

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 Warranholders 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 Warranholders, 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).