

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.