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.