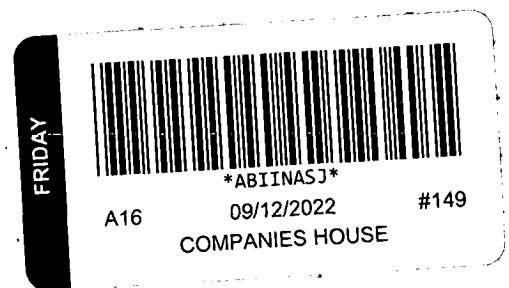


Registration number: 00103161

Halfords Limited

Annual Report and Financial Statements

for the 52 week period ended 1 April 2022



Halfords Limited

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Halfords Limited

Company Information

Directors	G Stapleton L Woodhouse (resigned 16 June 2022) K Jones (resigned 30 September 2021) K Bellairs P O'Hara (appointed 7 December 2021) A Randall (appointed 7 December 2021) The following director was appointed after the period end: J Hartley (appointed 16 June 2022)
Company secretary	T O'Gorman
Registered office	Icknield Street Drive Washford West Redditch Worcestershire B98 0DE
Auditors	BDO LLP 55 Baker Street London W1U 7EU

Halfords Limited

Strategic Report for the period ended 1 April 2022

The Directors present their Strategic Report on the Company together with the audited financial statements for the 52-week period from 3 April 2021 to 1 April 2022.

Review of the business and future developments

The Company is engaged in the retailing of motoring and cycling products and services.

The Company is the main trading subsidiary of Halfords Group plc ("the Group"). Further details on the performance of the Group can be found in the Chairman's Statement, Strategic Report, Chief Executive's Report and Chief Financial Officer's Report in the Group's Annual Report, which does not form part of this report.

The Directors have no plans to change the activities of the Company.

Results and performance

Turnover for the period to 1 April 2022 was £948.5m (2021: £977.6m), producing an operating profit before non-underlying items of £87.0m (2021: £96.3m). After a non-underlying operating credit of £8.9m (2021: £31.7m expense) (see note 7), operating profit was £95.9m (2021: £64.6m).

The profit on ordinary activities before tax and non-underlying items for the period was £82.6m (2021: £91.6m). Profit attributable to shareholders was £75.3m (2021: £38.4m). An interim dividend of £506.5m was paid during the period as part of the Group's legal entity restructuring (2021: £nil). The Directors do not recommend a final dividend (2021: £nil).

Total revenue in the year declined by 3.0%, significantly impacted by COVID-19 in both motoring and cycling.

Gross profit represented 51.9% of sales, an increase of +300bps on FY21. The gross margin improvement reflected the margin optimisation programme in Cycling, alongside an improved margin in Motoring despite our strategic investment in Motoring pricing.

Net non-underlying credit of £8.9m predominantly related to the release of provisions and lease liabilities for closed stores as the group continues to negotiate lease disposals and review provisions held in place.

Net assets at 1 April 2022 were £431.5m (2021: £823.9m). The Company maintains considerable reserves on the balance sheet meaning it is well-positioned in the current economic climate. It continues to trade profitably.

Key performance indicators ('KPIs')

Detailed KPIs are discussed and documented within the Strategic Report of the Annual Report and Accounts of Halfords Group plc. The following KPIs have been derived from the Group's strategy and are stated before the impact of non-underlying items:

	Unit	2022	2021
Like-for-Like (LfL) Sales - decline in cycling due to reduced demand offset by an increase in motoring sales	%	(0.6)	14.6
Gross profit percentage - improvement in cycling margin through implementation of the strategy along with improved motoring margins and an increase in motoring sales	%	51.9	48.9
Costs as a % of sales - impact of inflationary headwinds offset by continued cost efficiencies programme	%	43.5	40.6

Halfords Limited

Strategic Report for the period ended 1 April 2022

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated within the principal risks of the Group and are not managed separately. Accordingly, the principal risks and uncertainties of Halfords Group plc, which include those of the Company, are discussed in the Group's Annual Report, which does not form part of this report. A detailed review of the Group's financial risk profile is contained within the Annual Report and Accounts of Halfords Group plc.

A high-level review of the principal risks and uncertainties of the Company are set out below:

Risk title	Risk description	Current mitigation	Focus in 2023
Capability and capacity to effect change	Without sufficient capacity and capability to successfully implement the changes necessary across the business, we will not realise the expected benefits of our strategy and the business will not be sustainable	<ul style="list-style-type: none"> - Definition of strategic priorities and review. - Appointment of a Transformation Director - Transformation Board approval process. - Project managers in place. - Customer, colleague, market and competitor research. 	<ul style="list-style-type: none"> - Continue to align our Transformation Plan with the key objectives of our corporate strategy. - Closely monitor progress, which will enable faster execution - Embed organisational design changes - Delivery of new technology operating model
Stakeholder support	Loss of confidence in the business and withdrawal of resources	<ul style="list-style-type: none"> - Engagement with colleagues through team and company wide meetings, blogs and newsletters. - Blogs and newsletters (CEO). - Engagement with suppliers. - Written communications, roadshows and regular one-to-one meetings with investors. 	<ul style="list-style-type: none"> - Maintain progress on the delivery of our strategic objectives. - Continue to improve colleague engagement through a regular cycle of survey and review. - Proactive investor relations programme of events and communication.
Value Proposition	Customers are not persuaded by our value proposition and lose market share to online retailers and discounters	<ul style="list-style-type: none"> - Differentiate ourselves by creating value for the customer by delivering services alongside the sale of a product. - Launch of Halfords motoring club loyalty programme. 	<ul style="list-style-type: none"> - Introduction of a new halo message to support change in perception - Establishment of Halfords Motoring loyalty programme - Further investment in pricing of motoring products
Brand Appeal and Market Share	Inability to grow our customer base and market share due to insufficient investment in our brand	<ul style="list-style-type: none"> - Improvement of our cycling proposition, alongside better than market availability, and support for the cycle to work voucher scheme, has strengthened market share. 	<ul style="list-style-type: none"> - Promotion of the motoring club - Investment in the growth in electric mobility to strengthen our market-leading proposition

Halfords Limited

Strategic Report for the period ended 1 April 2022

Climate Change and Electrification	Failure to deliver against our climate strategy or customer demand for electrification solutions and sustainable mobility options could lead to a loss in confidence in our brand	<ul style="list-style-type: none"> - Robust electrification strategy. - Task Force on Climate-related Financial Disclosure ("TCFD") roadmap developed and being actioned. - Science-based carbon targets developed. - Regular landscape monitoring for electric vehicles ("EVs"). 	<ul style="list-style-type: none"> - Continue to work with Government to support the path to legality for private E-scooters. - Further Board training on climate change and the Board's due diligence requirements, including specialist training for those directly responsible for climate-related issues. - Develop a process whereby climate-related risks and opportunities can be updated on an annual basis. - Integrate climate risk relating to weather (floods, etc) into risk management process for our estate.
Sustainable Business Model	Changes in the UK economy (including consumer confidence and the value of the Pound) could materially impact our revenue and / or costs, and therefore the profitability of the business.	<ul style="list-style-type: none"> - Strategic focus on the growth of services - Maximise the revenue from existing transactions through selling solutions - Optimisation of pricing decisions - Extract value from supplier contributions/support - Cost Transformation framework programme to target cost reduction - Formal foreign exchange hedging programme. 	<ul style="list-style-type: none"> - Focus on selling more full solutions to customers - Cost Transformation programme to focus on short-, medium-, and long-term cost reduction - Ongoing supplier discussion targeting mutual value opportunities - Fixed cost contracts entered for inflationary cost categories - eg. Freight and Utilities - Rental cost reduction through property renegotiations; closure of underperforming stores at lease renewal - New Group Data Platform - Continued focus on margin improvement
Regulatory and Compliance	Failure to adhere to our legal and/or regulatory obligations leading to an inability to meet our responsibilities to stakeholders and/or the imposition of financial penalties, placing a strain or financial cost on the business.	<ul style="list-style-type: none"> - Senior leadership team communicates tone from the top to provide guidance. - Compliance training provided to all colleagues - Suppliers are monitored against our code of conduct - Dedicated experts manage Health and safety, data protection, and Financial Conduct Authority compliance - Established whistleblowing process in place 	<ul style="list-style-type: none"> - Continued monitoring of legal and regulatory developments - Review and improvements of policies supported by colleague training - Regular training and information provided through user-friendly channels. - Establishment of a new Finance Risk Committee

