



## 1. Segmental reporting

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

## 2. Operating expenses

For the period

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

## 3. Operating profit

For the period

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

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

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

**4. Staff costs**

For the period

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

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

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

**Key management compensation**

For the period

	<b>52 weeks to 28 March 2008 £m</b>	52 weeks to 30 March 2007 £m
Salaries and short-term benefits	<b>2.0</b>	2.2
Social security costs	<b>0.3</b>	0.3
Pensions	<b>0.2</b>	0.2
Share-based payment charge	<b>0.3</b>	0.5
	<b>2.8</b>	3.2

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



## 5. Net finance costs

For the period

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

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

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

**6. Taxation**

For the period

	<b>52 weeks to 28 March 2008 £m</b>	52 weeks to 30 March 2007 £m
Current taxation		
UK corporation tax charge for the period	<b>27.4</b>	26.1
Adjustment in respect of prior periods	<b>(0.5)</b>	(0.4)
	<b>26.9</b>	25.7
Deferred taxation		
Origination and reversal of timing differences	<b>(0.6)</b>	(1.9)
Adjustment in respect of prior periods	<b>(0.1)</b>	(0.3)
	<b>(0.7)</b>	(2.2)
<b>Total tax charge for the period</b>	<b>26.2</b>	23.5

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

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

For the period

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

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

**7. Dividends**

For the period

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

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



## 8. Earnings per share

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

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. These represent share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the 52 weeks to 28 March 2008.

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

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

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

Earnings per share is calculated as follows:

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

**9. Intangible assets**

	<b>Computer software £m</b>	<b>Product rights £m</b>	<b>Goodwill £m</b>	<b>Total £m</b>
<b>Cost</b>				
At 31 March 2006	8.8	0.2	274.8	283.8
Additions	0.7	—	—	0.7
At 30 March 2007	9.5	0.2	274.8	284.5
Additions	1.2	—	—	1.2
<b>At 28 March 2008</b>	<b>10.7</b>	<b>0.2</b>	<b>274.8</b>	<b>285.7</b>
<b>Amortisation</b>				
At 31 March 2006	3.1	0.2	21.7	25.0
Charge for the period	1.7	—	—	1.7
At 30 March 2007	4.8	0.2	21.7	26.7
Charge for the period	2.2	—	—	2.2
<b>At 28 March 2008</b>	<b>7.0</b>	<b>0.2</b>	<b>21.7</b>	<b>28.9</b>
<b>Net book value at 28 March 2008</b>	<b>3.7</b>	<b>—</b>	<b>253.1</b>	<b>256.8</b>
Net book value at 30 March 2007	4.7	—	253.1	257.8

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

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

The recoverable amount of goodwill is determined based on “value-in-use” calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period with growth no higher than past experience and after consideration of all available information.

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

	Note	<b>2008</b>	2007
Discount rate	1	<b>12.6%</b>	12.6%
Growth rate	2	<b>0.0%</b>	0.0%

Notes:

1. Pre-tax discount rate applied to the cash flow projections.
2. Growth rate used to extrapolate cash flows beyond the budget period.



## 10. Property, plant and equipment

	Short leasehold land and buildings £m	Fixtures, fittings and equipment £m	Payments on account and assets in course of construction £m	Total £m
<b>Cost</b>				
At 31 March 2006	43.3	232.2	1.0	276.5
Additions	2.1	16.0	4.7	22.8
Disposals	(0.1)	(0.9)	—	(1.0)
Reclassifications	0.2	0.2	(0.4)	—
At 30 March 2007	45.5	247.5	5.3	298.3
Additions	2.0	26.0	0.3	28.3
Disposals	(0.2)	(1.8)	(0.1)	(2.1)
Reclassifications	0.3	4.8	(5.1)	—
<b>At 28 March 2008</b>	<b>47.6</b>	<b>276.5</b>	<b>0.4</b>	<b>324.5</b>
<b>Depreciation</b>				
At 31 March 2006	14.3	158.1	—	172.4
Depreciation for the period	2.0	17.2	—	19.2
Disposals	—	(0.8)	—	(0.8)
At 30 March 2007	16.3	174.5	—	190.8
Depreciation for the period	2.2	17.0	—	19.2
Disposals	(0.1)	(1.6)	—	(1.7)
<b>At 28 March 2008</b>	<b>18.4</b>	<b>189.9</b>	<b>—</b>	<b>208.3</b>
<b>Net book value at 28 March 2008</b>	<b>29.2</b>	<b>86.6</b>	<b>0.4</b>	<b>116.2</b>
Net book value at 30 March 2007	29.2	73.0	5.3	107.5

