

Directors' Report

The Directors present their report and the audited financial statements of Halfords Group plc (the "Company") together with its subsidiary undertakings (the "Group") for the 52 weeks to 2 April 2010.

Principal activities

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

The principal activities of the Group are the retailing of automotive, leisure and cycling products, which it does from 469 retail stores (2009: 466) and car servicing and repair performed from 224 autocentres. The principal activity of the Company is that of a holding company.

Business review

The Chairman's statement on page 5, the Business Review on pages 42 to 51 and the Finance Director's report on pages 52 to 57 provide a review of the business and progress against its key performance indicators during the year and descriptions of possible future developments and the principal risks and uncertainties facing the Group, and form part of this Directors' Report. Environmental considerations are reviewed within the Corporate Social Responsibility Report on pages 81 to 85 and also form part of this Directors' Report.

Corporate governance

The Corporate Governance report on pages 66 to 70 forms part of this Directors' Report.

Profits and dividends

The Group's results for the year are set out in the Consolidated Income Statement on page 90.

The profit before tax on ordinary activities was £109.7m (2009 £77.5m) and the profit after tax amounted to £77.0m (2009: £55.8m).

The Directors propose that a final dividend of 14.0p per ordinary share be paid on 6 August 2010 to shareholders whose names are on the register of members at the close of business on 2 July 2010. This payment, together with the interim dividend of 6.00p per ordinary share paid on 25 January 2010, makes a total for the year of 20.0p pence per ordinary share. The total final dividend payable to shareholders for the year is estimated to be £29.3m. Lloyds TSB Offshore Trust Limited, trustee of the Halfords Employee Share Trust, has waived its entitlement to dividends.

Performance monitoring

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

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

Donations

During the year the Group contributed £82,800 (2009: £26,000) to charities in the UK, including donations to BEN, a charity supporting individuals and families linked to the motor industry and associated trades.

In May 2009 Halfords commenced a two-year partnership with Macmillan Cancer Support. In the 52-week period to 2 April 2010 the Company raised over £56,000 for the charity with stores selling carrier bags and sweets, holding events and individual employees undertaking fund-raising events ranging from running marathons to holding charity auctions.

The Group's policy is not to make any donations for political purposes. However, the Companies Act 2006 defines the term "donations" very widely and, as a result, certain expenses legitimately incurred as part of the process of talking to Government at all levels and making the Group's position known, are now reportable. Although during the year no such expenditure or political donations were made, resolutions were passed at the 2009 Annual General Meeting ("AGM") that provided for limited authority for such expenditure, such authority remaining valid until the earlier of 29 October 2010 or the conclusion of the AGM to be held in 2010, and as such the Company will be asking for this limited authority to be renewed at the AGM to be held on 27 July 2010.

Colleagues

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

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

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

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

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

Directors

The following persons were Directors during the 52 weeks to 2 April 2010 and at the date of this Report:

Dennis Millard (appointed 28 May 2009)
 David Wild
 Nick Wharton
 Paul McClenaghan
 Nigel Wilson
 Keith Harris
 Bill Ronald

In accordance with the Company's Articles of Association, Nigel Wilson, Senior Independent Director, Bill Ronald and Keith Harris are retiring by rotation at the forthcoming AGM and, being eligible, will offer themselves for re-election at that meeting.

Directors' interests

The Directors' interests in shares and options over shares in the Company are shown in the Directors' Remuneration Report on pages 71 to 80.

In response to the requirements of the Companies Act 2006 introduced in October 2008, each Director has notified the Company of any situation in which he or she has, or can have a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company (a situational conflict). These interests were considered and approved by the Board in accordance with the Company's Articles of Association and each Director was informed of the authorisation and the terms on which it was given.

Directors' Report

Directors' indemnities

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

During the year the Company maintained liability insurance for its Directors and officers. The Directors of the Company, and the Directors of each of the Company's subsidiaries, have the benefit of an indemnity provision in the Company's Articles of Association. The indemnity provision, which is a qualifying third-party indemnity provision as defined by section 236 of the Companies Act 2006, has been in force throughout the year.

