A copy of this document, which comprises listing particulars relating to Halfords Group Plc (the "Company") as required by the listing rules made under section 74 of the Financial Services and Markets Act 2000, has been delivered to the Registrar of Companies in England and Wales for registration as required by section 83 of that Act.

Application has been made to the UK Listing Authority for admission of all of the Ordinary Shares, issued and to be issued in connection with the Global Offer, to the Official List and to the London Stock Exchange for such Ordinary Shares to be admitted to trading on the London Stock Exchange's market for listed securities (together "Admission"). Conditional dealings in the Ordinary Shares are expected to commence on 3 June 2004. It is expected that Admission will become effective, and that unconditional dealings in the Ordinary Shares will commence on the London Stock Exchange, at 8.00 a.m. (London time) on 8 June 2004. **All dealings in the Ordinary Shares prior to the commencement of unconditional dealings will be on a "when issued" basis and will be of no effect if Admission does not take place. Such dealings will be at the sole risk of the parties concerned.**

The Directors of Halfords Group Plc, whose names appear on page 8 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors, who have taken all reasonable care to ensure that such is the case, the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

For a discussion of certain risks and other factors that should be considered in connection with an investment in Ordinary Shares, see "Investment Considerations" on page 13.

HALFORDS GROUP PLC

(Incorporated in England and Wales under the Companies Act 1985 with registered number 4457314)

Global Offer of 102,563,988 Ordinary Shares of 1p each at a price of 260p per Ordinary Share and admission to the Official List and to trading on the London Stock Exchange

Global Coordinator and Sponsor

Merrill Lynch International

Joint Bookrunners

Citigroup Merrill Lynch International

Co-Lead Managers

UBS Investment Bank Cazenove

Share capital immediately following Admission

Authorised			Issued and fully paid	
Number	*Amount (£)*		*Number*	*Amount (£)*
295,000,000	2,950,000	Ordinary Shares of 1p each	227,919,993	2,279,200

The Company is offering 53,846,154 New Shares and the Selling Shareholders are offering an aggregate of 48,717,834 Existing Shares (assuming no exercise of the Over-allotment Option) under the Global Offer. The Company will not receive any of the proceeds of the sale of the Existing Shares, all of which will be paid to the Selling Shareholders.

The New Shares to be issued pursuant to the Global Offer will, following Admission, rank *pari passu* in all respects with the Existing Shares and will rank in full for all dividends and other distributions declared made or paid on Ordinary Shares after Admission but will not rank for the Second Bonus Issue (as defined in Part VIII (Definitions)).

Merrill Lynch and Citigroup are acting for the Company and CVC Capital Partners Advisory Company Limited on behalf of the CVC Shareholders and no one else in connection with the Global Offer and will not regard any other person as their respective clients in relation to the Global Offer and will not be responsible to anyone other than Halfords Group Plc and CVC Capital Partners Advisory Company Limited on behalf of the CVC Shareholders for providing the protections afforded to their respective clients or for providing advice in relation to the Global Offer or any transaction or arrangement referred to in this document.

The distribution of this document and the offer of the Ordinary Shares in certain jurisdictions may be restricted by law. No action has been or will be taken by the Company, the Selling Shareholders or the Managers to permit a public offering of the Ordinary Shares or to permit the possession or distribution of this document (or any other offering or publicity materials or application form(s) relating to the Ordinary Shares) in any jurisdiction where action for that purpose may be required. Accordingly, neither this document nor any advertisement or any other offering material may be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities law of any such jurisdiction. The Global Offer and the distribution of this document are subject to the restrictions set out in paragraph 14 of Part VII (Additional Information) of this document.

Investors should rely only on the information in this document. No person has been authorised to give any information or make any representations other than those contained in this document and, if given or made, such information or representations must not be relied on as having been authorised by the Company, the Selling Shareholders, Merrill Lynch, Citigroup, or any of the other Managers. Neither the delivery of this document nor any subscription for or purchase of Ordinary Shares made pursuant to this document shall, under any circumstances, create any implication that there has been no change in the affairs of the Group since, or that the information contained herein is correct at any time subsequent to, the date of this document.

The contents of this document are not to be construed as legal, financial, business or tax advice. Each prospective investor should consult his, her or its own legal adviser, financial adviser or tax adviser for legal, financial or tax advice.

In connection with the Global Offer, Merrill Lynch, Citigroup and the other Managers, and any of their respective affiliates, acting as an investor for its or their own account(s) may subscribe for Ordinary Shares and, in that capacity, may retain, purchase, sell, offer to sell or otherwise deal for its or their own account(s) in such securities, any other securities of the Company or other related investments in connection with the Global Offer or otherwise. Accordingly, references in this document to the Ordinary Shares being issued, offered, subscribed or otherwise dealt in should be read as including any issue or offer to, or subscription or dealing by, the Managers or any of them and any of their affiliates acting as an investor for its or their own account(s). Merrill Lynch, Citigroup and the other Managers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

Over-allotment and stabilisation

In connection with the Global Offer, certain of the Selling Shareholders have granted Merrill Lynch, as stabilising manager, on behalf of the Managers, an Over-allotment Option (as defined in Part VIII (Definitions)) which is exercisable, in whole or in part, upon notice by Merrill Lynch and Citigroup, for the period commencing with the date of this document and ending 30 days after Admission. Pursuant to the Over-allotment Option, Merrill Lynch, in consultation with Citigroup, may require these Selling Shareholders to sell additional Existing Shares at the Offer Price, *inter alia*, to cover over-allotments, if any, made in connection with the Global Offer and/or to cover short positions relating to stabilisation activities.

In connection with the Global Offer, Merrill Lynch as stabilising manager or any of its agents, in consultation with Citigroup, may (but will be under no obligation to) over-allot or effect transactions with a view to supporting the market price of the Ordinary Shares or any options, warrants or rights with respect to, or interests in, Ordinary Shares, in each case at a level higher than that which might otherwise prevail for a limited period after the Offer Price is announced. Such transactions may be effected on any securities market, over-the-counter market, stock exchange or otherwise. Such transactions, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Save as required by law or regulation, neither Merrill Lynch nor any of its agents intends to disclose the extent of any over-allotments and/or stabilisation transactions under the Global Offer.

Notice in connection with the United States, Australia, Canada and Japan

This document does not constitute an offer to sell, or the solicitation of an offer to subscribe for or buy, Ordinary Shares in any jurisdiction in which such offer or solicitation is unlawful and is not for distribution in or into the United States, Australia, Canada or Japan. In particular, the Ordinary Shares offered by this document have not been and will not be registered under the US Securities Act of 1933, as amended (the "Securities Act"), under the applicable state securities laws of the United States or under the applicable securities laws of Australia, Canada or Japan and, subject to certain exceptions, may not be offered or sold directly, or indirectly, in or into the United States, Australia, Canada or Japan, or to or for the account or benefit of any person resident in Australia, Canada or Japan.

The Managers may arrange for the offer and sale of Ordinary Shares in the United States only to persons reasonably believed by them to be qualified institutional buyers (as defined in Rule 144A under the Securities Act) in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A or another exemption from, or transaction not subject to, the registration requirements of the Securities Act. Prospective purchasers are hereby notified that the sellers of the Ordinary Shares may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

No US federal or state securities commission or regulatory authority has approved or disapproved of the Ordinary Shares or passed upon the adequacy or accuracy of this document. Any representation to the contrary is a criminal offence in the United States.

NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421 B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA 421 B") WITH THE STATE OF NEW HAMPSHIRE, NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE, CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF THE STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421 B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT, NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION, MEANS THAT THE SECRETARY OF STATE OF THE STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE OR CAUSE TO BE MADE TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

Forward-looking statements

This document includes forward-looking statements which reflect the Group's or, as appropriate, the Directors' current views with respect to financial performance, business strategy, plans and objectives of management for future operations (including development plans relating to the Group's products and services). These statements include forward-looking statements both with respect to the Group and the sectors and industries in which the Group operates. Statements which include the words "expects", "intends", plans", "believes", "projects", "anticipates", "will", "targets", "aims", "may", "would", "could", "continue" and similar statements of a future or forward-looking nature identify forward-looking statements for purposes of US federal securities laws or otherwise.

All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause the Group's future results of operations or cash flows to differ materially from those indicated in these statements. These factors include but are not limited to those described in the part of this document entitled "Investment Considerations", which should be read in conjunction with the other cautionary statements that are included in this document. These forward-looking statements speak only as at the date of these listing particulars. Subject to any obligations under the Listing Rules, the Company undertakes no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

If one or more of these or other risks or uncertainties materialise, or if the Group's underlying assumptions prove to be incorrect, future results of operations or cash flows may vary materially from those projected. Any forward-looking statements prospective investors read in this document reflect the Group's or, as appropriate, the Directors' current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to the Group's operations, results of operations, growth strategy and liquidity. Prospective investors should specifically consider the factors identified in this document which could cause actual results to differ before making an investment decision.

No incorporation of website information

The contents of the Company's website referred to in these listing particulars do not form part of these listing particulars.

Available information

The Company has agreed that, so long as any of the Ordinary Shares are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Company will, during any period in which the Company is neither subject to section 13 or 15(d) of the US Securities Exchange Act of 1934 nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, furnish, upon request, to any holder of Ordinary Shares offered hereby, or any prospective purchaser designated by such holder, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

Enforceability of civil liabilities

The Company is a public limited company incorporated under the laws of England and Wales. The Directors and officers of the Company reside, and the Selling Shareholders mainly reside, outside of the United States. In addition, a substantial portion of the assets of the Directors, the Selling Shareholders and the Group are or may be located outside the United States. It may not be possible, therefore, for investors to effect service of process within the United States upon the Company or its Directors or officers or such Selling Shareholders, or to enforce in US courts judgments against them obtained in those courts based upon the civil liability provisions of the federal securities laws of the United States. Furthermore, there is substantial doubt as to the enforceability in England and Wales, whether by original actions or by seeking to enforce a judgment of a US court, of claims based on the federal securities laws of the United States.

Presentation of financial and other information

Financial Data

Unless otherwise indicated, the financial information in this document has been prepared in accordance with UK GAAP. UK GAAP differs in certain significant respects from IFRS and US GAAP. The Company has not quantified the impact of those differences. In making an investment decision, prospective investors must rely on their own examination of the Group, the terms of the Global Offer and the financial information in this document. Prospective investors should consult their own professional advisers for an understanding of the differences between UK GAAP and IFRS and between UK GAAP and US GAAP. For a discussion of the most significant differences between UK GAAP, IFRS and US GAAP, see paragraphs 14 and 15 of Part IV (Operating and Financial Review and Prospects).

Halfords prepares its financial statements on the basis of a 52 or 53 week financial period, generally ending on the Friday closest to 31 March in each year. The 2002 and 2003 financial years were 52 week periods and the 2004 financial year was a 53 week period. Consequently, Halfords' results for the 2004 financial year included an additional week of trading which makes a comparison of the 2004 financial year with earlier financial years more difficult.

Certain figures contained in this document, including financial information, have been subject to rounding adjustments. Accordingly, in certain instances, the sum of the numbers in a column or a row in tables contained in this document may not conform exactly to the total figure given for that column or row.

Market, Economic and Industry Data

Halfords operates in markets in which it is difficult in certain cases to obtain precise market, economic and industry information. Unless the source is otherwise stated, the market, economic and industry data in this document constitutes the Directors' estimates, using underlying data from GfK, Mintel, MBD, Datamonitor, The Economist Intelligence Unit, GIPA, Key Note, GIA and supplier estimates. Where market, economic and industry data is derived from industry and other independent sources, the publications in which they are contained generally state that the information they contain has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed.

References to defined terms

Certain terms used in this document, including certain capitalised terms and certain technical and other terms, are defined in Part VIII (Definitions).

Currency presentation

Unless otherwise indicated, all references in this document to "pounds sterling", "sterling", "£", "pence" or "p" are to the lawful currency of the United Kingdom and to "US dollars", "$" or "US$" are to the lawful currency of the United States. The Group prepares its financial statements in pounds sterling.

US dollar exchange rate information

The following table shows, for the dates and periods indicated, information concerning the noon buying rate in The City of New York for cable transfers in pounds sterling, as certified for customs purposes by the Federal Reserve Bank of New York and expressed in US dollars per £1.00.

Calendar year	At year end	Average[(1)]	High	Low
1999	1.62	1.62	1.68	1.55
2000	1.50	1.52	1.65	1.40
2001	1.45	1.44	1.50	1.37
2002	1.61	1.50	1.61	1.41
2003	1.78	1.63	1.78	1.55
2004 (to 28 May 2004)	1.83	1.83	1.90	1.75

Month	High	Low
December 2003	1.78	1.72
January 2004	1.85	1.79
February 2004	1.90	1.82
March 2004	1.86	1.79
April 2004	1.86	1.77
May 2004	1.84	1.75

(1) The average of the daily noon buying rates for each applicable period.

The noon buying rate for pounds sterling on 2 June 2004 was $1.838 = £1.00.

GLOBAL OFFER STATISTICS

Offer Price		260p
Number of Ordinary Shares being offered[1]		102,563,988
of which:	New Shares	53,846,154
	Existing Shares[1]	48,717,834
Number of Existing Shares subject to the Over-allotment Option[2]		15,384,584
Percentage of the enlarged issued Ordinary Share capital being offered[1]		45.0
Number of Ordinary Shares in issue following the Global Offer		227,919,993
Market capitalisation[3]		£592.6 million
Proceeds receivable by the Company before expenses		£140.0 million
Proceeds receivable by the Selling Shareholders before expenses[1]		£126.7 million

(1) This assumes no exercise of the Over-allotment Option.

(2) The number of Existing Shares which are subject to the Over-allotment Option is equal to 15 per cent. of the total number of Ordinary Shares to be issued or sold in the Global Offer.

(3) Calculated by multiplying the number of Ordinary Shares in issue following the Global Offer by the Offer Price.

EXPECTED TIMETABLE FOR THE GLOBAL OFFER[1]

Conditional dealings commence[2]	3 June 2004
Admission and unconditional dealings commence	8.00 a.m. on 8 June 2004
Shares credited to CREST accounts[3]	8.30 a.m. on 8 June 2004
Despatch of definitive share certificates (where applicable)[3]	commencing 8 June 2004

(1) Each of the times and dates in this timetable is subject to change. Where a time of day is specified, it refers to London time (unless otherwise stated).

(2) It should be noted that, if Admission does not occur, all conditional dealings will be of no effect and any such dealings will be at the sole risk of the parties concerned.

(3) Or as soon as practicable thereafter. No temporary documents of title will be issued.

TABLE OF CONTENTS

DIRECTORS, COMPANY SECRETARY, REGISTERED OFFICE AND ADVISERS

Directors	Robert William Templeman	(Non-executive Chairman)
	David Hamid	(Chief Executive Officer)
	Nicholas Michael Carter	(Finance Director)
	Ian James Winward McLeod	(Trading Director)
	Richard Alan Pym	(Non-executive Director)
	Jonathan Philip Feuer	(Non-executive Director)
	William David Gordon Ronald	(Non-executive Director)
	Nigel David Wilson	(Non-executive Director)
	Keith Reginald Harris	(Non-executive Director)
	all of Icknield Street Drive, Washford, Redditch, Worcestershire, B98 ODE	
Company Secretary	Nicholas Michael Carter	
Registered and Head Office	Icknield Street Drive Washford Redditch Worcestershire B98 ODE	
Global Coordinator and Sponsor	Merrill Lynch International Merrill Lynch Financial Centre 2 King Edward Street London EC1A 1HQ	
Joint Bookrunners	Citigroup Global Markets U.K. Equity Limited Citigroup Centre Canada Square London E14 5LB	Merrill Lynch International Merrill Lynch Financial Centre 2 King Edward Street London EC1A 1HQ
Co-Lead Managers	UBS Limited 1 Finsbury Avenue London EC2M 2PP	Cazenove & Co. Ltd 20 Moorgate London EC2R 6DA
Legal Adviser to the Company as to English and US Law	Clifford Chance Limited Liability Partnership 10 Upper Bank Street London E14 5JJ	
Legal Adviser to the Sponsor, Joint Bookrunners and Managers as to English and US Law	Freshfields Bruckhaus Deringer 65 Fleet Street London EC4Y 1HS	
Reporting Accountants and Auditors of the Company	PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH	
Principal Bankers	National Westminster Bank 148-149 Victoria Centre Nottingham NG1 3QT	
Registrars	Capita IRG The Registry 34 Beckenham Road Beckenham Kent BR3 4TU	

KEY INFORMATION

The following information should be read in conjunction with the full text of this document. Prospective investors should read the whole document and not rely exclusively on the summarised information contained in this section and should pay particular attention to the Investment Considerations immediately following this Key Information section.

1. OVERVIEW

Halfords is the UK's leading retailer, on the basis of turnover, in each of the four product markets in which it operates, being:

- car maintenance (including car parts, servicing consumables (such as oil), workshop tools and body repair equipment);
- car enhancement (including in-car entertainment systems, cleaning products, accessories, interior and exterior car styling products, navigation systems and alloy wheels);
- travel solutions (including roof boxes, cycle carriers, child car seats and outdoor leisure equipment); and
- cycling (including cycles and cycle accessories).

These together represent a combination of large, relatively stable or needs-driven markets and higher growth niche markets. The Directors estimate that the total size of the retail market in which Halfords operates was worth approximately £3 billion in 2003, and that this retail market has grown at a compound annual rate of 3 per cent. in the three calendar years 2001 to 2003.

The Directors believe that Halfords differentiates itself from its competitors through its national store portfolio, its broad product range, competitive pricing (achieved through scale of purchasing power), customer service offerings performed in-store by staff (e.g. fitting and repair services) and its strong brands. These strengths allowed Halfords to achieve turnover of £578.6 million in the 2004 financial year (2003 financial year: £525.8 million), and operating profit before goodwill amortisation and exceptional costs of £79.2 million in the 2004 financial year (2003 financial year: £50.8 million)(1).

Halfords' store portfolio comprised 387 stores across the UK as at 2 April 2004, and represented a total of some 2.9 million sq. ft. of selling space.

(1) This data has been extracted without material adjustment from Part V (Accountants' Report on the Group).

2. COMPETITIVE STRENGTHS

The Directors believe that Halfords has a number of business strengths, which place it in a strong position to take advantage of current and future market opportunities. These strengths include:

- a balanced mix of defensive and growth markets;
- leading market positions;
- distinctive brands with national recognition and broad appeal;
- a national store portfolio which would be difficult to replicate;
- a strong track record of earnings growth and cash generation; and
- strong bargaining positions with suppliers.

Each of these elements of the Group's strategy is described in more detail in "Competitive Strengths" in Part I (Business of the Group).

3. GROWTH STRATEGY

Halfords' strategy is to maintain and leverage its core strengths and develop new opportunities for growth. Halfords' new management team has significantly improved the Group's financial performance since the CVC Acquisition in August 2002, and is now focused on delivering additional sales growth and improving operating margins by:

- developing its property portfolio by converting existing stores and opening new stores;
- continuing to introduce effective and complementary marketing and trading practices;
- leveraging its brands into new product and service categories;
- improving product sourcing channels; and
- increasing operational efficiency.

The strategies are described in more detail in "Growth Strategy" in Part I (Business of the Group).

4. SELECTED FINANCIAL INFORMATION

The table below sets out summary financial information for the Group for the periods indicated. The data has been extracted without material adjustment from Part V (Accountants' Report on the Group) which has been prepared in accordance with UK GAAP.

	52 weeks ended 29 March 2002 £m	52 weeks ended 28 March 2003 £m	53 weeks ended 2 April 2004 £m
Turnover	519.8	525.8	578.6
Cost of sales	(243.3)	(244.4)	(269.0)
Gross profit	276.5	281.4	309.6
Operating expenses	(225.0)	(247.9)	(244.1)
Operating profit before exceptional costs and goodwill amortisation	51.5	50.8	79.2
Goodwill amortisation	–	(8.0)	(13.7)
Exceptional costs	–	(9.3)	–
Operating profit	51.5	33.5	65.5
Loss on sale of business	(2.3)	–	–
Profit on sale of fixed assets	–	–	6.4
Net interest payable	(0.5)	(21.9)	(44.1)
Profit before tax	48.7	11.6	27.8
Tax	(16.7)	(6.5)	(14.3)
Profit for the financial period	32.0	5.1	13.5

Halfords disposed of its garage services business in August 2001. This business contributed turnover of £17.3 million, gross profit of £12.1 million and an operating loss of £1.2 million to the results for the 52 weeks ended 29 March 2002.

5. CURRENT TRADING AND PROSPECTS

Since the end of the 2004 financial year, Halfords has opened a further four stores, comprising two superstores, each with supermezzanines, and two small stores. It has also completed the conversion of three superstores in the SMART Arcade format.

For the four week period from 3 April 2004 to 30 April 2004, unaudited turnover[1] was 10.6 per cent. ahead of the equivalent period in the 2004 financial year and was ahead of the Directors' expectations. The Group has continued to progress its strategic priorities through both the conversion of existing stores to the SMART Arcade format and the opening of new stores in this format, increased Far East sourcing and the development of key areas of infrastructure. Overall the outlook for the Group's trading for the full financial year remains in line with the Directors' expectations and the Directors are confident of the Group's prospects for the current financial year.

(1) Extracted without material adjustment from Halfords' accounting records.

6. DESCRIPTION OF THE GLOBAL OFFER

The Global Offer is being made by means of an offer of Ordinary Shares to certain institutional investors in the UK and elsewhere outside the United States and to qualified institutional buyers ("QIBs") in the United States. In connection with the Global Offer, certain of the Selling Shareholders have granted Merrill Lynch as stabilising manager, on behalf of the Managers, the Over-allotment Option which is exercisable in whole or in part, upon notice by Merrill Lynch and Citigroup, for the period commencing with the date of this document and ending 30 days after Admission. Pursuant to the Over-allotment Option, Merrill Lynch, in consultation with Citigroup, may require these Selling Shareholders to sell, in aggregate, up to 15,384,584 additional Ordinary Shares at the Offer Price, *inter alia*, to cover over-allotments (if any) made in connection with the Global Offer and/or to cover short positions relating to stabilisation activities.

Assuming that there is no exercise of the Over-allotment Option, the Global Offer will comprise an offer of 102,563,988 Ordinary Shares (representing approximately 45.0 per cent. of the issued ordinary share capital of the Company immediately following Admission) valued at approximately £266.7 million at the Offer Price. Of these 102,563,988 Ordinary Shares:

53,846,154 are New Shares; and

48,717,834 are Existing Shares being sold by the Selling Shareholders.

Pursuant to the Global Offer, which is fully underwritten by the Managers in accordance with the terms of the Underwriting Agreement (details of which are set out in paragraph 18 of Part VII (Additional Information)), the Company will receive approximately £135.0 million from the subscription of New Shares, net of underwriting commissions and other fees and expenses of approximately £5.0 million. In addition, a discretionary fee of up to £1.2 million may be paid by the Company to the Managers. The Company will not receive any proceeds from the sale of Existing Shares by the Selling Shareholders.

Immediately following Admission it is expected that approximately 45.0 per cent. of Halfords' Ordinary Shares will be held in public hands (as such term is defined in paragraph 3.20 of the Listing Rules), assuming no exercise of the Over-allotment Option and 51.7 per cent. if the Over-allotment Option is exercised in full.

7. REASONS FOR LISTING AND USE OF PROCEEDS

Halfords is seeking a listing and is making the Global Offer in order to establish an appropriate capital structure for the next phase of its growth strategy.

The net proceeds to the Company of the Global Offer are estimated to be approximately £135.0 million after deduction of underwriting commissions and expenses of £5.0 million payable by the Company. In addition, a discretionary fee of up to £1.2 million may also be paid by the Company to the Managers.

The Company intends to use the net proceeds of the Global Offer, together with an estimated £195 million of borrowings under the New Bank Facilities and available cash balances, to repay existing indebtedness under the Senior Credit Agreement, the Deep Discount Bonds and Shareholder Loan Notes described in paragraph 19 of Part VII (Additional Information) and to pay fees and expenses associated with the New Bank Facilities. The discretionary fee, if paid, will be funded out of available cash or borrowings under the New Facilities Agreement.

8. DIVIDEND POLICY

The Directors intend to adopt a progressive dividend policy, which will reflect the long-term earnings and cash flow potential of the Group, whilst maintaining an appropriate level of dividend cover. The Directors intend to follow a policy which, in the absence of unforeseen circumstances and assuming that there are sufficient distributable reserves available at the time, targets paying approximately half of the annual reported Group net income (before goodwill amortisation) in the form of dividends to holders of Ordinary Shares.

It is envisaged that the Company will pay an interim dividend in January and a final dividend in July of each year. Assuming that there are sufficient distributable reserves available at the time, the first dividend to be declared by the Company following the Global Offer is expected to be the interim dividend in respect of the 26 weeks ending 1 October 2004, which will be payable in January 2005 to shareholders on the register in October 2004, reflecting the capital structure and dividend policy of the Group following Admission.

9. LOCK-UP ARRANGEMENTS

The Company has agreed that, for a period of 365 days from Admission, it will not, without the consent of the Joint Bookrunners, issue or offer Ordinary Shares or related securities, other than pursuant to employee share option schemes, pursuant to any dividend reinvestment plan or pursuant to the Global Offer.

Each of the Selling Shareholders (save for the CVC Shareholders, the Warrantholders and the Private Shareholders), David Hamid and the Hill Samuel Offshore Trust Co. Ltd. has agreed that, he or it will not, without the consent of the Joint Bookrunners, offer, sell or contract to sell Ordinary Shares or related securities, save pursuant to the Global Offer and in certain other limited circumstances for a period of 365 days from Admission, and each of the Non-executive Directors (other than Jonathan Feuer) has given a similar undertaking, for a period of 365 days from Admission or until he ceases to be a Director, whichever is earlier.

Each of the CVC Shareholders, the Warrantholders, the Private Shareholders and Jonathan Feuer has agreed that, for a period of 180 days from Admission, it or he will not, without the consent of the Joint Bookrunners (such consent not to be unreasonably withheld or delayed), offer, sell or contract to sell Ordinary Shares or related securities, save pursuant to the Global Offer and in certain other limited circumstances.

Further details in respect of these lock-up arrangements are set out in paragraph 18 of Part VII (Additional Information).

INVESTMENT CONSIDERATIONS

Prospective investors should carefully consider, together with all other information contained in this document, each of the following risks before investing in Ordinary Shares. Halfords' business, operating results and financial condition could be adversely affected if any of the following risks were to occur. As a result, the trading price of the Ordinary Shares could decline and investors could lose part or all of their investment. Additional risks and uncertainties not presently known to Halfords, or that Halfords currently deems immaterial, may also have a material adverse effect on its financial condition or business.

RISKS RELATING TO HALFORDS' BUSINESS

Difficulties in the implementation of growth strategy

As described in Part I (Business of the Group) under the heading "Growth Strategy", Halfords is engaged in the development of its property portfolio by converting existing stores and opening new stores, and in continuing to introduce effective and complementary marketing and trading practices.

The growth of Halfords' turnover and profits in the future will depend, in part, on Halfords' ability to convert certain of its out-of-town superstores and small stores located in high street and other urban locations to new formats, and to introduce supermezzanine floors into certain of its existing superstores. By the end of the current financial year, Halfords expects to convert 65 existing superstores and 30 small stores and to introduce supermezzanine floors to 35 of the superstores being converted. Halfords' ability to complete these tasks is subject to normal risks associated with construction projects, as well as the regulatory risks discussed below.

In addition, Halfords intends to open ten new superstores and at least six small stores by the end of the current financial year. Halfords' successful implementation of this strategy depends upon its ability to locate and lease appropriate sites in out-of-town locations and other suitable locations at commercially reasonable rates, open new stores in a timely manner, employ, train and retain additional store and supervisory personnel, and integrate the new stores into its existing operations on a profitable basis. Halfords cannot assure prospective investors that it will be able to accomplish these tasks. Furthermore, if current competitors, new entrants or alternative users were able to secure appropriate sites, they might be able to gain market share or otherwise effectively restrict Halfords' ability to grow.

Halfords' growth strategy will continue to place demands on its operational, managerial and administrative resources. Increasing demands could hinder Halfords' introduction of effective and complementary marketing and trading practices, which in turn could cause deterioration in the financial performance of its business. If Halfords' conversion of existing stores and opening of new stores in new or existing markets is delayed or prevented, costs more than Halfords anticipates or diverts resources from other areas of its business, it could have a material adverse effect on Halfords' growth strategy, and therefore its financial results.

Inability to secure landlord and regulatory consents to convert existing stores

In order to install mezzanine or supermezzanine floors in its out-of-town superstores, or to convert stores to new formats (see Part I (Business of the Group) under the heading "Growth Strategy"), Halfords may be required to obtain regulatory or landlord consent. In particular, the Planning and Compulsory Purchase Act 2004 (the "Planning Act"), reforms several aspects of the UK property development planning system. The Planning Act subjects the construction of some mezzanine levels in stores to a requirement to obtain planning permission (subject to a size threshold to be determined). Halfords has been largely successful in its attempts to secure landlord and regulatory consents relating to the introduction of mezzanine floors in the past, but Halfords cannot assure prospective investors that it will be able to secure such consents in the future, or that the Planning Act (or similar legislation) will not hinder Halfords' implementation of its growth strategy, increase the costs of implementation, or delay the receipt of consent from landlords. If Halfords were unable to secure required landlord and/or regulatory consent, it could adversely impact Halfords' intended growth strategy and could therefore have a material adverse impact on Halfords' financial condition and results of operations.

Dependence on effective information systems

Prior to the CVC Acquisition, the Group's core systems were part of the Boots mainframe infrastructure and, at the time of the CVC Acquisition, the Group entered into a transitional services agreement to continue this arrangement for a period of time post-acquisition. As a result, certain of Halfords' systems remain dependent on the Boots mainframe. The Group is implementing a programme to shift these systems away from the Boots mainframe with the last stage of this programme to be achieved by December 2004, as the transitional services agreement expires in March 2005.

There is a risk that Halfords may be unable to implement all phases of its information systems programme prior to March 2005. If there is a delay in such implementation, the Group may be able to negotiate an extension of the transitional services agreement with Boots or secure an alternative provider, but there can be no assurance that it will be possible to obtain an extension on suitable terms or to obtain an alternative provider. In addition, the roll out of the new information systems for the Group could expose the Group to additional risks relating to system failures, costs and delays of the type encountered in information systems roll outs. These failures and delays could have a significant adverse impact on the Group's operations, particularly its store replenishment and distribution activities, which can be impacted even by short-term system failures. This, in turn, would have a material adverse effect on Halfords' financial condition and results of operations.

Success dependent on improvements in logistic operations and distribution infrastructure

An important part of Halfords' strategy to achieve cost efficiencies while maintaining turnover growth is the continued identification and implementation of improvements to its logistic operations and distribution infrastructure. Halfords also needs to ensure that its distribution infrastructure and supply chain keep pace with its anticipated growth and increased number of stores. In particular, Halfords will need to expand its existing infrastructure as it opens new stores in regions where it currently lacks a significant presence. The cost of this enhanced infrastructure could be significant and any delays to such expansion could adversely affect the Group's growth strategy. In addition, Halfords co-ordinates a significant portion of its distribution to its stores through three distribution centres in Washford, Lakeside and Cowley. Halfords is considering the consolidation of its distribution into two centres. Halfords also plans to introduce a new PkMS™ warehouse management system in the Lakeside and Cowley distribution centres in the current financial year. Any significant disruption in the operations of these centres as a result of the distribution centre consolidation plan or the implementation of PkMS™ would have a material adverse effect on Halfords' ability to maintain proper inventory levels in its stores, which would adversely affect Halfords' financial condition and results of operations.

Building regulations and disabled access

Halfords is required to comply with the UK Disability Discrimination Act 1995, pursuant to which it must provide auxiliary aids and services to enable disabled people to shop in its stores, and to change any practices, policies or procedures that make it unreasonably difficult for them to do so. From October 2004, Halfords will be required to make physical changes to its premises if it is otherwise impossible or unreasonably difficult for disabled people to shop in its stores. Halfords must also comply with the Building Regulations 2000 (applicable in England and Wales), which require it to make reasonable provision for disabled people to gain access to its stores. Halfords has consulted with the British Retail Consortium as to what level of provision would be reasonable, and believes that its plans for compliance (such as staff training) are consistent with those of other UK retailers. If regulators or the courts were to decide that reasonable provision had not been made, Halfords could be required to make substantial alterations to, and incur capital expenditures for, its stores including the removal of access barriers and/or the introduction of customer lifts. This could, in turn, affect cash flow and reduce earnings. Furthermore, Halfords cannot assure prospective investors that existing disabled access requirements will not change, or compliance with future disabled access requirements will not include significant unanticipated expenditures that could affect its cash flow and results of operations.

Dependence on acceptable terms from key suppliers

Halfords has approximately 570 suppliers for retail products based on Group purchases of over £1,000 per year. In the 2004 financial year, the top 20 suppliers accounted for approximately 42 per cent., and the top five suppliers (Tradewinds UK Ltd, Sony UK Limited, JVC Limited, Raleigh Industries Limited and Merida Bicycles Limited) accounted for approximately 20 per cent. of product purchases, respectively. However, Halfords' arrangements with its suppliers do not guarantee the availability of merchandise, establish guaranteed prices or provide for the continuation of particular pricing practices. Halfords' current suppliers may refuse or be unable to continue to sell products to Halfords on current terms (or at all), and Halfords may not be able to establish relationships with new suppliers to ensure delivery of products in a timely manner or on acceptable terms.

Halfords may not be able to acquire desired merchandise in sufficient quantities on terms acceptable to it in the future. Also, its business would be adversely affected if there were delays in product shipments due to freight difficulties, industrial action or other difficulties at its principal transport providers or elsewhere in its supply chain. Halfords has from time to time experienced delays of this nature. Halfords is also dependent on suppliers to assure the quality of merchandise it receives. Halfords' inability to acquire suitable merchandise in the future, or the loss of one or more of its suppliers and its failure to replace any one or more of them, could harm its relationship with its customers, resulting in a loss of sales.

Reliance on foreign manufacturers

Halfords sources a significant proportion of the merchandise it sells in its stores from outside of the United Kingdom, either directly or via third-party suppliers. Therefore, Halfords is subject to the risks associated with international trade (particularly those which are common in the import of goods from developing countries), including:

- adverse fluctuations in currency exchange rates;
- the imposition of taxes or other charges on imports;
- compliance with and changes in import restrictions and regulations; and
- exposure to different legal standards and the burden of complying with a variety of foreign laws and changing foreign government policies.

Halfords' customers pay for merchandise largely in pounds sterling. In the 2004 financial year, 12.5 per cent. and 87.1 per cent. of Halfords' purchases were denominated in US dollars and pounds sterling, respectively. To the extent Halfords pays manufacturers or third-party suppliers of merchandise in currencies other than pounds sterling, Halfords bears the risk of disadvantageous changes in the exchange rate between sterling and such other currencies. One of Halfords' key strategies is to source an increasing percentage of its merchandise directly from manufacturers in the Far East, rather than third-party suppliers. To the extent this strategic shift increases Halfords' demand for currencies other than pounds sterling to purchase merchandise, Halfords' exposure to exchange rate fluctuations will also increase.

In addition, Halfords' imported products are subject to customs duties. If customs duties were to increase substantially, it could harm Halfords' profitability. The United Kingdom or the European Union and the countries in which the products Halfords sells are produced could impose new quotas, duties, tariffs or other restrictions, or adversely adjust prevailing quota, duty or tariff levels, any of which could have a harmful effect on Halfords' profitability.

Finally, Halfords is subject to more general risks associated with conducting business in foreign countries, including:

- expropriation or nationalisation of the assets of foreign manufacturers or suppliers;
- international hostilities, war or terrorism;
- changes in foreign government regulation, political unrest, work stoppages, shipment disruption or delays; and
- changes in economic conditions in countries in which Halfords' manufacturers and suppliers are located.

If any of these risks were to affect Halfords' ability to increase its sourcing of merchandise from the Far East, it could affect Halfords' financial condition and results of operations.

For additional disclosure regarding market risk facing the Group, please refer to paragraph 10 of Part IV (Operating and Financial Review and Prospects).

Halfords' operating and financial leverage

Halfords has significant annual lease payment obligations in respect of its stores, which in the 2004 financial year totalled £54.6 million. Halfords' property portfolio is subject to periodic rent reviews on a rolling basis, and, as a result, Halfords expects its lease payments to increase over time. These annual lease payment obligations include rental payments of approximately £6.3 million in respect of 125 properties sub-let to the Automobile Association on coterminous leases and guaranteed by GB Gas Holdings Limited, both of which are subsidiaries of Centrica plc. In addition, as at 2 April 2004, after giving effect to the Global Offer and the intended repayment of certain indebtedness of Halfords from the proceeds of the Global Offer described in Part III (Details of the Global Offer), Halfords would have had pro forma net debt of approximately £214.5 million (see Part VI (Pro Forma Statement of Net Assets of the Group)).

The degree to which Halfords is operationally and financially leveraged following the Global Offer could have important consequences to shareholders, including, but not limited to:

- limiting Halfords' flexibility to plan for, or react to, changes in its business and the competitive environment; and
- requiring the dedication of a substantial portion of cash flow from operations to lease payments on stores and interest payments on indebtedness.

Dependence on key management personnel

The success of Halfords' business depends upon its senior management closely supervising all aspects of its business, in particular the operation of its stores and the design, procurement and allocation of its merchandise. Retention of senior management is especially important in Halfords' business due to the limited availability of experienced and talented retail executives. If Halfords were to lose the services of members of its senior management such as David Hamid, its Chief Executive Officer, Nick Carter, its Finance Director, or Ian McLeod, its Trading Director, and were unable to employ a suitable replacement in a timely manner, its business could be adversely affected. In addition, as Halfords develops and expands its business, its future success will depend on its continued ability to attract and retain other highly-skilled and qualified personnel.

Competition

The car maintenance, car enhancement, travel solutions and cycling product markets are competitive. Halfords competes with a wide variety of retailers of varying sizes, and covering different product categories. Some of Halfords' competitors are general retailers (such as supermarkets and other large retailers) that compete with Halfords in a number of product categories, while others are specialist retailers (such as mail order or internet retailers) that compete with Halfords only in single product categories. Actions by Halfords' competitors, as well as Halfords' actions to maintain its competitiveness and reputation, could have a material adverse effect on Halfords' business, results of operations and financial condition. Some of Halfords' competitors, particularly large supermarkets, may have greater financial resources, greater purchasing economies of scale and/or lower cost bases than Halfords, any of which could give them a competitive advantage over Halfords.

Halfords cannot assure prospective investors that it will be able to compete successfully against current competitors or future new entrants, or that competitive pressures it faces will not have a material adverse effect on its business, financial condition or results of operations.

Responsiveness to changing consumer preferences

Some of the products that Halfords sells, particularly in the car enhancement category, are subject to rapidly changing consumer preferences. Halfords' turnover and profits are sensitive to these changing preferences. Accordingly, Halfords must identify and interpret trends and respond in a timely manner. Halfords continually markets new products, but demand for and market acceptance of these new products are uncertain. Halfords' failure to anticipate, identify or react swiftly to changes in consumer preferences could result in lower sales, higher markdowns to reduce excess inventories and lower profits. Conversely, if Halfords fails to anticipate increased consumer demand for its products, it may experience inventory shortages, which would result in lost sales and could negatively impact Halfords' customer goodwill, brand image and profitability.

Some of the products Halfords sells, such as children's cycles, face competition from alternative products, such as games consoles. If increased demand for alternative products were to result in decreased demand for the products Halfords sells, it could adversely impact Halfords' business.

RISKS RELATING TO THE GLOBAL OFFER

Absence of prior trading market

Prior to the Global Offer, there has been no public trading market for the Ordinary Shares. The Offer Price may not be indicative of the market price for the Ordinary Shares following Admission. Following Admission, the trading price of the Ordinary Shares may be subject to wide fluctuations in response to many factors, including those referred to in this section, as well as stock market fluctuations and general economic conditions that may adversely affect the market price of the Ordinary Shares, regardless of Halfords' actual performance or conditions in its key markets.

Shares eligible for future sale

Upon completion of the Global Offer, the Selling Shareholders will in aggregate hold 125,319,083 Ordinary Shares (or 109,934,499 Ordinary Shares if the Over-allotment Option is exercised in full), representing 55.0 per cent. of the issued Ordinary Shares (48.2 per cent. if the Over-allotment Option is exercised in full). These Ordinary Shares will be subject to 180-day or 365-day lock-up arrangements, described in further detail in paragraph 18 of Part VII (Additional Information). Sales of substantial amounts of Ordinary Shares following the expiration of the lock-up periods could adversely affect the prevailing market price of the Ordinary Shares.

Possible unavailability of pre-emption rights for US holders of Ordinary Shares

In the case of certain increases in Halfords' issued share capital, existing holders of Ordinary Shares are generally entitled to pre-emption rights to subscribe for such shares, unless shareholders waive such rights by a resolution at a shareholders' meeting, or in certain other circumstances as stated in the Articles. US holders of shares are customarily excluded from exercising any such pre-emption rights they may have, unless a registration statement under the Securities Act is effective with respect to those rights, or an exemption from the registration requirements thereunder is available. Halfords is unlikely to file any such registration statement, and Halfords cannot assure prospective investors that any exemption from the registration requirements would be available to enable US or other overseas holders to exercise such pre-emption rights or, if available, that Halfords will utilise any such exemption.

Following Admission, the CVC Shareholders will, in aggregate, hold approximately 46.0 per cent. of the Ordinary Shares (approximately 40.0 per cent. if the maximum number of the Over-allotment Shares is required pursuant to the Over-allotment Option). As a result, the CVC Shareholders will continue to be able to exert influence over all matters that must be decided by a vote of the Shareholders, including the election of directors. To the extent that the interests of the CVC Shareholders may differ from the interests of other shareholders, those other shareholders may be disadvantaged by any action that the CVC Shareholders may seek to pursue. The CVC Shareholders and the Company have entered into a Relationship Agreement to ensure that the Company can act independently of the CVC Shareholders, further details of which are set out at paragraph 19 of Part VII (Additional Information).

Effect of exchange rate fluctuations

The Ordinary Shares are, and any dividends to be paid in respect of them will be, denominated in pounds sterling. An investment in Ordinary Shares by an investor whose principal currency is not sterling exposes the investor to foreign currency exchange rate risk. Any depreciation of sterling in relation to such foreign currency will reduce the value of the investment in the Ordinary Shares or any dividends in foreign currency terms, and any appreciation of sterling will increase the value in foreign currency terms.

Part I. Business of the Group

The following information should be read in conjunction with the more detailed information appearing elsewhere in this document, including the financial and other information in Part IV (Operating and Financial Review and Prospects) and Part V (Accountants' Report on the Group). The financial information included in this Part I (Business of the Group) has been extracted without material adjustment from Part V (Accountants' Report on the Group) and Part VI (Pro Forma Statement of Net Assets of the Group), or has been extracted without material adjustment from Halfords' accounting records, which formed the underlying basis of the Accountants' Report.

1. BUSINESS OVERVIEW

Halfords is the UK's leading retailer, on the basis of turnover, in each of the four product markets in which it operates, being:

- car maintenance (including car parts, servicing consumables (such as oil), workshop tools and body repair equipment);
- car enhancement (including in-car entertainment systems, cleaning products, accessories, interior and exterior car styling products, navigation systems and alloy wheels);
- travel solutions (including roof boxes, cycle carriers, child car seats and outdoor leisure equipment); and
- cycling (including cycles and cycle accessories).

The Directors believe that Halfords differentiates itself from its competitors through its national store portfolio, its broad product range, competitive pricing (achieved through scale of purchasing power), customer service offerings performed in-store by staff (e.g. fitting and repair services) and its strong brands. These strengths allowed Halfords to achieve turnover of £578.6 million in the 2004 financial year (2003 financial year: £525.8 million), and operating profit before goodwill amortisation and exceptional costs of £79.2 million in the 2004 financial year (2003 financial year: £50.8 million).

Halfords' store portfolio comprised 387 stores across the UK as at 2 April 2004, and represented a total of some 2.9 million sq. ft. of selling space. Of these stores, 343 (representing approximately 2.8 million sq. ft. of selling space) were out-of-town superstores and 44 (representing approximately 0.1 million sq. ft. of selling space) were small stores located in high streets and other urban locations.

Halfords is in the process of upgrading its out-of-town superstores to a new format known as "Arcade" and is also upgrading its small stores. As at 2 April 2004, 238 superstores and 11 small stores were in the new formats. The upgrades to Halfords' stores have proven successful with Halfords' existing core customer base, whilst attracting new customers from the growing number of car and cycle enthusiasts, whom the upgrades were particularly designed to attract.

2. HISTORY OF THE GROUP

Halfords has its origins in a business founded in 1892 in Birmingham by F.W. Rushbrooke, which operated as the Halfords Cycle Company Limited from 1907. In the mid-1980s, the business was one of the first UK retailers to migrate from high street locations to newly developed out-of-town retail parks, recognising customers' demand for more store space to accommodate larger product ranges, easier car access and better parking facilities.

In 1984 the Halfords business was acquired by Ward White Group plc, which in turn was acquired by Boots in 1989. Following a strategic review under Boots' ownership, the Group started a programme to refine the product offering, to develop new brands (which included the acquisition of the established "Ripspeed" brand in 1998 and the introduction of the "Bikehut" concept) and during the 2001 financial year to upgrade certain of its stores by installing a modern, open-plan "Arcade" format in out-of-town superstores.

In August 2001, Halfords sold its garage business, comprising 129 servicing and repair outlets located on existing superstore premises, to the Automobile Association, a subsidiary of Centrica plc.

In August 2002, Halfords Limited was acquired by the Company in a leveraged buy-out backed by the CVC Shareholders. Since the CVC Acquisition, Halfords' new management team has undertaken key strategic initiatives which have significantly improved the operating and financial performance of the business and laid the foundation for future growth.

The success of these initiatives has been reflected in a significant increase in turnover and operating profit before goodwill amortisation and exceptional costs. Turnover increased from £525.8 million in the 2003 financial year to £578.6 million in the 2004 financial year, and operating profit before goodwill amortisation and exceptional costs increased from £50.8 million to £79.2 million, resulting in an increase in operating margins before goodwill amortisation and exceptional costs, from 9.7 per cent. to 13.7 per cent. over the same period.

Halfords achieved this significant increase in turnover primarily through a shift in marketing focus which included greater emphasis on price and promotional activity, expansion into new product areas and service differentiation. The management team also refined the Arcade format by extracting and implementing the most successful elements of the original Arcade format in a more cost effective manner, known internally as SMART Arcade. Operating profit also benefited from streamlining head office and operational structures and reducing headcount, as well as from improving purchase price and payment terms across key areas of expenditure.

3. MARKET OVERVIEW AND COMPETITIVE ENVIRONMENT

Halfords targets four distinct retail product markets: car maintenance, car enhancement, travel solutions and cycling, which together represent a combination of large, relatively stable or needs-driven markets and higher growth niche markets. The Directors estimate that the total size of the retail market in which Halfords operates was worth approximately £3 billion in 2003, and that this retail market has grown at a compound annual rate of 3 per cent. in the three calendar years 2001 to 2003. Halfords is the UK's leading retailer, on the basis of turnover, in each of these product markets.

