Financial results
Group sales for the 52 weeks to 28 March 2008 were £797.4m (2007: £744.0m), an increase of 7.2% on the comparable period last year and representing a like-for-like sales increase of 4.3%, where like-for-like sales are multi-channel sales and also those from stores that had traded for 12 months or more at the beginning of the financial year being reported.

Gross profit at £402.5m (2007: £376.1m) is 50.5% as a percentage of net sales and compares to last year's figure of 50.6%. The 10 basis points ("bps") dilution in gross profit per cent represents a further improvement in the quantum of dilution, with reported margin dilution in the first half of the year similar to the second half at 10 bps. This improvement in the rate of decline reflects effective trading strategies within each category, the flow-through of Far East sourcing benefits and continued sales growth in higher margin categories.

Operating expenses as a per cent of revenue is 20 bps lower than last year at 37.8% (2007: 38.0%). This performance reflects our intention, measured over the near term, to contain our cost growth in line with the growth in sales after absorbing the investment in multi-channel and pilot operations in each of stand-alone *Bikehut* and Central Europe. This goal has been achieved in this financial year, which has seen continued improvements in store labour productivity and a slowdown in rental inflation more than offsetting costs associated with the introduction of new store-based systems and the increase in administrative expenses driven by the full year costs associated with the Czech Republic pilot.

Net finance costs before exceptional items for the year were £10.8m (2007: £10.0m). The increased charge for the year is attributable to the non-cash costs associated with forward foreign exchange contracts and an increase in the cost of servicing debt as a result of an increase in the weighted average rate of interest, which has been partially offset by an increase in interest income.

Profit before tax was £90.2m compared with £80.9m in the prior year, an increase of 11.5%. After adjusting for the £2.6m exceptional finance costs incurred in the previous financial year, this year-on-year increase becomes 8.0%.

Landlord contributions
Halfords actively manages its store portfolio to maximise value creation through generating cash, making profits and reducing the ongoing rental charge. Landlord contributions from the seven transactions completed during the year totalled £4.5m, in line with that reported last year. While not requiring such planning consent for its customer offer, Halfords has over 220 stores on retail parks that carry A1 consent and Halfords has completed 22 such transactions to date centred on such locations. Ongoing demand for premium edge of town locations, allied to Halfords' destination status, provides further potential from these activities and the Group expects a comparable level of contributions, at approximately £4.5m, in the forthcoming financial year.

Operating leases
All of 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 £818.6m (2007: £809.6m).

Taxation
The taxation charge on profit for the financial year was £26.2m (2007: £23.5m) resulting in a full year effective tax rate of 29.0% (2007: 29.0%). This tax rate has been driven by the treatment of intercompany loan notes raised at the time of the Group's refinance in 2006. With the reduction, from April 2008, in the rate of Corporation Tax to 28% the underlying tax rate next year is expected to be around 29.5% and this rate reflects the non-deductibility of depreciation charged on capital expenditure in respect of mezzanine floors and other store infrastructure and the closure of the convertible loan note benefit.

Earnings per share
Basic earnings per share ("EPS"), excluding exceptional items, were 29.3 pence (2007: 26.6 pence), a year-on-year increase of 10.2%. Basic EPS was 29.3 pence (2007: 25.8 pence), a year-on-year increase of 13.6%. This level of EPS growth reflects the increase in earnings driven by a strong trading performance and the share buy-back programme.

Capital expenditure
Capital investment in the period totalled £29.5m (2007: £23.9m). The Group continued its focus on adding new selling space through expanding the store portfolio, opening 29 new stores, and closing five stores, growing the portfolio from 426 to 450 stores. This financial commitment underpins our strategy of expanding the Superstore portfolio and developing and rolling out new complementary formats with a further three stand-alone *Bikehut* stores opened during the year, taking the total to five. As noted in last year's report the Group continues to invest significantly in the development of its infrastructure, particularly on the national roll-out of new store systems. This development successfully concludes the Group's ambitious programme to replace all of the core retail, operational and financial systems allowing the business to concentrate its efforts going forward on the realisation of the operational benefits these systems provide.

