

## Directors' Report

The directors present their report and the consolidated financial statements of Halfords Group plc (the "Company") together with its subsidiary undertakings (the "Group") for the financial year ended 30 March 2007.

### PRINCIPAL ACTIVITIES

The principal activity of the Group is the retailing of auto, leisure and cycling products. The principal activity of the Company is that of a holding company.

### BUSINESS REVIEW

The Chief Executive's Review and the Finance Director's Report on pages 6 to 20 review the Group's business and performance during the year and contain or cross-reference the information required by section 234ZZB of the Companies Act 1985, such information being incorporated in this report by reference.

### RESULTS AND DIVIDENDS

The Group's results for the year are set out in the Consolidated Income Statement on page 38.

The profit before tax amounted to £80.9m (2006: £77.0m) and the profit after tax amounted to £57.4m (2006: £53.6m).

The directors propose that a final dividend of 9.5p per ordinary share be paid on 1 August 2007 to shareholders whose names are on the register of members at the close of business on 29 June 2007. This payment, together with the interim dividend of 4.35p per ordinary share paid on 8 January 2007, makes a total for the year of 13.85p per ordinary share. The total dividend payable to shareholders for the year is estimated to be £30.5m. Lloyds TSB Offshore Trust Limited, trustee of the Halfords Employee Share Trust, has waived its entitlement to dividends.

### DIRECTORS

Profiles of the current directors are given on page 22.

The following persons were directors during the 52 weeks to 30 March 2007:

Richard Pym  
 Ian McLeod  
 Nick Carter (resigned 2 February 2007)  
 Nick Wharton (appointed 3 February 2007)  
 Nigel Wilson  
 Keith Harris  
 Bill Ronald

Paul McClenaghan was appointed on 31 March 2007.

In accordance with the Company's Articles of Association, Ian McLeod and Bill Ronald are retiring by rotation at the forthcoming Annual General Meeting and, being eligible, will offer themselves for re-election at that meeting. Having been appointed as directors by the Board since the last Annual General Meeting, Nick Wharton and Paul McClenaghan will offer themselves for reappointment at the Annual General Meeting.

### DIRECTORS' INTERESTS

The directors' interests in shares and options over shares in the Company are shown in the Directors' Remuneration Report on pages 30 to 35.

No director had a material interest at any time during the year in any contract with the Company or any of its subsidiary undertakings, 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. 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.

### CORPORATE SOCIAL RESPONSIBILITY

A summary of the Group's Corporate Social Responsibility Report is set out on page 21. The Chief Executive's Review includes a report on the Group's performance against relevant environmental criteria.

### CHARITABLE DONATIONS AND POLITICAL CONTRIBUTIONS

During the year the Group contributed £40,000 (2006: £20,000) to charities in the UK, comprising donations to Ben, a charity supporting individuals and families linked to the motor industry and associated trades, and a donation to help persons suffering from the failure of the Farepak Christmas hamper scheme. 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.

### COLLEAGUES

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

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

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

A “whistle-blowing” policy and procedure is in place and has been notified to 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 colleagues’ involvement in the development of the Group’s business and bringing together their and shareholders’ interests. The Company therefore encourages the Group’s colleagues to participate in its Sharesave Scheme.

The Group’s pension arrangements for the UK-based colleagues of the Group are summarised in note 22 on page 62.

#### ■ ■ 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 38 days (2006: 49 days). The Company is a holding company and had no trade creditors at the end of the financial year.

#### ■ ■ MAJOR SHAREHOLDERS

At 6 June 2007, 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
Newton Investment Management	19,262,626	8.79
Resolution Asset Management	14,856,360	6.78
M&G Investment Management	13,228,678	6.04
Autobacs Seven Co. Ltd	11,400,000	5.20
Jupiter Asset Management	10,707,758	4.89
F&C Asset Management	10,594,977	4.84
Capital Group Companies	9,300,000	4.24
Legal & General Investment Management	8,886,850	4.06
Rathbones	8,858,453	4.04
Aberforth Partners	8,122,213	3.71
New Star Asset Management	7,891,274	3.60
Artemis Investment Management	7,724,171	3.53

#### ■ ■ AUTHORITY TO PURCHASE SHARES

On 8 June 2006 the Company announced a share buy-back programme, to be effected over the following two years, of up to £50m. At the Annual General Meeting on 2 August 2006 shareholders approved a special resolution authorising the Company to purchase a maximum of 22,736,499 shares, representing 10% of the Company’s issued share capital at 16 June 2006, such authority expiring at the conclusion of the AGM to be held in 2007. Since the share buy-back programme began, 9,003,956 shares of 1p each, representing a nominal value of £90,040, have been purchased and cancelled, representing 4.1% of the Company’s issued share capital as at 30 March 2007. The aggregate consideration (including stamp duty) paid for the shares was £29,881,121.

#### ■ ■ 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.

#### ■ ■ 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.

#### ■ ■ GOING CONCERN

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

#### ■ ■ ANNUAL GENERAL MEETING

The Annual General Meeting will be held at the Alveston Manor Hotel, Clopton Bridge, Stratford-upon-Avon, Warwickshire, CV37 7HP, on Wednesday 25 July 2007 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**  
6 June 2007