Annual Report and Accounts 2006

Welcome to Halfords

Financial and Operational Highlights

Financial and Operational Highlights

Revenue
▲8.5%
to £681.7m
(2005: £628.4m)

Operating profit
▼0.2%
to £89.1m
(2005: £89.3m)

Pre-tax profit
▲3.6%
to £77.0m
(2005: £74.3m)

Basic earnings per share
▼0.4%
to 23.6p
(2005: 23.7p)

Dividend per ordinary share
▲6.3%
to 12.75p
(2005: 12.0p)

Net debt
▼4.8%
to £173.7m
(2005: £182.4m)

- Like-for-like sales up 6.1%
- Strong cash generation reduces net debt by £8.7m
- Strong growth in sales of in-car technology products and cycles
- 408 stores with 18 new store openings, including three relocations
- More than half of the superstores have a mezzanine sales floor
- 100 stores in supermezzanine format
- Accelerated store opening programme in the Republic of Ireland
- Strong control on costs

Delivering our Strategy

Building on core strengths

Developing new opportunities for growth

We continue to focus our strategy on four key areas:
- Investing in the store portfolio
- Leveraging the Halfords brand
- Improving the supply chain
- Marketing the Halfords proposition

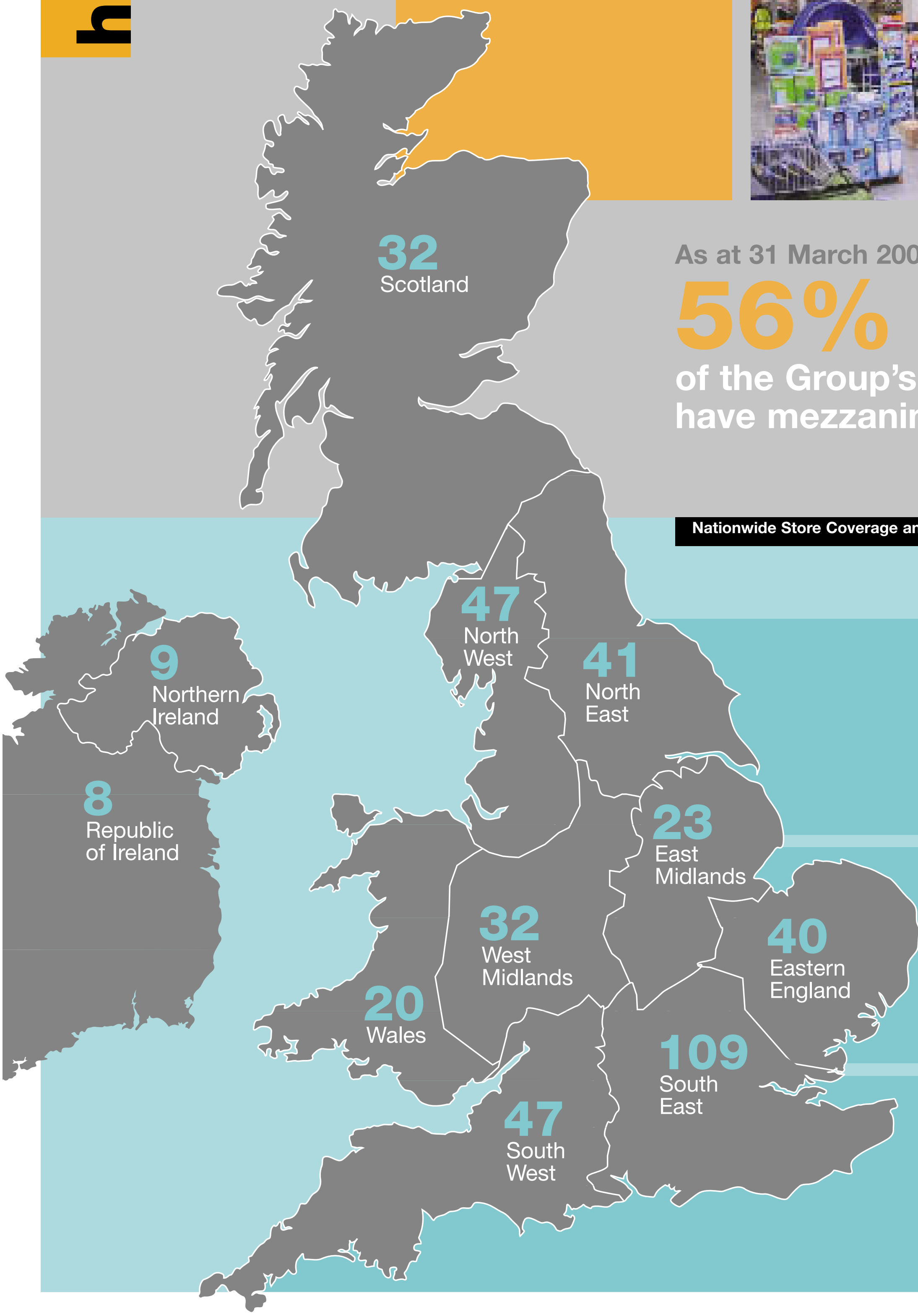
Stores at a Glance
Our Nationwide Coverage

As at 31 March 2006

56%

of the Group's Superstores have mezzanine floors.

Nationwide Store Coverage and New Store Focus



Dublin Supermezzanine Store

The Republic of Ireland saw the opening of five new stores during the year, taking the total to eight, with the potential for a total of 20 stores.

Stevenage Supermezzanine Store

56% of Superstores have a mezzanine floor, of which 100 are in the supermezzanine format.

Leek Neighbourhood Store

Neighbourhood format stores range between 3,000 sq ft to 5,000 sq ft and are found in smaller catchment areas, such as market towns and urban infill areas.

Chairman's Statement
Richard Pym

"Halfords has again demonstrated its resilience, benefiting from its unique market position as the UK's leading auto, leisure and cycling product retailer."

These are my first annual results as Chairman, although I have been a director of the Company for the two years since it was listed on the London Stock Exchange. I am pleased to report that Halfords has again demonstrated its resilience, benefiting from its unique market position as the UK's leading auto, leisure and cycling products retailer, operating predominantly from out of town locations.

Our total sales increase of 8.5% is encouraging against the background of the broader UK retail market, which is widely described as "challenging". Earnings per share were 23.6p and the Board is recommending a final dividend of 8.75p per share in addition to the 4.0p interim dividend already paid, bringing the total dividend for the year to 12.75p per share, up from 12.0p per share last year.

The strong group of independent non-executive directors have been together since the flotation in 2004, working closely with our Chief Executive, Ian McLeod, and Finance Director, Nick Carter, who successfully lead a wider and equally talented executive management team. Upon my appointment as Chairman, Nigel Wilson was appointed Senior Independent Director, alongside Keith Harris and Bill Ronald, our existing non-executive directors. The Board works well together as a balanced team to consider the full range of issues that matter to our shareholders.

During the year, CVC Capital Partners significantly reduced their shareholding in the Company, which stood at 7.3% by the year end, and we thank Jonathan Feuer, the CVC-nominated director who resigned from the Board on 11 January 2006, for his contribution to our success. Rob Templeman led the Company from March 2003 and resigned as Chairman at the end of the financial year on 31 March 2006. Rob made a huge and enduring contribution to the Company and we wish him well as he pursues his responsibilities elsewhere.

The results for the year to 31 March 2006 are a credit to the hard work of the entire Halfords team working in our stores, our distribution centres and in head office. All of our people are dedicated to bringing our customers a great range of products and services and this gives the Board continuing confidence in the future of the Company.

Richard Pym, Chairman
7 June 2006

Leisure

The Halfords cycling proposition goes from strength to strength, with one in three bikes in the UK now being purchased from Halfords. Our own brand Apollo cycle range is the best selling cycle brand in the country and our higher end Carrera brand is also performing well.

There are now 339 *Bikehut* subshops in Halfords stores and we have 511 colleagues trained in cycle repair skills. Going forward, we will be establishing cycle training stores of excellence nationwide and in the Republic of Ireland, to ensure that we maintain and build even greater capability across our business.

BIKEHUT

Chief Executive's Review
Ian McLeod

"The historic resilience of the business has again been demonstrated."

Introduction
At Halfords we have been acutely aware of the changes in retail dynamics over the past year as consumers become more selective, particularly when it comes to high-ticket discretionary expenditure. Although Halfords is not immune to such economic changes, the historic resilience of the business has again been demonstrated in the financial year to 31 March 2006, which is our 18th year of consecutive sales growth.

Sales for the year to 31 March 2006 were £681.7m (2005: £628.4m), which was 8.5% ahead of the prior year and 6.1% ahead on a like-for-like basis. Pre-tax profit was up 3.6% at £77.0m (2005: £74.3m).

During the year we have continued to benefit from the competitive advantage of our strong market position in each of the key categories in which we operate. In Cycling, we provide one in three bikes sold in the UK; we are the market leader in car parts supply and enjoy similar status among consumers searching for in-car technology solutions.

This position provides us with unique defensive characteristics given our scale through 408 stores within the UK and the Republic of Ireland. Our range, where we are store of first choice in each category, and the needs-driven nature of our core offer, also provides us with some protection from economic cycles and changes in consumer behaviour.

More generally, our sales performance has been particularly pleasing, given the fact that the prior year had the benefit of two Easter periods, whereas the year to 31 March 2006 included no Easter trading opportunity. Although not as dependent on Easter as other retailers, sales during Easter are of sufficient magnitude within a financial year as to be material.

In addition, a key contribution to our sales growth has been the success of in-car technology. These products provide us with strong cash margin per unit given their retail price position, albeit the below average gross margin percentage has precipitated a dilution in this performance metric. However, given the consumers acceptance of in-car technology as a growth segment of their discretionary spend we have ensured that Halfords is well placed to respond to this demand and have successfully grown sales in this category. Further growth is anticipated in the future but is unlikely to be at the rate of increase experienced in the latter part of the period.

Over the last two years we have continued to focus our strategy on four key areas:

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

Investing in the store portfolio
Halfords traded from 408 stores throughout the UK and the Republic of Ireland at the end of the financial year, after opening 18 new stores during the period. We expect to open a further 20 stores in the UK and the Republic of Ireland during the current year and we see the potential for up to 150 more stores in these markets across our different formats.

Supermezzanine
Of the 18 new stores opened, nine were in our Supermezzanine format, which allows us to also trade from an additional floor level, offering up to 40% extra sales space within our stores. At 31 March 2006 we had

Leisure

In Travel Solutions we have introduced a dedicated area for child travel. Child seat sales have performed well and we have strengthened the number of dedicated child seat fitting specialists in our stores, with over 1,600 colleagues now trained to give advice and fit customers' child seats. Forthcoming legislation this year will mean that all children up to around age 11 must sit in a booster seat, offering us further growth opportunities.

For the new season we have also redeveloped and relaunched our camping and roof box ranges, ensuring that our sourcing, range and keen pricing stimulates consumer purchase and drives sales performance.

Car Enhancement

Car enhancement has performed well and has generated a significant contribution to sales and profit growth, with the strongest performance from in-car technology.

Our market leading offer on satellite navigation has proved a key sales driver and we are improving our position further with the introduction of our own brand sat nav range, Navsure, this summer.

Car enhancement is marketed through our Ripspeed sub-brand, which has strong credibility amongst younger car enthusiasts. Sales of higher-ticket items such as alloy wheels continue to grow, showing that discretionary expenditure amongst this consumer group continues to flourish.

RIPSPEED

"The Neighbourhood format will meet consumer needs located within smaller catchment areas."

a total of 100 Supermezzanine stores trading, through a combination of new store development and conversion of stores within the existing Halfords estate. The development programme will continue next year, with a combination of new store and conversion activity.

By adding the Supermezzanine level we increase the range of products we offer, improve category segmentation and are able to merchandise the products more clearly, creating an even more customer-friendly shopping environment. This opportunity has been particularly important in more effectively marketing our sub-brands of *Ripspeed* and *Bikehut*. By trading on two floors, we can also give greater exposure and presence to our Travel, Touring and Active Leisure ranges.

During the year, we also introduced two further store format programmes:

- Neighbourhood stores
- A low cost space rebalance programme for existing stores

Development of Neighbourhood stores

The Halfords portfolio polarises between our 32 high street "Metro" stores of approximately 2,000 sq ft and our mainstream superstore format ranging from 8,000 sq ft to 12,000 sq ft located primarily on out of town retail parks.

However, we have identified a further opportunity to meet the needs of consumers located within smaller catchments, such as market towns, or urban infill areas, and have developed a new Neighbourhood format in these locations of between 3,000 sq ft and 5,000 sq ft in size. These stores carry the full Halfords offer but with a smaller range breadth; where products are not available immediately, they can be sourced through the Halfords website or the nearest larger store.

Space rebalancing programme

Using the lessons learned from the Supermezzanine programme, we have carried out a major review of the effective use of space by improving product display and adjacency within our stores. This is particularly relevant where a Supermezzanine conversion would either be impractical due to physical constraints or return on capital would be compromised due to prohibitive store development costs.

As a result, we have developed a new store layout, which improves the display of our *Ripspeed* and *Bikehut* sub-brands, projects Car Enhancement to better reflect its increasing prominence, and provides more space and better visibility for new categories such as Active Leisure.

We are encouraged by the initial results of the space rebalancing trials, which will now be rolled out to a further 20 stores during this year.

International

At the start of the year, Halfords had three stores trading in the Republic of Ireland around the Dublin area, which performed ahead of expectations indicating that the Halfords brand has been well received within this market. At 31 March 2006 the Company had a total of eight stores trading in the Republic of Ireland and we have subsequently secured sites in a further nine locations.

Car Maintenance

The continuing strong performance in Car Maintenance is underpinned by a needs driven product mix, such as batteries, bulbs and wiper blades. We remain the largest car parts retailer in the UK, with unrivalled access to more than three million parts.

Our "We'll Fit It" service effectively underpins our product offering, with a unique customer proposition of unrivalled product choice, advice and on-the-spot fitting, with over one million jobs completed in the last 12 months.

We'll fit it

“Our success in the Republic of Ireland **has provided further confidence** in our ability to trade successfully overseas.”

We now estimate that there is the potential for up to 20 stores in the Republic of Ireland and will continue to seek further site opportunities this year.

Our success in the Republic of Ireland has provided further confidence in the ability of the Halfords offer to trade successfully overseas. Extensive market and operational feasibility reviews support Halfords increasing its international presence, and, in order that any expansion risk is limited, our intention is to pilot three stores within the Czech Republic during the spring of 2007.

Leveraging the Halfords brand

Car Maintenance

With more than a quarter of the Company’s sales, Car Maintenance continues to represent an integral element of the Halfords offer and has demonstrated its resilience to changes in the economic environment. With unrivalled accessibility to more than three million car parts, industry leading availability and a substantial range in our stores across the country, we remain the largest car parts retailer in the UK and store of first choice for the consumer.

Approximately 33 million cars represent the UK car parc and our range covers almost all parts for this population and, given the inevitability that car parts will fail, the search for replacement parts becomes a needs-driven, rather than discretionary, purchase. This needs-driven nature of the market provides steady business throughout the year and provides Halfords with a resilient and significant sales base as the economic climate changes. Our market strength and breadth of offer has enabled us to continue to grow parts sales during the year despite the consumer downturn and the mild weather conditions at the start of 2006.

Car Enhancement

Halfords cemented its position as the market leader for in-car technology and car enhancement products during the year.