Halfords Limited

Strategic Report for the period ended 1 April 2022

Service Quality	The services we provide fall below the quality standards to which we are committed, placing customers at risk of harm.	<ul style="list-style-type: none"> - All colleagues are provided with dedicated training and adhere to established quality control and safety procedures. - Dedicated compliance team monitoring our regulated activities. - Retail Contact Centre in place to provide a level of call answer rates that ensures a quality service to our customers. 	<ul style="list-style-type: none"> - Stores and Service calls to be migrated to selfservice or digital channels for ease and optionality for customers to access support in channel of choice. - Our Retail Plan will remain unchanged into FY23 to ensure we drive consistency across the estate and continue the focus on embedding the Retail Operating Model. - An annual skills plan ensures we are able to maintain our skill level as we drive down our labour turnover. - Our Operational Excellence team will continue to review our inventory of tools to do the job.
Cyber Security	Failure to sufficiently prevent, detect, and respond to cyber incidents and attacks may result in disruption of service, compromise of sensitive data, financial penalties and loss, and reputational damage.	<ul style="list-style-type: none"> - Our security partner, TCS, provides first line assurance security operations capabilities including vulnerability management, email filtering, and website security. - Our Information Security team provides the second line assurance role identifying and managing cyber-related risk, and developing and implementing our internal control framework. - Third line assurance is provided by Internal Audit. - Perpetual education and awareness campaign is provided to all colleagues. Regular briefings promote an understanding of the risks to our data and the benefits of good security practices. 	<ul style="list-style-type: none"> - Mature processes for internal control assessments to improve identification and ongoing management of cyber risk. Conduct gap analysis for critical systems and implement findings to ensure critical systems are protected. - Mature cyber resilience of critical systems, including both proactive and reactive incident response capabilities. - Mature processes and documentation relating to security of data focusing first on regulated personal data of both customers and colleagues. - Conduct a network security review including segmentation and firewall positioning, legacy and end-of-life devices, and regular security testing (vulnerability scanning and penetration testing).
Colleague Engagement/ Culture	Employment model is not sufficiently attractive to recruit and retain the talent we need. We do not maintain a sufficiently positive culture, failing to support a diverse and inclusive community.	<ul style="list-style-type: none"> - A five-year People Strategy that develops the colleague journey across key areas. - The continued development of our colleague engagement programme and survey, and further focus on our colleague network groups. - Through the provision of wellbeing facilities and regular updates using webinars and blogs we keep our colleagues informed and supported. 	<ul style="list-style-type: none"> - Implementation of Year 1 of our People Strategy with activities focused on delivering improvements to the colleague journey. - Benchmark our pay and benefits to ensure we are competitive in the market. - Move to an engagement model that inspires ongoing engagement, listening and action. - Develop our colleague network groups to support change in areas of diversity that develops our attraction and engagement with our colleagues.

Halfords Limited

Strategic Report for the period ended 1 April 2022

Skills Shortage	Inability to recruit, retain and develop enough people to have the different mix of skills that we need at all levels across the business.	<ul style="list-style-type: none"> - We have reduced our reliance on external recruitment and as part of our colleague strategy developed our internal pipeline for technical and leadership capability. - Training and development are a fundamental part of our business and a great attraction for new applicants. 	<ul style="list-style-type: none"> - Launch our employee brand and integrate through our attraction and recruitment materials. - Develop and expand our apprenticeship strategy and the Halfords Academy to grow our own technical skill base.
IT Infrastructure Failure	Failure in our IT systems may cause significant disruption to, or prevention of, normal business-as-usual activities.	<ul style="list-style-type: none"> - Extensive controls are in place to maintain the integrity of our systems and to ensure that systems changes are implemented in a controlled manner. - Key trading systems are hosted securely within data centres operated by a specialist company and in specialist cloud services operated by Microsoft. These systems are supported by disaster recovery arrangements, including comprehensive backup and patching strategies. IT recovery processes are tested regularly. 	<ul style="list-style-type: none"> - Continue progression towards a fully cloud-based hosting structure - Reduce dependencies on legacy and end-of-life systems for key business-as-usual activities. - Deep-dive analysis into targeted areas of infrastructure, managed through the Risk Committee.

Halfords Limited

Strategic Report for the period ended 1 April 2022

<p>Disruption to end to end supply chain</p>	<p>Disruption to the end to end process creates a major impact to our business challenging our ability to meet sales and profit projections.</p>	<ul style="list-style-type: none"> - Our Commercial and Financial processes support continued active demand forecasting, a transparent Open to Buy process, a stock policy that increases cover for important and volatile lines, and a currency hedge policy that smooths out variability. - Our sourcing capability and supplier relationships are delivered through dedicated UK, Asian and Near sourcing teams. - Our in-house expertise delivers the high global trading standards from Authorised Economic Operator accreditation, import/export expertise and dedicated security at each of our DC sites. - Our transformation plans reduce risk through scheduled work on the replacement of our Warehouse Management System, a UK distribution centre physical network review, the replacement of our Forecasting and replenishment tools and our Customs and Duty platform. 	<ul style="list-style-type: none"> - Replacement of our Warehouse Management System. - Development of an enhanced Customs and Duty platform. - Investment in a more senior dedicated Customs and Trade compliance team to reduce the risks associated with international sourcing activity. - Investment in additional storage space to hold overstocks and protect availability rather than cut intake too hard and damage both customer availability and supplier relationships.
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Halfords Limited

Strategic Report for the period ended 1 April 2022

s172(1) Statement

This section describes how the Directors have had regard to the matters set out in section 172(1)(a) to (f) Companies Act 2006 (the "Act"), in exercising their duty to promote the success of the Company for the benefit of its members as a whole.

Directors are required to have regard, amongst other matters, to the interests of wider stakeholders, as well as:

- the likely long-term consequences of any decision they make;
- the interests of the Company's colleagues;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly, as between members of the Company.

The Company is a trading company within Halfords Group Plc ("Group"), and therefore key decisions which affect the Group, this Company and stakeholders are principally made by the Board of the ultimate parent company Halfords Group Plc. Further details of how the Board of Halfords Group Plc have had regard to s172(1) (a) to (f) in the current financial year can be found in those consolidated financial statements, key elements of which include:

Colleagues

During the period we continued to support our frontline colleagues in stores through the robust implementation of our COVID-19 policies and procedures to ensure colleagues felt safe in their working environment. Alongside this the Here to Help Fund continues to support colleagues and their families if they are struggling financially. In addition, we launched four Colleague Network Groups giving colleagues the chance to discuss diversity and inclusivity in the workplace.

Customers

We communicate regularly with our customers through digital channels (eg. email, social media) and the Halfords Blog provides customers with more in-depth reports on topics such as electric mobility, ways to save money, competitions and essential information for motorists and cyclists. We also launched the Halfords Motoring Club in the year providing customers with a wide range of benefits from discounts in store to free car checks, and accessory fitting. Alongside the Halfords Motoring club strategic investment has also been made in motoring pricing giving customers better value for money.

Communities and the Environment

We are expected to act as a responsible Group and employer and to minimise the impact we have on the community and the environment. The Group engages in this through community investment initiatives, recycling initiatives, the promotion of forms of electric mobility and social initiatives, such as the support schemes for ex-prisoners.

Investors

Our shareholders and debt funding providers enable us to access capital to further our business strategy. Our commitment is to protect and manage their investments in a responsible and sustainable way. The Company engages through regular communications, the Annual General Meeting and other investor relations activities (such as the investor perception study). Investor's opinions are taken into account when determining strategy and regular engagement provides investors with an opportunity to discuss any areas of interest and raise concerns.

Halfords Limited

Strategic Report for the period ended 1 April 2022

Suppliers

We maintain close relationships with our suppliers to enable us to deliver market-leading products and services. We are committed to maintaining the highest ethical standards. Engaging with our supply chain means that we can ensure security of supply and speed to market. Our brand relies heavily on the high standards of our carefully selected suppliers, to deliver market-leading products and services in times of significant global disruption. The Directors work hard to build mutually beneficial, long-term relationships with suppliers using skilled staff in a Far East buying office and engaging more directly through regular supplier conferences.

Government and regulators

In the current period a case has been settled and paid with HMRC totalling £0.7m in relation to the national minimum wage audit conducted in the prior period.

Approved by the Board on 28 September 2022 and signed on its behalf by:



J Hartley
Director

Halfords Limited

Directors' Report for the period ended 1 April 2022

The Directors present their report and the financial statements for the period from 3 April 2021 to 1 April 2022.

Directors' of the company

The Directors, who held office during the period, were as follows:

G Stapleton

L Woodhouse (resigned 16 June 2022)

K Jones (resigned 30 September 2021)

K Bellairs

P O'Hara (appointed 7 December 2021)

A Randall (appointed 7 December 2021)

The following director was appointed after the period end:

J Hartley (appointed 16 June 2022)

Employees

The Company recognises that it is essential to maintain a highly skilled workforce. To this end, the policy of training and development is incorporated in the company plan. It is policy to promote from within the organisation wherever the possibility exists.

Health and safety measures are given particular attention by the Directors and a written policy exists and is known throughout the Company.

It is Company policy to appoint staff on the basis of their abilities. Disabled applicants are considered on the same basis as other applications. If an employee becomes disabled whilst in service, the Company will make all reasonable efforts to retain and find suitable employment within the Company. Disabled employees enjoy equal opportunities for training and advancement within the Company.

The Company recognises the need for employees to be informed of the Company's activities and performance. Management meetings are held throughout the period to encourage the flow of information necessary in a multi-locality organisation.

Colleague engagement

One of the Company's key strengths is engaged colleagues with great training.

Engagement with, and feedback from, our colleagues across the business is vital to the Company. The Company has an established framework of colleague communications providing regular information on business performance and other important and relevant matters.

Future developments

The areas of focus in FY23 are:

- Roll out capital-efficient investments from Fusion store trials across the estate including Parts Hubs, Fitting stations, selling practices, and technology.
- Further our super-specialism by deepening our ranges within our core markets, such as access to a broader range of car parts.
- Focus on driving Halfords' Motoring club memberships and VRN data capture, targeting between 0.5 and 1.0 million customers by the end of FY23.
- Utilise our Group Data platform and Motoring Loyalty Club to engage with customers through the life of their car.

Halfords Limited

Directors' Report for the period ended 1 April 2022

Energy and Carbon reporting

Halfords Limited is included within the consolidated energy and carbon reporting provided by its ultimate parent company and therefore no additional disclosures are provided in this report.

Supplier and business relationships

See summary within the Strategic report to show how the Directors have regarded the need to foster the Company's business relationships with suppliers, customers and others and also to detail the effect this has had on the principal decisions made in the year.