The following table contains the Directors' estimates of the size of the product markets in which Halfords operates in 2003 and growth in each of such product markets for the periods shown. The table also shows Halfords' turnover growth within these product markets for the financial years shown and the proportion of Halfords' turnover represented by Halfords' own-brand products in each of these product markets:

Product Market	Size of Market 2003 (£ million)	Market growth 2000-2003 CAGR (%)	Halfords turnover 2004 financial year (£ million)	Halfords turnover growth 2001-2004 financial years CAGR (%)	Halfords own-brand turnover 2004 financial year (%)
Car maintenance	944	(0.1)	172	3.4	63
Car enhancement	837	7.3	202	14.3	20
Travel solutions	700	4.1	82	8.4	47[1]
Cycling	508	1.1	123	1.8	49
Weighted average	–	3.0	–	7.0	43[1]
Total	2,989	–	579	–	–

(1) Own-brand information excludes child safety and outdoor leisure products, and scooters and accessories where Halfords currently has no own-brand products.

The Directors believe that Halfords' market-leading position reflects the Group's comprehensive product range, competitive pricing, the provision of specialist advice by staff and Halfords' customer service offering. The largest national competitor to Halfords which focuses its operations on each of the four product markets in which Halfords operates is Motor World Limited, which operates through approximately 230 stores, mostly situated in high street locations. Motor World's turnover (as reported in statutory accounts filed at Companies House) was approximately £43.3 million in the year to 30 April 2003.

Car maintenance and car enhancement market

The Directors estimate that the UK market for aftermarket expenditure on cars was approximately £11 billion for the calendar year 2003. This figure includes product markets in which Halfords does not participate, including servicing and repair labour (estimated at £5.0 billion for that year) and replacement parts delivered through main car dealers and fast-fit centres (estimated at £3.5 billion for that year). Accordingly, the Directors estimate that Halfords' addressable market was £1.8 billion in 2003, representing the direct-to-consumer segment of this market for sales of car maintenance and car enhancement products.

During the three calendar years 2001 to 2003, the car maintenance market is believed by the Directors to have declined marginally in size due to improvements in part quality and the increased complexity of cars and car parts, which has led to consumers being less able, or less inclined, to perform their own maintenance. However, Halfords has been well positioned to exploit a degree of price elasticity in certain elements of the car maintenance market, and has also continued to benefit from growth in the car enhancement sector over this period, reflecting an ongoing shift in expenditure towards enhancement activities. The Directors estimate that Halfords' overall addressable market in car maintenance and car enhancement products has grown over this period at a compound annual rate of 3.1 per cent.

The Directors believe that the key drivers of growth within the car maintenance and car enhancement market include:

- the growing number of vehicles registered in the UK (known as the "UK car parc"). Due to UK population growth, increasing numbers of two-car families and the relative affordability of cars, the car parc has grown consistently at a compound annual rate of approximately 2.4 per cent. in the three calendar years 2001 to 2003 (*Source: Mintel*). The Directors expect that growth in the car parc will continue to drive demand for car maintenance and car enhancement products;
- favourable trends within the UK car parc:
  - the car parc is continuing to age as cars become more durable, resulting in a longer period over which maintenance occurs and during which owners invest in the appearance of their vehicles. Older vehicles are also less likely to be supported by original equipment manufacturers' warranties, resulting in greater reliance on other providers, such as Halfords;
  - private car ownership is increasing, driven in part by changes in UK taxation policy. The Directors believe that private owners are more likely to spend on vehicle improvements and enhancement than company car drivers;
  - the proportion of drivers covering over 10,000 miles per annum increased from 35 per cent. to 42 per cent. in the three calendar years 2000 to 2002 (*Source: BMRB*). The Directors believe that this increase in the amount of time spent in cars, together with the trend towards replicating home entertainment systems in-car, has driven growth in in-car entertainment products;

- technological improvements which have extended part life and car reliability have also increased the sophistication and complexity of car parts and of motor oils, and consequently their cost. The Directors consider that the resulting price inflation has partially offset any decline in volume of sales of car parts due to extended part life and car reliability; and
- a growing "enthusiast" segment, focused on car enhancement.

In addition, the relatively non-discretionary nature of vehicle repairs and servicing provides some protection against macro-economic conditions in the car parts segment (the largest element) of the car maintenance and car enhancement market.

Halfords' overall share of the car maintenance and car enhancement market is estimated by the Directors to have increased from approximately 18 per cent. to approximately 21 per cent. over the three calendar years 2001 to 2003. The market is highly fragmented, with a large number of small, independent retailers, although competition within the market varies by product group. In relation to car parts, Halfords' main competitors are dealers or independent stores, whilst in relation to in-car entertainment and car styling products, Halfords' main competitors are specialist stores or mail order/online operations. There is a wider range of competitors in product groups such as oils, cleaning products, workshop tools and body repair products due to the more universal nature of the products. These competitors include independent retailers, garage forecourts, DIY stores and certain supermarkets.

Travel solutions market

The total market for travel solutions products (including car travel equipment such as roof boxes and cycle carriers, travel accessories such as batteries, safety equipment, child travel and safety products (including child car seats) and outdoor leisure equipment) is estimated by the Directors to have been worth approximately £700 million in 2003.

The Directors believe that this market has grown at a compound annual rate of 4.1 per cent. over the three calendar years 2001 to 2003, driven by an increase in the number of short break holidays and the growing popularity of outdoor leisure activities. The Directors estimate that Halfords' market share in 2003 was approximately 12 per cent. (approximately 17 per cent. excluding the outdoor leisure market that Halfords only entered during the 2004 financial year), which they believe Halfords has captured through the broad product range it is able to offer in its superstores (which have an average size of approximately 8,300 sq. ft. of selling space), as well as the Group's fitting service.

Competition within this market is fragmented, and includes independent and general retailers and car dealers with few offering the same breadth of range as Halfords. In relation to child safety products, Halfords competes principally against retailers such as Mothercare and Toys R Us. In relation to outdoor leisure products, Halfords' main competitor is Blacks Leisure Group plc.

Cycling market

Halfords also operates in the UK retail cycling market, which comprises the sale of new cycles and cycle accessories (such as lights, locks and cycle safety helmets). The UK retail cycling market was worth £508 million in 2003, of which £308 million (*Source: GfK*) related to sales of cycles and £200 million (*Source: GIA*) relates to sales of cycle accessories. The cycling market has grown at a compound annual rate of 1.1 per cent. in the three calendar years 2001 to 2003 (*Source: GfK and GIA*).

The new cycle market is mature, with between 2.3 million and 3.0 million cycles sold per annum in the nine calendar years 1995 to 2003 (*Source: GfK*). The Directors believe that factors such as the increasing popularity of cycling as a leisure activity and for commuting, recent Government initiatives encouraging cycling and an increasing number of higher-spending enthusiasts, have underpinned sales of cycles over this period.

Sales can also be (and have been) affected by factors such as:

- product innovation – e.g. the introduction of new or retro products (such as the Raleigh Chopper bike), which can provide periodic stimulus to the market, whilst product developments in other leisure categories, such as games consoles, may adversely impact the market;
- weather conditions and one-off occurrences (such as the foot-and-mouth epidemic which impacted the market in 2001 and 2002); and
- manufacturing overcapacity, which has contributed to price deflation, particularly with respect to lower specification cycles, leading to greater accessibility to the market for new consumer entrants.

The cycle accessories market is estimated by the Directors to have grown in volume terms in the three calendar years 2001 to 2003, with price deflation limiting value growth to an annual compound rate of 3.8 per cent.

The Directors believe that Halfords had a market share of approximately 24 per cent. in the UK retail cycling market in 2003. Competition at the low specification end of the new cycle market comes from supermarkets, such as Tesco and Asda, and large retailers such as JJB Sports and Toys R Us. Higher specification cycles are also available from these large retailers, but the principal competition in the premium end of the market comes from small independent retailers.

4. COMPETITIVE STRENGTHS

The Directors believe that Halfords has a number of competitive strengths, which mean it is well-positioned to take advantage of current and future market opportunities. These strengths include:

- a balanced mix of defensive and growth markets;
- leading market positions;
- distinctive brands with national recognition and broad appeal;
- a national store portfolio which would be difficult to replicate;
- a strong track record of earnings growth and cash generation; and
- strong bargaining positions with suppliers.

Balanced mix of defensive and growth markets

Halfords operates in a combination of historically relatively stable product markets (albeit modestly declining in the case of car maintenance) and in higher growth niche product markets (such as car enhancement).

The Directors consider that the car maintenance segment provides a strong and reliable core customer base for Halfords stores, and a solid financial foundation for the Group. Further, they believe that Halfords' competitive position has allowed Halfords steadily to increase sales from car maintenance products over more than 10 years, demonstrating the relative stability and resilience of this product market during different stages of the overall UK economic cycle. In the 2004 financial year sales of car maintenance products represented 29.7 per cent. of Group turnover.

The Directors believe that the cycling market has been relatively stable over the nine calendar years 1995 to 2003, although sales were negatively impacted in 2001 and 2002 by the foot-and-mouth epidemic. Halfords' sales from cycling products, which totalled £123.1 million in the 2004 financial year, have increased by an average compound rate of 1.8 per cent. during the three financial years to 2 April 2004.

Halfords' sales in the car enhancement and travel solutions markets have seen higher growth rates than sales in the car maintenance and cycling markets in the three financial years to 2 April 2004. The Directors believe that sales in these higher growth product categories are driven primarily by changes in consumer spending habits towards car enhancement and leisure products and services and general increases in disposable income in the UK. The Group seeks to leverage its strong brand, scale of operations, competitive pricing and service differentiation to capture new market share in these niche product markets.

The Directors believe that the defensive market dynamics of the car maintenance market, when combined with the growth characteristics of the other product markets in which the Group operates, give Halfords a strong and resilient platform from which to respond to changing consumer trends and to continue to grow sales.

Leading market positions

Halfords is the UK's leading retailer, on the basis of turnover, in each of the four product markets in which it operates. Competition in these markets is fragmented and the Directors believe that Halfords enjoys a leading market share in each of these four markets. They estimate that Halfords' market shares were approximately 18 per cent., 24 per cent., 12 per cent. and 24 per cent. for car maintenance, car enhancement, travel solutions and cycling respectively in the 2003 calendar year.

Halfords aims to attract customers with an extensive service offering and competitive pricing (achieved through scale of purchasing power) to compete with small independent stores, whilst offering skilful and knowledgeable customer service to differentiate itself from other large retailers.

The only other national retailer which focuses its operations on the four product markets in which Halfords operates is Motor World. Halfords' turnover is more than twelve times larger than Motor World's turnover (based on its latest published accounts) and Halfords has a more comprehensive store portfolio with convenient out-of-town sites, whereas Motor World operates mostly from high street locations.

The Directors believe that the limited availability of good quality out-of-town sites and the high cost of establishing an extensive store and associated distribution network creates a significant barrier to prospective new market entrants and limits the potential growth of current high street competitors. The Directors also believe that the Group is well-positioned to capture additional market share as small independent retailers continue to exit some of the highly fragmented markets in which the Group operates.

Distinctive brands with national recognition and broad appeal

Market research conducted by the Group suggests that approximately 11 million people visited Halfords stores in the 2003 calendar year, being the equivalent of approximately 24 per cent. of the UK adult population. This research indicates that customers associate the Halfords brand with qualities such as trustworthiness, high product quality, reliability and a broad product range. Market research also suggests that the Halfords brand, which has been in existence for nearly 100 years, is the most recognised UK store brand in the cycling, car maintenance and car enhancement product markets.

In the 2004 financial year, approximately 43 per cent. of turnover by value consisted of products marketed under Halfords' own-brands. The Directors believe that this extensive range of own-brand products, when combined with Halfords' scale of operations, provides it with a significant cost advantage over its competitors.

The strength of the Halfords brands has allowed, and the Directors believe it will continue to allow, Halfords to leverage its brands into new products and product categories, with recent examples being outdoor leisure and child safety.

The Directors believe that the Ripspeed and Bikehut sub-shops in the Group's Arcade superstores are perceived by both mainstream and enthusiast customers as shopping destinations in their own right, due to the broad product range, expertise and specialisation they offer.

National store portfolio which would be difficult to replicate

As at 2 April 2004, Halfords operated 387 stores (343 of which were superstores) across the UK, servicing major UK conurbations, cities and towns. In the non-food sector, the Directors believe that only Halfords and Carpetright Plc operate under a single facia from more than 340 out-of-town stores. Halfords is represented in 95 of the UK's top 100 retail catchments listed by Experian Limited.

The Directors believe that Halfords enjoys a considerable advantage over many of its competitors that are predominantly based in high street locations, as its out-of-town superstores offer a broad product range, parking facilities and longer opening hours. This portfolio of superstores, built up since the mid-1980s, would be difficult for those existing competitors or potential new entrants without such a portfolio to replicate.

Halfords' portfolio strategy is to continue to improve the quality of its store portfolio by closing less attractive stores and opening new ones in more profitable locations. Of the Group's 387 stores, 99 per cent. were cash profitable in the 2004 financial year.

Strong track record of earnings growth and cash generation

The Directors believe that Halfords' strong track record of turnover growth over the past 15 years demonstrates the strength of the business within the UK economic cycle. The Directors also believe that Halfords' consistently high level of conversion of earnings to cash flow allows it to support the Group's growth strategy and provides the Group with further financial flexibility.

Strong bargaining positions with suppliers

As the UK's leading retailer, on the basis of turnover, serving each of the product markets in which it operates, the Directors believe that Halfords is the largest UK customer of many of its key suppliers and therefore is well-positioned to negotiate preferential terms of supply and volume discounts. During the 2004 financial year Halfords renegotiated terms with approximately 350 of its suppliers. The Directors estimate that this resulted in a one-off reduction in working capital in that year of approximately £25 million from the extension of payment terms and ongoing annual cost reductions of approximately £4 million.

The Directors consider that Halfords' portfolio of stores also offers suppliers an attractive selling platform for bringing new and innovative products to the UK market, and this strength enables Halfords to secure periods of exclusive distribution of certain new product lines (recent examples being Kawasaki-branded children's cycles and Michelin tyre inflators).

5. GROWTH STRATEGY

Halfords' strategy is to maintain and leverage its core strengths and develop new opportunities for growth. Halfords' new management team has significantly improved the Group's financial performance since the CVC Acquisition, and is now focused on delivering additional sales growth and improving operating margins by:

- developing its property portfolio by converting existing stores and opening new stores;
- continuing to introduce effective and complementary marketing and trading practices;
- leveraging its brands into new product and service categories;
- improving product sourcing channels; and
- increasing operational efficiency.

Developing its property portfolio by converting existing stores and opening new stores

The Group has considerable experience in both converting existing stores and opening new stores. The Directors believe that this experience means that they can continue to convert and open stores efficiently and cost-effectively going forward.

- *Store Conversions & Mezzanines*

  The Group is continuing to roll out its Arcade format into its superstores. This format is designed to offer customers an attractive selling environment. The Arcade format was originally introduced in the 2001 financial year and has been refined by the new management team since the CVC Acquisition into the more cost-effective SMART Arcade model. As at 2 April 2004, approximately 69 per cent. of the Group's superstores were in the Arcade or SMART Arcade formats, and the Directors intend to roll out SMART Arcade to a further 65 superstores in the current financial year.

  Dependent on store size, existing format and estimated market potential, future Arcade conversions may include the introduction of a supermezzanine floor and mezzanine floors in existing Arcade superstores may be extended to supermezzanine proportions. These mezzanines increase space for proven ranges (such as in-car entertainment products) and for new ranges (e.g. the introduction of an expanded range of child safety and play products). The Directors believe that, through both new mezzanines and mezzanine extensions in over 200 superstores, Halfords has the potential to increase its retail selling space by approximately 20 per cent. without, in general, any concurrent increase in rent. The Directors intend to introduce supermezzanine floors in 35 of the 65 superstores referred to above in the current financial year.

  Halfords has also created a refined version of the SMART Arcade format, known internally as "Metro", for its small stores which are located in high streets and other urban locations. The new format offers a range of products which appeal to the high street consumer but which the Group had previously only sold in Arcade superstores. The first four small stores which Halfords converted into this format in the period between July and September 2003 have delivered significant sales uplifts following conversion. Following the performance of the trial stores, Halfords converted a further six small stores to this new format during the remainder of the 2004 financial year. The Directors intend to roll out this new store format to the remaining small stores (other than those held on short leases which the Directors choose not to renew) in the current financial year.

- *New Stores*

  Halfords intends to continue opening new out-of-town superstores in the low-cost SMART Arcade format as part of its store portfolio development strategy. This is likely to involve a small number of new superstores each year, as suitable properties become available. These new superstores will include a supermezzanine floor, where appropriate. The Directors have identified a further 70 locations for new superstores in the UK where they believe that further market capacity exists and intend to open superstores in eight of these locations in the current financial year.

  The Directors also believe that additional new format small stores, of approximately 3,000 sq. ft., provide another potential source of sales growth. The Directors have identified approximately 80 high street and other urban locations as being the most suitable for new small stores. In the 2004 financial year, Halfords opened one small store in this new format and the Directors intend to open at least a further six in the current financial year.

The Directors believe that the Halfords customer offering may be attractive to certain overseas markets. The Group plans an initial expansion into the Republic of Ireland, centred upon Dublin, and it is evaluating eight potential out-of-town locations with a view to opening two superstores in the SMART Arcade format in the current financial year. However, international expansion is not a core element of the Group's strategy and the "Halfords" name is registered as a trademark by another proprietor in a number of European countries.

Continuing to introduce effective and complementary marketing and trading practices

Halfords' marketing and trading strategy is designed to maximise like-for-like sales growth and to develop a customer offering that distances the Group from its competitors.

The marketing strategy focuses on the communication of discounted product promotions to increase footfall and enhance the perception of Halfords as a price leader, whilst also promoting its sub-brands, such as Ripspeed and Bikehut, to increase and diversify the customer base.

Halfords' trading strategy is aimed at increasing the number of products purchased by customers on each visit to a store through dynamic use of store space in order to sell products which are seasonally relevant or which are otherwise being specifically promoted. The Directors have also increased staff participation in sales-related incentive schemes and have implemented specific incentives at peak trading periods. The Directors believe that this strategy will drive like-for-like sales growth, primarily through increasing average transaction value (£18.10 in the 2004 financial year), and will reinforce customers' perception of brand value.

Leveraging its brands into new product and service categories

The Directors intend to continue to leverage Halfords' brands into new categories and product ranges, thereby increasing like-for-like sales, such as:

- *outdoor leisure* – recognising the close fit to Halfords' existing product range and the fragmented nature of this market, the Group trialled a range of outdoor leisure products (including tents, camping equipment and sleeping bags) in certain of its superstores during the 2004 financial year. The trial was successful and the range was rolled out to all of its superstores in March 2004. The Directors intend to introduce own-brand products into this product category in due course;

- *child travel and safety* – sales in this category, which consists primarily of child car seats, increased by 78 per cent. during the 2004 financial year to approximately £12 million, to become one of Halfords' fastest-growing product areas. The Directors believe that customers are attracted to Halfords' stores because they associate the Halfords name with reliability and safety, and because the stores offer a wide range of child car seats and an in-store fitting service. The Group's strategy is to leverage the success of this category into contiguous product ranges such as child play items;

- *expanded and new customer service offerings* – the Directors believe that its "We'll fit it" and "We'll repair it" service offerings differentiate Halfords from its competitors, and that these customer service offerings attract customers to its stores. The Directors intend to grow the "We'll fit it" offering by increasing the penetration of the current offering (e.g. through staff training and focused advertising) and expanding the range of products for which fitting is available. The Directors also intend to expand the range of customer service offerings available. For example, Halfords is currently trialling in certain of its superstores a dedicated automotive advisory service known as "Auto Clinic" which offers a range of services, including valeting and scratch and dent repair services provided by third parties;

- *business-to-business* – the Directors believe that non-retail customers, such as independent car mechanics and small owner-managed garages, provide a potential new customer base for the Group. Halfords is currently targeting this customer base through the roll out of the Halfords tradecard discount programme together with its in-store trade counters in a number of superstores. In addition, the Group is expanding its market by supplying products direct to businesses. For example, Halfords supplies a focused range of Halfords and independently branded car-related products to BP to be retailed through BP Connect forecourts; and

- *in-car electronics* – the Group closely follows market trends such as the introduction of CD and DVD systems and satellite navigation and updates its product ranges and fitting capability accordingly. In addition, given the Group's purchasing power for products in this category, Halfords has the ability to offer very competitive prices on new products as they come to market, if it chooses to do so.

Improving product sourcing channels

Halfords has historically been able to use its buying power to negotiate preferential terms of supply and volume discounts with most of its key suppliers. The Group's intention is to review its sourcing of merchandise with the objective of using its scale advantage to reduce its total number of suppliers where doing so improves buying terms and provides the opportunity to increase margins.

The Directors believe that sourcing products directly from the Far East represents a significant opportunity to further expand the Group's margins, particularly in respect of own-branded products. The Directors intend to increase the volumes of products that Halfords imports directly, particularly those from the Far East from approximately 7 per cent. (measured by cost of purchases) in the 2004 financial year to approximately 20 per cent. in the medium term. Recent changes in Far East sourcing have provided cost savings for the Group of up to 25 per cent. in respect of the products concerned.

Increasing operational efficiency

Since the CVC Acquisition, the new management team has reduced store and administration costs significantly, thereby enhancing operating margins, and the Directors intend to maintain the existing focus on cost and working capital control going forward. There are three areas in which the Group is maintaining specific focus: distribution and sourcing costs, information technology costs and packaging related expenditure.

In order to maintain the current level of distribution and sourcing costs as a proportion of sales, a series of measures to increase both throughput and storage capacity are being implemented. These measures include:

- increasing delivery frequency to key stores, through consolidation across Halfords' distribution centres to be achieved through cross-docking and the extension of working hours at the distribution centres; and

- introducing origin consolidation for products sourced in the Far East, with the option for direct-to-store deliveries particularly for seasonal and promotional products.

Furthermore, the Group is considering the consolidation of the distribution network into two centres (rather than three) to drive greater operational and service efficiencies.

In addition, as discussed above, the Directors intend to source merchandise, particularly own-brand merchandise, from fewer suppliers and, to a greater extent than previously, directly from the Far East, thereby improving buying terms.

The Group is also investing in a three-stage IT strategy to upgrade its systems in key commercial operations and to eliminate its reliance on the Boots mainframe computer systems. Whilst this is likely to result in an increase in IT costs in the current financial year, IT-related costs are expected to reduce in subsequent years primarily due to lower staffing costs. In addition, this new IT platform is designed to improve store replenishment capability and increase on-shelf availability, whilst lowering stockholding costs, improving warehouse efficiency and providing a more modern and flexible infrastructure.

Halfords recently performed a review of the packaging specification appropriate to each of its product ranges. This review has highlighted areas where future packaging costs can be reduced.

6. BUSINESS DESCRIPTION OF THE GROUP

Store formats

As at 2 April 2004, Halfords operated 387 stores across the UK encompassing approximately 2.9 million sq. ft. of selling space. The store network comprised a number of different store formats, as follows:

Store location	Store format	No. of stores	Total selling space ('000 sq. ft.)
Out-of-town superstores:	Arcade – flat	125	1,006
	Arcade – mezzanine	102	989
	Arcade – supermezzanine	11	124
	Unconverted superstore	105	735
Small stores in high street and other urban locations		44	105
Total as at 2 April 2004		**387**	**2,959**

Since the end of the 2004 financial year, Halfords has opened a further four stores, comprising two superstores, each with supermezzanines, and two small stores. Halfords has also completed the conversion of three superstores in the SMART Arcade format.

Out-of-town superstores

The Arcade format was originally introduced in the 2001 financial year when Halfords was under Boots' ownership. The format was designed to gain credibility with car and cycle enthusiasts, and by so doing to improve the appeal of the brand generally. Halfords has implemented the Arcade format in existing out-of-town superstores by:

- expanding existing ranges and introducing new ranges;
- creating designated sub-shops under the Ripspeed and Bikehut brands for the car enhancement and cycling product offerings, respectively;
- introducing specialist staff to provide customers with enhanced product knowledge, customer service and service provision (e.g. cycle repair); and
- enhancing in-store layout, complemented by orange and black Halfords corporate branding.

Dependent upon the size of the store, turnover and demographic catchment, some original Arcade conversions included the construction of a mezzanine floor of approximately 2,200 sq. ft., which generally housed the Bikehut sub-shop. The mezzanine was introduced to increase space for new ranges, giving customers a feeling of increased scale within the store.

The new management introduced the SMART Arcade format following the CVC Acquisition. SMART Arcade is a refined version of the original Arcade format designed to deliver the principal sales generating elements of the Arcade format at significantly reduced capital expenditure. SMART Arcade focuses investment on the introduction of a meaningful display of the key product range extensions within the original Arcade concept, whilst streamlining investment in the store environment and specialist staff to areas of highest customer impact.

Halfords implemented the supermezzanine initiative in August 2003. It involves the introduction of a larger L-shaped mezzanine floor of on average approximately 3,800 sq. ft. (compared with on average approximately 2,200 sq. ft. standard mezzanine size in Arcade stores) in superstores which do not have a mezzanine floor or extending mezzanine floors in existing Arcade stores to the increased proportions. These supermezzanines provide increased space for proven ranges and for the introduction of new product categories. Halfords introduced supermezzanine floors into 11 superstores during the 2004 financial year.

Since September 2003, all new superstores and superstore conversions have been in the SMART Arcade format. Going forward, the Directors intend that all new superstores and any conversions of existing superstores will be in the SMART Arcade format, with supermezzanine floors where appropriate.

The Directors' estimates of the average capital costs associated with future SMART Arcades and supermezzanine floors, and the historic initial sales uplifts associated with the new formats in the case of conversions, are set out below. Prospective investors should note that the sales uplift figures in the table below represent historic performance in respect of a limited number of Halfords stores and should not be used as an indicator of uplifts on future store conversions.

	Conversion of existing stores		**Opening of new stores**
Store format	**Average estimated capital cost of conversion**[1]	**Sales uplift after conversion (%)**	**Average estimated capital cost of new opening**[1]
SMART Arcade – flat	£40,000	8[2]	£350,000
SMART Arcade – supermezzanine (introduction)	£235,000	29[3]	£520,000

(1) The estimated average capital cost of a conversion or of a new opening is calculated using the historic average capital cost of such conversions/new openings in the 2004 financial year, adjusted to reflect the Directors' estimates of the economies of scale which may be gained from the roll out of the conversion/new opening programme in the current financial year.

(2) The sales uplift for SMART Arcade flat stores represents the average uplift from the first 26 of a total of 66 SMART Arcade flat store conversions undertaken by the Group to date. The sales uplift for a store measures the difference between the relative sales growth of the store in the 26 week trading period before conversion activity commenced, as against the period post-conversion to 5 March 2004 (representing an average of 23 weeks of trading). The relative sales growth of a store is measured as the differential between sales growth at the relevant store compared to the average sales growth over the relevant period of a control group of unconverted stores selected by the Directors to best mirror the sales performance and demographic profile of the particular store. The 26 stores were chosen for this calculation on the basis that they constitute all stores that at the end of the 2004 financial year, had been in operation for a minimum of 26 weeks following conversion. The first two weeks post-conversion are excluded from the calculations to eliminate the favourable impact on sales related to increased promotions available at the newly converted stores during this period.

(3) The sales uplift for SMART Arcade supermezzanine stores (introducing new mezzanine) represents the uplift from the first of a total of six conversions achieved to date. This first conversion also involved the relocation of the store within the same out-of-town site. The sales uplift measures the difference between the relative sales growth of this store in the 26 week trading period before conversion activity commenced, as against the period post-conversion to 5 March 2004 (of approximately 20 weeks). The relative sales growth is measured as the differential between sales growth at this store compared to the average sales growth over the period of a control group of unconverted stores selected by the Directors to best mirror the sales performance and demographic profile of the store. The one store to which this uplift calculation relates has been chosen by the Directors on the basis that it is the only store that had been trading for a significant period of time as at 5 March 2004. The first two weeks post-conversion are excluded from the calculations to eliminate the favourable impact on sales related to increased promotions available at the newly converted store during this period.

In addition to the SMART Arcade flat conversions and supermezzanine introduction referred to above, the Directors have identified the possibility of extending existing mezzanine floors in Arcade superstores by approximately 1,600 sq. ft. to become supermezzanines at an estimated capital cost of £170,000 per store. As at 2 April 2004, three Arcade superstores had been converted to supermezzanines in this way. Whilst the proposed superstore development in the current financial year is centred on the introduction of new supermezzanine floors, the Directors believe that a source of growth could be achieved through mezzanine extensions in the remaining 102 Arcade stores with standard mezzanine floors.

Small stores

Halfords has created a refined version of the SMART Arcade concept known internally as "Metro" for the Group's stores in high streets and other urban locations. This new format introduces relatively high sales intensity products, previously only stocked in Arcade superstores, together with orange corporate branding consistent with the Arcade superstores, and involves a low capital expenditure outlay. Halfords completed the first conversion in July 2003, and as at 2 April 2004, ten small stores had been converted into this format. In addition, Halfords opened one new store in this format.

The Directors' estimates of the average capital costs associated with new format small stores, and the historic initial sales uplifts associated with the new format in the case of conversions, are set out below. Prospective investors should note that the sales uplift figures in the table below represent historic performance in respect of a limited number of Halfords stores and should not be used as an indicator of uplifts on future store conversions.

	Conversion of existing stores		**Opening of new stores**
Store format	**Average estimated capital cost of conversion[(1)]**	**Sales uplift after conversion (%)**	**Average estimated capital cost of new opening[(1)]**
Metro	£17,500	17[(2)]	£230,000

(1) The estimated average capital cost of a conversion or of a new opening is calculated using the historic average capital cost of such conversions/new openings in the 2004 financial year, adjusted to reflect the Directors' estimates of the economies of scale which may be gained from the roll out of the conversion/new opening programme in the current financial year.

(2) The sales uplift for Metro stores represents the average uplift from the first four of a total of ten Metro store conversions undertaken by the Group to date. The sales uplift for a store measures the difference between the relative sales growth of the store in the 26 week trading period before conversion activity commenced, as against the period post-conversion to 5 March 2004 (representing an average of 30 weeks of trading). The relative sales growth of a store is measured by the Directors as the differential between sales growth at the relevant store compared to the average sales growth over the relevant period of a control group of unconverted stores selected by Directors to best mirror the sales performance and demographic profile of the particular store. The 4 stores were chosen for this calculation on the basis that they constitute all stores in operation for a minimum of 26 weeks following conversion. The first two weeks post-conversion are excluded from the calculations to eliminate the favourable impact on sales related to increased promotions available at the newly converted stores during this period.

Online store

Halfords operates an online "store", where customers can purchase approximately 2,750 products. The online offering is particularly popular for the purchase of expensive and/or bulky products, such as roof boxes, and products that customers can purchase having researched their requirements online at Halfords' website. The online store has received an average of 190 orders per week, and had sales of approximately £750,000, in the 2004 financial year, which represented an increase of 112 per cent. on the previous year.

Motorway stores

Halfords also operated stores within 12 service station complexes at Moto roadside sites. The Directors did not consider these stores to be core to the Halfords business proposition and two were closed in the early part of the 2004 financial year. The remaining ten ceased trading in March 2004, their leases having expired on 31 May 2004. All associated closure costs were provided for in the accounts for the 2004 financial year.

Halfords products and services

The Halfords product range comprises four core product categories – car maintenance products, car enhancement products, travel solutions products and cycles and cycling accessories. A Halfords superstore carries an average of 11,000 product lines, with the ability to access a further 1,000 to 2,000 product lines by special order (excluding the parts database referred to below). The split of turnover (and the percentage of total turnover) in the 2004 financial year was as follows:

	Halfords turnover FY 2004 (£ million)	Halfords turnover FY 2004 (%)	Halfords own-brand turnover FY 2004 (%)
Car maintenance	172	29.7	63
Car enhancement	202	34.8	20
Travel solutions	82	14.2	47[(1)]
Cycling	123	21.3	49

(1) Own-brand information for travel solutions products excludes child safety and outdoor leisure products and scooters and accessories where Halfords currently has no own-brand product.

Car maintenance

The car maintenance category comprises products required to keep motor vehicles in good working order. Products include parts (such as oil filters, brakes, batteries and windscreen wipers), consumables (such as oils, screen wash and antifreeze), workshop tools and body repair equipment (such as paint and dent repair items). Halfords' turnover for this category has grown at a compound annual rate of 3.4 per cent. in the three financial years to 2 April 2004, which the Directors believe is principally due to the largely non-discretionary nature of car maintenance purchases and increased average transaction values as a result of higher replacement costs for improved technology. The Directors also believe that over this period investment in staff training, to ensure that the customer is sold the correct oil for their car, led both to improved sales of oils and a shift towards selling a greater proportion of more expensive premium synthetic products. Sales of body repair products also improved, due to new product developments, for example, the Halfords scratch repair system and in-store paint mixing service, which provides customers with 48,000 colour options.

Halfords carries approximately 3,400 spare parts in stock in its superstores at any one time and, through its electronic car parts database has access to over 3 million fitments by special order. In the car parts category, 68 per cent. of sales in the 2004 financial year were of Halfords' own-branded products.

Car enhancement

Car enhancement products appeal to owners who seek to enhance and individualise the image of their vehicle. Products include in-car entertainment systems (including audio and DVD systems), telematics (satellite navigation and hands-free mobile phone kits), car styling products (such as alloy wheels and exhausts), car cleaning materials and accessories (floor mats and seat covers).

The car enhancement category is currently the fastest growing of Halfords' product categories, with sales increasing at a compound average rate of 14.3 per cent. in the three financial years to 2 April 2004 and growth in this area has centred on car styling products and in-car entertainment and telematics. The Directors believe this growth has been driven by the extension of technology from the home to the car (e.g. the substitution of CDs for cassettes), the improved affordability of technology suitable for the car (e.g. satellite navigation), a recent UK legislative change regarding the use of mobile phones in cars and the increase in the number of second-hand car transactions.

All of the Group's stores stock car enhancement products including own-brand products, but car enhancement products are particularly prominent in the Arcade superstores, where the Ripspeed sub-shop provides a large area devoted to in-car entertainment, telematics and car styling products, particularly alloy wheels. Halfords is increasingly introducing its own Ripspeed branded products into these sub-shops.

Travel solutions
The travel solutions category includes products designed to make car owners' journeys safer and less stressful, such as roof boxes, cycle carriers and child car seats, together with outdoor leisure products.

Growth in this category has centred on child car seats where Halfords significantly increased its market share in the 2004 financial year. The Directors believe that Halfords' reputation in this area has grown in the 2004 financial year and that this, together with Halfords' heritage in children's cycles, allows a natural extension into a broader range of outdoor play products aimed at children. This extended range is being trialled, and, if successful, will be rolled out, under the Kidszone sub-brand.

The Halfords offer includes travel equipment carrying the Halfords brand and other brands, such as Thule. Halfords also offers a range of branded child car seats, such as Britax. The Group's superstores provide a full fitting service by trained staff for such products (currently free for child car seats) which differentiates Halfords from many of its competitors in this area.

Following a series of successful trials, Halfords rolled out a range of outdoor leisure products including tents, camping equipment and sleeping bags into all of Halfords' superstores in the 2004 financial year.

Cycling
Halfords offers a selection of cycles and cycle accessories in all of its stores. These products are particularly prominent in the Group's Arcade stores, where there is a Bikehut sub-shop, offering a wide range of premium brand cycles (e.g. Kona and GT) in addition to other independent mid-priced ranges and Halfords' extensive own-brand ranges including Apollo and Carrera. Bikehut is staffed by trained specialist sales personnel and also offers a pre-delivery inspection and free six week post-purchase inspection for all cycles sold in its stores. In addition, all superstores provide a service and repair offering for all cycles, whether or not purchased at Halfords.

To further enhance the Bikehut offering, Halfords plans to roll out "Bikecare", an annual maintenance plan for cycles, in the first half of the current financial year. For a fixed annual fee, customers will be entitled to an annual service and inspection, paying only for any new parts fitted.

Halfords' own-brand cycle sales centre on the mainstream Apollo brand and the premium positioned Carrera brand. The Apollo brand was, based on turnover, the number two brand for cycles in the UK in 2003 (*Source: GfK*).

Customer service offerings
Halfords' service offering is focused upon leveraging the skill-set of its staff to provide a range of good value fitting and repair services to its customers. These services are respectively branded to customers as "We'll fit it" and "We'll repair it".

The "We'll fit it" service offers customers the option of having a range of products fitted on-site to their vehicles. Generally, this service is available on demand, but for more complex fittings an appointment at a time convenient for the customer may be necessary. The products that can be fitted range from consumable products such as car bulbs (for a price of £1.99) and windscreen wipers (for a price of up to £2.49) to more sophisticated electronic items that do not require hard wiring to the car's power source such as audio units (for a price of up to £64.99) and integrated hands-free mobile phone kits. Generally, Halfords prices the "We'll fit it" service separately from the product purchase, but in some circumstances (e.g. for child car seats) the fitting service is currently free. To ensure Halfords provides a complete range of services for the most technically demanding electronic fitting requirements, a limited number of third party providers are also used. Such third party providers' service to the customer is monitored to ensure that Halfords' reputation for quality and trustworthiness is not compromised.

The Directors believe that the "We'll fit it" offering is well-positioned to address the increasing complexity of car parts and is ideally suited to the increasing number of "time poor/money rich" consumers. By utilising available store staff, the offering is significantly cheaper than comparable services offered by car dealers and also has the advantage of generally being available on demand. As discussed in "Growth Strategy" above, this area is one which the Directors have identified for increased future investment.

The "We'll repair it" cycle service offers customers a fee-based service and repair facility in respect of all cycles, whether or not purchased at a Halfords store. Halfords offers "We'll repair it" in all of its superstores.

Marketing and communications

Halfords' marketing strategy aims to differentiate Halfords from existing competitors and potential new entrants by emphasising the combination of competitive pricing, a broad overall product range, enhanced customer service delivered by specialist staff and the availability of fitting services for certain purchased products. In particular, with respect to price competitiveness, Halfords emphasises its price guarantee programme, offering to match the price of any product found at a lower price within a 20 mile radius of any Halfords store. In addition, the Group's marketing strategy is increasingly to promote its "We'll fit it" service.

Halfords principally uses press and television advertising to support the price competitive image of its brand, and generally increases television advertising during key trading periods. In general, Halfords' television and press advertising is national, with local press advertising primarily used at times of new store openings or store conversions.

A further element of this marketing strategy is Halfords' sponsorship of certain high-profile events whose image complements Halfords' Ripspeed and Bikehut sub-brands (e.g. British Touring Car Championship team and Cycle Downhill Racing team) as well as the development of marketing relationships with publications, such as "Max Power", which appeal to targeted customer groups, to add credibility to the Halfords brand or sub-brands.

Halfords has also increased spending on in-store communications (such as point of sale and product displays) to enhance the profile of promotional offers and service offerings.

Total marketing and communications spend in the 2004 financial year was £13.4 million, or 2.3 per cent. of total turnover.

Supply

In the 2004 financial year, Halfords sourced 83 per cent. of its products from suppliers based in the UK. Halfords sourced a further 10 per cent. from manufacturers or suppliers based outside the UK or from import agents and imported the remaining 7 per cent. through its Far

East operation, established in the 2004 financial year. As discussed under "Growth Strategy" above, the Directors intend to increase the amount of Far East sourcing in order to achieve cost savings.

Halfords has approximately 570 suppliers for retail products based on Group purchases in excess of £1,000 per annum. In the 2004 financial year, the top 20 suppliers accounted for approximately 42 per cent., and the top five suppliers (Tradewinds UK Ltd, Sony UK Limited, JVC Limited, Raleigh Industries Limited and Merida Bicycles Limited) accounted for approximately 20 per cent., of product purchases respectively. None of Halfords' suppliers supplied more than 5.8 per cent. of its merchandise purchases by value during the 2004 financial year. Halfords enters into trading agreements (which are predominantly annual) with most of its key suppliers, which set out the main commercial terms and Halfords' trading policies, such as its commitment to ethical trading practices. The Directors consider the Group's trading relationships with key suppliers to be strong and long standing, with 18 of the top 20 suppliers having traded with Halfords over the five financial years to 2 April 2004. Halfords has not experienced any significant supply disruption in the past five financial years.

To protect product quality, Halfords maintains an in-house quality control function in the UK and the Far East, which provides technical support to new product development and supplier quality assessment (including factory audits).

Whilst Halfords sources many products from single suppliers, alternative products are generally available from other suppliers at short notice. Sourcing products from a single supplier allows Halfords to extract greater discounts by purchasing greater volumes and simplifies the ordering process with little perceived additional risk.

During the 2004 financial year, Halfords established Halfords Asia as a stand alone branch sourcing operation based in Hong Kong. The operation has 12 employees and the Directors believe that this operation will be the base for increasing the level of products Halfords sources from the Far East on a direct basis (see "Growth Strategy" above).

Warehousing and distribution

Halfords operates two distribution centres in Redditch. The larger centre is located at the Group's head office in Washford, where Halfords stores, picks and despatches the majority of product groups. The other distribution centre is in Lakeside which Halfords uses for cycles and bulky items such as roof boxes. Halfords also uses a third distribution centre at Cowley, Oxfordshire, which is operated on a third party basis by Unipart Logistics Limited and is used for storage of car parts and winter fluids such as de-icer. For over-flow storage, Halfords uses appropriate additional warehouses on a spot hire basis.

Halfords generally spreads deliveries to stores across the week (Monday to Friday to avoid peak trading days), and stores have fixed delivery windows and delivery days. The majority of stores receive a minimum of two deliveries per week (one originating in the Washford distribution centre and one in the Lakeside centre), while the 30 stores with highest turnover receive two deliveries per week from each of these two distribution centres. The Lakeside and Washford distribution centres act as delivery points to the stores for products picked in the Cowley distribution centre in order to consolidate vehicle utilisation and minimise store disruption. In Scotland and Northern Ireland, stores receive consolidated deliveries of all product categories enabling lower transport costs to be achieved.

Halfords has a contract with TDG (UK) Ltd, a third party which operates a fleet of 74 trailers and which provides stock deliveries from the Group's distribution centres to the Group's stores. TDG also delivers picked products from the Cowley distribution centre to the Redditch centres on return journeys to Redditch from stores. At peak demand times (e.g. cold weeks in winter when demand for anti-freeze and de-icer is high, or during promotional periods) certain products are shipped from Cowley direct to stores.

Wherever possible, Halfords seeks to distribute all products using its own infrastructure in order to maximise cost efficiencies and minimise store disruption. However, certain suppliers deliver direct to stores. Suppliers bear the cost of these direct deliveries and they do not form part of Halfords' warehousing and distribution costs.

7. INFORMATION SYSTEMS

Prior to the CVC Acquisition, the Group's core systems were part of the Boots mainframe infrastructure. At the time of the CVC Acquisition, the Group entered into a transitional services agreement to continue this arrangement for a period of time after the CVC Acquisition. The Group is implementing a three-stage programme to migrate these systems away from the Boots mainframe. The first stage was completed in January 2004 and the second, more technically demanding, stage was completed in May 2004.

Currently, certain of Halfords' replenishment and warehousing systems and certain other less critical systems are dependent on the Boots mainframe. The last stage of the programme which will end this reliance on the Boots mainframe is planned to be achieved by December 2004, in advance of the expiry of the transitional services agreement in March 2005. The Directors believe that the new systems will deliver cost efficiencies in future years and will improve Halfords' ability to replenish store shelves, improve product availability and therefore turnover, whilst reducing inventory. These new systems, which combine SAP Retail™ and PkMS™ software, will replace over 100 existing legacy applications.

In the first stage of the programme, SAP Retail™ was rolled out to Halfords finance and HR functions. In the second stage the majority of the key applications used within the buying and marketing departments were replaced. In the third stage, the replacement of buying and marketing applications will be completed and the distribution centre replenishment systems will be replaced.

Halfords replaced the legacy warehouse management system in its largest warehouse, Washford, with PkMS™ in September 2003, and has scheduled the roll out of PkMS™ to its other warehouses in the current financial year.

Following the completion of the three stage programme outlined above, Halfords plans to improve in-store systems to leverage the initial investment in an integrated systems architecture.

Halfords' information systems department has a low staff turnover, with a 14-year average length of service, resulting in a stable internal base of systems knowledge. Halfords expects its new systems infrastructure will decrease its reliance on its internal information systems department, allowing for cost savings through headcount reduction in the future.

8. PROPERTY

The majority of the Group's stores occupy short leaseholds with lease expiry ranging from those currently under negotiation to more than 20 years. The average unexpired lease term is approximately 13 years for superstores and approximately five years for small stores. Only 28 per cent. of the Group's stores have leases expiring within the next ten years.

Store leases typically have a five yearly rent review cycle. Over the three financial years to 2 April 2004, the average increase in rent across the store portfolio has been in the 27 to 40 per cent. range (equating to between five and seven per cent. per annum). At the end of the 2004 financial year there were 55 rent reviews outstanding in respect of which the Group provided for an average rent increase of 37.1 per cent. A total of 90 stores have rent reviews falling in the current financial year and 82 stores have rent reviews falling in the 2006 financial year.

Halfords leases its head office and Washford distribution centre in Redditch on a 25-year lease, expiring in 2029 and rent reviews are at five yearly intervals. The Lakeside distribution centre is held under a lease expiring in 2010.

As a result of the disposal of its garage business in 2001, the AA, a subsidiary of Centrica, is the sub-tenant of the Group in respect of 125 leases as at 2 April 2004. In the 2004 financial year, the rent received from the AA was £6.3 million.

9. EMPLOYEES

As at 2 April 2004, Halfords had approximately 9,200 full and part-time employees, representing approximately 6,000 full time equivalent employees ("FTE"). In the head office there are 467 employees, with 232 employees in the distribution centres and the remainder being store employees. The number of part-time personnel is key to ensuring greater availability and flexibility of staff during peak trading periods in the evenings and at weekends and provides a key source of cost control. Recognising this, by reducing the absolute number of contracted hours offered to new employees, Halfords has reduced the proportion of contracted hours worked as a proportion of total hours worked from 81.7 per cent. in the 2003 financial year to 77.8 per cent. in the 2004 financial year.

Staff turnover is a key performance indicator for the Group with total staff turnover in the 2004 financial year being 37.2 per cent. This analysis is segmented by employment type with turnover ranging from nil within the distribution operation, 8.9 per cent. for head office employees to 34 per cent. for full time sales advisors (and 45 per cent. representing part-time sales advisers). The Directors consider the store staff turnover to be below the average for UK retail staff. Significantly, the turnover of specialist sales staff is, at 30 per cent., lower than the company average.

