for liabilities and charges	19	(4.8)	(3.3)	–	–
Net assets		156.3	4.5	164.5	16.4
Capital and reserves					
Called up share capital	22	2.3	–	2.3	–
Share premium account	23/24	132.9	0.1	132.9	0.1
Profit and loss account	23/24	21.1	4.4	29.3	16.3
Equity shareholders' funds		156.3	4.5	164.5	16.4

The financial statements on pages 38 to 60 were approved by the Board of Directors on 8 June 2005 and were signed on its behalf by:

Ian McLeod
Chief Executive

Nick Carter
Finance Director

Group Cash Flow Statement

	Notes	52 weeks to 1 April 2005 £m	53 weeks to 2 April 2004 £m
Net cash inflow from operating activities	I	116.2	114.8
Returns on investments and servicing of finance			
Interest received		0.4	2.8
Interest paid		(13.9)	(26.8)
Exceptional interest received		2.2	–
Issue costs incurred in connection with the raising of new bank loans		(3.1)	(2.5)
Net cash outflow from returns on investments and servicing of finance		(14.4)	(26.5)
Taxation		(20.1)	(8.1)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(27.6)	(19.3)
Sale of tangible fixed assets		–	6.9
Net cash outflow for capital expenditure and financial investment		(27.6)	(12.4)
Equity dividends paid		(8.5)	–
Net cash inflow before use of liquid resources and financing		45.6	67.8
Management of liquid resources			
Reduction in short term deposits with banks		–	20.0
Financing			
Issue of ordinary share capital		140.0	–
Costs in respect of share issue		(4.9)	–
Capital element of finance lease obligations		(0.2)	0.8
Repayment of borrowings		(370.5)	(146.9)
New borrowings		156.0	65.0
Net cash outflow from financing		(79.6)	(81.1)
(Decrease)/increase in net cash		(34.0)	6.7
Reconciliation of net cash flow to movement in net debt			
Net debt at the beginning of the period		(349.5)	(395.9)
(Decrease)/increase in net cash		(34.0)	6.7
Movement in deposits		–	(20.0)
Movement in borrowings	II	217.8	83.6
Other non cash changes		(4.0)	(23.9)
Net debt at end of the period	II	(169.7)	(349.5)

Notes to Group Cash Flow Statement

I. Reconciliation of operating profit to net cash inflow from operating activities

For the period	52 weeks to 1 April 2005 £m	53 weeks to 2 April 2004 £m
Operating profit	78.3	65.5
Depreciation charge (including loss on disposal of assets)	18.4	16.0
Goodwill amortisation	13.7	13.7
Non-cash movement arising from the exercise of employee share options (see note 3)	4.2	–
Increase in stocks	(5.1)	(16.8)
Increase in debtors	(0.1)	(0.3)
Increase in creditors	6.2	36.5
Increase in provisions	0.6	0.2
Net cash inflow from operating activities	**116.2**	114.8

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

	At 2 April 2004 £m	Cash flow £m	Other non cash changes £m	At 1 April 2005 £m
Cash in hand and at bank	25.6	(24.5)	–	1.1
Bank overdraft	(7.1)	(9.5)	–	(16.6)
	18.5	(34.0)	–	(15.5)
Debt due within one year	(182.2)	185.5	(38.6)	(35.3)
Debt due after one year	(185.0)	32.1	34.6	(118.3)
Finance leases due within one year	(0.2)	0.2	(0.2)	(0.2)
Finance lease due after one year	(0.6)	–	0.2	(0.4)
Total net debt	(349.5)	183.8	(4.0)	(169.7)

The total debt cash outflow consists of £214.5m net repayment of borrowings, £3.1m issue costs of new loans and £0.2m repayment of finance lease obligations.

Non-cash changes relate to interest charges of £2.5m for the amortisation of capitalised issue costs and £1.5m in respect of interest rolled into the principal of the deep discount bonds.

Movement in borrowings	2005 £m
Debt due within one year:	
Secured bank loan	94.7
Deep discount bond and other loans	90.8
Capital element of finance lease borrowings	0.2
	185.7
Debt due after more than one year:	
Secured bank loans	32.1
Cash outflow	**217.8**

III. Cash flows relating to exceptional items

Operating cash flows for the period to 1 April 2005 include an inflow of £4.0m, which relates to the receipt of a premium in relation to the sublet of garage premises to the Automobile Association Limited (see note 3).

Accounting Policies

Basis of preparation
The consolidated accounts of the Company and its subsidiaries 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 ended 1 April 2005, whilst the comparative period covered the 53 weeks ended 2 April 2004. The consolidated accounts are prepared under the historical cost convention, in accordance with the Companies Act 1985, applicable accounting standards and specifically in accordance with the Accounting Policies set out below.

Basis of consolidation
The consolidated accounts include the accounts of the Company and its subsidiary undertakings.

The acquisition method of accounting has been adopted. Under this method the results of subsidiary undertakings acquired in the period are included in the consolidated profit and loss account from the date of acquisition. The assets and liabilities of subsidiary undertakings are incorporated at their fair value at the date of acquisition.

Goodwill arising on acquisitions is capitalised and amortised over its useful economic life, up to a maximum of 20 years.

Change of Accounting Policies
The Accounting Policies set out below are consistent with the previous year, except for the adoption of UITF 17 (revised 2003) 'Employee share schemes'. The impact on the results arising from this adoption are shown in note 3.

In addition, UITF 38 'Accounting for ESOP Trusts' has also been adopted during the period with no material impact on the results of the Group.

Turnover
Turnover is stated as amounts receivable for goods and services supplied to customers net of VAT, and discounts and promotions. In accordance with FRS 5 Application Note G: 'Revenue Recognition', turnover is stated net of a provision for the estimated level of returns.

Intangible assets
The cost of intangible assets acquired, which are capitalised only if separately identifiable, is amortised over estimated useful lives up to a maximum of 20 years. Similar assets created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred. The carrying value of intangible assets is reviewed on a regular basis. Any impairment in value is charged to the profit and loss account as it arises.

