

DIRECTORS' REPORT

The Directors present their report and the audited financial statements of Halfords Group plc (the "Company") together with its subsidiary undertakings (the "Group") for the 53 weeks to 3 April 2009.

Principal activities

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

The principal activity of the Group is the retailing of automotive, leisure and cycling products. The Group operates from 438 stores (2008: 429) in the UK, and via overseas branches, 22 stores in the Republic of Ireland (2008: 18), five in the Czech Republic (2008: 3) and one in Poland (2008: nil). The principal activity of the Company is that of a holding company.

Business review

The Chairman's statement on page 4, the Business Review on pages 8 to 19 and the Finance Director's report on pages 20 to 23 provide a review of the business and progress against its key performance indicators during the year and descriptions of possible future developments and the principal risks and uncertainties facing the Group, and form part of this Directors' Report. Environmental considerations are reviewed within the Corporate Social Responsibility Report on pages 24 to 35 which also forms part of this Directors' Report.

Corporate governance

The Corporate Governance report on pages 41 to 46 forms part of this Directors' Report.

Profits and dividends

The Group's results for the year are set out in the Consolidated Income Statement on page 56.

The profit before tax on ordinary activities was £77.5m (2008: £90.2m) and the profit after tax amounted to £55.8m (2008: £64.0m).

The Directors propose that a final dividend of 10.90p per ordinary share be paid on 5 August 2009 to shareholders whose names are on the register of members at the close of business on 19 June 2009. This payment, together with the interim dividend of 5.00p per ordinary share paid on

7 January 2009, makes a total for the year of 15.90 pence per ordinary share. The total final dividend payable to shareholders for the year is estimated to be £22.7m. Lloyds TSB Offshore Trust Limited, trustee of the Halfords Employee Share Trust, has waived its entitlement to dividends.

Donations

During the year the Group contributed £26,000 (2008: £30,000) to charities in the UK, including donations to BEN, a charity supporting individuals and families linked to the motor industry and associated trades.

Halfords has continued its partnership, for the second year running, with the Meningitis Trust. Over the two years colleagues throughout Halfords have raised over £140,000 for the Trust with stores selling special pin badges, holding events and individual employees undertaking all sorts of challenges ranging from running marathons to holding charity auctions. The Group also supported the "Help for Heroes" charity to raise money for wounded servicemen and women.

In 2009, Halfords has decided to partner a new "Charity Of The Year", Macmillan Cancer, and will work closely with the charity to raise money and awareness through the sales of pin badges, events and much more.

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 2008 Annual General Meeting ("AGM") that provided for limited authority for such expenditure, such authority remaining valid until the earlier of 23 October 2009 or the conclusion of the AGM to be held in 2009, and as such the Company will be asking for this limited authority to be renewed at the AGM to be held on 29 July 2009.

Performance monitoring

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

Financial and operational	Definition
Revenue and like-for-like sales	Growth in revenue measures delivery against our store growth objectives and, through like-for-like revenue, the strength of our customer offer.
Operating profit	Continued growth of operating profits enables the Group to invest in its future and provides a return for shareholders. Targets are set relative to expected market performance.
Number of store openings	The Group is committed to bringing its products offering to as many consumers as possible through the development of its property portfolio. This also contributes to revenue growth and though international store openings provides economic diversification.
Multi-Channel Profitability	The profitable expansion of the Group's multi-channel footprint is key to retaining existing and attracting new customers, many of whom use the Internet as a key part of their shopping experience. The web facilitates the detailed measurement of the source of sales, through indicators such as visitor numbers, dwell time and rates of conversion.
wefit/werepair jobs	Halfords' unique service fitting proposition is key to maintaining our differentiation from more mainstream operators. Fitting and repair jobs completed, together with other service propositions such as Bike Care Plans, represent a good measure of awareness and execution of this core proposition.

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, 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 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 Group therefore encourages the Group's colleagues to participate in its Sharesave Scheme.

Directors

The following persons were Directors during the 53 weeks to 3 April 2009 and up to the date of this Report:

Richard Pym (resigned 22 August 2008)
Dennis Millard (appointed 28 May 2009)
David Wild (appointed 4 August 2008)
Nick Wharton
Paul McClenaghan
Nigel Wilson
Keith Harris
Bill Ronald

In accordance with the Company's Articles of Association, Bill Ronald, Nick Wharton and Paul McClenaghan are retiring by rotation at the forthcoming AGM and, being eligible, will offer themselves for re-election at that meeting.