In-car audio, which includes the CD audio aftermarket, continues to be the most significant consumer segment within car enhancement and grew further last year. CD audio is fitted as standard to most vehicles now, but the aftermarket also remains strong. The average car on the road is about seven years old and approximately half the car parc do not yet have a CD player fitted.

Our car enhancement ranges are marketed through our *Ripspeed* sub-brand, which has built strong credibility with its target market of young car enthusiasts. This has been achieved through a combination of strong in-store presence, particularly in Supermezzanine stores, external advertising in specialist press and Ripspeed sponsorship support for car enhancement national events.

In-car electronics has been an exception to the broader consumer trend of discretionary spend reduction. Falling retail prices over the last 18 months have made such products much more affordable. For instance, satellite navigation devices now retail at approximately one-third of the average price of two years ago, thus bridging the gap between desirability and affordability.

Similar price deflation has occurred for entertainment systems such as in-car DVD players. This has broadened the market appeal for such items, where sales grew substantially during the Christmas period.

We have enjoyed significant sales success in this category this year. However, whilst actual profitability per unit is strong, the percentage margin is below the Company

Gerry Poore

Employee Passion and Long Service

Brenda Swainston


Gerry Davis

Employee Passion

Halfords has around 10,000 employees, many of whom mix a passion for their work with their hobby. Gerry Poore, a Ripspeed specialist at Tonbridge, is passionate about cars and has just spent several months building a drift car to take to shows and feature in magazines. "Most people would love to combine their job and hobby so I get the best of both worlds and help to keep Halfords up-to-date with the latest trends" he said.

Richard Dean is a cycle enthusiast who works for Bikehut in Barnsley. He has been a successful team member of the Bikehut Development Squad for three years. "Riding the bikes in competitions gives me a real insight into the product, which I can then advise my customers on, so they get the right bike for their needs. It really gives me credibility as a cycle specialist" he said.

Long Service

Brenda Swainston has worked at Halfords head office since 1973 and, along with several other colleagues, recently received a long service award from Chief Executive, Ian McLeod. "In 33 years I've seen a lot of changes and I think the company is now a better, more exciting place to work," she said. Gerry Davis, who works at the Bletchley store, can top Brenda's record, having worked for Halfords for 39 years. "Stores have changed beyond recognition. There are always new products and services coming into stores but we've never lost sight of what we're famous for — car parts and cycles." said Gerry.

"More consumers purchased a bike from Halfords than from all the independent cycle retailers added together."

average, which has had some impact on our percentage margin, particularly in the second half of the year.

Finally, our collaboration with Autobacs of Japan has provided an opportunity to bring certain products to market faster than would otherwise have been possible. A range of Japanese car accessories was piloted early in the year and, following their sales success, have been extended into all Halfords superstores.

Leisure

The Leisure category represents a third of the Company's total sales and during the year we continued to grow sales and profitability, predominantly driven by our success in cycling, where we now sell one in three bikes in the UK.

During the year, we successfully relaunched both our Apollo cycle brand and our Carrera premium brand. Apollo is now the best selling cycle brand in the UK and Carrera the best selling premium brand and we also received a gold award for the new Carrera Kraken model from "What Mountain Bike" magazine. These cycle ranges are a good example of our ability to successfully source directly from the Far East. Cost prices have improved but so has the quality and specification of individual cycle models as we have had direct influence through our sourcing team on the final specification to be included. This allows us to provide quality bikes, which deliver both competitive retail prices and improved buying margins.

The further roll-out of the supermezzanine format has helped drive awareness of the *Bikehut* sub-brand. *Bikehut* sub-shops are now in place in 339 superstores across the country. Each includes a bike workshop, which adds credibility to the *Bikehut* sub-brand as a specialist cycle retailer. As our share of the market increases, the gap between Halfords and the competition grows further, illustrated by the fact that for the whole of last year more consumers purchased a bike from Halfords than from all the independent cycle retailers added together.

In October 2005 we introduced our Bike Care Maintenance Plan, encouraging customers to maintain their bikes regularly and cost-effectively by allowing Halfords to carry out the work. The enthusiasm and skill of our colleagues in this area has driven strong sales growth in our bike maintenance and servicing business. A bike-repair training programme was conducted across all stores, supported by the Bicycle Association, to ensure the necessary skills were available in stores to provide this service consistently.

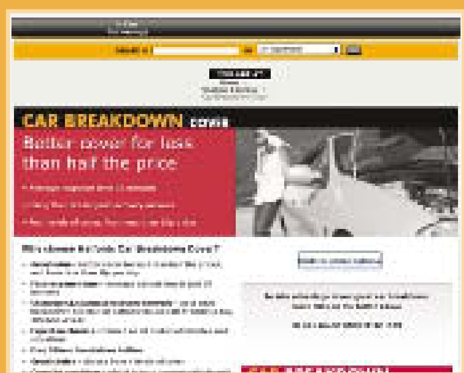
The introduction of the *Bikehut* sub-brand into premium cycle accessories has also been well received by consumers who are looking for high quality accessories at competitive prices. It is the fastest growing brand within our accessories range and to date has well exceeded our internal expectations. The *Bikehut* accessory sub-brand has subsequently won a gold award from "Cycling Plus" magazine in its first year of national availability. We plan to continue this success with the introduction of new ranges for 2006, which will include helmets, mudguards, luggage and clothing.

Halfords Online and Financial Services

Our online store www.halfords.com was relaunched last October and is now our number one store, with around four million visits. It is also the UK's second most visited sports and leisure site.

We also launched our financial services offer and this includes:

- Car and cycle insurance
- Travel insurance
- Car breakdown cover
- Car buying (personal leasing)
- Pet insurance



www.halfords.com

"More than one million fitting jobs were completed during the year."

The new *Carrera* cycles have also proved popular with customers participating in the government sponsored "Cycle2work" scheme. This scheme allows employers the opportunity to offer interest free loans to their employees to buy a bike and the employee is able to claim tax relief against the price of the purchase. This is designed as an incentive to motivate the public to take more exercise and is growing in popularity as an employment initiative. Given our scale and store coverage, Halfords is the largest provider of this facility.

The performance of Leisure was adversely affected by a disappointing year-on-year performance within Travel Solutions. Roof carrying equipment such as roof boxes, which are high-ticket items, were more susceptible to discretionary spend decisions. We have made changes to our range and price structures for the current financial year, which gives us confidence that we can improve performance for the forthcoming season.

The performance in the year of our camping range was not as strong as anticipated given the success in the previous year, after it had been rolled out to all stores. For the forthcoming season, considerable effort has been made to ensure that our sourcing, range, pricing and marketing drive stimulates stronger consumer awareness and purchasing of our offer.

Financial services

Towards the end of the financial year Halfords launched a range of financial services, primarily targeting the motorist. Consumers now have the opportunity to purchase breakdown insurance, car insurance, bike insurance, travel insurance and even pet insurance through a range of products marketed under the Halfords brand. We have also introduced personal car leasing to complement the financial services offer.

halfords.com

Prior to the Christmas period, the Halfords website was relaunched, to broaden the opportunity for greater levels of product purchase, ease of navigation and facilitate greater levels of conversion. Sales have increased by 250% since the relaunch, making *halfords.com* our highest turnover 'store' and the second most visited sports and leisure website in Britain. Site visits have grown to 150,000 visitors per week. Sales conversion is also ahead and we are targeting further improvements this year.

Improving the supply chain

Our stated strategy has been to increase the level of product delivered from outside the UK and sourced directly by Halfords without the cost of third party agents. The objective has been to improve cost prices, which can then be utilised better to improve profitability, improve quality or improve retail prices to increase competitiveness.

Two years ago, our penetration of foreign direct sourcing was 7% of purchases and our target was to grow this penetration to 20% in the medium term. At the end of this financial year, penetration has improved significantly and we are therefore confident of achieving our target ahead of schedule, and seeing further cost price benefits flow accordingly.

We have achieved most success within Cycling, but we have also increased foreign direct sourcing within Car Maintenance, Car Enhancement and Active Leisure. Initially, we believed that electronics would be an unlikely addition, but our growth in expertise in this area has enabled us to develop an entry price point CD audio, combined car DVD and CD player and satellite

navigation under our sub-brands of *Sendai*, *Ripspeed* and *Navsure* respectively. These will be on sale during summer 2006.

The growth in direct sourcing has been underpinned by changes in the in-bound supply chain process and infrastructure. These changes have included using additional Far East ports to access greater capacity. As well as allowing consolidation of stock from multiple suppliers it also improves container fill levels and stock flow into the UK. A renewed partnership with Maersk Logistics and greater use of their trading systems has improved management of the flow of containerised stock, particularly during peak trading periods. We will take advantage of further systems developments from Maersk through greater integration with Halfords SAP supply chain management tools. This year represented the first full year of operation of the new warehouse management system within three sites, without any service issues occurring.

The outsourced store delivery fleet and operations were put out to tender during 2006 and the contract was awarded to DHL/Exel during the third quarter. Benefits were seen immediately, with stock flow to stores during peak trading periods improving year-on-year. The delivery fleet was also equipped with satellite tracking and central route scheduling software has also been implemented to further improve service levels to stores.

These changes and new partnerships provide a platform for continuous improvement in the logistics operations over the coming years.

Business systems

Completion of the installation of retail systems from SAP and warehouse systems from Manhattan Associates at the start of the financial year were well managed and had no adverse service or cost impact on the business. The scale of the changes implemented has been significant as all central finance, human resource, merchandising, planning and supply chain systems were replaced and new ways of working adopted. Despite these changes, year-on-year in-store availability improved and the successful support delivered during key trading periods on the new systems means we are confident of more benefits in the future.

The next stage of the business systems strategy is a two-year programme to replace the hardware (including till systems) and software within stores at an investment of £8.5m. In preparation for this next phase of development we have trained over 800 colleagues on store stock file accuracy processes, the benefits of which we expect to flow into next year.

Marketing the Halfords proposition

Halfords continues to push forward with its service programme under the "We'll fit it" marketing umbrella. We actively market this service through press and TV advertising. We completed more than one million fitting jobs during the year, ranging from wiper blades to parking sensors and audio units, with the support of trained in-store colleagues.

As well as increasing our advertising spend year on year, we also changed the emphasis of featured product to reflect the changes in consumer interest which have been identified. In addition, different communication channels were targeted to ensure the greatest return on our external marketing investment. Bikes and in-car technology featured heavily within our TV advertising, with all categories featured in black and white press throughout the year, or colour press inserts to coincide with key trading periods. Specialist press was also utilised to support promotional offers or drive new product awareness in areas such as Car Maintenance and Cycling.

We'll fit it

As well as the regular fitting services we provide, it is essential that we continually update the skill set of colleagues to service demand as we develop new categories. A key differentiator when buying in-car electronics at Halfords, for example, is our ability to fit products on site. i-Pod connectivity and parking sensors are sold as a fitted package, given their complexity, making such strong offers difficult for competitors to copy with any degree of scale.

The "Drive away with it working" and "Free setup and demo" marketing messages also proved to be effective in securing both interest and consumer purchase of satellite navigation systems.

The knowledge base within stores is critical and we therefore continue to emphasise development training for deputy managers to support succession planning and product-based training for retail colleagues. Last year we trained around 500 hardwire electronics fitters and over 2,000 colleagues on satellite navigation product knowledge and we adopted a manufacturer-run training programme for child seat fitters that has included a further 1,600 colleagues across the country.

With pressure on costs it is important that our in-store resource is scheduled efficiently. Retail productivity has therefore improved as we continue to pursue our policy of driving increased flexibility within store teams using more appropriate contracts and continuing to match colleague rotas to our customer needs. This year we have identified store and product group specific rotas that have resulted in appropriate cost savings. This has been achieved through a combination of improved data provision from our new SAP Business Warehouse and an external work-study analysis. We expect to reap further benefits from this approach in the year ahead.

Outlook

This has clearly been a tough year for retailers in general; an environment which is likely to continue into the current year. Our results continue to demonstrate a level of resilience to such conditions. During the year we have continued to use our competitive advantage of range, scale and service in order to improve the consumer offer.

Our product portfolio includes needs-driven purchases of core car maintenance products, where our range and scale provide us with strong defensive characteristics in this sector and our "We'll fit it" service programmes provide us with genuine competitive advantage.

The success of our supply chain initiatives, our store development plans, as well as our product and service changes, provides reassurance that our strategy is working.

We have a trading approach which proactively seeks out new opportunities and seizes the initiative wherever possible. A clear example of this has been our ability to develop the in-car technology business to the point where we are clear market leaders.

During the forthcoming financial year we expect to further push our market advantage in key categories, as well as redressing any shortfalls experienced in 2006. We have developed new range and pricing strategies within our leisure categories and will continue to drive momentum in core categories to press home our competitive advantage.

Our gross profit percentage dilution has been a direct result of the changing sales mix in the business following the success of in-car technology. Whilst we expect further growth in this category in the forthcoming year, we do not expect it to have a similar significant impact on our overall sales mix.

Our strategy remains focused and our ability to remain resilient in the light of economic change is evident. This gives us confidence that we can continue to deliver further positive results for our shareholders as we continue to drive the Halfords business forward in the forthcoming year.

Ian McLeod, Chief Executive
7 June 2006

Finance Director's Report
Nick Carter

International Financial Reporting Standards

The consolidated financial statements of Halfords Group plc are now prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretation Committee ("IFRIC") interpretations that are endorsed by the European Union and with those parts of the Companies Act 1985 applicable to those companies reporting under IFRS. The Group had previously reported under UK GAAP.

The date of transition to IFRS was 3 April 2004, which is the beginning of the comparative period for the year to 31 March 2006. The Group has applied IFRS 1 "First time adoption of International Financial Reporting Standards," and has elected to use the following exemptions:

- IFRS 3 "Business combinations" has not been applied retrospectively to business combinations that occurred before 3 April 2004.
- Share based payment exemption. The Group has applied IFRS 2 "Share-based payment" from 3 April 2004 to those options that were issued after 7 November 2002 but had not vested by 2 April 2005.
- Comparative information has not been restated for IAS 32 "Financial Instruments: disclosure and presentation" and IAS 39 "Financial Instruments: recognition and measurement" for the first year of transition.

The introduction of IFRS has no impact upon either the operational capability of the business or its cash flow.

Operating result

Group sales increased by 8.5% to £681.7m (2005: £628.4m), with like-for-like sales growth increasing by 6.1%. Gross profit increased by 3.1% to £346.7m (2005: £336.4m). A 260 basis points dilution in gross profit percentage has resulted from the strength in the in-car technology category. Good cost control and operations management has resulted in total operating expenses as a percentage of sales falling to 37.8% from 39.3% in the prior year. Operating profit at £89.1m compares to £89.3 last year. Finance costs decreased by £2.9m to £12.5m (2005: £15.4m). Profit before tax was £77.0m, compared with £74.3m in the prior year, an increase of 3.6%.

Landlord contributions

Halfords has established an attractive out of town store portfolio, which the property team actively manage to maximise valuation creation through generating cash, making profits, and reducing the ongoing rental charge. During the year contributions were received from landlords as a result of either relocations or downsizing through the return of former service centre space occupied by the Automobile Association. The potential for further contributions from these activities is ongoing. Contributions from these activities totalling £6.9m (2005: £2.5m) were received from landlords during the year in relation to 15 locations (2005: 6 locations).

Operating leases

All the Group's stores are occupied under operating leases, the majority of which are on standard lease terms, typically with a 15-year term at inception. The Group has a total commitment under non-cancellable operating leases of £795.3m (2005: £783.7m).