The Group recognises three trade unions in respect of a total of approximately 580 FTE employees. The TGWU represents distribution centre staff, AMICUS represents store managers and the GMB represents head office clerical staff. However, membership of the latter is low and there is no formal agreement in place and no formal negotiations. The Directors believe that relations with all trade unions are generally good; for example, there has been no industrial action in the past five years.

The extent to which individual employees receive incentive-based compensation has increased significantly in the 2004 financial year. Halfords introduced specific sales based bonuses for all store and head office staff who were not previously included within a bonus scheme. Specifically, store staff now participate in a sales based scheme that can yield a maximum payment of £150 per quarter. These continuous bonus programmes are augmented at peak trading periods with specific incentives focused on reinforcing key selling activities prioritised at that time.

Halfords' staff receive product information and selling and customer service skills training. Store staff receive in-house service training (e.g. fitting skills) which is developed in collaboration with internal and external Health and Safety bodies.

Part II. Directors, Senior Management and Corporate Governance

1. DIRECTORS

The Company's Directors are:

Robert Templeman (46) – Non-executive Chairman. Mr Templeman joined Halfords in March 2003 following the CVC Acquisition. Mr Templeman has over 20 years' retail experience and is currently the chief executive of Debenhams Limited, the department store chain which was acquired in a leveraged buy-out in 2003. Prior to joining Halfords, he held the position of chief executive officer of Homebase Group Limited from March 2001 until its sale to GUS plc in December 2002. He was chief executive of Harveys Furnishings plc from 1990 to 2000 and his other previous directorships have included Lounge House Limited and Queensway plc.

David Hamid (52) – Chief Executive Officer. Mr Hamid joined Halfords in June 2003 from Dixons Group plc where he had been chief operating officer, having held executive appointments at Dixons from 1986 to 2003. From 1998 to 2001 he was group managing director of PC World, having previously been managing director of commercial services, Mastercare Service and Distribution and, prior to this, he was managing director, at Dixons Financial Services. In total he spent 17 years at Dixons and was involved in the development of Freeserve and PC World. Prior to joining Dixons he was marketing director (jewellery division) at Alfred Dunhill.

Nick Carter (37) – Finance Director. Mr Carter joined Halfords in August 2003. From 1999 to August 2003 he held the position of finance director at Birthdays Group Limited. Prior to this he was a space and display controller and head of accounting services at Superdrug Stores plc, having joined from Kingfisher plc where he was corporate auditor. He trained and qualified as a Chartered Accountant at KPMG.

Ian McLeod (45) – Trading Director. Mr McLeod joined Halfords in September 2003. Prior to joining Halfords he was chief executive of Celtic PLC from April 2001 to April 2003. Previously, he gained 20 years' retail experience at Asda and was a director of Asda Stores Limited from February 1997 until May 2001 and sat on the WalMart Germany Executive Board from April 2000 until April 2001.

Richard Pym (54) – Non-executive Director. Mr Pym joined Halfords in May 2004 and has been appointed as the Senior Independent Non-executive Director. He is group chief executive of Alliance & Leicester plc. A Chartered Accountant, Mr Pym has extensive experience in both the financial services and retail industries. His previous roles have been with Thomson McLintock & Co, British Gas plc, BAT Industries plc and The Burton Group plc. Until August 2003, Mr Pym was a non-executive director of Selfridges plc.

Jonathan Feuer (41) – Non-executive Director. Mr Feuer joined Halfords shortly before the CVC Acquisition. Mr Feuer is a partner of CVC Capital Partners and is also a director of Baroness Group Holdings Limited, a parent company of Debenhams Limited, and of CVC Capital Partners Limited. Mr Feuer joined CVC Capital Partners in 1988, having previously worked in the Corporate Finance Department of Baring Brothers & Co Ltd and for Ernst & Whinney where he qualified as a Chartered Accountant.

Bill Ronald (48) – Non-executive Director. Mr Ronald joined Halfords in May 2004. He is chief executive of Uniq plc, the pan-European convenience food group and has held this position since February 2002. His previous career involved 23 years with Mars Incorporated. With Mars, he held various positions in the sales and marketing functions and was managing director of the UK Confectionery Operation and a member of the European Board for almost 4 years prior to leaving in December 2001. He is a fellow and Policy Issues Council member of the Institute of Grocery Distribution.

Nigel Wilson (47) – Non-executive Director. Mr Wilson joined Halfords in May 2004. He is chief financial officer of United Business Media plc and has held this position since August 2001. Mr Wilson joined United Business Media from Viridian Group plc in 2001 where he had been managing director of Viridian Capital since 2000 and group finance director from 1996 to 2000. Previous positions held by Mr Wilson are group finance director of Waste Management International plc, chief executive (Corporate) of GPA, finance director and managing director of Stanhope Properties and group commercial director of Dixons plc. From 1982 until 1986 Mr Wilson was a management consultant for McKinsey.

Keith Harris (51) – Non-executive Director. Mr Harris joined Halfords in May 2004. He is chairman of Seymour Pierce Ltd. and is also a non-executive director of Benfield Group Limited. From 1994 to 1999 he was chief executive of HSBC Investment Bank PLC and from 1990 to 1994 he was chief executive of Apax Partners Corporate Finance Ltd. Prior to that Mr Harris was at Morgan Grenfell in London and New York, where he was president of Morgan Grenfell Inc. and later became managing director and head of International Corporate Finance at Drexel Burnham Lambert.

2. SENIOR MANAGEMENT

In addition to the executive management on the Board of Halfords, the day-to-day management of the Group is conducted by the following senior managers.

Richard Nixon (48) was appointed Property Manager in November 1987 and to the role of Head of Property in 1994. Prior to joining the Group he was a real estate surveyor for McDonalds.

Andrew Neil Smith (42) was appointed Director of Personnel in July 2001. Prior to joining the Group, he was personnel controller at Entertainment UK, formerly the entertainment wholesaling business of Kingfisher plc. Before joining Kingfisher plc in 1999, he was human resources manager for AMP New Zealand, the NZ retail financial services business of AMP.

Andrew James Torrance (38) was appointed Store Operations Director in January 2001, following two years in the operations and strategic projects divisions of the Group. Prior to joining the Group he was director of operational support & supply at Focus Do It All Limited from 1998 to 1999. Prior to that he held a series of operational roles at Do It All and Habitat.

Nicholas Barry Edward Wharton (37) was appointed Business Development and IT Director in August 2002 having initially joined Halfords in February 2002 as Director of Finance. Prior to joining Halfords, he held various finance, strategic and international operational roles within Boots, including the role of director of finance and planning at Boots Opticians from 2001 to 2002. He is a qualified Chartered Accountant.

Steven Whyman (41) was appointed Director of Logistics in October 2003. Prior to joining the Group he was at Exel Logistics from 1994 where he held senior positions in operations, business development and information technology. Previous roles include operations director for an apparel company and supply chain consultant with PricewaterhouseCoopers.

Each of the senior managers referred to above report to the Chief Executive Officer and are accountable for the day-to-day operation of the principal functions within the Group. With the exception of Richard Nixon, together with David Hamid, Nick Carter and Ian McLeod, they constitute the directors of Halfords Limited.

3. CORPORATE GOVERNANCE

The Combined Code recommends that at least half the members of the board of directors (excluding the chairman) of a public limited company incorporated in England and Wales should be independent in character and judgement and free from relationships or circumstances which are likely to affect, or could appear to affect, their judgement.

The Combined Code also recommends that the Board should appoint one of the independent non-executive directors as senior independent non-executive director and Richard Pym has been appointed to fill this role. The senior independent non-executive director should be available to shareholders if they have concerns which contact through the normal channels of chairman, chief executive or finance director has failed to resolve or for which contact is inappropriate.

Currently, the Board is composed of nine members, consisting of three Executive Directors and six Non-executive Directors, four of whom are independent. Accordingly, no individual or group of individuals dominates the Board's decision taking. Robert Templeman and Jonathan Feuer are deemed by the Board not to be independent under the Combined Code due to Robert Templeman having been an executive chairman of the Company prior to the Global Offer and Jonathan Feuer being an employee of CVC Capital Partners Limited, which provides advice, whether directly or indirectly, to the CVC Shareholders.

The Company and the CVC Shareholders have entered into a Relationship Agreement pursuant to which the CVC Shareholders have agreed that for so long as they remain a controlling shareholder as defined in Listing Rule 3.13, they will not cast their votes at shareholder meetings so as to prevent the Company from being capable of carrying on its business independently for the purposes of Listing Rule 3.12 and the CVC Shareholders have agreed that all transactions and relationships between them and the Company will be at arm's length and on a normal commercial basis. In return, the Company has agreed, amongst other things, to grant the CVC Shareholders the right to appoint a director for so long as they hold 15 per cent. or more of the Ordinary Shares of the Company, to be represented on certain board committees (or to be able to consult with such committees) and to be provided with committee papers and certain tax related information. The CVC Shareholders have exercised the right to appoint Jonathan Feuer as a director but have not requested that he sits on any board committees at present. Further details of the Relationship Agreement are given in paragraph 19 of Part VII (Additional Information).

Accordingly, on Admission the Company will comply with the requirement of the Combined Code that at least half of the board (excluding the chairman) should comprise independent non-executive directors. The Board intends to comply fully with the requirements of the Combined Code and will report to shareholders on compliance with the Combined Code in accordance with the Listing Rules.

The Board has established Nomination, Remuneration and Audit Committees, with formally delegated duties and responsibilities, and written terms of reference. From time to time, separate committees may be set up by the Board to consider specific issues when the need arises.

Nomination Committee

The Nomination Committee assists the Board in discharging its responsibilities relating to the composition of the Board. The Nomination Committee is responsible for evaluating the balance of skills, knowledge and experience on the Board, the size, structure and composition of the Board, retirements and appointments of additional and replacement directors and will make appropriate recommendations to the Board on such matters.

The Combined Code provides that a majority of the members of the Nomination Committee should be independent non-executive directors.

The Company's Nomination Committee is comprised of four members, three of whom are independent Non-executive Directors (namely Keith Harris, William Ronald and Richard Pym) and one Executive Director (namely David Hamid). The Chairman of the Nomination Committee is Richard Pym. The Company therefore considers that it complies with the Combined Code recommendations regarding the composition of the Nomination Committee.

Remuneration Committee

The Remuneration Committee assists the Board in determining its responsibilities in relation to remuneration, including making recommendations to the Board on the Company's policy on executive remuneration, determining the individual remuneration and benefits package of each of the executive directors and recommending and monitoring the remuneration of senior management below Board level. The Combined Code provides that the Remuneration Committee should comprise of at least three members, all of whom are independent non-executive directors.

The membership of the Company's Remuneration Committee comprises three members, all of whom are independent Non-executive Directors, (namely Richard Pym, Keith Harris and Nigel Wilson). The Chairman of the Remuneration Committee is Keith Harris. The Company therefore considers that it complies with the Combined Code recommendations regarding the composition of the Remuneration Committee.

Audit Committee

The Audit Committee assists the Board in discharging its responsibilities with regard to financial reporting, external and internal audits and controls, including reviewing the Company's annual financial statements, reviewing and monitoring the extent of the non-audit work undertaken by external auditors, advising on the appointment of external auditors and reviewing the effectiveness of the Company's internal audit activities, internal controls and risk management systems. The ultimate responsibility for reviewing and approving the annual report and accounts and the half yearly reports remains with the Board.

The Combined Code recommends that the audit committee should comprise at least three members, who should all be independent non-executive directors, and that at least one member should have recent and relevant financial experience.

The membership of the Company's Audit Committee comprises three members, all of whom are independent Non-executive Directors, (namely Richard Pym, William Ronald and Nigel Wilson). Nigel Wilson is considered by the Board to have recent and relevant financial experience and is Chairman of the Audit Committee. The Company therefore considers that it complies with the Combined Code recommendations regarding the composition of the Audit Committee.

Independence from Controlling Shareholder

Following Admission the CVC Shareholders will be, collectively, the beneficial owners of 104,939,925 Ordinary Shares (which will reduce to 91,198,433 if the maximum number of Over-allotment Shares is acquired pursuant to the Over-allotment Option), representing approximately 46.0 per cent. of the issued share capital of the Company (40.0 per cent. if the maximum number of Over-allotment Shares is acquired pursuant to the Over-allotment Option). As such, the CVC Shareholders constitute, together, a controlling shareholder of the Company for the purposes of the Listing Rules.

As required by the Listing Rules and as a result of the arrangements in the Relationship Agreement described in paragraph 19 of Part VII (Additional Information), the Company is satisfied that from Admission it will be capable at all times of carrying out its business independently of the CVC Shareholders (or any of their associates) and that all transactions and relationships between the Company and any of the CVC Shareholders (or any of their associates) are, and will be, at arm's length and on a normal commercial basis.

Compensation

In respect of the 2004 financial year, Halfords paid or accrued compensation (including salary, bonus, benefits and pension) of £4,338,013 million to the directors and senior management employed during that period. This includes compensation in all capacities with respect to Halfords and its subsidiaries.

Part III. Details of the Global Offer

1. REASONS FOR LISTING AND USE OF PROCEEDS

Halfords is seeking a listing and is making the Global Offer in order to establish an appropriate capital structure for the next phase of its growth strategy.

The net proceeds to the Company of the Global Offer are estimated to be approximately £135.0 million after deduction of underwriting commissions and other fees and expenses of £5.0 million payable by the Company. A discretionary fee of up to £1.2 million may also be paid by the Company to the Managers. The Company will not receive any proceeds from the sale of Existing Shares by the Selling Shareholders.

The Company intends to use the net proceeds of the Global Offer, together with an estimated £195 million of borrowings under the New Bank Facilities and available cash balances to repay indebtedness under the Senior Credit Agreement, the Deep Discount Bonds and Shareholder Loan Notes described in paragraph 19 of Part VII (Additional Information) and to pay fees and expenses associated with the New Bank Facilities. The discretionary fee, if paid, will be funded out of available cash or borrowings under the New Facilities Agreement.

2. DESCRIPTION OF THE GLOBAL OFFER

The Global Offer is being made by means of an offer of Ordinary Shares to certain institutional investors in the UK and elsewhere outside the United States and to QIBs in the United States pursuant to Rule 144A or another exemption from, or transaction not subject to, the registration requirements of the Securities Act. In connection with the Global Offer, certain of the Selling Shareholders have granted Merrill Lynch as stabilising manager, on behalf of the Managers, the Over-allotment Option which is exercisable, in whole or in part, upon notice by Merrill Lynch, for the period commencing with the date of this document and ending 30 days after Admission. Pursuant to the Over-allotment Option, Merrill Lynch, in consultation with Citigroup, may require these Selling Shareholders to sell, in aggregate, up to 15,384,584 additional Ordinary Shares at the Offer Price, *inter alia*, to cover over-allotments (if any) made in connection with the Global Offer and/or to cover short positions relating to stabilisation activities.

Assuming that there is no exercise of the Over-allotment Option, the Global Offer will comprise an offer of 102,563,988 Ordinary Shares (representing approximately 45.0 per cent. of the issued ordinary share capital of the Company immediately following Admission) valued at approximately £266.7 million at the Offer Price. Of these 102,563,988 Ordinary Shares:

53,846,154 are New Shares; and

48,717,834 are Existing Shares being sold by the Selling Shareholders.

Pursuant to the Global Offer, which is fully underwritten by the Managers in accordance with the terms of the Underwriting Agreement (details of which are set out in paragraph 18 of Part VII (Additional Information)), the Company will receive approximately £135.0 million from the subscription of New Shares, net of underwriting commissions and other fees and expenses of approximately £5.0 million. In addition, a discretionary fee of up to £1.2 million may be paid by the Company to the Managers. The Company will not receive any proceeds from the sale of Existing Shares by the Selling Shareholders.

The New Shares to be issued pursuant to the Global Offer will rank *pari passu* in all respects with the existing Ordinary Shares and will rank in full for all dividends and other distributions hereafter declared, made or paid on the Company's ordinary share capital but will not rank for the Second Bonus Issue as defined in Part VIII (Definitions).

Immediately following Admission it is expected that approximately 45.0 per cent. of the Ordinary Shares will be held in public hands (as such term is defined in paragraph 3.20 of the Listing Rules) assuming no exercise of the Over-allotment Option, and 51.7 per cent. if the Over-allotment Option is exercised in full.

3. ALLOCATION AND PRICING

Merrill Lynch and Citigroup will determine the categories of institutional investors that can participate in the Global Offer and allocations of Ordinary Shares under the Global Offer will be determined by Merrill Lynch and Citigroup in co-operation with, and subject to, the final approval of the Company and CVC European Equity III Limited, on behalf of the CVC Shareholders, after indications of interest from prospective investors have been received. A number of factors will be considered in determining the basis of allocation under the Global Offer, although the overriding aims of the allocation policy will be to maximise the Offer Price which is achieved, while trying to achieve a stable aftermarket in the Ordinary Shares.

The rights attaching to the Existing Shares and the New Shares and any Over-allotment Shares will be uniform in all respects and will form a single class for all purposes. The proportions in which particular allocations of Ordinary Shares under the Global Offer will comprise New Shares and Existing Shares (and Over-allotment Shares if Over-allotment Shares are made available pursuant to the Over-allotment Option) may vary at the discretion of Merrill Lynch and Citigroup.

4. OVER-ALLOTMENT AND STABILISATION

In connection with the Global Offer, Merrill Lynch as stabilising manager or any of its agents, in consultation with Citigroup, may (but will be under no obligation to) over-allot or effect transactions with a view to supporting the market price of the Ordinary Shares or any options, warrants or rights with respect to, or interests in, Ordinary Shares, in each case at a level higher than that which might otherwise prevail in the open market, for a limited period after the Offer Price is announced. Such transactions may be effected on any securities market, over-the-counter market, stock exchange or otherwise. Such transactions, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Save as required by law or regulation, neither Merrill Lynch nor any of its agents intends to disclose the extent of any over-allotments and/or stabilisation transactions under the Global Offer.

Existing Shares sold by Selling Shareholders pursuant to the exercise of the Over-allotment Option will be sold on the same terms and conditions as other Existing Shares being sold in the Global Offer. The number of Existing Shares subject to the Over-allotment Option is, in aggregate, 15 per cent. of the total number of Ordinary Shares to be issued or sold in the Global Offer.

5. DEALING ARRANGEMENTS

The Global Offer is subject to the satisfaction of conditions contained in the Underwriting Agreement including Admission occurring by 8.00 a.m. (London time) on 8 June 2004 or such later date as may be determined in accordance with such agreement.

Admission is expected to take place and unconditional dealings in the Ordinary Shares are expected to commence on the London Stock Exchange at 8.00 a.m. (London time) on 8 June 2004.

It is expected that dealings in the Ordinary Shares will commence on a conditional basis on the London Stock Exchange on 3 June 2004. The earliest date for settlement of such dealings will be 8 June 2004. All dealings between the commencement of conditional dealings and the commencement of unconditional dealings will be on a “when issued basis”. **If the Global Offer does not become unconditional all such dealings will be of no effect and any such dealings will be at the sole risk of the parties concerned.**

6. SECURITIES LAWS

The distribution of this document and the offer of Ordinary Shares in certain jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restrictions. Further details are set out in paragraph 14 of Part VII (Additional Information).

7. CREST AND THE SHARES

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by a written instrument. The Articles of the Company permit the holding of Ordinary Shares under the CREST system. The Company will apply for the Ordinary Shares to be admitted to CREST with effect from Admission. Accordingly, settlement of transactions involving the Ordinary Shares following Admission may take place within the CREST system if any shareholder so wishes.

CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will be able to do so. Investors applying for Ordinary Shares under the Global Offer may, however, elect to receive Ordinary Shares in uncertificated form if they are a system-member (as defined in Regulations) in relation to CREST.

8. UNDERWRITING ARRANGEMENTS

The Company, the Selling Shareholders, the Directors, the Senior Managers, the Managers and others have entered into the Underwriting Agreement, pursuant to which the Managers have agreed, subject to certain conditions, to procure subscribers and purchasers for the Ordinary Shares to be issued by the Company and sold by the Selling Shareholders under the Global Offer or, failing which, themselves to subscribe for or purchase such Ordinary Shares, in each case at the Offer Price. Further details of the terms of the Underwriting Agreement are set out in paragraph 18 of Part VII (Additional Information).

9. LOCK-UP ARRANGEMENTS

The Company has agreed that, for a period of 365 days from Admission, it will not, without the consent of the Joint Bookrunners, issue or offer Ordinary Shares or related securities, other than pursuant to employee share option schemes, pursuant to any dividend reinvestment plan or pursuant to the Global Offer.

Each of the Selling Shareholders (save for the CVC Shareholders, the Warrantholders and the Private Shareholders), David Hamid and the Hill Samuel Offshore Trust Co. Ltd. has agreed that, he or it will not, without the consent of the Joint Bookrunners, offer, sell or contract to sell Ordinary Shares or related securities, save pursuant to the Global Offer and in certain other limited circumstances for a period of 365 days from Admission, and each of the Non-executive Directors (other than Jonathan Feuer), has given a similar undertaking for a period of 365 days from Admission or until he ceases to be a Director, whichever is earlier.

Each of the CVC Shareholders, the Warrantholders, the Private Shareholders and Jonathan Feuer has agreed that, for a period of 180 days from Admission, it or he will not, without the consent of the Joint Bookrunners (such consent not to be unreasonably withheld or delayed), offer, sell or contract to sell Ordinary Shares or related securities, save pursuant to the Global Offer and in certain other limited circumstances.

Further details in respect of these lock-up arrangements are set out in paragraph 18 of Part VII (Additional Information).

The following is a discussion of Halfords' results of operations and financial condition for the 2004 financial year, the 2003 financial year and the 2002 financial year. Prospective investors should read the following discussion, together with the whole of this document, including Investment Considerations, the Group's historical consolidated financial statements and the related notes included in Part V (Accountants' Report on the Group) and Part VI (Pro Forma Statement of Net Assets of the Group) and should not just rely on the key or summarised information contained in this Part IV (Operating and Financial Review and Prospects). The Group's historical consolidated financial statements were prepared in accordance with UK GAAP, which differs from IFRS and US GAAP in a number of significant respects. For a summary of the material differences between UK GAAP, IFRS and US GAAP relevant to the historical consolidated financial statements, see paragraphs 14 (Summary of Significant Differences Between UK GAAP and IFRS) and 15 (Summary of Significant Differences Between UK GAAP and US GAAP) below. The financial information in this Part IV (Operating and Financial Review and Prospects) has been extracted without material adjustment from Part V (Accountants' Report on the Group), Part VI (Pro Forma Statement of Net Assets of the Group) or has been extracted without material adjustment from Halfords' accounting records which formed the underlying basis of the Accountants' Report.

This section contains "forward-looking statements". Those statements are subject to risks, uncertainties and other factors that could cause Halfords' future results of operations or cash flows to differ materially from the results of operations or cash flows expressed or implied in such forward-looking statements.

1. OVERVIEW

Halfords is the UK's leading retailer, on the basis of turnover in each of the four product markets in which it operates, being car maintenance products, car enhancement products, travel solutions products and cycling products.

Halfords' national store portfolio, comprising 387 stores across the UK as at 2 April 2004, represented a total of approximately 2.9 million sq. ft. of selling space. Of these stores, 343 (representing approximately 2.8 million sq. ft. of selling space) were out-of-town superstores and 44 (representing approximately 0.1 million sq. ft. of selling space) were small stores located in high streets and other urban locations.

In August 2002, Halfords Limited was acquired by the Company in a leveraged buy-out backed by the CVC Shareholders. Since the CVC Acquisition, Halfords' new management team has undertaken key strategic initiatives which have significantly improved the operating and financial performance of the business. Halfords achieved a significant increase in turnover in the 2004 financial year primarily through a shift in marketing focus which included greater emphasis on price and promotional activity, expansion into new product areas, and service differentiation. The management team also refined the Arcade format by extracting and implementing the most successful elements of the original Arcade format in a more cost effective manner, known internally as SMART Arcade. Operating profit also benefited from streamlining head office and operational structures and reducing headcount, as well as from improving purchase price and payment terms across key areas of expenditure.

2. CURRENT TRADING AND PROSPECTS

Since the end of the 2004 financial year, Halfords has opened four stores, comprising two superstores, each with supermezzanines, and two small stores. It has also completed the conversion of three superstores in the SMART Arcade format.

For the four week period from 3 April 2004 to 30 April 2004, unaudited turnover was 10.6 per cent. ahead of the equivalent period in the 2004 financial year and was ahead of the Directors' expectations. The Group has continued to progress its strategic priorities through both the conversion of existing stores to the SMART Arcade format and the opening of new stores in this format, increased Far East sourcing and the development of key areas of infrastructure. Overall the outlook for the Group's trading for the full financial year remains in line with the Directors' expectations and the Directors are confident of the Group's prospects for the current financial year.

3. DIVIDEND POLICY

The Directors intend to adopt a progressive dividend policy, which will reflect the long-term earnings and cash flow potential of the Group, whilst maintaining an appropriate level of dividend cover. The Directors intend to follow a policy which, in the absence of unforeseen circumstances and assuming that there are sufficient distributable reserves available at the time, targets paying approximately half of the annual reported Group net income (before goodwill amortisation) in the form of dividends to holders of Ordinary Shares.

It is envisaged that the Company will pay an interim dividend in January and a final dividend in July of each year. Assuming that there are sufficient distributable reserves available at the time, the first dividend to be declared by the Company following the Global Offer is expected to be the interim dividend in respect of the 26 weeks ending 1 October 2004, which will be payable in January 2005 to shareholders on the register in October 2004, reflecting the capital structure and dividend policy of the Group following Admission.

4. SIGNIFICANT FACTORS AFFECTING HISTORIC RESULTS OF OPERATIONS

Improved marketing and trading

During the 2004 financial year, Halfords' management implemented a number of marketing and trading initiatives aimed at increasing the number of products purchased by customers in each shop visit. These initiatives included a significantly increased emphasis on promotional pricing activity to increase store visits, the expansion of the product offering, particularly into contiguous product areas, and the more dynamic use of space at the front of each store to highlight products which are being specifically promoted. In addition, during the 2004 financial year Halfords widened staff participation in sales-based incentives and implemented additional targeted sales incentives during peak trading periods. These initiatives resulted in significantly improved like-for-like sales growth in the 2004 financial year.

Effect of Arcade conversions

Halfords created the Arcade format in the 2001 financial year to refresh its out-of-town superstores by expanding existing ranges and introducing new ranges; creating designated sub-shops under the "Ripspeed" and "Bikehut" brands for the car enhancement and cycling product offerings, respectively; introducing an enlarged area dedicated to in-car entertainment products; introducing specialist staff to provide customers with enhanced product knowledge, customer service and service provision (e.g. cycle repair); and enhancing in-store layout, complemented by orange and black Halfords signage. As part of the conversion of its out-of-town superstores, and depending on the size of the store, turnover and demographic catchment, Halfords added a mezzanine floor, which has resulted in a significant increase in selling space. In the 2002 financial year, Halfords converted an additional 41 superstores to the Arcade format and added approximately 58,000 sq. ft. of selling space through the addition of mezzanine floors in 26 of these stores.

Following the CVC Acquisition in August 2002, the Group introduced a revised version of the Arcade format, known as SMART Arcade, which was designed to deliver the principal sales generating elements of the original Arcade format at significantly reduced capital expenditure. In addition, Halfords expanded the mezzanine concept to a larger supermezzanine floor (including the extension of existing mezzanine floors to the supermezzanine size). In the 2003 financial year, Halfords converted 44 superstores to the Arcade format, and added approximately 39,000 sq. ft. of selling space by adding mezzanine floors in 18 of these stores. In the 2004 financial year, Halfords converted 70 superstores to the Arcade format (all of which were the SMART Arcade format), and added approximately

21,000 sq. ft. of selling space by adding supermezzanine floors in five of these stores and three supermezzanine extensions in existing Arcade format superstores.

The introduction of the Arcade format and the increases in selling space associated with the installation of mezzanine and supermezzanine floors have resulted in significant sales uplifts at the relevant stores, as compared to sales prior to the store conversion. The aggregate effect of the individual store sales uplifts has been an important factor affecting the Group's turnover growth in all periods under review.

Effect of new stores

The Group's results were impacted in each period under review by the introduction of new stores.

Set out below is a breakdown of Halfords stores at the period end for each of the periods under review:

	2002 financial year	2003 financial year	2004 financial year
Out-of-town superstores	331	336	343
Small stores	58	50	44
Motorway stores	12	12	10(1)

(1) These motorway stores ceased trading in March 2004

Prior to the CVC Acquisition, Halfords' strategy focused on the development of out-of-town superstores and de-emphasised high street and smaller stores. As a result, the number of superstores increased in both the 2003 financial year and the 2004 financial year, while the number of smaller stores declined. Following the CVC Acquisition, the new management team has developed strategies for increasing the number of both superstores and small stores (see Part II (Business of the Group)).

Disposal of garage services business

During the 2002 financial year, Halfords sold its garage services business, comprising 129 servicing and repair outlets, all but one located on existing superstore premises, for a net consideration of £4.3 million. The garage services business had generated turnover of £17.3 million prior to the date of disposition (i.e. from 30 March to 31 August 2001). During this period, the garage services business generated an operating loss of £1.2 million.

Trade creditor term renegotiation

Following the CVC Acquisition, the Group reviewed its business terms with approximately 350 of its suppliers. As a result of this review, Halfords extended payment terms for both goods suppliers (from an average of 45 days to an average of 60 days) and non-goods suppliers (from an average of 60 days to 90 days). This renegotiation resulted in a one-off reduction in working capital estimated by the Directors to be approximately £25 million in the 2004 financial year. In addition, Halfords achieved improved pricing terms from many of these suppliers, which the Directors estimate reduced its annual supply costs by approximately £4 million (principally as a result of reduced cost prices and additional rebates from suppliers).

Cost management

Following the CVC Acquisition, the new management team has reduced costs significantly thereby enhancing operating margins. In the 2003 financial year, management undertook various initiatives to reduce staff costs which succeeded in reducing store payroll as a percentage of net sales from 13.3 per cent. in the 2003 financial year to 12.3 per cent. in the 2004 financial year. In the 2004 financial year, management initiated a strategy of reducing its payroll costs through changing the store management structure and employing a higher proportion of part-time staff in order to increase staff flexibility, prevent store over-staffing and limiting the availability of overtime to full-time staff. In addition to the above initiatives at store level, the Group reduced central costs by £3.4 million in the 2004 financial year through a reduction of 110 head office jobs, reductions in discretionary expenditure, and reduced spend on store conversions under the SMART programme.

Effect of the CVC Acquisition

The CVC Acquisition occurred on 30 August 2002 and resulted in the recognition of goodwill of £274.8 million. The initial financing to fund the CVC Acquisition included £220 million of senior debt (split into three facilities), £70 million of mezzanine debt, Deep Discount Bonds issued at £136.9 million and £0.5 million of management loan stock. The Group's results of operations have been significantly impacted by the addition of significant goodwill amortisation expense and interest expense resulting from the CVC Acquisition.

Exceptional interest charges in connection with the refinancing of indebtedness

Halfords will use a portion of the proceeds from the Global Offer to refinance all of its existing indebtedness. As a result, Halfords has recognised in the 2004 financial year an exceptional charge of £6.3 million in respect of the acceleration of the amortisation of previously capitalised fees and expenses associated with indebtedness that will be re-financed. In addition, in the 2004 financial year an exceptional charge of £2.4 million was recognised in respect of the write-off of capitalised fees and expenses associated with a refinancing of its bank indebtedness undertaken in November 2003.

Effect of 53-week year in the 2004 financial year

Halfords prepares its financial statements on the basis of a 52-or-53 week financial period, generally ending on the Friday closest to March 31 in each year. The 2002 and 2003 financial years were 52-week periods and the 2004 financial year was a 53-week period. Consequently, Halfords' results for the 2004 financial year included an additional week of trading which makes a comparison of the 2004 financial year with earlier financial years more difficult.

5. FACTORS AFFECTING FUTURE RESULTS OF OPERATIONS

Set forth below are several known factors which the Directors believe will affect the Group's future results of operations. The Group's future results of operations may also be affected by changes in general economic conditions in the UK, as well as unforeseen or unpredictable factors. For a description of certain risks facing the Group's business, see Investment Considerations.

Implementation of Growth Strategy

As discussed in more detail in Part I (Business of the Group) under the heading "Growth Strategy", the Group is implementing a number of strategies to increase turnover and to increase operational efficiency, including the continued development of its property portfolio through conversion of existing stores and opening new stores. The Directors believe that these strategies will improve the Group's results over time.

Debt reduction upon completion of the Global Offer

As at 2 April 2004, Halfords' net debt was £349.5 million. On a pro forma basis and as set out in Part VI (Pro Forma Statement of Net Assets of the Group) after giving effect to the Global Offer and the use of proceeds thereof, Halfords' net debt at 2 April 2004 would have been approximately £214.5 million. In addition, the interest margins on its floating rate indebtedness under the New Bank Facilities will be lower than those under its existing bank facility. As a result of the Global Offer, Halfords expects its interest expense to decrease significantly in future periods.

Exceptional interest charge in connection with the refinancing of existing indebtedness

As discussed above Halfords has recognised an exceptional interest charge of £6.3 million in connection with the refinancing of its existing indebtedness with the proceeds of the Global Offer in the 2004 financial year. A further exceptional interest charge of £1.8 million will be recognised for the current financial year to cover the remaining accelerated amortisation during the period between 3 April 2004 and Admission.

6. LIKE-FOR-LIKE TURNOVER COMPARISONS

To facilitate period-to-period comparison of turnover, the discussion below includes an analysis of turnover on a like-for-like basis for the 2004 financial year as compared to the 2003 financial year, and the 2003 financial year as compared to the 2002 financial year. This analysis compares turnover attributable only to stores that were operating during the entirety of the two financial periods being compared. As a result, new stores opened or existing stores closed during the period are excluded from the calculation. These like-for-like comparisons include stores that have been converted during the period to the SMART Arcade or new small store formats, or which have been expanded during the period through the introduction of a mezzanine or supermezzanine floor. Significant factors in like-for-like growth in turnover during the periods under review have been improved trading and marketing, the introduction of mezzanine floors and the conversion of stores to the Arcade or SMART Arcade format.

7. REVIEW OF RESULTS OF OPERATIONS

The table below sets forth Halfords' results of operations, and as a percentage of total turnover, for each of the periods under review.

	2002 financial year		2003 financial year (£ in millions, except for percentages)		2004 financial year	
		%		%		%
Turnover	519.8	100.0	525.8	100.0	578.6	100.0
Cost of sales	(243.3)	(46.8)	(244.4)	(46.5)	(269.0)	(46.5)
Gross profit	276.5	53.2	281.4	53.5	309.6	53.5
Net operating expenses	(225.0)	(43.3)	(247.9)	(47.1)	(244.1)	(42.2)
Operating profit	51.5	9.9	33.5	6.4	65.5	11.3
Loss on sale of business	(2.3)	(0.4)	–	–	–	–
Profit on the sale of fixed assets	–	–	–	–	6.4	1.1
Net interest (payable)/receivable	(0.5)	(0.1)	(21.9)	(4.2)	(44.1)	(7.6)
Profit on ordinary activities before taxation	48.7	9.4	11.6	2.2	27.8	4.8
Tax on profit on ordinary activities	(16.7)	(3.2)	(6.5)	(1.2)	(14.3)	(2.5)
Profit for the financial year	32.0	6.2	5.1	1.0	13.5	2.3

7.1 Results of Operations for the 53-week 2004 Financial Year Compared to the 52-week 2003 Financial Year

(a) Turnover

	2003 financial year	2004 financial year
	(£ in millions, except for number of stores)	
Turnover	525.8	578.6
Number of Stores (at end of period)	398	397[(1)]

(1) Includes ten motorway stores, which ceased trading in March 2004.

Halfords' turnover increased by 10.0 per cent., from £525.8 million in the 2003 financial year to £578.6 million in the 2004 financial year, principally reflecting strong like-for-like sales growth, the addition of 7 new superstores, the effect of an extra week of trading in the 2004 financial year and the positive impact of a particularly warm, dry summer. On a like-for-like basis, Halfords' turnover increased by 7.0 per cent. from the 2003 financial year to the 2004 financial year. The principal driver of this like-for-like growth was the improved marketing and trading described above. The increase also reflected the positive effects of the SMART Arcade format roll out and the increased selling space resulting from the addition (or extension) of mezzanine floors in certain stores.

(b) Gross Profit

Gross profit represents turnover less cost of sales. Cost of sales includes the actual cost of products from suppliers for products sold and for products lost to shrinkage, offset amongst other things by supplier volume rebates. Halfords' gross profit and gross margin (gross profit as a percentage of turnover) for the periods under review were:

	2003 financial year	**2004 financial year**
	(£ in millions, except percentages)	
Gross profit	281.4	309.6
Gross margin	53.5%	53.5%

Halfords' gross profit increased by 10.0 per cent., from £281.4 million in the 2003 financial year to £309.6 million in the 2004 financial year, reflecting the strong growth in turnover discussed above. Gross margins were static year-on-year. Margin declines associated with changes in product mix and increased promotional activity were offset by improved cost prices Halfords negotiated with suppliers and increased volume rebates.

(c) Net operating expenses

Net operating expenses consist of selling and distribution costs, administrative expenses, goodwill amortisation and exceptional costs. Halfords' net operating expenses and net operating expenses as a percentage of turnover for the periods under review were:

	2003 financial year	**2004 financial year**
	(£ in millions, except percentages)	
Net operating expenses	247.9	244.1
Net operating expenses as a percentage of turnover	47.1%	42.2%

Net operating expenses decreased by 1.5 per cent., from £247.9 million in the 2003 financial year to £244.1 million in the 2004 financial year. The components of net operating expenses in these periods are set forth below:

	2003 financial year	**2004 financial year**
	(£ in millions)	
Selling and distribution costs	190.2	195.2
Administrative expenses	40.4	35.2
Goodwill amortisation	8.0	13.7
Exceptional costs	9.3	–

Selling costs include store property costs, store staff wages and other costs of operating the stores. Distribution costs include the costs of operating the distribution centres (including staff wages) and the costs of transporting products. Selling and distribution costs increased by 2.6 per cent., from £190.2 million in the 2003 financial year to £195.2 million in the 2004 financial year. This increase was primarily a result of a £2.8 million increase in store property costs (mainly due to rent reviews) and a £1.3 million increase in store payroll costs reflecting an increase in store staff in line with an increase in the Group's turnover. Nevertheless, both store payroll costs and total selling costs as a percentage of sales decreased as a result of a number of management initiatives implemented to reduce these costs. These cost-saving initiatives included rationalising the cost of the Arcade roll out by introducing the SMART Arcade format, improving contractual terms (e.g. heating, lighting, power and cleaning services) and shifting from store security guards to closed-circuit television and other more cost-effective methods of reducing shrinkage. In addition, Halfords' management undertook various initiatives to reduce store staff costs, including the employment of a higher proportion of part-time staff (to increase staff flexibility, prevent store over-staffing and reduce expensive overtime payments to existing full-time staff), the change of store management structure from one manager and three to four supervisors to one manager and one team leader, and the reduction of specialist staff. The staff reduction was implemented at the end of the 2003 financial year, and resulted in the reduction of 205 store employees and managers.

Administrative expenses consists primarily of the costs of operating Halfords' headquarters. Administrative expenses decreased by 12.9 per cent., from £40.4 million in the 2003 financial year to £35.2 million in the 2004 financial year. This decrease was primarily a result of a reduction in headcount of approximately 110 employees at Halfords' headquarters, implemented at the end of the 2003 financial year.

Goodwill amortisation increased by 71.3 per cent., from £8.0 million in the 2003 financial year to £13.7 million in the 2004 financial year, reflecting the full year impact of the amortisation of goodwill recognised on the CVC Acquisition.

The exceptional costs in the 2003 financial year are discussed below in section 7.2(c).

(d) Profit on the sale of fixed assets

Halfords recognised a profit of £6.2 million in the 2004 financial year on the sale of its head office which formed part of a sale and leaseback transaction (see paragraph 19.8 of Part VII (Additional Information)).

(e) Net interest

Halfords' net interest payable increased by 101.4 per cent., from £21.9 million in the 2003 financial year to £44.1 million in the 2004 financial year. This increase reflected the full year impact of the indebtedness incurred in connection with the CVC Acquisition and £8.7 million of exceptional interest charges (comprising separate charges of £6.3 million and £2.4 million respectively) relating to the accelerated amortisation of deferred debt issue costs discussed in section 4 under the heading "Exceptional interest charges in connection with the refinancing of indebtedness". As discussed above, following completion of the Global Offer, the Group's indebtedness will be substantially reduced, and interest expense in future periods will reduce accordingly.

(f) Taxation

Halfords' tax, statutory tax rate and effective tax rate for the periods under review were:

	2003 financial year	**2004 financial year**
	(£ in millions, except for percentages)	
Tax on profit on ordinary activities	6.5	14.3
Statutory tax rate	30%	30%
Effective tax rate	56.0%	51.4%

Halfords' tax on profit on ordinary activities increased by 120 per cent., from £6.5 million in the 2003 financial year to £14.3 million in the 2004 financial year. This increase was primarily attributable to the Group's improved profit. Halfords' effective tax rate exceeded its statutory tax rate in both periods primarily due to the non-deductibility of goodwill amortisation. Commencing with the 2006 financial year, Halfords expects to cease amortisation of goodwill when it is required to adopt IFRS. See paragraph 13 below for more information regarding the transition to IFRS.

7.2 Results of Operations for the 52-week 2003 Financial Year compared to the 52-week 2002 Financial Year

(a) *Turnover*

	2002 financial year	2003 financial year
	(£ in millions, except for number of stores)	
Turnover	519.8	525.8
Turnover excluding garage services business	502.5	525.8
Number of Stores (at end of period)	401	398

Halfords' turnover increased by 1.2 per cent., from £519.8 million in the 2002 financial year to £525.8 million in the 2003 financial year. During the 2002 financial year, the Group disposed of its garage services business, which contributed £17.3 million to turnover. Turnover (excluding the garage services business) increased by 4.6 per cent., from £502.5 million in the 2002 financial year to £525.8 million in the 2003 financial year. This increase principally reflected like-for-like turnover growth, as well as turnover from new superstores opened in the 2003 financial year (net 5 superstores), and the full year impact of stores Halfords opened during the 2002 financial year. On a like-for-like basis, Halfords' turnover increased by approximately 3.9 per cent. from the 2002 financial year to the 2003 financial year. This increase was predominantly driven by portfolio development, as Halfords converted 44 stores to the Arcade format. Like-for-like growth was offset partially by car maintenance product availability issues (associated with the introduction of the third distribution centre at Cowley) and cycle availability issues (associated with late delivery of cycles during the pre-Christmas 2002 trading period).

(b) *Gross Profit*

Halfords' gross profit and gross margin (gross profit as a percentage of turnover) for the periods under review were:

	2002 financial year	2003 financial year
	(£ in millions, except for percentages)	
Gross profit	276.5	281.4
Gross profit excluding garage services business	264.4	281.4
Gross margin excluding garage services business	52.6%	53.5%

Halfords' gross profit increased by 1.8 per cent., from £276.5 million in the 2002 financial year to £281.4 million in the 2003 financial year, principally reflecting the growth in turnover discussed above. Excluding the garage services business, the gross profit increased by 6.4 per cent. from £264.4 million to £281.4 million. Gross margin (excluding the garage services business) increased slightly over the period. This margin improvement reflected improved stock control which reduced shrinkage levels, and improved pricing strategies, particularly in non-discretionary product categories.

(c) *Net operating expenses*

Halfords' net operating expenses, and net operating expenses as a percentage of turnover for the periods under review were:

	2002 financial year	2003 financial year
	(£ in millions, except for percentages)	
Net operating expenses	225.0	247.9
Net operating expenses excluding garage services business	211.7	247.9
Net operating expenses excluding garage services business as a percentage of turnover	42.1%	47.1%

Net operating expenses increased by 10.2 per cent., from £225.0 million in the 2002 financial year to £247.9 million in the 2003 financial year. Excluding the garage services business, the increase was 17.1 per cent. from £211.7 million to £247.9 million. This increase was largely driven by increased selling and distribution costs and administrative expenses, the commencement of goodwill amortisation associated with the CVC Acquisition and the recognition of certain exceptional costs. In the five-month period of the 2002 financial year when Halfords operated its garage services business, the operating costs of this business were £13.3 million. These costs ceased when Halfords disposed of this business. The components of net operating expenses are set forth below:

	2002 financial year	2003 financial year
	(£ in millions)	
Selling and distribution costs	193.0	190.2
Selling and distribution costs excluding garage services business	180.0	190.2
Administrative expenses	32.0	40.4
Administrative expenses excluding garage services business	31.7	40.4
Goodwill amortisation	–	8.0
Exceptional costs	–	9.3

Selling and distribution costs decreased by 1.5 per cent., from £193.0 million in the 2002 financial year to £190.2 million in the 2003 financial year. This decrease primarily reflected the sale of the garage services business in the 2002 financial year. Excluding the effect of the garage services business, selling and distribution costs increased by 5.7 per cent., principally reflecting increased rent costs (following rent reviews) and increased payroll costs resulting from the introduction of specialist staff in stores as part of the roll-out of the Arcade concept. The increase also reflected costs associated with the introduction of a third distribution centre in Cowley in order to expand future capacity. The addition of this distribution centre increased fixed costs (space and management overheads) and transport costs.

Administrative expenses increased by 26.3 per cent., from £32.0 million in the 2002 financial year to £40.4 million in the 2003 financial year. This increase was primarily a result of increased costs associated with achieving independence from Boots following completion of the CVC Acquisition. The most significant elements of this increase were increased expenditure on the development of store formats, increased financing costs and increased insurance and information technology costs.

Goodwill amortisation increased from nil in the 2002 financial year to £8.0 million in the 2003 financial year, reflecting the goodwill arising from the CVC Acquisition.

The exceptional costs in the 2003 financial year were incurred as a result of the CVC Acquisition as follows:

	£m
Write-off of pension prepayment	8.1
Professional fees and expenses	0.5
Transfer of property obligations and other obligations to the Boots Group	(4.0)
Restructuring costs	4.7
	9.3

The £8.1 million write-off represented prepaid pension contributions to the Boots pension scheme, which Halfords wrote-off immediately prior to the CVC Acquisition.

Restructuring costs related to redundancy and related charges arising from the staff reduction initiatives discussed above covering both head office (£2.7 million) and retail operations (£2.0 million).

(d) Net interest

Halfords' net interest payable increased from £0.5 million in the 2002 financial year to £21.9 million in the 2003 financial year. This substantial increase reflected the partial year impact of the significant indebtedness incurred in connection with the CVC Acquisition.

(e) Taxation

Halfords' tax, statutory tax rate and effective tax rate for the periods under review were:

	2002 financial year	**2003 financial year**
	(£ in millions, except for percentages)	
Tax on profit on ordinary activities	16.7	6.5
Statutory tax rate	30.0%	30.0%
Effective tax rate	34.3%	56.0%

Halfords' tax on profit on ordinary activities decreased by 61.1 per cent., from £16.7 million in the 2002 financial year to £6.5 million in the 2003 financial year. This decrease reflected the significant reduction in profit from ordinary activities before taxation resulting from the factors discussed above. Halfords' effective tax rate in the 2003 financial year significantly exceeded its statutory tax rate due primarily to the non-deductibility of goodwill amortisation, and due to the depreciation charged on assets that do not qualify for capital allowances.