Corporate governance

Halfords Group Plc applies the UK Corporate Governance Code 2018. The Code applies directly to the parent company and so indirectly to subsidiaries including Halfords Limited. The Group has applied the main principles of, and complied with, the provisions of the 2018 UK Corporate Governance Code throughout the year.

Halfords Limited

Directors' Report for the period ended 1 April 2022

Going concern

The Company participates in the Group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries. The going concern assessment for the Company is therefore linked to that of the wider group headed by Halfords Group plc.

In determining the appropriate basis of preparation of the financial statements for the Company for the period ended 1 April 2022, the Directors are required to consider whether the company can continue in operational existence for at least 12 months from the date of approval of the financial statements.

The Directors have concluded that it is appropriate to adopt the Going Concern basis, having considered the going concern assessment undertaken by Halfords Group plc ("Group"), which included the Company. As detailed in the Group's annual report, the Group outperformed the scenarios reviewed as part of the Going Concern assessment in the Annual Report and Accounts to 2 April 2021. In determining the appropriate basis of preparation of the financial statements for the year ended 1 April 2022, the Group Directors reviewed financial forecasts and projections to 30 June 2023. Within these financial projections, management reviewed profit and net cash flow and tested financial covenants in the period. No issues were found. Further details of these reviews can be found in the Principal Risk and uncertainty Report and Viability Report in the Group's Annual Report, which does not form part of this report. This analysis has then been extended to September 2023 and factors in post year end performance for the purposes of the subsidiary financial statement approvals.

The Directors have considered the risk to the business of the ongoing crisis in Ukraine. The most significant risk relates to the knock-on impact to fuel and energy prices, however, this impact is mitigated as the Group is contracted to fixed energy prices for a significant amount of the groups requirements until at least March 2023 and agreed freight rates until March 2024. Risks relating to key supplier relationships and the wider supply chain are not considered to be significant to the Group at this stage. The risks will continue to be reassessed as the conflict continues

The ultimate parent company, Halfords Group plc, has a revolving credit facility of £180m at the date of approval of these financial statements, which expires on 4 December 2024, and has no other debt or facilities.

Based on the analysis completed, the Group has adequate bank facilities available and the Directors therefore have a reasonable expectation that the Group and the Company will be able to continue in operation and meet their liabilities as they fall due, retain sufficient available cash and not breach any covenants under any drawn facilities for at least 12 months from the date of approval of the financial statements. They do not consider there to be a material uncertainty relating to the Group's and the Company's ability to continue as a going concern.

Disclosure of information to the auditors

Each Director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information. The Directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

Halfords Limited

Directors' Report for the period ended 1 April 2022

Reappointment of auditors

Reappointment of auditors in accordance with section 485 of the Companies Act 2006, a resolution for the re-appointment of BDO LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Approved by the Board on 28 September 2022 and signed on its behalf by:



J Hartley
Director

Halfords Limited

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced disclosure framework", and applicable law).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Halfords Limited

Independent Auditor's Report to the Members of Halfords Limited

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 1 April 2022 and of its profit for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Halfords Limited (the 'Company') for the period ended 1 April 2022, which comprise the Statement of Profit or Loss, the Statement of Other Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 *Reduced Disclosure Framework* (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue. Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Halfords Limited

Independent Auditor's Report to the Members of Halfords Limited

Other Companies Act 2006 reporting

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and Director's report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in their statement set out in Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Halfords Limited

Independent Auditor's Report to the Members of Halfords Limited

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We gained an understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates, and considered the risk of acts by the Company which were contrary to applicable laws and regulations, including fraud. These included but were not limited to compliance with Companies Act 2006 and the financial reporting standard FRS 101.

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud, we considered the following:

- the nature of the industry, control environment and business performance including the design of the company's remuneration policies, key drivers for Directors' remuneration and performance targets;
- the results of our enquiries of management about their own identification of the risk of irregularities;
- any matters we identified having obtained and reviewed the company's documentation of their policies and procedures; and
- the matters discussed among the audit engagement team regarding how and where fraud might occur in the financial statements and any potential indicator of fraud. We also discussed the potential for non-compliance with laws and regulations.

We focused on laws and regulations that could give rise to a material misstatement in the financial statements. We also considered the susceptibility of the Company's financial statements to misstatement as a result of fraud, and believed that the areas in which fraud might occur were related to revenue recognition and management override of controls.

Our tests included, but were not limited to:

- identifying and testing journal entries, focusing on journal entries containing characteristics of audit interest, year end journals, journals processed by users with privileged IT access rights;
- journal entries posted to revenue, those with unusual account combinations and journals posted by unexpected users;
- enquiries with management, and enquiries of internal legal counsel to identify any known or suspected non-compliance or fraud;
- review of minutes of Board meetings throughout the year to identify any non-compliance with laws and regulations, and fraud, not already disclosed by management;
- review of tax compliance and involvement of our tax specialists in the audit; and
- challenging assumptions and judgements made by management in their significant accounting estimates and judgements, including impairment testing, the measurement of provisions, capitalisation policies for intangible software assets and going concern.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, who were all deemed to have appropriate competence and capabilities, to remain alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Halfords Limited

Independent Auditor's Report to the Members of Halfords Limited

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:

Diane Campbell

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Diane Campbell (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor

55 Baker Street
London
W1U 7EU

29 September 2022

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Halfords Limited

Statement of Profit or Loss for the 52 week period ended 1 April 2022

		Before non- underlying items 52 weeks to 1 April 2022 £ m	Non- underlying items 52 weeks to 1 April 2022 £ m	Total 52 weeks to 1 April 2022 £ m	Before non- underlying items 52 weeks to 2 April 2021 £ m	Non- underlying items 52 weeks to 2 April 2021 £ m	Total 52 weeks to 2 April 2021 £ m
	Note						
Turnover	3	948.5	-	948.5	977.6	-	977.6
Cost of sales		<u>(456.5)</u>	<u>-</u>	<u>(456.5)</u>	<u>(499.1)</u>	<u>-</u>	<u>(499.1)</u>
Gross profit		492.0	-	492.0	478.5	-	478.5
Distribution costs		(302.4)	-	(302.4)	(292.5)	-	(292.5)
Administrative expenses		<u>(102.6)</u>	<u>8.9</u>	<u>(93.7)</u>	<u>(89.7)</u>	<u>(31.7)</u>	<u>(121.4)</u>
Operating profit/(loss)	4	87.0	8.9	95.9	96.3	(31.7)	64.6
Interest payable and similar charges	9	(7.2)	-	(7.2)	(9.3)	-	(9.3)
Finance income	8	2.8	-	2.8	4.6	-	4.6
Loss on disposal of investment		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(12.3)</u>	<u>(12.3)</u>
Profit/(loss) on ordinary activities before taxation		82.6	8.9	91.5	91.6	(44.0)	47.6
Tax on profit/(loss) on ordinary activities	10	<u>(14.5)</u>	<u>(1.7)</u>	<u>(16.2)</u>	<u>(14.8)</u>	<u>5.6</u>	<u>(9.2)</u>
Profit/(loss) for the period		<u>68.1</u>	<u>7.2</u>	<u>75.3</u>	<u>76.8</u>	<u>(38.4)</u>	<u>38.4</u>

The above results were derived from continuing operations.

There is no material difference between the results as stated above and their historical cost equivalents.

The notes on pages 25 to 61 form part of these financial statements.

Halfords Limited

Statement of Comprehensive Income for the 52 week period ended 1 April 2022

	52 weeks to 1 April 2022 £ m	52 weeks to 2 April 2021 £ m
Profit for the period	75.3	38.4
Cash flow hedges:		
Fair value changes in the period	6.4	(9.6)
Deferred income tax on other comprehensive income/(loss)	<u>(1.3)</u>	<u>1.6</u>
Other comprehensive income/(loss) for the period, net of income tax	<u>5.1</u>	<u>(8.0)</u>
Total comprehensive income for the period	<u>80.4</u>	<u>30.4</u>

All items within the Statement of Comprehensive Income are classified as items that are or may be recycled to the income statement.

The notes on pages 25 to 61 form part of these financial statements.

Halfords Limited

Balance Sheet as at 1 April 2022

(Registration number: 00103161)

		1 April 2022 £ m	(As restated*) 2 April 2021 £ m
Non-current assets			
Intangible assets	12	28.9	22.3
Tangible assets	11	54.5	55.4
Right of use assets	13	208.8	225.2
Investments	14	0.1	0.1
Deferred tax assets	10	13.2	13.8
		<u>305.5</u>	<u>316.8</u>
Current assets			
Stocks	15	182.8	127.6
Debtors: amounts falling due within one year*	16	416.8	890.5
Cash at bank and in hand		39.2	67.2
Derivative financial instruments		4.2	0.6
		<u>643.0</u>	<u>1,085.9</u>
Current Liabilities			
Creditors: amounts falling due within one year*	17	(291.5)	(297.5)
Derivative financial instruments		(0.5)	(6.3)
Provisions for liabilities and charges	18	(14.8)	(21.9)
		<u>(306.8)</u>	<u>(325.7)</u>
Net current assets		<u>336.2</u>	<u>760.2</u>
Total assets less current liabilities		641.70	1,077.00
Non-current liabilities			
Creditors: amounts falling due after more than one year	17	(204.9)	(240.7)
Provisions for liabilities and charges	18	(5.3)	(12.4)
Net assets		<u>431.5</u>	<u>823.9</u>
Capital and reserves			
Called up share capital	19	120.2	120.2
Capital Contribution Reserve		27.0	-
Hedging reserve		1.8	(1.8)
Profit and loss account		282.5	705.5
Shareholders' funds		<u>431.5</u>	<u>823.9</u>

* Please refer to Note 23 for further detail.