Taxation

The taxation charge on profit for the financial year was £23.4m (2005: £23.2m), resulting in a full year effective tax rate of 30.4% (2005: 31.2%) applied to profit before tax. The underlying tax charge remains at 31.9%, principally due to the non-deductibility of depreciation charged on capital expenditure in respect of mezzanine floors and other store infrastructure. The lower than expected tax rate in this financial period is due to the progression of the agreement of prior year tax computations.

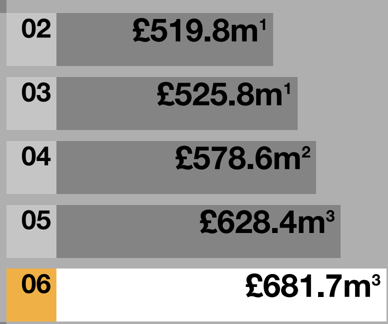
Earnings per share

Basic earnings per share were 23.6p (2005: 23.7p). The weighted number of shares in issue during the year was 227.1m (2005: 215.6m), and it should be noted that in the comparative year the figure was impacted by the London Stock Market flotation during that year.

Financial performance charts

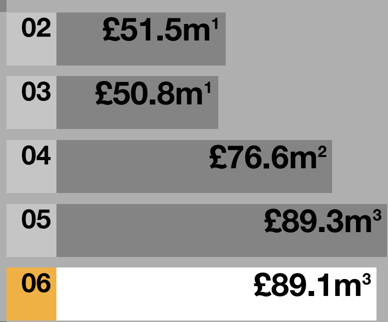
Revenue

A resilient sales performance, driven by the growth of the in-car technology category has seen sales grow by 8.5% during the financial year and by 31.1% over the last five years.



Operating profit

The year on year growth in gross profit has been at a lesser rate than the increase in sales and reflects the impact of the changing sales mix, which has led to a dilution of gross profit percentage. However, good cost control has resulted in total operating expenses as a percentage of sales falling from 39.3% to 37.8%.



[1] UK GAAP, as previously reported
[2] UK GAAP restated
[3] IFRS

Finance Director's Report

Capital expenditure

Capital investment in the period totalled £27.8m, compared with £27.7m in the prior year. This included spend of £11.1m on new store and relocation investment, and £10.7m on the store conversion programme. Other capital expenditure included the investment in head office IT systems, which is now largely complete. Depreciation and amortisation has increased during the year by £3.0m to £21.5m (2005: £18.5m), reflecting the ongoing investment in the share portfolio and infrastructure.

Working capital

During the year the Company experienced a working capital outflow of £11.5m compared to a £3.6m inflow in the prior year. Inventories increased by 17.5% to £127.2m (2005: £108.3m), reflecting underlying increases in stock to support sales growth and specifically into the faster growing technology areas. During the fourth quarter of the financial year, the business built stock ahead of Easter trading, which fell in April, notably in the areas of cycles and in-car technology.

Cash flow, net debt and capital structure

The Group continues to demonstrate that it is a strong driver of cash and during the year generated an operating cash inflow of £100.9m (2005: £117.0m).

Total net debt at 31 March 2006 was £173.7m (2005: £182.4m) and underlying net debt (total net debt excluding finance leases) was £160.7m (2005: £169.1m), a reduction of £8.4m on the prior year.

In the short to medium term the Group considers that a level of net debt at £180m generates an optimal level of gearing.

Dividend and share buy-back

The Board is recommending a final dividend of 8.75p per share in addition to the 4.0p per share interim dividend already paid, bringing the total dividend for the year to 12.75p per share.

Subject to shareholder approval at the Annual General Meeting on 2 August 2006, the final dividend will be paid on 14 August 2006 to shareholders on the register at the close of business on 16 June 2006. Shares will be quoted ex dividend from 14 June 2006.

The Board is today announcing its intention, over the next two years, to buy back up to £50m of its own shares. This programme recognises the highly cash generative nature of our business and management's commitment to improving total shareholder returns.

With our strong cash generative business model we are able to undertake the buy-back whilst maintaining sufficient flexibility to invest in our store opening and re-fit programme and other opportunities as they might arise. In addition to further improving the Group's capital efficiency, this share buy-back enables shareholders to have greater participation in the strong cash flows generated by our business.

Retirement benefit

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

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, and manages these risks using policies approved by the Board.

"The share buy-back programme recognises the highly cash generative nature of our business and management's commitment to improving total shareholder returns."

Liquidity risk

The Group has committed bank facilities comprising an amortising five year term loan of £120m 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.

In accordance with the committed facility dated 17 May 2004, the Group repaid £10.0m of term debt on 30 September 2005 and a further £10.0m on 31 March 2006, and will continue to repay £10.0m bi-annually for the remaining term of the facility. At 31 March 2006, the Group had undrawn committed bank facilities totalling £107.9m (2005: £119.0m).

Interest rate risk

The Group's bank term debt carries a variable rate of interest linked to prevailing LIBOR rates. In order to mitigate the risk of a rise in UK interest rates, the Group has entered into a single rate swap until 8 June 2009. As at 31 March 2006, 83% (2005: 81%) of bank borrowings and loans carried a fixed rate of interest and the weighted average pre-tax cost of debt was 6.2% (2005: 6.4%).

The position is regularly reviewed and the Group's policy of hedging at least 75% of the following year's forecast interest rate exposure is satisfied for the period ending 30 March 2007. As at 31 March 2006, £25.0m (2005: £32.8m) of net debt was floating rate.

Counterparty risk

The Treasury function 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 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
7 June 2006

Halfords sub brands

During the year we successfully relaunched both our Apollo cycle brand and our Carrera premium brand. Apollo is now the best selling cycle brand in the UK.

Bikehut sub-shops are now in place in 339 superstores across the country.

Ripspeed has built strong credibility with its target market of young car enthusiasts.

Board of Directors

Group Board

01 Richard Pym (56)

Non-executive Chairman

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

02 Ian McLeod (47)

Chief Executive

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

03 Nick Carter (39)

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.

04 Nigel Wilson (49)

Non-executive Director

Nigel joined the Board as a non-executive director in May 2004 and was appointed Senior Independent Director on 1 April 2006. Currently he is Chief Financial Officer of United Business Media plc. Prior to this Nigel held various director roles at Viridian Group plc, Waste Management International plc, GPA, Stanhope Properties plc and Dixons plc, and he was a management consultant at McKinsey and Company.

05 Keith Harris (53)

Non-executive Director

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

06 Bill Ronald (50)

Non-Executive Director

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

05

06

Halfords Limited Management Board

(left to right)

Nick Carter
Finance Director

Andy Torrance
Retail Operations Director

Paul McClenaghan
Trading Director

Ian McLeod
Chief Executive

Nick Wharton
Business Development and HR Director

Steve Whyman
Supply Chain and Business Systems Director

Phil Parker
Company Secretary

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 supply network.

A summary of our policies and developments over the past year is given below. A full copy of our corporate social responsibility report for 2006 can be found on the Company's website, www.halfordscompany.com

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 workers employed in our supply chain is a key concern for us. We require all activities to be carried out under conditions that have proper and adequate regard for the health and safety of those involved.

In the workplace

Engaging with our 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 the 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, irrespective of their position within the business. We are particularly proud of this achievement, as similar schemes are usually designed for the executive or senior management population. We also encourage wider share ownership within the business through a sharesave scheme, which is available to all employees, subject to eligibility criteria.

Employee engagement and support are vitally important to the Company and several initiatives are in place to achieve this, e.g. a website has been set up enable employees to post comments on any business matter, and particular support sessions have been created for major business changes, such as the introduction of new systems. In addition, training and development programmes are in place throughout the business to maximise people's skills and advancement.

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.

In the community

The Company is the technical sponsor of the British Heart Foundation London to Brighton cycle ride, providing 150 cycle mechanics from our stores to keep the fund-raisers on the road. Our cycle specialists provide help and service to the estimated 57,000 riders who take part each year. The British Heart Foundation is the UK's leading charity on heart disease and its prevention, and this is the third year of sponsorship by Halfords.

Around eight out of ten child seats in the UK are wrongly fitted in cars, sometimes leading to injury or death of babies and toddlers. As one of the UK's leading retailers of child seats, Halfords has invested in training around 1,600 store staff in the demonstration and free fitting of child seats. We also run roadshows at Halfords stores across the UK, working with road safety officers to give free advice and fitting services to parents and guardians and we also promote our own national child seat safety week at all superstores to raise awareness of the issue.

For 2006 the Company has chosen The Meningitis Trust as our Charity of the Year. This will involve all of our employees in the UK and the Republic of Ireland in fund-raising initiatives to support the Trust. On average, one person in the UK dies every day from meningitis and it kills more children under five than any other infectious disease. The Halfords partnership will focus on raising awareness amongst our staff and customers and raising money to support the charity's many campaigns.

Directors' Report

The directors of Halfords Group plc (the "Company") present their annual report to shareholders, together with the audited consolidated financial statements for the financial year ended 31 March 2006.

Principal activities and business review

The principal activity of the Group is the retailing of auto, leisure and cycling products. The Chief Executive's Review and the Finance Director's Report on pages 6 to 21 set out in more detail the Group's business during the year and its plans and prospects over the coming year. The Corporate Social Responsibility statement referred to on page 24 includes a report on the Group's performance against relevant environmental criteria.

Results and dividend

The Group's results for the year are set out in the Consolidated Income Statement on page 42.

The profit of the Group before tax amounted to £77.0m (2005: £74.3m) and the profit after tax amounted to £53.6m (2005: £51.1m).

Subject to shareholders' approval at the Annual General Meeting to be held on Wednesday 2 August 2006, a final dividend of 8.75p per ordinary share will be paid on 14 August 2006 to shareholders whose names are on the register of members at the close of business on 16 June 2006. This payment, together with the interim dividend of 4.0p per ordinary share paid on 9 January 2006, makes a total for the year of 12.75p per ordinary share. The total dividend payable to shareholders is estimated to be £19.9m.

Directors

Profiles of the current directors are given on pages 22 and 23.

The following have served as directors during the year ended 31 March 2006:

Rob Templeman (resigned 31 March 2006)
Richard Pym
Ian McLeod
Nick Carter
Jonathan Feuer (resigned 11 January 2006)
Keith Harris
Bill Ronald
Nigel Wilson

Rob Templeman resigned as Chairman on 31 March 2006 and Richard Pym was appointed Chairman on 1 April 2006.

In accordance with the Company's Articles of Association, Nick Carter 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.

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 39. 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 subsisting during or existing at the end of the financial year which was significant in relation to the Group's business, other than his service contract.

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

The Articles of Association of the Company were amended by special resolution at last year's Annual General Meeting in order to reflect the relaxation of the prohibition contained in the Companies Act 1985 regarding indemnities granted to directors and others. Having reviewed the existing indemnity provision in the Company's Articles of Association in light of current market practice, the directors have proposed that the existing indemnity provision is replaced by a new indemnity provision so that the Company shall indemnify its directors and other officers (but not its auditor) to the full extent permitted by the Companies Act 1985. The directors believe that amending the existing Article 143 is important to ensure that the Company can continue to attract and retain both executive directors and non-executive directors, and other senior officers, of the highest calibre. Full details regarding the proposal will be set out in the Notice of Annual General Meeting to be sent to shareholders in advance of this year's Annual General Meeting to be held on Wednesday 2 August 2006.

Charitable donations and political contributions

During the year the Group contributed £20,000 (2005: £36,000) to charities in the UK, principally to support motor industry families in need. The Group's policy is not to make any donations for political purposes. However, the Companies Act 1985 defines the term "donations" very widely and, as a result, certain expenses legitimately incurred as part of the process of talking to Government at all levels and making the Group's position known, are now reportable. Although during the year no such expenditure or political donations were made, resolutions were passed at the 2005 Annual General Meeting that provided for limited authority for such expenditure, such authority remaining valid until the conclusion of the Annual General Meeting to be held in 2008.

Employees

The Board seeks to instil 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 framework of communication 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 or 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 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 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.

The Company's pension arrangements for the UK-based employees of the Group are summarised in note 23 on page 68.

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: www.halfordscompany.com. 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. The statement also sets out the Group's 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.

A summary of the statement is on page 24.

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 (2005: 53 days). The Company is a holding company and had no trade creditors at the end of the financial year.

Major shareholders

At 7 June 2006, the Company's share register of substantial shareholdings showed the following interests in 3 per cent or more of the Company's issued ordinary shares:

Holder	Number of shares	% of issued shares
Henderson Global Investors	17,026,300	7.5
CVC European Equity Partners	16,698,400	7.3
F&C Asset Management	14,647,800	6.4
Resolution Asset Management	11,469,000	5.0
Autobacs Seven Co. Limited	11,400,000	5.0
Newton Investment Management	10,568,900	4.6
Jupiter Asset Management	9,173,500	4.0
Legal & General Investment Management	8,533,200	3.7
M&G Investment Management	8,012,765	3.5
State Street Global Markets Europe	6,996,300	3.0

Disclosure of information to auditors

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

Going concern

The directors believe, after making enquiries that they consider to be appropriate, that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Auditors

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

Annual General Meeting

The Annual General Meeting will be held at the Holiday Inn Hotel, Bridgefoot, Stratford-upon-Avon, Warwickshire, CV37 6YR, on Wednesday 2 August 2006 at 12.30 pm. The notice of the Annual General Meeting and explanatory notes regarding the special business to be put to the meeting are set out in a separate circular to shareholders accompanying the Annual Report and Accounts.

By order of the Board

Philip Parker, Company Secretary
7 June 2006

Corporate Governance

Corporate governance

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

Compliance with the Combined Code

The directors consider that the Company has fully complied with the requirements of the Combined Code throughout the period under review.

The directors

The following persons were directors of the Company during the year:
Rob Templeman (Chairman to 31 March 2006)
Richard Pym (Senior Independent Director to 31 March 2006, Chairman from 1 April 2006)
Ian McLeod (Chief Executive)
Nick Carter (Finance Director)
Jonathan Feuer (non-executive director to 11 January 2006)
Keith Harris (non-executive director)
Bill Ronald (non-executive director)
Nigel Wilson (non-executive director, Senior Independent Director from 1 April 2006)

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

The Board is currently composed of six members, consisting of two executive directors, a non-executive chairman and three non-executive directors. The Chairman, Richard Pym, was deemed by the Board to be independent on his appointment as Chairman. The three non-executive directors are considered by the Board to be independent. Accordingly, no individual or group of individuals dominates the Board's decision-making and the requirement of the Combined Code that at least half of the Board (excluding the Chairman) should comprise independent non-executive directors is satisfied. For the period under review until his resignation on 11 January 2006, Jonathan Feuer was deemed by the Board not to be independent, due to him being 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 biographical details of the directors given on pages 22 and 23, 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 also that a proper balance of power is maintained for full and effective control. The Board believes that all the directors devote sufficient time and attention as necessary in order to perform their duties.

The Company is supportive of executive directors who wish to take one non-executive directorship with a company outside the Group, as exposure to such duties can broaden experience and knowledge, which will be to the benefit of the Company. Executive Directors may retain any fees they receive. Ian McLeod is currently a non-executive director of Fulham Football Club (1987) Limited.

Richard Pym was the Senior Independent Director throughout the period under review. The Board has appointed Nigel Wilson as the Senior Independent Director with effect from 1 April 2006. 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 failed to resolve, or for which such contact is inappropriate.