8. LIQUIDITY AND CAPITAL RESOURCES

The largest use of cash during the periods under review related to the CVC Acquisition in the 2003 financial year, which was financed principally through increased indebtedness. Excluding CVC Acquisition-related items, Halfords' principal uses of cash during the periods under review have been for capital expenditure to fund the expansion and renovation of stores and to fund its working capital requirements. Halfords has funded these requirements with cash flows from its operating activities.

Cash flow from operating activities was £63.6 million, £61.9 million and £114.8 million in the 2002 financial year, the 2003 financial year and the 2004 financial year respectively. The significant increase in cash flow in the 2004 financial year reflected the improved operating profit discussed above together with the estimated one-time benefit working capital improvement of £25 million resulting from the extension of supplier payment terms during the 2004 financial year discussed above.

As a result of the CVC Acquisition, the Group incurred a substantial level of debt. Halfords' total debt at 2 April 2004 was £349.5 million. As discussed in Part III (Global Offer), upon completion of the Global Offer, the Group will use £135 million of the net proceeds of the Global Offer together with an estimated £195 million in borrowings under the New Bank Facilities (consisting of £150 million of term loans and an estimated £45 million in borrowings under the revolving credit facility) and available cash balances to repay all of its existing indebtedness. On a pro forma basis and as set out in Part VI (Pro Forma Statement of Net Assets of the Group) after giving effect to the Global Offer and the use of proceeds thereof, Halfords' net debt at 2 April 2004 would have been approximately £214.5 million. The New Bank Facilities include a revolving credit facility permitting borrowings from time to time (up to a maximum of £120 million), subject to compliance with certain drawing conditions. A portion of the revolving credit facility will be utilised to fund the repayment of existing indebtedness discussed above and the remainder will be available for general corporate purposes.

Review of capital expenditure programmes

Halfords' cash capital expenditure on tangible fixed assets for the 2004 financial year, the 2003 financial year and the 2002 financial year was £19.3 million, £20.9 million and £21.6 million, respectively. Set forth below is a breakdown of the principal components of this expenditure, extracted without material adjustment from Halfords' accounting records which formed the underlying basis for the Accountants' Report.

	2002 financial year (£ in millions)	2003 financial year (£ in millions)	2004 financial year (£ in millions)
New stores and store environment	14.1	12.3	10.5
Information technology	0.6	0.6	6.1
Warehouse and distribution	0.2	3.6	1.7
Other	4.2	1.7	1.8
Capital creditor	2.5	2.7	(0.8)
Total capital expenditure	21.6	20.9	19.3

New store costs and Arcade format roll out costs in the 2003 financial year and the 2004 financial year reflect 44 and 73 Arcade format conversions in the respective periods. The Arcade format was originally introduced in 2001, and has been refined by the new management team since the CVC Acquisition into the more cost effective SMART Arcade model. As a result, although total capital expenditure for the Arcade format roll out decreased from the 2003 financial year to the 2004 financial year, Halfords converted a greater number of stores. The decrease also reflected the installation of fewer mezzanine floors in the 2004 financial year than in the 2003 financial year.

The significant increase in capital expenditure for information technology in the 2004 financial year reflects Halfords' investment in the upgrade of its information systems and its need to achieve independence from the Boots mainframe system following the CVC Acquisition.

Warehouse distribution capital expenditure in both the 2003 and 2004 financial years was driven by the alteration of the Washford distribution centre truck yard to accommodate double deck trailers and the implementation of the PkMS™ warehouse management system at that distribution centre.

Future financing of capital expenditure and working capital

The Group is currently budgeting approximately £78.0 million for capital expenditure over the next three years. The bulk of this capital expenditure relates to its continued roll out of supermezzanine and mezzanine extensions, the SMART Arcade and small store format roll outs at its existing stores, and the opening of new stores. In addition, the budget includes on-going investment in information technology related to completing the implementation of SAP™ in commercial areas, PkMS™ and a planned upgrade of store systems. The Directors anticipate that such capital expenditure, together with working capital increases associated with the anticipated increases in selling space, will be funded out of cash flows from operations. However, the Group will also have access to the revolving credit facility under the New Facilities Agreement to cover short-term cash needs, if necessary.

Contractual commitments and contingencies

Set forth below are the Group's indebtedness contractual commitments as at 2 April 2004:

	Payments due by period (£ in millions)			
	Total	Less than 1 year	1-5 years	More than 5 years
Bank Indebtedness[(1)]	367.2	182.2	80.0	105.0
Commitments for future capital expenditure	1.9	1.9	–	–
Finance lease	0.8	0.2	0.6	–

(1) Following the Global Offer, the Company's indebtedness will be reduced. See paragraph 1 of Part III (Details of the Global Offer)

In addition, the Group is committed to pay £62.5 million in operating lease payments during the current financial year. Of this amount, £0.7 million, £2.8 million and £59.0 million relates to operating leases which expire within less than one year, between one and five years and beyond five years, respectively. The bulk of these leases relate to store properties which are subject to periodic rent reviews. For more information regarding the rent review process, see Section 8 of Part I (Business of the Group) under the heading "Property". The operating lease payment obligations include rental payments of approximately £6.3 million in respect of 125 properties sub-let to the AA on coterminous leases and guaranteed by GB Gas Holdings Limited, both of which are subsidiaries of Centrica plc.

9. SEASONALITY

In general, the Group's results are not seasonal. However, sales of certain of Halfords' products tend to fluctuate by season. For example, sales of children's cycles peak in the Christmas season, and sales of adult cycles tend to peak in the summer. In addition, sales of travel solutions products tend to peak in the summer.

10. DISCLOSURE ABOUT MARKET RISK

The following discussion of estimated amounts which Halfords generated from a sensitivity analysis is "forward-looking", and involves risks and uncertainties. Actual results could differ materially from those projected due to actual developments in the global financial markets. Such risks principally include country risk, legal risk and political risk, which are not represented in the following analyses.

Foreign Exchange Risk

Halfords purchases goods both in US dollars and pounds sterling. Halfords' dollar purchases amounted to $50 million in the 2004 financial year.

Halfords has hedged approximately 85 per cent. of the current financial year's estimated U.S. dollar requirements; Halfords' formal policy is to hedge no less than 75 per cent. of the following year's foreign currency requirements.

The average exchange rate of the forward currency contracts, as well as of any necessary spot market purchases, is applied to all transactions during the respective financial year in which hedging has been arranged.

The pound sterling has strengthened significantly against the U.S. dollar in recent months. Halfords' results of operations may be positively impacted by continued strength of the pound sterling against the U.S. dollar.

The following table shows information about Halfords' foreign exchange forward contracts as at 2 April 2004. Halfords enters into all these instruments for hedging purposes, and accounts for them as such under UK GAAP because they apply to specific expenditure. The table presents the value of the contracts in pounds sterling at the contract exchange rate as well as the fair value of the contracts outstanding as at 2 April 2004.

Trade Date	Maturity date	£ Sold	$ Bought	Contract Rate	£ Fair Value as at 2 April 2004
09/01/04	15/04/04	98,497	180,000	1.8275	167
09/01/04	17/05/04	587,143	1,070,000	1.8224	977
01/01/04	14/06/04	880,030	1,600,000	1.8181	1,532
09/01/04	14/07/04	920,806	1,670,000	1.8136	1,104
09/01/04	16/07/04	1,497,982	2,710,000	1.8091	1,389
09/01/04	16/09/04	609,654	1,100,000	1.8043	285
09/01/04	18/10/04	872,416	1,570,000	1.7996	381
09/01/04	15/11/04	2,199,173	3,950,000	1.7961	824
09/01/04	13/12/04	1,840,132	3,300,000	1.7934	2,369
09/01/04	13/01/05	2,074,132	3,710,000	1.7887	2,900
09/01/04	11/02/05	2,390,282	4,270,000	1.7864	(5,151)
09/01/04	11/03/05	487,696	870,000	1.7839	(1,478)

In addition to the $26 million bought in the contracts set forth in the table above, Halfords has also bought $24 million ($2 million per month) on a participating forward basis. This means that Halfords is obliged to buy $600,000 each month at $1.7765. If the prevailing spot rate falls below $1.7765 in the applicable month, Halfords has the right and obligation to buy $2 million at $1.7765. If the prevailing spot rate is above $1.7765 in the applicable month, Halfords can purchase any amount on the open market at the market rate. The first two of these additional contracts were executed on 1 April and 1 May 2004 respectively. As the prevailing spot rate was above $1.7765 on each date, $1.4 million was purchased at $1.8542 on 1 April 2004 and $1.4 million was purchased at $1.7953 on 1 May 2004 whilst $600,000 was purchased on each such date at the contract rate of $1.7765.

As discussed under Part I (Business of the Group) under the heading "Growth Strategy", the Directors intend to increase the value of products that Halfords sources directly from the Far East. Contracts for products from the Far East are typically denominated in US dollars, and as Halfords' sourcing from the Far East increases, so too will its exposure to foreign exchange risk.

Interest Rate Risk
The Group's policy is to hedge at least 75 per cent. of its net interest rate exposure.

Interest rate hedges currently in place comprise (i) an interest rate swap for £71.8 million whereby Halfords pays fixed rate interest of 5.01 per cent. and receives floating rate interest semi-annually and (ii) an interest rate cap for £145.7 million, whereby Halfords receives semi-annual interest compensation if six month LIBOR rises above 5.01 per cent. These hedges mature in September 2005, and are replaced by two forward start interest rate swaps totalling £100.0 million maturing in September 2007. Halfords pays 4.99 per cent. fixed rate interest and receives floating rate interest semi-annually on these latter instruments. The fair value of these instruments as at 2 April 2004 was £0.8 million.

11. CRITICAL ACCOUNTING POLICIES

Halfords currently prepares its financial statements based on the application of relevant UK GAAP accounting polices. Several of these policies require Halfords to make significant estimates and assumptions that, if changed, could materially alter its stated financial results. The most significant of these assumptions and estimates are discussed below. Prospective investors should also read note 2 included in Part V (Accountants' Report on the Group).

Revenue recognition
Halfords recognises revenue, net of estimated returns, at the time the customer takes possession of the merchandise or receives services. Halfords estimates the liability for sales returns based on historical return levels. Halfords believes that its estimate for sales returns is an accurate reflection of likely future returns, and it has not been required to book any significant adjustment to its estimated liability for sales returns in the past. However, if the actual rate of returns were to be significantly higher than historical trends, recognised revenue could be adversely impacted.

When Halfords receives payment from customers before the customer has taken possession of the merchandise or the service has been performed, the amount received is recorded as deferred revenue until the sale or service is completed.

Recognition of rebates received from suppliers
Halfords recognises rebate income as a reduction to the cost of sales. Rebate income is calculated in accordance with agreed rates set out in supplier agreements. These are principally based on percentage values applied to the annual purchases from the supplier. Halfords assesses the level of percentage by reference to purchases made in the year covered by the supplier agreement. Rebate arrangements are usually agreed and updated

with suppliers annually. Rebates from suppliers with agreements that cover more than one year are recognised in the accounts in the period in which the rebates are earned.

Leases

Halfords leases certain retail locations, office space, warehouse and distribution space, equipment and vehicles. Halfords occupies all of its stores on leases with an average remaining term of 13 years for superstores and 5 years for small stores and accordingly accounts for them as operating leases. Halfords has one finance lease relating to computer hardware. As leases expire in the normal course of business, Halfords expects that it would renew or replace them.

Total rental expenses for leased property for the 2004 financial year, the 2003 financial year and the 2002 financial year were £56.4 million, £54.5 million and £54.4 million, respectively. Under the lease agreements, obligations relating to maintenance and operating expenses rest with Halfords.

Amortisation of goodwill

Halfords amortises purchased goodwill arising over its estimated economic life on a straight line basis subject to a maximum of 20 years. Unexpected future events may suggest an economic life which is less than this period, in which case a higher amortisation charge would be made in future financial statements as a result of this shorter estimated life.

Depreciation of tangible fixed assets

Tangible fixed assets are written-off in equal instalments to their estimated residual value over their expected useful economic lives. This policy is reviewed on a regular basis to ensure that the lives remain appropriate.

The current estimates of the useful economic lives of the assets result in depreciation rates as follows:

Short leasehold land and buildings	Over the period of the lease
Short leasehold improvements	Over the period of the lease
Motor vehicles	33 per cent. per annum
Fixtures, fittings and equipment	10 to 25 per cent. per annum
Computer equipment	33 per cent. per annum

Impairment

Halfords assesses whether there has been any material impairment of identifiable tangible fixed assets and goodwill, whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Where there is evidence of a potential impairment to the carrying value of such assets, Halfords undertakes an estimation of the fair value of that asset in accordance with the approach set out in FRS 11 “Impairment of Fixed Assets and Goodwill”. The fair value is in most cases based on the discounted present value of the future cash flows expected to arise from the business unit to which the goodwill relates. Estimates are used in deriving these cash flows and the discount rate.

Halfords has not recognised any material impairments during the last three years.

Stock valuation

Halfords records stock at the lower of cost and net realisable value. Cost comprises the purchase price of goods and, where appropriate, costs relating to storage and distribution.

In order to assess the final net realisable value of stock, Halfords makes estimates as to the future demand, and compares that with the current stock levels. Estimated future demand will take account of changes in strategic direction, such as discontinuance of product lines, as well as changes in market conditions. Where Halfords identifies that stock held exceeds estimated future demand, it makes an estimate of the likely proceeds obtainable from the excess stock. This estimate takes into account the current market conditions, the age and nature of the stock and the price at which this stock could be sold via promotions or similar methods, or the extent to which it could be returned to suppliers. Where the estimates of potential revenues are lower than the original cost, Halfords makes provisions to reduce the stock values to the estimated net realisable values.

12. RECENTLY ISSUED UK GAAP ACCOUNTING PRONOUNCEMENTS

As noted above, Halfords currently prepares its financial statements based on the application of relevant UK GAAP accounting policies. Set out below is a summary of a recently issued UK GAAP accounting pronouncement which may impact on the Group's financial statements in the future.

FRS 20 – Share based payments

FRS 20 was issued on 7 April 2004 and will apply to the Group's financial statements for the first time in the year ended March 2006. It will govern the accounting treatment to be adopted in respect of the current and proposed share option schemes.

The principal differences between FRS 20 and current UK GAAP as set out in UITF 17, that will impact on the Group's financial statements, are as follows:

– FRS 20 does not contain any exemption for SAYE schemes.

– FRS 20 requires the charge to the profit and loss account in respect of share options to be based on the fair value of the options (as typically calculated using an option pricing model) rather than the difference between the fair value of the shares at the date of grant and the exercise price (the "intrinsic value" basis).

– The period over which the charge is recognised under FRS 20 is the vesting period whereas under UITF 17, the period could be that over which any performance conditions need to be satisfied.

UITF Abstract 38 – Accounting for ESOP Trusts

UITF Abstract 38 was published on 15 December 2003 and is mandatory for accounting periods ending on or after 22 June 2004. Consequently it will apply to the Group's financial statements for the first time in the year ended March 2005.

UITF Abstract 38 supercedes UITF Abstract 13 and changes the presentation of an entity's own shares held by an ESOP trust. Under UITF Abstract 13, such shares are required to be recognised as assets, whereas under UITF Abstract 38, they should be deducted in arriving at shareholders' funds.

Guidance is awaited as to the impact of this change in respect of the treatment of profits available for distribution.

13. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

On 7 June 2002, the European Council approved a Regulation requiring all listed companies in the European Union to prepare their consolidated financial statements under EU adopted international financial reporting standards ("IFRS" or International Accounting Standards "IAS") for financial years beginning on or after 1 January 2005. Consequently the Group will be required to prepare its financial statements for the 2006 financial year in accordance with IFRS/IAS.

14. SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN UK GAAP AND IFRS

As noted above, the Group will be required to prepare its financial statements for the 2006 financial year in accordance with IFRS. Significant differences exist between UK GAAP and IFRS and a summary of those differences which are most relevant to the Group is set out below. This summary reflects differences between UK GAAP and IFRS as at the date of this document. No attempt has been made to quantify the impact of these differences, nor has a reconciliation of UK GAAP and IFRS financial information been prepared. Had the Group undertaken any such quantification or preparation of such a reconciliation, other potentially significant differences might have come to its attention which are not highlighted below. In addition, a number of significant changes to IFRS have recently been introduced or announced and additional changes are expected before Halfords will be required to implement IFRS. Future developments or changes in IFRS may give rise to additional differences. Accordingly, the Group can provide no assurance that the differences highlighted below represent all the differences between UK GAAP and IFRS which could have a significant impact on the Group.

Presentation of financial information

The main components of a set of IFRS financial statements are broadly similar to those required for UK GAAP financial statements. However, there are certain differences in the presentation of items (e.g. exceptional items), definitions (e.g. discontinued operations) and classifications (e.g. non-current assets and liabilities).

Cash flow statements

There are major differences between a cash flow statement prepared under IAS 7 and one prepared under FRS 1.

- IAS 7 reports movements in cash and cash equivalents, whereas there is no concept of cash equivalents under FRS 1.
- IAS 7 requires cash flows to be reported under three headings (operating, investing and financing) whereas FRS 1 requires cash flows to be reported under nine standard headings.
- IAS 7 does not require a reconciliation of movements in cash flows to the movements in net debt.

Segmental reporting

The approach to segmental reporting under IAS 14 is based on management's approach to organising its business. An entity's internal organisation and management structure and its system of internal financial reporting will normally be the basis for determining the nature of the disclosures that are required under IFRS. IAS 14 also makes a distinction between primary and secondary segments.

The disclosure requirements under IAS 14 for primary segments are significantly more extensive than those required under SSAP 25.

Goodwill

Under UK GAAP, FRS 10, goodwill arising on acquisitions is capitalised and amortised over its useful economic life. There is a rebuttable presumption that the useful life does not exceed 20 years.

Under IFRS 3 which will apply to the Group's first IFRS financial statements, goodwill is not amortised but is subject to an annual impairment test.

Deferred tax

IAS 12 is conceptually different from UK GAAP, FRS 19. Under IAS 12, deferred tax is recognised on the basis of taxable temporary differences (which includes all timing differences and many permanent differences). Under FRS 19 deferred tax is recognised on the basis of timing differences subject to certain exceptions. The implementation of IAS 12 would probably lead to the recognition of additional deferred tax provisions and a reduction in net assets.

Dividends

Under IAS 10, entities are not permitted to recognise a liability for dividends declared after the balance sheet date. Under current UK GAAP (principally SSAP 17), dividends that are declared after the year end are recognised as liabilities at the balance sheet date.

Leases

The broad approach to leases under IAS 17 and UK GAAP, SSAP 21 is similar, with a distinction made between finance leases and operating leases.

The definition of a finance lease is the same in both standards, but IAS 17 does not provide a quantitative test of whether a lease is a finance lease (the "90%" test).

IAS 17 requires that property leases be split into a lease of land and a lease of buildings. Unless title passes at the end of the lease, leases of land should be treated as operating leases. The buildings element would fall to be classified as an operating or finance lease as appropriate.

Financial instruments

The disclosure requirements under IAS 32 are significantly more voluminous than those required under UK GAAP, FRS 4 and FRS 13 and the Companies Act 1985.

IAS 39 covers the recognition and measurement of financial instruments and rules on hedge accounting. There is currently no UK Accounting Standard that comprehensively addresses accounting for financial instruments or hedge accounting.

IAS 39 is a partial rather than full fair value model with financial assets and liabilities measured at fair value or amortised cost depending on which defined category they fall into under the standard. Changes in the fair value of derivatives that are not hedging instruments are recognised in the income statement.

Hedge accounting under IFRS is more complex than under UK GAAP and depends on whether the hedge relates to a fair value hedge, cash flow hedge or net investment hedge. In order to qualify for hedge accounting, under IFRS formal documentation is required and the entity must be able to measure and track the effectiveness of the hedging instrument.

15. SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN UK GAAP AND US GAAP

The financial information of the Group included in this document has been prepared and presented in accordance with UK GAAP. Such policies and standards are laid down in the Companies Act and by UK accounting standards. Significant differences exist between UK GAAP and US GAAP, which might be material to the financial information herein.

Such differences not only affect the measurement of net income and shareholders' funds, but the fundamental basis for preparing the Group's financial statements. In making an investment decision, investors must rely upon their own examination of the Group's business and financial condition and the financial information provided in this document. No attempt has been made to quantify the impact of any differences to the financial information of the Group, nor has a reconciliation of UK GAAP and US GAAP financial information been prepared. Potential investors should consult their own professional advisors for an understanding of the differences between UK GAAP and US GAAP, and how those differences might affect the Group's financial information contained herein.

Had the Company undertaken any such quantification or the preparation of such reconciliation in respect of the Group's financial information, other potentially significant accounting and disclosure differences might have come to its attention, which are not identified below. Accordingly, the Group can provide no assurance that the differences highlighted in this document represent all the significant differences between UK GAAP and US GAAP, as they would apply to the Group's financial information presented.

Set out below is a summary of the significant differences between UK GAAP and US GAAP as they relate to the Group for the 2004 financial year, the 2003 financial year and the 2002 financial year. This summary details the significant differences between UK GAAP and US GAAP on the basis of existing guidance. Regulatory bodies that promulgate UK GAAP and US GAAP have significant ongoing projects that could affect future comparisons such as this one between UK GAAP and US GAAP. Future developments or changes in either UK GAAP or US GAAP may give rise to additional differences between UK GAAP and US GAAP, which could have a significant impact on the Group.

Disclosures

The disclosures required under US GAAP are more extensive in certain respects than those required under UK GAAP. For example, under US GAAP more detailed disclosures would be included with respect to segmental reporting taxation (details of the components of current and deferred tax expense and deferred tax items, including valuation allowances), and equity (a statement of changes in shareholders' equity).

Under UK GAAP, indebtedness is presented net of deferred debt issuance costs, while under US GAAP, such deferred costs are classified as a separate asset in the balance sheet with indebtedness being reported on a gross basis.

Consolidated balance sheet presentation

The consolidated balance sheet prepared in accordance with UK GAAP differs in certain respects from US GAAP. Under UK GAAP, assets in the consolidated balance sheet are presented in ascending order of liquidity in accordance with the requirements of the Companies Act, whereas under US GAAP assets are presented in descending order of liquidity. Under US GAAP, the analysis is between total assets and liabilities and shareholders' funds. Certain items which are disclosed in the notes under UK GAAP would be disclosed on the face of the balance sheet under US GAAP.

Consolidated statement of cash flows

Under UK GAAP, cash flow represents increases or decreases in "cash", which is comprised of cash in hand and balances repayable on demand less overdrafts. Cash flows are presented in the following categories: (i) operating activities; (ii) returns on investments and servicing of finance; (iii) taxation; (iv) capital expenditure; (v) acquisitions and disposals; (vi) management of liquid resources; (vii) equity dividends; and (viii) financing activities.

Under US GAAP, cash flow represents increases or decreases in "cash and cash equivalents", which include short-term highly liquid investments with original maturities of less than 90 days and exclude overdrafts. Cash flows are reported in only the three categories of operating activities, investing activities and financing activities. Cash flows arising from taxation, returns on investments and servicing of finance would be included as operating activities under US GAAP. The payment of dividends and debt issue costs would be included under financing activities. Movements in bank overdrafts are classified as a financing activity.

Goodwill, intangible assets and amortisation

Both UK GAAP and US GAAP require purchase consideration in a business combination to be allocated to the net assets acquired at their fair value on the date of acquisition with the difference between the consideration and the fair value of the identifiable net assets recorded as goodwill.

Under UK GAAP for periods ending subsequent to 1 January 1998, goodwill is capitalised as an asset and is amortised over its estimated useful life, subject to a rebuttable presumption of a maximum of 20 years.

Under US GAAP for periods ending prior to 1 January 2002, goodwill was capitalised as an asset and amortised over its estimated useful life. From 1 January 2002 and for all acquisitions after 1 July 2001, goodwill is capitalised but not amortised, but rather subject to impairment test on at least an annual basis.

Impairment of goodwill is measured according to a two-step approach. In the first step, the fair value of a reporting unit is compared to the carrying amount of the reporting unit, including goodwill. If the carrying amount exceeds the fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. In the second step, the implied fair value of the goodwill is estimated as the fair value of the reporting unit less the fair values of all the other tangible and intangible assets of the reporting unit. If the carrying amount of the goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognised in an amount equal to that excess, not to exceed the carrying amount of the goodwill.

Under UK GAAP in order to recognise an intangible asset, the Group must be able to dispose of it without disposing of the business to which it relates.

Under US GAAP acquired assets such as non-compete agreements, patents, technology licenses, brand names or trade marks may be recognised as separate intangible assets and amortised over their individual estimated useful lives.

Deferred taxes

Under UK GAAP, deferred tax is provided in full on all material timing differences. Deferred tax assets are recognised where their recovery is considered more likely than not. Assets and liabilities are calculated at the rates expected to apply in the period in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets and liabilities are not discounted.

Under US GAAP, deferred taxes are accounted for on all temporary differences between the tax and book bases of assets and liabilities, and a valuation allowance is established to reduce deferred tax assets to the amount which "more likely than not" will be realised in future tax returns. Assets and liabilities are calculated based upon tax rates and laws that have been enacted by the balance sheet date.

Derivative financial Instruments

Under UK GAAP, there is no recognition and measurement standard for derivative financial instruments. Such instruments, that reduce exposures on anticipated future transactions, may be accounted for using hedge accounting.

In June 1998, the Financial Accounting Standards Board (the FASB) issued SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133), as amended by SFAS No. 137 and SFAS No. 138. SFAS 133 requires the Group to record all derivatives on the balance sheet at fair value. Changes in fair value are accounted for through the income statement or comprehensive income statement depending on whether the derivative is designated as a hedging instrument and, if appropriate, its effectiveness as a hedging instrument.

Proposed dividends

Under UK GAAP, dividends paid and proposed are shown on the face of the profit and loss account as an appropriation of the current year's earnings. Proposed dividends are provided on the basis of recommendation by the Directors and are subject to subsequent approval by shareholders.

Under US GAAP, dividends are recorded in the period in which they are approved by the shareholders.

Acquisition accounting

Under UK GAAP, adjustments to fair values assigned to assets and liabilities acquired on an acquisition of a business are only permitted if they arise before the date on which the Directors approve the second post-acquisition financial statements of the acquiring company. Under US GAAP, the period allowed for adjusting the fair value of pre-acquisition contingencies is a maximum of one year from the date of acquisition.

Under UK GAAP, the fair value of inventory is represented by the acquired companies cost of reproducing that inventory.

Under US GAAP, the fair value of inventory represents the selling price less any further costs to be incurred to sale.

Leases

While UK GAAP is similar in concept to US GAAP, certain differences in detail exist. Leases classified as finance leases under UK GAAP are likely to be classified as capital leases under US GAAP. Certain operating leases under UK GAAP, however, may also be classified as capital leases under US GAAP based upon extensive form-driven requirements. Additionally, under US GAAP any profit on sale in a sale and leaseback transaction may be required to be deferred and recognised over the lease term.

Restructuring costs

Under UK GAAP, a provision for restructuring costs is recognised only when an entity has a present obligation (legal or constructive) as a result of a past event; it is probable that a transfer of economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. A constructive obligation to restructure arises when an entity has a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Under US GAAP, for restructuring plans initiated after 1 January 2003, a liability for a cost associated with an exit or disposal activity can only be recognised when the liability is incurred. An entity's commitment to a plan, by itself, does not create a present obligation to others that meets the definition of a liability. The timing of recognition and related measurement of a liability for one-time termination benefits in relation to employees who are to be involuntarily terminated depends on whether the employees are required to render service until they are terminated in order to receive the termination benefits and, if so, whether employees will be retained to render service beyond a minimum retention period.

Exceptional items

Under UK GAAP, exceptional items are those material items which derive from events or transactions within the ordinary activities of the entity, which, in management judgement, by virtue of their size or incidence need to be disclosed if the financial statements are to give a true and fair view.

There is no concept of "exceptional items" under US GAAP. Under US GAAP, events and transactions that have a material effect and are distinguishable by both their unusual nature and their infrequency of occurrence are classified as extraordinary items. Operating items that do not meet these criteria and that relate to continuing operations would be included within operating profit under US GAAP although this may be separately disclosed.

Discontinued operations

Under UK GAAP, a disposal can only be classified as a discontinued operation if the sale or termination is completed either in the period or before the earlier of three months after the commencement of the subsequent period and the date on which the financial statements are approved; and if a termination, the former activities have ceased permanently. The sale or termination has to have had a material effect on the nature and focus of the reporting entity's operations and represents a material reduction in its operating facilities resulting either from its withdrawal from a particular market (whether class of business or geographical) or from a material reduction in turnover in the reporting entity's continuing markets and the assets, liabilities, results of operations and activities have to be clearly distinguishable, physically, operationally and for financial reporting purposes.

Under US GAAP a disposal of a component of an entity that can be clearly distinguished operationally and for financial reporting purposes from the rest of the entity is reported in discontinued operations if the operations and cash flows of the component have been (or will be) eliminated from the ongoing operations of the entity as a result of the disposal transaction, and the entity will not have any significant continuing involvement in the operations of the component after the disposal transaction.

Part V. Accountants' Report on the Group

The following is the text of the report on the Company by PricewaterhouseCoopers LLP, Reporting Accountants:

PRICEWATERHOUSECOOPERS

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3 June 2004

Dear Sirs

Halfords Group Plc

Introduction

We report on the combined and consolidated financial information (the "Combined and Consolidated Financial Information") set out below. This Combined and Consolidated Financial Information has been prepared for inclusion in the listing particulars dated 3 June 2004 (the "listing particulars") of Halfords Group Plc (the "Company"). The Company and its subsidiaries are referred to as the "Halfords Group".

Basis of preparation

Halfords Group Plc was incorporated on 10 June 2002 and commenced trading on 30 August 2002 when it acquired Halfords Limited (the "CVC Acquisition"), the trading company in the Halfords Group.

The Combined and Consolidated Financial Information set out below is based on the audited financial statements of the companies that comprised the Halfords Group in the periods ended 29 March 2002, 28 March 2003 and 2 April 2004 and has been prepared on the basis set out in the 'Basis of Preparation' section on page 72, to which no adjustments were considered necessary.

52 week period to 29 March 2002

The Combined and Consolidated Financial Information is based on the audited financial statements of Halfords Limited.

52 week period to 28 March 2003

The Combined and Consolidated Financial Information is based on an aggregation of the audited financial statements of Halfords Limited for the five month period to 30 August 2002 and the audited consolidated financial statements of Halfords Group Plc for the seven months to 28 March 2003. Halfords Group Plc was incorporated on 10 June 2002 but did not trade in the three months to 30 August 2002.

53 week period to 2 April 2004

The Combined and Consolidated Financial Information is based on the audited consolidated financial statements of Halfords Group Plc.

Responsibility

Such financial statements are the responsibility of the directors of the companies who approved their issue.

The directors of Halfords Group Plc are responsible for the contents of the listing particulars in which this report is included.

It is our responsibility to compile the Combined and Consolidated Financial information set out in our report from the financial statements, to form an opinion on the Combined and Consolidated Financial Information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the Combined and Consolidated Financial Information. The evidence included that previously obtained by us and that recorded by the previous auditors relating to the audits of the financial statements underlying the Combined and Consolidated Financial Information. Our work also included an assessment of significant estimates and judgements made by those responsible for the preparation of the Combined and Consolidated Financial Information and whether the accounting policies are appropriate to the circumstances of the Company, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Combined and Consolidated Financial Information is free from material misstatement, whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the Combined and Consolidated Financial Information gives, for the purposes of the listing particulars, a true and fair view of the state of affairs of the Group as at the dates stated and of its profits, cash flows and recognised gains and losses for the periods then ended.

Combined and Consolidated Profit and Loss Accounts	Note	52 weeks ended 29 March 2002 £m	52 weeks ended 28 March 2003 £m	53 weeks ended 2 April 2004 £m
Turnover	3	519.8	525.8	578.6
Cost of sales	4	(243.3)	(244.4)	(269.0)
Gross profit		276.5	281.4	309.6
Selling and distribution costs	4	(193.0)	(190.2)	(195.2)
Administrative expenses excluding goodwill amortisation and exceptional costs		(32.0)	(40.4)	(35.2)
Goodwill amortisation		–	(8.0)	(13.7)
Exceptional administrative expenses		–	(9.3)	–
Administrative expenses	4	(32.0)	(57.7)	(48.9)
Operating profit before goodwill amortisation and exceptional costs		51.5	50.8	79.2
Goodwill amortisation		–	(8.0)	(13.7)
Exceptional costs		–	(9.3)	–
Group operating profit		51.5	33.5	65.5
Loss on the sale of business	5	(2.3)	–	–
Profit on the sale of fixed assets	5	–	–	6.4
Net interest payable	6	(0.5)	(21.9)	(44.1)
Profit on ordinary activities before taxation	7	48.7	11.6	27.8
Tax on profit on ordinary activities	8	(16.7)	(6.5)	(14.3)
Profit for the financial period		32.0	5.1	13.5
Dividends	9	–	(11.0)	–
Retained profit/(loss) for the financial period	22, 23	32.0	(5.9)	13.5
Earnings per 1p share				
– basic	10	19.5	3.1	8.1
– diluted	10	18.8	3.0	7.8
Earnings per 1p share before goodwill amortisation				
– basic	10		8.0	16.3
– diluted	10		7.7	15.7

There is no material difference between the profit as stated above and the profit on an unmodified historical cost basis.

Halfords Group Plc acquired Halfords Limited on 30 August 2002. Prior to this date Halfords Limited was a wholly owned subsidiary of The Boots Company Plc. Consequently the results across the three periods reflect the differences in the capital and financing structure under the different ownerships and the goodwill arising on the CVC Acquisition leading to amortisation charges in the post-CVC Acquisition periods.

Combined and Consolidated Statement of Total Recognised Gains and Losses	52 weeks ended 29 March 2002 £m	52 weeks ended 28 March 2003 £m	53 weeks ended 2 April 2004 £m
Profit attributable to shareholders	32.0	5.1	13.5
Total gains recognised since last annual report	32.0	5.1	13.5

Combined and Consolidated Reconciliation of Movements in Group Shareholders' Funds	£m
Balance at 1 April 2001	111.9
Profit for the financial period	32.0
Balance at 29 March 2002	143.9
Profit for the financial period up to the date of the CVC Acquisition	14.0
Interim dividend	(11.0)
Balance at 30 August 2002	146.9
Elimination of Boots Invested Capital	(146.9)
Net proceeds of ordinary shares issued for cash (note 22, 23)	(0.1)
Loss for the financial period from the date of the CVC Acquisition	(8.9)
Balance at 28 March 2003	(9.0)
Profit for the financial period	13.5
Balance at 2 April 2004	4.5

Combined and Consolidated Balance Sheets	Note	29 March 2002 £m	28 March 2003 £m	2 April 2004 £m
Fixed assets				
Intangible assets	11	–	266.4	253.1
Tangible assets	12	106.3	78.8	82.5
Investments	13	–	–	–
		106.3	345.2	335.6
Current assets				
Stock	14	94.9	90.3	107.1
Debtors	15	36.9	23.2	23.5
Cash at bank and in hand		53.3	45.0	25.6
		185.1	158.5	156.2
Creditors – Amounts falling due within one year	16	(80.2)	(84.6)	(293.8)
Net current assets/(liabilities)		104.9	73.9	(137.6)
Total assets less current liabilities		211.2	419.1	198.0
Creditors – Amounts falling due after more than one year	17	(49.8)	(424.4)	(190.2)
Provisions for liabilities and charges	20	(17.5)	(3.7)	(3.3)
Net assets/(liabilities)		143.9	(9.0)	4.5
Capital and reserves				
Called up share capital	21	–	–	–
Share premium account	22	–	0.1	0.1
Profit and loss account	22	–	(9.1)	4.4
Boots Invested Capital	23	143.9	–	–
Shareholders' funds		143.9	(9.0)	4.5

Halfords Group Plc acquired Halfords Limited on 30 August 2002. Prior to this date Halfords Limited was a wholly owned subsidiary of The Boots Company Plc. Consequently the balance sheets across the three periods reflect the differences in the capital and funding structures that existed under the different ownerships and the goodwill arising on the CVC Acquisition.

Combined and Consolidated Cash Flow Statements	Note	52 weeks ended 29 March 2002 £m	52 weeks ended 29 March 2002 £m	52 weeks ended 28 March 2003 £m	52 weeks ended 28 March 2003 £m	53 weeks ended 2 April 2004 £m	53 weeks ended 2 April 2004 £m
Net cash inflow from operating activities	25		63.6		61.9		114.8
Returns on investments and servicing of finance							
Interest received		–		1.0		2.8	
Interest paid		(0.1)		(7.5)		(26.8)	
Issue costs of new bank loan		–		(10.0)		(2.5)	
Interest element of finance lease payment		(0.1)		–		–	
Net cash outflow from returns on investments and servicing of finance			(0.2)		(16.5)		(26.5)
Taxation			(11.7)		(16.0)		(8.1)
Capital expenditure and financial investment							
Purchase of tangible fixed assets		(21.6)		(20.9)		(19.3)	
Sale of tangible fixed assets		0.3		1.5		6.9	
Net cash outflow for capital expenditure and financial investment			(21.3)		(19.4)		(12.4)
Acquisitions and disposals							
Purchase of subsidiary undertakings		–		(400.6)		–	
Consideration from sale of garage business		3.9		–		–	
Net cash inflow/(outflow) for acquisitions and disposals	28		3.9		(400.6)		–
Equity dividends paid to shareholders			(65.5)		(11.0)		–
Net cash outflow before use of liquid resources and financing			(31.2)		(401.6)		67.8
Management of liquid resources							
Increase/(reduction) in short-term deposits with banks			–		(20.0)		20.0
Financing							
Issue of ordinary share capital		–		0.1		–	
Expenses of share issue		–		(0.2)		–	
Finance leases		(0.5)		(1.3)		0.8	
Decrease in borrowings to Boots Group		–		(45.9)		–	
Increase/(decrease) in borrowings		11.1		427.4		(81.9)	
Net cash inflow/(outflow) from financing			10.6		380.1		(81.1)
(Decrease)/increase in net cash			(20.6)		(41.5)		6.7
Reconciliation of net cash flow to movement in net cash/(debt)							
Net cash/(debt) at start of period	26		37.3		6.1		(395.9)
(Decrease)/increase in net cash			(20.6)		(41.5)		6.7
Movement in deposits	26		–		20.0		(20.0)
Movement in borrowings			(10.6)		(370.2)		83.6
Other non-cash changes	26		–		(10.3)		(23.9)
Net cash/(debt) at end of period			6.1		(395.9)		(349.5)

The cash flows for the periods up to the CVC Acquisition on 30 August 2002 reflect the capital structure and financing of Halfords Limited within The Boots Company Plc. These are different from those that have existed since the CVC Acquisition.

NOTES TO THE COMBINED AND CONSOLIDATED FINANCIAL INFORMATION

1. BASIS OF PREPARATION

Corporate history

Halfords Group Limited was incorporated on 10 June 2002 and commenced trading on 30 August 2002 when it acquired Halfords Limited. Prior to 30 August 2002, Halfords Limited was a wholly owned subsidiary of The Boots Company Plc.

On 12 May 2004, Halfords Group Limited re-registered as a public limited company and changed its name to Halfords Group Plc.

Companies in the Combined and Consolidated Financial Information

This Combined and Consolidated Financial Information presents the financial record for the 52 week periods ended 29 March 2002 and 28 March 2003 and the 53 week period ended 2 April 2004 of those businesses that are part of the Halfords Group at the date of this document. The Combined and Consolidated Financial Information therefore comprises an aggregation of amounts included in the financial statements of the following companies.

Company	Nature of operations	Country of incorporation
Halfords Group Plc	Holding company	England
Halfords Holdings Limited	Intermediate holding company	England
Halfords Finance Limited	Intermediate holding company	England
Halfords Limited	Retailing of auto parts, accessories, cycles and cycle accessories	England
Halfords Payment Services Limited	Provides payment process services	England
Halfords Vehicle Management Limited	Dormant	England

The above subsidiaries are wholly owned directly or indirectly by Halfords Group Plc.

Basis of aggregation

The Combined and Consolidated Financial Information represents an aggregation of the financial information of the various companies, which comprised the Halfords Group during the three financial periods as follows:

52 week period to 29 March 2002

The Combined and Consolidated Financial Information is based on the financial statements of Halfords Limited.

52 week period to 28 March 2003

The Combined and Consolidated Financial Information is based on an aggregation of the financial statements of Halfords Limited for the five month period to 30 August 2002 and the consolidated financial statements of Halfords Group Plc for the seven months to 28 March 2003. Halfords Group Plc was incorporated on 10 June 2002 but did not trade in the three months to 30 August 2002.

53 week period to 2 April 2004

The Combined and Consolidated Financial Information is based on the consolidated financial statements of Halfords Group Plc.

Accounting reference date

As permitted under the Companies Act 1985, the companies within the Halfords Group prepare financial statements drawn up to the nearest Friday to 31 March each year.

2. ACCOUNTING POLICIES

The following accounting policies have been used in dealing with items that are considered material in relation to the financial statements.

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings.

The acquisition method of accounting has been adopted. The net assets of acquired undertakings are incorporated at their fair value at the date of acquisition. All changes to those assets and liabilities, and the resulting gains and losses that arise after the Group has gained control are credited and charged to the post-acquisition profit and loss account or the statement of recognised gains and losses as appropriate.

Goodwill arising on acquisitions is capitalised and amortised over its useful economic life, up to a maximum of 20 years.

Turnover

Turnover is stated as amounts receivable for goods and services supplied to customers net of VAT and discounts and promotions. In accordance with FRS 5 Application Note G: Revenue Recognition, turnover is stated net of a provision for the estimated level of returns.

Depreciation

Tangible fixed assets are written off in equal instalments to their estimated residual value over their expected useful economic lives. This policy is reviewed on a regular basis to ensure that the estimated useful economic lives are appropriate.

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

Short leasehold land and buildings	Over the period of the lease
Short leasehold improvements	Over the period of the lease
Motor vehicles	33 per cent. per annum
Fixtures, fittings and equipment	10 to 25 per cent. per annum
Computer equipment	33 per cent. per annum

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

Pensions

Prior to the CVC Acquisition, Group employees participated in the Boots group-wide pension scheme providing benefits based on final pensionable pay. The cost of providing pensions was charged to the profit and loss account over the periods benefiting from the employees' services in accordance with SSAP 24.

Since the CVC Acquisition, employees have been offered membership of the Halfords Pension Plan, a defined contribution pension arrangement. The costs of contributions to the scheme are charged to the profit and loss account in the period that they arise.

Leases

The rentals payable under operating leases are charged directly to the profit and loss account on a straight-line basis over the life of the lease.

Benefits received as an incentive to sign a lease, whatever form they may take, are credited to the profit and loss account on a straight line basis over the shorter of the period of the lease or the period until rentals are expected to be revised to prevailing market rates.

The cost of assets held under finance leases is included within tangible fixed assets and depreciation is provided in accordance with the policy for the class of asset concerned. The corresponding obligations under these leases are shown as creditors. The finance charge element of rentals is charged to the profit and loss account to produce, or approximate to, a constant periodic rate of charge on the remaining balance of the outstanding obligations.

Intangible assets
The costs of intangible assets acquired, which are capitalised only if separately identifiable, are amortised over estimated useful economic lives generally up to a maximum of 20 years. Similar assets created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred. The carrying value of intangible assets is reviewed annually and any impairment in value charged to the profit and loss account.

Stocks
Stocks are valued at the lower of cost and net realisable value. Cost comprises purchase cost of goods and cost related to distribution.

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

Financial instruments
Debt is recognised in the balance sheet as the cash proceeds received less costs incurred directly in connection with the issue of the instrument. Finance costs in respect of the instruments, including discounts on issue, are charged to the profit and loss account over the term of the instruments.

The principal derivative instruments utilised by the Group are interest rate swaps and forward rate agreements. These instruments are used for hedging purposes in line with the Group risk management policy and no trading of financial instruments is undertaken. Interest differentials are taken to net interest payable in the profit and loss account, and premiums and fees are amortised at a contract rate over the life of the underlying instruments.

Foreign currencies
Transactions denominated in foreign currencies 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. Any exchange gain or loss is dealt with in the profit and loss account.

3. TURNOVER ANALYSIS

Turnover
Turnover comprises retail sales wholly in the UK to external customers.

Turnover by product category	52 weeks ended 29 March 2002 Total £m	52 weeks ended 28 March 2003 Total £m	53 weeks ended 2 April 2004 Total £m
Car maintenance	156.7	170.2	172.0
Car enhancement	164.2	174.7	201.4
Travel solutions	69.4	68.9	82.1
Cycling	112.2	112.0	123.1
	502.5	525.8	578.6
Garage services	17.3	–	–
	519.8	525.8	578.6

Due to the related nature of the Groups products, the common distribution channel and the manner in which the Group's activities are organised, the directors do not believe that the different product categories represent different classes of business as defined in SSAP 25. Accordingly the additional disclosures set out in SSAP 25 are not considered to be required.

4. COST OF SALES, GROSS PROFIT, SELLING AND DISTRIBUTION COSTS AND ADMINISTRATIVE EXPENSES

	52 weeks ended 29 March 2002 Total £m	52 weeks ended 28 March 2003 Total £m	53 weeks ended 2 April 2004 Total £m
Turnover	519.8	525.8	578.6
Cost of sales	(243.3)	(244.4)	(269.0)
Gross profit	276.5	281.4	309.6
Selling and distribution costs	(193.0)	(190.2)	(195.2)
Administrative expenses	(32.0)	(40.4)	(35.2)
Goodwill amortisation	–	(8.0)	(13.7)
Exceptional costs (see below)	–	(9.3)	–
Total administrative expenses	(32.0)	(57.7)	(48.9)
Net operating expenses	(225.0)	(247.9)	(244.1)
Group operating profit	51.5	33.5	65.5

As set out in note 5, in August 2001, Halfords Limited sold its garage services business. In the period from 31 March 2001 through to the date of disposal, the garage services business contributed £17.3 million to turnover, £5.2 million to cost of sales, £13.0 million to distribution costs and £0.3 million to administrative expenses, resulting in an overall operating loss for this business in the 52 weeks ended 29 March 2002 of £1.2 million.

Exceptional costs in the 52 weeks ended 28 March 2003 were as follows:

	£m
Write off of pension prepayment	8.1
Professional costs incurred as a result of the change of ownership	0.5
Transfer of property obligations and other obligations to the Boots Group	(4.0)
Restructuring costs	4.7
Total exceptional costs	9.3

The £4.7m restructuring costs related to redundancy and similar charges, covering head office (£2.7 million) and retail operations (£2.0 million).

