

HALFORDS GROUP LIMITED
Notes to the Financial Statements
Period ended 2nd April 2004

1. Accounting policies

The following accounting policies have been used in dealing with items which are considered material in relation to the financial statements.

Basis of accounting

The financial statements have been prepared in accordance with applicable accounting standards and under alternative accounting rules set out in Schedule 4 of the Companies Act 1985, being prepared under the historical cost convention.

Basis of consolidation

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

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

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

Related parties

The Company is exempt from disclosing transactions with other group undertakings and investees of the group qualifying as related parties in the financial statements of the Company as permitted by paragraph 3 of Financial Reporting Standard 8.

Depreciation

Tangible fixed assets are written off in equal instalments to estimated residual value over their expected normal lives. This policy is reviewed on a regular basis to ensure that the assets are written off over their expected normal lives. The useful lives of the assets are as follows:

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

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

Stocks

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

Pensions

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

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1. Accounting policies (continued)

Intangible assets

The cost of intangible assets acquired, which are capitalised only if separately identifiable, is amortised over estimated useful lives generally up to a maximum of 20 years. Similar assets created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred. The carrying value of intangible assets (including in particular those being amortised over periods greater than 20 years) is reviewed annually and any impairment in value charged to the profit and loss account.

Leases

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

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

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

Deferred taxation

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

Capital Instruments

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

Foreign Currencies

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

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2. Turnover

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

Turnover comprises retail sales wholly in the UK to external customers.

	Total 2004 £m	Total 2003 (30 weeks) £m
Turnover by product category:		
Car maintenance	172.0	101.2
Car enhancement	201.4	98.9
Travel solutions	82.1	33.0
Cycling	123.1	61.7
	<u>578.6</u>	<u>294.8</u>

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

3. Operating costs

	Total 2004 £m	Before exceptional items (30 weeks) 2003 £m	Exceptional items (30 weeks) 2003 £m	Total (30 weeks) 2003 £m
Selling, distribution and store costs	195.2	108.4	2.0	110.4
Administrative expenses	48.9	33.4	3.0	36.4
	<u>244.1</u>	<u>141.8</u>	<u>5.0</u>	<u>146.8</u>

The exceptional charge in the 30 week period ended 28th March 2003 relates to £0.3m of professional fees incurred as a result of establishing the Group and £4.7m restructuring costs.

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4. Operating profit	Total 2004 £m	Total 2003 (30 weeks) £m
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The operating profit is arrived at after charging/(crediting):

Operating lease rentals:		
- plant and machinery	0.7	0.2
- property rents	56.4	30.8
Rentals receivable under operating leases	(9.5)	(5.0)
Depreciation of fixed assets	15.8	9.3
Amortisation of goodwill	13.7	8.0
Loss on disposal of fixed assets	0.2	0.5
Auditors' remuneration:		
- Audit fees	0.1	0.1
- Other fees payable to the auditors or their associates	0.3	0.6

The total fees payable by the Group to PricewaterhouseCoopers LLP and their associates during the period was £0.7m (30 week period ended 28th March 2003: £2.2m) of which £0.3m (30 week period ended 28th March 2003: £1.5m) relates to charges incurred in respect of the issue of new loans that have been offset against the cash proceeds received from the loans (see note 17). The Company did not expense any audit fees during the period as they were borne by other Group Companies.

5. Profit on disposal of fixed assets

Of the profit on disposal of £6.4m (30 week period ended 28th March 2003: £nil), £6.2m relates to the sale of the head office building of Halfords Limited. The building was acquired in the period and immediately sold then leased back. £3.8m of the proceeds has been deferred and will be amortised in future periods over the term of the lease in accordance with UITF 28 "Operating lease incentives".

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6. Net interest payable	2004	2003
	£m	(30 weeks) £m
Interest receivable and similar income:		
Bank and similar interest	<u>(2.7)</u>	<u>(1.1)</u>
Interest payable and similar charges:		
Bank interest	0.4	0.1
Bank and other loans	23.5	13.6
Premium on deep discount bond (see note 17)	12.1	7.9
Interest on fixed rate subordinated unsecured loan notes	0.1	-
Amortisation of issue costs on loans and deep discount bonds	1.3	0.7
Commitment and guarantee fees	0.7	0.5
Other interest	-	0.1
	<u>38.1</u>	<u>22.9</u>
Exceptional amortisation of issue costs on loans and deep discount bonds	8.7	-
	<u>46.8</u>	<u>22.9</u>
Net interest payable	<u>44.1</u>	<u>21.8</u>

During the period the Group repaid all of the borrowings under the mezzanine facility and repaid £68.2m of its deep discount bonds and has therefore written off £2.4m of the unamortised issue costs associated with these borrowings.