The Board will appoint any new directors having first considered recommendations made to it by the Nomination Committee. Following such appointment, the director will be required to retire and seek reappointment at the next Annual General Meeting of the Company. 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 reappointment at an Annual General Meeting. At this year's Annual General Meeting Richard Pym and Nick Carter will, in accordance with the Articles, seek re-election.

Non-executive directors are appointed for specified terms (normally three years), subject to reappointment 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 reappointment that, following formal performance evaluation, the individual's performance continues to be effective and they demonstrate commitment to the role.

The Chairman is primarily responsible for the workings of the Board and is not involved in day-to-day operational issues. Save for matters reserved for decision by the Board, the Chief Executive, with the support of the Finance Director, 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 31 March 2006, the Board met formally nine times. 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 also made on business or strategic issues, when appropriate. The Board also receives information from management on the current trading of its retail units and their 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 arises. 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 year ended 31 March 2006, together with a record of the attendance, is set out below:

	Number of meetings attended			
	Board Meetings	Audit Committee	Remuneration Committee	Nomination Committee
Rob Templeman (resigned 31 March 2006)	8	—	—	—
Ian McLeod	9	—	—	3
Nick Carter	9	—	—	—
Richard Pym	9	3	2	3
Nigel Wilson	9	3	2	—
Bill Ronald	9	3	—	4
Keith Harris	8	—	2	3
Jonathan Feuer (resigned 11 January 2006)	5	—	—	—
Total meetings in year	9	3	2	4

note: no entry denotes that a director was not a member of the relevant Committee

In addition to the scheduled meetings, the Board held an additional meeting to review corporate strategy, the Audit Committee held meetings to review the various trading statements, and the Nomination Committee met to discuss the appointment of the new Chairman.

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 Audit, Remuneration and Nomination Committees are described below and (in relation to the Remuneration Committee) in the Directors' Remuneration Report on pages 34 to 39.

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

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

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. 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 that was approved by shareholders at last year's Annual General Meeting. The indemnity provision, which is a qualifying third party indemnity provision as defined by Section 309A of the Companies Act 1985, was in force throughout the year and is currently in force.

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 invite the external auditor to certain of its meetings. In the cases of the Nomination and Remuneration Committees, no member is present when business pertinent to them is under discussion. A Treasury Committee, chaired by the Finance Director, has 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 finance and treasury teams. When the need arises, separate ad hoc committees may be set up by the Board to consider specific issues.

Audit Committee

For the year ended 31 March 2006, the Audit Committee comprised Nigel Wilson, Richard Pym and Bill Ronald. From 1 April 2006 the Audit Committee comprised Nigel Wilson, Keith Harris and Bill Ronald, all of whom are independent non-executive directors. The Committee chairman is Nigel Wilson, who, being also Chief Financial Officer of United Business Media plc, is considered by the Board to have recent and relevant financial experience. Each of the other independent non-executive directors on the Committee has, through their other business activities, significant experience in financial matters.

The Committee has formal terms of reference and meets at least three times a year, according to the requirements of the Company's financial calendar. The meetings of the Audit Committee also provide the opportunity for the independent non-executive directors to meet without the executive directors present. The independent non-executive directors also have the opportunity at this time to raise any issues of concern with the Company's external 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 has responsibility for monitoring a number of other areas of activity including:

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

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

Nomination Committee

For the year ended 31 March 2006 the Nomination Committee comprised Richard Pym (Chairman), Keith Harris, Bill Ronald and Ian McLeod (from 27 April 2005). From 1 April 2006 the Committee also included Nigel Wilson. Keith Harris, Nigel Wilson and Bill Ronald are independent non-executive directors.

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 propose the appointment of the new Chairman.

In addition, its remit includes:

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

In discharging its duties, the 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 Richard Pym (who was not present at that meeting) for appointment as Chairman, having unanimously agreed that he possessed the requisite qualities, skills and experience for the role. The Committee also noted that on his initial recruitment to the Board as the Senior Independent Director in 2004, Richard Pym had been identified by the external search agency engaged as being suitable to step into the Chairman's position should a vacancy arise. The Board subsequently approved the nomination and Richard Pym was appointed as Chairman on 1 April 2006.

Remuneration Committee

For the year ended 31 March 2006, the Remuneration Committee comprised Keith Harris (Chairman), Richard Pym and Nigel Wilson. From 26 April 2006 the Committee also included Bill Ronald. Keith Harris, Nigel Wilson and Bill Ronald are all independent non-executive directors. The Board has agreed that Richard Pym will remain a member of the Committee, in anticipation of the Financial Reporting Council's recommendation to amend the Code, so as to allow company chairmen to sit on remuneration committees, being brought into effect.

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:

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

The Committee also assists the Board in preparing the annual report on directors' remuneration. The Board's remuneration report for the year ended 31 March 2006 is set out on pages 34 to 39 of this report.

Accountability, risk management and internal control

The respective responsibilities of the directors and the external auditor in connection with the Company's financial statements are explained below under the headings "Statement of Directors' Responsibilities" on page 40 and "Respective Responsibilities of Directors and Auditors" on page 41. 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 Review is set out on pages 6 to 17 and the Finance Director's Report is set out on pages 18 to 21.

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

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

— reviews of Group risk assessment reports by the Audit Committee
— reviews of performance, through a comprehensive system of reporting, based on an annual budget, with monthly reviews against actual results, analysis of variances, key performance indicators and regular forecasting
— well-defined policies governing appraisal and approval of capital expenditure and treasury operations

— 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.

The Board's internal control system focuses on a wide range of business risks 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. The business risks reviewed include:

— external business risks, including regulatory and compliance obligations
— operational risks arising from, e.g. supplier dependency, fire, material damage, etc.
— legal risks, e.g. 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
— the risks to members of staff from crime.

The Audit Committee reviews the effectiveness of these controls on behalf of the Board.

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:* Levels of authority and accountability are 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.
— *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 and taxation. Conformity with procedures is monitored on an ongoing basis.
— *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 capital expenditure plan
  — 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. Reviews of 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 external auditor reports directly to the Audit Committee.

Deloitte & Touche LLP, as independent adviser, is formally engaged to provide internal audit services reporting to the Board, via the Audit Committee. These reports evaluate the adequacy and effectiveness of our internal controls and recommend improvement, based on a systematic risk assessment of the business.

Relationship with shareholders

The Board recognises the importance of establishing and maintaining good relationships with all of the Company's 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 is also offered the opportunity to attend meetings with major shareholders and would do so if requested by any major shareholder. The Company's investor relations programme includes formal presentations of full year and interim results. Feedback from these meetings is provided to the Board. The Company Secretary is also charged with bringing to the attention of the Board any material matters of concern raised by the Company's shareholders, including private investors.

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

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

The Company's financial calendar is set out on page 80.

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 34 to 39. The Directors' Remuneration Report will be put to an advisory vote of shareholders at the forthcoming Annual General Meeting.

By order of the Board

Philip Parker, Company Secretary
7 June 2006

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 31 March 2006. The Report has been prepared in accordance with the requirements of Schedule 7A to the Companies Act 1985. Part 3 of Schedule 7A requires designated parts of the Remuneration Report to be audited, whilst other parts are not. In preparing this report, consideration has been given to the Listing Rules of the UK Listing Authority and to the Combined Code and the report has been approved by both the Remuneration Committee and by the Board. A resolution to approve the report will be proposed at the Annual General Meeting of the Company.

Part A of the report, which is not subject to audit, sets out the Company's remuneration policy. Part B, which has been audited, provides details of the remuneration, pensions and share incentives of the directors for the 52 weeks to 31 March 2006.

Part A — Unaudited information

Remuneration Committee

The Remuneration Committee, which met twice during the year, comprises Richard Pym and the three independent non-executive directors, Keith Harris (Chairman), Bill Ronald (from 26 April 2006) 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 page 31.

During the year, the Committee received advice from Watson Wyatt LLP and the Hay Group, its external independent advisers.

Remuneration policy

The remuneration policy of the Committee and of the Board is to provide remuneration packages for the executive directors and other senior executives in the Group which are appropriate to the size and nature of the Group's business and which will attract and retain high calibre executives. It is the Company's policy that a substantial proportion of the executive directors' remuneration should be performance related in order to encourage and reward superior business performance and shareholder returns and that remuneration should be linked to both individual and Company performance. Accordingly, executive directors may earn up to an additional 80% (100% from 1 April 2006 in the case of the Chief Executive) of their basic salaries as a performance bonus and have benefited from participation in the Company's share option scheme as set out below. No further awards will be made under the share option scheme to the executive directors but they were able to participate in the 2005 Performance Share Plan. The executive directors are also able to participate in an all-employee save-as-you-earn scheme ("the Halfords Sharesave Scheme"), referred to on page 35. It is the policy of the Committee and the Board to maintain the above approach to remuneration packages for executive directors and other senior executives of the Group for the current financial year and future financial years, subject to review in the light of any changes in relevant legislation, regulations or market practice. No significant changes to the remuneration arrangements for executive directors are currently anticipated. However, the Committee will continue to review base salaries and performance targets to ensure that they align with the remuneration policy of the Committee and the Board and with the Company's strategic objectives. The individual salary, bonus and benefit levels of the executive directors are, and will continue to be, reviewed annually by the Committee.

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

Details of individual directors' remuneration and share options are set out on pages 37 and 38 of this report. The main components of the remuneration package for executive directors are:

Basic salary

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

Annual bonus

Executive directors are eligible to receive an annual performance bonus up to a maximum of 80% (100% from 1 April 2006 in the case of the Chief Executive) of their annual basic salary at the time the bonus scheme is announced. The amount of bonus is based on the achievement of profit and earnings per share targets, specified and agreed at the beginning of the year. Bonus payments do not form part of the directors' pensionable earnings. The performance targets for bonus entitlements are intended by the Remuneration Committee to create 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 employees are eligible for the grant of options to acquire ordinary shares in the Company.

Halfords Company Share Option Scheme

Options are granted at an exercise price not less than market value at the date of grant and may normally only be exercised if performance conditions set at the time of grant have been achieved, which were if the EPS (earnings per share) for the financial year last preceding the third anniversary of the grant date equals or exceeds the percentage growth in RPI (retail price index) plus five per cent per annum.

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 page 38.

2005 Performance Share Plan

Under the 2005 Performance Share Plan, approved by shareholders at the Annual General Meeting in 2005, conditional rights to receive shares will be awarded to participants. The extent to which such rights vest will depend upon the 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 earnings per share performance against RPI. The Company's TSR performance will be measured against a comparator group of retailers. No retesting will be permitted. In order to ensure that the performance targets for the 2006–2009 scheme remain stretching but achievable, the earnings over share performance spread will be RPI plus 4% compound at entry to RPI plus 11% compound at maximum.

Pensions

The Company Pension Plan is a defined contribution scheme, which is open to the executive directors. The Company's contributions during the year are shown in the table on page 38.

Other benefits

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

Non-executive directors

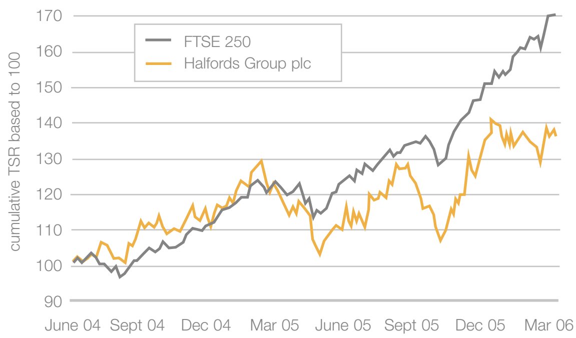
The Board as a whole, following a recommendation by the Chief Executive, determines the fees of the non-executive directors.

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

Performance graph

Schedule 7A of the Companies Act 1985 requires listed companies to provide, by graph, an analysis of the performance of the Company over time as compared with an appropriate and broad equity market index. The FTSE Mid-250 Index has been selected because it is a broad equity market index which includes the Company's shares and the Committee believes that no other index would provide a more appropriate comparator, given the nature of the Group's activities.

The graph below shows the Total Shareholder Return ("TSR") performance of an investment of £100 in Halfords Group plc shares over the period following flotation (June 2004) compared with an equivalent, hypothetical, holding of shares in the companies represented in FTSE Mid-250 Index:



Executive directors' service contracts

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

	Date of service agreement	Notice period
Ian McLeod	29 March 2005	12 months
Nick 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 an executive director or for lawful early termination by the Company.

Non-executive directors: letters of appointment

Non-executive directors are appointed under letters of appointment (rather than under service contracts), which set out fixed terms of appointment (normally three years). Updated letters of appointment for each of the non-executive directors were signed on 1 April 2006.

Details of the non-executive directors' updated letters of appointment are:

	date of appointment	notice period/ unexpired term at the date of this report
Richard Pym	17 May 2004	3 months/12 months
Keith Harris	17 May 2004	3 months/12 months
Nigel Wilson	17 May 2004	3 months/12 months
Bill Ronald	17 May 2004	3 months/12 months

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

Part B — Audited information

The following section provides details of the remuneration, pension and share interests of the directors for the year ended 31 March 2006 and has been audited.

Directors' remuneration

The remuneration and taxable benefits provided by the Company for each director for the 52 weeks to 31 March 2006 were as follows:

executive directors	Note	Salaries/ Fees £'000	Bonuses £'000	Benefits £'000	**52 weeks to 31 March 2006 Total £'000**	52 weeks to 1 April 2005 Total £'000
Ian McLeod		310	—	20	**330**	283
Nick Carter		185	—	12	**197**	220
David Hamid	1	—	—	—	**—**	445
	2	495	—	32	**527**	948
non-executive directors	3					
Rob Templeman	4	75	—	—	**75**	71
Richard Pym		60	—	—	**60**	52
Keith Harris		40	—	—	**40**	35
Nigel Wilson		40	—	—	**40**	35
Bill Ronald		35	—	—	**35**	31
Jonathan Feuer	5	27	—	—	**27**	38
Christopher Woodhouse	6	—	—	—	**—**	5
Soren Vestergaard-Poulsen	6	—	—	—	**—**	5
		277	—	—	**277**	272

Notes:

1 David Hamid resigned as a director on 29 March 2005.

2 Benefits include all taxable benefits arising from employment by the Company, including company car, private petrol, medical insurance and life cover. All executive directors receive these benefits.

3 The remuneration of the Chairman and 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.

4 Rob Templeman resigned as a director on 31 March 2006.

5 Jonathan Feuer resigned as a director on 11 January 2006.

6 Christopher Woodhouse and Soren Vestergaard-Poulsen resigned as directors on 30 May 2004.

Ian McLeod is paid a non-executive director fee of £25,000 p.a. by Fulham Football Club (1987) Limited and retains such fee.

Directors' pensions

Pension contributions to defined contribution money purchase schemes made by the Company during the 52 weeks to 31 March 2006 in respect of executive directors were as follows:

	Note	**52 weeks to 31 March 2006 £'000**	52 weeks to 1 April 2005 £'000
Ian McLeod		**47**	30
Nick Carter		**28**	23
David Hamid	1	**—**	46
		75	99

Note:
1 David Hamid resigned as a director on 29 March 2005.

Long-Term Incentive Plan ("LTIP")

The following table gives details of the conditional awards of shares made to the executive directors under the LTIP.

	As at 1 April 2005	Awarded in the period	**As at 31 March 2006**	Exercise price	Performance period
Ian McLeod	—	100,977	**100,977**	3.07	3 yrs to 1 Apr 2008
Nick Carter	—	60,261	**60,261**	3.07	3 yrs to 1 Apr 2008

For notes on conditions, see Note 21 on page 67.