The notes on pages 25 to 61 form part of these financial statements.

Halfords Limited

Balance Sheet as at 1 April 2022

(Registration number: 00103161)

Approved by the Board on 28 September 2022 and signed on its behalf by:

A handwritten signature in black ink that reads "J Hartley". The signature is written in a cursive style with a large initial 'J'.

J Hartley
Director

Halfords Limited

Statement of Changes in Equity for the 52 week period ended 1 April 2022

	Called up share capital £ m	Capital contribution reserve £ m	Hedging reserve £ m	Profit and loss account £ m	Total equity £ m
At 4 April 2020	120.2	-	4.2	685.2	809.6
Profit for the period	-	-	-	38.4	38.4
Fair value changes in the period	-	-	(9.6)	(1.1)	(10.7)
Deferred income tax on other comprehensive loss	-	-	1.6	-	1.6
Total comprehensive income	-	-	(8.0)	37.3	29.3
Hedging gains and losses transferred to the cost of inventory	-	-	2.0	-	2.0
Transactions with owners					
Share based payment transactions	-	-	-	6.5	6.5
Income tax on share-based payment transactions	-	-	-	0.4	0.4
Dividend in specie*	-	-	-	(23.9)	(23.9)
Total transactions with owners	-	-	-	(17.0)	(17.0)
At 2 April 2021	120.2	-	(1.8)	705.5	823.9

*relates to shares in Performance Cycling Holdings Limited transferred from Halfords Limited to Halfords Group Holdings Limited by declaring a dividend in specie.

Halfords Limited

Statement of Changes in Equity
for the 52 week period ended 1 April 2022

	Called up share capital £ m	Capital contribution reserve £ m	Hedging reserve £ m	Profit and loss account £ m	Total equity £ m
At 3 April 2021	120.2	-	(1.8)	705.5	823.9
Profit for the period	-	-	-	75.3	75.3
Fair value changes in the period	-	-	6.4	-	6.4
Deferred income tax on other comprehensive income	-	-	(1.3)	-	(1.3)
Total comprehensive income	-	-	5.1	75.3	80.4
Hedging gains and losses transferred to the cost of inventory	-	-	(1.5)	-	(1.5)
Transactions with owners					
Share based payment transactions	-	-	-	7.8	7.8
Income tax on share-based payment transactions	-	-	-	0.4	0.4
Capital Contribution*	-	27.0	-	-	27.0
Distribution*	-	-	-	(506.5)	(506.5)
Total transactions with owners	-	27.0	-	(498.3)	(471.3)
At 1 April 2022	120.2	27.0	1.8	282.5	431.5

*transactions arose as a result of a reorganisation of the Group in the period, refer to Note 24 for further details

The notes on pages 25 to 61 form part of these financial statements.

Halfords Limited

Notes to the Financial Statements for the period ended 1 April 2022

1 Accounting policies

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

Halfords Limited ("the Company") is a company incorporated and domiciled in the UK.

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its Group.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company's ultimate parent undertaking, Halfords Group plc, includes the Company in its consolidated financial statements. The consolidated financial statements of Halfords Group plc are prepared in accordance with International Financial Reporting Standards, are available to the public and may be obtained from Icknield Street Drive, Washford West, Redditch, Worcestershire, B98 0DE.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- A Cash Flow statement and related notes;
- Comparative period reconciliations for tangible fixed assets and intangible assets;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of Key Management Personnel.

As the consolidated financial statements of Halfords Group plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share Based Payments in respect of group settled share based payments
- Certain disclosures required by IAS 36 Impairment of Assets in respect of the impairment of goodwill and indefinite life intangible assets
- Financial instruments disclosures as required by IFRS 7 Financial Instruments: Disclosures

The Company's financial statements are presented in Sterling and all values are rounded to the nearest million pounds (£m to one decimal place) except when otherwise indicated.

Halfords Limited

Notes to the Financial Statements for the period ended 1 April 2022

1 Accounting policies (continued)

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires the company's directors to exercise judgement in applying the company's accounting policies. Judgements made by the Directors, in the application of these accounting policies that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next period are discussed in note 2.

The principal accounting policies adopted are set out below.

The financial statements have been prepared on the historical cost basis, except for financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

The financial statements are prepared for the period up to the Friday closest to 31 March. Consequently, the financial statements for the current period cover the 52 weeks to 1 April 2022, whilst the comparative period covered the 52 weeks to 2 April 2021.

Halfords Limited

Notes to the Financial Statements for the period ended 1 April 2022

1 Accounting policies (continued)

Going concern

The going concern basis is considered appropriate based on the assessment made by the Directors in the Directors' report.

The financial statements have been prepared on the going concern basis, which the Directors believe to be appropriate for the following reasons. The Company is dependent for its working capital on funds provided to it by Halfords Group plc, the Company's ultimate parent. Halfords Group plc has indicated that for at least 12 months from the date of approval of these financial statements ("going concern assessment period"), it will continue to make available such funds as are needed by the Company, and in particular will not seek repayment of the amounts currently made available unless the company has the means to pay. The Directors consider that this will enable the Company to continue in operational existence for the going concern assessment period by meeting its liabilities as they fall due for payment.

In determining the appropriate basis of preparation of the financial statements for the year ended 1 April 2022, the Group Directors reviewed financial forecasts and projections to 30 June 2023. Within these financial projections, management reviewed profit and net cash flow and tested financial covenants in the period. No issues were found. Further details of these reviews can be found in the Principal Risk and uncertainty Report and Viability Report in the Group's Annual Report, which does not form part of this report. This analysis has then been extended to September 2023 and factors in post year end performance for the purposes of the subsidiary financial statement approvals.

The Directors have considered the risk to the business of the ongoing crisis in Ukraine. The most significant risk relates to the knock-on impact to fuel and energy prices, however, this impact is mitigated as the Group is contracted to fixed energy prices for a significant amount of the groups requirements until at least March 2023 and agreed freight rates until March 2024. Risks relating to key supplier relationships and the wider supply chain are not considered to be significant to the Group at this stage. The risks will continue to be reassessed as the conflict continues

The ultimate parent company, Halfords Group plc, has a revolving credit facility of £180m at the date of approval of these financial statements, which expires on 4 December 2024, and has no other debt or facilities.

On the basis of the availability of the Group banking facility, the Directors assessment of the Company's financial position and the enquiries made of the Directors of Halfords Group plc, the Company's Directors have a reasonable expectation that the Company will be able to continue in operational existence for the for the going concern assessment period.

Halfords Limited

Notes to the Financial Statements for the period ended 1 April 2022

1 Accounting policies (continued)

Turnover

The Company recognises revenue when it has satisfied its performance obligations to external customers and the customer has obtained control of the goods or services being transferred.

The revenue recognised is measured at the transaction price received and is recognised net of value added tax, discounts, and commission charged and received from third parties for providing credit to customers.

The Company operations comprise the retailing of automotive, leisure and cycling products, and associated services. The table below summarises the revenue recognition policies for different categories of products and services offered by the Company.

For most revenue streams, there is a low level of judgement applied in determining the transaction price or the timing of transfer of control.

Halfords Limited

Notes to the Financial Statements for the period ended 1 April 2022

1 Accounting policies (continued)

Products and services

Nature, timing and satisfaction of performance obligations and significant payment terms

The majority (both value and volume) of the Group's sales are for standalone products and services made direct to customers at standard prices, either in-store or online. In these cases, all performance obligations are satisfied, and revenue recognised, when the product or service is transferred to the customer. The majority of the time the customer pays in full at the same point in time.

Automotive, leisure and cycling products, fitting and repair operations

In the case of Cycle to Work, a letter of collection ("LOC") is issued when payment is received but the balance will be held on the Balance Sheet until the product or service has been transferred to the customer, at which point revenue is recognised. Breakages are recognised for unredeemed vouchers based on historic redemption rates. An LOC can also be redeemed by customers through a network of independent bike dealers, who invoice the Company for the value of the LOC, at which point the revenue is recognised.

Service and repair plans

The Company offers various service and repair plans to customers. The Company recognises revenue on these on a straight-line basis over the period of the plan. The performance obligation of the Company, being the level of service and repair offered with the plan, will be the period of the plan and therefore revenue should be recognised over this period. The product is paid for on commencement of the plan, and unrecognised income is held within accruals and deferred income.

Product warranties

Certain products, principally motoring, have a warranty period attached which is built in to the price of the product rather than being sold separately as an incremental purchase. The warranty element has been identified as a separate performance obligation to the sale of the product, and given it is not sold separately, a transaction price has been allocated for the warranty element based on the expected cost approach. This element of revenue is recognised on a straight-line basis over the period of the plan. The performance obligation of the Company, being the rectification of faults on products sold, will be the period over which the customer can exercise their rights under the warranty and therefore revenue should be recognised over this period. The full price of the product is paid for on commencement of the warranty, and unrecognised income is held within accruals and deferred income.

Halfords Limited

Notes to the Financial Statements for the period ended 1 April 2022

1 Accounting policies (continued)

Returns

A provision for estimated returns is made based on the value of goods sold during the year which are expected to be returned and refunded after the year end based on past experience.

The sales value of the expected returns is recognised within provisions, with the cost value of goods expected to be returned recognised as a current asset within inventories.