Depreciation
Tangible fixed assets are written off in equal instalments over their expected useful lives. This policy is reviewed on a regular basis to ensure that the estimated useful economic lives are appropriate. The periods over which the assets are being depreciated are as follows:

Short leasehold land and buildings	over the period of the lease
Motor vehicles	33% per annum
Store fixtures	over the period of the lease to a maximum of 25 years
Fixtures, fittings and equipment	10 to 25% per annum
Computer equipment	33% per annum

Any impairment in the value of such fixed assets is charged to the profit and loss account as it arises.

Stocks
Stocks are valued at the lower of cost and net realisable value. Cost comprises the purchase cost of goods and cost related to distribution.

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 profit and loss account in the period that they arise.

Accounting Policies

Options
The Group takes advantage of the dispensation in UITF 17 (revised 2003) 'Employee Share Schemes' so not to apply that abstract to the Group's Inland Revenue approved Save-As-You-Earn Scheme.

Leases
The rentals payable under operating leases are charged directly to the profit and loss account on a straight-line basis over the life of the lease.

Benefits received as an incentive to sign a lease, whatever form they may take, are credited to the profit and loss account on a straight line basis over the shorter of the period of the lease or the period until rentals are expected to be revised to prevailing market rates. Any premiums received in respect of an exit from a property are credited to the profit and loss account at the date of surrender of the lease.

The costs of assets held under finance leases are included under tangible fixed assets and depreciation is provided in accordance with the policy for the class of asset concerned. The corresponding obligations under these leases are shown as creditors. The finance charge element of rentals is charged to the profit and loss account to produce, or approximate to, a constant periodic rate of charge on the remaining balance of the outstanding obligations.

Deferred taxation
Deferred tax is provided in respect of timing differences that have originated, but not reversed, by the balance sheet date. Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws substantively enacted at the balance sheet date.

Financial Instruments
Debt is recognised in the balance sheet as the cash proceeds received less costs incurred directly in connection with the issue of the instrument. Finance costs in respect of the instruments, including discounts on issue, are charged to the profit and loss account over the term of the instrument.

The principal derivative instruments used by the Group are interest rate swaps and forward rate agreements. These instruments are used for hedging purposes in line with the Group risk management policy and no trading of instruments is undertaken. Interest differentials are taken to the net interest payable in the profit and loss account, and premiums and fees are amortised at a contract rate over the life of the underlying instruments.

Foreign Currencies
Transactions denominated in foreign currencies are translated at the rate prevailing at the time of the transaction. Monetary assets and liabilities denominated in foreign currencies held at the year-end are translated at the rates of exchange prevailing at the balance sheet date. Where covered by forward exchange contracts liabilities are translated at the future contract rates. Any exchange gain or loss is dealt with in the profit and loss account.

Notes to the Financial Statements

1. Turnover

Turnover comprises retail sales wholly in the UK and the Republic of Ireland to external customers.

Due to the related nature of the Group's products, the common distribution channel and the manner in which the Group's activities are organised, the Directors do not believe that the Group's different product categories represent different classes of businesses as defined in SSAP 25 'Segmental Reporting'. Accordingly the additional disclosures set out in SSAP 25 are not considered to be required.

2. Net operating expenses

For the period	52 weeks to 1 April 2005 £m	53 weeks to 2 April 2004 £m
Selling and distribution costs	209.4	195.2
Administrative expenses	54.0	48.9
Other operating income	(4.0)	–
	259.4	244.1

3. Exceptional items

Exceptional operating items in the 52 weeks to 1 April 2005, relate to a non-cash charge of £4.2m in respect of employee share options that were exercised at the time of the Group's IPO and income of £4.0m in respect of a premium received in relation to the sub-let of garage premises by the Group to the Automobile Association Limited ("AA").

Certain senior employees held options to subscribe for shares in the Company under a share option scheme, approved by shareholders on 19 November 2003. The share options were exercisable only in the event of a Takeover, Sale or Admission of the Company to a Relevant EEA market. Under the scheme, share options were granted to senior employees on 12 December 2003 and 20 May 2004. The shares required to meet the Company's obligations under the scheme were held in trust. On 8 June 2004, senior employees exercised their rights over 2,527,307 shares.

In accordance with UITF 17 (revised 2003) 'Employee share schemes', the Group has charged £4.2m to the profit and loss account, being the difference between the fair value of the shares at the date of their grant and the amounts paid by the employees to exercise the share options. A corresponding credit has been taken to the Group's profit and loss reserves.

In August 2001, Halfords Limited sold its garaging servicing business to the AA. Under the terms of the sale 124 garage premises were sublet to GB Gas Holdings Limited by way of an underlease agreement from Halfords Limited.

On 16 November 2004, the Group entered into an agreement with GB Gas Holdings Limited and the AA. Under the agreement the Group received a £4.0m premium in consideration for providing consent to the assignment of the above underlease from GB Gas Holdings Limited to the AA and the subsequent subletting by the AA of 49 premises to Nationwide Autocentres Limited.

The Group's tax charge for the period to 1 April 2005 includes a £0.8m credit in respect of the above exceptional items.

Notes to the Financial Statements

4. Operating profit

For the period	52 weeks to 1 April 2005 £m	53 weeks to 2 April 2004 £m
Operating profit is arrived at after charging/(crediting):		
Operating lease rentals:		
– plant and machinery	0.9	0.7
– property rents	61.1	56.4
Rentals receivable under operating leases	(10.1)	(9.5)
Loss on disposal of fixed assets	0.4	0.2
Depreciation of fixed assets	18.0	15.8
Amortisation of goodwill	13.7	13.7
Auditors' remuneration:		
– Audit fees	0.2	0.1
– Other fees payable to the auditors or their associates	0.3	0.3

The total fees payable by the Group to PricewaterhouseCoopers LLP and their associates during the period was £1.6m (53 week period ended 2 April 2004: £0.7m) of which £1.1m (53 week period ended 2 April 2004: £0.3m) relates to charges incurred in respect of the flotation and the issue of new finance that has been offset against the cash proceeds received from the finance. The Company expensed £0.1m (53 week period ended 2 April 2004: nil) of fees during the period.