5. NON OPERATING EXCEPTIONAL ITEMS

	52 weeks ended 29 March 2002 £m	52 weeks ended 28 March 2003 £m	53 weeks ended 2 April 2004 £m
Loss on disposal of business	(2.3)	–	–
Profit on sale of property	–	–	6.2
Profit on sale of fixed asset investments	–	–	0.2
	(2.3)	–	6.4

Loss on sale of business

In August 2001, Halfords Limited sold its garage services business for net consideration of £4.3 million in cash (see note 28). Expenses incurred on the disposal totalled £0.4 million.

Profit on sale of property

In March 2004, the Group exercised an option to acquire its head office premises for £11.2 million. The property was then immediately subject to a sale and leaseback for total consideration of £21.2 million. Of these proceeds, £3.8 million is considered to represent a reverse premium and has been deferred and will be amortised over the term of the lease.

6. NET INTEREST PAYABLE AND SIMILAR CHARGES

	52 weeks ended 29 March 2002 £m	52 weeks ended 28 March 2003 £m	53 weeks ended 2 April 2004 £m
Unwinding of discount in provisions	(0.3)	–	–
Interest payable on bank loans and overdrafts	–	(13.8)	(23.9)
Premium on deep discount bond	–	(7.9)	(12.1)
Amortisation of issue costs	–	(0.7)	(1.3)
Exceptional amortisation of issue costs	–	–	(8.7)
Commitment and guarantee fees	–	(0.5)	(0.7)
Interest payable on finance leases	(0.1)	–	–
Other interest payable	(0.1)	(0.1)	(0.1)
Total interest payable and similar charges	(0.5)	(23.0)	(46.8)
Bank interest receivable	–	1.1	2.7
Net interest payable and similar charges	(0.5)	(21.9)	(44.1)

As explained in note 18, the existing borrowings of the Group will be repaid from the proceeds from the Global Offer and the New Bank Facilities. Accordingly the amortisation of the debt issue costs has been accelerated in the 53 week period ended 2 April 2004. In addition, during the 53 week period ended 2 April 2004, the Group repaid all of the borrowings under its mezzanine facility and has therefore written off the remaining unamortised issue costs relating to this facility.

7. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	52 weeks ended 29 March 2002 £m	52 weeks ended 28 March 2003 £m	53 weeks ended 2 April 2004 £m
Profit on ordinary activities before taxation is stated after charging/(crediting):			
Amortisation of goodwill	–	8.0	13.7
Depreciation of tangible fixed assets			
– owned assets	12.9	15.9	15.8
– under finance leases	0.5	0.2	–
Loss on disposal of fixed assets			
– adjustment to depreciation	3.0	1.4	0.2
Hire of machinery and equipment	0.1	0.2	0.7
Other operating lease rentals	54.4	54.5	56.4
Rents received	(8.7)	(10.7)	(9.5)
Group audit fees and expenses	0.1	0.1	0.1

Fees paid to PricewaterhouseCoopers LLP for non-audit services in the UK were £Nil, £2.2 million and £0.6 million for the periods ended 28 March 2002, 29 March 2003 and 2 April 2004. These comprise the following non-audit services:

Non-Audit Services	52 weeks ended 29 March 2002 £m	52 weeks ended 28 March 2003 £m	53 weeks ended 2 April 2004 £m
Assurance related services	–	1.5	0.4
Taxation services	–	0.4	0.1
Other services	–	0.3	0.1
	–	2.2	0.6

The directors recognise that there are occasions when it is advantageous to use the auditors for non audit work due to their knowledge and understanding of the Group. The directors monitor the level of audit and non audit services to ensure that the independence and objectivity of the auditors are not compromised.

8. TAX ON PROFIT ON ORDINARY ACTIVITIES	52 weeks ended 29 March 2002 £m	52 weeks ended 28 March 2003 £m	53 weeks ended 2 April 2004 £m
Analysis of charge in period			
United Kingdom			
Corporation tax at 30 per cent. (2003: 30%; 2002: 30%)	14.7	9.7	15.2
Prior periods	(0.8)	0.7	0.1
	13.9	10.4	15.3
Deferred tax			
Origination and reversal of timing differences	2.8	(3.9)	(1.0)
Tax on profit on ordinary activities	16.7	6.5	14.3

The tax for the period is higher/(lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	52 weeks ended 29 March 2002 £m	52 weeks ended 28 March 2003 £m	53 weeks ended 2 April 2004 £m
Profit on ordinary activities before taxation	48.7	11.6	27.8
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30 per cent. (2003: 30 per cent.; 2002: 30 per cent.)	14.6	3.6	8.3
Effects of:			
Adjustments to tax in respect of prior periods	(0.8)	0.7	0.1
Adjustment in respect of fixed asset disposals	1.3	–	–
Movement in pension fund prepayment	(1.4)	2.2	–
Expenses not deductible for tax purposes	0.7	0.9	0.7
Capital allowances in excess of depreciation	–	1.0	0.7
Goodwill amortisation	–	2.4	4.1
Timing difference on premium received on property transactions	–	–	1.1
Other timing differences	0.1	(0.4)	0.3
Profit on sale of fixed assets covered by rollover relief/capital gains tax	(0.6)	–	–
	13.9	10.4	15.3

9. DIVIDENDS

	52 weeks ended 29 March 2002 £m	52 weeks ended 28 March 2003 £m	53 weeks ended 2 April 2004 £m
Equity – Ordinary			
Dividend paid	–	11.0	–
	–	11.0	–

The dividend was paid to the former parent company prior to the CVC Acquisition. This represents a dividend of 9.15 pence per share in respect of the 120,216,500 ordinary shares in Halfords Limited held by Boots.

10. EARNINGS PER SHARE

The calculation of the basic earnings per ordinary share has been based on the profit for the relevant period and on 166,673,388 shares for the 53 week period ended 2 April 2004, 163,744,304 shares for the 52 week period ended 28 March 2003 and 163,689,127 shares for the 52 week period ended 29 March 2002, being the weighted average share capital after taking account of the restructuring of the existing share capital conditional on Admission (see note 35).

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The dilutive potential ordinary shares are in respect of the warrants issued on 30 August 2002 and consequently the calculation of the diluted earnings per ordinary share has been based on the profit for the relevant period and on 173,281,073 shares for the 53 week period ended 2 April 2004, 170,235,372 shares for the 52 week period ended 28 March 2003 and 170,178,010 shares for the 52 week period ended 29 March 2002, being the weighted average share capital after taking into account the restructuring of the share capital conditional on Admission (see note 35).

For the purposes of calculating earnings per share for the 52 week period ended 29 March 2002, the number of shares is based on those issued on the CVC Acquisition adjusted to take account of the restructuring conditional on Admission.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below.

	52 weeks ended 29 March 2002			52 weeks ended 28 March 2003		
	Earnings £m	Weighted average number of shares million	Per-share amount pence	Earnings £m	Weighted average number of shares million	Per-share amount pence
Basic EPS						
Earnings attributable to ordinary shareholders	32.0	163.7	19.5	5.1	163.7	3.1
Effect of dilutive securities						
Warrants		6.5			6.5	
Diluted EPS						
Adjusted earnings	32.0	170.2	18.8	5.1	170.2	3.0
Supplementary earnings per share						
Basic EPS				5.1		
Effect of goodwill amortisation				8.0		
Basic EPS excluding goodwill amortisation				13.1	163.7	8.0
Diluted EPS				5.1		
Effect of goodwill amortisation				8.0		
Diluted EPS excluding goodwill amortisation				13.1	170.2	7.7

	53 weeks ended 2 April 2004		
	Earnings £m	Weighted average number of shares million	Per-share amount pence
Basic EPS			
Earnings attributable to ordinary shareholders	13.5	166.7	8.1
Effect of dilutive securities			
Warrants		6.6	
Diluted EPS			
Adjusted earnings	13.5	173.3	7.8
Supplementary earnings per share			
Basic EPS	13.5		
Effect of goodwill amortisation	13.7		
Basic EPS excluding goodwill amortisation	27.2	166.7	16.3
Diluted EPS	13.5		
Effect of goodwill amortisation	13.7		
Diluted EPS excluding goodwill amortisation	27.2	173.3	15.7

Supplementary basic and diluted EPS have been calculated to exclude the effect of amortisation of goodwill arising on the CVC Acquisition which took place during the 52 weeks ended 28 March 2003. The adjusted numbers have been provided in order that the effects of goodwill amortisation on reported earnings can be fully appreciated.

11. INTANGIBLE FIXED ASSETS	Goodwill £m	Trademarks £m	Total £m
Cost			
At 31 March 2001 and 29 March 2002	–	0.2	0.2
On CVC Acquisition	274.4	–	274.4
At 28 March 2003	274.4	0.2	274.6
Additions	0.4	–	0.4
At 2 April 2004	274.8	0.2	275.0
Amortisation			
At 31 March 2001 and 29 March 2002	–	0.2	0.2
Charge for the period	8.0	–	8.0
At 28 March 2003	8.0	0.2	8.2
Charge for the period	13.7	–	13.7
At 2 April 2004	21.7	0.2	21.9
Net book amount			
At 29 March 2002	–	–	–
At 28 March 2003	266.4	–	266.4
At 2 April 2004	253.1	–	253.1

The goodwill arising on the CVC Acquisition of Halfords Limited is being amortised on a straight-line basis over 20 years. This is the period over which the directors estimate that the value of the underlying business acquired is expected to exceed the value of the underlying assets.

The increase in goodwill in the 53 week period ended 2 April 2004 reflects an additional fair value adjustment in respect of a provision for sales returns.

The trademark relates to the "Ripspeed" registered trademark and was fully amortised by the beginning of the period.

12. TANGIBLE FIXED ASSETS

	Land and buildings £m	Motor vehicles £m	Fixtures, fittings and equipment £m	Payments on account and assets in course of construction £m	Total £m
Cost					
At 31 March 2001	27.7	4.1	180.4	0.9	213.1
Additions at cost	1.7	0.5	16.2	0.8	19.2
Disposals	(1.4)	(0.9)	(4.9)	–	(7.2)
Reclassifications	0.5	–	0.4	(0.9)	–
Disposal of business	(2.9)	–	(14.8)	–	(17.7)
At 29 March 2002	25.6	3.7	177.3	0.8	207.4
Additions for the period prior to the CVC Acquisition	0.3	0.4	9.0	0.9	10.6
Reclassifications	0.2	–	0.6	(0.8)	–
Disposals for the period prior to the CVC Acquisition	(0.3)	(0.7)	(5.9)	–	(6.9)
Eliminated on the CVC Acquisition	(25.8)	(3.4)	(181.0)	(0.9)	(211.1)
Fair value on CVC Acquisition	25.6	3.4	178.5	0.9	208.4
Additions for the period since the CVC Acquisition	0.8	–	6.0	0.8	7.6
Disposals for the period since the CVC Acquisition	(0.3)	(2.1)	(2.4)	–	(4.8)
Reclassifications	0.3	–	0.6	(0.9)	–
At 28 March 2003	26.4	1.3	182.7	0.8	211.2
Additions	0.8	–	17.5	1.9	20.2
Disposals	(0.4)	(1.2)	(8.2)	–	(9.8)
Reclassification	0.2	–	0.6	(0.8)	–
At 2 April 2004	27.0	0.1	192.6	1.9	221.6
Accumulated depreciation					
At 31 March 2001	8.3	1.1	96.1	–	105.5
Charge for the period	1.1	0.7	11.6	–	13.4
Disposals	(0.2)	(0.4)	(3.3)	–	(3.9)
Disposal of businesses	(1.4)	–	(12.5)		(13.9)
At 29 March 2002	7.8	1.4	91.9	–	101.1
Charge for the period prior to the CVC Acquisition	0.4	0.3	6.1	–	6.8
Disposals for the period prior to the CVC Acquisition	(0.1)	(0.3)	(5.3)	–	(5.7)
Eliminated on the CVC Acquisition	(8.1)	(1.4)	(92.7)	–	(102.2)
Fair value on CVC Acquisition	9.4	1.4	115.3	–	126.1
Charge for the period since the CVC Acquisition	0.9	0.2	8.2	–	9.3
Disposals for the period since the CVC Acquisition	(0.2)	(0.8)	(2.0)	–	(3.0)
At 28 March 2003	10.1	0.8	121.5	–	132.4
Charge for the period	1.3	0.1	14.4	–	15.8
Disposals	(0.2)	(0.8)	(8.1)	–	(9.1)
At 2 April 2004	11.2	0.1	127.8	–	139.1
Net book amount:					
At 29 March 2002	17.8	2.3	85.4	0.8	106.3
At 28 March 2003	16.3	0.5	61.2	0.8	78.8
At 2 April 2004	15.8	–	64.8	1.9	82.5

	As at 29 March 2002 £m	As at 28 March 2003 £m	As at 2 April 2004 £m
Analysis of net book amount of land and buildings			
Leasehold:			
Under 50 years unexpired	17.8	16.3	15.8
	17.8	16.3	15.8

Assets held under finance leases, capitalised and included in plant and equipment and vehicles and office equipment.

	As at 29 March 2002 £m	As at 28 March 2003 £m	As at 2 April 2004 £m
Cost	1.9	–	0.8
Aggregate depreciation	(0.5)	–	–
Net book amount	1.4	–	0.8

13. INVESTMENTS

	As at 29 March 2002 £m	As at 28 March 2003 £m	As at 2 April 2004 £m
Interest in own shares	–	–	–

At 2 April 2004, certain employees held options to subscribe for shares in the Company at £1 per share under a share option scheme approved by shareholders on 19 November 2003. At that date options had been granted in respect of 5,925 ordinary shares of 1p. The options are exercisable only in the event of a takeover, sale or admission of the Company to a relevant EEA market and are only exercisable for a maximum of 10 years. No options were exercised in the period. The shares required to meet the Company's obligations under the option scheme are held in trust. As at 2 April 2004, the trust held 20,400 (2003: nil) ordinary shares of 1p each in the Company, with a nominal value of £204 (2003: nil).

14. STOCKS

	As at 29 March 2002 £m	As at 28 March 2003 £m	As at 2 April 2004 £m
Finished products held for resale	94.9	90.3	107.1
	94.9	90.3	107.1

15. DEBTORS

	As at 29 March 2002 £m	As at 28 March 2003 £m	As at 2 April 2004 £m
Amounts falling due within one year:			
Trade debtors	7.2	5.2	6.3
Amounts owed by former parent group	0.6	–	–
Other debtors	12.5	0.7	0.5
Prepayments and accrued income	16.1	17.3	16.7
	36.4	23.2	23.5
Amounts falling due after more than one year:			
Amounts owed by former parent group	0.5	–	–
	36.9	23.2	23.5

16. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	As at 29 March 2002 £m	As at 28 March 2003 £m	As at 2 April 2004 £m
Bank overdraft	–	13.2	7.1
Bank borrowings (note 18)	–	4.8	93.0
Debentures and other loans (note 18)	–	–	89.2
Obligations under finance leases	0.4	–	0.2
Trade creditors	26.3	31.2	60.6
Amounts owed to former parent and group undertakings	14.2	–	–
Corporation tax	8.8	3.2	10.1
Other taxation and social security payable	5.0	2.8	7.5
Other creditors	3.8	1.1	1.5
Accruals and deferred income	21.7	28.3	24.6
	80.2	84.6	293.8

17. CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	As at 29 March 2002 £m	As at 28 March 2003 £m	As at 2 April 2004 £m
Bank loans (note 18)	–	278.5	185.0
Debentures and other loans (note 18)	–	144.4	–
Obligations under finance leases	0.9	–	0.6
Amounts owed to former parent and group undertakings	45.9	–	–
Accruals and deferred income	3.0	1.5	4.6
	49.8	424.4	190.2

18. BANK AND OTHER BORROWINGS	As at 29 March 2002 £m	As at 28 March 2003 £m	As at 2 April 2004 £m
Bank loans:			
Secured	–	283.3	278.0
Unsecured	–	–	–
	–	283.3	278.0
Debentures and other loans:			
Deep discount bonds	–	143.8	88.8
Other unsecured loan notes	–	0.6	0.4
Finance lease obligations	1.3	–	0.8
	1.3	427.7	368.0

Secured bank loans are stated net of unamortised issue costs of £1.7m (2003: £8.3m). In the period to 28 March 2003, the Group incurred total issue costs of £8.9m in respect of the arrangement of a senior facility of £220.0m and a mezzanine facility of £70.0m that were entered into on 25 July 2002. In the period to 2 April 2004, the Group incurred issue costs of £2.5m in respect of the arrangement of a senior term facility of £65m which was entered into on 12 November 2003. These costs were being charged to the profit and loss account over the term of the facilities. The charge has been accelerated in the 53 week period ended 2 April 2004 as the related borrowings are to be repaid from the proceeds of the Global Offer and associated New Bank Facilities.

The senior facility includes £89.7m that is redeemable in six monthly instalments from 30 September 2003 to 30 September 2009 and carries interest of LIBOR plus 1.5 to 2.0 per cent. Of the remaining senior loan, £62.5m is repayable on 30 September 2010, £62.5m is repayable on 30 September 2012 and £65.0m is repayable on 30 September 2014 and bears interest based on LIBOR plus 2.75 per cent., 3.25 per cent. and 3.75 per cent. respectively. It is expected that these borrowings will be repaid from the proceeds of the Global Offer and the New Bank Facilities and consequently they have been reclassified to reflect the repayment profile applicable to the New Bank Facilities.

The mezzanine facility was repayable on 30 September 2013 and bore annual interest of LIBOR plus 4 per cent., plus further interest of 4 per cent. per annum payable on redemption. Borrowings under this facility were repaid on 12 November 2003.

The bank loans are secured by a fixed charge over all rights and property of the Group.

The deep discount bonds were issued at a discount on their nominal value and are redeemable at a value that will be determined at the time of redemption (up to 100 per cent. of the nominal value). The bonds will be redeemed on 30 September 2014 unless previously redeemed. The bonds are stated net of unamortised issue costs of £0.1m (2003: £1.0m). The Group incurred total issue costs of £1.1m in respect of the bonds. These costs together with the premium on redemption are charged to the profit and loss account over the term of the facility. The deep discounted bonds will be repaid from the proceeds of the Global Offer and New Bank Facilities and hence has been reclassified as due within one year and the amortisation charge in respect of the issue costs has been accelerated.

The fixed rate subordinated unsecured loan notes bear 10% compound interest that annually is rolled up in to the principal amount. The accumulated principal is redeemable on 30 September 2013.

19. FINANCIAL INSTRUMENTS

Treasury policy

The Group's objective in using financial instruments is to minimise its exposure to financial risk. Halfords Group treasury's main responsibilities are to:

- Ensure adequate funding and liquidity for the Company;
- Manage the interest rate risk of the debt;
- Manage the foreign exchange risk on its non-sterling cash flows;
- Invest surplus cash; and
- Manage the clearing banking operations of the Company.

The main risk arising from the Group's financial instruments is interest rate risk. Policies for managing financial risks are governed by board approved policies and procedures, which are reviewed on an annual basis. The latest policy review was performed in January 2004.

Halfords' debt management policy is to provide an appropriate level of funding to finance the Business Plan over the next three to five years at a reasonable cost and ensure adequate flexibility to meet the changing needs of the enterprise.

Financial Risk

The business plan and cash flow forecasts are subject to key assumptions such as interest rates and the significance of these risks is dependent upon the level of the trading profit and the strength of the balance sheet.

Interest Rate Risk

Halfords maintains its policy to minimise interest rate risk on its borrowings and deposits by using interest rate derivatives where appropriate. The Group's policy aims to manage the interest cost of the Company within the constraints of the Business Plan and its financial covenants. The aim is to reduce exposure to the effect of interest rates movements and to take advantage of low interest rates by hedging at least 75 per cent. of the following financial period's net interest rate exposure, whilst maintaining the flexibility to minimise early termination costs.

Foreign Currency Risk

Halfords has a significant transaction exposure with increasing, direct-source purchases of its supplies from the Far East, with most of the trade being specifically US Dollar denominated. The Group's policy is to manage the foreign exchange transaction exposures of the business for a minimum period of twelve months forward to ensure the actual costs do not exceed the budget costs by 10 per cent. (excluding increases in the base cost of the product). The Company does not hedge either economic exposure or the translation exposure arising from the profits, assets and liabilities of non-sterling business whilst they remain immaterial.

Credit Risk

The Group's policy is to minimise the risk that foreign exchange and interest rate derivative counterparties, the holders of surplus cash and the providers of debt will be unable to fulfil their obligations and also, in the case of lenders, unwilling to renegotiate the terms of the borrowings.

Liquidity Risk

Halfords ensures that it has sufficient cash or loan facilities to meet all its commitments when required. Halfords ensures that it has sufficient funding to meet its business plan requirements so that it is not reliant on there being sufficient liquidity in the market when it needs the funding.

Short-term debtors and creditors

Short-term debtors and creditors have been excluded from all the following disclosures, other than the currency risk disclosures.

Interest rate risk profile of financial liabilities

The interest rate risk profile of the Halfords Group's financial liabilities for the period covered by the Consolidated Financial Information, after taking account of the interest rate and currency swaps used to manage the interest and currency profile, was:

Currency – Sterling	Total £m	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	Financial liabilities on which no interest is paid £m
Financial Liabilities at 29 March 2002	61.4	–	1.9	59.5
Financial Liabilities at 28 March 2003	427.7	211.5	216.2	–
Financial Liabilities at 2 April 2004	368.0	207.2	160.8	–

All the Halfords Group's creditors falling due within one year (other than bank and other borrowings) are excluded from the above tables either due to the exclusion of short-term items or because they do not meet the definition of a financial liability, such as tax balances.

The effect of the Halfords Group's interest rate swap at 28 March 2003 and 2 April 2004 was to classify £71.8m of sterling borrowings in the above table as fixed rate. The Halfords Group has a sterling interest rate cap which receives interest compensation if LIBOR goes above 5.01% to the value of £145.7 million, which matures in September 2005.

In addition to the above, the Halfords Group's provisions of £4.5m, £0.4m and £0.6m at 29 March 2002, 28 March 2003 and 2 April 2004, respectively, for vacant leasehold properties (note 20) met the definition of financial liabilities. These financial liabilities were considered to be floating rate financial liabilities. This is because, in establishing the provisions, the cash flows were discounted and the discount rate re-appraised at each half yearly reporting date to ensure that it reflected the current market assessments of the time value of money and the risks specific to the liability.

Currency – Sterling	Weighted average interest rate %	Fixed rate financial liabilities Weighted average period for which rate is fixed years	Financial liabilities on which no interest is paid Weighted average period until maturity years
Financial Liabilities at 29 March 2002	–	–	–
Financial Liabilities at 28 March 2003	8.8	9.5	–
Financial Liabilities at 2 April 2004	6.6	9.5	–

Floating rate financial liabilities bear interest at rates, based on relevant national LIBOR equivalents, which are fixed in advance for periods of between one month and three months. The above calculations take account of the adjustment effect of interest rate hedges.

Interest rate risk of financial assets Currency	As at 29 March 2002 Cash at bank and in hand £m	Short-term deposits £m	Total £m	As at 28 March 2003 Cash at bank and in hand £m	Short-term deposits £m	Total £m	As at 2 April 2004 Cash at bank and in hand £m	Short-term deposits £m	Total £m
Sterling	53.3	–	53.3	10.4	20.0	30.4	17.9	–	17.9
US dollars	–	–	–	1.3	–	1.3	0.6	–	0.6
Euro	–	–	–	0.1	–	0.1	–	–	–
Other currencies	–	–	–	–	–	–	–	–	–
At end of period	53.3	–	53.3	11.8	20.0	31.8	18.5	–	18.5
Floating rate	53.3	–	53.3	11.8	20.0	31.8	18.5	–	18.5
Fixed rate	–	–	–	–	–	–	–	–	–
At end of period	53.3	–	53.3	11.8	20.0	31.8	18.5	–	18.5

The short-term deposits in sterling were placed with banks on a money market basis with stated terms of between one and fourteen days and in open ended money market funds. Floating rate cash earns interest based on relevant national LIBID equivalents or government bond rates.

Maturity of financial liabilities

The maturity profile of the carrying amount of the Halfords Group's financial liabilities, other than short-term trade creditors and accruals and the non-redeemable non-equity minority interests during the period of Consolidated Financial Information was as follows:

	As at 29 March 2002 Debt £m	Finance leases £m	Other financial liabilities £m	Total £m	As at 28 March 2003 Debt £m	Other financial liabilities £m	Total £m	As at 2 April 2004 Debt £m	Finance leases £m	Other financial liabilities £m	Total £m
Within one year, or on demand	14.2	0.4	1.1	15.7	2.6	0.3	2.9	182.2	0.2	0.6	183.0
Between 1 and 2 years	45.3	0.7	1.0	47.0	7.4	0.1	7.5	20.0	0.2	–	20.2
Between 2 and 5 years	–	0.2	1.3	1.5	46.2	–	46.2	60.0	0.4	–	60.4
Over 5 years	0.6	–	1.2	1.8	371.5	–	371.5	105.0	–	–	105.0
	60.1	1.3	4.6	66.0	427.7	0.4	428.1	367.2	0.8	0.6	368.6

Other financial liabilities includes the provisions for vacant leasehold properties £4.5m, £0.4m and £0.6m at 29 March 2002, 28 March 2003 and 2 April 2004.

Borrowing facilities

The Halfords Group has the following undrawn committed borrowing facilities available during the period covered by the Consolidated Financial Information in respect of which all conditions precedent had been met at that date:

	As at 28 March 2003 £m	As at 2 April 2004 £m
Expiring within 1 year	1.0	1.0
Expiring between 1 and 2 years	–	–
Expiring in more than 2 years	68.2	42.9
	69.2	43.9

The facilities expiring within one year were annual facilities subject to review at various dates during the period of the Consolidated Financial Information. The other facilities were arranged to help finance the proposed expansion of the Halfords Group's activities. All these facilities incurred commitment fees at market rates.

Fair values of financial assets and financial liabilities

The following table provides a comparison by category of the carrying amounts and the fair values of the Halfords Group's financial assets and financial liabilities at 29 March 2002, 28 March 2003 and 2 April 2004. Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale and excludes accrued interest. Where available, market values have been used to determine fair values. Where market values are not available, fair values have been calculated by discounting expected cash flows at prevailing interest and exchange rates. Set out below the table is a summary of methods and assumptions used for each category of financial instruments.

	As at 29 March 2002		As at 28 March 2003		As at 2 April 2004	
	Book value £m	Fair value £m	Book value £m	Fair value £m	Book value £m	Fair value £m
Primary financial instruments held or issued to finance the group's operations:						
Short-term borrowings	(60.1)	(60.1)	–	–	–	–
Long term borrowings	–	–	(427.7)	(427.7)	(367.2)	(367.2)
Other financial liabilities	(4.5)	(4.5)	(0.4)	(0.4)	(0.6)	(0.6)
Finance leases	(1.3)	(1.3)	–	–	(0.8)	(0.8)
Short-term deposits	–	–	20.0	20.0	–	–
Cash at bank and in hand	53.3	53.3	11.8	11.8	18.5	18.5
Derivative financial instruments held to manage the interest rate and currency profit:						
Interest rate swaps	–	–	–	(1.8)	–	0.8
Forward currency contracts	–	–	–	–	–	0.1
Total	(12.6)	(12.6)	(396.3)	(398.1)	(350.1)	(349.2)

Under the Halfords Group's accounting policy, foreign currency assets and liabilities that are hedged using currency swaps are translated initially at the swap rates. Any gains or losses arising from changes in exchange rates are included in the book value of the relevant asset or liability. Changes in the value of the swap as a result of changes in interest rates are not included in the book value of the relevant asset or liability. (For purpose of the above table, the book value of the relevant asset or liability is shown separately from the effect of the currency leg of the cross-currency swap.)

Summary of methods and assumptions

Interest rate swap, currency swaps and forward foreign currency contracts	Fair value is based on market price of comparable instruments at the balance sheet date.
Short-term deposits and borrowings	The fair value of short-term deposits, loans and overdrafts approximates to the carrying amount because of the short maturity of these instruments.
Long-term borrowings	The fair value of the Halfords Group's bonds has been estimated using quoted market prices. In the case of bank loans and other loans, the fair value approximates to the carrying value reported in the balance sheet as the majority are floating rate where payments are reset to market rates at intervals of less than one year.

Hedges

The Halfords Group's policy is to hedge the following exposures:

- Interest rate risk – using interest swaps and a cap.

- Forward foreign currency contracts are also used for currency exposures on next year's expected sales.

The table below shows the extent to which the Halfords Group has off-balance sheet (unrecognised) and on-balance sheet (deferred) gains and losses in respect of financial instruments used as hedges at the end of the period. It also shows the amount of such gains and losses which were included in the profit and loss account for the period and those gains and losses which are expected to be included in next year's or later profit and loss accounts.

All the gains and losses on the hedging instruments are expected to be matched by losses and gains on the hedged transactions or positions.

Under the Halfords Group's accounting policy, foreign currency transactions which are hedged using forward foreign currency contracts are translated at the contracted rates. Consequently, the carrying value of the relevant asset or borrowings effectively includes the gain or loss on the hedging instrument. Such gains and losses are treated as deferred for the purposes of the table below:

	Unrecognised			Deferred		
	Gains £m	Losses £m	Total net gains/losses £m	Gains £m	Losses £m	Total net gains/losses £m
Gains and losses on hedges at 29 March 2002	–	–	–	–	–	–
Gains and losses on hedges at 28 March 2003	–	(1.8)	(1.8)	–	–	–
Gains and losses on hedges at 2 April 2004	0.8	–	0.8	–	–	–

Financial instruments held for trading purposes

The Halfords Group does not trade in financial instruments.

20. PROVISIONS FOR LIABILITIES AND CHARGES

	Vacant properties £m	Sales returns £m	Deferred tax £m	Total £m
At 1 April 2001	5.0	–	10.2	15.2
Charged to profit and loss account	1.7	–	2.8	4.5
Utilised in period	(1.7)	–	–	(1.7)
Released in period	(0.8)	–	–	(0.8)
Amortisation of discount	0.3	–	–	0.3
At 29 March 2002	4.5	–	13.0	17.5
Charged to profit and loss account	0.5	–	–	0.5
Utilised in period	(0.9)	–	–	(0.9)
Released in period	(3.9)	–	(3.8)	(7.7)
Eliminated on CVC Acquisition	(0.2)	–	(9.2)	(9.4)
Fair value on CVC Acquisition (note 28)	0.2	–	3.4	3.6
Charged to the profit and loss account since CVC Acquisition	0.3	–	–	0.3
Utilised in period since CVC Acquisition	(0.1)	–	–	(0.1)
Released in period since CVC Acquisition	–	–	(0.1)	(0.1)
At 28 March 2003	0.4	–	3.3	3.7
Fair value adjustment (note 28)	–	0.4	–	0.4
Charged to profit and loss account	0.6	–	–	0.6
Utilised in period	(0.3)	–	–	(0.3)
Released in period	(0.1)	–	(1.0)	(1.1)
At 2 April 2004	0.6	0.4	2.3	3.3

Vacant properties	As at 29 March 2002 £m	As at 28 March 2003 £m	As at 2 April 2004 £m
Maturity profile of provisions			
Within 1 year	1.1	0.3	0.6
Between 1 and 2 years	1.0	0.1	–
Between 2 and 5 years	1.3	–	–
Over 5 years	1.2	–	–
	4.6	0.4	0.6

Deferred tax	As at 29 March 2002 £m	As at 28 March 2003 £m	As at 2 April 2004 £m
Provision for deferred tax comprises:			
Accelerated capital allowances	9.9	3.7	4.2
Pensions prepayment	3.1	–	–
Short-term timing differences	–	(0.4)	(1.9)
Deferred tax provision	13.0	3.3	2.3
Provision at the beginning of the period	10.2	13.0	3.3
Amount credited to profit and loss (note 8)	2.8	(3.9)	(1.0)
Fair value adjustment on CVC Acquisition	–	(5.8)	–
Provision at end of period	13.0	3.3	2.3

Factors that may affect future tax charges

Based on current capital investment plans, the Halfords Group expects to continue to be able to claim capital allowances in excess of depreciation in future periods at a similar level to the current period.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws substantively enacted at the balance sheet date.

21. CALLED UP SHARE CAPITAL

	As at 28 March 2003 £	As at 2 April 2004 £
Authorised		
1,050,000 ordinary shares of 1p each	10,500	10,500
	10,500	10,500
Allotted, called up and fully paid		
Ordinary shares of 1p each		
At beginning of period	–	9,830
Allotted on CVC Acquisition		
(978,000 ordinary shares)	9,780	–
Allotted in the period	50	170
At period end	9,830	10,000

Prior to 30 August 2002, Halfords Limited was owned by The Boots Company plc. The capital structure prior to the CVC Acquisition has been disclosed as "Boots Invested Capital" and amounted to £143.9m at 29 March 2002 (see note 23).

The share capital at 28 March 2003 and 2 April 2004 relates to Halfords Group Plc.

The Company was incorporated on 10 June 2002 when one ordinary share of £1 was issued nil-paid. On 22 July 2002, a further one ordinary share of £1 was issued nil paid. On 28 August 2002, the 2 existing shares were fully paid up and subdivided into 200 ordinary shares of 1p each. In addition 69,800 ordinary shares of 1p each were issued at a premium of 9p per share and 8,000 ordinary shares of 1p each were issued at a premium of 99p per share.

On 30 August 2002, 900,000 ordinary shares of 1p each were issued at a premium of 9p per share.

On 30 August 2002, the Company issued 38,500 warrants to subscribe for ordinary shares constituting in aggregate 3.85 per cent. of the fully diluted equity of the Company at the time of exercise of the warrants (which includes the shares to be issued on exercise of the warrants) at an exercise price of 1p per share.

On 4 March 2003, the Company issued 5,000 ordinary shares of 1p each at a premium of 99p per share.

On 27 June 2003, the Company issued 17,000 ordinary shares of 1p each to the Employees' Share Trust at a premium of 99p per share.

22. RESERVES

	Share premium £m	Profit and loss account £m
Premium on ordinary shares issued	0.1	–
Finance costs on share issue	–	(0.2)
On CVC Acquisition	0.1	(0.2)
Loss for the period following the CVC Acquisition	–	(8.9)
At 28 March 2003	0.1	(9.1)
Retained profit for the period	–	13.5
At 2 April 2004	0.1	4.4

23. BOOTS INVESTED CAPITAL

	£m
At 31 March 2001	111.9
Profit attributable to shareholders	32.0
At 29 March 2002	143.9
Profit attributable to shareholders for the period prior to the CVC Acquisition	14.0
Dividends	(11.0)
Eliminated on CVC Acquisition	146.9

24. SHAREHOLDERS' FUNDS

	As at 29 March 2002 £m	As at 28 March 2003 £m	As at 2 April 2004 £m
Equity	143.9	(9.0)	4.5

25. CASH FLOW FROM OPERATING ACTIVITIES

Reconciliation of operating profit to net cash inflow from operating activities:

	52 weeks ended 29 March 2002 £m	52 weeks ended 28 March 2003 £m	53 weeks ended 2 April 2004 £m
Operating profit	51.5	33.5	65.5
Depreciation charge (net of profit/loss on disposals)	16.4	17.6	16.0
Goodwill amortisation	–	8.0	13.7
Difference between pension charge and cash contributions	(4.2)	10.7	–
(Increase)/decrease in stocks	(3.1)	4.3	(16.8)
(Increase)/decrease in debtors	(3.2)	1.8	(0.3)
Increase/(decrease) in creditors	6.2	(14.0)	36.7
Net cash inflow from operating activities	63.6	61.9	114.8

26. RECONCILIATION OF MOVEMENTS IN NET DEBT

	At 1 April 2001 £m	Cash flow £m	Other non-cash changes £m	At 29 March 2002 £m
Cash in hand and at bank	73.9	(20.6)	–	53.3
Boots debt due after one year	(34.8)	(11.1)	–	(45.9)
Finance leases due within 1 year	(0.3)	0.8	(0.9)	(0.4)
Finance leases due after 1 year	(1.5)	(0.3)	0.9	(0.9)
	37.3	(31.2)	–	6.1

	At 29 March 2002 £m	Cash flow £m	Other non-cash changes £m	At 28 March 2003 £m
Cash in hand and at bank	53.3	(28.3)	–	25.0
Bank overdraft	–	(13.2)	–	(13.2)
Boots debt due after one year	(45.9)	45.9	–	–
Debt due after 1 year	–	(412.6)	(10.3)	(422.9)
Debt due within 1 year	–	(4.8)	–	(4.8)
Finance leases due after 1 year	(0.4)	0.4	–	–
Finance leases due within 1 year	(0.9)	0.9	–	–
Liquid resources	–	20.0	–	20.0
	6.1	(391.7)	(10.3)	(395.9)

	At 29 March 2003 £m	Cash flow £m	Other non-cash changes £m	At 2 April 2004 £m
Cash in hand and at bank	25.0	0.6	–	25.6
Bank overdraft	(13.2)	6.1	–	(7.1)
Bank debt due after one year	–	–	–	–
Debt due after 1 year	(422.9)	79.2	158.7	(185.0)
Debt due within 1 year	(4.8)	5.2	(182.6)	(182.2)
Finance leases due after 1 year	–	(0.6)	–	(0.6)
Finance leases due within 1 year	–	(0.2)	–	(0.2)
Liquid resources	20.0	(20.0)	–	–
	(395.9)	70.3	(23.9)	(349.5)

Liquid resources comprise short-term deposits with banks which mature within 12 months of the date of inception.

Non-cash changes for the 52 week period ended 28 March 2003 comprise £0.7 million for amortisation of issue costs, £7.9 million for the premium accrued on the deep discount bonds and £1.7 million for interest accrued on both the mezzanine debt and unsecured loan notes that are payable on redemption.

Non cash changes for the 53 week period ended 2 April 2004 comprise £10.0 million in respect of the amortisation of capitalised issue costs and £13.9 million in respect of rolled up interest on the principal of both the mezzanine facility and the deep discount bonds, of which £7.2 million was paid as part of the repayment of these borrowings during the period.

It is expected that the borrowings under the senior debt facility and the deep discount bond will be repaid from the Global Offer proceeds and New Bank Facilities.

Movement in borrowings	52 weeks ended 29 March 2002 £m	52 weeks ended 28 March 2003 £m	53 weeks ended 2 April 2004 £m
Debt due within 1 year:			
New/(repayment of) secured bank loan	–	5.2	(5.2)
(Repayment of)/new finance leases	(0.8)	–	0.2
Debt due after 1 year:			
New/(repayment of) secured bank loan	–	284.8	(8.5)
Fixed rate subordinated unsecured loan notes	–	0.5	–
New/(repayment of) deep discount bonds	–	136.9	(68.2)
New/(repayment of) debt with former parent	11.1	(45.9)	–
Increase/(decrease) in borrowings	10.3	381.5	(81.7)
Issue costs of new bank loan	–	(10.0)	(2.5)
	10.3	371.5	(84.2)
Capital element of finance lease payment	0.3	(1.3)	0.6
Cash flow	10.6	370.2	(83.6)

27. CASH FLOW RELATING TO EXCEPTIONAL ITEMS

Operating cash flows for the period to 28 March 2003 include under continuing operations an outflow of £2.4m which relates to the payments of £1.9m to The Boots Company plc to settle share scheme investments and professional fees of £0.5m.

During the period ended 29 March 2002, Halfords Limited disposed of its garage services business resulting in additional net cash inflow of £3.9 million.

28. ACQUISITIONS AND DISPOSALS

(a) Acquisitions

The Group purchased Halfords Limited on 30 August 2002 for a total consideration of £400.6m.

	Book value £m	Provisional fair value adjustments £m	Provisional fair value £m
Tangible fixed assets	108.9	(26.6)	82.3
Stock	91.4	(0.3)	91.1
Debtors	9.0	–	9.0
Creditors	(62.2)	0.5	(61.7)
Provisions	(0.2)	–	(0.2)
Taxation			
- Current	(12.0)	(0.1)	(12.1)
- Deferred	(9.2)	5.8	(3.4)
Cash	21.2	–	21.2
Net assets acquired	146.9	(20.7)	126.2
Goodwill			274.4
Consideration satisfied by cash (including fees of £4.6m)			400.6

The book value of the assets and liabilities has been taken from the management accounts of Halfords Limited at 30 August 2002.

Provisional fair value adjustments

The write down of fixed assets reflects the directors' view that the fair value of the assets are less than their book value as insufficient depreciation has been charged in the early years of the assets' lives.

The adjustment to stock reflects the net write down of stock held at acquisition to its estimated realisable value. This decrease in stock was offset by an increase of £0.1m in the corporation tax creditor to recognise the tax liability arising in the entity as a result of these stock changes.

The adjustment to creditors represents a release of £0.5m in respect of the provision for incentives received in respect of properties held on operating leases. The adjustment was made to ensure that all incentives are credited to the profit and loss account on a straight-line basis over the shorter of the lease term or the period to the rent review date. An adjustment of £0.2 was made to the corporation tax creditor to recognise the tax liability arising in the entity as a result of this adjustment.

The book value of the deferred tax liability of £9.2m was reduced by £5.8m to reflect the net effect of the above fair value adjustments in accordance with FRS 19 'Deferred Tax'.

Additional fair value adjustments
Further fair value adjustments of £0.4 million were recognised in the 53 week period ended 2 April 2004 in respect of a provision for sales returns.

In its financial period to 29 March 2002, Halfords Limited made a profit after tax of £32.0m. For the period from that date to the date of the CVC Acquisition, Halfords Limited's management accounts showed:

	£m
Turnover	231.0
Operating profit	20.5
Profit before taxation	20.4
Taxation	(6.4)
Profit attributable to shareholders	14.0
Dividend	(11.0)
Total recognised gains for the period	3.0

From the date of the CVC Acquisition to 28 March 2003 Halfords Limited contributed £291.8m to turnover, £21.0m to profit before interest and goodwill amortisation and £21.7 to profit before goodwill amortisation but after interest. Halfords Limited contributed £18.6m to the Group's net operating cash flows, received net interest of £0.7m, paid £9.1m in respect of taxation and utilised £8.7m for capital expenditure.

(b) Disposals

The Group disposed of its garage services business in August 2001:

	£m
Cash consideration	4.3
Less expenses incurred	(0.4)
	3.9
Assets disposed	(6.2)
Loss on disposal	(2.3)

The gross consideration of £5.8 million for this disposal was reduced by £1.5 million to recognise the effect of the compensation for future rental costs payable to Halfords Limited by the purchaser.

29. EMPLOYEES AND DIRECTORS

Staff costs for the group during the period	52 weeks ended 29 March 2002 £m	52 weeks ended 28 March 2003 £m	53 weeks ended 2 April 2004 £m
Wages and salaries	88.7	84.8	86.6
Social security costs	5.2	5.2	6.4
Other pension costs (note 30)	0.8	3.4	3.5
	94.7	93.4	96.5
Average monthly number of people (including executive directors) employed			
Stores	9,039	8,530	8,529
Central warehousing	221	234	231
Head office	535	562	449
UK retail business group	9,795	9,326	9,209

Directors	52 weeks ended 29 March 2002 £m	52 weeks ended 28 March 2003 £m	53 weeks ended 2 April 2004 £m
Aggregate emoluments	0.6	0.8	2.2
Company contributions to money purchase pension schemes	–	–	0.1
Compensation to past directors for loss of office	–	–	0.9
	0.6	0.8	3.2

For the periods ended 28 March 2003 and 2 April 2004 the number of directors to whom retirement benefits accrued under money purchase pension schemes comprised 2 and 1 directors respectively. In addition, for the period ended 29 March 2002, retirement benefits accrued to 6 directors, under The Boots Company plc's defined benefit pension scheme.

Highest paid director	52 weeks ended 29 March 2002 £m	52 weeks ended 28 March 2003 £m	53 weeks ended 2 April 2004 £m
Aggregate emoluments	0.3	0.3	0.8
Company contributions to money purchased pension scheme	–	0.1	–
Defined benefit pension scheme: Accrued pension at end of period	–	–	–

Directors' detailed emoluments

	52 weeks ended 29 March 2002			
	Salary and fees £'000	Benefits £'000	Annual bonus £'000	Total £'000
D C Clayton-Smith	125	9	31	165
M J Oliver	–	–	–	–
R M Scribbins	188	8	61	257
A N Smith	122	6	39	167
D A R Thompson	–	–	–	–
A J Torrance	10	1	2	13
N B E Wharton	5	–	1	6
	450	24	134	608

The above table relates to the directors' emoluments of Halfords Limited for the 52 week period ended 29 March 2002. The emoluments of M J Oliver and D A R Thompson were paid and borne by The Boots Company Plc.

	52 weeks ended 28 March 2003			
	Salary and fees £'000	Benefits £'000	Annual bonus £'000	Total £'000
D C Clayton-Smith*	54	–	11	65
M J Oliver*	–	–	–	–
R M Scribbins	229	10	94	333
D A R Thompson*	–	–	–	–
A J Torrance*	54	–	5	59
A N Smith*	10	–	–	10
N B E Wharton*	56	–	7	63
J P Feuer	15	–	–	15
S Vestergaard-Poulsen	15	–	–	15
R C C Saville	96	4	85	185
R W Templeman	30	–	–	30
C K Woodhouse	30	–	–	30
	589	14	202	805

*The above table relates to the directors' emoluments of the Company for the 52 weeks ended 28 March 2003 and includes directors of Halfords Limited (marked *) for the period to 30 August 2002 and therefore the amounts disclosed relate to the total emoluments earned in that period.

Benefits in kind include the provision of a company car, fuel, driver, financial counselling and medical and life insurance.

	53 weeks ended 2 April 2004				
	Salary and fees £'000	Benefits £'000	Annual bonus £'000	Compensation for loss of office £'000	Total £'000
R C C Saville	87	4	93	407	591
N M Carter	91	1	46	–	138
D Hamid	235	14	126	–	375
J P Feuer	25	–	–	–	25
S Vestergaard-Poulsen	25	–	–	–	25
R M Scribbins	27	1	–	495	523
R W Templeman	260	1	500	–	761
C K Woodhouse	250	1	500	–	751
	1,000	22	1,265	902	3,189

No director waived emoluments in respect of the periods ended 29 March 2002 and 2 April 2004.

Interest in shares

The interests of the Directors in the Company's ordinary shares of 1p each are as follows:

	D Hamid Number	N M Carter Number	R M Scribbins Number	R W Templeman Number	C K Woodhouse Number	R C C Saville Number
At 29 March 2002	–	–	–	–	–	–
Acquired	–	–	19,600	2,500	2,500	13,100
At 28 March 2003	–	–	19,600	2,500	2,500	13,100
Acquired	19,600	10,000	–	2,500	2,500	–
Disposed	–	–	(19,600)	–	–	(11,100)
At 2 April 2004	19,600	10,000	–	5,000	5,000	2,000

All directors' interests are beneficially held. There has been no change in the interests set out above between 2 April 2004 and 2 June 2004.

Capital Investors 2002 Limited holds 4,057 (2003: 4,140) shares in Halfords Group Plc on trust for J P Feuer. In total, at 2 April 2004, Capital Investors 2002 Limited, held 27,048 (2003: 27,600) ordinary shares in Halfords Group Plc.