As explained in note 17 the existing borrowings of the Group will be repaid and replaced by new banking facilities. Accordingly, the amortisation of the debt issue costs has been accelerated resulting in an additional charge of £6.3m during the period.

7. Tax on profit/(loss) on ordinary activities	2004	2003
	£m	(30 weeks) £m
The tax charge on the profit/(loss) for the period consists of:		
Current taxation		
UK corporation tax charge for the period	15.2	0.2
Adjustment in respect of prior periods	0.1	-
Total current tax	<u>15.3</u>	<u>0.2</u>
Deferred taxation		
Origination and reversal of timing differences	(1.0)	(0.1)
Tax on loss on ordinary activities	<u>14.3</u>	<u>0.1</u>

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7. Tax on profit/(loss) on ordinary activities (continued)

Reconciliation of current tax charge:

The standard rate of tax for the period, based on the UK standard rate of corporation tax, is 30%. The actual tax charge for the current period is higher (30 week period ended 28th March 2003: higher) than the standard rate for the reasons set out in the following reconciliation.

	2004	2003
	£m	(30 weeks) £m
Profit/(loss) on ordinary activities before taxation	27.8	(8.8)
UK corporation tax at standard rate of 30.0%	8.3	(2.6)
Factors affecting the charge for the period:		
Capital allowances for the period less than depreciation	0.7	0.5
Timing difference on premium received on property transaction	1.1	-
Other timing differences	0.3	(0.5)
Disallowable goodwill amortisation	4.1	2.4
Other disallowable expenses	0.7	0.4
Adjustment in respect of prior periods	0.1	-
Total current tax charge for the period	15.3	0.2

8. Profit of holding company

Of the profit for the financial period a profit of £16.3m (30 week period ended 28th March 2003: loss of £29,000) is dealt with in the accounts of Halfords Group Limited. The directors have taken advantage of the exemption available under section 203 of the Companies Act 1985 and not presented a profit and loss account for the Company alone.

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9. Intangible assets	Group Product rights £m	Group Goodwill £m
Cost		
At 28 th March 2003	0.2	274.4
Additions	-	0.4
At 2nd April 2004	0.2	274.8
Amortisation		
At 28 th March 2003	0.2	8.0
Charge for the period	-	13.7
At 2nd April 2004	0.2	21.7
Net book value at 28 th March 2003	-	266.4
Net book value at 2nd April 2004	-	253.1

The addition in the period reflects £0.4m adjustments made to the fair value of assets acquired on the acquisition of Halfords Limited on 30th August 2002 (see note 22).

10. Group tangible fixed assets	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 or valuation					
At 28 th March 2003	26.4	1.3	182.7	0.8	211.2
Additions	0.8	-	17.5	1.9	20.2
Disposals	(0.4)	(1.2)	(8.2)	-	(9.8)
Reclassifications	0.2	-	0.6	(0.8)	-
At 2nd April 2004	27.0	0.1	192.6	1.9	221.6
Depreciation					
At 28 th March 2003	10.1	0.8	121.5	-	132.4
Depreciation for the period	1.3	0.1	14.4	-	15.8
Disposals	(0.2)	(0.8)	(8.1)	-	(9.1)
At 2nd April 2004	11.2	0.1	127.8	-	139.1
Net book value at At 28 th March 2003	16.3	0.5	61.2	0.8	78.8
Net book value at At 2nd April 2004	15.8	-	64.8	1.9	82.5

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10. Group tangible fixed assets (continued)	2004 £m	2003 £m
Net book value of land and buildings comprises:		
Short leasehold	<u>15.8</u>	<u>16.3</u>

During the period the Group acquired equipment at a cost of £0.8m that is held under a finance lease. The net book value of these assets at 2nd April 2004 are £0.8m.

11. Investments	Group 2004 £m	Company 2004 £m
Shares in group undertaking		
Cost		
At 28 th March 2003	-	0.1
Additions	-	-
At 2nd April 2004	<u>-</u>	<u>0.1</u>
Interest in own shares acquired during the period	-	-
Total fixed asset investments	<u>-</u>	<u>0.1</u>

The investment in the subsidiary undertaking as at 2nd April 2004 is as follows:

	Incorporated in	Ordinary shares percentage owned %	Principal Activities	Last financial year ended
Halfords Holdings Limited	Great Britain*	100	Holding Company	2 nd April 2004

* 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 undertakings of the Company at 2nd April 2004 are as follows:

	Principal activity	% Ownership
Halfords Holdings Limited	Holding company	100
Halfords Finance Limited	Holding company	100
Halfords Limited	Retailing of auto parts, accessories, cycles and cycle accessories	100
Halfords Payment Services Limited	Financial Services	100

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

Interest in own shares

The interest in own shares related to 20,400 (2003: nil) ordinary shares with a nominal value of £204 (2003: nil) held in trust (see note 18).