Non - audit services

For the period	52 weeks to 1 April 2005 £m	53 weeks to 2 April 2004 £m
Assurance related services (principally relating to IPO and refinancing)	0.9	0.4
Taxation services	0.4	0.1
Other services	0.1	0.1
	1.4	0.6

5. Profit on disposal of fixed assets

The profit on disposal of £6.4m in the 53 week period ended 2 April 2004 principally relates to the sale of the head office building of Halfords Limited. The building was acquired in the period and then immediately sold and leased back. £3.8m of the proceeds have been deferred and are being amortised over the term of the lease in accordance with UITF 28 'Operating lease incentives'.

6. Employee costs

For the period	52 weeks to 1 April 2005 £m	53 weeks to 2 April 2004 £m
The aggregated remuneration of all employees including directors comprised :		
Wages and salaries	89.8	86.6
Social security costs	6.4	6.4
Other pension costs (note 26)	3.0	3.5
	99.2	96.5

	Number	Number
Average number of persons employed by the group during the period		
Stores	9,245	8,529
Central warehousing	231	231
Head office	464	449
	9,940	9,209

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

7. Net interest payable

For the period	52 weeks to 1 April 2005 £m	53 weeks to 2 April 2004 £m
Interest receivable and similar income:		
Bank and similar interest	(0.4)	(2.7)
Interest payable and similar charges:		
Bank overdraft interest	0.1	0.4
Bank and other loans	12.3	23.5
Premium on deep discount bond	1.5	12.1
Interest on fixed rate subordinated unsecured loan notes	–	0.1
Amortisation of issue costs on loans and deep discount bonds	0.8	1.3
Commitment and guarantee fees	0.4	0.7
	15.1	38.1
Exceptional amortisation of issue costs on loans and deep discount bonds	1.7	8.7
Exceptional gain on close out of interest rate swap	(2.2)	–
	14.6	46.8
Net interest payable	14.2	44.1

On flotation (8 June 2004), the Group redeemed and replaced all of its existing borrowings. As a consequence, a charge of £1.7m (53 weeks to 2 April 2004: £6.3m) was made in respect of accelerated amortisation of the issue costs associated with these borrowings.

On repayment of the Group's existing borrowings, the Group hedged its new borrowing facilities using new interest rate swaps and received £2.2m of exceptional income on the termination of its existing interest rate swaps.

During the 53 week period to 2 April 2004 the Group repaid all of the borrowings under its mezzanine facility and repaid £68.2m of its deep discount bonds. As a result £2.4m of unamortised issue costs associated with these borrowings was written off.

Notes to the Financial Statements

8. Taxation on profit on ordinary activities

For the period	52 weeks to 1 April 2005 £m	53 weeks to 2 April 2004 £m
Current taxation		
UK corporation tax charge for the period	23.6	15.2
Adjustment in respect of prior periods	(0.3)	0.1
Total current tax	23.3	15.3
Deferred taxation		
Origination and reversal of timing differences	0.9	(1.0)
Taxation on profit on ordinary activities	**24.2**	**14.3**

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

For the period	52 weeks to 1 April 2005 £m	53 weeks to 2 April 2004 £m
Profit on ordinary activities before taxation	64.1	27.8
UK corporation tax at standard rate of 30.0%	19.2	8.3
Factors affecting the charge for the period:		
Disallowable goodwill amortisation	4.1	4.1
Capital allowances for the period less than depreciation	1.0	0.7
Timing difference on premium received on property transaction	–	1.1
Deduction for employee share options	(0.7)	–
Other timing differences	(0.5)	0.3
Other disallowable expenses	0.5	0.7
Adjustment in respect of prior periods	(0.3)	0.1
Total current tax charge for the period	23.3	15.3

The Group's tax charge for the period includes a credit of £0.6m (53 weeks to 2 April 2004: £0.7m) in respect of operating exceptional items and exceptional interest income/(charges).

9. Dividends

For the period	52 weeks to 1 April 2005 £m	53 weeks to 2 April 2004 £m
Equity – Ordinary 1p shares		
Interim – paid 3.7p	8.5	–
Final – proposed 8.3p	18.9	–
	27.4	–

10. Profit of holding company

Of the profit for the financial period a retained profit of £13.0m (53 week period ended 2 April 2004: £16.3m) is dealt with in the accounts of Halfords Group plc. 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.

11. 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 and has been adjusted for the issue of shares during the year. In accordance with FRS 14, the weighted average number of shares for the 53 weeks to 2 April 2004 has been adjusted to reflect the bonus issues made at the time of the IPO.

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 1 April 2005. In the period to 2 April 2004 the dilutive potential ordinary shares were in respect of warrants issued on 30 August 2002 that were exercised on 8 June 2004.

For the period	52 weeks to 1 April 2005 m	53 weeks to 2 April 2004 m
Weighted average number of shares in issue	**215.6**	162.9
Weighted average number of dilutive shares options/warrants	0.1	6.6
Total number of shares for calculating diluted earnings per share	**215.7**	169.5

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

For the period	52 weeks to 1 April 2005 £m	53 weeks to 2 April 2004 £m
Basic earnings	**39.9**	13.5
Exceptional items net of tax:		
Operating profit	(0.6)	–
Profit on disposal of fixed assets	–	(4.5)
Interest	(0.3)	6.1
Amortisation of goodwill	13.7	13.7
Underlying earnings before exceptional items and amortisation of goodwill	**52.7**	28.8
Diluted earnings	**39.9**	13.5
Underlying diluted earnings before exceptional items and amortisation of goodwill	**52.7**	28.8

Earnings per share is calculated as follows:

For the period	52 weeks to 1 April 2005 pence	53 weeks to 2 April 2004 pence
Basic earnings per ordinary share	**18.5p**	8.3p
Diluted basic earnings per ordinary share	**18.5p**	8.0p
Basic earnings per ordinary share before goodwill amortisation and exceptional items	**24.4p**	17.7p
Diluted basic earnings per ordinary share before goodwill amortisation and exceptional items	**24.4p**	16.9p