In addition, David Wild and Dennis Millard, having been appointed to the Board since 23 July 2008, will seek reappointment at the forthcoming AGM.

Directors' interests

The Directors' interests in shares and options over shares in the Company are shown in the Directors' Remuneration Report on pages 47 to 53.

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.

Directors' indemnities

Article 144 of the Company's Articles of Association provides that every Director is entitled to be indemnified out of the assets of the Company against all costs and liabilities incurred by him in the execution of his duties or the exercise of his powers or otherwise in connection with his duties, powers or office including any liability incurred by him in defending any proceedings, civil or criminal, which relate to anything done or omitted to have been done or omitted by him as an officer of the Company and in which judgement is given in his favour or in which he is acquitted.

During the year the Company maintained liability insurance for its Directors and officers. The Directors of the Company, and the Directors of each of the Company's subsidiaries, have the benefit of an indemnity provision in the Company's Articles of Association. The indemnity provision, which is a qualifying third-party indemnity provision as defined by section 234 of the Companies Act 2006, has been in force throughout the year.

Directors' Responsibilities

The statement of Directors' responsibilities in preparing the Annual Report and the Financial Statements can be found on page 54 of the Annual Report.

Disclosure of information to Auditors

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

DIRECTORS' REPORT CONTINUED

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 39 days (2008: 43 days). The Company is a holding company and had no trade creditors at the end of the financial year.

Major Shareholders

At 10 June 2009, the Company's share register of substantial shareholdings showed the following interests in 3% or more of the Company's issued ordinary shares:

Holder	Number of shares	% of issued shares
M & G Investment Management Ltd	15,306,401	7.33%
Bank of New York Mellon Corporation (Institutional Group)	12,605,477	6.00%
Ameriprise Financial (Institutional Group)	11,773,143	5.60%
Artemis Investment Management Ltd	9,536,391	4.54%
Capital Research Global Investors	9,306,000	4.43%
Legal & General Investment Management Ltd (UK)	9,134,643	4.35%
F&C Asset Management plc	8,064,963	3.84%
Aberforth Partners LLP	7,392,544	3.52%
Rathbone Investment Management Ltd	7,127,889	3.39%

The Takeover Directive

As at 3 April 2009 and 28 March 2008, the Company's authorised share capital was £2,950,000 divided into 295,000,000 ordinary shares of 1p each nominal value ("ordinary shares"). On 3 April 2009 there were 209,786,251 (2008: 214,348,661) ordinary shares in issue. These ordinary shares are listed on the London Stock Exchange.

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

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

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

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

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

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

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

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

Authority to purchase shares

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 AGM on 23 July 2008 shareholders approved a special resolution authorising the Company to purchase a maximum of 21,118,112 shares, representing 10% of the Company's issued share capital at 18 June 2008, such authority expiring at the conclusion of the AGM to be held in 2009. The £50m share buy-back programme was completed ahead of schedule on 31 January 2008. The Directors intend to optimise the Group's balance sheet to enhance shareholder returns using where appropriate share buy-back as a flexible tool in balance sheet management. In the 53 weeks to 3 April 2009 4,687,816 shares of 1p each (2008: 9,453,738), representing a nominal value of £46,878 (2008: £94,537), have been purchased and cancelled, representing 2.8% of the Company's issued share capital as at 3 April 2009. The aggregate consideration (including stamp duty) paid for the shares was £13.1m.

Auditors

Having retained the services of PricewaterhouseCoopers LLP as statutory Auditors since 2003, the Group has reviewed, in line with corporate governance best practice, the rotation of its external Auditors. As a result of this process KPMG LLP will be recommended for appointment as Auditors for the forthcoming year. A resolution proposing their appointment is contained in the Notice of the AGM and will be put to shareholders at the meeting.

Going concern

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

Annual General Meeting

The AGM will be held at the Alveston Manor Hotel, Clopton Bridge, Stratford-upon-Avon, Warwickshire, CV37 7HP, on Wednesday 29 July 2009 at 12.30 pm. The notice of the AGM 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 Financial Statements.

By order of the Board

ALEX HENDERSON
COMPANY SECRETARY
10 JUNE 2009