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12. Stocks	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Finished goods for resale	<u>107.1</u>	<u>90.3</u>	<u>-</u>	<u>-</u>

13. Debtors	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Falling due within one year:				
Trade debtors	6.3	5.2	-	-
Other debtors	0.5	0.7	-	-
Prepayments and accrued income	16.7	17.3	-	-
Amounts owed by group undertakings	-	-	3.4	-
	<u>23.5</u>	<u>23.2</u>	<u>3.4</u>	<u>-</u>

14. Creditors: amounts falling due within one year	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Bank overdraft	7.1	13.2	-	-
Bank loans	93.0	4.8	-	-
Debentures and other loans	89.2	-	-	-
Finance lease	0.2	-	-	-
Trade creditors and accruals	60.6	31.2	-	-
Corporation tax	10.1	3.2	-	-
Other taxation and social security	7.5	2.8	-	-
Other creditors	1.5	1.1	-	-
Accruals and deferred income	24.6	28.3	-	-
	<u>293.8</u>	<u>84.6</u>	<u>-</u>	<u>-</u>

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

15. Creditors: amounts falling due after more than one year	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Bank loans	185.0	278.5	-	-
Debentures and other loans	-	144.4	-	-
Finance lease	0.6	-	-	-
Amounts due to group undertakings	-	-	3.1	-
Accruals and deferred income	4.6	1.5	-	-
	<u>190.2</u>	<u>424.4</u>	<u>3.1</u>	<u>-</u>

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16. Provisions for liabilities and charges			
Group	Deferred taxation £m	Other Provisions £m	Total £m
At 28 th March 2003	3.3	0.4	3.7
Fair value adjustment (see note 22)	-	0.4	0.4
Profit and loss – provided	-	0.6	0.6
Profit and loss – released	(1.0)	(0.1)	(1.1)
Utilised during the period	-	(0.3)	(0.3)
At 2nd April 2004	2.3	1.0	3.3

Other provisions principally comprise store vacant property provisions £0.6m and a provision of £0.4m in respect of estimated sales returns.

The vacant property provision represents recognition of the net costs arising from vacant properties and sub-let properties. The exact timing of utilisation of this provision will vary according to the individual properties concerned.

	2004 £m	2003 £m
Analysis of deferred taxation provision:		
Accelerated capital allowances	4.2	3.7
Other timing differences	(1.9)	(0.4)
	2.3	3.3

17. Group bank and other borrowings		
	2004 £m	2003 £m
Due with one year		
Secured bank loan	93.0	4.8
Debentures and other loans:		
Deep discount bonds	88.8	-
Fixed rate subordinated unsecured loan notes	0.4	-
Finance lease	0.2	-
Total due with one year	182.4	4.8
Due after one year		
Secured bank loan	185.0	278.5
Debentures and other loans:		
Deep discount bonds	-	143.8
Fixed rate subordinated unsecured loan notes	-	0.6
Finance lease	0.6	-
	185.6	422.9
Total borrowings	368.0	427.7

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17. Group bank and other borrowings (continued)	2004	2003
	£m	£m
Maturity of debt		
Within one year or on demand	182.4	4.8
Between one and two years	20.2	9.1
Between two and five years	60.4	40.2
Over five years	105.0	373.6
	368.0	427.7

It is expected that the borrowings under the Group's senior facility, deep discount bonds and fixed rate subordinated loan notes will be repaid and replaced by new borrowings. Consequently, they have been classified as due within one year, except those borrowings that are expected to be replaced by new long-term senior facilities, which have been classified as due after one year.

Secured bank loans are stated net of unamortised issue costs of £1.7m (2003: £8.3m). In the period the Group incurred issue costs of £2.5m in respect of the arrangement of a senior facility of £65m on 12 November 2004.

The senior facility includes £89.7m that is redeemable in six monthly instalments until 30th September 2009 and carries interest of LIBOR plus a variable margin of 1.5% to 2.0%. Of the remaining senior loans £62.5m is repayable on 30th September 2010, £62.5m is repayable on 30th September 2011 and £65.0m is repayable on 30th September 2014 these facilities carry interest based on LIBOR plus 2.75%, 3.25% and 3.75% respectively.

The banking loans are secured by a fixed charge over all rights and property of the Group.