Gift Cards

Deferred income in relation to gift card redemptions is estimated on the basis of historic redemption rates.

Supplier Income

As is common in the retail industry, the Company receives income from their suppliers based on specific agreements in place. These enable the Company to share the costs and benefits of promotional activity and volume growth and are explained below. This supplier income received is recognised as a deduction from cost of sales based on the entitlement that has been earned up to the balance sheet date for each relevant supplier agreement. The Company receives other contributions that do not meet the definition of supplier income, including, but not limited to, marketing, advertising and promotion contributions that are offset against the costs included in administrative expenses to which they relate.

The supplier income arrangements are often not co-terminus with the Company's financial period end. Such income is only recognised when there is reasonable certainty that the conditions for recognition have been met by the Company, and the income can be reliably measured based on the terms of the contract. The Company is sometimes required to estimate the amounts due from suppliers at year end. However, as the majority of supplier income is confirmed before the year end, the level of estimation and judgement required is limited.

Supplier income is recognised on an accruals basis, based on the entitlement that has been earned up to the balance sheet date for each relevant supplier contract. The accrued supplier income is included within trade and other receivables.

Supplier income comprises:

- Rebates - typically these are based on the volume of purchases of goods for resale. These are earned based on purchase triggers over set periods of time. In some cases, rebates will also be received to support promotional pricing.
- Fixed contributions - typically these will be for cost price discounts or for favourable positioning of products in store.

Supplier income recognised is recorded against cost of sales and inventory, which is adjusted to reflect the lower purchase cost for the goods on which the income has been earned. Depending on the agreement with the supplier, supplier income is either received in cash from the supplier or netted off payments made to suppliers.

Finance Income

Finance income comprises income on funds invested. Income is recognised, as it accrues in profit or loss, using the effective interest rate.

Halfords Limited

Notes to the Financial Statements for the period ended 1 April 2022

1 Accounting policies (continued)

Foreign currency transactions and balances

The Company's functional and presentational currency is pounds sterling, which is the currency of the primary economic environment in which the Company operates. The financial statements are rounded to the nearest million.

Transactions and balances denominated in currencies other than the functional currency are translated at the rate prevailing at the time of the transaction. Monetary assets and liabilities denominated in foreign currencies held at the period 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.

Exchange differences are dealt with in the profit and loss account in the period in which they arise except for exchange differences on transactions entered into to hedge certain foreign currency risks (see note 1 derivative financial instruments and hedging).

Non-underlying items

Non-underlying items are those items that are unusual because of their size, nature (one-off, non-trading costs) or incidence. The Company's management considers that these items should be separately identified within their relevant income statement category to enable a full understanding of the Company's results.

Tax

Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

Current Tax

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible.

The Company intends to settle its current tax assets and liabilities on a net basis.

Halfords Limited

Notes to the Financial Statements for the period ended 1 April 2022

1 Accounting policies (continued)

Deferred tax

Deferred tax is provided in respect of all temporary 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 temporary differences reverse, based on tax rates and laws substantively enacted at the balance sheet date.

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.

Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Tangible fixed assets

Tangible fixed assets are valued at cost less accumulated depreciation. Cost is written off in equal instalments over their expected useful lives. This policy is reviewed on a regular basis to ensure that the expected useful lives are appropriate.

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

The periods over which the assets are being depreciated are as follows:

Asset class	Depreciation method and rate
Short leasehold land and buildings	over the period of the lease
Motor vehicles	33% per annum
Leasehold improvements	over the period of the lease to a maximum of 25 years
Fixtures, fittings and equipment	10 to 25% per annum
Computer equipment	33% per annum

Halfords Limited

Notes to the Financial Statements for the period ended 1 April 2022

1 Accounting policies (continued)

Intangible assets

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Development expenditure, including website development, is also written off, except where the Directors are satisfied as to the technical, commercial and financial viability of individual projects.

Costs that are directly associated with identifiable and unique software products controlled by the Company, 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 three to five years depending on the estimated useful economic life.

Where the Company controls software relating to Software as a Service ("SaaS") arrangements, configuration and customisation costs are capitalised as part of bringing the identified intangible asset into use. Where the Company does not have control of the software the costs are expensed over the SaaS contract term if the related configuration and customisation costs are not distinct from access to the software. In all other circumstances, configuration and customisation costs are recognised as an expense as incurred except in the limited instances where these costs result in a separately identifiable intangible asset. Under the new IFRIC guidance given in the current year for the recognition of SaaS arrangements, where software is deemed to fall under the IAS 38 definition of a SaaS arrangement, the costs will be expensed to the profit or loss account.

Investments

Investments in subsidiary undertakings are stated at the original cost of the investment. Provision is made against cost where, in the opinion of the Directors, the carrying value of the investments has been impaired.

Cash and cash equivalents

Cash comprises 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.

Stock

Stocks are valued at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost principle and includes purchase costs, adjusted for rebates and other costs incurred in bringing them to their existing location.

Cost of stock includes transfer from equity of gains and losses on qualifying cash flow hedges in respect of the purchase of goods or products.

Halfords Limited

Notes to the Financial Statements for the period ended 1 April 2022

1 Accounting policies (continued)

Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. 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 the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

Where the Company expects a provision to be reimbursed, the reimbursement is recognised as a separate asset when the reimbursement is certain.

A wear and tear provision is recognised when there is a future obligation relating to the maintenance of leasehold properties. The provision is based on management's best estimate of the obligation which forms part of the Company's unavoidable cost of meeting its obligations for maintaining the property. Key uncertainties are the estimates of amounts due.

Provisions for employer and product liability claims are recognised when an incident occurs or when a claim made against the Company is received that could lead to there being an outflow of benefits from the Company. The provision is based on management's best estimate of the settlement assisted by an external third party. The main uncertainty is the likelihood of success of the claimant and hence the pay-out; however, a provision is only recognised where there is considered to be reasonable grounds for the claim.

Halfords Limited

Notes to the Financial Statements for the period ended 1 April 2022

1 Accounting policies (continued)

Leases

The Company leases various offices, warehouses, retail stores, equipment and vehicles. Rental contracts are typically made for fixed periods between 3 months and 25 years, but may have break clauses or extension options.

Contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative standalone prices. However, for leases of real estate for which the Company is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component. At the commencement date of property leases the Company determines the lease term to be the full term of the lease, assuming that any option to break or extend the lease is unlikely to be exercised. The Company considers the lease term to be the non-cancellable period and in assessing this applies the definition of a contract and determines the period for which the contract is enforceable.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Company under residual value guarantees;
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Halfords Limited

Notes to the Financial Statements for the period ended 1 April 2022

1 Accounting policies (continued)

To determine the incremental borrowing rate, the Company:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third-party financing was received
- uses a build-up approach that starts with a risk free interest rate adjusted for credit risk for leases held by the Company; and
- makes adjustments specific to the lease, for example location, type of property.

The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset. Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

For leases acquired as part of a business combination, the lease liability is measured at the present value of the remaining lease payments. The right-of-use asset is measured at the same amount as the lease liability adjusted to reflect favourable or unfavourable terms of the lease when compared to market terms.

Subsequent to initial measurement, lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

When the Company revises its estimate of the term of any lease (because, for example, it reassesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the same discount rate that applied on lease commencement. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term. If the carrying value of the right-of-use asset is adjusted to zero, any further reduction is recognised in profit or loss.

Halfords Limited

Notes to the Financial Statements for the period ended 1 April 2022

1 Accounting policies (continued)

The right-of-use assets are considered for impairment at each reporting date.

When the Company renegotiates the contractual terms of a lease with the lessor, the accounting depends on the nature of the modification:

- if the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy;
- in all other cases where the renegotiation increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount;
- if the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial or full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right-of-use asset is adjusted by the same amount.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise warehousing, IT and telephone equipment.

Leases in which the Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in operating income in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Pensions

The Halfords Pension Plan is a contract based plan, where each member has their own individual pension policy, which they monitor independently. The Company pays fixed contributions and has no legal or constructive obligation to pay further amounts. The costs of contributions to the scheme are charged to the income statement in the period that they arise.

Halfords Limited

Notes to the Financial Statements for the period ended 1 April 2022

1 Accounting policies (continued)

Share based payments

Halfords Group plc operates a number of equity-settled share-based compensation plans, under which employees of Halfords Limited have been granted options during the period.

The fair value of the employee services received under such schemes is recognised as an expense within the employing company with a corresponding adjustment to equity.

Fair values are determined by use of appropriate pricing models. 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 Company 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 profit and loss account, with a corresponding adjustment to equity, over the remaining vesting period.

Financial instruments

Initial recognition

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not a Fair Value Through the P&L (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially recognised at the transaction price.

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

Classification and measurement

Financial assets

On initial recognition, a financial asset is measured at: amortised cost; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not measured at amortised cost or fair value through other comprehensive income (FVOCI) are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Halfords Limited

Notes to the Financial Statements for the period ended 1 April 2022

1 Accounting policies (continued)

Financial assets: Business model assessment

The Company makes an assessment of the objective of the business model in which a financial asset is held. This information considered includes:

- the stated policies and objectives for the business unit and the operation of those policies in practice;
- how the performance of the business unit is evaluated and reported to Company's management; and
- the risks that affect the performance of the business model (and the financial assets held within that business unit) and how those risks are managed.

Financial assets: Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features).