Directors' responsibilities

The statement of Directors' responsibilities in preparing the Annual Report and the Financial Statements can be found on page 88 of the Annual Report.

Disclosure of information to Auditors

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

Supplier payment policy

The Group does not follow any formal code or standard on payment practice, but agrees terms and conditions for its business transactions when orders for goods and services are placed, and includes the relevant terms in contracts, where appropriate. These arrangements are adhered to when making payments, subject to the terms and conditions being met by suppliers. The number of trade creditor days outstanding at the period end for the Group was 49 days (2009: 39 days). The Company is a holding company and had no trade creditors at the end of the financial year.

Contractual or other arrangements

The Directors consider that there are no contractual or other arrangements, such as those with major suppliers, which are likely to influence, directly or indirectly, the performance of the business and its value.

Major Shareholders

At 30 April 2010, 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 issued | % of shares |
|-------------------------------------|-------------------------|-------------|
| Bank of New York Mellon | 16,071,282 | 7.6% |
| Artemis Investment Management Ltd. | 15,779,497 | 7.5% |
| M & G Investment Management Ltd. | 11,833,108 | 5.6% |
| BlackRock Advisors | 10,297,666 | 4.9% |
| Capital (Institutional Group) | 8,817,100 | 4.2% |
| Ameriprise Financial | 8,614,568 | 4.1% |
| L&G Investment Management Ltd. (UK) | 8,262,839 | 3.9% |
| Rathbone Investment Management Ltd. | 8,080,177 | 3.8% |
| Ignis Asset Management Limited | 6,956,301 | 3.3% |

The Takeover Directive

As at 2 April 2010 and 3 April 2009, the Company's authorised share capital was £2,950,000 divided into 295,000,000 ordinary shares of 1p each nominal value ("ordinary shares"). On 2 April 2010 there were 210,710,960 (2009: 209,786,251) ordinary shares in issue. These ordinary shares are listed on the London Stock Exchange.

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

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

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

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

The rules about the appointment and replacement of Directors are contained in the Company's Articles of Association. Directors may be appointed by the Company by ordinary resolution or by the Board. A Director appointed by the Board holds office only until the next AGM. At each AGM one-third of the Directors (rounded down) will retire by rotation and be eligible for re-election. The Directors to retire will be those who wish to retire and those who have been longest in office since their last appointment or reappointment, with the proviso that all must retire within a three-year period. Following the publication of a revised Combined Code on 28 May 2010, the Board has agreed that all Directors will stand for re-election at the AGM on 27 July 2010.

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

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

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

Authority to purchase shares

At the AGM on 29 July 2009 shareholders approved a special resolution authorising the Company to purchase a maximum of 20,983,577 shares, representing 10% of the Company's issued share capital at 19 June 2009, such authority expiring at the conclusion of the AGM to be held in 2010. The Directors intend to optimise the Group's balance sheet to enhance shareholder returns although at present the Board has no intention of exercising the authority to purchase the Company's ordinary shares it will keep the position under review in light of its desire to maintain an efficient capital structure and retain financial flexibility. In the 52 weeks to 2 April 2010 the Company purchased no shares (2009: 4,687,816), representing a nominal value of £nil (2009: £46,878).

Auditors

At the AGM held on 29 July 2009 Pricewaterhouse Coopers resigned and KPMG Audit Plc were appointed as the Company's external Auditors. KPMG Audit Plc has indicated its willingness to accept reappointment as the external Auditor of the Company. A resolution proposing its reappointment is contained in the Notice of the AGM and will be put to shareholders at the meeting.

Going concern

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

Annual General Meeting

The AGM will be held at the Alveston Manor Hotel, Clopton Bridge, Stratford-upon-Avon, Warwickshire, CV37 7HP, on Tuesday 27 July 2010. The notice of the AGM and explanatory notes regarding the special business to be put to the meeting will be set out in a separate circular to shareholders.

By order of the Board

Alex Henderson

Company Secretary
10 June 2010