Directors' pension entitlement

Set out below are details of The Boots Company plc pension benefits earned by each of the executive directors for the period to 29 March 2002:

	2002 Additional pension earned in the period £'000	Accrued entitlement £'000	Pension entitlement transfer value for the period £'000
R M Scribbins	11	75	10

The accrued pension entitlement shown is the amount that would be paid each period on retirement based on service to the end of the current period.

The increase in the additional pension earned during the period excludes any increase for inflation.

The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11, less directors' contributions. It does not represent a sum payable to individual directors and it, therefore, cannot be added meaningfully to annual remuneration.

Set out below are the pension contributions made on behalf of the directors under the defined contribution pension plan.

	28 March 2003 £'000	2 April 2004 £'000
J P Feuer	–	–
N M Carter	–	5
D Hamid	–	36
R C C Saville	57	18
R M Scribbins	86	5
R W Templeman	–	–
S Vestergaard-Poulsen	–	–
C K Woodhouse	–	–
Total	143	64

30. PENSION COMMITMENTS

Until 30 November 2002 Group employees participated in the Boots Group-wide pension scheme providing benefits based on final pensionable pay. The assets of the scheme were held separately from those of the Group. The contributions were determined by a qualified actuary on the basis of triennial valuations using the projected unit method. In the period to 29 March 2002 contributions of £0.8m were charged to the profit and loss account. In the period from 29 March 2002 to 30 November 2002 contributions of £2.5m were charged to the profit and loss account.

In the period ended 28 March 2003, as a result of leaving the Boots Group-wide pension scheme, the Halfords Group incurred a SSAP 24 charge to the profit and loss account of £8.1m. (see Exceptional costs – representing a write off of the prepaid pension contributions).

From 1 December 2002 employees have been offered membership of Halfords Pension Plan, a defined contribution pension arrangement. The costs of contributions to the scheme are charged to the profit and loss account in the period that they arise. The contributions to the scheme for the period amounted to £1.4m being 5 per cent. to 12 per cent. of pensionable salaries for employees who were members of the Boots Group pension scheme, plus a further 2 per cent. to 7 per cent. for employees whose earnings are above the upper earning threshold and 3 per cent. of pensionable salaries for new employees. In the period to 2 April 2004 contributions of £3.5 million were charged to the profit and loss account.

31. OPERATING LEASE COMMITMENTS

For the period covered by the Combined and Consolidated Financial Information, Halfords Group Plc has lease agreements in respect of properties, vehicles, plant and equipment, for which the payments extend over a number of years.

	As at 29 March 2002		As at 28 March 2003		As at 2 April 2004	
	Property £m	Vehicles, plant and equipment £m	Property £m	Vehicles, plant and equipment £m	Property £m	Vehicles, plant and equipment £m
Annual commitments under non-cancellable operating leases expiring:						
Within one year	0.6	–	0.9	0.2	0.5	0.2
Within two to five years	3.4	0.2	1.4	0.3	2.4	0.4
After five years	53.6	–	54.0	–	59.0	–
	57.6	0.2	56.3	0.5	61.9	0.6

32. CONTINGENT LIABILITIES AND ASSETS

Halfords Group's banking arrangements include the facility for the bank to provide a number of guarantees in respect of liabilities owned 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 28 March 2003 and 2 April 2004, amounted to £11.3m and £7.1m, respectively.

Halfords Payment Services Limited operates payment processing services for Halfords Limited. Similar arrangements are in operation by other major retailers, some of which are currently being challenged by Customs & Excise. In line with other retailers, no profit has been recognised from these arrangements. The Group currently holds an un-recognised contingent asset of £2.0m (2003: £0.5m) dependent on the successful defence of the arrangements.

33. CAPITAL AND OTHER FINANCIAL COMMITMENTS

	As at 29 March 2002 £m	As at 28 March 2003 £m	As at 2 April 2004 £m
Contracts placed for future capital expenditure not provided in the financial statements	16.2	0.4	1.9

34. RELATED PARTY TRANSACTIONS

During the 52 week period ended 28 March 2003 and the 53 week period ended 2 April 2004, non-executive director fees of £29,167 and £50,000 respectively were paid to CVC Capital Partners Limited and a predecessor company in respect of both Messrs Feuer and Vestergaard-Poulsen as directors.

During the 53 week period ended 2 April 2004, CVC Shareholders sold 7,101,665 nominal of deep discount bonds to the Employees' Share Trust for an aggregate consideration of £2,943,544.

The Employees' Share Trust acquired 4,000 ordinary shares of 1p each in Halfords Group Plc during the 53 week period ended 2 April 2004 from the CVC Shareholders.

The Group paid The Boots Company Plc £18,665,000 in the 52 weeks ended 28 March 2003 for the provision of goods for resale and for services under the transitional services agreement dated 30 August 2002.

In March 2004, the Group exercised an option to acquire its head office premises for £11.2 million from The Boots Company Plc.

At 2 April 2004, the Group had £134,869 (2003: £nil) of unsecured loan notes payable to D Hamid and £14,473 (2003: £7,500) of unsecured loan notes payable to each of R W Templeman and C K Woodhouse. The unsecured loan notes are redeemable on 30 September 2013 and subject to a fixed interest rate of 10 per cent. payable on redemption.

The Halfords Group Plc has granted options to the Executive Directors under the Halfords Company Share Option Scheme. The exercise price under these options is the Offer Price. The number of shares to be put under option for each Director is: D Hamid 298,076 Ordinary Shares; N M Carter 149,038 Ordinary Shares; and I McLeod 192,307 Ordinary Shares.

35. POST BALANCE SHEET EVENTS

On 12 May 2004, Halfords Group Limited re-registered as a public limited company.

On 17 May 2004, the Group entered into a new facilities agreement pursuant to which the lenders (as defined therein) have agreed to make available a £150.0 million sterling term loan facility and a £120.0 million multi-currency revolving facility.

Pursuant to the resolutions passed on 12 May and 2 June 2004:

(i) the authorised share capital of the Company was increased by £44,500 to £55,000 by the creation of 4,450,000 Ordinary Shares; and

(ii) by way of bonus issue (the "First Bonus Issue") (i) 4,000,000 Ordinary Shares were unconditionally issued credited as fully paid to the existing holders of Ordinary Shares on the register of the Company in the proportion of 4 new Ordinary Shares for each Ordinary Share held by them on such date; and (ii) 160,184 new Ordinary Shares were allotted credited as fully paid, conditional on exercise of warrants to subscribe for Ordinary Shares under the Warrant Instrument to the Warrantholders, in the proportion of 4 new Ordinary Shares for each Ordinary Share held by such holder on exercise of the Warrants.

On 12 May and 2 June 2004, the directors resolved that, conditional on Admission occurring, the Company issue an aggregate of 200,230 Ordinary Shares (including those Ordinary Shares allotted as part of the First Bonus Issue) to the Warrantholders on Admission at 1p per share in satisfaction of the exercise of the Warrants (except those Ordinary Shares allotted as part of the First Bonus Issue for which no subscription price shall be payable).

On 2 June 2004:

(i) the authorised share capital of the Company be increased from £55,000 to £2,950,000 by the creation of 289,500,000 Ordinary Shares; and

(ii) it was resolved that upon the Company's share premium account being credited with the net proceeds of the issue of Ordinary Shares pursuant to the Global Offer, a sum not exceeding £1,688,736 be capitalised and the directors be authorised to appropriate from such sum such amounts as the directors may determine to the holders of Ordinary Shares (including any Ordinary Shares issued on the exercise of the Warrants) on the registers of members and Warrantholders immediately prior to Admission, and to apply such amount in paying up in full new Ordinary Shares to be allotted to such holders in the proportion of 32.474 (rounded to three decimal places) Ordinary Shares for every Ordinary Share held and to be held on the exercise of Warrants (including any Ordinary Shares to be issued pursuant to the First Bonus Issue) (the "Second Bonus Issue") with authority to round such allotments to the nearest whole Ordinary Share or otherwise as the directors may determine.

Yours faithfully

PricewaterhouseCoopers LLP
Chartered Accountants

Part VI. Pro Forma Statement of Net Assets of the Group

The following unaudited pro forma statement of net assets of the Group is provided to show the effect on the net assets of the Group had the Global Offer taken place on 2 April 2004. This table has been prepared for illustrative purposes only and, because of its nature, may not give a true picture of the financial position or results of the Group. The unaudited pro forma statement of net assets is compiled on the basis set out below from the audited consolidated balance sheet of Halfords Group Plc as at 2 April 2004, as set out in the accountants' report in Part V of this document:

	Halfords Group Plc (note 1) £'000	Adjustments (note 2) £'000	Unaudited pro forma Halfords Group Plc £'000
Fixed assets			
Intangible assets	253.1	–	253.1
Tangible assets	82.5	–	82.5
	335.6	–	335.6
Current assets			
Stock	107.1	–	107.1
Debtors	23.5	–	23.5
Cash at bank and in hand	25.6	–	25.6
	156.2	–	156.2
Creditors: amounts falling due within one year			
Bank overdrafts and other borrowings	(189.5)	135.0	(54.5)
Other creditors	(104.3)	–	(104.3)
	(293.8)	135.0	(158.8)
Net current (liabilities)/assets	(137.6)	135.0	(2.6)
Total assets less current liabilities	198.0	135.0	333.0
Creditors: amounts falling due after more than one year			
Loans and other borrowings	(185.6)	–	(185.6)
Other creditors	(4.6)	–	(4.6)
Provision for liabilities and charges	(3.3)	–	(3.3)
Net assets	4.5	135.0	139.5

Notes:

1. Extracted without material adjustment from the accountant's report on the Group as set out in Part V (Accountants' Report on the Group).
2. The estimated net proceeds of the Global Offer of £135.0 million (after deducting fees of £5.0 million) are assumed to be applied in repaying the Deep Discount Bonds, the Shareholder Loan Notes and part of the outstanding borrowings under the Senior Credit Agreement including in each case, accrued interest thereon. As described under paragraph 1 of Part III (Details of the Global Offer), the remainder of the indebtedness under the Senior Credit Facility will be repaid with the proceeds of the borrowings under the New Bank Facilities and available cash balances.
3. Net debt on an unaudited pro forma basis at 2 April 2004 was £214.5 million comprising borrowings falling due within one year of £54.5 million plus borrowings falling due after more than one year of £185.6 million less cash balances of £25.6 million.
4. No account has been taken of the trading results of the Group since 2 April 2004.

PRICEWATERHOUSECOOPERS

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3 June 2004

Dear Sirs

Halfords Group Plc (the "Company")

We report on the pro forma statement of net assets set out in Part VI (Pro Forma Statement of Net Assets of the Group) of the Company's listing particulars dated 3 June 2004. The pro forma statement of net assets has been prepared, for illustrative purposes only, to provide information about how the Global Offer might have affected the consolidated balance sheet of the Company as at 2 April 2004.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the pro forma statement of net assets in accordance with paragraph 12.29 of the Listing Rules of the UK Listing Authority.

It is our responsibility to form an opinion, as required by the Listing Rules of the UK Listing Authority, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma statement of net assets beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practices Board. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the pro forma statement of net assets with the directors of the Company.

Our work has not been carried out in accordance with auditing standards generally accepted in the United States of America and accordingly should not be relied upon as if it had been carried out in accordance with those standards.

Opinion

In our opinion:

(a) the pro forma statement of net assets has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Company; and

(c) the adjustments are appropriate for the purposes of the pro forma statement of net assets as disclosed pursuant to paragraph 12.29 of the Listing Rules of the UK Listing Authority.

Yours faithfully

PricewaterhouseCoopers LLP
Chartered Accountants

1. THE COMPANY

1.1 The Company was incorporated in England and Wales on 10 June 2002 with registered number 04457314 with the name of Pinco 1788 Limited.

1.2 The Company changed its name to Halfords Group Limited on 22 October 2002.

1.3 The Company was re-registered as a public limited company on 12 May 2004.

1.4 The principal legislation under which the Company operates is the Companies Act.

1.5 The registered office and principal place of business of the Company is at Icknield Street Drive, Washford, Redditch, Worcestershire B98 0DE.

2. SHARE CAPITAL

2.1 The authorised, issued and fully paid share capital of the Company as at the date of this document is as follows:

Authorised Ordinary Shares		Issued Ordinary Shares	
Number	**Amount (£)**	**Number**	**Amount (£)**
5,500,000	55,000	5,000,000	50,000

2.2 The authorised, issued and fully paid share capital of the Company immediately following Admission will be as follows:

Authorised Ordinary Shares		Issued Ordinary Shares	
Number	**Amount (£)**	**Number**	**Amount (£)**
295,000,000	2,950,000	227,919,993	2,279,200

2.3 The Company was incorporated with an authorised share capital of £1,000 divided into 1,000 Ordinary Shares of £1 each, of which one share was issued nil-paid to the subscriber to the memorandum of association. This share was fully paid up on 28 August 2002.

2.4 The following alterations to the authorised and issued share capital of the Company have taken place since its incorporation:

2.4.1 on 22 July 2002 one ordinary share of £1 was issued nil-paid. This share was fully paid-up on 28 August 2002;

2.4.2 on 28 August 2002:

(a) the authorised and issued share capital of the Company was subdivided into 100,000 Ordinary Shares of 1p each;

(b) the authorised share capital of the Company was increased by £9,500 to £10,500 by the creation of 950,000 Ordinary Shares of 1p each;

(c) 69,800 Ordinary Shares were issued for cash at a premium of 9p per share; and

(d) 8,000 Ordinary Shares were issued for cash at a premium of 99p per share;

2.4.3 on 30 August 2002, 900,000 Ordinary Shares were issued for cash at a premium of 9p per share;

2.4.4 on 4 March 2003, 5,000 Ordinary Shares were issued for cash at a premium of 99p per share;

2.4.5 on 27 June 2003, 17,000 Ordinary Shares were issued for cash at a premium of 99p per share;

2.4.6 on 12 May 2004 the authorised share capital of the Company was increased by £44,500 to £55,000 by the creation of 4,450,000 Ordinary Shares;

2.4.7 on 12 May and 2 June 2004, by way of bonus issue (the "First Bonus Issue") (i) 4,000,000 Ordinary Shares were unconditionally issued credited as fully paid to the existing holders of Ordinary Shares on the register of the Company on 12 May 2004 in the proportion of 4 new Ordinary Shares for each Ordinary Share held by them on such date; and (ii) 160,184 new Ordinary Shares were allotted credited as fully paid, conditional on exercise of the Warrants, to the Warrantholders who were on the register of Warrantholders on 12 May 2004, in the proportion of 4 new Ordinary Shares for each Ordinary Share held by such holder on exercise of the Warrants.

2.5 On 2 June 2004, the Directors resolved that, conditional on Admission, the Company issue an aggregate of 200,230 Ordinary Shares (including those Ordinary Shares allotted as part of the First Bonus Issue) to the Warrantholders on Admission at 1p per share in satisfaction of the exercise of the Warrants (except those Ordinary Shares allotted as part of the First Bonus Issue for which no subscription price shall be payable).

2.6 The shareholders of the Company resolved at an extraordinary general meeting of the Company held on 2 June 2004, *inter alia*, that:

2.6.1 in connection with the Global Offer the authorised share capital of the Company be increased from £55,000 to £2,950,000 by the creation of 289,500,000 Ordinary Shares;

2.6.2 conditional on Admission the memorandum of association of the Company be altered and new Articles of Association (described in paragraph 3 of this Part VII below) be adopted;

2.6.3 in connection with the Global Offer in addition to all existing authorities and/or powers, the directors be generally and unconditionally authorised for the purposes of section 80 of the Act to exercise all powers of the Company to allot relevant securities (within the meaning of section 80 of the Act) up to an aggregate nominal amount of £2,895,000, such authority to expire on the earlier of 2 September 2005 and the conclusion of the Annual General Meeting of the Company held in 2005 (but that the Company may make an offer or agreement which would or might require relevant securities to be allotted after the expiry of that authority and that the directors may allot relevant securities pursuant to that offer or agreement as if the authority conferred by the resolution had not expired);

2.6.4 in connection with the Global Offer in addition to all existing authorities and/or powers the directors be generally empowered pursuant to section 95 of the Act to allot equity securities within the meaning of section 94(2) of the Act for cash, pursuant to the authority referred to in paragraph 2.6.3 above as if section 89(1) of the Act (statutory pre-emption rights) did not apply to such allotment, such power to expire on the earlier of 2 September 2005 and the conclusion of the Annual General Meeting of the Company held in 2005 (but that the Company may make an offer or agreement which would or might require equity securities to be allotted after the expiry of this power and that the directors may allot equity securities pursuant to such offer or agreement as if the power conferred by the resolution had not expired), provided that such authority be limited to:

(a) the allotment of 53,846,154 Ordinary Shares to certain institutional investors pursuant to the Global Offer to be made on or about 3 June 2004;

(b) the allotment of equity securities in connection with a rights issue, open offer or any other pre-emptive offer in favour of shareholders but subject to such exclusions or other arrangements as the directors may consider necessary or expedient to deal with fractional entitlements or any legal or practical problems under any laws or requirements of any regulatory body or stock exchange in any jurisdiction or any other matter whatsoever; and

(c) the allotment (other than pursuant to (a) and (b) above) of equity securities for cash up to an aggregate nominal amount equal to £113,950;

The power conferred on the directors referred to in this paragraph 2.6.4 also applies to a sale of treasury shares, which is an allotment of equity securities by virtue of section 94(3A) of the Act;

2.6.5 upon the Company's share premium account being credited with the net proceeds of the issue of Ordinary Shares pursuant to the Global Offer, a sum not exceeding £1,623,712.87 be capitalised and the directors be authorised to appropriate from such sum such amounts as they may determine to the holders of Ordinary Shares on the register of members immediately prior to Admission, and to apply such amount in paying up in full new Ordinary Shares to be allotted to such holders in the proportion of 32.474 (rounded to three decimal places) Ordinary Shares for every Ordinary Share held with authority to round such allotments to the nearest whole Ordinary Share or otherwise as the directors may determine;

2.6.6 upon the Company's share premium account being credited with the net proceeds of the issue of Ordinary Shares pursuant to the Global Offer, a sum not exceeding £65,023.22 be capitalised and the directors be authorised to appropriate from such sum such amounts as they may determine on the exercise of any Warrants to the Warrantholders on the register of Warrantholders immediately prior to Admission, and to apply such amount in paying up in full new Ordinary Shares to be allotted to such holders in the proportion of 32.474 (rounded to three decimal places) new Ordinary Shares for every share to be held on the exercise of Warrants to subscribe for Ordinary Shares issued by the Company (including any Ordinary Shares to be issued pursuant to the First Bonus Issue) with authority to round such allotments to the nearest whole Ordinary Share or otherwise as the directors may determine and that such allotments be and are hereby approved and authorised notwithstanding that an allotment of shares in proportion to their shareholdings on the same terms may not be offered to the shareholders at that time; and

2.7 The provisions of section 89(1) of the Act (which, to the extent not disapplied, generally confer on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash) apply to the authorised but unissued share capital of the Company which is not the subject of the disapplication referred to in paragraph 2.6.4 above. The statutory rights of pre-emption have been disapplied to certain issues of Ordinary Shares for cash in the manner and to the extent set out in paragraph 2.6.4 above. The effect of the continuing obligations of the Company under the Listing Rules will be that, subject to the disapplication set out in paragraph 2.6.4 above, unless the approval of shareholders in general meeting is obtained the Company must offer Ordinary Shares to be issued for cash to existing holders of Ordinary Shares on a pro rata basis. No such issue following Admission is presently in contemplation other than in connection with the share option arrangements referred to in paragraph 8 below.

2.8 The Company currently operates the Halfords Share Option Scheme (the "Existing Scheme") under which options have been granted over 6,517,204 Ordinary Shares in the Company (on the assumption that the capital reorganisation described in paragraph 2.6 above has been implemented). All Ordinary Shares required to satisfy the exercise of these options are held by the Employees' Share Trust (the "Trust") which was established on 23 April 2003 and all options have been granted by the Trust. The options will become exercisable on Admission and must be exercised within 28 days of the date of Admission or such later time as the directors specify in writing (being not later than 12 months after Admission). The adjusted exercise price under the options is £0.006 per Ordinary Share (assuming the capital reorganisation described in paragraph 2.6 above has been implemented). No further options will be granted under the Existing Scheme following Admission. When the outstanding options have been exercised, the Trust will have a surplus of 887,068 Ordinary Shares (on the assumption that the capital reorganisation described in paragraph 2.6 above has been implemented). The Company is intending to use these shares to satisfy options to be granted under the Halfords Company Share Option Scheme and the Halfords Sharesave Scheme which were approved by the Company and adopted on 7 May 2004. The Board and the trustees of the Trust will not grant any further options under the Existing Scheme after the date of Admission.

2.9 It is currently intended that immediately following Admission, a number of Ordinary Shares equivalent to 0.4 per cent. of the issued share capital immediately following Admission be reserved for issue in respect of the share option arrangements referred to in paragraph 8 below.

2.10 Save as disclosed in sub-paragraphs 2.4, 2.6, 2.8 and 19.3 (other than intra-group issues by wholly-owned subsidiaries), during the three years preceding the date of this document no share or loan capital of the Company or any of its subsidiaries has been created but not issued, or has been agreed to be issued fully or partly paid, either for cash or for a consideration other than cash and no such issue is now proposed.

2.11 Save as disclosed in sub-paragraph 2.4, 2.6, 2.8 and 2.9 neither the Company nor any of its subsidiaries has granted any options over its share or loan capital which remain outstanding or has agreed, conditionally or unconditionally, to grant any such option.

2.12 The Ordinary Shares are in registered form and, from Admission, will be capable of being held in uncertificated form.

3. MEMORANDUM AND ARTICLES OF ASSOCIATION OF THE COMPANY

3.1 The memorandum of association of the Company provides that the Company's principal object is to carry on business as a general commercial company. The objects of the Company are set out in full in clause 4 of the memorandum of association.

3.2 The Articles of Association of the Company which have been adopted conditional on Admission contain provisions, *inter alia*, to the following effect:

3.2.1 Rights Attaching to Shares

(a) *Voting rights of members*

Subject to any special terms as to voting for the time being attached to any shares, and subject to disenfranchisement in the event of non-payment of any call or other sum due and payable in respect of any share or non-compliance with any statutory notice requiring disclosure of the beneficial ownership of any shares, on a show of hands every member at a general meeting who (being an individual) is present in person, or (being a corporation) is present by a representative, has one vote and on a poll every member present in person, by proxy or by representative has one vote for each share of which he is the holder. In the case of joint holders, the vote of the person whose name stands first in the register of members and who tenders a vote is accepted to the exclusion of any votes tendered by any other joint holders.

Unless the Board decides otherwise, no member shall be entitled to be present or vote (whether in person or by proxy) at a general meeting or at a separate meeting of the holders of any class of shares in the capital of the Company in respect of any share held by him if a call or other amount due and payable in respect of the share is unpaid.

(b) *Dividends*

Subject to the provisions of the Act and the Articles, the Company may by ordinary resolution declare dividends to be paid to its members in accordance with their respective rights and interests, provided that no dividend may exceed the amount recommended by the Board.

Except as provided by the rights attached to, or the terms of issue of, any shares, dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is declared and paid, but no amount paid up on a share in advance of a call may be treated for these purposes as paid up on the share.

Except as otherwise provided by the rights attached to shares, all dividends shall be apportioned and paid proportionately according to the amounts paid up on the share during any portion of the period in respect of which the dividend is paid. Except as otherwise provided by the rights attached to shares, dividends may be declared or paid in any currency.

Any unclaimed dividend, interest or other amount payable by the Company in respect of a share may be invested or otherwise made use of by the Board for the benefit of the Company until claimed. Any dividend which has remained unclaimed for twelve years from the date it was declared or became due for payment is forfeited and shall cease to remain owing by the Company.

Subject to the provisions of the Act, the Board may pay interim dividends and also any fixed rate dividend, if it appears to the Board to be justified by the profits of the Company available for distribution. If the Board acts in good faith, it is not liable to holders of shares with preferred rights for any loss arising from the payment of interim dividends on other shares. No dividend or other moneys payable in respect of a share shall bear interest against the Company unless otherwise provided by the rights attached to the share. There are no fixed dates on which entitlements to dividends arise.

The Board may, with the prior authority of an ordinary resolution of the Company, direct that payment of a dividend may be satisfied wholly or in part by the distribution of specific assets and in particular of paid-up shares or debentures of another company. Subject to the provisions of the Act, the Board may, with the prior authority of an ordinary resolution of the Company, offer to holders of shares the right to elect to receive shares credited as fully paid instead of cash in respect of all or part of a dividend or dividends.

The Company is not obliged to send or transfer a dividend or other amount payable to a shareholder if a cheque, warrant or money order is returned undelivered or left uncashed or transfer not accepted on two consecutive occasions, or, following one such occasion, reasonable enquiries have failed to establish another address or account of the person entitled to the payment, until the shareholder notifies the Company of an address or account to be used for that purpose.

(c) *Return of Capital*
On a voluntary winding-up of the Company, the liquidator may, on obtaining any sanction required by law, divide among the members in kind the whole or any part of the assets of the Company, whether or not the assets consist of property of one kind or of different kinds, and vest the whole or any part of the assets in trustees upon such trusts for the benefit of the members. For such purpose the liquidator may set the value he deems fair on a class or classes of property, and may determine on the basis of that valuation and in accordance with the then existing rights of members how the division is to be carried out between members or classes of members. The liquidator may not, however, distribute to a member without his consent an asset to which there is attached a liability or potential liability for the owner.

3.2.2 Transfer of Shares

(a) Shares in certificated form may be transferred by an instrument of transfer in writing in any usual form, or in such other form as the Board may approve. The instrument of transfer shall be executed by or on behalf of the transferor and (in the case of a share which is not fully paid) by or on behalf of the transferee. Subject to the requirements of the UKLA, the Board may, in its absolute discretion and without giving any reason, refuse to register any transfer of any certificated share which is not fully paid up (but not so as to prevent dealings in listed shares from taking place on an open and proper basis) or any certificated share on which the Company has a lien. Subject to (b) below and the requirements of the UKLA, the Board may also refuse to register any transfer of a share in certificated form unless:

(i) it is only in respect of only one class of shares and is in favour of a single transferee or not more than four joint transferees;

(ii) it is duly stamped (if required); and

(iii) it is delivered for registration to the office or such other place as the Board may decide, accompanied by the certificate for the shares to which it relates (except where the shares are transferred by a recognised person where a certificate has not been issued) and such other evidence of ownership as the Board may reasonably require to prove the title of the intending transferor.

(b) Subject to and in accordance with the provisions of the Uncertificated Securities Regulations 2001 (the "Uncertificated Securities Regulations"), the Operator of the relevant system shall register a transfer of title to any uncertificated share which is a participating security held in uncertificated form, but so that the Operator of the relevant system may refuse to register such a transfer in circumstances permitted by the Uncertificated Securities Regulations.

In accordance with and subject to the provisions of the Uncertificated Securities Regulations, where title to an uncertificated share is transferred by means of a relevant system to a person who is to hold such share in certificated form thereafter, the Company as participating issuer shall register the transfer in accordance with the relevant Operator-instruction, but so that the Company may refuse to register such a transfer in any circumstance permitted by the Uncertificated Securities Regulations.

3.2.3 Changes in Capital and Purchase of Own Shares

(a) The Company may by ordinary resolution:

(i) increase its share capital by a sum to be divided into shares of an amount prescribed by the resolution;

(ii) consolidate and divide all or any of its share capital into shares of a larger amount;

(iii) subject to the Act, sub-divide all or part of its shares into shares of a smaller amount and may by the resolution decide that the shares resulting from the sub-division have amongst themselves a preference or other advantage or be subject to a restriction; and

(iv) cancel any shares which have not, at the date of the resolution, been taken or agreed to be taken by a person and diminish the amount of its share capital by the amount of the shares so cancelled.

(b) Subject to the Act and the rights attached to existing shares, the Company may also:

(i) by special resolution, reduce its share capital, any capital redemption reserve, share premium account or other undistributable reserve; and

(ii) subject to the requirements of the UKLA, purchase, or agree to purchase in the future, its own shares.

3.2.4 Variation of Rights

Subject to the Act, whenever the share capital of the Company is divided into different classes of shares, all or any of the rights for the time being attached to any class of shares may be varied, as provided by those rights or, if there is no such provision, then either with the consent in writing of the holders of at least three-fourths in nominal value of the issued shares of that class (excluding any shares of that class held as treasury shares) or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the issued shares of that class validly held in accordance with the Articles. The rights attached to a class of shares are not, unless otherwise expressly provided by those rights, deemed to be varied by the creation, allotment or issue of further shares ranking *pari passu* with or subsequent to them or by the purchase or redemption by the Company of its own shares in accordance with the Act and the Articles.

3.2.5 Forfeiture

The Company may serve notice on members in respect of any amounts unpaid on their shares. The member shall be given not less than 14 clear days notice to pay the unpaid amount, together with any interest and all costs, charges and expenses incurred by the Company. In the event of non-compliance, a share in respect of which the notice is given may be forfeited by resolution of the board.

3.2.6 Officers' Indemnity

Subject to the Acts (as defined in the Articles) but without prejudice to any indemnity to which he may otherwise be entitled, every person who is or was a director, alternate director or secretary of the Company shall be indemnified out of the assets of the Company against any liability incurred by him including, without limitation, defending any proceedings, whether civil or criminal, in which judgement is given in his favour or in which he is acquitted (or the proceedings are otherwise disposed of without fining or admission of breach of duty on his part) or in connection with any application in which relief is granted to him by the court from liability for negligence, default, breach of duty or breach of trust in relation to the affairs of the Company.

3.2.7 Redeemable Shares

Subject to the Acts (as defined in the articles) and to the rights attached to existing shares, shares may be issued on terms that they are to be redeemed or, at the option of the Company or the holder, are liable to be redeemed.

3.2.8 Notices

(a) A notice to be given to or by a person pursuant to the Articles (other than a notice convening a meeting of the Board or of a committee of the Board) shall be in writing or in an electronic communication to an address for the time being notified for that purpose to the person giving the notice.

(b) A notice or other document may be served by the Company on any member personally or by post in a pre-paid envelope at his address stated in the register of members (or another address notified for the purpose) or by leaving it at such address in an envelope addressed to the member or by giving it by electronic communication to an address for the time being notified to the Company by the member for that purpose or by any other means authorised in writing by the member concerned. In the case of joint holders of a share, a notice or other document shall be given to whichever of them is named first in the register in respect of the joint holding. If postal services in the UK are suspended or curtailed and the Company is unable effectively to convene a general meeting by notices sent by post to those members who have not notified an address for electronic communications pursuant to the Articles, a general meeting may be convened by advertisement in at least one UK national newspaper. A member whose address in the register of members of the Company is outside the UK and who gives to the Company an address within the UK at which notices or other documents may be served on him shall be entitled to have notices served on him at that address but, unless he does so, shall not be entitled to receive notices or other documents from the Company.

3.2.9 Directors

(a) *Appointment*
There is no age limit for appointment or retirement of directors

Directors may be appointed by the Company by ordinary resolution or by the Board. The CVC Shareholders have the right to appoint one director for so long as they hold in aggregate at least 15 per cent. of the Ordinary Shares from time to time in issue. A director appointed by the Board or the CVC Shareholders holds office only until the dissolution of the next annual general meeting and is not taken into account in determining the directors who are to retire by rotation at that meeting. Unless otherwise determined by ordinary resolution, the number of Directors shall be not less than two and must not be more than twelve.

A director of the Company need not be a member of the Company.

(b) *Remuneration*
The Company shall pay to the directors by way of remuneration for their services as directors, such fees as the Board decides, not exceeding in aggregate £600,000 per annum (or such larger sum as the Company

may, by ordinary resolution, determine). Such fees shall be divided among the directors in such proportion as the Board decides or, if no decision is made, equally. Subject to the Act and Articles and the requirements of the UKLA, the Board may arrange for part of a fee payable to a director to be provided in the form of fully paid shares in the capital of the Company.

Any director who is appointed to any executive office shall be entitled to such remuneration as the Board may determine, and may be in addition to, or instead of, any fees payable to him for his services as a director.

The Board shall also be repaid all reasonable travelling, hotel and other expenses properly incurred by them in the performance of their duties, including the expenses of attending the meetings of the Board, committee meetings, general meetings and separate meetings of the holders of any class of securities of the Company.

The Board may grant reasonable additional remuneration and expenses in addition to a director's ordinary remuneration (if any) to any director of the Company who goes or resides abroad at the request of the Board or who performs any special service on behalf of the Company.

The Board may exercise all the powers of the Company to provide pensions or other retirement or superannuation benefits and to provide death or disability benefits or other allowances or gratuities to a person who is or has at any time been a director of the Company or a director of any company which is or was a subsidiary undertaking of or allied to or associated with the Company or a subsidiary undertaking of the Company or a predecessor in business of the Company or of a subsidiary undertaking of the Company for any member of his family including a spouse or former spouse or a person who is or was dependent on him. For this purpose the Board may establish, maintain, subscribe and contribute to any scheme, trust or fund and pay premiums.

(c) *Retirement by Rotation*
At each annual general meeting one-third of the directors (or, if their number is not three or a multiple of three, the number nearest to but not less than one-third) who are subject to retirement by rotation will retire by rotation and be eligible for re-election, provided that if there are fewer than three directors who are subject to retirement by rotation, one shall retire from office. The directors to retire will be those who wish to retire and those directors who have been longest in office since their last appointment or reappointment or, in the case of those who have been in office an equal length of time, will (unless they otherwise agree) be determined by lot.

(d) *Directors' Interests*
(i) A director who, to his knowledge, is in any way, whether directly or indirectly, interested in a contract, arrangement, transaction or proposal with the Company shall declare the nature of his interest at a meeting of the directors at which the question of entering into the contract, arrangement, transaction or proposal is first considered, if he knows his interest then exists, or, in any other case, at the first meeting of the Board after he knows that he is or has become interested.

A director may not vote on or be counted in any quorum in relation to a resolution of the Board or of a committee of the Board concerning any contract, arrangement, transaction or proposal to which the Company is or is to be a party and in which he has an interest which is, to his knowledge, a material interest (otherwise than by virtue of his interest in shares or debentures or other securities of or otherwise in or through the Company). Notwithstanding the above, this prohibition does not apply to a resolution concerning any of the following matters:

(a) the giving of a guarantee, security or indemnity in respect of money lent or obligations incurred by him or by any other person at the request of, or for the benefit of, the Company or any of its subsidiary undertakings;

(b) the giving of a guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has assumed responsibility under a guarantee or indemnity or by the giving of security;

(c) any contract, arrangement, transaction or proposal concerning an offer of shares, debentures or other securities of the Company or any of its subsidiary undertakings for subscription or purchase, in respect of which he is or may be entitled to participate as a holder of any such securities or in the underwriting or sub-underwriting of which he is to participate;

(d) any contract, arrangement, transaction or proposal to which the Company is or is to be a party concerning another company (including a subsidiary undertaking of the Company) in which he is interested (directly or indirectly) whether as an officer, shareholder, creditor or otherwise if he does not to his knowledge hold an interest in shares (within the meaning of sections 198 to 211 of the Act) representing one per cent. or more of either any class of equity share capital of such company or of the voting rights of that company;

(e) any contract, arrangement, transaction or proposal for the benefit of employees of the Company or any of its subsidiary undertakings which does not award him a privilege or benefit not generally awarded to the employees to whom it relates; and

(f) any contract, arrangement, transaction or proposal concerning the purchase or maintenance of an insurance policy for the benefit of directors.

(ii) Subject to the Act and provided he has disclosed to the Board the nature and extent of any direct or indirect interest of his, a director, notwithstanding his office:

(a) may enter into or otherwise be interested in any contract, arrangement, transaction or proposal with the Company or in which the Company is otherwise interested, either in connection with his tenure of an office or place of profit or as seller, buyer or otherwise;

(b) may hold another office or place of profit with the Company (other than the office of auditor of the Company or auditor of any subsidiary) in conjunction with his office as director and he (or his firm) may also act in a professional capacity for the Company and may be remunerated for doing so as the Board may decide;

(c) may be a director or other officer of, or may be employed by, or be party to a contract, transaction, arrangement or proposal with or otherwise interested in, a company promoted by the Company or in which the Company is otherwise interested or as regards which the Company has a power of appointment; and

(d) is not liable to account to the Company for a profit, remuneration or other benefit realised by any such contract, arrangement, transaction, proposal, office or employment and no such contract, arrangement, transaction or proposal is avoided on the grounds of any such interest or benefit.

(iii) A director shall not vote or be counted in the quorum at a meeting of the directors or committee meeting in respect of any resolution concerning his own appointment (including fixing or varying the terms of his appointment or its termination), as the holder of any office or place of profit with the Company or any other company in which the Company is interested but, where proposals are under consideration concerning the appointment (including fixing or varying the terms of appointment or its termination) of two or more directors to offices or places of profit with the Company or a company in which the Company is interested, those proposals shall be divided and considered in relation to each director separately; and in such case each of the directors concerned (if not otherwise debarred from voting under the Articles) shall be entitled to vote and be counted in the quorum in respect of each resolution except that concerning his own appointment.

3.2.10 Borrowing Powers

The directors may exercise all the powers of the Company to borrow money and to mortgage or charge all or part of the undertaking, property and assets (present or future) and uncalled capital of the Company and, subject to the Act and all other relevant legislation, to issue debentures and other securities whether outright or as collateral security for a debt, liability or obligation of the Company or a third party.

The directors of the Company shall restrict the borrowings of the Company and shall exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiary undertakings so as to ensure (as regards subsidiary undertakings, to the extent possible) that the aggregate principal amount outstanding in respect of moneys borrowed by the Group does not without the previous sanction of an ordinary resolution of the Company exceed a sum equal to three times the adjusted capital and reserves.

3.2.11 Failure to Disclose Interests in Shares

If any member or other person appearing to be interested in shares of the Company has been duly served with a notice under section 212 of the Act and is in default for 14 days from the date of service of the notice in supplying to the Company the information thereby required, or, in purported compliance with such a notice, has made a statement which is false in a material particular, then the Board may impose restrictions upon the relevant shares.

The restrictions available are the suspension of voting or other rights conferred by membership in relation to meetings of the Company in respect of the relevant shares and, additionally, in the case of shareholders representing at least 0.25 per cent. of their class of shares (excluding any shares of their class held as treasury shares), the withholding of payment on dividends on, and in certain cases the restriction of transfers of, the relevant shares.

The restrictions shall cease to apply seven days after the earlier of, receipt by the Company of notice of an excepted transfer (but only in relation to the shares transferred) and, receipt by the Company (in a form satisfactory to the Board) of all the information required by the section 212 notice.

4. DIRECTORS' AND OTHER INTERESTS

4.1 The table below sets out the interests of the Directors (and persons connected with them) in the Ordinary Share capital of the Company immediately prior to and immediately following Admission. All such interests are beneficial.

The interests shown in the table below, (a) have been or are required to be notified by each Director to the Company pursuant to section 324 or 328 of the Companies Act; or (b) are required pursuant to section 325 of the Companies Act to be shown in the register of directors' interests maintained under section 325 of the Companies Act; or (c) are interests of a connected person of a Director which would, if the connected person were a Director, be required to be disclosed under (a) or (b) above, and the existence of which is known or could, with reasonable diligence, be ascertained by that Director:

	Immediately prior to Admission(1)		Immediately following Admission			
	Number of Ordinary Shares currently held	% of issued share capital	Number of Ordinary Shares (assuming no exercise of the Over-allotment Option)	% of issued share capital	Number of Ordinary Shares (assuming full exercise of the Over-allotment Option)	% of issued share capital
Robert Templeman	836,856	0.5	966,672	0.4	966,672	0.4
David Hamid	3,280,477	1.9	3,280,477	1.4	3,280,477	1.4
Nick Carter	1,673,713	1.0	1,422,657	0.6	1,338,972	0.6
Ian McLeod	1,506,342	0.9	1,280,391	0.6	1,129,757	0.5
Richard Pym(2)	0	0.0	11,538	0.0	11,538	0.0
Jonathan Feuer	679,025	0.4	679,025	0.3	679,025	0.3
Bill Ronald(2)	0	0.0	11,538	0.0	11,538	0.0
Nigel Wilson(2)	0	0.0	10,000	0.0	10,000	0.0
Keith Harris(2)	0	0.0	3,846	0.0	3,846	0.0

(1) Assuming that the capital reorganisation described in paragraph 2.6 above has been implemented and the Warrants have been exercised.

(2) On Admission these Ordinary Shares will be held by Chris Woodhouse (a former director of the company as noted in paragraph 7.4 of this Part VII (Additional Information)), who has entered into agreements with: Richard Pym, Bill Ronald, Nigel Wilson, and Keith Harris, pursuant to which each of Richard Pym, Bill Ronald, Nigel Wilson, and Keith Harris will, immediately following Admission, purchase from Chris Woodhouse 11,538 Ordinary Shares, 11,538 Ordinary Shares, 10,000 Ordinary Shares and 3,846 Ordinary Shares respectively at the Offer Price.

4.2 In addition to their interests disclosed in the table above, the Company has granted options to the Executive Directors under the Halfords Company Share Option Scheme. The exercise price under these options is the Offer Price. The number of Ordinary Shares put under option for each Executive Director is as follows:

David Hamid	298,076
Nick Carter	149,038
Ian McLeod	192,307

The Company will also invite all of the executive Directors, together with all other eligible Group Company employees, to participate in the Halfords Sharesave Scheme. It is envisaged that any Executive Director who applies for an option under the Halfords Sharesave Scheme will be granted an option shortly before Admission.

4.3 In addition to his interest disclosed in the table above, Robert Templeman has an option to acquire 259,426 Ordinary Shares (on the assumption that the capital reorganisation described in paragraph 2.6 has been implemented) granted to him by the Trust under the Existing Scheme on 12 May 2004 on the terms described in paragraph 2.8 above. Robert Templeman will exercise this option on Admission and sell 129,610 Ordinary Shares in the Global Offer. The remaining 129,816 Ordinary Shares are included in his interests immediately following Admission shown in the table above.

4.4 Insofar as is known to the Company, the following persons (other than the Directors) are interested or will immediately after Admission be interested, directly or indirectly, in 3 per cent. or more of the Company's issued share capital:

	Immediately prior to Admission[1]		Immediately following Admission			
	Number of Ordinary Shares currently held	% of issued share capital	Number of Ordinary Shares (assuming no exercise of the Over-allotment Option)	% of issued share capital	Number of Ordinary Shares (assuming full exercise of the Over-allotment Option)	% of issued share capital
Citicorp Capital Investors Europe Limited	18,712,445	10.7	13,302,146	5.8	11,560,280	5.1
CVC European Equity Partners II L.P.	41,843,995	24.0	29,745,708	13.1	25,850,617	11.3
CVC European Equity Partners II (Jersey) L.P.	13,514,060	7.8	9,606,762	4.2	8,348,792	3.7
CVC European Equity Partners III L.P.	61,624,605	35.4	43,807,182	19.2	38,070,792	16.7

(1) Assuming the capital reorganisation described in paragraph 2.6 above has been implemented and the Warrants have been exercised.

(2) Immediately prior to Admission the CVC Shareholders will hold a total of 147,621,483 Ordinary Shares representing 84.8 per cent. of the issued share capital of the Company (assuming the capital reorganisation described in paragraph 2.6 above has been implemented in full and the Warrants excercised). Assuming no exercise of the Over-allotment Option and full exercise of the Over-allotment Option, the CVC Shareholders will hold a total of 104,939,925 and 91,198,433 Ordinary Shares respectively representing 46.0 and 40.0 per cent. respectively of the issued share capital of the Company following Admission.

(3) Citicorp Capital Investors Europe Limited (which is an affiliate of Citigroup, one of the Joint Bookrunners) is a wholly owned subsidiary of Citigroup Inc.

4.5 The Panel on Takeovers and Mergers (the "Takeover Panel") is of the view that the CVC Shareholders, including two affiliates of Citigroup, are acting in concert with each other in relation to the Company for the purposes of the City Code on Takeovers and Mergers (the "Takeover Code"). The Takeover Panel is also of the view that Citigroup is acting in concert with its two affiliates that are CVC Shareholders, as they are all indirect subsidiaries of Citigroup Inc.

Immediately following Admission, the aggregate shareholdings of the CVC Shareholders will be as set out in note 2 to the table in paragraph 4.4 above. Pursuant to, and subject to the terms of, the Underwriting Agreement, Citigroup has agreed to procure subscribers and purchasers for or, failing which, to subscribe for and purchase itself up to 16.9 per cent. of the Company's issued share capital.

Under Rule 9 of the Takeover Code, any person or group of persons acting in concert with each other which, taken together with shares already held by that person or group of persons, (i) acquires 30 per cent. or more of the voting rights of a public company or (ii) holds not less than 30 per cent. but not more than 50 per cent. of the voting rights and acquires additional shares which increase the percentage of their voting rights is required to make a general offer in cash for all the remaining equity share capital of the company unless otherwise agreed by the Takeover Panel.

In respect of the Ordinary Shares which the CVC Shareholders and Citigroup will continue to hold or may acquire as a result of the Global Offer, and any stocklending arrangements between the CVC Shareholders and Merrill Lynch as stabilising manager, the Takeover Panel has agreed to waive any obligation on the CVC Shareholders or Citigroup that might otherwise have arisen under Rule 9 of the Takeover Code to make a general offer for all of the Ordinary Shares which they do not already own. In addition, the Takeover Panel has agreed to disregard Ordinary Shares subsequently acquired by affiliates of Citigroup that are exempt market-makers for the purposes of the Takeover Code, in respect of up to 3 per cent. of the Company's issued share capital, in determining whether such a general offer for all the Ordinary Shares may be required pursuant to Rule 9.

4.6 Save as described in paragraph 4.5 above, the Directors are not aware of any other person who immediately following Admission and the Global Offer could directly or indirectly, jointly or severally, exercise control over the Company.

5. TRANSACTIONS WITH DIRECTORS

5.1 No Director has or has had any interest in any transaction which is or was unusual in its nature or conditions or is or was significant to the business of the Group and which was effected by any member of the Group in the current or immediately preceding financial year of the Company or which was effected during an earlier financial year and remains in any respect outstanding or unperformed.

5.2 There are no outstanding loans granted by any member of the Group to any Director, nor has any guarantee been provided by any member of the Group for their benefit.

6. OTHER DIRECTORSHIPS

6.1 The Directors and the senior managers of the Company listed under the heading "Senior Management" in Part II (Directors, Senior Management and Corporate Governance) of this document have been directors or partners of the following companies (excluding the Company and its subsidiaries and subsidiaries of any company listed below) and partnerships in the past five years:

Name	*Current directorships/partnerships*	*Previous directorships/partnerships*
Robert Templeman	Baroness Holdings UK Limited Baroness Group LP	Homebase Group Limited Harveys Furnishings Limited
David Hamid	None	Freeserve (Reconstruction) Limited Dixons Group plc
Nick Carter	Fiona Hunt Limited	Birthdays Group Limited Kingsley Cards Limited
Ian McLeod	Fulham Football Club (1987) Limited	Asda Stores Limited Celtic plc The Scottish Premier League Limited WalMart Germany GmbH K.G.