Directors' interests in share options

The following table gives details of share options held for each executive director who served during the year:

	Notes	As at 1 April 2005	Awarded in the period	**As at 31 March 2006**	Exercise price (£)	Exercisable from	Exercisable to
Ian McLeod							
Share Option Scheme	1	192,308	—	**192,308**	2.60	2 June 2007	2 June 2014
Sharesave Scheme	2	—	3,086	**3,086**	3.07	1 Oct 2008	1 Mar 2009
Total		192,308	3,086	**195,394**			
Nick Carter							
Share Option Scheme	1	149,038	—	**149,038**	2.60	2 June 2007	2 June 2014
Sharesave Scheme	2	3,563	—	**3,563**	2.64	1 Aug 2007	1 Feb 2008
Total		152,601	—	**152,601**			

Notes:
1 Options granted under the Halfords Share Option Scheme are subject to the achievement of a three year performance condition. For grants up to 150% of basic salary the options can only be exercised if the increase in the defined EPS over the period is not less than the increase in the Retail Price Index ("RPI") plus 6% per year. In the case of grants in excess of 150% of basic salary, the excess can only be exercised in full if the increase is not less than RPI plus 10% per year. For increases in excess of 6% but less than 10%, a proportion of the option in excess of 150% of salary can be exercised.
2 The Halfords Sharesave Scheme is a Save-As-You-Earn scheme and is open to all full-time directors and employees with eligible employment service. Options may be exercised under the scheme at £2.64 per share (2004 scheme) and £3.07 (2005 scheme) if the option holder completes his saving contract for a period of three years and then not more than six months thereafter.

For details of the grant dates of options see note 21 on pages 66 and 67.

The closing share price on 31 March 2006 was £3.38 and the price range during the period from 2 April 2005 to 31 March 2006 was £2.64 to £3.55.

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

Directors' interests in shares

	Shareholdings as at 31 March 2006	Shareholdings as at 1 April 2005
executive directors		
Ian McLeod	804,757	1,129,757
Nick Carter	1,038,972	1,338,972
non-executive directors		
Rob Templeman	966,672	966,672
Richard Pym	11,538	11,538
Keith Harris	3,846	3,846
Bill Ronald	11,538	11,538
Nigel Wilson	10,000	10,000

From 31 March 2006 to 7 June 2006 there were no changes in the above interests. All of the above interests were beneficial at each of the above dates.
Ian McLeod and Nick Carter were, at 31 March 2006 and at 7 June 2006, 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 66. 881,350 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
7 June 2006

Statement of Directors' Responsibilities

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

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

The directors are responsible for the financial statements on pages 42 to 72 complying 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 Auditor does not involve consideration of these matters and, accordingly, the Auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom concerning the dissemination of financial statements may differ from legislation in other jurisdictions.

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

By order of the Board

Philip Parker, Company Secretary
7 June 2006

Independent Auditors' Report to the Members of Halfords Group plc

We have audited the Group financial statements of Halfords Group plc for the 52 weeks to 31 March 2006 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Shareholders' Equity and the related notes. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Halfords Group plc for the year ended 31 March 2006 and on the information in the Directors' Remuneration Report that is described as having been audited on pages 34 and 39.

Respective Responsibilities of Directors and Auditors

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

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

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We report to you whether in our opinion the information given in the Directors' Report is consistent with the Group financial statements. We also report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

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

Basis of Audit Opinion

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

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

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 31 March 2006 and of its profit and cash flows for the 52 weeks then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the Group financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Birmingham
7 June 2006

Consolidated Income Statement

For the period	Notes	52 weeks to 31 March 2006 £m	52 weeks to 1 April 2005 £m
Revenue	1	**681.7**	628.4
Cost of sales		**(335.0)**	(292.0)
Gross profit		**346.7**	336.4
Operating expenses	2	**(257.6)**	(247.1)
Operating profit	4	**89.1**	89.3
Finance costs	6	**(12.5)**	(15.4)
Finance income	6	**0.4**	0.4
Profit before tax		**77.0**	74.3
Taxation	7	**(23.4)**	(23.2)
Profit attributable to equity shareholders		**53.6**	51.1
Earnings per share			
Basic	9	**23.6p**	23.7p

All results relate to continuing operations of the Group.

Consolidated Balance Sheet

	Notes	31 March 2006 £m	1 April 2005 £m
Assets			
Non-current assets			
Goodwill	10	**253.1**	253.1
Other intangible assets	10	**5.7**	6.2
Property, plant and equipment	11	**104.1**	97.8
		362.9	357.1
Current assets			
Inventories	12	**127.2**	108.3
Trade and other receivables	13	**29.4**	23.6
Derivative financial instruments	19	**1.2**	—
Cash and cash equivalents	14	**1.5**	1.1
		159.3	133.0
Total assets		**522.2**	490.1
Liabilities			
Current liabilities			
Borrowings	16	**(63.5)**	(52.2)
Trade and other payables	15	**(101.9)**	(99.3)
Current tax liabilities		**(13.1)**	(13.3)
Provisions	17	**(1.2)**	(1.6)
		(179.7)	(166.4)
Net current liabilities		**(20.4)**	(33.4)
Non-current liabilities			
Borrowings	16	**(111.7)**	(131.3)
Derivative financial instruments	19	**(2.1)**	—
Deferred tax liabilities	18	**(3.5)**	(5.1)
Accruals and deferred income		**(22.7)**	(11.6)
		(140.0)	(148.0)
Total liabilities		**(319.7)**	(314.4)
Net assets		**202.5**	175.7
Shareholders' equity			
Share capital	20	**2.3**	2.3
Share premium account		**133.2**	132.9
Hedging reserve		**(0.8)**	—
Retained earnings		**67.8**	40.5
Total equity		**202.5**	175.7

The financial statements on pages 42 to 72 were approved by the Board of Directors on 7 June 2006 and were signed on its behalf by:

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

Consolidated Statement of Changes in Shareholders' Equity

	Share capital £m	Share premium £m	Hedging reserve £m	Retained earnings £m	**Total equity £m**
Balance at 2 April 2004	—	0.1	—	(7.3)	**(7.2)**
Profit for the period	—	—	—	51.1	**51.1**
Shares issued	2.3	134.6	—	—	**136.9**
Bonus issue in respect of ordinary shares	—	(1.8)	—	—	**(1.8)**
Movement arising from the issue of share options	—	—	—	4.2	**4.2**
Employee share options	—	—	—	1.0	**1.0**
Dividends	—	—	—	(8.5)	**(8.5)**
Balance at 1 April 2005	2.3	132.9	—	40.5	**175.7**
Balance at 1 April 2005 as previously reported	2.3	132.9	—	40.5	**175.7**
Application of IAS 39 Fair value at opening balance sheet	—	—	(2.9)	—	**(2.9)**
Balance at 1 April 2005 restated	2.3	132.9	(2.9)	40.5	**172.8**
Profit for the period	—	—	—	53.6	**53.6**
Shares issued	—	0.3	—	—	**0.3**
Cash flow hedges:					
Fair value gains in the period	—	—	3.2	—	**3.2**
Transfers to inventory	—	—	(0.8)	—	**(0.8)**
Transfers to net profit	—	—	(0.3)	—	**(0.3)**
Employee share options	—	—	—	1.3	**1.3**
Deferred tax on employee share options	—	—	—	0.4	**0.4**
Dividends	—	—	—	(28.0)	**(28.0)**
Balance at 31 March 2006	2.3	133.2	(0.8)	67.8	**202.5**

Consolidated Cash Flow Statement

For the period	Notes	52 weeks to 31 March 2006 £m	52 weeks to 1 April 2005 £m
Cash flows from operating activities			
Cash generated from operations	I	**100.9**	117.0
Finance income received		**0.4**	0.4
Finance costs paid		**(11.0)**	(12.5)
Cost of forward foreign exchange contracts		**(0.9)**	—
Taxation paid		**(24.8)**	(20.1)
Net cash from operating activities		**64.6**	84.8
Cash flows from investing activities			
Purchase of intangible assets		**(1.4)**	(4.3)
Purchase of property, plant and equipment		**(26.1)**	(23.3)
Net cash used in investing activities		**(27.5)**	(27.6)
Cash flows from financing activities			
Net proceeds from issue of ordinary share capital		**0.3**	135.1
Repayment of borrowings	III	**(12.0)**	(217.6)
Finance lease principal payments	III	**(0.3)**	(0.2)
Dividends paid to shareholders		**(28.0)**	(8.5)
Net cash used in financing activities		**(40.0)**	(91.2)
Net decrease in cash and bank overdrafts	II	**(2.9)**	(34.0)
Cash and bank overdrafts at the beginning of the period		**(15.5)**	18.5
Cash and bank overdrafts at the end of the period	II	**(18.4)**	(15.5)

Notes to Consolidated Cash Flow Statement

I. Cash generated from operations
For the period

	52 weeks to 31 March 2006 £m	52 weeks to 1 April 2005 £m
Operating profit	**89.1**	89.3
Depreciation — property, plant and equipment	**19.6**	17.4
Amortisation — intangible assets	**1.9**	1.1
Loss on sale of property, plant and equipment	**0.5**	0.4
Non-cash charge for employee share schemes	**—**	4.2
Share option scheme charges	**1.3**	1.0
Increase in inventories	**(18.9)**	(3.8)
Increase in debtors	**(5.8)**	(0.1)
Increase in creditors	**13.2**	7.5
	100.9	117.0

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

	At 1 April 2005 £m	Cash flow £m	Other non-cash changes £m	At 31 March 2006 £m
Cash in hand and at bank	1.1	0.4	—	**1.5**
Bank overdraft	(16.6)	(3.3)	—	**(19.9)**
	(15.5)	(2.9)	—	**(18.4)**
Debt due within one year	(35.3)	12.0	(20.0)	**(43.3)**
Debt due after one year	(118.3)	—	19.3	**(99.0)**
Total net debt excluding finance leases	(169.1)	9.1	(0.7)	**(160.7)**
Finance leases due within one year	(0.3)	0.3	(0.3)	**(0.3)**
Finance lease due after one year	(13.0)	—	0.3	**(12.7)**
Total finance leases	(13.3)	0.3	—	**(13.0)**
Total net debt	(182.4)	9.4	(0.7)	**(173.7)**

The total debt cash outflow consists of £12.0m net repayment of borrowings and £0.3m repayment of finance lease obligations, offset by an increase in overdrafts of £3.3m.

Non-cash changes relate to finance costs of £0.7m in relation to the amortisation of capitalised debt issue costs.

III. Movement in borrowings

	52 weeks to 31 March 2006 £m
Debt due within 1 year:	
Unsecured bank loans	**12.0**
Finance lease principal payments	**0.3**
	12.3

Accounting Policies

Basis of preparation

The consolidated financial statements of Halfords Group plc are now prepared in accordance with International Financial Reporting Standards ("IFRS") and International Finance Reporting Interpretation Committee ("IFRIC") interpretations that are endorsed by the European Union and with those parts of the Companies Act 1985 applicable to those companies reporting under IFRS. The Group had previously reported under UK GAAP. A reconciliation between the figures for the 52 weeks to 1 April 2005 as previously presented under UK GAAP and as restated under IFRS is given in note 25.

The consolidated financial statements are prepared under the historical cost convention. The preparation of financial statements in conformity with generally accepted accounting principles requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Although these judgements and estimates are based on management's best knowledge of the amount, event or actions and actual results may ultimately differ from these.

Transition to IFRS

The date of transition to IFRS was 3 April 2004, which is the beginning of the comparative period for the 52 weeks to 31 March 2006. The Group has applied IFRS 1 "First time adoption of International Financial Reporting Standards", and has elected to use the following exemptions:

- IFRS 3 "Business combinations" has not been applied retrospectively to business combinations that occurred before 3 April 2004.
- The Group has elected to apply the share-based payment exemption. It has applied IFRS 2 "Share-based payment" from 3 April 2004 to those options that were issued after 7 November 2002 but had not vested by 2 April 2005.

Adoption of IAS 32 and IAS 39

In accordance with IFRS 1, the Group has applied the exemption from the requirement to restate comparative information under IAS 32 and IAS 39. In the comparative period, financial instruments within the scope of IAS 32 and IAS 39 have been accounted for in accordance with the provisions of UK GAAP. The main adjustments that would make the information comply with IAS 32 "Financial Instruments: disclosure and presentation" and IAS 39 "Financial Instruments: recognition and measurement" relate to:

- Derivative instruments. Under UK GAAP, many derivative instruments are not accounted for at fair value, but are generally treated as off-balance sheet.
- Hedge accounting. Hedge designation under UK GAAP is less restrictive than IAS 39, thereby allowing designation of hedge relationships in cases where IAS 39 does not permit hedge accounting.

During the 52 weeks to 1 April 2005, the Group presented financial instruments in line with FRS 13 "Derivatives and other financial instruments: disclosures".

Basis of consolidation

Subsidiaries

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

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

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

The principal subsidiary undertakings of the Company at 31 March 2006 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 (non-trading from 31 January 2006)	100

Segmental reporting

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

Accounting Policies

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

Foreign currency translation
Functional and presentation currency
The consolidated financial statements are presented in sterling, which is the Group's functional and presentation currency. Items included in the financial statements of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

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

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

Share-based payments
The Group operates a number of equity-settled, share-based compensation plans.

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

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

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

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

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

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

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

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

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

Financial instruments

The Group holds financial instruments which have been classified as financial assets and liabilities designated at fair value through profit or loss and loans and receivables.

Financial assets and liabilities at fair value through profit or loss

These include financial instruments held for trading and those assets designated at fair value through profit and loss. A financial instrument is classified in this category if it is principally acquired for the purpose of selling or repurchasing in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Items in this category are classified as current assets or current liabilities if they are expected to be realised within 12 months of the balance sheet date.

Loans and receivables

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

Accounting for derivative financial instruments and hedging activities

Derivatives are recognised at fair value on the date a contract is entered into and are subsequently remeasured at their fair value.

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

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

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

Fair value hedges

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

Cash flow hedges

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

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

Non-hedging derivatives
Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

Fair value estimation
The fair value of financial instruments traded in organised active financial markets is based on quoted market prices at the close of business on the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current offer price.

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

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

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

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

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

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

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

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

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

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

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

Deferred taxation

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

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

Provisions

Provisions are recognised when:

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

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

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

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

Leases

Finance leases

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

Operating leases

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

Landlord contributions

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

Sublease income

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

Pensions

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

Notes to the Financial Statements

1. Segmental reporting

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

2. Operating expenses

For the period	**52 weeks to 31 March 2006 £m**	52 weeks to 1 April 2005 £m
Selling and distribution costs	**221.5**	210.2
Administrative expenses	**36.1**	40.9
Other operating income	**—**	(4.0)
	257.6	247.1

3. Non-recurring items

For the period	**52 weeks to 31 March 2006 £m**	52 weeks to 1 April 2005 £m
Employee share options(1)	**—**	(4.2)
Lease incentive premium(2)	**—**	4.0
	—	(0.2)

Notes:

(1) In the 52 weeks to 1 April 2005 there was a non-cash charge of £4.2m in respect of employee share options, which were exercised at the time of the IPO.

(2) 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 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 which 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 52 weeks to 1 April 2005 included credits of £2.0m and £0.8m respectively for the above items.