Notes to the Financial Statements

12. Intangible fixed assets - Group

	Product rights £m	Goodwill £m	Total £m
Cost			
At 2 April 2004 and **1 April 2005**	**0.2**	**274.8**	**275.0**
Amortisation			
At 2 April 2004	0.2	21.7	21.9
Charge for the period	–	13.7	13.7
At 1 April 2005	**0.2**	**35.4**	**35.6**
Net book value at 1 April 2005	**–**	**239.4**	**239.4**
Net book value at 2 April 2004	–	253.1	253.1

13. Tangible fixed assets - Group

	Land and buildings £m	Motor Vehicles £m	Fixtures, fittings and equipment £m	Payments on account and assets in course of construction £m	Total £m
Cost					
At 2 April 2004	27.0	0.1	192.6	1.9	221.6
Additions	1.9	–	25.4	0.4	27.7
Disposals	(0.7)	(0.1)	(1.4)	–	(2.2)
Reclassifications	0.1	–	1.8	(1.9)	–
At 1 April 2005	**28.3**	**–**	**218.4**	**0.4**	**247.1**
Depreciation					
At 2 April 2004	11.2	0.1	127.8	–	139.1
Depreciation for the period	1.3	–	16.7	–	18.0
Disposals	(0.5)	(0.1)	(1.2)	–	(1.8)
At 1 April 2005	**12.0**	**–**	**143.3**	**–**	**155.3**
Net book value at 1 April 2005	**16.3**	**–**	**75.1**	**0.4**	**91.8**
Net book value at 2 April 2004	15.8	–	64.8	1.9	82.5

	2005 £m	2004 £m
Net book value of land and buildings comprises:		
Short leasehold	**16.3**	15.8

During the period the Group held equipment at a cost of £0.8m (2004: £0.8m) under a finance lease. The net book value of these assets at 1 April 2005 is £0.6m (2004: £0.8m).

14. Investments - Company

	Company 2005 £m
Shares in group undertaking	
Cost	
At 2 April 2004 and **1 April 2005**	0.1
Total fixed asset investments	**0.1**

The investment in the subsidiary undertaking as at 1 April 2005 is as follows:

	Incorporated in	Ordinary shares percentage owned	Principal activity
Halfords Holdings 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 1 April 2005 are as follows:

	Principal activity	% Ownership
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
Halfords Payment Services Limited	Financial services	100

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

15. Stocks

	2005 Group £m	2004 Group £m	**2005 Company £m**	2004 Company £m
Finished goods for resale	**112.2**	107.1	**–**	–

Notes to the Financial Statements

16. Debtors

	2005 Group £m	2004 Group £m	2005 Company £m	2004 Company £m
Falling due within one year:				
Trade debtors	3.6	6.3	–	–
Other debtors	0.2	0.5	–	–
Prepayments and accrued income	19.8	16.7	0.1	–
Amounts owed by group undertakings	–	–	36.0	3.4
	23.6	23.5	36.1	3.4
Falling due after one year:				
Amounts owed by group undertakings	–	–	141.6	–
	–	–	141.6	–

17. Creditors: amounts falling due within one year

	2005 Group £m	2004 Group £m	2005 Company £m	2004 Company £m
Bank overdraft (note 20)	16.6	7.1	–	–
Bank loans (note 20)	35.3	93.0	–	–
Debentures and other loans (note 20)	–	89.2	–	–
Finance lease (note 20)	0.2	0.2	–	–
Trade creditors and accruals	60.8	60.6	–	–
Corporation tax	13.3	10.1	–	–
Other taxation and social security	15.4	7.5	–	–
Other creditors	0.7	1.5	–	–
Accruals and deferred income	21.9	24.6	–	–
Dividends payable	18.9	–	18.9	–
Amounts owed to group undertakings	–	–	1.1	–
	183.1	293.8	20.0	–

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

18. Creditors: amounts falling due after more than one year

	2005 Group £m	2004 Group £m	2005 Company £m	2004 Company £m
Bank loans (note 20)	118.3	185.0	–	–
Finance lease (note 20)	0.4	0.6	–	–
Amounts owed to group undertakings	–	–	–	3.1
Accruals and deferred income	5.2	4.6	–	–
	123.9	190.2	–	3.1

19. Provisions for liabilities and charges

Group	Deferred taxation £m	Other provisions £m	Total £m
At 2 April 2004	2.3	1.0	3.3
Profit and loss - provided	0.9	1.2	2.1
Utilised during the period	–	(0.6)	(0.6)
At 1 April 2005	**3.2**	**1.6**	**4.8**

Other provisions comprise store vacant property provisions of £1.1m (2004: £0.6m) and a provision of £0.5m (2004: £0.4m) in respect of estimated sales returns. The vacant property provision represents recognition of the net costs arising from vacant properties and sub-let properties.

Maturity profile of provisions	Vacant property £m	Returns £m
Within 1 year	1.1	0.5

	2005 Group £m	2004 Group £m
Analysis of deferred taxation provision:		
Accelerated capital allowances	4.6	4.2
Other timing differences	(1.4)	(1.9)
	3.2	2.3

The company did not have any provisions at either 1 April 2005 or 2 April 2004.

20. Group bank and other borrowings

	2005 Group £m	2004 Group £m
Due within one year		
Bank overdraft	16.6	7.1
Unsecured bank loans	35.3	–
Secured bank loan	–	93.0
Debentures and other loans:		
Deep discount bonds	–	88.8
Fixed rate subordinated unsecured loan notes	–	0.4
Finance lease	0.2	0.2
Total due within one year	52.1	189.5
Due after more than one year		
Unsecured bank loans	118.3	–
Secured bank loan	–	185.0
Finance lease	0.4	0.6
Total due after more than one year	118.7	185.6
Total borrowings	170.8	375.1

Bank loans are stated net of unamortised issue costs of £2.4m (2004: £1.7m). In the period the Group incurred issue costs of £3.1m in respect of the arrangement of a term loan of £150.0m and a £120.0m revolving credit facility.

