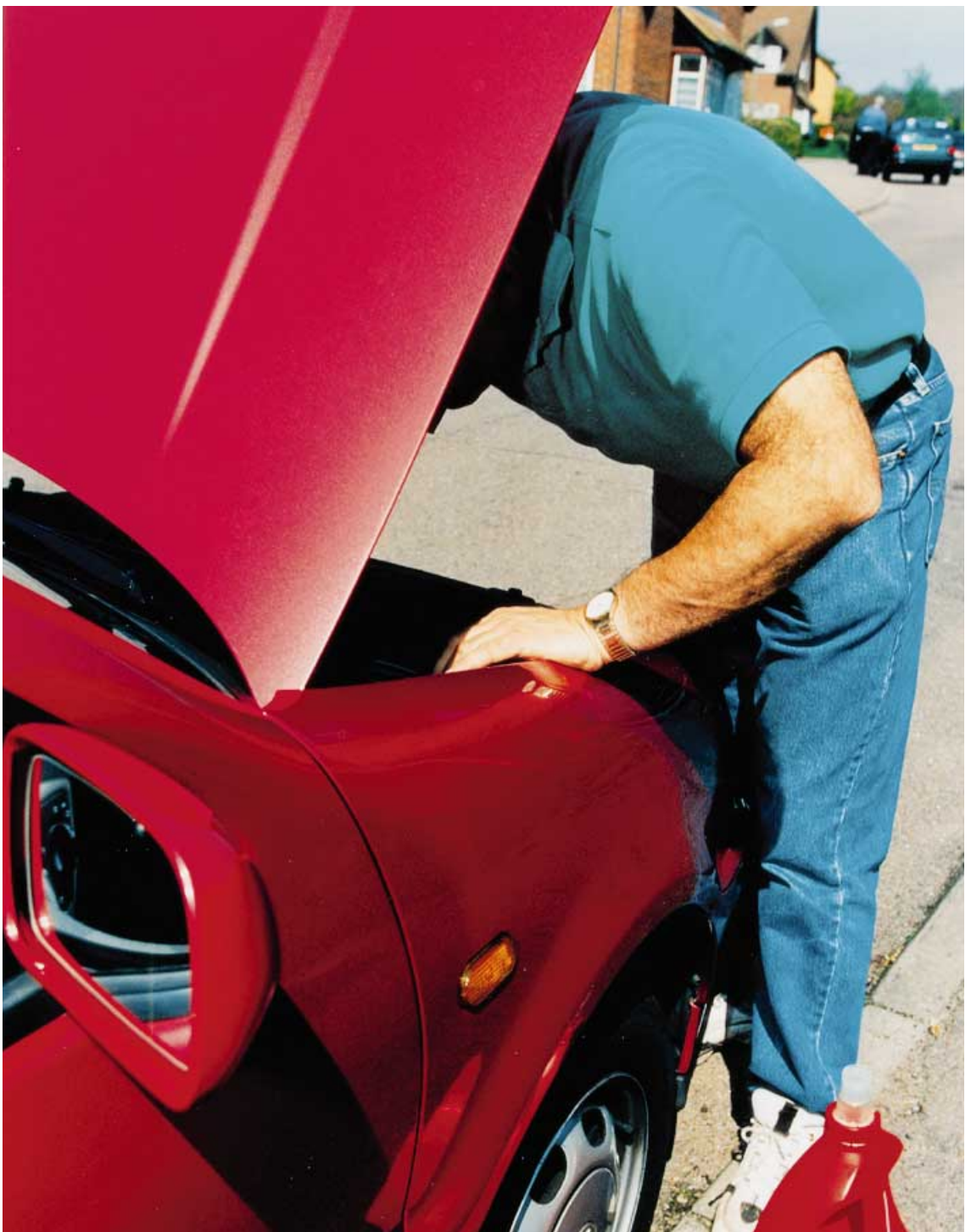


Halfords

We deserve the best.





For the second year running Halfords recorded strong operating profit growth – up 27.6 per cent to £34.2 million. This was achieved despite tough market conditions: sales rose 5.4 per cent overall and like for like growth was 2.8 per cent. Gross margin continued to improve – rising 2 percentage points, largely as a result of further growth in own brand sales. Losses in the garage servicing business were reduced to £1.2 million.

Strategy Although the car parts and accessories market is experiencing significant consolidation, Halfords continues to enjoy major advantages in size, differentiation and consumer confidence. It is currently increasing the pace and focus of its strategic development to maximise the benefit of these advantages. Opportunities to create additional value include targeting higher spending customer groups, making better use of existing customer traffic, extending the Halfords brand and skills into related areas and further expanding the superstore chain. Halfords is continuing its repositioning from high streets to superstores, ensuring that the size of new and existing stores is closely matched to the needs of their catchment areas.

Sales Own brand sales continued to advance, accounting for over 45 per cent of merchandise sales compared with 42 per cent in the previous year. Additions to the own brand car parts range helped it to take 50 per cent of Halfords parts sales. The mild winter benefited car cleaning products but restricted growth in batteries, de-icers and antifreeze. Sales of in-car CD equipment grew 67 per cent, boosted by increased emphasis on premier brands. Motor scooters and accessories have been successfully introduced on a trial basis and are now available in 50 stores. However, cycles sales were again disappointing and fell in a depressed and highly competitive market.

In the garage business sales grew 12 per cent and losses were substantially reduced to £1.2 million. The business made a profit in the second half. The partnership with Daewoo has proved highly beneficial for both sides; 26 Halfords stores now have Daewoo showrooms and more are planned.

Store openings Continuing the pattern of recent years, Halfords opened 25 new superstores during the year and closed 24 high street stores. With the total of superstores now nearly 300, new openings will continue but at a somewhat reduced rate, with increased emphasis on quality of location and efficient use of space. Future stores will be smaller on average and two experimental stores opened in 1997 are demonstrating that there is good scope for smaller 5,000sq ft infill stores without cycles. Halfords entered Northern Ireland in 1997, opening three superstores. A further three are planned.

Outlook An £11 million programme to introduce new EPOS tills, begun in 1997, will be largely complete by the end of 1998/99. It is bringing major efficiency gains and releasing store staff to spend more time on customer service and active selling. A variety of initiatives and trials are being developed to ensure further profitable growth from the company's strong market position.

Halfords	
Managing Director, Ken Piggott	
Sales £m	435.0
Increase %	5.4
Profit £m	34.2
Increase %	27.6
Sales split	
	%
Cycles and cycle accessories	25
Car parts	15
Auto accessories, tools and audio	49
Garage servicing	11



Halfords own brand representation has won ready acceptance from customers. Products include the High Security Steering Wheel Shield.