Financial assets: Subsequent measurement and gains and losses

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit and loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial liabilities: Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as FVTPL if it is classified as held for trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit and loss. All other financial liabilities are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

Halfords Limited

Notes to the Financial Statements for the period ended 1 April 2022

1 Accounting policies (continued)

Derecognition

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

Offsetting

Financial assets and financial liabilities are offset and the net position presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Impairment

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit loss, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both qualitative and quantitative information and analysis, based on the Company's historical experience and informed credit assessment and forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Company considers a financial asset to be in default when the financial asset is more than 90 days past due.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have the assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

Halfords Limited

Notes to the Financial Statements for the period ended 1 April 2022

1 Accounting policies (continued)

Derivative financial instruments and hedging

Derivative financial instruments are used to manage risks arising from changes in foreign currency exchange rates relating to the purchase of overseas sourced products. The Company does not hold or issue derivative financial instruments for trading purposes. The Company uses the derivatives to hedge highly probable forecast transactions and therefore the instruments are largely designated as cash flow hedges.

Derivatives are initially recognised at fair value on the date a contract is entered into and are subsequently re-measured at their fair value.

At inception of designated hedging relationships, the Company documents the risk management objective and strategy for undertaking the hedge. The Company also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in the cash flows of the hedged item and hedging instrument are expected to offset each other.

The effective element of any gain or loss from re-measuring the derivative instrument is recognised in OCI and accumulated in the hedging reserve. Any element of the re-measurement of the derivative instrument that does not meet the criteria for an effective hedge is recognised immediately in the Income Statement within cost of sales.

When the hedged forecast transaction subsequently results in the recognition of a non-financial item such as inventory, the amount accumulated in the hedging reserve is included directly in the initial cost of the non-financial item when it is recognised.

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 other comprehensive income at that time remains in other comprehensive income 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 other comprehensive income is recognised immediately in profit or loss.

The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months or as a current asset or liability, if the remaining maturity of the hedged item is less than 12 months.

2 Critical accounting judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from the estimates.

The judgement and key sources of estimation uncertainty that have a significant effect on the amounts recognised in the financial statements are detailed below:

Halfords Limited

Notes to the Financial Statements for the period ended 1 April 2022

2 Critical accounting judgements and key sources of estimation uncertainty (continued)

Provision for liabilities and charges

Assessing the financial outcome of uncertain commercial and legal positions requires significant judgements to be made. Assessments are based on the most recent information available to management supported by the Company's legal counsel where appropriate.

Impairment of assets

Assets are subject to impairment reviews based on whether current or future events and circumstances suggest that their recoverable value may be less than their carrying value. Recoverable amount is based on a calculation of expected future cash flows, which includes management assumptions and estimates of future performance.

Allowances against the carrying value of stocks

The Company reviews the market value of and demand for its inventories on a periodic basis to ensure that recorded inventory is stated at the lower of cost and net realisable value. In assessing the ultimate realisation of inventories, the Company is required to make estimates as to future demand requirements and to compare these with the current or committed inventory levels. Assumptions have been made relating to the timing and success of product ranges, which would impact estimated demand and selling prices.

Capitalisation of internal costs

Where a project is deemed to meet the requirements of IAS 38, the Company capitalises material internal costs using a blended rate on the basis of time recorded against projects. This is calculated using actual salaries of relevant colleagues during the current year.

Recoverability of intercompany balances

Intercompany receivables recoverability is considered in accordance with IFRS 9. Management judgement and estimation is required in the assessment of credit risk and expected future cashflows from the intercompany debtor.

Halfords Limited

Notes to the Financial Statements for the period ended 1 April 2022

2 Critical accounting judgements and key sources of estimation uncertainty (continued)

Lease terms and incremental borrowing rate

Under IFRS 16, the Group recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The lease liability is initially measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate, adjusted to take into account the risk associated with the length of the lease, which ranges between 1 and 25 years, and the location of the lease. The Group has, therefore, made a judgement to determine the incremental borrowing rate used. The weighted average incremental borrowing rate in FY22 was 2.34%. Halfords reviewed the incremental borrowing rate against the property yields to ensure the rates move appropriately against the weighted average reference rate for UK properties and concluded the rates appear reasonable.

In determining lease terms, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of warehouses, retail stores, autocentres and equipment, the following factors are normally the most relevant:

- review of profitability of each store and garage;
- if there are significant penalties to terminate (or not extend), the Group is typically reasonably certain to extend (or not terminate); and
- if any leasehold improvements are expected to have a significant remaining value, the Group is typically reasonably certain to extend (or not terminate).

Otherwise, the Group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset. Most extension options in vehicle leases have not been included in the lease liability, because the Group could replace the assets without significant cost or business disruption.

3 Turnover

Turnover comprises retail sales wholly in the UK and the Republic of Ireland.

Halfords Limited

Notes to the Financial Statements for the period ended 1 April 2022

4 Operating profit

	52 weeks to 1 April 2022 £m	52 weeks to 2 April 2021 £m
Operating profit shown is arrived at after charging/(crediting):		
Lease rentals in relation to short-term or low value leases	4.1	3.1
Rentals receivable under operating leases	(2.5)	(2.6)
Landlord surrender premiums	(0.5)	0.1
Amortisation of right-of-use assets	53.5	57.9
Amortisation of intangible assets	10.1	8.9
Impairment of tangible assets	(0.6)	3.4
Impairment of right-of-use assets	-	11.6
Loss on disposal of fixed assets	1.8	0.2
Cost of inventories consumed in cost of sales	437.9	478.0
Loss on disposal of intangible assets	-	1.0
	437.9	478.0

The total fees in relation to the audit of Halfords Limited and other group companies for which Halfords Limited has borne the cost was £0.8m (2021: £0.6m) payable to BDO LLP and their associates during the period.

	52 weeks to 1 April 2022 £m	52 weeks to 2 April 2021 £m
Fees payable for the audit of the Company's accounts	0.2	0.2

5 Staff costs

The average number of persons employed by the company (including directors) during the period, analysed by category was as follows:

	52 weeks to 1 April 2022 Number	52 weeks to 2 April 2021 Number
Stores	6,159	6,800
Support Centre	853	754
Central Warehousing	510	530
	7,522	8,084

Halfords Limited

Notes to the Financial Statements for the period ended 1 April 2022

5 Staff costs (continued)

The aggregated payroll cost was as follows:

	52 weeks to 1 April 2022	52 weeks to 2 April 2021
	£m	£m
Wages and salaries	172.6	174.3
Social security costs	13.3	10.9
Share-based payment charge	7.8	6.5
Other pension costs (see note 21)	3.8	4.1
Redundancies included in non-underlying items	0.3	5.9
	<u>197.8</u>	<u>201.7</u>

Staff costs recognised within Intangible asset additions in the period totalled £4.3m (2021: £2.3m).

6 Directors' remuneration

The directors' remuneration for the period was as follows:

	52 weeks to 1 April 2022	52 weeks to 2 April 2021
	£ m	£ m
Directors emoluments for services to the Company	5.8	3.8
Aggregate value of pension contributions	0.2	0.2
Share based payments	3.7	2.8
	<u>9.7</u>	<u>6.8</u>

£0.3m payment due to loss of office was made to a Director during the year.

During the period the number of directors who were receiving benefits and share incentives was as follows:

	52 weeks to 1 April 2022	52 weeks to 2 April 2021
	No.	No.
Number of Directors who received contributions to personal pension plans and share incentives	<u>5</u>	<u>4</u>

Halfords Limited

Notes to the Financial Statements for the period ended 1 April 2022

6 Directors' remuneration (continued)

In respect of the highest paid director:

	52 weeks to 1 April 2022 £ m	52 weeks to 2 April 2021 £ m
Remuneration	3.3	2.4

7 Non-underlying items

	52 weeks to 1 April 2022 £m	52 weeks to 2 April 2021 £m
Non-underlying operating costs:		
Organisational restructure costs (a)	0.3	17.9
One-off claims (b)	(2.2)	3.1
Closure costs (c)	(7.8)	23.0
Replacement of warehouse management system (d)	0.8	-
Non-underlying items before tax	(8.9)	44.0
	-	-
Tax on non-recurring items	1.7	(5.6)
Non-underlying items after tax	(7.2)	38.4

(a) In the current and prior period, a strategic redesign of the in-store operating model was undertaken to better meet our customers' expectations and deliver a consistent shopping experience across our estate. Redundancy costs of £0.3m (2021: £5.6m) were incurred during the transition to the new operating model.

In the prior year the Company also recognised a loss on disposal for an investment in Nationwide of £12.3m as part of the reorganisation of the Group structure.

(b) During the prior period, a provision of £2.9m was held in the accounts in relation to the HMRC audit relating to the national minimum wage. This was management's best estimate based on information available at the time. During the current period, this has been fully settled and paid, which has led to a release of the provision of £2.2m.

(c) During FY20 and FY21 the group completed a strategic review of the profitability of the physical estate and subsequently closed a number of stores. Assets were impaired and costs associated with the ongoing onerous commitments under the lease agreements and other costs associated with the property exits were provided for accordingly. In the current period £7.8m (2021: £23.0m charge) of provisions and lease liabilities have been released as the group continues to negotiate lease disposals and review provisions held in place. At the year end property provisions carried forward included an amount of £8.6m in relation to these store closures. These will continue to unwind as property exits are negotiated with landlords or tenants, and could result in further amounts being released to the income statement due to the significant estimation uncertainty over the timing of exits and the final negotiated settlements.

Halfords Limited

Notes to the Financial Statements for the period ended 1 April 2022

7 Non-underlying items (continued)

(d) An additional balance of £0.8m was incurred during the current period as a result of the replacement of the Warehouse Management System. Under the new IFRIC guidance in regards to IAS 38 this can not be capitalised and therefore, owing to the nature of this cost (non-trading cost), this is disclosed as a non-underlying expense.