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

	Land and buildings £m	Fixtures, fittings, and equipment £m	Total £m
<b>As at 28 March 2008</b>			
Cost		12.7	13.5
Accumulated depreciation		(2.0)	(2.7)
<b>Net book value</b>		<b>10.7</b>	<b>10.8</b>
<b>As at 30 March 2007</b>			
Cost		12.7	13.5
Accumulated depreciation		(1.5)	(2.0)
Net book value		11.2	11.5

No fixed assets are held as security for external borrowings.

**11. Inventories**

	<b>2008</b>	2007
	<b>£m</b>	£m
Finished goods for resale	<b>151.6</b>	141.6

Finished goods inventories include £5.8m (2007: £5.6m) of provisions to carry inventories at fair value less costs to sell where such value is lower than cost. The Group did not reverse any unutilised provisions during the period.

**12. Trade and other receivables**

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

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

**13. Cash and cash equivalents**

	<b>2008</b>	2007
	<b>£m</b>	£m
Cash at bank and in hand	<b>10.0</b>	24.8
Cash and bank overdrafts include the following for the purposes of the cash flow statement:		
	<b>2008</b>	2007
	<b>£m</b>	£m
Cash at bank and in hand	<b>10.0</b>	24.8
Bank overdrafts	<b>—</b>	(13.0)
	<b>10.0</b>	11.8

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

**14. Trade and other payables — current**

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



## 15. Borrowings

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

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

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

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

## 16. Provisions

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

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

Provisions include a vacant property provision of £1.1m (2007: £0.7m) and a provision of £0.9m (2007: £0.9m) in respect of estimated sales returns. The vacant property provision represents recognition of the net costs arising from vacant properties and sub-let properties.

**17. Deferred tax**

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 28% (2007: 30%). The change in the UK tax rate effective from 1 April 2008 resulted in a £0.1m (2007: £nil) credit to the income statement, see note 6.

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

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

**Deferred tax liabilities:**

	<b>Accelerated tax depreciation</b>
	<b>£m</b>
At 31 March 2006	(8.4)
Credit to the income statement	0.5
At 30 March 2007	(7.9)
Credit to the income statement	0.7
<b>At 28 March 2008</b>	<b>(7.2)</b>

**Deferred tax assets:**

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



## 18. Financial instruments and related disclosures

### Treasury policy

The Group's treasury department's main responsibilities are to:

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

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

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

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

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

#### Financial risk

The Business Plan and cash flow forecasts are subject to key assumptions such as interest rates and the significance of these risks is dependent upon the level of Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") and the strength of the balance sheet.

#### Interest rate risk

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

#### Foreign currency risk

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

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

#### Credit risk

The Group's policy is to minimise the risk that foreign exchange and interest rate derivative counterparties, the holders of surplus cash and the providers of debt will be unable to fulfil their obligations and also, in the case of lenders, unwilling to extend the loan facilities when they expire. The Group ensured that such counterparties used for credit transactions held at least an A credit rating at the time of syndication (July 2006). Ancillary business, in the main, is directed to the eight banks within the syndicated Group.

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

**18. Financial instruments and related disclosures** continued

**Liquidity risk**

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

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

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

**Capital risk management**

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

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

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

The following table is a comparison by category of the carrying amounts and the fair values of the Group's financial assets and financial liabilities at 28 March 2008 and 30 March 2007.