20. Group bank and other borrowings (continued)

The term loan is repayable in six monthly instalments of £10m until 31 March 2009, with the remaining balance being repayable on 17 May 2009. The loan carries interest of LIBOR (“London Interbank Offered Rate”) plus a variable margin of between 0.5% and 0.8% depending on covenant fulfilment. The revolving credit facility permits borrowings from time to time up to a maximum of £120.0m. The facility expires on 8 June 2009 and drawings under the facility attract interest at LIBOR plus 0.5% to 0.8%.

Included within bank loans is £16.0m of short-term loans drawn from uncommitted facilities. The loans attract interest at 5.2% and were used to cover short-term working capital requirements.

On the Company’s flotation on 8 June 2004, the Group utilised the net proceeds, together with its own cash balances and its new banking facilities to redeem all of its existing borrowings consisting of £90.4m of deep discount bonds, £0.4m of loan notes and £279.7m of secured bank loans. As a consequence, a charge of £1.7m (see note 7) was made in respect of accelerated amortisation of the issue costs associated with these borrowings.

21. Financial Instruments

Treasury Policy

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

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

The main risk arising from the Group’s financial instruments is interest rate risk. Policies for managing financial risks are governed by board approved policies and procedures, which are reviewed on an annual basis. The latest policy review was performed in January 2005.

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

Financial Risk

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

Interest Rate Risk

The Group maintains its policy to minimise interest rate risk on its borrowings and deposits by using interest rate derivatives where appropriate. The Group’s policy aims to manage the interest cost of the Group within the constraints of the Business Plan and its financial covenants. The aim is to reduce exposure to the effect of interest rate movements by hedging at least 75% 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 specifically US Dollar denominated. The Group’s policy is to manage the foreign exchange transaction exposures of the business for a minimum period of twelve months forward to ensure the actual costs do not exceed the budget costs by 10% (excluding increases in the base cost of the product). The Group does not hedge either economic exposure or the translation exposure arising from the profits, assets and liabilities of non-sterling business whilst they remain immaterial.

Credit Risk

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

21. Financial Instruments (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 it has sufficient funding to meet its business plan requirements so that it is not reliant on there being sufficient liquidity in the market when it needs the funding.

Short-term debtors and creditors

The Group's creditors and debtors falling due within one year (other than bank and other borrowings) are excluded from the disclosures below, except for the currency risk disclosures, due to the exclusion of short-term items or because they do not meet the definition of financial assets or liabilities, such as tax balances.

The disclosures below have been made after taking account of interest rate swaps, currency swaps and forward contracts.

Interest rate risk profile of financial liabilities

Currency - sterling	Total £m	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	Financial liabilities on which no interest is paid £m
Financial liabilities at 1 April 2005	**170.8**	**32.8**	**138.0**	**–**
Financial liabilities at 2 April 2004	375.1	214.3	160.8	–

The effect of the Group's interest rate swap at 1 April 2005 was to classify £138.0m (2004: £71.8m) of sterling borrowings in the above table as fixed rate. The Group has a sterling interest rate cap, which matures in June 2009.

In addition to the above, the Group's provisions of £1.6m (2004: £1.0m), for vacant leasehold properties and returns (see note 19) met the definition of financial liabilities. These financial liabilities are considered to be floating rate financial liabilities. This is because, in establishing the provisions, the cash flows are discounted and the discount rate re-appraised at each half yearly reporting date to ensure that it reflects the current market assessment of the time value of money and the risks specific to the liability.

Currency - sterling	Weighted average interest rate %	Fixed rate financial liabilities weighted average period for which rate is fixed Years
Financial liabilities at 1 April 2005	**6.4**	**4.0**
Financial liabilities at 2 April 2004	6.6	9.5

Floating rate financial liabilities bear interest at rates, based on relevant national LIBOR equivalents, which are fixed in advance for periods of between one day and three months. The above calculations take account of the adjustment effect of interest rate hedges.

21. Financial Instruments (continued)

Interest rate risk of financial assets

Currency	2005 Group Cash at bank and in hand £m	2004 Group Cash at bank and in hand £m
Sterling	1.1	25.0
US dollars	–	0.6
At end of the period	**1.1**	**25.6**
Floating rate	1.1	25.6
Fixed rate	–	–
At end of the period	**1.1**	**25.6**

Floating rate cash earns interest based on relevant national LIBID ("London Interbank Bid Rate") equivalents or government bond rates.

Maturity of financial liabilities

	2005 Group Debt £m	2005 Group Finance leases £m	2005 Group Other £m	2005 Group Total £m	2004 Group Debt £m	2004 Group Finance leases £m	2004 Group Other £m	2004 Group Total £m
Within 1 year or on demand	51.9	0.2	1.6	53.7	189.3	0.2	1.0	190.5
Between 1 and 2 years	9.4	0.2	–	9.6	20.0	0.2	–	20.2
Between 2 and 5 years	108.9	0.2	–	109.1	60.0	0.4	–	60.4
Over 5 years	–	–	–	–	105.0	–	–	105.0
	170.2	0.6	1.6	172.4	374.3	0.8	1.0	376.1

Other financial liabilities includes the provisions for vacant leasehold properties and returns of £1.6m (2004: £1.0m).

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:

	2005 Group £m	2004 Group £m
Expiring within 1 year	1.0	1.0
Expiring between 1 and 2 years	–	–
Expiring between 2 and 5 years	118.0	–
Expiring over five years	–	42.9
	119.0	43.9

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

21. Financial Instruments (continued)

Currency exposures

The Group has the following monetary assets and liabilities in currencies other than the Group's functional currency which is sterling:

– financial assets in US dollars as shown in the "Interest rate risk of financial assets" table above

– $10.7m (2004: $9.7m) of US dollar liabilities for purchases; these were fully hedged into sterling as at 1 April 2005 and 2 April 2004

Fair values of financial assets and financial liabilities

The following table is a comparison by category of the carrying amounts and the fair values of the Group's financial assets and financial liabilities at 1 April 2005 and 2 April 2004.