The deep discount bond includes a principal amount of £85.6m (2003: 136.9m) and interest payable of £3.3 m (2003: 7.9m). The bond bears 10% compound interest that annually is rolled up into the principal amount. The accumulated principal is redeemable on 30th September 2013. The bond is stated net of unamortised issue costs of £0.1m (2003: £1.0m).

The fixed rate subordinated unsecured loan notes bear 10% compound interest that annually is rolled up into the principal amount. The accumulated principal is redeemable on 30th September 2013.

During the period the Group repaid its mezzanine facility of £73.4m and redeemed £68.2m of its deep discount bonds. As a consequence unamortised issue costs of £2.4m in respect of these borrowings were charged to the profit and loss account.

18. Equity share capital	Number of	2004	Number of	2003
	Shares 2004	£m	Shares 2003	£m
Ordinary shares of 1p each:				
Authorised	1,050,000	-	1,050,000	-
Allotted, called up and fully paid	1,000,000	-	983,000	-

On 30th August 2002 the Company issued 38,500 warrants for 1p. Each warrant entitles the holder to subscribe for such sum of ordinary share capital that represents 0.0001% of fully diluted share capital.

Certain senior executives hold options to subscribe for shares in the Company at £1 under a share option scheme approved by shareholders on 19th November 2003. Options are held in respect of 5,925 ordinary shares of 1p. The options are exercisable only in the event of a Takeover, Sale or Admission of the Company to a Relevant EEA Market and are only exercisable for a maximum of 10 years. No options were exercised in the period. The shares required to meet the company's obligations under the options scheme are held in trust. At 2nd April 2004 the trust holds 20,400 ordinary shares in the Company.

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19. Group reserves			
	Share Premium £m	Profit and Loss £m	Total £m
At 28 th March 2003	0.1	(9.1)	(9.0)
Profit for the financial period	-	13.5	13.5
At 2nd April 2004	0.1	4.4	4.5

20. Company Reserves			
	Share Premium £m	Profit and Loss £m	Total £m
At 28th March 2003	0.1	-	0.1
Profit for the financial period	-	16.3	16.3
At 2nd April 2004	0.1	16.3	16.4

21. Cash flow from Operating Activities		2003 (30 weeks) £m
	2004 £m	
Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	65.5	13.0
Depreciation charge (net of loss on disposal)	16.0	9.8
Goodwill amortisation	13.7	8.0
(Increase)/decrease in stocks	(16.8)	0.8
Increase in debtors	(0.3)	(14.2)
Increase in creditors	36.7	0.6
Net cash inflow from operating activities	114.8	18.0

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22. Acquisitions

The Group purchased Halfords Limited on 30th August 2002 for a total consideration of £400.6m. At the time of acquisition the book value of the assets were £146.7m and in the period to 28th March 2003 goodwill was adjusted for fair value adjustments of £20.5m to arrive at net assets of £126.2m. During the period an adjustment of £0.4m has been made to provide for the estimated level of sales returns in accordance with the new Application Note G "Revenue Recognition" to FRS 5. The final fair value of the assets at acquisition is therefore £125.8m as shown in the table below.

	Fair value to the Group 2003 £m	Adjustment due to Application Note G 2004 £m	Final fair value to the Group 2004 £m
Tangible fixed assets	82.3	-	82.3
Stock	91.1	-	91.1
Debtors	9.0	-	9.0
Creditors	(61.7)	-	(61.7)
Provisions	(0.2)	(0.4)	(0.6)
Taxation			
- Current	(12.1)	-	(12.1)
- Deferred	(3.4)	-	(3.4)
Cash	21.2	-	21.2
Net Assets acquired	126.2	(0.4)	125.8
Consideration (including fees of £4.6m)	400.6	-	400.6
Acquisition goodwill (see note 9)	274.4	0.4	274.8

23. Reconciliation of movement in net debt

	At 28 th March 2003 £m	Cash Flow 2004 £m	Non cash changes 2004 £m	At 2 nd April 2004 £m
Cash in hand and at bank	25.0	0.6	-	25.6
Bank overdraft	(13.2)	6.1	-	(7.1)
Debt due within 1 year	(4.8)	5.2	(182.6)	(182.2)
Debt due after 1 year	(422.9)	79.2	158.7	(185.0)
Finance lease due within one year	-	(0.2)	-	(0.2)
Finance lease due after one year	-	(0.6)	-	(0.6)
Short term deposits	20.0	(20.0)	-	-
	(395.9)	70.3	(23.9)	(349.5)

The total debt cash outflow of £84.4m consists of £81.9m net repayment of borrowings and £2.5m issue costs of loans.