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



## 18. Financial instruments and related disclosures continued

### Fair value assumptions

Trade receivables, trade payables and finance lease obligations	The fair value on these items approximate to their carrying value.
Short-term deposits and borrowings	The fair value of short-term deposits, loans and overdrafts approximates to the carrying amount because of the short maturity of these instruments.
Long-term borrowings	The fair value of bank loans and other loans approximates to the carrying value reported in the balance sheet as the majority are floating rate where payments are reset to markets rates at intervals of less than one year.
Forward currency contracts	The fair value of forward currency contracts are calculated by using the closing spot rate and respective forward points as of the balance sheet date and comparing this to the outright contract rate.
Interest rate swaps	The fair value of interest rate swaps are calculated by taking the closing UK market rate for the outstanding period and comparing this to the outright contract rate.

### Trade and other receivables

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

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

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

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

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

**18. Financial instruments and related disclosures** continued

**Trade and other payables and other non-current liabilities**

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

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

**Sensitivity analysis**

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

**Foreign exchange sensitivity**

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

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

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

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

**Interest rate sensitivity**

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

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

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

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

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



## 18. Financial instruments and related disclosures continued

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

	1 year £m	1-5 years £m	Total £m
<b>Total borrowings as at 28 March 2008</b>	<b>179.3</b>	<b>—</b>	<b>179.3</b>
<b>Effect of interest rate swaps</b>	<b>(70.0)</b>	<b>70.0</b>	<b>—</b>
	<b>109.3</b>	<b>70.0</b>	<b>179.3</b>

  

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

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

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

  

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

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

**18. Financial instruments and related disclosures** continued

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

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

**Cash flow hedges**

**Forward currency contracts**

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

**Interest rate swap**

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

**Borrowing facilities**

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

	<b>2008 £m</b>	2007 £m
Expiring within 1 year	<b>1.0</b>	1.0
Expiring between 2 and 5 years	<b>120.0</b>	120.0
	<b>121.0</b>	121.0

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



## 19. Equity share capital

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

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

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

### Interest in own shares

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

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

## 20. Share-based payments

At present the Group has three share award plans:

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

### 1. Halfords Company Share Option Scheme

The CSOS was introduced in June 2004 and the Company has made annual grants since. Options are granted with a fixed exercise price equal to the market price of the shares under option at the date of grant. The contractual life of an option is 10 years.

Options granted will become exercisable on the third anniversary of the date of grant, subject to the achievement of a three year performance condition. For grants up to 150% of basic salary the options can only be exercised if the increase in earnings per share ("EPS") over the period is not less than the increase in the Retail Price Index ("RPI") plus 5% per year for the 2005 scheme and 3.5% for options granted in 2006 and 2007 respectively. In the case of grants in excess of 150% of basic salary, the excess can only be exercised in full if the increase is not less than RPI plus 10% per year. For increases in excess of 6% but less than 10%, a proportion of the option in excess of 150% of salary can be exercised. Exercise of an option is subject to continued employment.

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

**20. Share-based payments** continued

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

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

**2. Halfords Sharesave Scheme**

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

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

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



## 20. Share-based payments continued

### 3. The Long-Term Incentive Plan

The introduction of a Long-Term Incentive Plan ("LTIP") was approved at the Annual General Meeting in August 2005 awarding the executive Directors and certain senior management conditional rights to receive shares. To date, three schemes have been approved for 2005, 2006 and 2007.

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

The TSR element of the options granted under the 2007 scheme have been valued using a model developed by Deloitte. The Deloitte model uses the Group's share price volatility, the correlation between comparator companies and the vesting schedule attaching to the LTIP tranche rather than generating a large number of simulations of share price and TSR performance to determine the fair value of the award using a Monte Carlo model. For the 2005 and 2006 schemes the TSR element of the options were valued using a Monte Carlo simulation option pricing model. The fair value per option granted and the assumptions used in the calculation were as follows:

Grant date	12 July 2007	11 July 2006	8 August 2005
Share price at grant date	£4.02	£3.01	£3.07
Number of employees	21	18	17
Shares under option	539,893	596,908	537,417
Vesting period (years)	3	3	3
Expected volatility	22%	22%	31%
Option life (years)	3	3	3
Expected life (years)	3	3	3
Expected dividend yield	4.10%	4.25%	4.00%
Possibility of ceasing employment before vesting	30%	30%	30%
Expectations of meeting performance criteria	100%	100%	50%
Fair value per option	£2.69	£1.82	£2.19
Number of shares outstanding 28 March 2008	421,943	385,657	342,427