8 Finance income

	52 weeks to 1 April 2022 £ m	52 weeks to 2 April 2021 £ m
Interest on loans to group undertakings	<u>2.8</u>	<u>4.6</u>

9 Interest payable and similar charges

	52 weeks to 1 April 2022 £ m	52 weeks to 2 April 2021 £ m
Interest expense (Interest expense on lease liabilities £7.2m (FY21: £8.6m))	<u>7.2</u>	<u>9.3</u>

10 Income tax

Tax charged in the statement of profit or loss

	52 weeks to 1 April 2022 £ m	52 weeks to 2 April 2021 £ m
Current taxation		
UK corporation tax	15.7	13.5
UK corporation tax adjustment to prior periods	<u>1.2</u>	<u>(1.5)</u>
Total current income tax charge	<u>16.9</u>	<u>12.0</u>
Deferred taxation		
Arising from origination and reversal of temporary differences	2.0	(2.9)
Arising from changes in tax rates and laws	(2.6)	-
Adjustment in respect of prior period	<u>(0.1)</u>	<u>0.1</u>
Total deferred taxation (credit)	<u>(0.7)</u>	<u>(2.8)</u>
Tax expense in the statement of profit or loss	<u>16.2</u>	<u>9.2</u>

Halfords Limited

Notes to the Financial Statements for the period ended 1 April 2022

10 Income tax (continued)

In addition to the above a £0.4m deferred tax credit (2021: £0.4m) is recognised in reserves in relation to employee share options.

A further £1.3m tax expense (2021: £1.6m credit) is recognised in other comprehensive income in relation to fair value changes in the period.

The tax on the Company's profits before tax differs from the theoretical amount that would arise using the tax rate in the UK as follows:

	52 weeks to 1 April 2022 £ m	52 weeks to 2 April 2021 £ m
Profit before tax	91.5	47.6
Corporation tax at standard rate (19%)	17.4	9.0
Current and deferred tax adjustment for prior periods	1.1	(1.4)
Effect of non-qualifying depreciation	0.1	0.3
Effect of change in tax rates	(2.6)	(0.3)
Effect of expenses not deductible in determining taxable profit	0.4	4.1
Share based payments	1.2	(2.5)
Group relief not paid for	(0.8)	-
Effect of super deduction for capital allowances	(0.6)	-
Total tax charge	16.2	9.2

Under IAS 12 deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

Halfords Limited

Notes to the Financial Statements for the period ended 1 April 2022

10 Income tax (continued)

Deferred tax

Deferred tax movement during the period:

	2 April 2021	At Recognised	Recognised in	Recognised	1 April 2022	At
	£ m	in income	other	in equity	£ m	£ m
	£ m	£ m	comprehensive	£ m	£ m	£ m
	£ m	£ m	income	£ m	£ m	£ m
Depreciation expensed in excess of capital allowances claimed	4.8	(0.4)	-	-	-	4.4
Impact on adoption of IFRS 16	4.6	0.5	-	-	-	5.1
Other temporary differences	4.4	0.2	(1.3)	0.4	0.4	3.7
Net tax assets	<u>13.8</u>	<u>0.3</u>	<u>(1.3)</u>	<u>0.4</u>	<u>0.4</u>	<u>13.2</u>

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

An increase to the main rate of corporation tax to 25% from 1 April 2023 was substantively enacted on 24 May 2021. It has subsequently been announced on 23 September 2022 that this increase will no longer take place however, this has not yet been substantively enacted. Amounts included in the closing deferred tax asset at 1 April 2022 expected to unwind after 1 April 2023 have therefore continued to be calculated at the 25% rate. If all of the deferred tax asset were to reverse at 19% the impact to the closing deferred tax position would not be significant.

Halfords Limited

Notes to the Financial Statements for the period ended 1 April 2022

11 Tangible assets

	Land and buildings £ m	Furniture, fittings and equipment £ m	Total £ m
Cost			
At 3 April 2021	39.1	242.8	281.9
Additions	0.6	12.7	13.3
Disposals	(0.5)	(1.2)	(1.7)
At 1 April 2022	<u>39.2</u>	<u>254.3</u>	<u>293.5</u>
Depreciation			
At 3 April 2021	33.3	193.2	226.5
Charge for the period	1.3	12.1	13.4
Impairment for the period	-	(0.6)	(0.6)
Disposals	(0.1)	(0.2)	(0.3)
At 1 April 2022	<u>34.5</u>	<u>204.5</u>	<u>239.0</u>
Carrying amount			
At 1 April 2022	<u>4.7</u>	<u>49.8</u>	<u>54.5</u>
At 2 April 2021	<u>5.8</u>	<u>49.6</u>	<u>55.4</u>

Halfords Limited

Notes to the Financial Statements for the period ended 1 April 2022

12 Intangible assets

	Computer Software £ m
Cost	
At 3 April 2021	76.5
Additions	16.7
Disposals	(0.8)
	92.4
At 1 April 2022	
Amortisation	
At 3 April 2021	54.2
Amortisation charge	10.1
Amortisation eliminated on disposals	(0.8)
	63.5
At 1 April 2022	
Carrying amount	
At 1 April 2022	28.9
At 2 April 2021	22.3

13 Leases

i) Amounts recognised in the balance sheet

Right-of-use assets

	Land and buildings £ m	Equipment £ m	Total £m
At 3 April 2021	224.4	0.8	225.2
Additions to right-of-use assets	32.1	0.5	32.6
Amortisation charge for the year	(52.6)	(0.9)	(53.5)
Effect of modification of lease	4.8	-	4.8
Derecognition of right-of-use assets	(0.3)	-	(0.3)
	208.4	0.4	208.8
At 1 April 2022	208.4	0.4	208.8

Halfords Limited

Notes to the Financial Statements for the period ended 1 April 2022

13 Leases (continued)

Lease liabilities

	Land and buildings £ m	Equipment £ m	Total £m
At 3 April 2021	286.8	0.7	287.5
Additions to lease liabilities	30.9	0.7	31.6
Interest expense	7.2	-	7.2
Effect of modification of leases	6.0	-	6.0
Lease payments	(67.4)	(0.8)	(68.2)
Foreign exchange movements	(0.2)	-	(0.2)
Disposals	(5.0)	-	(5.0)
At 1 April 2022	<u>258.3</u>	<u>0.6</u>	<u>258.9</u>

Carrying value of lease liabilities included in the balance sheet

	Total £m
Current liabilities	57.6
Non-current liabilities	<u>201.3</u>
At 1 April 2022	<u>258.9</u>

ii) Amounts recognised in the statement of profit or loss

	Land and buildings £ m	Equipment £ m	Total £m
Depreciation charge on right-of-use assets	52.6	0.9	53.5
Interest on lease liabilities	7.2	-	7.2
Expenses relating to short-term or low value leases	<u>3.2</u>	<u>0.9</u>	<u>4.1</u>
	<u>63.0</u>	<u>1.8</u>	<u>64.8</u>

Halfords Limited

Notes to the Financial Statements for the period ended 1 April 2022

14 Investments

Subsidiaries	£ m
Cost	
At 2 April 2021	0.1
At 1 April 2022	0.1

Details of the subsidiaries as at 1 April 2022 are as follows:

Name of subsidiary	Principal activity	Registered office	Proportion of ownership held
Boardman Bikes Limited	Non-trading	Icknield Street Drive, Redditch, Worcestershire, B98 0DE England & Wales	100%
Boardman International Limited	Non-trading	Icknield Street Drive, Redditch, Worcestershire, B98 0DE England & Wales	100%

15 Stock

	1 April 2022 £ m	2 April 2021 £ m
Finished goods and goods for resale	<u>182.8</u>	<u>127.6</u>

Goods bought for retail recognised as a cost of sale amounted to £437.9m (2021: £478.0m).

Finished goods inventories include £16.3m (2021: £14.1m) of provisions to carry inventories at net realisable value where such value is lower than cost. During the period £1.4m of inventory provisions were released (2021: £3.2m).

Halfords Limited

Notes to the Financial Statements for the period ended 1 April 2022

16 Debtors

	1 April 2022 £ m	(As restated*) 2 April 2021 £ m
Falling due within one year:		
Trade debtors	11.1	13.7
Amounts owed by group undertakings	376.5	842.7
Prepayments*	19.9	12.7
Other debtors	9.3	17.1
Income tax asset	-	4.3
	416.8	890.5

* Please refer to Note 23 for further detail.

All amounts owed by group undertakings are repayable on demand, however of the amounts above £374.7m is not expected to be repaid within 12 months of the balance sheet date.

The decrease in amounts owed by group undertakings between periods relates to the Group reorganisation that took place in the period, see Note 24 for further detail.

17 Creditors

	1 April 2022 £ m	(As restated*) 2 April 2021 £ m
Amounts falling due within one year		
Trade creditors	113.2	99.1
Accruals and deferred income*	59.2	61.5
Amounts due to group undertakings	24.3	51.4
Social security and other taxes	25.2	26.4
Other creditors	7.5	9.0
Lease liabilities	57.6	50.1
Income tax liability	4.5	-
	291.5	297.5
Amounts falling due after more than one year		
Lease liabilities	201.3	237.4
Accruals and deferred income	3.6	3.3
	204.9	240.7

* Please refer to Note 23 for further detail.

Halfords Limited

Notes to the Financial Statements for the period ended 1 April 2022

17 Creditors (continued)

The decrease in amounts owed to group undertakings between periods relates to the Group reorganisation that took place in the period, see Note 24 for further detail.