	2005 Group Book Value £m	2005 Group Fair Value £m	2004 Group Book Value £m	2004 Group Fair Value £m
Short term borrowings	(51.9)	(51.9)	(189.3)	(189.3)
Long term borrowings	(118.3)	(118.3)	(185.0)	(185.0)
Other financial liabilities	(1.6)	(1.6)	(1.0)	(1.0)
Finance lease	(0.6)	(0.6)	(0.8)	(0.8)
Cash at bank and in hand	1.1	1.1	25.6	25.6
Derivative financial instruments held to manage the interest rate and currency profit:				
Interest rate swaps	–	(2.2)	–	0.8
Forward currency contracts	–	(1.0)	–	0.1
Total	(171.3)	(174.5)	(350.5)	(349.6)

Under the Group's accounting policy, foreign currency assets and liabilities that are hedged using currency swaps are translated initially at the swap rates. Any gains or losses arising from changes in exchange rates are included in the book value of the relevant asset or liability. Changes in the value of the swap as a result of changes in interest rates are not included in the book value of the relevant asset or liability. (For purpose of the above table, the book value of the relevant asset or liability is shown separately from the effect of the currency leg of the cross-currency swap.)

Fair value assumptions

Interest rate swap, currency swaps and forward foreign currency contracts	Fair value is based on market price of comparable instruments at the balance sheet date.
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	In the case of bank loans and other loans, the fair value approximates to the carrying value reported in the balance sheet as the payments are reset to market rates at intervals of less than one year.

21. Financial Instruments (continued)

Hedges

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

- Interest rate risk - using interest swaps and a cap.
- Forward foreign currency contracts are also used for currency exposures on next year's expected sales.

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

	2005 Group £m	2004 Group £m
Unrecognised (losses)/gains on hedges	(2.2)	0.8

As at 1 April 2005 £0.8m of unrecognised losses (2004: £0.8m of gains) are expected to be included within income of the following financial year, and £1.4m (2004: nil) is expected to be recognised thereafter.

22. Equity share capital

Ordinary shares of 1p each:	2005 Number of shares	2005 £	2004 Number of shares	2004 £
Authorised	295,000,000	2,950,000	1,050,000	10,500
Allotted, called up and fully paid	227,936,743	2,279,367	1,000,000	10,000

On 12 May 2004 the authorised share capital of the Company was increased by £44,500 to £55,000 by the creation of 4,450,000 Ordinary Shares. On 12 May and 2 June 2004, by way of a bonus issue, 4,000,000 Ordinary Shares were unconditionally issued and credited as fully paid to the existing holders of Ordinary Shares on the register in the proportion of 4 new Ordinary Shares for each Ordinary Share held by them; and 160,184 new Ordinary Shares were allotted, credited as fully paid, conditional on exercise of warrants to subscribe for Ordinary Shares under a Warrant Instrument to the Warrantholders who were on the register of Warrantholders on 12 May 2004, in the proportion of 4 new Ordinary Shares for each Ordinary Share held by such holder on exercise of the Warrants.

On 2 June 2004, the authorised share capital of the Company was increased from £55,000 to £2,950,000 by the creation of 289,500,000 Ordinary Shares.

On 8 June 2004, the Company issued 200,230 Ordinary Shares (including those Ordinary Shares allotted as part of the above bonus issue) to the Warrantholders at 1p per share, except for the Shares allotted as part of the above bonus issue, in satisfaction of the Warrants.

On 8 June 2004, by way of a bonus issue 168,873,609 Ordinary Shares were unconditionally issued, credited as fully paid to the existing holders of Ordinary Shares in the proportion of 32.474 new Ordinary Shares for each Ordinary Share held by them on such date.

On 8 June 2004, the Company issued 53,846,154 new Ordinary Shares at £2.60 per share raising £140.0m of proceeds, before expenses.

On 15 and 25 February 2005, the Company issued 8,750 and 8,000 Ordinary Shares respectively at £2.60 per share to satisfy its obligation under its share option schemes that were created during the year (see below).

During the period the share premium account has been debited with £1.8m in respect of the allotment of the above bonus issues and credited with proceeds of £139.5m from the primary offer, less costs of £4.9m incurred in respect of the issue.

22. Equity share capital (continued)

Potential Issue of Ordinary Shares

The Company has two employee share option schemes, which were set up following the Company's IPO.

The Halfords Company Share Option Scheme is a discretionary option scheme under which the Renumeration Committee may select full time Directors and employees to be granted options. Options were granted to employees on 2 June 2004, and as at 1 April 2005 options on 6,050,203 Ordinary Shares were outstanding under the scheme. Options granted under the scheme can be exercisable at £2.60 per share provided performance conditions are met. The scheme has set a three year performance condition of an earnings per share growth target. For grants up to 150% of basic salary the options can only be exercised if the increase in the defined EPS over the period is not less than the increase in the Retail Price Index ("RPI") plus 6% per year. In the case of grants in excess of 150% of basic salary, the part of the options in excess of 150% of basic salary can only be exercised in full if the increase over the period 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. Options may be exercised within 7 years of the performance conditions being satisfied.

Early exercise of the options is allowed if an optionholder ceases to be employed by reason of death, injury, disability, redundancy, retirement or on the sale of his employing company or business. Options on 16,750 Ordinary Shares were exercised in the period and options on 490,000 Ordinary Shares lapsed.

The Halfords Sharesave Scheme is a Save-As-You-Earn scheme and is open to all full time directors and employees with eligible employment service. Options were granted to employees on 7 June 2004, and as at 1 April 2005 1,364,861 options were outstanding under the scheme. Options may be exercised under the scheme at £2.64 per share if the option holder completes his saving contract for a period of three years for a period of 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 optionholder is transferred out of the Group, or in the event of a change of control, reconstruction or winding up of the Company.

On 15 February 2005 and 27 April 2005 the Company applied for blocklisting of a total of 1,000,000 Ordinary Shares of 1p each to to be admitted on issuance to the Official List of the UK Listing Authority and to trading on the London Stock Exchange market for listed securities. The Shares will be issued under the Company's share schemes and when issued, will rank pari passu with the existing Ordinary Shares of the Company.