Cash flow, net debt, and capital structure
The debt facility comprises a £180m five-year term non-amortising loan, falling due for repayment in July 2011, with a £120m revolving credit facility.

Total net debt at 28 March 2008 was £181.7m (2007: £180.0m) and includes £12.3m (2007: £12.4m) in respect of the head office finance lease.

The Group continues to generate strong net cash flows from operations, which were £111.6m to 28 March 2008 (2007: £112.6m), representing 91.2% (2007: 98.4%) of earnings before interest, tax, depreciation and amortisation ("EBITDA") and reflecting in part the timing of Easter included a working capital outflow of £11.7m (2007: £4.5m). The Group continues to invest in inventory to ensure high levels of availability and range breadth, with stock at 28 March 2008 £151.6m (2007: £141.6m). Stock levels remain well managed, with the year-on-year increase of 7.1% generating an improvement in stock turn after the necessary stock investment in new stores.

Dividend and share buy-back
Halfords remains strongly cash generative. The Company is committed to both a progressive dividend policy and continued investment in the growth of the business, both through organic development and other business development opportunities as they might arise.

The Board is recommending a final dividend of 10.35 pence per share (2007: 9.50 pence per share), which, in addition to the interim dividend of 4.75 pence per share, generates a total dividend of 15.10 pence (2007: 13.85 pence), an increase of 9.0%.

Subject to shareholder approval at the Annual General Meeting the final dividend will be paid on 30 July 2008 to shareholders on the register at the close of business on 13 June 2008.

The share buy-back programme continues to progress. During the year, Halfords purchased 9.5m of its own shares at a consideration of £30.3m, an average of 319.6 pence per share, and in the period from June 2006 to 28 March 2008 the Group purchased 18.5m shares for £60.3m, an average of 325.6 pence per share. With the completion of the £50m buy-back programme, announced in June 2006, and in accordance with the Board's intention to maintain an efficient capital structure and retain financial flexibility, the Group has continued to use share buy-back as a flexible tool in balance sheet management. While not setting an absolute target number of shares it is the Group's intention to operate key performance debt ratio indicators, consistent with optimising the balance sheet and enhancing shareholder returns.

On 3 April 2008 the Group announced that it had given an irrevocable instruction to its brokers to continue the buy-back process during the close period up to a maximum of £9.0m.

Principal risks and uncertainties
The Board considers risk assessment, identification of mitigating actions and internal control to be fundamental to achieving Halfords' strategic corporate objectives. The Corporate Governance report on pages 46 to 51 describes the systems and processes through which the Directors manage and mitigate risks. The Board considers that the principal commercial and financial risks to achieving its objectives are those identified below. The Board recognises that the nature and scope of risks can change and so regularly reviews the risks faced by the Group as well as the systems and processes to mitigate them.

(A) COMMERCIAL

Economic and market conditions
The economy is a major influence on consumer spending. Trends in employment, inflation, taxation, consumer debt levels and interest rates impact consumer expenditure in discretionary areas and a number of the markets in which Halfords operates may experience price deflation caused by technology development. Whilst many of the products that Halfords sell are non-discretionary in their nature and predicting future trends is difficult, Halfords reflects the latest independently sourced estimates in its internal plans.

Furthermore, international expansion not only provides opportunities for sustainable growth and returns but also economic diversification.

Competition
The retail industry is highly competitive. The Group competes with a wide variety of store and internet-based retailers of varying sizes and faces competition from UK retailers, as well as international operators. Failure to compete with competitors on areas including price, product range, quality and service could have an adverse effect on the Group's financial results.

We aim to have a broad appeal in price, range and store format in a way that allows us to compete in different markets and to use service as a point of differentiation in each market segment. We have an established training infrastructure to ensure that our colleagues receive ongoing product and service training. We track performance against a broad range of measures that customers tell us are critical to their shopping experience, and monitor customer perceptions of ourselves to ensure we can respond quickly if required.