Halfords Limited

Notes to the Financial Statements for the period ended 1 April 2022

18 Provisions for liabilities and charges

	Property related £ m	Other provisions £ m	Total £ m
At 2 April 2021	(22.3)	(12.0)	(34.3)
Charged during the period	(0.9)	(0.8)	(1.7)
Provisions used	1.0	2.4	3.4
Unused provision reversed	8.3	4.2	12.5
At 1 April 2022	<u>(13.9)</u>	<u>(6.2)</u>	<u>(20.1)</u>
Non-current liabilities	<u>(4.3)</u>	<u>(1.0)</u>	<u>(5.3)</u>
Current liabilities	<u>(9.6)</u>	<u>(5.2)</u>	<u>(14.8)</u>

Property-related provisions consist of costs associated with wear and tear incurred on leasehold properties, other ongoing onerous commitments associated with property leases (excluding rent), and costs related to the exit of closed stores. The property related provisions will be utilised over the average remaining lease term of 3.1 years.

Other trading provisions comprise a sales returns provision and an employer/product liability provision (of which £1.0m is expected to be realised in >12 months).

19 Share capital

Allotted, called up and fully paid shares

	1 April 2022 No.	£ m	2 April 2021 No.	£ m
Allotted, called up and fully paid of £1 each	<u>120,216,500</u>	<u>120.2</u>	<u>120,216,500</u>	<u>120.2</u>

During the current period there has been no movement in the Company's share capital.

Halfords Limited

Notes to the Financial Statements for the period ended 1 April 2022

20 Reserves

Reserve	Description and purpose
Share capital	Nominal value of share capital subscribed for.
Capital contribution	The capital contribution reserve relates to a capital contribution received as part of the group reorganisation, see Note 24 for further details.
Hedging reserve	Comprises the effective portion of the cumulative net change in fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.
Profit and loss account	All other net gains and losses and transactions with owners not recognised elsewhere.

21 Pension and other schemes

Employees are offered membership of the Halfords Pension Plan. The Company operates a contract based plan for its employees, where each member has their own individual pension policy, which they monitor independently. The costs of contributions to the scheme are charged to the profit and loss account in the period that they arise. The employer contributions to the scheme for the period amounted to £3.8m (2021: £4.1m).

In accordance with Government initiatives Halfords operates an automatic enrolment process with regards to its pension arrangements. Employees who are aged between 22 and state pension age, who earn more than £10,000 a year, and work in the UK will be automatically enrolled into the Company pension arrangement. Employees retain the right to withdraw from this pension arrangement; however, election of this choice must be made.

22 Share-based payments

Halfords Group plc has five share award plans in which employees of Halfords Limited participate, all of which are equity-settled schemes. The Company Income Statement charge recognised in respect of all share-based payments for the current period is £7.8m (2021: £6.5m). All scheme options were valued using the Black-Scholes option-pricing models.

Halfords Limited

Notes to the Financial Statements for the period ended 1 April 2022

22 Share-based payments (continued)

Halfords Company Share Option Scheme ('CSOS')

The CSOS was introduced in June 2004 and the Company's ultimate parent Halfords Group Plc has made annual grants up to and including 2016. Options were granted with a fixed exercise price equal to the market price of the shares under option at the date of grant. The contractual life of an option is 10 years.

Options granted before August 2013 became exercisable on the third anniversary of the date of grant, subject to the achievement of a three-year performance condition. For grants up to 150% of basic salary the options can only be exercised if the increase in earnings per share ("EPS") over the period is not less than the increase in the Retail Price Index ("RPI") plus 3.5% per year. In the case of grants in excess of 150% of basic salary, the excess can only be exercised in full if the increase is not less than RPI plus 10% per year. Exercise of an option is subject to continued employment.

Changes to the performance criteria of the CSOS scheme in relation to the awards granted from August 2013 onwards were made by the Remuneration Committee. These changes were made in order to create better alignment with Group's three-year strategic priorities following the Moving Up A Gear programme. The awards are dependent on EBITDA performance and are only exercisable if EBITDA growth exceeds a compound annual growth rate of 2.5% over the three-year performance period, or a total growth rate of 8.4%. Exercise of an option is subject to continued employment.

No share options were granted under this scheme in the current period or the prior period. The 382,000 share options outstanding at 1 April 2022 had exercise price of £3.71 and a weighted average remaining contractual life of 1.3 years (2021: 2.3 years).

Management Share Plan ('MSP')

The CSOS has been replaced by the MSP. Nil cost options have been granted which can be exercised on or after the third anniversary of the date on which they are granted. The option cannot be exercised later than 10 years from the date on which it was granted. Exercise of an option is subject to continued employment.

596,000 share options were granted in FY22 (2020: 567,000), with a weighted average remaining contractual life of 8.3 years (2021: 8.5 years). There were 1,747,000 share options outstanding at the period end.

Halfords Limited

Notes to the Financial Statements for the period ended 1 April 2022

22 Share-based payments (continued)

Halfords Sharesave Scheme ('SAYE')

The SAYE is open to all employees with eligible employment service. Options may be exercised under the scheme if the option holder completes his saving contract for a period of three years and then not more than six months thereafter. Special provisions allow early exercise in the case of death, injury, disability, redundancy, retirement or because the company or business which employs the option holder is transferred out of the Group, or in the event of a change in control, reconstruction or winding up of the Company.

The weighted average exercise price of share options granted during the period was £1.79 (2021: £1.45). The options outstanding at 1 April 2022 had exercise prices ranging from £1.77 to £2.78 and a weighted average remaining contractual life of 1.8 years (2021: 2.6 years). There were 6,479,000 share options outstanding at the period end.

Performance Share Plan ('PSP')

The PSP is a long-term incentive scheme for senior management, comprising annual awards of shares with vesting based on performance over a three-year period (or such other period as the Group Remuneration Committee shall determine).

For schemes prior to 2018 the PSP performance criteria are weighted 25% towards Group revenue growth targets and 75% towards Group EPS growth targets. For the 2018 and 2019 schemes the PSP performance criteria are weighted 50% towards Group EPS, 25% towards Group revenue growth and 25% towards Group free cash flow.

The 2020 PSP scheme performance criteria is weighted 20% towards Group EPS growth, 30% towards Group Free Cash Flow, 10% towards Group service-related sales and 40% towards total shareholder return. The awards will be underpinned by the Remuneration Committee determining whether, in its opinion, the extent to which the performance conditions have been satisfied is a genuine reflection of the Company's underlying financial performance and has generated value for Company's shareholders over the performance period, and by a net debt to EBITDA ratio no greater than 1.5 throughout the three-year performance period. The 2021 PSP scheme performance criteria was weighted 50% towards Group EPS growth, 20% towards Group services-related sales and 30% towards total shareholder return.

The share options outstanding at 1 April 2022 had a weighted average remaining contractual life of 1.8 years (2021: 1.8 years).

Halfords Limited

Notes to the Financial Statements for the period ended 1 April 2022

23 Prior Period Adjustment

During the preparation of the financial statements, a mapping error was identified relating to the reduction in the Cycle to Work contract liability in respect of expected breakage. This reduction in the liability had in previous years been mapped to Prepayments and Accrued Income in the financial statements rather than being mapped to the Cycle to Work liability in Accruals and Deferred Income.

£12.0m was incorrectly included in Prepayments and Accrued Income as at the prior period end of 2 April 2021. The error at the period end of 3 April 2020 is £8.2m.

To correct for this error, in the Balance Sheet, Trade and other receivables at 2 April 2021 have been reduced by £12.0m with a corresponding adjustment to Trade and other payables.

In correcting this error, there is no impact on the Statement of Profit or Loss or Net Assets.

24 Group Reorganisation

During the period, the Halfords Group of companies commenced a re-organisation of the group structure with the objective of reducing the number of non-trading entities in the Group. As part of the reorganisation a distribution of £506.5m was made by the Company, which arose from the Company formally releasing Halfords Finance Limited, Halfords Holdings (2006) Limited, and Halfords Holdings Limited from their obligation to settle balances owed to the Company.

The Company also received a capital contribution of £27.0m, which arose from the Company being formally released from its obligation to settle balances owed to Halfords Payment Services Limited, Halfords Finance Limited, and Halfords Holdings (2006) Limited.

The net impact of the reorganisation on the Company's net assets and Reserves was a reduction of £479.5m.

25 Contingent liability

Halfords Group's banking arrangements are subject to a netting facility whereby credit balances may be offset against the indebtedness of other group companies. The possibility of a cash outflow in respect of the cash netting arrangements the company is party to is considered remote and therefore the effect is not quantified. 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 1 April 2022 amounted to £1.5m (2021: £1.5m). The company is also a guarantor of the Group's borrowing facility, a three year £180m revolving credit facility, which expires on 4 December 2024.

Halfords Limited

Notes to the Financial Statements for the period ended 1 April 2022

26 Parent and ultimate parent undertaking

The Company's immediate holding company is Halfords Group Holdings Limited. The Company's ultimate holding company and its ultimate controlling party is Halfords Group plc, a company incorporated in Great Britain and registered in England and Wales, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. The results of the Company are included in the Group financial statements of Halfords Group plc.

Copies of the group financial statements may be obtained from the Company Secretary at Icknield Street Drive, Washford West, Redditch, Worcestershire, B98 0DE.

The Company has taken advantage of the exemption given by FRS101.8(k) to subsidiary undertakings, 100% of whose voting rights are controlled within the group, by not disclosing information on related party transactions with entities that are part of the Group.