23. Group reserves

	Share premium £m	Profit and loss £m	Total £m
At 2 April 2004	0.1	4.4	4.5
Profit for the financial period	–	12.5	12.5
Movements arising from the exercise of share options (see note 3)	–	4.2	4.2
Proceeds from the issue of Ordinary Shares	139.5	–	139.5
Finance costs of share issue written off to share premium	(4.9)	–	(4.9)
Bonus issue in respect of Ordinary Shares	(1.8)	–	(1.8)
At 1 April 2005	**132.9**	**21.1**	**154.0**

Interest in own shares

At 1 April 2005 the Company held in Trust 887,068 (2004: 20,400) own shares with a nominal value of £8,871 (2004: £204). The Trust has waived any entitlement to the receipt of dividends in respect of its holding of the Company's Ordinary Shares.

Notes to the Financial Statements

24. Company reserves

	Share premium £m	Profit and loss £m	Total £m
At 2 April 2004	0.1	16.3	16.4
Profit for the financial period	–	13.0	13.0
Proceeds from the issue of Ordinary Shares	139.5	–	139.5
Finance costs of share issue written off to share premium	(4.9)	–	(4.9)
Bonus issue in respect of Ordinary Shares	(1.8)	–	(1.8)
At 1 April 2005	**132.9**	**29.3**	**162.2**

25. Group commitments

	2005 £m	2004 £m
Capital expenditure contracted but not provided	1.2	1.9

Annual commitments under operating leases:	Land and buildings 2005 £m	Other assets 2005 £m	Land and buildings 2004 £m	Other assets 2004 £m
Expiring within one year	0.5	0.1	0.5	0.2
Expiring between two and five years inclusive	2.6	0.6	2.4	0.4
Expiring in over five years	62.8	–	59.0	–
	65.9	0.7	61.9	0.6

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

26. Pensions

From 1 December 2002 employees have been offered membership of Halfords Pension Plan, a defined contribution pension arrangement. The costs of contributions to the scheme are charged to the profit and loss account in the period that they arise. The contributions to the scheme for the period amounted to £3.0m (53 week period ended 2 April 2004: £3.5m) representing 3% of pensionable salaries for new employees and 5% to 12% of pensionable salaries for employees who transferred from the Boots Group pension scheme, plus a further 2% to 7% for employees whose earnings are above the upper earnings threshold.

27. Contingent liabilities and assets

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 1 April 2005 amounted to £2.0m (2004: £7.1m).

The Group's banking arrangements are subject to a netting facility whereby credit balances may be offset against the indebtedness of other Group companies. At 1 April 2005 the amount of Group borrowings available for offset against the Company was £6.1m (2004: £16.0m).

Halfords Payment Services Limited operates payment processing services for Halfords Limited. Similar arrangements are in operation by other major retailers, some of which are currently being challenged by Customs & Excise. In line with other retailers, no profit has been recognised from these arrangements. The Group currently holds an unrecognised contingent asset of £3.6m (2004: £2.0m) dependent on the successful defence of the arrangements.

Four Year Record

	52 weeks ended 29 March 2002 £m	52 weeks ended 28 March 2003 £m	53 weeks ended 2 April 2004 £m	52 weeks ended 1 April 2005 £m
Turnover	519.8	525.8	578.6	628.4
Cost of sales	(243.3)	(244.4)	(269.0)	(290.7)
Gross profit	276.5	281.4	309.6	337.7
Operating profit before exceptional operating items and goodwill amortisation	51.5	50.8	79.2	92.2
Goodwill amortisation	–	(8.0)	(13.7)	(13.7)
Exceptional operating items	–	(9.3)	–	(0.2)
Operating profit	51.5	33.5	65.5	78.3
Loss on sale of business	(2.3)	–	–	–
Profit on disposal of fixed assets	–	–	6.4	–
Net interest payable	(0.5)	(21.9)	(44.1)	(14.2)
Profit on ordinary activities before taxation	48.7	11.6	27.8	64.1
Taxation on profit on ordinary activities	(16.7)	(6.5)	(14.3)	(24.2)
Profit on ordinary activities after taxation	32.0	5.1	13.5	39.9
Basic earnings per share	n/a	n/a	8.3p	18.5p
Basic earnings per share before goodwill amortisation and exceptional items	n/a	n/a	17.7p	24.4p

Halfords Group plc acquired Halfords Limited on 30 August 2002. Prior to this date Halfords Limited was a wholly owned subsidiary of Boots Group plc. Prior to 30 August 2002 the financial information is based on the financial statements of Halfords Limited. Consequently, the results across the periods reflect the differences in the capital and financing structure under the different ownerships.

Shareholder Information

Analysis of Shareholders

As at 1 April 2005, the number of registered shareholders was 1,196 and the number of Ordinary Shares in issue was 227,936,743.

	Number of holdings	Percentage of total shareholders	Number of shares	Percentage of share capital
Range of holdings				
1-5,000	775	64.8	1,167,783	0.5
5,001-10,000	73	6.1	551,603	0.2
10,001-50,000	142	11.9	3,136,188	1.4
50,001-100,000	40	3.3	2,906,386	1.3
100,001-500,000	87	7.3	20,971,809	9.1
500,001 and above	79	6.6	199,202,974	87.5
Total	**1,196**	**100.0**	**227,936,743**	**100.0**
Held by:				
Individuals	419	35.0	2,741,505	1.2
Institutions	777	65.0	225,195,238	98.8
Total	**1,196**	**100.0**	**227,936,743**	**100.0**

Results and Financial Calendar

Annual General Meeting 13 July 2005
Final dividend payable 1 August 2005
Trading Update 6 October 2005
Interim Results 24 November 2005

Annual General Meeting

To be held at 11.30am on Wednesday 13 July 2005 at the Stratford Moat House Hotel, Bridgefoot, Stratford on Avon, Warwickshire, CV37 6YR. Each shareholder is entitled to attend and vote at the meeting. A separate circular relating to the 2005 Annual General Meeting and a Form of Proxy for use at that meeting accompanies this Annual Report and Accounts.

Dividend Payments

The recommended final dividend (if approved at the 2005 Annual General Meeting) will be paid on 1 August 2005 to shareholders on the register on 17 June 2005.

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 request the Company's Registrar (address below) to send them a Dividend/Interest mandate form or alternatively complete the mandate form attached to their dividend tax voucher.

Shareholder Information on the Internet

The Company maintains an investor relations zone 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).