Name	*Current directorships/partnerships*	*Previous directorships/partnerships*
Richard Pym	Alliance & Leicester plc	Selfridges plc
Jonathan Feuer	CVC Capital Partners Limited Baroness Group Limited Baroness Group Holdings Limited Aprilway Limited	Synstar plc
Bill Ronald	UNIQ plc	Incorporated Society of British Advertisers Ltd Food and Drink Federation (THE) Hoops Limited The Biscuits, Cake, Chocolate and Confectionery Association
Nigel Wilson	United Business Media plc UNM Investments Ltd United Finance Ltd Dynastyland Ltd	Viridian Group plc
Keith Harris	Investment Management Holdings plc (formerly Seymour Pierce Group plc) Rowan & Company Capital Management plc Spin SPG Limited St. Ronan's School (Hawkhurst) Benfield Group Limited Wembley National Stadium Limited Keith Harris & Associates Limited UBC Media Group plc CLS Holdings plc The Unique Broadcasting Company Limited	Isle of Wight Cable and Telephone Co. Limited Sports Internet Group Limited Football Dataco Limited NMSC Limited Hanover Capital Group plc Powerchannel Europe plc TSE Services International Limited FLPTV Limited Football League Limited (The) Jamies Bars Limited Cromar and Hackett Limited Powerchannel Limited Mount Street Investment Management Limited Radio First plc Tera Group plc
Richard Nixon	None	None
Andrew Smith	None	None
Andrew Torrance	Thinktank Trust	None
Nick Wharton	None	Boots Optical (Holdings) PLC Miller & Sandhouse Limited
Steven Whyman	None	Exel Europe Limited Tradeteam Limited

As at the date of this document, no Director or senior manager of the Company listed under the heading Senior Management in Part II of this document:

6.1.1 has any unspent convictions in relation to indictable offences; or

6.1.2 has been adjudged bankrupt or been a party to a deed of arrangement or any form of voluntary arrangement; or

6.1.3 has been a director with an executive function of any company which, while he was such a director or within 12 months after his ceasing to be such a director, was put into receivership or compulsory liquidation or creditor's voluntary liquidation or company voluntary arrangement or has had an administration or an administrative or other receiver appointed or entered into any composition or arrangement with its creditors generally or any class of its creditors; or

6.1.4 has been a partner in any partnership which, while he was a partner, or within 12 months after his ceasing to be a partner, was put into compulsory liquidation or had an administrator or an administrative or other receiver appointed or entered into any voluntary arrangement; or

6.1.5 has had an administrative or other receiver appointed in respect of any asset belonging to him or to a partnership of which he was a partner at the time of such event or within 12 months after his ceasing to be such a partner; or

6.16 has been the subject of any public criticisms by any statutory or regulatory authority (including any designated recognised professional body) nor has ever been disqualified by a court from acting as a director or in the management or conduct of affairs of any company.

7. DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

7.1 On 17 May 2004, the Executive Directors entered into new service contracts with the Company, conditional on Admission.

David Hamid's contract provides for Mr Hamid to act as the Chief Executive of the Company at an annual salary of £310,000.

Nick Carter's contract provides for Mr Carter to act as Finance Director of the Company at an annual salary of £155,000.

Ian McLeod's contract provides for Mr McLeod to act as Trading Director of the Company at an annual salary of £200,000.

7.2 The employment of each of the Executive Directors is for an indefinite period and continues until either party terminates it by giving to the other not less than 12 months' written notice, to expire at any time. The Company also has the right to terminate the employment at any time with immediate effect on payment of basic salary and benefits (excluding bonus) in lieu of notice. Each Executive Director is also entitled to:

7.2.1 participate in the Company's executive short-term bonus scheme. Maximum annual bonus entitlement is 55 per cent. of base salary, subject to Company and Group performance targets;

7.2.2 a pension contribution to his personal pension scheme equivalent to 15 per cent. of gross salary;

7.2.3 membership of the Company's private medical expenses insurance scheme;

7.2.4 a car allowance as agreed by the Halfords Remuneration Committee;

7.2.5 Life Assurance cover which will provide him with a death in service benefit of four times annual salary; and

7.2.6 reimbursement for reasonable vouched for travelling and similar out-of-pocket expenses.

7.3 On 17 May 2004, Bill Ronald, Nigel Wilson and Keith Harris were appointed as Non-executive Directors of the Company. On 18 May 2004, Richard Pym was appointed as a Non-executive Director of the Company. New terms of appointment as non-executive directors of the Company which are conditional on Admission were entered into by Robert Templeman and Jonathan Feuer on 2 June 2004.

Robert Templeman's letter of appointment provides for him to act as Chairman of the Company and receive an annual fee of £75,000 plus £5,000 for any committees chaired by him.

Richard Pym's letter of appointment provides for him to act as the Senior Independent Non-executive Director of the Company and receive an annual fee of £55,000 plus £5,000 for any committees chaired by him.

Letters of appointment for Jonathan Feuer, Bill Ronald, Nigel Wilson and Keith Harris provide for them to act as Non-executive Directors of the Company and to receive an annual fee of £35,000 plus £5,000 for any committees chaired. Mr Feuer's fee will be paid to CVC Capital Partners Limited.

All of the Non-executive Directors of the Company will be reimbursed for reasonable vouched for travelling and similar out-of-pocket expenses.

All of the Non-executive Directors other than Mr Templeman and Mr Feuer have been appointed for a maximum term of three years from Admission. Mr Templeman and Mr Feuer have been appointed for a maximum term of three years from their original date of appointment (4 March 2003 and 24 July 2002 respectively). The appointments of all of the Non-executive Directors may be terminated by either party on three calendar months' notice or by the Company on payment of fees in lieu of notice or otherwise in accordance with the Articles of Association of the Company.

7.4 The directors of Halfords Holdings Limited are David Hamid, Nicholas Carter, Christopher Woodhouse, John Lovering, Donald Mackenzie, Robert Lucas and Robert Hill. David Hamid and Nicholas Carter are both Executive Directors of the Company and Christopher Woodhouse is a former director of the Company. The directors of Halfords Holdings Limited, other than the Executive Directors, are non-executive directors of that company who receive no fees (but have their reasonable expenses reimbursed) and who have agreed that their appointment may be terminated by Halfords Holdings Limited without notice or payment of compensation. All of the non-executive directors of Halfords Holdings Limited (other than Mr Woodhouse) have been appointed for a maximum term of two years from Admission. Mr Woodhouse has been appointed for a maximum term of two years from 6 May 2003. All of the non-executive directors are shareholders in the Company who have entered into or are subject to lock-up arrangements in respect of their shareholdings as described in Part III (Details of the Global Offer). Messrs Mackenzie, Lucas and Hill are all employees of CVC Capital Partners Advisory Company Limited (or its affiliates), which provides advice directly or indirectly to the general partners of certain of the CVC Shareholders.

7.5 Save as set out in this Part VII (Additional Information), there are no existing or proposed service contracts between any Director and any member of the Group other than agreements expiring or terminable without payment of compensation (other than statutory compensation) within one year.

7.6 The aggregate remuneration paid (including bonuses, pension fund contributions and benefits in kind) to the Directors during the 2004 financial year was £3,425,498. The aggregate amount payable to the Directors under the arrangements in force at the date of this document (including pension fund contributions and benefits in kind but excluding bonuses and any award under the Share Option Scheme) is estimated to amount to £1.1 million for the current financial year.

7.7 There is no arrangement under which any Director has agreed to waive future emoluments, nor has there been any waiver of emoluments during the current financial year.

8. SHARE SCHEMES

On 7 May 2004, the Company approved and adopted the Halfords Company Share Option Scheme (the "Company Scheme") and the Halfords Sharesave Scheme (the "Share Option Schemes"). The principal terms of the Share Option Schemes are summarised below. The Company has granted options under the Share Option Schemes at the Offer Price. The number of Ordinary Shares placed under options granted under the Halfords Company Share Option Scheme as part of this initial grant was 6,517,204 Ordinary Shares (representing 2.9 per cent. of the issued capital of the Company on Admission). The number of Ordinary Shares placed under options granted under the Sharesave Scheme will depend upon the amount of monthly savings participants agree to make.

8.1 The Halfords Company Share Option Scheme (the "Company Scheme")

The Company Scheme is divided into two parts – an approved part (options granted under this part are eligible to benefit from favourable tax treatment) for which the Company is seeking Inland Revenue approval, and an unapproved part which is not designed for Inland Revenue approval and which will be used for grants of options in excess of Inland Revenue limits. The following is a summary of the main features of the two parts of the Company Scheme:

8.1.1 *Approved part of the Company Scheme – Part A*

(a) Approval

Part A of the Company Scheme has been designed for approval by the UK Inland Revenue under Schedule 4 of the Income Tax (Earnings and Pensions) Act 2003.

(b) Eligibility

Any full-time director (working a minimum of 25 hours per week) or any employee of a participating company, other than anyone who is within six months of retirement or who is ineligible to participate due to Inland Revenue rules, may be granted an option under Part A of the Company Scheme.

(c) Grant of Options

Options to acquire Shares may be granted at any time during the period of six weeks following approval of the Company Scheme by the Inland Revenue or the announcement of the Company's results for any period (and at other times in exceptional circumstances). There is no intention to grant any options prior to Admission other than as provided for in this document.

No options may be granted more than ten years after the adoption of the Company Scheme. Options granted under the Company Scheme are personal to the optionholder and, except on the death of an optionholder, may not be transferred. No payment is made for the grant of an option. Options granted under the Company Scheme are not pensionable.

(d) Price

The price payable for each share under an option will be determined by the Board before the grant of the option, provided that, in the case of options granted after Admission, it shall not be less than the middle market quotation of such shares, as derived from the Daily Official List, on the dealing day immediately preceding the date of grant.

(e) Exercise of Options

An option granted under the Company Scheme will normally be exercisable between three years and ten years after the date of grant, provided that a specified performance condition has been satisfied. The performance condition will be determined by the Board before the options are granted. The performance condition applicable to options granted in any year will be described in the Annual Report and Accounts of the Company for that year. The performance condition applicable to the first grant of options under the Company Scheme is an earnings per share ("EPS") growth target measured over a period of three financial years. In the case of grants of up to 150 per cent. of basic salary, the option can only be exercised if the increase in EPS over the period is not less than the increase in the Retail Prices Index ("RPI") plus 6 per cent. per year. In the case of grants in excess of 150 per cent. of basic salary there are two tests. The part of the option up to 150 per cent. of basic salary can be exercised if the increase in EPS over the period is not less than RPI plus 6 per cent. per year. The part of the option in excess of 150 per cent. of basic salary can only be exercised in full if the increase over the period is not less than RPI plus 10 per cent. per year. For increases in excess of 6 per cent. but less than 10 per cent., a proportion of the part of the option in excess of 150 per cent. of basic salary can be exercised depending on the proportion of the 4 per cent. in excess of 6 per cent. per year that has been achieved.

Early exercise of options is allowed under Part A if an optionholder ceases to be employed by reason of death, injury, disability, redundancy, retirement or on the sale of his employing company or business (subject to satisfying any relevant performance condition). If an optionholder ceases employment for any other reason, his option will normally lapse unless the Board decides otherwise. On early exercise, performance conditions attached to the options do not automatically fall away; the Board has discretion, acting fairly and reasonably, to determine whether the performance conditions shall be treated as satisfied.

Special provisions also allow early exercise in the circumstances of a takeover, reconstruction or winding-up of the Company subject to the satisfaction of the performance conditions (with the Board having a discretion to determine whether the conditions shall be treated as satisfied). Internal reorganisations do not trigger the early exercise of options.

(f) Variation of Capital

In the event of any increase or variation in the share capital of the Company, the Board may make such adjustments as it considers appropriate to the number of shares under option and the price at which they may be acquired. Adjustments to the terms of options granted under Part A of the Company Scheme must be approved by the Inland Revenue.

(g) Limits

The Company Scheme is subject to the following limits:

(i) the number of shares which may be issued on the exercise of options granted in any period of ten years under all the Company's employee share schemes may not exceed 10 per cent. of the Company's issued ordinary share capital;

(ii) the number of shares which may be issued on the exercise of options granted in any period of ten years under all the Company's executive share schemes from time to time may not exceed 5 per cent. of the Company's issued ordinary share capital; and

(iii) the total acquisition price for shares on the exercise of options held by any participant under Part A of the Company Scheme may not exceed the amount permitted under Schedule 4 of the Income Tax (Earnings and Pensions) Act 2003 (currently £30,000).

(h) Amendments
The Board may at any time amend the Company Scheme or the terms of any option granted under it, provided that no such amendment may be made to Part A of the Company Scheme without the prior approval of the Inland Revenue. The prior approval of the Company in general meeting will be required for amendments to the advantage of optionholders to the provisions concerning eligibility, the limits on the number of shares that may be issued, the maximum entitlement for any participant, and the basis for determining a participant's entitlement to shares and for the adjustment thereof in the event of an increase or variation of share capital (except for minor amendments to benefit the administration of the Company Scheme, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control, or regulatory treatment for an optionholder or any participating company) or where the amendment relates solely to a specific term (e.g. a performance condition imposed by the Board, in which case the amended condition should overall be not less demanding). Any amendment that is to the disadvantage of participants requires the consent of a majority of them.

8.1.2 *Unapproved part of the Company Scheme – Part B*
The description of Part A of the Company Scheme also applies to Part B of the Company Scheme except where specified otherwise below. Part B of the Company Scheme has not been designed for approval by the UK Inland Revenue and is intended for grants of options to UK executives in excess of the UK Inland Revenue £30,000 limit set out above.

(a) Eligibility
A person is eligible to be granted an option under Part B of the Company Scheme if he is an employee (including a director who is an employee) of a participating company.

(b) Grant of options
Options may be granted at any time prior to Admission but thereafter in accordance with the periods specified in Part A of the Company Scheme in paragraph 8.1.1(c).

(c) Overall Limits
The limits in Part A of the Company Scheme in paragraphs 8.1.1(g)(i) and (ii) above also apply to Part B, but not the limit in paragraph 8.1.1(g)(iii).

(d) Individual Limits
It is intended to make an annual grant of options to participants. The aggregate market value of shares put under option in any year may not exceed 250 per cent. of salary.

(e) Cash Equivalent
Following the exercise of any option granted under Part B of the Company Scheme, the Board may elect, instead of issuing shares, to pay a cash sum to any participant, calculated by reference to the excess, if any, of the middle market quotation of such shares (as derived from the Daily Official List) on the day before the option was exercised and the price payable for such shares on the exercise of the option, less applicable withholding taxes, if any.

8.2 The Halfords Sharesave Scheme (the "Sharesave Scheme")

The Sharesave Scheme is a Save-As-You-Earn share option scheme designed to be approved by the Inland Revenue. The following is a summary of the main features of the Sharesave Scheme:

(a) *Approval*

The Sharesave Scheme has been designed for approval by the UK Inland Revenue as a savings-related share option scheme under Schedule 3 to the Income Tax (Earnings and Pensions) Act 2003.

(b) *Eligibility*

An individual must be an employee or full-time director of the Company or a participating company on the date that options are granted and must have been such an employee or full-time director for such period (not exceeding five years) as the Board may determine. An individual is a full-time director if he is obliged to devote not less than 25 hours per week to his duties with the company concerned. The Board has a discretion to nominate employees who do not satisfy the above conditions to participate in the Sharesave Scheme.

(c) *Grant of Options*

The Board may invite all eligible employees to apply for options at any time before Admission and thereafter during the three week period following Admission or during the six week period after the Sharesave Scheme has received Inland Revenue approval. Invitations may normally be issued only in the six weeks beginning on the dealing day next following the date on which the Company announces its results for any period.

No options may be granted more than ten years after the date of adoption of the Sharesave Scheme. Options granted under the Sharesave Scheme are personal to the optionholder and, except on the death of the optionholder, may not be transferred. Options granted under the Sharesave Scheme are not pensionable.

(d) *Savings Contracts*

An eligible employee who applies for an option under the Sharesave Scheme must also enter into a UK Inland Revenue approved savings related contract. Under this contract, the employee will agree to make monthly savings contributions of a fixed amount (currently not less than £5 and not more than £250). Shares may only be acquired under the Sharesave Scheme on exercise of the option using the payments under this contract. Payment will be taken as including the bonus payable under the savings contract, unless otherwise decided by the Board.

(e) *Price*

The price payable for each share under option shall be determined by the Board, provided that it shall not be less than 80 per cent. of the market value of a share when invitations are issued to eligible employees.

(f) *Limit*

The number of shares which may be issued on the exercise of options granted in any period of ten years under all the Company's employee share schemes may not exceed such number of shares as represents 10 per cent. of the Company's ordinary share capital in issue on the date of grant of the options.

(g) *Exercise of Options*

An option granted may not normally be exercised until the optionholder has completed his savings contract (which will usually be three or five years from the date of commencement of the savings contract) 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 optionholder is transferred out of the group. If an optionholder ceases employment for any other reason, his option will lapse. Special provisions also allow early exercise in the event of a change of control, reconstruction or winding-up of the Company. Internal reorganisations do not trigger the early exercise of options.

(h) *Variation of Capital*
In the event of an increase or variation of the share capital of the Company, the Board may make such adjustments as it considers appropriate to the number of shares under option and the price at which they may be acquired. Adjustments to the terms of options must be approved by the Inland Revenue.

(i) *Amendments*
The Board may at any time amend or add to all or any of the provisions of the Sharesave Scheme in any respect, provided that no such amendment may be made without the prior approval of the Inland Revenue and, in addition, the prior approval of the Company in general meeting is required for an amendment to the advantage of optionholder to provisions relating to eligibility, the maximum amount of savings, the determination of the exercise price, leavers, takeover, reconstruction and winding up of the Company and the variation of capital (unless the amendment is a minor one to benefit the administration of the Sharesave Scheme, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for optionholder or any member of the group).

9. SUBSIDIARIES

9.1 The Company is the holding company of the Group.

9.2 The Company has the following principal subsidiary undertakings, each of which is wholly-owned, either directly or indirectly, by the Company and consolidated into the annual financial statements of the Company and each of which is registered in England and Wales and has its registered office at Icknield Street Drive, Washford, Redditch, Worcestershire B98 0DE:

Name	Issued and fully paid up share capital	Nature of business/activity
Halfords Holdings Limited	£9,700, comprising 970,000 ordinary shares of 1p each	Intermediate holding company
Halfords Finance Limited	£9,700, comprising 970,000 ordinary shares of 1p each	Intermediate holding company
Halfords Limited	£120,216,500 comprising 120,216,500 ordinary shares of £1 each	Retailing of auto parts, accessories, cycles and cycle accessories

10. PRINCIPAL ESTABLISHMENTS

The principal establishments owned or leased by the Group are as follows:

Redditch Washford warehouse and head office

Address:	8E and 8F Washford Industrial Estate, Icknield Street Drive, Redditch
Size:	Office of approximately 68,250 sq. ft., with warehouse of approximately 285,000 sq. ft.
Tenure:	Leasehold
Term of Lease:	25 years from 29 March 2004 expiring 28 March 2029
Rent:	£1,550,000 p.a.
Description:	Warehouses and offices

Redditch Lakeside (West) warehouse

Address:	Warehouse at Lakeside West, Redditch
Size:	approximately 128,000 sq. ft.
Tenure:	Leasehold
Term of Lease:	13 years from 11 August 1997 expiring 10 August 2010
Rent:	£550,000 p.a.
Description:	Warehouse with ancillary offices and car park

11. PENSIONS

11.1 Employees of the Group are eligible to participate in a defined contribution pension scheme (the "Halfords Pension Plan"). This was established following the CVC Acquisition. The Halfords Pension Plan is funded by contributions from the employer and the employee. Members of the Halfords Pension Plan are generally contracted into the state secured pension. The actuaries of the Halfords Pension Plan are Bacon & Woodrow and the assets of the plan are managed by Barclays Global Investors.

11.2 Certain executives are members of the Halfords Limited Executive Life Assurance Scheme, an unapproved pension arrangement to pay death benefits based on basic salary over the government set cap of £99,000 p.a. Employer contributions are also made into a personal pension plan for Ian McLeod.

12. UK TAXATION

12.1 General

The following statements are only a guide to the general position and are based on current UK taxation legislation and published practice of the UK Inland Revenue, both of which are subject to change, possibly with retrospective effect. Except where the position of non-UK residents is expressly referred to, these statements relate solely to persons who are resident or ordinarily resident in the UK for UK tax purposes, who are the beneficial owners of Ordinary Shares and who hold their Ordinary Shares as an investment and not as trading stock. The comments below may not apply to certain classes of shareholders such as (but not limited to) dealers in securities, insurance companies and collective investment schemes. If you are in any doubt as to your tax position or if you are subject to tax in a jurisdiction other than the UK, you should consult your own professional advisers.

12.2 Dividends

Under current UK taxation legislation, no tax will be withheld at source from dividend payments by the Company.

(a) *Individuals*

UK resident individual shareholders who receive a dividend from the Company will generally be entitled to a tax credit, which can be set off against the individual's income tax liability on the dividend payment. The rate of tax credit on dividends paid by the company will be 10 per cent. of the total of the dividend payment and the tax credit (the "gross dividend"), or one-ninth of the dividend payment. UK resident individual shareholders will generally be taxable on the gross dividend, which will be regarded as the top slice of the shareholder's income. UK resident individual shareholders who are not liable to income tax in respect of the gross dividend will generally not be entitled to reclaim any part of the tax credit. In the case of a UK resident individual shareholder who is not liable to income tax at the higher rate (taking account of the gross dividend he or she receives), the tax credit will satisfy in full such shareholder's liability to income tax. To the extent that a UK resident individual shareholder's income (including the gross dividend) exceeds the threshold for higher rate income tax, such shareholder will be subject to income tax on the gross dividend at 32.5 per cent. but will be able to set the tax credit off against this liability. An individual shareholder who is liable to the higher rate of income tax will therefore be liable to income tax equal to 22.5 per cent. of the gross dividend (or 25 per cent. of the dividend payment).

(b) *Companies*

A corporate shareholder resident in the UK (for tax purposes) will generally not be subject to corporation tax on dividend payments by the Company. Corporate shareholders will not, however, be able to claim repayment of tax credits attaching to the dividend payments.

(c) *Non-Residents*

In general, the right of non-UK resident shareholders to reclaim tax credits attaching to dividend payments by the Company will depend upon the existence and the terms of an applicable double tax treaty between their jurisdiction of residence and the UK. In most cases, the amount that can be claimed by non-UK resident shareholders will be nil as a result of the terms of the relevant treaty. They may also be liable to tax on the dividend income under the tax law of their jurisdiction of residence. Non-UK resident shareholders should consult their own tax advisers in respect of their tax liabilities on dividend payments, whether they are entitled to claim any part of the tax credit and, if so, the procedure for doing so.

(d) *Pension Funds*

UK resident shareholders who are not liable to income tax, including pension funds, charities and individuals holding shares through a personal equity plan or individual savings account, are not entitled to reclaim the tax credits on dividends paid by the Company.

12.3 Chargeable gains

A disposal of the Ordinary Shares by a shareholder who is resident or, in the case of an individual, ordinarily resident for tax purposes in the UK, or a shareholder who is neither resident nor ordinarily resident in the UK for tax purposes, but who carries on a trade, profession or vocation in the UK through a permanent establishment (where the shareholder is a company) or through a branch or agency (where the shareholder is not a company) and has used, held or acquired the Ordinary Shares for the purposes of such trade, profession or vocation or such permanent establishment, branch or agency (as appropriate) may, depending on the shareholder's circumstances and subject to any available exemption or relief, give rise to a chargeable gain or an allowable loss for the purposes of UK taxation on chargeable gains. A shareholder who is an individual and who has, on or after 17 March 1998, ceased to be resident and ordinarily resident for tax purposes in the UK for a period of less than five tax years (or a shorter period under certain double tax treaties, where applicable) and who disposes of Ordinary Shares during that period may also be liable on his or her return to the UK to tax on any chargeable gain realised (subject to any available exemption or relief).

12.4 UK inheritance and gift taxes

Ordinary Shares beneficially owned by an individual shareholder will be subject to UK inheritance tax on the death of the shareholder (even if the shareholder is not domiciled or deemed domiciled in the UK). For UK inheritance tax purposes, a transfer of assets to another individual or trust could potentially be subject to UK inheritance tax, based on the loss of value to the donor. Particular rules apply to gifts where the donor reserves or retains some benefit. UK inheritance tax is not chargeable on gifts to individuals or trusts (other than discretionary trusts) if the transfer is made more than seven complete years prior to death of the donor. Special rules apply to close companies and to trustees of settlements who hold shares, which could bring them within the charge to UK inheritance tax.

Shareholders should consult an appropriate professional adviser if they intend to make a gift of any kind or intend to hold any Ordinary Shares through trust arrangements. They should also seek professional advice in a situation where there is a potential for a double charge to UK inheritance tax and an equivalent tax in another country.

12.5 Stamp Duty and Stamp Duty Reserve Tax (“SDRT”)

In relation to the New Shares being issued by the Company, no liability to stamp duty or SDRT will arise on the issue of, or on the issue of definitive share certificates in respect of, such shares by the Company other than in circumstances involving depositary receipts or clearances services referred to below.

Holders of Ordinary Shares will be registered on the Company’s register in the UK. Shareholders who are “system members” of CREST may elect to hold their Ordinary Shares in CREST for trading on the main market.

The conveyance or transfer on sale of Ordinary Shares held in certificated form will generally be subject to ad valorem stamp duty on the instrument of transfer at the rate of 0.5 per cent. of the amount or value of the consideration given (rounded up if necessary to the nearest multiple of £5). Stamp duty is normally paid by the purchaser of the Ordinary Shares.

An unconditional agreement to transfer Ordinary Shares will normally give rise to a charge to SDRT at the rate of 0.5 per cent. of the amount or value of the consideration for the Ordinary Shares. However, where within six years of the date of the agreement an instrument of transfer is executed and duly stamped, the SDRT liability will be cancelled and any SDRT which has been paid will be repaid. SDRT is normally the liability of the purchaser of the Ordinary Shares.

Where Ordinary Shares are issued or transferred (a) to, or to a nominee for, a person whose business is or includes the provision of clearance services or (b) to, or to a nominee or agent for, a person whose business is or includes issuing depositary receipts, stamp duty (in the case of a transfer only to such person) or SDRT may be payable at a rate of 1.5 per cent. (rounded up if necessary, in the case of stamp duty, to the nearest multiple of £5) of the amount or value of the consideration payable or, in certain circumstances, the value of the Ordinary Shares. This liability for stamp duty or SDRT will strictly be accountable by the depositary or clearance service operator or their nominee, as the case may be, but will in practice generally be reimbursed by participants in the clearance service or depositary receipt scheme. Clearance service providers may opt under certain circumstances for the normal rates of SDRT (0.5 per cent. of the consideration paid) to apply to issues or transfers of Ordinary Shares into, and to transactions within, the service instead of the higher rate applying to an issue or transfer of Ordinary Shares into the clearance service, in which case a liability to SDRT would arise (at the rate of 0.5 per cent. of the consideration paid) on any subsequent transfers of Ordinary Shares whilst in the service.

Paperless transfers of Ordinary Shares within CREST are generally subject to SDRT, rather than stamp duty, at the rate of 0.5 per cent. of the amount or value of the consideration payable. CREST is obliged to collect SDRT on relevant transactions settled within the system. Deposits of Ordinary Shares in CREST will generally not be subject to SDRT or stamp duty, unless the transfer into CREST is itself for consideration in money or money's worth, in which case a liability to SDRT will arise, usually at the rate of 0.5 per cent. of the value of the consideration.

Special rules apply to agreements made by market intermediaries in the ordinary course of their business.

The sale of the Existing Shares by the Selling Shareholders under the Global Offer will give rise to a liability to stamp duty and/or SDRT as described above. The Selling Shareholders will meet the liability to stamp duty of purchasers of Existing Shares which will arise on the sale at no more than the rate of 0.5 per cent. of the Offer Price. The Selling Shareholders will also meet any liability to SDRT of the purchasers arising in respect of the initial transfer of the Existing Shares by the Selling Shareholders within the CREST system at no more than the rate of 0.5 per cent. of the Offer Price.

Prospective purchasers of Ordinary Shares should consult their own tax advisors with respect to the tax consequences to them of acquiring, holding and disposing of Ordinary Shares.

13. UNITED STATES FEDERAL INCOME TAXATION

The following is a general summary of certain US federal income tax considerations to US Holders (defined below) of acquiring, holding, and disposing of Ordinary Shares. The following summary applies only to US Holders that will hold Ordinary Shares as capital assets (generally, assets held for investment) and that are not residents of, or ordinarily resident in, the UK for tax purposes. The following summary is not a complete analysis of all US federal income tax consequences to US Holders of acquiring, holding, and disposing of Ordinary Shares, including, in particular, US federal income tax consequences to US Holders subject to special tax rules, including, among others, financial institutions, insurance companies, real estate investment trusts, regulated investment companies, dealers or traders in securities or currencies, tax-exempt entities, US Holders that will hold Ordinary Shares as part of an "integrated", "hedging" or "conversion" transaction or as a position in a "straddle" for US federal income tax purposes, grantor trusts, US Holders that have a "functional currency" other than the US dollar, US Holders that will own (or will be deemed to own) 10 per cent. or more (by voting power or value) of the stock of the Company, certain US expatriates or US Holders subject to the alternative minimum tax.

The following summary is based on the US Internal Revenue Code of 1986, as amended (the "Code"), US Treasury Regulations thereunder, and judicial and administrative interpretations thereof, in each case as in effect and available on the date of this document. All of the foregoing are subject to change, which change could apply retroactively and could affect the tax consequences described below. No ruling will be sought from the US Internal Revenue Service (the "IRS") with respect to any statement or conclusion in the following discussion, and there is no assurance that the IRS will not challenge such statement or conclusion or, if challenged, a court will uphold such statement or conclusion.

For purposes of the following summary, a "US Holder" is a beneficial owner of Ordinary Shares that is: (i) a citizen or individual resident of the United States for US federal income tax purposes, (ii) a corporation or other entity treated as a corporation for US federal income tax purposes created or organised in or under the laws of the United States or any state thereof (including the District of Columbia), (iii) an estate the income of which is subject to US federal income taxation regardless of its source or (iv) a trust if such trust has made a valid election under US Treasury Regulations to be treated as a United States person for US federal income tax purposes or if (x) a court within the United States is able to exercise primary supervision over its administration and (y) one or more United States persons (as defined in the Code) have the authority to control all of the substantial decisions of such trust.

If a partnership (including any entity treated as a partnership for US federal income tax purposes) holds Ordinary Shares, the US federal income tax consequences to the partners of such partnership will depend on the activities of the partnership and the status of the partners.

Prospective purchasers of Ordinary Shares should consult their own tax advisors with respect to the US federal, state, local, foreign and other tax consequences to them of acquiring, holding, and disposing of, Ordinary Shares.

13.1 Initial basis and holding period

Generally, a US Holder's initial tax basis in an Ordinary Share will be the US dollar value of the purchase price paid for the Ordinary Share. For purposes of the preceding sentence, once listed on the London Stock Exchange, the US dollar value will be determined by reference to the spot rate in effect, in the case of cash method US Holders and accrual method US holders that elect to apply rules applicable to cash method US Holders described herein, on the date of settlement, and, in the case of other accrual method US Holders, the spot rate in effect on the date of the purchase. The holding period of an Ordinary Share will start on the date of the purchase.

13.2 Distributions by the Company

Subject to the discussion under "Passive foreign investment company" below, generally, the gross amount of any distribution by the Company with respect to Ordinary Shares will be includible in a US Holder's ordinary income as dividends to the extent of the Company's current and accumulated earnings and profits (as determined under US federal income tax principles) at the time such amount is received (or constructively received) by the US Holder in accordance with the US Holder's usual method of accounting for US federal income tax purposes. Any distribution in excess of the Company's current and accumulated earnings and profits will be treated first as a tax-free return of capital to the extent of a US holder's adjusted tax basis and thereafter as capital gain.

The Company does not maintain calculations of its earnings and profits under US federal income tax principles. US Holders should therefore assume that any distribution by the Company with respect to Ordinary Shares will constitute ordinary dividend income. US Holders should consult their own tax advisors with respect to the appropriate treatment of any distribution received from the Company for US federal income tax purposes.

Dividends paid in pounds sterling will be included in income in a US dollar amount calculated by reference to the exchange rate in effect on the day the dividends are received regardless of whether the pounds sterling are converted into US dollars at that time. If dividends received in pounds sterling are converted into US dollars on the day they are received, the US Holder generally will not be required to recognise foreign currency gain or loss in respect of the dividend income. Certain transactions involving the disposition of foreign currency may require a US Holder specifically to disclose any loss on its tax return under recent regulations on tax shelter transactions.

Dividends on an Ordinary Share will be treated as foreign source income for US foreign tax credit purposes and, with certain exceptions, will be treated as "passive" or, in certain cases, "financial services" income for purposes of determining the US Holder's foreign tax credit limitation. Dividends paid by the Company will not be eligible for the dividends received deduction in the hands of corporate US Holders but will qualify for the reduced rate available to non-corporate US Holders on qualified dividend income.

13.3 Proceeds from the sale, taxable exchange or retirement of the Ordinary Shares

Generally, upon the sale, taxable exchange or retirement of an Ordinary Share, a US Holder will recognise taxable gain or loss equal to the difference, if any, between the amount realised on the sale, taxable exchange or retirement and the US Holder's tax basis in the Ordinary Share. Subject to the discussion under "Passive foreign investment company" below, any gain or loss will be capital gain or loss. In the case of a non-corporate US Holder that has held the Ordinary Share for more than one year, any such gain will be subject to a rate lower than the maximum US Federal income tax rate applicable to ordinary income.

Any gain or loss recognised by a US Holder generally will be treated as US source income or loss for US foreign tax credit purposes, except that losses will be treated as foreign source losses to the extent that the US Holder received dividends that were "financial services" income during the 24-month period prior to the sale. The deductibility of capital losses is subject to limitations.

To the extent that proceeds from the sale, taxable exchange or redemption of an Ordinary Share received by a US Holder are denominated in pounds sterling, gain or loss from such sale, taxable exchange or redemption will be determined using the US dollar value of the proceeds received in pounds sterling, calculated by reference to the exchange rate in effect, in the case of cash method US Holder or an electing accrual method US Holder, on the settlement date and, in the case of a non-electing accrual method US Holder, on the date of the sale, taxable exchange or redemption. See also "Currency exchange rules" below.

13.4 Currency exchange rules

If the cash received in pounds sterling is converted into US dollars on the date of its receipt (or constructive receipt) by the US Holder, except as discussed below, the US Holder generally will not be required to recognise foreign currency gain or loss in respect of such amount. If the US Holder does not convert the cash into US dollars on the date of receipt (or constructive receipt), the US Holder will have a tax basis in the pounds sterling equal to their US dollar value on the date of the receipt. Generally, any gain or loss realised by the US Holder on a subsequent conversion or other disposition of the pounds sterling will be treated as ordinary income or loss. Generally, such gain or loss will be treated as US source income or loss. Certain transactions involving the disposition of foreign currency may require a US Holder specifically to disclose any loss on its tax return under recent regulations on tax shelter transactions.

13.5 Passive foreign investment company

Generally, for US federal income tax purposes, the Company will be a "passive foreign investment company" (a "PFIC"), if either (i) 75 per cent. or more of its gross income is "passive" income or (ii) 50 per cent. or more of the value of its assets, determined on the basis of a quarterly average, is attributable to assets that produce or are held for the production of passive income. Passive income generally includes dividends, interest, royalties and rents not arising from the active conduct of a trade or business, and gains from the sale of assets that produce such income. For purposes of determining whether the Company is a PFIC, the Company is treated as if it held its proportionate share of the assets and received its proportionate share of the income of each of its subsidiaries of which it owned 25 per cent. or more, by value.

If the Company is a PFIC in any taxable year during which a US Holder owns Ordinary Shares, the US Holder would be subject to additional taxes on any excess distributions received and/or any gain realised from the sale or other disposition of the Ordinary Shares (whether or not the Company continued to be a PFIC). A US Holder has an excess distribution to the extent that distributions on the Ordinary Shares during a taxable year exceed 125 per cent. of the average amount received during the three preceding taxable years (or, if shorter, the US Holder's holding period). To compute the tax on excess distributions or any gain on the sale of Ordinary Shares, (i) the excess distribution or the gain is allocated rateably over the US Holder's holding period, (ii) the amount allocated to the current taxable year and any year before the Company became a PFIC is taxed as ordinary income in the current year, and (iii) the amount allocated to other taxable years is taxed at the highest applicable marginal rate in effect for each year, and an interest charge is imposed to recover the deemed benefit from the deferred payment of the tax attributable to each year.

Based on the current and planned activities of the Company and its subsidiaries, the Company does not believe that it is a PFIC, and it does not expect to become a PFIC in the foreseeable future. The determination of whether the Company is a PFIC is made annually. Therefore, it is possible that the Company will become a PFIC in the current or any future year due to changes in the assets or income composition of the Company and its subsidiaries. US Holders should consult their own tax advisors with respect to the US federal income tax consequences to them if the Company were a PFIC and the availability of and implications of making certain protective elections.

13.6 Transfer reporting requirements

Under US Treasury Regulations, in the event that 80 per cent. or more of the total issued share capital of the Company after the Global Offer is acquired by investors under the Global Offer, including the sale of Existing Shares by the Selling Shareholders, a US Holder that purchases Ordinary Shares for cash will be required to file an IRS Form 926 or similar form with the IRS, if (i) such U.S. Holder owned, directly or by attribution, immediately after the transfer at least 10 per cent. by vote or value of or (ii) the purchase, when aggregated with all purchases made by such US Holder (or any related person thereto) within the preceding 12 month period, exceeds $100,000. If a U.S. Holder fails to file any such required form, the US Holder could be required to pay a penalty equal to 10 per cent. of the gross amount paid for the Ordinary Shares (subject to a maximum penalty of $100,000, except in cases involving intentional disregard). US Holders should consult their own tax advisors with respect to this or any other reporting requirement that may apply with respect to their purchase of the Ordinary Shares.

13.7 Backup withholding and information reporting requirements

US federal information reporting requirements may apply to certain payments of dividends on, and proceeds from the sale, taxable exchange or redemption of, Ordinary Shares held by certain non-corporate US Holders. A portion of any such payment may be withheld as a backup withholding against such holder's potential US federal income tax liability if such holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with such information reporting requirements. Corporate US Holders are generally exempt from the backup withholding and information reporting requirements but may be required to comply with certification and identification requirements in order to prove their exemption. Any amounts withheld under the backup withholding rules from a payment to a US Holder will be refunded (or credited against such holder's US federal income tax liability, if any), provided the required information is furnished to the IRS. US Holders should consult their own tax advisors as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

The above summary is not intended to constitute a complete analysis of all US federal income tax consequences to a US Holder of acquiring, holding, and disposing of, Ordinary Shares. Each US Holder should consult its own tax advisor with respect to the US federal, state, local foreign and other tax consequences of acquiring, holding, and disposing of, Ordinary Shares.

14. SECURITIES LAWS

The distribution of this document and the offer of Ordinary Shares in certain jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restriction, including those in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

14.1 Australia

This document does not constitute a disclosure document under Part 6D.2 of the Corporations Act 2001 of the Commonwealth of Australia (the "Australian Corporations Act") and will not be lodged with the Australian Securities and Investments Commission. The Ordinary Shares will be offered to persons who receive offers in Australia only to the extent that such offers of Ordinary Shares for issue or sale do not need disclosure to investors under Part 6D.2 of the Australian Corporations Act. Any offer of Ordinary Shares received in Australia is void to the extent that it needs disclosure to investors under the Australian Corporations Act. In particular, offers for the issue or sale of Ordinary Shares will only be made in Australia in reliance on various exemptions from such disclosure to investors provided by section 708 of the Australian Corporations Act. Any person to whom Ordinary Shares are issued or sold pursuant to an exemption provided by section 708 of the Australian Corporations Act must not, within 12 months after the issue, offer those Ordinary Shares for sale in Australia unless that offer is itself made in reliance on an exemption from disclosure provided by that section.

14.2 Japan

The Ordinary Shares have not been and will not be registered under the Securities and Exchange Law of Japan (Law No. 25 of 1948 as amended) (the "Securities and Exchange Law"), and may not be offered or sold, directly or indirectly, in Japan or to a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and other relevant laws and regulations of Japan.

14.3 United States of America

General

The Ordinary Shares have not been, and will not be, registered under the Securities Act or the applicable securities laws and regulations of any state of the United States and, subject to certain exceptions may not be offered or sold in the United States. Accordingly, the Managers may offer Ordinary Shares (1) only through qualified affiliates or agents to persons reasonably believed to be Qualified Institutional Buyers in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A or another exemption from, or transaction not subject to, the registration requirements of the Securities Act and/or (2) in compliance with Regulation S under the Securities Act.

In addition, until the expiration of 40 days after the commencement of the Global Offer, an offer or sale of Ordinary Shares within the United States by a dealer that (whether or not participating in the Global Offer) may violate the registration requirements of the Securities Act unless made pursuant to Rule 144A or another exemption from the registration requirements of the Securities Act.

Transfer Restrictions

Due to the following restrictions, purchasers of Ordinary Shares in the United States are advised to consult legal counsel prior to making any offer for, resale, pledge or other transfer of the Ordinary Shares.

14.3.1 Each purchaser in the United States of the Ordinary Shares offered hereby will be deemed to have represented and agreed that it has received a copy of this document and such other information as it deems necessary to make an investment decision and that (terms used herein that are defined in Rule 144A or Regulation S under the Securities Act are used herein as defined therein):

(a) it is (i) a Qualified Institutional Buyer, (ii) acquiring such Ordinary Shares for its own account or for the account of one or more Qualified Institutional Buyers with respect to whom it has the authority to make, and does make, the representations and warranties set forth herein, (iii) is not acquiring the Ordinary Shares with a view to further distribution of such Ordinary Shares and (iv) is aware and each beneficial owner of such Ordinary Shares has been advised, that the sale of Ordinary Shares to it is being made in reliance on Rule 144A or another exemption from, or transaction not subject to, the registration requirements of the Securities Act;

(b) it understands that the Ordinary Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be reoffered, resold, pledged or otherwise transferred except (A) (i) to a person who the purchaser and any person acting on its behalf reasonably believes is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (ii) in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S or (iii) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available) and (B) in accordance with all applicable securities laws of the States of the United States;

(c) it acknowledges that the Ordinary Shares (whether in physical, certificated form or in uncertificated form held in CREST) offered and sold hereby in the manner set forth in paragraph 14.3.1(a) above are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, are being offered and sold in a transaction not involving any public offering in the United States within the meaning of the Securities Act and that no representation is made as to the availability of the exemption provided by Rule 144 for resales of Ordinary Shares. The purchaser understands that the Ordinary Shares may not be deposited into any unrestricted depositary receipt facility in respect of Ordinary Shares established or maintained by a depositary bank, unless and until such time as such Ordinary Shares are no longer restricted securities within the meaning of Rule 144(a)(3) under the Securities Act;

(d) it understands that any offer, sale, pledge or other transfer of the Ordinary Shares made other than in compliance with the above-stated restrictions may not be recognised by the Company; and

(e) the Ordinary Shares (to the extent they are in certificated form), unless otherwise determined by the Company in accordance with applicable law, will bear a legend substantially to the following effect:

THE SECURITY EVIDENCED HEREBY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY

AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) (1) TO A PERSON WHOM THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (2) IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR THE RESALE OF THIS SECURITY. NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THE FOREGOING, THIS SECURITY MAY NOT BE DEPOSITED INTO ANY UNRESTRICTED DEPOSITORY RECEIPT FACILITY IN RESPECT OF ORDINARY SHARES OF THE COMPANY ESTABLISHED OR MAINTAINED BY A DEPOSITORY BANK. EACH HOLDER, BY ITS ACCEPTANCE OF THIS SECURITY, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

14.3.2 Each purchaser of the Ordinary Shares offered hereby in reliance on Regulation S will be deemed to have represented and agreed that it has received a copy of this document and such other information as it deems necessary to make an investment decision and that:

(a) it is aware that the Ordinary Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States;

(b) it is purchasing the Ordinary Shares in an offshore transaction meeting the requirements of Regulation S; and

(c) it will not offer, sell, pledge or transfer any Ordinary Shares, except in accordance with the Securities Act and any applicable laws of any state of the United States and any other jurisdiction.

14.4 Canada

The Ordinary Shares have not been and will not be qualified by a prospectus in accordance with the prospectus requirements under applicable securities law in any Canadian jurisdiction and therefore may not be offered or sold, directly or indirectly, in Canada except in compliance with applicable Canadian securities laws. Accordingly, no sales of Ordinary Shares will be made in Canada except in the provinces of Ontario, Quebec and British Columbia (i) through an appropriately registered securities dealer or in accordance with an available exemption from the registration requirements of applicable Canadian securities laws, and (ii) pursuant to an exemption from the prospectus requirements of such laws.

14.5 General

No action has been or will be taken in any jurisdiction, other than the United Kingdom, that would permit a public offering of the Ordinary Shares, or possession or distribution of this document or any other offering material, in any country or jurisdiction where action for that purpose is required. Accordingly, the Ordinary Shares may not be offered or sold, directly or indirectly, and neither this document nor any other offering material or advertisements in connection with the Ordinary Shares may be distributed or published in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

Persons into whose possession this document comes should inform themselves about and observe any restrictions on the distribution of this document and the offer of the Ordinary Shares, including those in the paragraphs above. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. This document does not constitute an offer to subscribe for or buy any of the Ordinary Shares offered hereby to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

15. WORKING CAPITAL

The Company is of the opinion that, taking into account the New Bank Facilities and the net proceeds of the Global Offer receivable by the Company, the Group has sufficient working capital for its present requirements, that is, for at least the next 12 months from the date of publication of this document.

16. SIGNIFICANT CHANGE

There has been no significant change in the financial or trading position of the Group since 2 April 2004, the date to which the Accountant's Report in Part V (Accountants' Report on the Group) has been prepared.

17. LITIGATION

Neither the Company nor any member of the Group is or has been involved in any legal or arbitration proceedings which may have, or have had during the 12 months preceding the date of publication of this document, a significant effect on the Group's financial position nor (so far as the Company is aware) are any such proceedings pending or threatened by or against any member of the Group.