Non cash changes relate to interest charges of £10.0m for the amortisation of capitalised issue costs and £13.9m in respect of interest rolled into the principal of the mezzanine facility and deep discount bonds. The changes also reflects £182.6m of loans being reclassified as less than one year as explained in note 17.

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23. Reconciliation of movement in net debt (continued)

Movement in borrowings	2004 £m
Debt due within 1 year:	
Secured bank loan	(5.2)
Capital element of finance lease borrowings	0.2
Debt due after 1 year:	
Secured bank loans	(8.5)
Deep discount bond	(68.2)
Issue costs of new loans	(2.5)
Capital element of finance lease borrowings	0.6
Cash outflow	(83.6)

24. Group commitments

a) Future capital expenditure approved by the directors and not provided for in these financial statements is as follows:	2004 £m	2003 £m
Contracts placed	<u>1.9</u>	<u>0.4</u>

b) Annual commitments under operating leases at:	2 nd April 2004		28 th March 2003	
	Land and Buildings £m	Other assets £m	Land and Buildings £m	Other assets £m
Expiring:				
Within one year	0.5	0.2	0.9	0.2
Over one year and less than five years	2.4	0.4	1.4	0.3
Over five years	59.0	-	54.0	-
	<u>61.9</u>	<u>0.6</u>	<u>56.3</u>	<u>0.5</u>

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

25. Staff numbers and costs

	2004	2003 (30 weeks)
The average number of persons employed by the company during the period was as follows:	Number <u>9,209</u>	Number <u>9,326</u>
The aggregated payroll cost was as follows:	£m	£m
Wages and salaries	86.6	48.9
Social security costs	6.4	3.1
Other pension costs	3.5	2.8
	<u>96.5</u>	<u>54.8</u>

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26. Directors' remuneration	2004	2003
	£m	(30 weeks) £m
i) Directors' emoluments for services to the group	2.2	0.5
ii) Compensation for loss of office	0.9	-
iii) Aggregate value of pension contributions	0.1	0.1
Remuneration of the highest paid director:		
iv) (a) Remuneration, excluding pension contributions	0.8	0.2
(b) Contributions to pension scheme during the period	-	0.1

	2004	2003
	Number	Number
v) Number of directors who are members of Halfords defined contribution pension plan	1	2
vi) Number of directors who received contributions to personal pension plans	1	2

27. Directors' shareholdings and share options

The beneficial interests of the directors and their families in the share capital of the Company at 2nd April 2004 are shown below. Disclosed below are also the fixed rate subordinated unsecured loan notes held by the directors and their families in Halfords Holdings Limited, a wholly owned subsidiary of the Company. No director holds any loan capital in the Company.

	Ordinary shares	Unsecured loan notes	Ordinary shares	Unsecured loan notes
	2004	2004	2003	2003
		£'m		£'m
N M Carter	10,000	-	-	-
J P Feuer	4,057	-	-	-
D Hamid	19,600	0.2	-	-
R W Templeman	5,000	-	2,500	-
S Vestergaard-Poulsen	-	-	-	-
C K Woodhouse	5,000	-	2,500	-

The Directors held no shares at the time of their appointment.

The unsecured loan notes are redeemable on 30th September 2013 and subject to a fixed interest rate of 10% payable on redemption.

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Period ended 2nd April 2004

28. Pensions

From 1st December 2002 employees have been offered membership of Halfords Pension Plan, a defined contribution pension arrangement. The costs of contributions to the scheme are charged to the profit and loss account in the period that they arise. The contributions to the scheme for the period amounted to £3.5m (30 week period ended 28th March 2003: £1.4m) being 5% to 12% of pensionable salaries for employees who were members of the Boots Group pension scheme, plus a further 2% to 7% for employees whose earnings are above the upper earning threshold and 3% of pensionable salaries for new employees.

29. Contingent liabilities and assets

The Group's banking arrangements include the facility for the bank to provide a number of guarantees in respect of liabilities owed by the Group during the course of its trading. In the event of any amount being immediately payable under the guarantee, the bank has the right to recover the sum in full from the Group. The total amount of guarantees in place at 2nd April 2004 amounted to £7.1m (2003: £11.3m).

The Group's banking arrangements are subject to a netting facility whereby credit balances may be offset against the indebtedness of other group companies. At 2nd April 2004 the amount of group borrowings available for offset against the Company was £16.0m (2003: £nil).

Halfords Payment Services Limited operates payment processing services for Halfords Limited. Similar arrangements are in operation by other major retailers, some of which are currently being challenged by Customs & Excise. In line with other retailers, no profit has been recognised from these arrangements. The group currently holds an un-recognised contingent asset of £2.0m (2003: £0.5m) dependent on the successful defence of the arrangements.