4. Operating profit

For the period	52 weeks to 31 March 2006 £m	52 weeks to 1 April 2005 £m
Operating profit is arrived at after charging/(crediting):		
Operating lease rentals:		
— plant and machinery	**0.8**	0.9
— property rents	**66.3**	60.2
— rentals receivable under operating leases	**(10.7)**	(10.1)
Landlord contributions	**(6.9)**	(2.5)
Loss on disposal of property, plant and equipment	**0.5**	0.4
Amortisation of intangible assets	**1.9**	1.1
Depreciation of		
— owned property, plant and equipment	**18.9**	16.7
— assets held under finance leases	**0.7**	0.7
Net foreign exchange gains	**(2.0)**	(1.9)
Auditors' remuneration:		
— audit fees	**0.2**	0.2
— non-audit services	**0.3**	0.3

The total fees payable by the Group to PricewaterhouseCoopers LLP and their associates during the period was £0.5m (2005: £1.6m), of which £nil (2005: £1.1m) 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.

Non-audit services

For the period	52 weeks to 31 March 2006 £m	52 weeks to 1 April 2005 £m
Fees principally relating to IPO and refinancing	**—**	0.9
Taxation services — compliance	**0.2**	0.4
Other services — advisory	**0.1**	0.1
	0.3	1.4

5. Employee benefit expense

For the period	**52 weeks to 31 March 2006 £m**	52 weeks to 1 April 2005 £m
The aggregated remuneration of all employees including directors comprised:		
Wages and salaries	**88.5**	89.8
Social security costs	**6.8**	6.4
Share-based payment charge	**1.3**	1.0
Other pension costs (note 23)	**3.3**	3.0
	99.9	100.2

	Number	Number
Average number of persons employed by the Group during the period:		
Stores	**9,385**	9,245
Central warehousing	**223**	231
Head office	**461**	464
	10,069	9,940

Full details of directors' remuneration and interests are set out in the Remuneration Report on pages 34 to 39.

Key management compensation

For the period	**52 weeks to 31 March 2006 £m**	52 weeks to 1 April 2005 £m
Salaries and short-term benefits	**1.4**	2.0
Social security costs	**0.2**	0.3
Pensions	**0.2**	0.2
Termination benefits	**—**	0.1
Share based payment charge	**0.7**	0.7
	2.5	3.3

6 Net finance costs

For the period	**52 weeks to 31 March 2006 £m**	52 weeks to 1 April 2005 £m
Finance costs:		
Bank borrowings	**(9.7)**	(12.4)
Premium on deep discounted bond	**—**	(1.5)
Amortisation of issue costs on loans and deep discounted bonds	**(0.7)**	(0.8)
Commitment and guarantee fees	**(0.3)**	(0.4)
Cost of forward foreign exchange contracts	**(0.9)**	—
Interest payable on finance leases	**(0.9)**	(0.8)
Finance costs before non-recurring items	**(12.5)**	(15.9)
Non-recurring amortisation of issue costs on loans and deep discounted bonds(1)	**—**	(1.7)
Non-recurring swap close out(2)	**—**	2.2
Finance costs	**(12.5)**	(15.4)
Finance income: Bank and similar interest	**0.4**	0.4
Net finance costs	**(12.1)**	(15.0)

Notes:

(1) At IPO, on 8 June 2004, Halfords Group plc redeemed and replaced all of its existing borrowings. As a consequence, a charge of £1.7m was made in respect of accelerated amortisation of the issue costs associated with these borrowings.

(2) On repayment of the existing borrowings, the Group hedged its new borrowing facilities during the 52 weeks to 1 April 2005 using new interest rate swaps and received £2.2m of income on the termination of its existing interest rate swaps.

7. Taxation

For the period	**52 weeks to 31 March 2006 £m**	52 weeks to 1 April 2005 £m
Current taxation		
UK corporation tax charge for the period	**25.8**	23.6
Adjustment in respect of prior periods	**(1.2)**	(0.3)
	24.6	23.3
Deferred taxation		
Origination and reversal of timing differences	**(1.2)**	(0.1)
	23.4	23.2

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

For the period	**52 weeks to 31 March 2006 £m**	52 weeks to 1 April 2005 £m
Profit before tax	**77.0**	74.3
UK corporation tax at standard rate of 30% (2005: 30%)	**23.1**	22.3
Factors affecting the charge for the period:		
Depreciation on expenditure not eligible for tax relief	**1.1**	1.1
Deduction for employee share options	**—**	(0.4)
Other disallowable expenses	**0.4**	0.5
Adjustment in respect of prior periods	**(1.2)**	(0.3)
Total tax charge for the period	**23.4**	23.2

8. Dividends

For the period	**52 weeks to 31 March 2006 £m**	52 weeks to 1 April 2005 £m
Equity — Ordinary		
Final for the 52 weeks ended 1 April 2005 — paid 8.3p (2005: £nil)	**18.9**	—
Interim — paid 4.0p (2005: 3.7p)	**9.1**	8.5
	28.0	8.5

In addition, the directors are proposing a final dividend in respect of the financial year ended 31 March 2006 of 8.75p per share which will absorb an estimated £19.9m of shareholders' funds. It will be paid on 14 August 2006 to shareholders who are on the register of members on 16 June 2006.

9. 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 20) and has been adjusted for the issue of shares during the year.

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 31 March 2006.

For the period	**52 weeks to 31 March 2006 Number m**	52 weeks to 1 April 2005 Number m
Weighted average number of shares in issue	**228.0**	216.5
Less: shares held by Employee Benefit Trust	**(0.9)**	(0.9)
Weighted average number of shares for calculating basic earnings per share	**227.1**	215.6
Weighted average number of dilutive shares	**0.2**	0.1
Total number of shares for calculating diluted earnings per share	**227.3**	215.7

For the period	**52 weeks to 31 March 2006 £m**	52 weeks to 1 April 2005 £m
Basic earnings attributable to equity shareholders	**53.6**	51.1

Earnings per share is calculated as follows:

For the period	**52 weeks to 31 March 2006**	52 weeks to 1 April 2005
Basic earnings per ordinary share	**23.6p**	23.7p
Diluted earnings per ordinary share	**23.6p**	23.7p

10. Intangible assets

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

10. Intangible assets (continued)

	Computer software £m	Product rights £m	Goodwill £m	Total £m
Cost				
At 2 April 2004	3.1	0.2	274.8	278.1
Additions	4.3	—	—	4.3
At 1 April 2005	**7.4**	**0.2**	**274.8**	**282.4**
Amortisation				
At 2 April 2004	0.1	0.2	21.7	22.0
Charge for the period	1.1	—	—	1.1
At 1 April 2005	**1.2**	**0.2**	**21.7**	**23.1**
Net book value at 1 April 2005	**6.2**	**—**	**253.1**	**259.3**
Net book value at 2 April 2004	3.0	—	253.1	256.1

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

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

The key assumptions used in the value-in-use calculation for goodwill held at 31 March 2006 and 1 April 2005 are as follows:

	2006	2005
Discount rate[1]	**8.6%**	8.6%
Growth rate[2]	**0.0%**	0.0%
Tax rate	**31.9%**	31.9%

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

11. Property, plant and equipment

	Short leasehold land and buildings £m	Fixtures, fittings and equipment £m	Payments on account and assets in course of construction £m	Total £m
Cost				
At 1 April 2005	41.0	211.0	0.4	252.4
Additions	2.2	23.2	1.0	26.4
Disposals	(0.1)	(2.2)	—	(2.3)
Reclassifications	0.2	0.2	(0.4)	—
At 31 March 2006	**43.3**	**232.2**	**1.0**	**276.5**
Depreciation				
At 1 April 2005	12.5	142.1	—	154.6
Depreciation for the period	1.9	17.7	—	19.6
Disposals	(0.1)	(1.7)	—	(1.8)
At 31 March 2006	**14.3**	**158.1**	**—**	**172.4**
Net book value at 31 March 2006	**29.0**	**74.1**	**1.0**	**104.1**
Net book value at 1 April 2005	28.5	68.9	0.4	97.8

11. Tangible fixed assets (continued)

	Short leasehold 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	39.7	0.1	189.5	1.9	231.2
Additions	1.9	—	21.1	0.4	23.4
Disposals	(0.7)	(0.1)	(1.4)	—	(2.2)
Reclassifications	0.1	—	1.8	(1.9)	—
At 1 April 2005	**41.0**	**—**	**211.0**	**0.4**	**252.4**
Depreciation					
At 2 April 2004	11.2	0.1	127.7	—	139.0
Depreciation for the period	1.8	—	15.6	—	17.4
Disposals	(0.5)	(0.1)	(1.2)	—	(1.8)
At 1 April 2005	**12.5**	**—**	**142.1**	**—**	**154.6**
Net book value at 1 April 2005	**28.5**	**—**	**68.9**	**0.4**	**97.8**
Net book value at 2 April 2004	28.5	—	61.8	1.9	92.2

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

	Land and buildings £m	Fixtures, fittings, and equipment £m	Total £m
As at 31 March 2006			
Cost	**12.7**	**0.8**	**13.5**
Accumulated depreciation	**(1.0)**	**(0.4)**	**(1.4)**
Net book value	**11.7**	**0.4**	**12.1**
As at 1 April 2005			
Cost	12.7	0.8	13.5
Accumulated depreciation	(0.5)	(0.2)	(0.7)
Net book value	12.2	0.6	12.8

No fixed assets are held as security for external borrowings.

12. Inventories

	2006 £m	2005 £m
Finished goods for resale	**127.2**	108.3

The Group consumed £335.2m (2005: £290.9m) of inventories during the period.

Finished goods inventories of £6.4m (2005: £6.5m) are carried at fair value less costs to sell being lower than cost. The Group did not reverse any unutilised provisions during the period.

13. Trade and other receivables

	2006 £m	2005 £m
Falling due within one year:		
Trade receivables	**4.0**	3.8
Less: Provision for impairment of receivables	**(0.1)**	(0.2)
Trade receivables — net	**3.9**	3.6
Other receivables	**5.1**	0.2
Prepayments and accrued income	**20.4**	19.8
	29.4	23.6

The fair value of receivables is calculated based on cash flows discounted using a rate based on the borrowings rate of 4.9%. The above balances are short-term and therefore there is no difference between the book value and the fair value of the above debtors.

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

14. Cash and cash equivalents

	2006 £m	2005 £m
Cash at bank and in hand	**1.5**	1.1

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

	2006 £m	2005 £m
Cash at bank and in hand	**1.5**	1.1
Bank overdrafts	**(19.9)**	(16.6)
	(18.4)	(15.5)

15. Trade and other payables — current

	2006 £m	2005 £m
Trade payables	**65.2**	60.8
Other taxation and social security payable	**17.0**	15.4
Other payables	**1.5**	0.7
Accruals and deferred income	**18.2**	22.4
	101.9	99.3

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

16. Borrowings

Current	2006 £m	2005 £m
Bank loans and overdrafts due within one year or on demand — unsecured	**63.2**	51.9
Finance leases	**0.3**	0.3
	63.5	52.2
Non-current		
Bank loan-unsecured	**99.0**	118.3
Finance leases	**12.7**	13.0
	111.7	131.3

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

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

As at 1 April 2005	1 year £m	1–5 years £m	Total £m
Total borrowings	170.2	—	170.2
Effect of interest rate swaps	(120.0)	120.0	—
	50.2	120.0	170.2

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

	2006	2005
Bank overdraft	**5.50%**	5.75%
Bank borrowings	**5.22%**	5.38%
Finance leases	**7.14%**	7.14%

Maturity of financial liabilities
The maturity profile of the carrying amount of the Group's non-current liabilities at 31 March 2006 was as follows:

	Debt £m	Finance Leases £m	2006 Total £m	Debt £m	Finance Leases £m	2005 Total £m
Expiring between 1 and 2 years	**19.5**	**0.3**	**19.8**	19.4	0.3	19.7
Expiring between 2 and 5 years	**79.5**	**0.9**	**80.4**	98.9	0.9	99.8
Expiring after 5 years	**—**	**11.5**	**11.5**	—	11.8	11.8
	99.0	**12.7**	**111.7**	118.3	13.0	131.3

Bank loans are stated net of unamortised issue costs of £1.7m (2005: £2.4m).

The term loan is repayable in six-monthly instalments of £10.0m until 31 March 2009, with the remaining balance being repayable on 17 May 2009. The loan carries interest of LIBOR 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 £24.0m (2005: £16.0m) of short-term loans drawn from uncommitted facilities. The loans attract interest at 5.24% and were used to cover short-term working capital requirements.

16. Borrowings (continued)

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:

	2006 £m	2005 £m
Expiring within 1 year	**1.0**	1.0
Expiring between 2 and 5 years	**106.9**	118.0
	107.9	119.0

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

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

	2006 £m	2005 £m
Not later than one year	**1.1**	1.1
Later than one year but not more than five	**4.2**	4.3
More than five years	**20.1**	21.1
	25.4	26.5
Future finance charges on finance leases	**(12.4)**	(13.2)
Present value of finance lease liabilities	**13.0**	13.3

17. Provisions

	Vacant property £m	Returns £m	Total £m
At 1 April 2005	1.1	0.5	1.6
Charged during the period	—	0.5	0.5
Utilised during the period	(0.4)	(0.5)	(0.9)
At 31 March 2006	**0.7**	**0.5**	**1.2**

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

Provisions comprise vacant property provisions of £0.7m (2005: £1.1m) and a provision of £0.5m (2005: £0.5m) in respect of estimated sales returns. The vacant property provision represents recognition of the net costs arising from vacant properties and sub-let properties.

18. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 30% (2005: 30%)

	52 weeks to 31 March 2006 £m	52 weeks to 1 April 2005 £m
The movement on the deferred taxation provision is shown below:		
At the beginning of the period	**5.1**	5.2
Income statement credit	**(1.2)**	(0.1)
Credited to equity	**(0.4)**	—
At the end of the period	**3.5**	5.1

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

Deferred tax liabilities:

	Accelerated tax depreciation £m
At 2 April 2004	(9.0)
Credit to the income statement	0.3
At 1 April 2005	(8.7)
Credit to the income statement	0.3
At 31 March 2006	**(8.4)**

Deferred tax assets:	Provisions and share options £m
At 2 April 2004	3.8
Charged to the income statement	(0.2)
At 1 April 2005	3.6
Credit to the income statement	0.9
Credit to equity	0.4
At 31 March 2006	4.9
Net deferred tax liability	
At 1 April 2005	5.1
At 31 March 2006	**3.5**

19. Derivative financial instruments

FRS 13 "Derivatives and other financial instruments: disclosure" applies to the comparatives as a result of the exemption taken under IAS 32 as stated in the accounting policy note. As a result, disclosures under this standard are given below for the comparatives, where disclosure requirements are different to those required under IAS 32.

Fair value of derivative financial instruments

The 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 purchases.

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

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

Forward foreign exchange contracts

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 March 2006 are £63,588,000 (2005: £29,880,000). Gains and losses in equity on forward foreign exchange contracts as of 31 March 2006 will be released to the income statement at various dates between three and seven months from the balance sheet date.

Interest rate swaps

The notional principal amount of the outstanding interest rate swap contract at 31 March 2006 was £120m (2005: £140m). At 31 March 2006 the fixed interest rate was 5.5875% and the floating rate is LIBOR.

Treasury policy

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

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

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

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

19. Derivative Financial instruments (continued)

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

Interest rate risk
The Group maintains its policy to minimise interest rate risk on its borrowings and deposits by using interest rate derivatives where appropriate. The Group's policy aims to manage the interest cost of the Group within the constraints of the Business Plan and its financial covenants. The aim is to reduce exposure to the effect of interest rates movements by hedging at least 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, will be unwilling to renegotiate the terms of the borrowings. The Group ensures that such counterparties used for credit transactions hold at least an AA credit rating.