18. UNDERWRITING ARRANGEMENTS

18.1 The Underwriting Agreement was entered into on 3 June 2004 between, *inter alia*, the Company, the Selling Shareholders, the Directors, the Senior Managers and the Managers and contains, *inter alia*, the provisions summarised below:

(a) the Company confirmed the appointment of Merrill Lynch as Sponsor in connection with the proposed Admission;

(b) the Company and the Selling Shareholders have agreed, subject to certain conditions, to issue and sell, as the case may be, the New Shares and the Existing Shares to be issued and sold under the Global Offer at the Offer Price;

(c) the Managers have agreed, subject to certain conditions, on a several basis to procure subscribers and purchasers for or, failing which, to subscribe for and purchase themselves, the New Shares and the Existing Shares to be issued and sold under the Global Offer at the Offer Price. The Underwriting Agreement will become unconditional upon Admission;

(d) certain of the Selling Shareholders have, subject to certain conditions, granted Merrill Lynch as stabilising manager, on behalf of the Managers, an Over-allotment Option exercisable, in whole or in part, once only, upon notice by Merrill Lynch and Citigroup, for the period commencing on the date of this document and ending 30 days after Admission, pursuant to which Merrill Lynch, in consultation with Citigroup, may require these Selling Shareholders to sell up to

15,384,584 Over-allotment Shares at the Offer Price for the purposes, *inter alia*, of allowing Merrill Lynch to cover over-allotments, if any, made in connection with the Global Offer and/or to cover short positions relating to stabilisation activities. Existing Shares sold by certain Selling Shareholders pursuant to the exercise of the Over-allotment Option will be sold on the same terms and conditions as other Existing Shares being sold in the Global Offer. Settlement of the sale of Over-allotment Shares will take place shortly after the exercise of the Over-allotment Option (if any). If any Over-allotment Shares are acquired pursuant to the Over-allotment Option, Merrill Lynch will be committed to pay to the relevant Selling Shareholders, or procure that payment is made to each such Selling Shareholder of, an amount equal to the Offer Price multiplied by the number of Over-allotment Shares sold by that Selling Shareholder, less commissions and expenses. Save as required by law or regulation, neither Merrill Lynch nor any of its agents intends to disclose the extent of any over-allotments and/or stabilisation transactions under the Global Offer;

(e) the Company has agreed that the Managers may deduct from the proceeds of the Global Offer payable to the Company a commission of up to 2.375 per cent. of the amount equal to the Offer Price multiplied by the aggregate number of New Shares which the Managers have agreed to procure subscribers for, or failing which to subscribe for, pursuant to the terms of the Underwriting Agreement, and the Selling Shareholders have agreed that the Managers may deduct from the proceeds of the Global Offer payable to the Selling Shareholders a commission of up to 2.375 per cent. of the amount equal to the Offer Price multiplied by the aggregate number of Sale Shares which the Managers have agreed to procure purchasers for, or failing which to purchase, pursuant to the terms of the Underwriting Agreement; in addition, certain of the Selling Shareholders have agreed that Merrill Lynch, as stabilising manager, may deduct (on behalf of the Managers) a commission of up to 2.375 per cent. of the amount equal to the Offer Price multiplied by the aggregate number of Over-allotment Shares (if any) sold by such Selling Shareholders pursuant to the exercise of the Over-allotment Option. The commission payable to the Managers shall be split as to 60 per cent. selling commission, 20 per cent. management commission and 20 per cent. underwriting commission.

The commissions described above are subject to the deductions provided for in the Underwriting Agreement. In addition the Company and CVC Capital Partners Advisory Company Limited may in their sole discretion and on behalf of the Company and the Selling Shareholders, agree that the Company and the Selling Shareholders shall pay the Managers a discretionary incentive fee (the "Incentive Fee") of up to 0.875 per cent. of the gross proceeds of the Global Offer receivable by them. The Incentive Fee will be payable by the Company and the Selling Shareholders on a pro rata basis by reference to the number of New Shares being issued by the Company or the number of Sale Shares or Over-allotment Shares (if any) being sold by the Selling Shareholders, as the case may be, under the Global Offer. The split of the Incentive Fee between the Joint Bookrunners and the Managers (or any of them) shall be at the complete discretion of the Company and CVC Capital Partners Advisory Company Limited (on behalf of the Company and the Selling Shareholders). The amount of the Incentive Fee (if any) and the allocation as between Managers shall be determined within 45 days of Admission and paid within 50 days of Admission.

All commissions shall be paid together with any value added tax chargeable thereon;

(f) the obligations of the Company and the Selling Shareholders to issue or sell, as the case may be, Ordinary Shares and the obligations of the Managers to procure subscribers and/or purchasers for or, failing which, themselves to subscribe for or purchase, the Ordinary Shares to be issued and sold under the Global Offer are subject to certain conditions including, amongst others, that Admission occurs by not later than 8.00 a.m. on 8 June 2004 or such later time and/or date (not later than 15 June 2004) as the Joint Bookrunners (on behalf of the Managers) may agree with Halfords. Certain of the conditions may not be waived without the consent of the Company. The Joint Bookrunners may terminate the Underwriting Agreement in certain circumstances prior to Admission. These circumstances include the occurrence of certain material changes in the condition (financial or otherwise), earnings, business affairs or business prospects of the Company and its subsidiaries considered as one enterprise and certain changes in financial, political or economic conditions (as more fully set out in the Underwriting Agreement);

(g) the Company and the Selling Shareholders have severally agreed to pay by way of reimbursement to the Managers or as otherwise set out in the Underwriting Agreement, any stamp duty and/or stamp duty reserve tax arising on the issue or initial sale (as applicable) of Ordinary Shares by them under the Global Offer (including the sale of Ordinary Shares by certain Selling Shareholders pursuant to the Over-allotment Option);

(h) the Company has agreed to pay or cause to be paid (together with any related value added tax) certain costs, charges, fees and expenses of, or in connection with, or incidental to, *inter alia*, the Global Offer, Admission or the other arrangements contemplated in the Underwriting Agreement;

(i) the Company has given certain representations, warranties, undertakings and indemnities to the Managers. The liabilities of the Company under the Underwriting Agreement are not limited as to time or amount. The Directors and the Senior Managers have given certain representations, warranties and undertakings to the Managers. The liabilities of the Directors and the Senior Managers under the Underwriting Agreement are limited as to time and amount. The Selling Shareholders have given certain representations, warranties and undertakings to the Managers. The liabilities of the Selling Shareholders under the Underwriting Agreement are limited as to time and amount. The Hill Samuel Offshore Trust Co. Ltd. has given certain representations, warranties and undertakings to the Managers. The liabilities of the Hill Samuel Offshore Trust Co. Ltd. are limited as to time and amount;

(j) the Company has undertaken, amongst other things, to each of the Managers that, during a period of 365 days from Admission, it will not, without the prior written consent of the Joint Bookrunners, (i) directly or indirectly offer, pledge, sell, contract to sell, issue, any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, deposit into any depository receipt facility, or otherwise issue, dispose of or transfer, any Ordinary Shares or any securities convertible into or exercisable or exchangeable for Ordinary Shares or file any registration statement under the 1933 Act with respect to any of the foregoing, or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of the Ordinary Shares, whether any such swap or transaction described in (i) or (ii) above is to be settled by delivery of Ordinary Shares or other securities, in cash or otherwise, save in respect of Ordinary Shares issued: (A) pursuant to the Global Offer or pursuant to the capital reorganisation described in this Part VII; or (B) pursuant to the exercise of an option or warrant or the conversion of a security outstanding on the date of the Underwriting Agreement and described in this document; or (C) or options to subscribe for Ordinary Shares granted pursuant to existing employee benefit plans of the Company described in this document; or (D) pursuant to any dividend reinvestment plan described in this document;

(k) each of the Selling Shareholders (save for the CVC Shareholders, the Warrantholders and the Private Shareholders) and David Hamid has undertaken to each of the Managers that, during a period of 365 days from Admission; and each of the Non-executive Directors (other than Jonathan Feuer) has undertaken to each of the Managers that, for a period of 365 days from Admission or until he ceases to be a Director, whichever is earlier; and Jonathan Feuer and each of the Private Shareholders has undertaken to each of the Managers that, during a period of 180 days from Admission, he will not, without the prior written consent of the Joint Bookrunners (such consent, in the case of Jonathan Feuer and the Private Shareholders, not to be unreasonably withheld or delayed), (i) directly or indirectly, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise dispose of or transfer, any of the Ordinary Shares or any securities convertible into or exchangeable or exercisable for Ordinary Shares, or request or demand that the Company file any registration statement under the Securities Act with respect to any of the foregoing, (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of the Ordinary Shares, whether any such swap or transaction described in (i) or (ii) above is to be settled by delivery of Ordinary Shares or such other securities, in cash or otherwise, save that the above restrictions shall not apply in respect of any Ordinary Shares which form part of the Global Offer or are the subject of the Over-allotment Option or (in the case of the Private Shareholders) which are to be sold to a Non-executive Director as disclosed in paragraph 4.1 of this Part VII (Additional Information) and shall not prohibit any such person from (A) accepting a general offer made to all the holders of Ordinary Shares for the time being (other than Ordinary Shares held or contracted to be acquired by the offeror or its associates within the meaning of section 430E of the Companies Act) made in accordance with the City Code on Takeovers and Mergers on terms which treat all such holders alike or from executing and delivering an irrevocable commitment or undertaking to accept a general offer; (B) transferring Ordinary Shares by way of a gift:

(i) to a member of his family (meaning the wife, husband, parents, widow, widower, co-habitee, adult child or grandchild, sibling, nephew or niece of the transferor) or, in the case of shares held by personal representatives, of any deceased transferor;

(ii) by any transferor to any person or persons acting in the capacity of trustee or trustees of a trust created by, or including as principal beneficiary such transferor, and/or members of the family (within the meaning aforesaid) of such transferor; or

(iii) by the trustee or trustees of a trust, to any beneficiaries of the trust or any new trustee of the trust,

provided that, prior to the making of any such transfer referred to in (i) to (iii) above, the relevant transferor or trustee shall have satisfied the Joint Bookrunners that the transferee falls within one of the categories in (i) to (iii) above and the transferee shall have agreed in terms acceptable to the Joint Bookrunners acting reasonably to be bound by the provisions of the undertaking described in this paragraph (k); or (C) transferring Ordinary Shares in connection with, or pursuant to, any scheme of reconstruction under Section 110 of the Insolvency Act 1986; or any amalgamation, merger, consolidation, reorganisation, or such similar arrangement entered into in relation to the Company; or (D) transferring Ordinary Shares to a personal representative on the death of such transferor and any subsequent transfers by such personal representative; or (E) transferring Ordinary Shares solely in order to raise funds in order to meet liabilities to which such transferor is subject pursuant to this Agreement; or (F) (other than in the case of the Private Shareholders) transferring Ordinary Shares acquired under any option granted by the Company under the Share Option Schemes as disclosed in paragraph 8 of this Part VII (Additional Information);

(l) each of the CVC Shareholders and the Warrantholders has undertaken to each of the Managers that, during a period of 180 days from the date of Admission he or it will not, without the prior written consent of the Joint Bookrunners (such consent not to be unreasonably withheld or delayed), (i) directly or indirectly, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase or otherwise dispose of or transfer, any of the Ordinary Shares or any securities convertible into or exchangeable or exercisable for Ordinary Shares, or request or demand that the Company file any registration statement under the Securities Act with respect to any of the foregoing; or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of the Ordinary Shares, whether any such swap or transaction described in (i) or (ii) above is to be settled by delivery of Ordinary Shares or other securities, in cash or otherwise, save that the above restrictions shall not apply in respect of any Ordinary Shares that form part of the Global Offer or are the subject of the Over-allotment Option and shall not prohibit any such CVC Shareholder or Warrantholder, as the case may be from (A) accepting a general offer made to all the holders of Ordinary Shares for the time being (other than Ordinary Shares held or contracted to be acquired by the offeror or its associates within the meaning of section 430E of the Companies Act) made in accordance with the City Code on Takeovers and Mergers on terms which treat all such holders alike or from executing and delivering an irrevocable commitment or undertaking to accept the general offer; or (B) transferring Ordinary Shares in connection with, or pursuant to, any scheme or reconstruction under Section 110 of the Insolvency Act 1986; or any amalgamation, merger, consolidation, reorganisation, or such similar arrangement entered into in relation to the Company; or (C) transferring Ordinary Shares to a Permitted Transferee (being another body corporate or partnership which is Controlled by, or under common Control, directly or indirectly with, such CVC Selling Shareholder or Warrantholder, as the case may be, and, for these purposes, "Control" of any body corporate or partnership means the possession, directly or indirectly, of the power to direct the activities and business of such body corporate or partnership, whether through the ownership of voting securities, by contract or otherwise and "Controlled" shall be construed accordingly), provided that such Permitted Transferee agrees to be bound by the undertaking described in this paragraph (l)); or (D) to the extent a CVC Selling Shareholder or Warrantholder holds any Ordinary Shares as nominee, trustee or in such similar capacity, transferring Ordinary Shares to any person beneficially interested in such Ordinary Shares, provided that the transferee agrees to be bound by the undertaking described in this paragraph (l); or (E) transferring Ordinary Shares solely in order to raise funds in order to meet liabilities to which such CVC Selling Shareholder or Warrantholder is subject pursuant to and as a result of the Underwriting Agreement; and

(m) the Hill Samuel Offshore Trust Co. Ltd. has undertaken to each of the Managers that, during a period of 365 days from Admission, the Hill Samuel Offshore Trust Co. Ltd. will not without, in each case, the prior written consent of the Joint Bookrunners, (i) other than pursuant to options granted to the employees who hold options under the Existing Scheme or pursuant to any options which may be granted under the Company's employee share option schemes disclosed in this document, directly or indirectly offer, pledge, sell, contract to sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of any

Ordinary Shares or any securities convertible into or exercisable or exchangeable for Ordinary Shares or request or demand that the Company file any registration statement under the 1933 Act with respect to the foregoing; or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of the Ordinary Shares, whether any such swap or transaction described in clause (i) or (ii) above is to be settled by delivery of Ordinary Shares or such other securities, in cash or otherwise, save that the above restrictions shall not apply in respect of any Ordinary Shares that form part of the Global Offer or are the subject of the Over-allotment Option and shall not prohibit the Hill Samuel Offshore Trust Co. Ltd. from (A) accepting a general offer made to all the holders of Ordinary Shares for the time being (other than Ordinary Shares held or contracted to be acquired by the offeror or its associates within the meaning of section 430E of the Companies Act) made in accordance with the City Code on Takeovers and Mergers on terms which treat all such holders alike or from executing and delivering an irrevocable commitment or undertaking to accept a general offer; or (B) transferring Ordinary Shares to any person or persons acting in the capacity of trustee or trustees of the trust of which the Hill Samuel Offshore Trust Co. Ltd. as at the date of the Underwriting Agreement is trustee; provided that such transferee shall have agreed to be bound by the provisions of the undertaking described in this paragraph (m); or (C) transferring Ordinary Shares in connection with, or pursuant to, any scheme of reconstruction under Section 110 of the Insolvency Act 1986; or any amalgamation, merger, consolidation, reorganisation, or such similar arrangement entered into in relation to the Company; or (D) transferring Ordinary Shares solely in order to raise funds in order to meet liabilities to which Hill Samuel Offshore Trust Co. Ltd. is subject pursuant to the Underwriting Agreement.

18.2 In connection with settlement and stabilisation, Merrill Lynch has entered into a stock lending agreement with certain of the Selling Shareholders. Pursuant to this agreement, Merrill Lynch is able to borrow up to 15,384,590 Ordinary Shares. This agreement will allow Merrill Lynch to settle, on Admission, over-allotments, if any, made in connection with the Global Offer. If Merrill Lynch borrows any Ordinary Shares pursuant to the stock lending agreement, it will be required to return equivalent securities to the lenders in accordance with the terms of the stock lending agreement.

19. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by a member of the Group within the two years immediately preceding the date of this document and are, or may be, material or have been entered into at any time by any member of the Group and contain provisions under which any member of the Group has an obligation or entitlement which is, or may be, material to the Group as at the date of this document:

19.1 A senior credit agreement (the "Senior Credit Agreement") dated 25 July 2002 between the Company and certain subsidiaries of the Company, Barclays Capital as arranger and Barclays Bank PLC as original lender, issuing bank, facility agent and security agent pursuant to which the lenders (as defined therein) agreed to make available sterling term loan facilities, a sterling capital expenditure facility and a multicurrency revolving credit facility (which may be utilised by way of letters of credit, bank guarantees and (on a bilateral basis) ancillary facilities) in an aggregate amount of £305,200,000. Halfords Limited acceded to the Senior Credit Agreement as a borrower and guarantor on 30 August 2002. The senior credit agreement has been amended and supplemented on several occasions since 25 July 2002, the most recent amendment and restatement occurring on 7 November 2003 for the purpose of (amongst other things) putting in place a further term loan facility (the term E loan) of £65,000,000 which was used in the refinancing of the Group in November 2003.

The rate of interest on amounts drawn under the Senior Credit Agreement is LIBOR (or EURIBOR for advances in euro), plus a margin plus mandatory costs (to compensate lenders for the cost of compliance with the requirements of the Bank of England, the Financial Services Authority and the European Central Bank). The margin is fixed in relation to the term B loan, term C loan and term E loan (at 2.75 per cent. per annum, 3.25 per cent. per annum and 3.75 per cent. per annum respectively) and in relation to the term A loan, the term D loan, the capital expenditure facility and the revolving credit facility varies between 2.25 per cent. per annum, and 1.50 per cent. per annum depending on the ratio of consolidated senior net borrowings to consolidated EBITDA.

In respect of any letters of credit issued under the Senior Credit Agreement the relevant borrower must pay to the issuing bank a fee in an amount equal to 0.125 per cent. per annum of the face amount of the relevant letter of credit from the date of issue to the maturity of the letter of credit. The relevant borrower must also pay to the facility agent for each lender a letter of credit fee calculated at the same rate as the then applicable margin for revolving credit loans on the outstanding amount of the relevant letter of credit for the period from its issue until its maturity.

In addition Halfords Finance Limited must pay a commitment fee calculated at the rate of 0.75 per cent. per annum on the undrawn uncancelled amount of each lender's revolving commitment.

The term loans are repayable as follows: the term A loan is repayable in semi-annual instalments (on the 30 September and 31 March in each year) and must be repaid in full by 30 September 2009; the term B loan, the term C loan and the term E loan are repayable in one amount on 30 September 2010, 30 September 2011 and 30 September 2012, respectively. The revolving credit facility must be repaid in full by 30 September 2009. The term D loan and the capital expenditure facility have been repaid in full and cancelled.

The proceeds of the term loans (other than the term E loan) were used to fund the acquisition of Halfords Limited in August 2002. The proceeds of the term E loan were used to prepay amounts outstanding under a mezzanine facility (which was repaid in full and cancelled as part of the refinancing of the Group in November 2003) and under the deep discount bond instrument described in paragraph 19.2 below. The capital expenditure facility was originally available to finance the purchase or improvement of fixed assets. The proceeds of each revolving credit loan may only be used for the general corporate purposes of the Group.

The obligations of the borrowers under the Senior Credit Agreement and the other finance documents are guaranteed by all material Group companies such that at all times (i) the gross assets of the guarantors represent 75 per cent. or more of the gross assets of the Group and (ii) the EBITDA of the guarantors represents 75 per cent. or more of the EBITDA of the Group. The obligations of the borrowers and the guarantors are secured by way of a fixed and floating debenture. The debenture will be released when the amounts outstanding under the Senior Credit Agreement are repaid in full.

The Senior Credit Agreement contains representations common to facilities of this type and also includes covenants, which require the Company to procure that the Group, among other things, maintains certain financial ratios regarding leverage, cash flow, capital expenditure and interest cover. In addition, certain negative covenants restrict (amongst other things) the ability of the Company and certain other members of the Group to:

- dispose of all or any part of its assets (subject to certain exceptions);
- merge with another company or substantially change the general nature of the business of the Group;
- make acquisitions, investments or loans (subject to certain exceptions);

- pay dividends (except as permitted by the terms of a priority deed);
- create security over its assets (subject to certain exceptions);
- redeem, issue or repay any share capital (subject to certain exceptions);
- incur or have outstanding certain borrowings, guarantees, loans or derivative transactions (subject to certain exceptions);
- enter into any material transaction otherwise than on arm's-length terms and for full market value (with certain exceptions); and
- enter into, invest in, acquire any interest in, transfer any asset to or lend to or guarantee the obligations of any joint venture entity, partnership or similar person (subject to certain exceptions).

In addition certain positive covenants require the Company and certain members of the Group (amongst other things) to:

- maintain and comply with all authorisations (including environmental approvals) required to enable it to perform its obligations under the Senior Credit Agreement and carry on its business (subject to certain exceptions);
- maintain and prevent (to the extent commercially reasonable) third party infringement of intellectual property rights which are material to the business of any member of the Group (subject to certain exceptions);
- maintain insurance in respect of its assets and business to such an extent and against such risks as companies engaged in a similar business normally insure;
- be in substantial compliance with any laws or contract relating to any of its pension schemes and maintain and fund its pension schemes at least to the extent required by applicable local law; and
- ensure that there is in place qualified management with appropriate skills.

The Senior Credit Agreement contains events of default including the following: non-payment, breach of financial covenants and other obligations under the senior finance documents, misrepresentation, cross-default, insolvency and insolvency proceedings, creditors' process, cessation or threatening to cease all or a substantial part of the business of a borrower, guarantor or material subsidiary, litigation or other proceedings which have or are reasonably likely to have a material adverse effect and the occurrence of any event or series of events which have a material adverse effect.

If an event of default is outstanding, the majority lenders have the right (amongst other things) to cancel some or all of the commitments, declare that all or part of the outstanding amounts are immediately due and payable and/or are payable on demand.

The Company must also indemnify each finance party under the Senior Credit Agreement against any loss or liability incurred by a finance party as a consequence of (amongst other things) the occurrence of an event of default or the failure of an obligor to pay any amount due under the senior finance documents.

In the event of a change of control of the Company, or if any shares in the Company (or any other member of the Group) are listed on a recognised stock exchange or sold or issued by way of flotation or public offering, the majority lenders have the right to cancel the commitments and declare all outstanding loans and documentary credits to be immediately due and payable. The amounts outstanding under the Senior Credit Agreement will be prepaid from the proceeds of the Global Offer and the proceeds of the New Facilities Agreement described in paragraph 19.10 below.

19.2 An instrument executed by Halfords Holdings Limited on 25 July 2002 pursuant to which it issued £355,083,342 in aggregate nominal amount of deep discount bonds 2012 (the "Deep Discount Bonds") at an aggregate issue price of £136,900,000. The instrument was amended and restated in its entirety on 7 November 2003 in connection with the refinancing of the Group, such that the aggregate nominal amount of the series of deep discount bonds constituted by this instrument became £429,650,844 and the redemption date of the bonds became 30 August 2014. Note 18 in Part V (Accountants' Report on the Group) contains further details of the Deep Discount Bonds.

In the refinancing, such nominal amount of bonds which had an aggregate redemption price of £65,000,000 were redeemed. The outstanding bonds are general unsecured obligations of Halfords Holdings Limited, ranking *pari passu* in right to payment to all its existing and future subordinated indebtedness except any preferred by law or agreed by the bondholders.

The bonds may be redeemed by giving the holders not less than seven nor more than 30 days' notice at the redemption price calculated in accordance with the provisions of the instrument and expressed as a percentage of the nominal amount of bonds to be redeemed. The bonds will be redeemed from the proceeds of the Global Offer.

19.3 An instrument executed by the Company on 25 July 2002 (as amended on 30 August 2002) pursuant to which it issued 38,500 warrants to subscribe for Ordinary Shares constituting in aggregate 3.85 per cent. of the fully diluted equity of the Company at the time of exercise of the Warrants (which includes the shares to be issued on exercise of the warrants) at a subscription price of 1p each. The warrants have been exercised in full, conditional on Admission. Following the First Bonus Issue and on the assumption that the capital reorganisation described in paragraph 2 above is implemented these warrants will relate to a total of 200,230 Ordinary Shares.

19.4 Deed polls executed by Halfords Holdings Limited on 25 July 2002 and on 4 March 2003 pursuant to which it issued to members of the Group's management and certain other individuals £45,000 subordinated loan notes 2012 (in the case of the deed poll dated 4 March 2003) and £534,000 subordinated loan notes 2013 (in the case of the deed poll dated 25 July 2002, as supplemented on 7 November 2003) ("Shareholder Loan Notes").

The loan notes are general unsecured obligations of Halfords Holdings Limited, ranking *pari passu* in right to payment to all its existing and future subordinated indebtedness except any preferred by law or agreed by the bondholders.

The loan notes may be redeemed by giving the holders not less than 7 nor more than 30 days' notice at par with accrued interest at 10 per cent. per annum. The loan notes will be redeemed from the proceeds of the Global Offer and the New Facilities Agreement described in paragraph 19.10 below.

19.5 A share sale and purchase agreement dated 25 July 2002 between Boots, Halfords Limited, Halfords Finance Limited and Halfords Holdings Limited pursuant to which Halfords Finance Limited bought, and Boots sold, the entire issued share capital of Halfords Limited for £411,750,000 and Halfords Limited agreed to transfer non-trading Halfords stores to a Boots group company (Boots Properties Plc).

In the agreement, Boots indemnified Halfords Finance Limited against losses and reasonable costs incurred defending indemnity claims brought in relation to the transfer by Halfords Limited of non-trading stores to Boots Properties Plc, settling indemnity claims against Boots under the agreement or settling warranty claims made by the AA under the AA Agreement to the extent such claims were not already provided for; against the requirement to pay premiums required to obtain landlords' consent in respect of occupation of premises by the AA; in respect of compensation payable to the AA in the event that a landlord or planning authority issues proceedings in respect of the AA's unauthorised occupation; to compensate for loss of rent at the then current rental levels; to cover rates and service charges arising from the vacation of premises by the AA; against social security over a threshold of £144,555, pay as you earn and withholding tax liabilities in relation to participation by Halfords employees in share incentive schemes and other incentive arrangements established by any Boots Group Company; and against certain potential uninsured claims relating to the Halfords business and arising out of events occurring prior to completion of the agreement.

Boots also indemnified Halfords Limited against losses arising in relation to breaches of covenant under the leases of the non-trading stores to be transferred to Boots, and against future outgoings in respect of such stores in the case of each store until the completion of the transfer of that store. The liability of Boots under the warranties given under the agreement terminates on 31 August 2004 (except for warranties in relation to environmental and tax matters which expire on 31 August 2005 and 31 August 2009 respectively). Boots' maximum aggregate liability under this agreement and the deed of tax covenant referred to at paragraph 19.6 below is £308,812,500.

19.6 A deed of tax covenant dated 30 August 2002, between Boots and Halfords Finance Limited in relation to tax liabilities of Halfords Limited and Halfords Vehicle Management Limited, under which Boots undertook to pay specified tax liabilities relating to the period before completion of the sale and purchase agreement referred to in paragraph 19.5 above. Boots' maximum aggregate liability under this deed of covenant and the share sale and purchase agreement referred to at paragraph 19.5 above is £308,812,500.

19.7 A transitional services agreement dated 30 August 2002 between Boots, Halfords Finance Limited and Halfords Limited under which Boots agreed to provide Halfords Limited with mainframe processing, telecoms, fleet management, energy administration and payroll services for varying periods of time from the date of the agreement. The only service still provided by Boots is mainframe processing, the provision of which will continue (unless the service or the agreement is terminated or extended before then) until 31 March 2005.

19.8 An option agreement dated 17 October 2002 between Redditch Estates (One) Limited and Redditch Estates (Two) Limited, both wholly-owned subsidiaries of Boots Properties plc (together, the "Boots Vendor"), and Halfords Limited for the purchase of the freehold interest in the Group's head office at sites 8E and 8F Washford Industrial Estate, Icknield Street Drive, Redditch, subject to but with the benefit of the lease dated 11 July 2002 made between the Boots Vendor and Halfords Limited on payment of £11,250,000 plus value added tax. The option was exercised on 1 March 2004 and completion of the sale of the freehold occurred on 29 March 2004. The Boots Vendor agreed that the purchase could be completed by Shafter Investment Group Limited and Stofer Services Limited.

On 24 December 2003, Halfords Limited entered into a conditional agreement with Shafter Investment Group Limited and Stofer Services Limited (together, the "Head Office Purchaser") for the sale of the freehold interest in the head office for £11,250,000 plus value added tax and, simultaneously with the sale of the freehold interest in the Property, the grant of a lease by the Head Office Purchaser to Halfords Limited. This agreement completed on 29 March 2004. The lease of the Property granted to the Company by the Head Office Purchaser is for a term of 25 years at an initial rent of £1,550,000 per annum plus value added tax with five-yearly rent reviews on an upwards only basis. The first two rent reviews will increase the rent by a minimum of 2 per cent. compound per annum and the third and fourth review are to open market rental value. Halfords Limited received £10,000,000 plus value added tax from the Head Office Purchaser on the grant of the lease.

19.9 The Underwriting Agreement referred to in paragraph 18.

19.10 A facilities agreement (the "New Facilities Agreement") dated 17 May 2004 between the Company, Halfords Holdings Limited, Halfords Finance Limited, Halfords Limited, Halfords Payment Services Limited, Barclays Capital and The Royal Bank of Scotland plc as arrangers, Barclays Bank PLC and The Royal Bank of Scotland plc as original lenders and Barclays Bank PLC as facility agent and issuing bank pursuant to which the lenders (as defined therein) have agreed to make available a £150,000,000 sterling term loan facility and a £120,000,000 multicurrency revolving facility (which may be used by way of letters of credit, bank guarantees and, on a bilateral basis, ancillary facilities).

The rate of interest on amounts drawn under the New Facilities Agreement is LIBOR (or EURIBOR for advances in euro) plus a margin plus mandatory costs (to compensate lenders for the cost of compliance with the requirements of the Bank of England, the Financial Services Authority and the European Central Banks). The margin varies between 1.00 per cent per annum and 0.50 per cent per annum depending on the ratio of consolidated senior net borrowings to consolidated earnings before interest, tax, depreciation and amortisation ("EBITDA").

In respect of any letters of credit issued under the New Facilities Agreement the relevant borrower must pay to the issuing bank a fee in an amount equal to 0.125 per cent. per annum of the face amount of the relevant letter of credit from the date of issue to the maturity of the letter of credit. The relevant borrower must also pay to the facility agent for each lender a letter of credit fee calculated at the same rate as the then applicable margin on the outstanding amount of the relevant letter of credit for the period from its issue until its maturity.

In addition the Company must pay a commitment fee as follows: from the date of the New Facilities Agreement until first drawdown, 0.25 per cent. per annum of the undrawn uncancelled amount of each lender's commitment and after the date of the first drawdown the annual rate equal to 45 per cent. of the applicable margin of the undrawn uncancelled amount of each lender's commitment.

The term loans are repayable in semi-annual instalments of £10,000,000 on 31 March and 30 September in each year and must be repaid in full by 17 May 2009. The revolving facility must be repaid in full by 17 May 2009.

The proceeds of the term loan facility are to be used to refinance the Senior Credit Agreement, repay the outstanding Deep Discount Bonds, financing costs and expenses including fees and other expenses relating to the Global Offer and to the extent not used for the aforementioned purposes to fund the general corporate purposes of the Group. The proceeds of the revolving facility are to be used for general corporate purposes. The term loan facility is available for 60 business days from 17 May 2004. The revolving facility is available until one month prior to 17 May 2009 provided that if Admission has not become effective and the term loan facility drawn down by a date which is 60 business days from 17 May 2004, the revolving facility shall on such date cease to be available. Borrowings of £150 million under the term loan facility and an estimated £45 million in borrowings under the revolving credit facility will be used to repay existing indebtedness immediately following Admission as described under Part III (Global Offer).

The obligations of the borrowers under the New Facilities Agreement are guaranteed by all material Group companies such that at all times the gross assets of the guarantors represent 75 per cent. or more of the gross assets (i) of the Group and (ii) the EBITDA of the guarantors represents 75 per cent. or more of the EBITDA of the Group.

The New Facilities Agreement contains representations common to facilities of this type and also includes covenants, which requires the Company to procure that the Group, among other things, maintains certain financial ratios regarding leverage and interest cover. In addition, certain negative covenants restrict, amongst other things, the ability of the Company and certain other members of the Group to:

- dispose of all or any part of its assets (subject to certain exceptions);
- merge with another company or substantially change the general nature of the business of the Group taken as a whole;
- make acquisitions (subject to certain exceptions);
- create security over its assets (subject to certain exceptions); and/or
- incur or have outstanding certain borrowings (subject to certain exceptions).

In addition certain positive covenants require the Company and certain members of the Group (amongst other things) to:

- maintain and comply with all authorisations (including environmental approvals) required to enable it to perform its obligations under the New Facilities Agreement; and
- maintain insurance in respect of its assets and business to such an extent and against such risks as companies engaged in a similar business normally insure.

The New Facilities Agreement contains events of default including the following: non-payment, breach of financial covenants and other obligations under new facilities documentation, misrepresentation, cross-default, insolvency and insolvency proceedings, creditors' process and the occurrence of any event or series of events which have a material adverse effect.

If an event of default is outstanding the majority lenders have the right (amongst other things) to cancel some or all of the commitments, declare that all or part of the outstanding amounts are immediately due and payable and/or are payable on demand.

As is customary to an agreement of this type, the Company must also indemnify each finance party under the New Facilities Agreement against any loss or liability incurred by a finance party as a consequence of (amongst other things) the occurrence of an event of default or the failure of an obligor to pay any amount due under the New Facilities Agreement.

If any person or group of persons acting in concert gains control of more than fifty per cent of the shares in the Company, the lenders and the Company will enter into negotiations to determine how to continue the facilities. If no agreement is reached within 30 days of the date of the change of control the majority lenders may by giving at least 30 days notice to the Company require prepayment of the new facilities and cancel the commitments.

19.11 A Relationship Agreement dated 3 June 2004 between the Company and each of the CVC Shareholders (the "Relationship Agreement") which sets out the relationship between the CVC Shareholders, who together constitute a controlling shareholder of the Company for the purposes of paragraph 3.13 of the Listing Rules, and the Company following Admission.

The Relationship Agreement provides that:

- for so long as they hold at least 15 per cent. of the Ordinary Shares, the CVC Shareholders shall be entitled to appoint one director to the Board (the "CVC Director") and to require such director to be appointed to any committee of the Board, including without limitation, the Nomination Committee, save where such an appointment would breach the Combined Code, in which case the CVC Director shall not be appointed but shall be invited to attend the meetings of such a committee. If the CVC Shareholders do not require their representative director to be appointed to a committee or in respect of any committee which the Combined Code prevents his appointment, he is entitled to receive all documentation relating to any meeting of that committee and to be able to consult with the members of those committees;

- excluding the Chairman, at least half the Board shall at all times comprise directors who are independent for the purposes of the Combined Code;

- only independent directors shall be entitled to vote on any material amendment to any agreements between, or in relation to any matter giving rise to a conflict of interest between, a Group Company and any of the CVC Shareholders;

- the CVC Shareholders undertake (i) not to vote their shares and (ii) to procure that the CVC Director shall not (so far as is consistent with his fiduciary duties) vote upon resolutions of the Board so as to prevent the Company from being capable of carrying on its business independently for the purposes of Listing Rule 3.12 and they shall not vote in favour of or propose any resolution that would prevent the terms of the Relationship Agreement from being implemented or that would amend the Articles of Association or Memorandum of Association in a manner contrary to the principle of independence of the Company;

- where the CVC Director receives information in a capacity other than as a director of the Company which imposes on him a duty of confidentiality, he shall not be obliged to disclose that information to the Company. This obligation will be reflected in the terms of the letter of appointment of any CVC Director;

- all transactions and relationships between any Group Company and any of the CVC Shareholders shall be on arms' length terms and on a normal commercial basis; and

- the CVC Shareholders shall, until such time as they cease to have the right to appoint a director to the Board and subject to the Company's obligations under the Listing Rules, be provided with information reasonably required by them to complete any tax return or filing that they are required by law or regulation to make.

20. GENERAL

20.1 Merrill Lynch and Citigroup have each given and have not withdrawn their written consents to the issue of this document with the inclusion herein of the references to their name in the form and context in which they appear.

20.2 PricewaterhouseCoopers LLP has given and has not withdrawn its written consent to the inclusion in this document of its report set out in Part V (Accountants' Report on the Group) and its letter set out in Part VI (Pro Forma Statement of Net Assets of the Group) and the references to its report and letter and its name in the form and context in which they are respectively included and has authorised the contents of its report and letter for the purposes of regulation 6(1)(e) of the Financial Services and Markets Act 2000 (Official Listing of Securities) Regulations 2001.

20.3 The financial information concerning the Group contained in this document does not constitute statutory accounts within the meaning of section 240(5) of the Companies Act. Full individual accounts of the Company and each of its subsidiary undertakings for each financial year to which the financial information contained in this document relates and on which the auditors gave unqualified reports have been delivered to the Registrar of Companies. The consolidated financial statements of the Company in respect of the year ended 2 April 2004 and the period ended 28 March 2003 and the financial statements of Halfords Limited for the year ended 28 March 2003 were audited by PricewaterhouseCoopers LLP of 1 Embankment Place, London WC2N 6RH, Chartered Accountants, the auditors of the Company within the meaning of section 235 of the Companies Act. The financial statements of Halfords Limited in respect of the year ended 29 March 2002 were audited by KPMG Audit Plc of 2 Cornwall Street, Birmingham B3 2DL, Chartered Accountants. PricewaterhouseCoopers LLP is a firm of chartered accountants and registered auditors and is independent of the Company.

20.4 The Offer Price which is to be paid in full in cash represents a premium of 259p over the nominal value of 1p per Ordinary Share.

20.5 The Global Offer will be fully underwritten on the terms of the Underwriting Agreement, by Merrill Lynch International of Merrill Lynch Financial Centre, 2 King Edward Street, London EC1A 1HQ, Citigroup Global Markets U.K. Equity Limited of Citigroup Centre, 33 Canada Square, London E14 5LB, UBS Limited of 1 Finsbury Avenue, London EC2M 2PP and Cazenove & Co. Ltd of 20 Moorgate, London EC2R 6DA.

20.6 The total costs, charges and expenses payable by the Company in connection with the Global Offer are estimated to amount to £5,076,265 (exclusive of VAT).

20.7 There are no arrangements in existence under which future dividends are to be waived or agreed to be waived.

21. DOCUMENTS FOR INSPECTION

21.1 Copies of the following documents may be inspected at the offices of Clifford Chance Limited Liability Partnership, 10 Upper Bank Street, London E14 5JJ during usual business hours on any day (Saturdays, Sundays and public holidays excepted) for a period of not less than 14 days from the date of publication of this document:

21.1.1 the Memorandum and Articles of Association of the Company;

21.1.2 the audited consolidated accounts of the Company and its subsidiary undertakings for each of the year ended 2 April 2004 and period ended 28 March 2003 and the audited accounts of Halfords Limited for the year ended 28 March 2003, together with all notes, reports or any other information required by the Companies Acts 1985 and 1989;

21.1.3 the Accountants' Report set out in Part V (Accountants' Report on the Group);

21.1.4 the pro forma financial information, together with the letter from PricewaterhouseCoopers LLP, reproduced in Part VI (Pro Forma Statement on Net Assets of the Group);

21.1.5 the Directors' service contracts and letters of appointment referred to in paragraph 7 above;

21.1.6 the rules of the Share Option Schemes referred to in paragraph 8 above;

21.1.7 the material contracts referred to in paragraph 19 above; and

21.1.8 the written consents referred to in paragraph 20 above.

3 June 2004

"2002 financial year"	means the 52 week period ended 29 March 2002
"2003 financial year"	means the 52 week period ended 28 March 2003
"2004 financial year"	53 week period ended 2 April 2004
"AA"	Automobile Association Limited
"AA Agreement"	means the asset sale agreement dated 25 July 2001 between Halfords Limited, GB Gas Holdings Limited and the AA, pursuant to which Halfords Limited sold its garage services business and certain related assets to the AA and granted interests in certain premises to GB Gas Holdings Limited
"Act" or the "Companies Act"	the Companies Act 1985 of England and Wales (as amended)
"Admission"	admission of the Ordinary Shares to the Official List of the UK Listing Authority and to trading on the London Stock Exchange's market for listed securities becoming effective
"Articles of Association" or "Articles"	the articles of association of the Company which have been adopted conditional upon Admission
"Board"	the board of directors of the Company
"Boots"	The Boots Company Plc
"CAGR"	compound annual growth rate
"cash profitable"	means, in respect of a Halfords store, its positive EBITDA (before the allocation of central costs)
"cash profit"	means management's measure of cash generation on a store by store basis and comprises net sales less cost of goods sold and direct store costs (payroll, general costs, rent and other property costs). Cash profit reconciles to Group EBITDA by deducting warehousing and distribution costs, non store erosions, GPAs, restructuring and store change costs, advertising and promotion, administration costs and other non store costs and adding back rebates and contributions and non store depreciation
"Citigroup"	Citigroup Global Markets UK Equity Limited
"Combined Code"	the principles of good governance and code of best practice appended to the Listing Rules
"Company"	Halfords Group Plc
"CREST"	the system for the paperless settlement of trades in listed securities, of which CRESTCo is the operator
"CRESTCo"	CRESTCo. Limited

"CVC Acquisition"	the acquisition by Halfords Finance Limited (a company controlled by the Company) of Halfords Limited in August 2002 as described in paragraph 19.5 of Part VII (Additional Information)
"CVC Shareholders"	CVC European Equity Partners II L.P., CVC European Equity Partners II (Jersey) L.P., CVC European Equity Partners III LP, CVC European Equity Partners III Parallel Fund – A LP, CVC European Equity Partners III Parallel Fund – B LP, CVC Europe Enterprise (Domestic) LP, CVC Europe Enterprise (Cayman) LP, Citi-Europe Co-Invest LP, Citicorp Capital Investors Europe Limited and Capital Investors 2002 Limited
"Deep Discount Bonds"	the deep discount bonds issued pursuant to an instrument executed by Halfords Holdings Limited on 25 July 2002 as amended on 7 November 2003 as described in paragraph 19.2 of Part VII (Additional Information)
"Directors"	the Executive and Non-executive Directors
"Exchange Act"	the US Securities Exchange Act of 1934 (as amended)
"Executive Directors"	David Hamid, Nick Carter and Ian McLeod
"Existing Scheme"	the Halfords Share Option Scheme
"Existing Shares"	the Ordinary Shares that will be in issue immediately on Admission
"First Bonus Issue"	means the bonus issue of Ordinary Shares as more fully described in paragraph 2.4.6 of Part VII (Additional Information)
"Global Offer" or the "Offer"	the bookbuilt offer of Ordinary Shares to institutional and certain other investors described in Part III (Details of the Global Offer)
"Group Company"	the Company or any of its subsidiaries or subsidiary undertakings
"Halfords" or the "Group"	the Company and its subsidiaries and subsidiary undertakings from time to time
"IAS"	International Accounting Standards
"IFRS"	International Financial Reporting Standards
"Listing Rules"	the listing rules of the UK Listing Authority
"London Stock Exchange"	London Stock Exchange plc
"Managers"	Citigroup, Merrill Lynch, UBS and Cazenove
"Merrill Lynch"	Merrill Lynch International

"Motor World"	Motor World Limited
"New Bank Facilities"	the bank facilities granted pursuant to the New Facilities Agreement described in paragraph 19 of Part VII (Additional Information)
"New Facilities Agreement"	the facility agreement dated 17 May 2004 as more fully described in paragraph 19 of Part VII (Additional Information)
"New Shares"	new Ordinary Shares to be issued by the Company under the Global Offer
"Noon Buying Rate"	the noon buying rate for cable transfers in pounds as certified for customs purposes by the Federal Reserve Bank of New York
"Non-executive Directors"	Robert Templeman, Richard Pym, Jonathan Feuer, Bill Ronald, Nigel Wilson and Keith Harris
"Offer Price"	the price of 260p per Ordinary Share at which Ordinary Shares are to be issued or sold under the Global Offer
"Official List"	the Official List of the UK Listing Authority
"Over-allotment Option"	the option for the sale and purchase of the Over-allotment Shares contained in the Underwriting Agreement
"Over-allotment Shares"	up to 15,384,584 Ordinary Shares which are the subject of the Over-allotment Option
"Private Shareholders"	Christopher Woodhouse, John Lovering, Sir Trevor Chinn, Sir Clive Thompson and Richard Saville
"Qualified Institutional Buyers" or "QIBs"	has the meaning given by Rule 144A
"Regulation S"	Regulation S under the Securities Act
"Regulations"	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755)
"Rule 144A"	Rule 144A under the Securities Act
"Sale Shares"	those of the Existing Shares which are being sold by the Selling Shareholders pursuant to the Global Offer (other than any Existing Shares which are the subject of the Over-allotment Option)
"SDRT"	stamp duty reserve tax
"SEC"	the United States Securities and Exchange Commission

"Second Bonus Issue"	means the bonus issue of Ordinary Shares on Admission as more fully described in paragraphs 2.6.5 and 2.6.6 of Part VII (Additional Information)
"Securities Act"	the US Securities Act of 1933 (as amended)
"Selling Shareholders"	the CVC Shareholders, Messrs. Templeman, Carter and McLeod, the Warrantholders, the Private Shareholders and employees who are shareholders and/or holders of options under the Existing Scheme
"Senior Credit Agreement"	the senior credit agreement dated 25 July 2002 between the Company and certain subsidiaries of the Company, Barclays Capital, Barclays Bank PLC and others, as amended on 7 November 2003 as described in paragraph 19.1 of Part VII (Additional Information)
"Shareholder Loan Notes"	the shareholder loan notes issued pursuant to deed polls executed by Halfords Holdings Limited on 25 July 2002, as supplemented on 7 November 2003 and 4 March 2003, as described in paragraph 19.4 of Part VII (Additional Information)
"Senior Managers"	Andy Smith, Andy Torrance, Nick Wharton and Steve Whyman
"Shares" or "Ordinary Shares"	ordinary shares of 1p each in the capital of the Company
"Share Option Schemes"	means the Halfords Company Share Option Scheme and the Halfords Sharesave Scheme as more fully described in paragraph 8 of Part VII (Additional Information)
"Sponsor"	Merrill Lynch International
"subsidiary" and "subsidiary undertaking"	have the meanings given in the Act
"Takeover Code"	the City Code on Takeovers and Mergers
"Takeover Panel"	the Panel on Takeovers and Mergers
"TDG"	TDG (UK) Ltd
"UK GAAP"	generally accepted accounting principles in the UK
"UKLA" or "UK Listing Authority"	The Financial Services Authority in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000
"Underwriting Agreement"	the agreement between, amongst others, the Company, the Selling Shareholders, the Directors, the Senior Managers and the Managers described in paragraph 18 of Part VII (Additional Information)

"US" or "United States"	United States of America, its territories and possessions, any state of the United States and the District of Columbia
"US GAAP"	generally accepted accounting principles in the US
"VAT"	UK Value Added Tax
"Warrantholders"	the holders of Warrants under the Warrant Instrument being Lehman Commercial Paper Inc., CDP Capital Euromezz SARL, Intermediate Capital Investments Limited, Barclays Bank plc, Skandinaviska Enskilda Banken AB (PUBL) and Intermediate Capital GP Limited
"Warrant Instrument"	the deed dated 25 July 2002 (as amended on 30 August 2002) pursuant to which Warrants were issued to the Warrantholders as described in paragraph 19 of Part VII (Additional Information)
"Warrants"	warrants to subscribe for Ordinary Shares under the Warrant Instrument