Company Information

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BR3 4TU
www.capitaregistrars.com

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Redditch
Worcestershire
B98 0DE
www.halfordscompany.com

A copy of this Annual Report is being sent to all shareholders.

Copies are also available from the registered office shown above. The Report is also placed on the investor relations section of the Company's website, www.halfordscompany.com.

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Joint Brokers
Merrill Lynch
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London
EC1A 1HQ

Citigroup
33 Canada Square
London
E14 5LB

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

Retail Store Locations

England

Abingdon
Alperton
Altrincham
Amersham
Andover
Ashford
Ashton U Lyme
Aylesbury
Balham
Banbury
Barking
Barnsley
Barnstaple
Barrow
Basildon
Basingstoke
Bath
Bedford
Berwick
Beverley
Bexhill
Bicester
Biggleswade
Bilston
Birmingham (6)
Bishop Auckland
Bishops Stortford
Blackburn
Blackfen
Blackpool
Bletchley
Bodmin
Bognor Regis
Bolton (2)
Borehamwood
Boston
Bournemouth
Bracknell
Bradford
Braehead
Braintree
Brentwood
Bridgend
Bridgwater
Brierley Hill
Brighton
Bristol (4)
Brixton
Bromborough
Bromley
Bromsgrove
Burgess Hill
Burnley
Burton On Trent
Bury
Bury St Edmunds
Byfleet
Camberley
Camborne
Cambridge (2)
Cannock
Canterbury
Castle Bromwch
Catford
Chadwell Heath
Charlton
Chatham
Cheadle
Chelmsford
Cheltenham
Chester (2)
Chesterfield
Chichester
Chingford
Chippenham
Chiswick
Chorley
Christchurch
Cirencester
Clacton
Coalville
Colchester
Congleton
Coventry
Cramlington
Crawley
Crewe
Croydon (2)
Dagenham
Darlington
Dartford
Derby (2)
Dewsbury
Didcot
Doncaster
Dorchester
Dorking
Dover
Dunstable
Durham
East Dereham
East Grinstead
Eastbourne
Eastleigh
Ellesmere Port
Enfield
Epsom
Evesham
Exeter (2)
Fareham
Farnborough
Farnham
Felixstowe
Ferndown
Folkestone
Friern Barnet
Frome
Gateshead
Gloucester (2)
Godalming
Gosport
Grantham
Gravesend
Grays
Grimsby
Gt Yarmouth
Guildford
Halifax
Hanley
Harlow
Harrogate
Harrow
Hartlepool
Hastings
Havant
Hayes
Haywards Heath
Hemel Hempstead
Hendon
Hereford
Hertford
High Wycombe
High Wycombe
Hinckley
Hitchin
Horsham
Hounslow
Hove
Huddersfield
Hull (2)
Huntingdon
Ilkeston
Ipswich (2)
Isle Of Wight
Keighley
Kendal
Kettering
Kidderminster
Kings Lynn
Kingston On Thames
Kirkstall
Lancaster
Leamington Spa
Leeds (2)
Leicester (2)
Leigh
Leighton Buzzard
Letchworth
Lincoln (2)
Liverpool (2)
London
Loughborough
Loughton
Lowestoft
Luton
Macclesfield
Maidstone
Malvern
Manchester
Mansfield
Margate
Melton Mowbray
Middlesbrough
Mile End Road
Milton Keynes
Mitcham
New Malden
Newark
Newbury
Newcastle (2)
Newcastle/Lyme
Newhaven
Newton Abbott
North Shields
Northampton (2)
Northwich
Norwich (2)
Nottingham (3)
Nuneaton
Old Kent Road
Oldham
Orpington
Oswestry
Oxford (2)
Penrith
Penzance
Peterborough
Plymouth (2)
Pontefract
Poole (2)
Portsmouth
Preston (2)
Putney
Rayleigh
Reading (3)
Redditch
Redhill
Rickmansworth
Rochdale
Romford
Rotherham
Rugby
Ruislip
Rustington
Salisbury
Scarborough
Scunthorpe
Selby
Sevenoaks
Sheffield (3)
Sheldon
Shirley
Shoreham
Shrewsbury
Sittingbourne
Skegness
Slough
South Shields
Southampton (3)
Southend
Southport
Spalding
Speke
St Albans
St Austell
St Helens
Stafford
Staines
Stamford
Stevenage
Stockport
Stockton On Tees
Stoke On Trent
Stratford On Avon
Stroud
Sudbury
Sunbury
Sunderland
Sutton
Sutton Coldfield
Sutton In Ashfield
Swindon
Tamworth
Taunton
Telford
Tewkesbury
Thetford
Tonbridge
Torquay
Tottenham
Trowbridge
Truro
Tunbridge Wells (2)
Twickenham
Uckfield
Uxbridge
Wakefield
Wallasey
Walsall
Wandsworth
Warrington
Waterlooville
Watford
Wellingborough
Wells
Welwyn G City
West Wickham
Weston S Mare
Weymouth
Wigan
Winchester
Wisbech
Woking
Wolverhampton
Worcester
Workington
Worksop
Worthing
Yate
Yeovil
York (2)

Scotland

Aberdeen (2)
Airdrie
Ayr
Clydebank
Dumbarton
Dumfries
Dundee
Dunfermline
East Kilbride
Edinburgh (3)
Elgin
Falkirk
Galashiels
Glasgow (3)
Greenock
Hamilton
Inverness
Kilmarnock
Kirkaldy
Livingston
Paisley
Perth
Peterhead
Stirling

Wales

Abergaveny
Aberystywith
Bangor
Barry Dock
Cardiff (3)
Carlisle
Carmarthen
Cwmbran
Haverfordwest
Llandudno
Llanelli
Merthyr Tydfil
Neath
Newport
Pontypridd
Rhyl
Swansea
Wrexham

Ireland

Blanchardstown
Coolock
Liffey Valley

Northern Ireland

Ballymena
Bangor
Belfast
Coleraine
Craigavon
Lisburn
Londonderry
Newtown Abbey

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50% recycled de-inked fibre and 50%
totally chlorine free pulp.

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