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

Fair values of non-derivative financial liabilities
The following table is a comparison by category of the carrying amounts and the fair values of the Group's financial assets and financial liabilities at 31 March 2006 and 1 April 2005.

	2006 Book Value £m	**2006 Fair Value £m**	2005 Book Value £m	2005 Fair Value £m
Short term borrowings	**(63.2)**	**(63.2)**	(51.9)	(51.9)
Long term borrowings	**(99.0)**	**(99.0)**	(118.3)	(118.3)
Finance leases	**(13.0)**	**(13.0)**	(13.3)	(13.3)
Other financial liabilities — current	**(102.6)**	**(102.6)**	(100.4)	(100.4)
Other financial liabilities — non-current	**(22.7)**	**(22.7)**	(11.6)	(11.6)
Cash at bank and in hand	**1.5**	**1.5**	1.1	1.1
Total	**(299.0)**	**(299.0)**	(294.4)	(294.4)

Fair value assumptions

Short-term deposits and borrowings	The fair value of short-term deposits, loans and overdrafts approximates to the carrying amount because of the short maturity of these instruments.
Long-term borrowings	The fair value of the Group's bonds has been estimated using quoted market prices. In the case of bank loans and other loans, the fair value 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.

As discussed above, the FRS 13 disclosures for the comparatives are as follows.

Short-term debtors and creditors
Short-term debtors and creditors have been excluded from all the following disclosures, other than the currency risk disclosures.

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

19. Derivative Financial instruments (continued)

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	—

All the Group's creditors falling due within one year (other than bank and other borrowings) are excluded from the above table due to the exclusion of short-term items, taxation balances, or because they do not meet the definition of financial liabilities.

The effect of the Group's interest rate swap at 1 April 2005 was to classify £138.0m 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 £1.2m (note 17) 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 reappraised at each half yearly reporting date to ensure that it reflected the current market assessment of the time value of money and the risks specific to the liability.

Interest rate risk of financial assets

Currency	2005 Cash at bank and in hand £m
Sterling — floating rate	1.1

Floating rate cash earns interest based on relevant national LIBID equivalents or government bond rates.

Currency exposures

At 1 April 2005 the Group had 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 of US dollar liabilities for purchases; these were fully hedged into sterling as at 1 April 2005.

Hedges

The 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 were 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 £m
Unrecognised gains on hedges	(2.9)

As at 1 April 2005, £1.5m of unrecognised gains were expected to be included within income of the following financial year and £1.4m was expected to be recognised thereafter.

20. Equity share capital

Ordinary shares of 1p each:	**2006 Number of shares**	**2006 £**	2005 Number of shares	2005 £
Authorised	**295,000,000**	**2,950,000**	295,000,000	2,950,000
Allotted, called up and fully paid	**228,027,743**	**2,280,277**	227,936,743	2,279,367

Allotted, called up and fully paid share capital increased during the period due to the early exercising of share options by members of the Halfords Share Option Scheme. Early exercise of the options are allowed if an option holder ceases to be employed by reason of death, injury, disability, redundancy, retirement or on the sale of his employing company or business.

Interest in own shares
At 31 March 2006, the Company held in Trust 881,350 (2005: 887,068) of its own shares with a nominal value of £8,814 (2005: £8,871). The Trust has waived any entitlement to the receipt of dividends in respect of its holding of the Company's ordinary shares.

21. Share-based payments

As at 31 March 2006, the Group operated three share award plans:

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

1. Halfords Company Share Option Scheme

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

The Company has made annual grants in both the 52 weeks to 31 March 2006 and the 52 weeks to 1 April 2005. 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% (2005: 6%) per year. 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.

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

Grant date	**13 July 2005**	**2 June 2004**
Share price at grant date	£2.955	£2.600
Exercise price	£2.955	£2.600
Number of employees	42	3,598
Shares under option	294,000	6,556,953
Vesting period (years)	3	3
Expected volatility	37%	40%
Option life (years)	10	10
Expected life (years)	4.85	3.85
Risk-free rate	4.68%	4.68%
Expected dividend yield	4.00%	4.00%
Possibility of ceasing employment before vesting	32%	34%
Expectations of meeting performance criteria	100%	100%
Fair value per option	£0.79	£0.70
Number of options outstanding at 31 March 2006	287	5,739

2. Halfords Sharesave Scheme

The Halfords Sharesave Scheme ("SAYE") is open to all employees with eligible employment service. Options may be exercised under the scheme if the option holder completes his savings 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 of control, reconstruction or winding up of the Company.The fair value option granted and the assumptions used in the calculations were as follows:

21. Share-based payments (continued)

Grant date	1 October 2005	7 June 2004
Share price at grant date	£3.07	£2.64
Exercise price	£3.07	£2.64
Number of employees	573	1,561
Shares under option	269,037	1,364,861
Vesting period (years)	3	3
Expected volatility	36%	39%
Option life (years)	3	3
Expected life (years)	3.5	3.5
Risk-free rate	4.68%	4.68%
Expected dividend yield	4.00%	4.00%
Possibility of ceasing employment before vesting	53%	36%
Expectations of meeting performance criteria	100%	100%
Fair value per option	£0.81	£0.65
Number of options outstanding at 31 March 2006	233	1,022

3. Long-Term Incentive Plan

The LTIP was approved at the Annual General Meeting in August 2005 awarding the executive directors and certain senior management conditional rights to receive shares.

The extent to which such rights vest will depend upon the Group's performance over the three financial years ending in March 2008.

The vesting of 50% of the awards will be determined by the Group's relative total shareholder return ("TSR") performance compared with specific retailers and the vesting of the other 50% by the Group's earnings per share ("EPS") performance against RPI.

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	8 August 2005
Share price at grant date	£3.070
Exercise price	£3.070
Number of employees	17
Shares under option	537,417
Vesting period (years)	3
Expected volatility	31%
Option life (years)	3
Expected life (years)	3
Risk-free rate	4.30%
Expected dividend yield	4.00%
Possibility of ceasing employment before vesting	30%
Expectations of meeting performance criteria	50%
Fair value per option	£2.19
Number of shares outstanding at 31 March 2006	538

A reconciliation of option movements for both the CSOP, SAYE and LTIP performance plans over the 52 weeks to 31 March 2006 are shown below:

	31 March 2006		1 April 2005	
	Number ('000)	**Weighted average exercise price £**	Number ('000)	Weighted average exercise price £
Outstanding at start of year	**7,067**	**2.61**	—	—
Granted	**1,100**	**3.04**	7,922	2.61
Forfeited	**(7)**	**2.96**	—	—
Exercised	**(85)**	**2.60**	(28)	2.61
Lapsed	**(256)**	**2.67**	(827)	2.62
Outstanding at end of year	**7,819**	**2.67**	7,067	2.61
Exercisable at end of year	**3**	**2.60**	—	—

21. Share-based payments (continued)

	2006					2005			
Range of exercise prices £	Weighted average exercise price £	Number of shares	Weighted average remaining life (years) Expected	Contractual	Weighted average exercise price £	Number of shares	Weighted average remaining life (years) Expected	Contractual
2.60	**2.60**	**5,739**	**2.0**	**8.2**	2.60	6,044	3.0	9.2
2.64	**2.64**	**1,022**	**1.6**	**1.6**	2.65	1,022	2.6	2.6
2.95	**2.95**	**287**	**4.2**	**9.3**	—	—	—	—
3.07	**3.07**	**223**	**3.0**	**3.0**	—	—	—	—
0.00	**0.00**	**538**	**2.0**	**2.0**	—	—	—	—

The weighted average share price during the period for options exercised was £2.60 (2005: n/a). The total charge for the year relating to employee share-based payment plans was £1.3m (2005: £1.0m), all of which related to equity-settled share-based payment transactions.

22. Commitments

	2006 £m	2005 £m
Capital expenditure: Contracted but not provided	**1.3**	1.2

At 31 March 2006, the Group was committed to making payments in respect of non-cancellable operating leases in the following periods:

	Land and buildings 2006 £m	Other assets 2006 £m	Land and buildings 2005 £m	Other assets 2005 £m
Within one year	**69.6**	**0.7**	64.6	0.7
Later than one year and less than five years	**274.6**	**0.9**	256.5	0.7
After five years	**449.5**	**—**	461.2	—
	793.7	**1.6**	782.3	1.4

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

23. Pensions

From 1 December 2002, employees have been offered membership of the Halfords Pension Plan, a defined contribution pension arrangement. The costs of contributions to the scheme are charged to the income statement in the period that they arise. The contributions to the scheme for the period amounted to £3.3m (52 weeks to 1 April 2005: £3.0m) 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.

24. 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 31 March 2006 amounted to £3.1m (2005: £2.0m).

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

25. Reconciliation of net assets and profit under UK GAAP to IFRS

The Group reported under UK GAAP in its published financial statements for the 52 weeks to 1 April 2005. The analysis below shows a reconciliation of net assets and profit as reported under UK GAAP for the 52 weeks to 1 April 2005 to the revised net assets and profit under IFRS as reported in these financial statements. In addition, there is a reconciliation of net assets under UK GAAP to IFRS at the transition date for the Group being 3 April 2004.

Key impacts

The main impacts of IFRS on the reported results of the Group are listed below and are described in greater detail in the following sections.

- **Goodwill (IFRS 3)** — Acquired goodwill should no longer be amortised and is instead subjected to an annual impairment review. At the date of transition to IFRS the value of goodwill is frozen.
- **Share Based Payments (IFRS 2)** — Fair value based charges are required for all awards made for share schemes on or after 7 November 2002 which had not vested by 2 April 2005.
- **Property Leases (IAS 17)** — The building element of the lease relating to the Group's head office in Redditch has been reclassified as a finance lease. Lease incentives must now be amortised in the income statement over the lease term not to the date of the first rent review.
- **Timing and Recognition of Dividends (IAS 10)** — Final dividends declared after the Balance Sheet date cannot be recognised at the Balance Sheet date and instead are reported in the period in which they are approved.
- **Intangible Assets (IAS 38)** — Software costs previously categorised within tangible fixed assets must now be shown as intangible assets in the Balance Sheet.

	52 weeks to 1 April 2005 £m
Operating profit under UK GAAP as previously reported	**78.3**
Prior year adjustment — rebates	(1.3)
Operating profit under UK GAAP restated	**77.0**
Goodwill amortisation	13.7
Share-based payment	(1.0)
Reclassification of assets from operating to finance leases	0.4
Lease incentives	(0.8)
IFRS adjustments	**12.3**
Operating profit under IFRS	**89.3**

	1 April 2005 £m
Net assets under UK GAAP as previously reported	**156.3**
Prior year adjustment — rebates	(3.9)
Net assets under UK GAAP restated	152.4
Goodwill amortisation	13.7
Holiday pay accrual	(0.5)
Reclassification of assets from operating to finance leases	(0.5)
Lease incentives	(6.4)
Tax on above adjustments	(1.9)
Dividend recognition	18.9
IFRS adjustments	**23.3**
Net assets under IFRS	**175.7**

Reconciliation of the income statement for the 52 weeks to 1 April 2005

	Ref	UK GAAP 2005 £m	IFRS 2005 £m	Difference £m
Revenue		628.4	628.4	—
Cost of sales	1.1	(290.7)	(292.0)	(1.3)
Gross profit		**337.7**	**336.4**	**(1.3)**
Operating expenses	1.2	(259.4)	(247.1)	12.3
Operating profit		**78.3**	**89.3**	**11.0**
Net finance costs	1.3	(14.2)	(15.0)	(0.8)
Profit before tax		**64.1**	**74.3**	**10.2**
Taxation	1.4	(24.2)	(23.2)	1.0
Profit attributable to equity shareholders		**39.9**	**51.1**	**11.2**
Basic EPS (pence)		18.5p	23.7p	5.2p

The differences upon the profit attributable to equity shareholders are:

Reference 1.1 **Cost of sales**	**2005** **£m**
Prior year adjustment to "Inventories": an adjustment has been made for a UK GAAP error to absorb an appropriate portion of rebate income into the cost of inventories, which was previously recognised as received in the income statement.	(1.3)

Reference 1.2 **Operating expenses**	**2005** **£m**
IFRS 2 "Share-based payment" requires the assignment of fair values at the date of grant to the options granted to employees after 7 November 2002 which had not vested by 2 April 2005. The expense is spread over the vesting period of these options.	(1.0)
IAS 17 "Leases" results in the reclassification of the head office building from being held as an operating lease to a finance lease. The asset has been depreciated over the useful economic life and the interest associated with the lease reclassified from operating expenses to finance costs.	0.4
IAS 17 "Leases" requires the release of lease incentives over the life of the lease rather than over the period to the first rent review. Consequently, there has been a reduction in the release of lease incentives from the balance sheet.	(0.8)
IFRS 3 "Business combinations" requires the non-amortisation of goodwill arising on business combinations. Under UK GAAP goodwill was amortised over 20 years.	13.7
	12.3

Reference 1.3 **Net finance costs**	**2005** **£m**
IAS 17 "Leases" resulted in the reclassification of the head office building from an operating to a finance lease. The interest associated with the lease has been reclassified from operating expenses to finance costs.	(0.8)

Reference 1.4 **Taxation**	**2005** **£m**
IAS 12 "Income taxes" resulted in the recognition of a deferred tax liability regarding assets acquired in prior periods that did not qualify for capital allowances. This deferred tax liability has been released as follows:	0.8
IAS 17 "Leases" led to the creation of deferred tax assets relating to lease premiums that were not previously accounted for under UK GAAP. The movement on the deferred tax asset has been as follows:	0.1
IAS 19 "Employee benefits" led to the recognition of a deferred tax asset for employee holiday pay.	0.1
	1.0

Reconciliation of equity at 1 April 2005 and 3 April 2004 (Date of transition to IFRS)

	Ref	UK GAAP 2005 £m	IFRS 2005 £m	Difference £m	UK GAAP 2004 £m	IFRS 2004 £m	Difference £m
Non-current assets							
Goodwill	2.1	**239.4**	**253.1**	**13.7**	253.1	253.1	—
Intangible assets	2.2	**—**	**6.2**	**6.2**	—	3.0	3.0
Property, plant and equipment	2.3	**91.8**	**97.8**	**6.0**	82.5	92.2	9.7
		331.2	**357.1**	**25.9**	335.6	348.3	12.7
Current assets							
Inventories	2.4	**112.2**	**108.3**	**(3.9)**	107.1	104.5	(2.6)
Trade and other receivables		**23.6**	**23.6**	**—**	23.5	23.5	—
Cash and cash equivalents		**1.1**	**1.1**	**—**	25.6	25.6	—
		136.9	**133.0**	**(3.9)**	156.2	153.6	(2.6)
Current liabilities							
Borrowings	2.5	**(52.1)**	**(52.2)**	**(0.1)**	(189.4)	(189.5)	(0.1)
Trade and other payables	2.6	**(117.7)**	**(99.3)**	**18.4**	(94.3)	(94.8)	(0.5)
Current tax liabilities		**(13.3)**	**(13.3)**	**—**	(10.1)	(10.1)	—
Provisions		**(1.6)**	**(1.6)**	**—**	(1.0)	(1.0)	—
		(184.7)	**(166.4)**	**18.3**	(294.8)	(295.4)	(0.6)
Net current liabilities		**(47.8)**	**(33.4)**	**14.4**	(138.6)	(141.8)	(3.2)
Non-current liabilities							
Borrowings	2.7	**(118.7)**	**(131.3)**	**(12.6)**	(185.6)	(198.2)	(12.6)
Deferred tax liabilities	2.8	**(3.2)**	**(5.1)**	**(1.9)**	(2.3)	(5.2)	(2.9)
Other non-current liabilities	2.9	**(5.2)**	**(11.6)**	**(6.4)**	(4.6)	(10.3)	(5.7)
		(127.1)	**(148.0)**	**(20.9)**	(192.5)	(213.7)	(21.2)
Net assets		**156.3**	**175.7**	**19.4**	4.5	(7.2)	(11.7)
Equity							
Share capital		**2.3**	**2.3**	**—**	—	—	—
Share premium		**132.9**	**132.9**	**—**	0.1	0.1	—
Retained earnings	2.10	**21.1**	**40.5**	**19.4**	4.4	(7.3)	(11.7)
Total equity		**156.3**	**175.7**	**19.4**	4.5	(7.2)	(11.7)