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

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

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

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**20. Share-based payments** continued

28 March 2008				30 March 2007			
Weighted average exercise price	Number of shares	Weighted average remaining life (years)		Weighted average exercise price	Number of shares	Weighted average remaining life (years)	
		Expected	Contractual			Expected	Contractual
£2.60	329	1.0	6.2	£2.60	4,709	0.8	7.2
£2.65	5	0.0	0.0	£2.65	931	0.3	0.6
£2.95	224	0.0	0.8	£2.95	259	1.3	1.8
£3.01	346	1.5	1.8	£3.01	406	2.5	2.8
£3.07	149	1.0	1.0	£3.07	185	1.5	2.0
£3.22	799	2.5	2.8	—	—	—	—
£3.99	1,556	2.5	2.8	—	—	—	—
£0.00	1,150	0.1	0.9	£0.00	965	1.7	1.7

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

**21. Commitments**

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

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

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

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

**22. Pensions**

Employees are offered membership of the Halfords Pension Plan, a defined contribution pension arrangement. The costs of contributions to the scheme are charged to the income statement in the period that they arise. The contributions to the scheme for the period amounted to £3.2m (2007: £3.1m) representing 3% of pensionable salaries for new employees and 5% to 12% of pensionable salaries for employees who transferred from the Boots Group pension scheme, plus a further 2% to 7% for employees whose earnings are above the upper earning threshold.

**23. Contingent liabilities**

The Group's banking arrangements include the facility for the bank to provide a number of guarantees in respect of liabilities owed by the Group during the course of its trading. In the event of any amount being immediately payable under the guarantee, the bank has the right to recover the sum in full from the Group. The total amount of guarantees in place at 28 March 2008 amounted to £2.9m (2007: £3.2m).

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

**24. Post-balance sheet events**

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



## 1. Profit and loss account

The Company made a profit before dividends for the financial period of £64.1m (52 week period to 30 March 2007: £74.2m). The Directors have taken advantage of the exemption available under section 230 of the Companies Act 1985 and not presented a profit and loss account for the Company alone.

## 2. Audit fees

The audit fees payable by the Group to PricewaterhouseCoopers LLP and their associates during the period were borne by Halfords Limited. In the 52 weeks to 28 March 2008 and 30 March 2007 the Company did not expense any fees relating to PricewaterhouseCoopers LLP.

## 3. Staff costs

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

## 4. Investments

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

The investment represents shares in the following subsidiary undertaking as at 28 March 2008 and the recognition of share-based compensation plans that are awarded to employees of the Company's subsidiaries.

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

\* Registered in England and Wales.

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

### Principal subsidiaries

The principal subsidiary undertakings of the Company at 28 March 2008 are as follows:

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

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

**5. Debtors**

	<b>2008</b>	2007
	<b>£m</b>	£m
<b>Falling due within one year:</b>		
Amounts owed by Group undertakings	<b>0.2</b>	0.2
<b>Falling due after one year:</b>		
Amounts owed by Group undertakings	<b>217.9</b>	201.6

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

**6. Creditors: amounts falling due within one year**

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

**7. Equity share capital**

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

Allotted, called up and fully paid share capital decreased during the period due to the Company's £50m share repurchase programme. During the period the Company acquired 9,453,738 (2007: 9,003,956) shares at a cost of £30.3m (2007: £30.0m). Distributable reserves have been reduced by £30.3m (2007: £30.0m), being the consideration paid for the shares.

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

**Potential issue of ordinary shares**

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

**Interest in own shares**

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



## 8. Reserves

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

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

## 9. Related party disclosures

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

## 10. Contingent liabilities

The Group's banking arrangements include the facility for the bank to provide a number of guarantees in respect of liabilities owed by the Group during the course of its trading. In the event of any amount being immediately payable under the guarantee, the bank has the right to recover the sum in full from the Group. The total amount of guarantees in place at 28 March 2008 amounted to £2.9m (2007: £3.2m).

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

## 11. Post-balance sheet events

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