The differences are explained as follows:

Reference 2.1 **Goodwill**	**2005** **£m**	2004 £m
IFRS 3 "Business combinations" resulted in the write-back of goodwill previously amortised since the transition date of 3 April 2004.	**13.7**	—

Reference 2.2 **Intangible assets**	**2005** **£m**	2004 £m
IAS 38 "Intangible assets" requires the reclassification of software development costs from property, plant and equipment to intangible fixed assets.	**6.2**	3.0

Reference 2.3 **Property, plant and equipment**	**2005** **£m**	2004 £m
IAS 17 "Leases" resulted in the reclassification of a building from an operating lease to a finance lease. The asset is being depreciated over its useful economic life.	**12.2**	12.7
IAS 38 "Intangible assets" requires the reclassification of software development costs from property, plant and equipment to intangible fixed assets.	**(6.2)**	(3.0)
	6.0	9.7

Reference 2.4 Inventories	2005 £m	2004 £m
Prior year adjustment to "Inventories": an adjustment has been made for a UK GAAP error to absorb an appropriate portion of rebate income into inventories, which was previously recognised in the Income Statement.	**(3.9)**	(2.6)

Reference 2.5 Borrowings	2005 £m	2004 £m
IAS 17 "Leases" results in the reclassification of a lease relating to the head office building which was formerly held as an operating lease as a finance lease.	**(0.1)**	(0.1)

Reference 2.6 Trade and other payables	2005 £m	2004 £m
IAS 37 "Provisions, contingent liabilities and contingent assets" requires that dividends are recognised in the period in which they are approved.	**18.9**	—
IAS 19 "Employee benefits" requires the recognition of holiday pay due to and from employees. A liability arises at the year end due to employees carrying forward accrued benefits to the following financial year.	**(0.5)**	(0.5)
	18.4	(0.5)

Reference 2.7 Borrowings	2005 £m	2004 £m
IAS 17 "Leases" results in the recognition of a building as a finance lease, which was formerly held as an operating lease (see note 2.3).	**(12.6)**	(12.6)

Reference 2.8 Deferred income tax liabilities	2005 £m	2004 £m
IAS 12 "Income taxes" results in the recognition of a deferred tax liability regarding assets acquired in prior periods that did not qualify for capital allowances.	**(4.0)**	(4.8)
IAS 17 "Leases" leads to the creation of deferred tax assets relating to lease incentives.	**1.9**	1.7
IAS 19 "Employee benefits" led to the recognition of a deferred tax asset for employee holiday pay.	**0.2**	0.2
	(1.9)	(2.9)

Reference 2.9 Other non-current liabilities	2005 £m	2004 £m
The adoption of **IAS 17 "Leases"** results in the profit on the sale of a property being reclassified as deferred income rather than being recognised in the Income Statement. The effect on deferred income was:	**(3.6)**	(3.7)
The adoption of **IAS 17 "Leases"** requires the release of lease incentives over the life of the lease rather than over the period to the first rent review. Consequently, there has been a reduction in the release of lease incentives from the Balance Sheet. The effect on deferred income was:	**(2.8)**	(2.0)
	(6.4)	(5.7)

Reference 2.10 Retained earnings	2005 £m	2004 £m
The adoption of IFRS and the UK GAAP error had the following net impact on retained earnings. Cumulative total of all adjustments to the Balance Sheet was:	**19.4**	(11.7)

Reconciliation of the Consolidated Cash Flow Statements

The principal difference between UK GAAP and IFRS in the Group's statement of cash flow is the reconciliation to cash and bank overdrafts rather than net debt (which included bank loans and finance lease creditors).

Five Year Record

	52 weeks to 29 March 2002 £m UK GAAP*	52 weeks to 28 March 2003 £m UK GAAP*	53 weeks to 2 April 2004 £m UK GAAP†	52 weeks to 1 April 2005 £m IFRS	**52 weeks to 31 March 2006 £m IFRS**
Revenue	519.8	525.8	578.6	628.4	**681.7**
Cost of sales	(243.3)	(244.4)	(271.6)	(292.0)	**(335.0)**
Gross profit	276.5	281.4	307.0	336.4	**346.7**
Operating expenses	(225.0)	(247.9)	(244.1)	(247.1)	**(257.6)**
Operating profit before exceptional items and goodwill amortisation	51.5	50.8	76.6	89.5	**89.1**
Goodwill amortisation	—	(8.0)	(13.7)	—	**—**
Exceptional items	—	(9.3)	—	(0.2)	**—**
Operating profit	51.5	33.5	62.9	89.3	**89.1**
Loss on sale of business	(2.3)	—	—	—	**—**
Profit on sale of fixed assets	—	—	6.4	—	**—**
Net finance costs	(0.5)	(21.9)	(44.1)	(15.0)	**(12.1)**
Profit before tax	48.7	11.6	25.2	74.3	**77.0**
Tax	(16.7)	(6.5)	(14.3)	(23.2)	**(23.4)**
Profit attributable to equity shareholders	32.0	5.1	10.9	51.1	**53.6**
Basic earnings per share	n/a	n/a	6.7p	23.7p	**23.6p**
Basic earnings per share before goodwill amortisation and exceptional items	n/a	n/a	16.1p	23.7p	**23.6p**

* as previously reported
† restated

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 and therefore, prior to 30 August 2002, the financial information above is based on the financial statements of Halfords Limited. In June 2004, Halfords Group plc listed on the London Stock Exchange. Consequently, the results across the periods reflect the differences in the capital and financing structure under the different ownerships.

An analysis of the main differences between UK GAAP and IFRS are detailed in note 25 to the financial statements.

Parent Company Accounts Under UK GAAP

The Company has elected to prepare its financial statements under UK GAAP; these policies are outlined on page 77.

Independent Auditors' Report to the Members of Halfords Group plc

We have audited the parent company financial statements of Halfords Group plc for the 52 weeks to 31 March 2006 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the Group financial statements of Halfords Group plc for the 52 weeks to 31 March 2006.

Respective responsibilities of directors and auditors

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

Our responsibility is to audit the parent company financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the Directors' Report is consistent with the parent company financial statements. We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

Independent Auditors’ Report to the Members of Halfords Group plc

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company’s affairs as at 31 March 2006;
- the parent company financial statements and the part of the Directors’ Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors’ Report is consistent with the parent company financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Birmingham
7 June 2006

Company Balance Sheet

	Notes	As at 31 March 2006 £m	Restated As at 1 April 2005 £m
Fixed assets			
Investments	4	**0.1**	0.1
		0.1	0.1
Current assets			
Debtors falling due within one year	5	**37.7**	37.1
Debtors falling due after one year	5	**149.3**	141.6
Cash at bank and in hand		**0.8**	6.7
		187.8	185.4
Creditors: amounts falling due within one year	6	**—**	(1.1)
Net current assets		**187.8**	184.3
Net assets		**187.9**	184.4
Capital and reserves			
Called up share capital	7	**2.3**	2.3
Share premium account	8	**133.2**	132.9
Profit and loss account	8	**52.4**	49.2
Equity shareholders' funds		**187.9**	184.4

The financial statements on pages 76 to 79 were approved by the Board of Directors on 7 June 2006 and were signed on its behalf by:

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

Accounting Policies

Basis of preparation

The accounts of the Company are prepared for the period up to the Friday closest to 31 March each year. Consequently, the financial statements for the current period cover the 52 weeks to 31 March 2006, whilst the comparative period covered the 52 weeks to 1 April 2005. The accounts are prepared under the historical cost convention, in accordance with the Companies Act 1985, applicable accounting standards and specifically in accordance with the Accounting Policies set out below.

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

Changes in accounting policies

The Company has adopted FRS 20 "Share-based payment" and FRS 21 "Events after the balance sheet date". The adoption of each of these standards represents a change in accounting policy and the comparative figures have been restated accordingly. The effect of the change in accounting policy to adopt FRS 20 was to recognise a charge to the profit and loss account in relation to share-based payments of £1.3m (2005: £1.0m). The effect of the change in accounting policy to adopt FRS 21 was to recognise the final proposed dividend for the 52 weeks to 1 April 2005 of £18.9m in the current year. The final proposed dividend of the current year of £19.9m will be recognised in the following year as it has yet to be approved by the shareholders.

Pensions

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

Share-based payments

The Company operates a number of equity-settled, share-based compensation plans.

The fair value of the employee services received under such schemes is recognised as an expense in the profit and loss account. Fair value is determined by use of the Black Scholes Option Pricing Model. The amount to be expensed over the vesting period is determined by reference to the fair value of share incentives, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of share incentives that are expected to vest. At each balance sheet date, the Company revises its estimates of the number of share incentives that are expected to vest. The impact of the revision of original estimates, if any, is recognised in the profit and loss account, with a corresponding adjustment to equity, over the remaining vesting period. If any of the beneficiaries of the schemes are employed in the Company's subsidiary companies, any associated costs are recharged to those subsidiary companies.

Investments

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

Equity dividends

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

Notes to the Financial Statements

1. Profit and loss account

The Company made a profit before dividends for the financial period of £29.9m (52 weeks to 1 April 2005: £40.4m). The directors have taken advantage of the exemption available under section 230 of the Companies Act 1985 and not presented a profit and loss account for the Company alone.

2. Audit fees

The total fees payable by the Company to PricewaterhouseCoopers LLP and their associates during the period were borne by Halfords Limited. In the 52 weeks to 1 April 2005 the Company expensed £0.1m.

3. Employee benefit expense

The Company has no employees other than directors. Full details of the directors' remuneration and interests are set out in the Directors' Remuneration Report on pages 34 to 39.

4. Investments

	2006 £m
Shares in Group undertaking	
Cost	
At 1 April 2005 and 31 March 2006	**0.1**

The investment in the subsidiary undertaking as at 31 March 2006 is as follows:

	Incorporated in	Ordinary shares percentage owned %	Principal activities
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 31 March 2006 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	Non-trading	100

The principal activity of Halfords Payment Services Limited was the provision of payment processing services to Halfords Limited's customers. The Company ceased to provide this service with effect from 31 January 2006.

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

	2006 £m	2005 £m
Falling due within one year:		
Prepayments and accrued income	—	0.1
Amounts owed by Group undertakings	**37.7**	37.0
	37.7	37.1
Falling due after more than one year:		
Amounts owed by Group undertakings	**149.3**	141.6

Amounts owed by Group undertakings are interest bearing at a rate of 5.22%.

6. Creditors: amounts falling due within one year

	2006 £m	2005 £m
Amounts owed to Group undertakings	—	1.1

7. Equity share capital

Ordinary shares of 1p each:	2006 Number of shares	2006 £	2005 Number of shares	2005 £
Authorised	**295,000,000**	**2,950,000**	295,000,000	2,950,000
Allotted, called up and fully paid	**228,027,743**	**2,280,277**	227,936,743	2,279,367

Allotted, called up and fully paid share capital increased during the period due to the early exercising of share options by members of the Halfords Share Option Scheme. Early exercise of the options are allowed if an option holder ceases to be employed by reason of death, injury, disability, redundancy, retirement or on the sale of his employing company or business.

Potential issue of ordinary shares
The Company has three employee share option schemes, which were set up following the Company's flotation. Further information regarding these schemes can be found in note 21 of the Group financial statements.

Interest in own shares
At 31 March 2006, the Company held in Trust 881,350 (2005: 887,068) own shares with a nominal value of £8,814 (2005: £8,871). The Trust has waived any entitlement to the receipt of dividends in respect of its holding of the Company's Ordinary Shares.

8. Reserves

	Share premium £m	Profit and loss account £m	Total £m
At 1 April 2005 — as previously reported	132.9	29.3	162.2
Prior year adjustment — FRS 21	—	18.9	18.9
Prior year adjustment — FRS 20	—	1.0	1.0
At 1 April 2005 — as restated	132.9	49.2	182.1
Profit for the financial period	—	1.9	1.9
Employee share options	—	1.3	1.3
Proceeds from issue of Ordinary Shares	0.3	—	0.3
At 31 March 2006	**133.2**	**52.4**	**185.6**

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 31 March 2006 amounted to £3.1m (2005: £2.0m). The Company's banking arrangements are subject to a netting facility whereby credit balances may be offset against the indebtedness of other Group companies.

Shareholder Information

Analysis of shareholders

As at 31 March 2006, the number of registered shareholders was 1,890 and the number of ordinary shares in issue was 228,027,743.

	Number of holdings	% of total shareholders	Number of shares	% of issued share capital
Range of holdings				
1–5,000	1,404	74.3	2,240,768	0.9
5,001–10,000	116	6.1	841,108	0.4
10,001–50,000	162	8.6	3,810,272	1.7
50,001–100,000	31	1.6	2,212,926	0.9
100,001–500,000	88	4.7	20,649,665	9.1
500,001 and above	89	4.7	198,273,004	87.0
Total	**1,890**	**100.0**	**228,027,743**	**100.0**
Held by				
Individuals	696	36.8	2,418,751	1.0
Institutions	1,194	63.2	225,608,992	99.0
Total	**1,890**	**100.0**	**228,027,743**	**100.0**

Results and financial diary

Annual General Meeting: 2 August 2006
Final dividend payable: 14 August 2006
Trading update: 5 October 2006
Interim results: 23 November 2006
Ex dividend date: 29 November 2006
Record date: 1 December 2006
Interim dividend payable: 8 January 2007

Annual General Meeting

The Annual General Meeting will be held at 12.30 pm on Wednesday 2 August 2006 at the Holiday Inn Hotel, Bridgefoot, Stratford-upon-Avon, Warwickshire, CV37 6YR.

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

Dividend payments

The proposed final dividend (if approved) will be paid on 14 August 2006 to shareholders on the register on 16 June 2006.

Payment of dividends by BACS

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

Dividend reinvestment plan

The Company offers a dividend reinvestment plan that gives shareholders the opportunity to use their cash dividend to buy Halfords Group plc ordinary shares. The plan is run by Capita IRG Plc ("Capita"). For further information on the plan and how to join please contact Capita at The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU (tel: 0870 162 3100) or the Company Secretary.

Shareholder information on the Internet

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

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

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

Company Information

Registered and Head Office
Halfords Group plc
Icknield Street Drive
Redditch
Worcestershire
B98 0DE

Registrars
Capita IRG Plc
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

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

Joint Brokers
Merrill Lynch International
2 King Edward Street
London
EC1A 1HQ

Citigroup
33 Canada Square
London
E14 5LB

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

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