

## 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 Warranholders who were on the register of Warranholders 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 Warranholders on Admission at 1 p 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 Warranholders on the register of Warranholders 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 finding 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 <sup>(1)</sup> |                           |   | 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 <sup>(2)</sup>  | 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 <sup>(2)</sup>  | 0   | 0.0                       | 11,538  | 0.0                             | 11,538  | 0.0                       |
| Nigel Wilson <sup>(2)</sup> | 0   | 0.0                       | 10,000  | 0.0                             | 10,000  | 0.0                       |
| Keith Harris <sup>(2)</sup> | 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 <sup>(1)</sup> |                           | 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 |
| <b>Citicorp Capital Investors</b>                    |   |                           |   |                           |   |                           |
| Europe Limited                                       | 18,712,445                                    | 10.7                      | 13,302,146  | 5.8                       | 11,560,280  | 5.1                       |
| <b>CVC European Equity Partners II L.P.</b>          |   |                           |   |                           |   |                           |
| Partners II L.P.                                     | 41,843,995                                    | 24.0                      | 29,745,708  | 13.1                      | 25,850,617  | 11.3                      |
| <b>CVC European Equity Partners II (Jersey) L.P.</b> |   |                           |   |                           |   |                           |
| (Jersey) L.P.  | 13,514,060                                    | 7.8                       | 9,606,762   | 4.2                       | 8,348,792   | 3.7                       |
| <b>CVC European Equity Partners III L.P.</b>         |   |                           |   |                           |   |                           |
| 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 exercised). 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:

| <i>Name</i>      | <i>Current<br/>directorships/partnerships</i>     | <i>Previous<br/>directorships/partnerships</i>   |
|------------------|---|--|
| Robert Templeman | Baroness Holdings UK Limited<br>Baroness Group LP | Homebase Group Limited<br>Harveys Furnishings Limited  |
| David Hamid      | None  | Freeserve (Reconstruction)<br>Limited<br>Dixons Group plc  |
| Nick Carter      | Fiona Hunt Limited                                | Birthdays Group Limited<br>Kingsley Cards Limited  |
| Ian McLeod       | Fulham Football Club (1987)<br>Limited            | Asda Stores Limited<br>Celtic plc<br>The Scottish Premier League<br>Limited<br>WalMart Germany GmbH K.G. |

| <i>Name</i>     | <i>Current<br/>directorships/partnerships</i>   | <i>Previous<br/>directorships/partnerships</i>  |
|-----------------|---|---|
| Richard Pym     | Alliance & Leicester plc  | Selfridges plc  |
| Jonathan Feuer  | CVC Capital Partners Limited<br>Baroness Group Limited<br>Baroness Group Holdings Limited<br>Aprilway Limited   | Synstar plc   |
| Bill Ronald     | UNIQ plc  | Incorporated Society of British Advertisers Ltd<br>Food and Drink Federation (THE)<br>Hoops Limited<br>The Biscuits, Cake, Chocolate and Confectionery Association  |
| Nigel Wilson    | United Business Media plc<br>UNM Investments Ltd<br>United Finance Ltd<br>Dynastyland Ltd   | Viridian Group plc  |
| Keith Harris    | Investment Management Holdings plc (formerly Seymour Pierce Group plc)<br>Rowan & Company Capital Management plc<br>Spin SPG Limited<br>St. Ronan's School (Hawkhurst)<br>Benfield Group Limited<br>Wembley National Stadium Limited<br>Keith Harris & Associates Limited<br>UBC Media Group plc<br>CLS Holdings plc<br>The Unique Broadcasting Company Limited | Isle of Wight Cable and Telephone Co. Limited<br>Sports Internet Group Limited<br>Football Dataco Limited<br>NMSC Limited<br>Hanover Capital Group plc<br>Powerchannel Europe plc<br>TSE Services International Limited<br>FLPTV Limited<br>Football League Limited (The)<br>Jamies Bars Limited<br>Cromar and Hackett Limited<br>Powerchannel Limited<br>Mount Street Investment Management Limited<br>Radio First plc<br>Tera Group plc |
| Richard Nixon   | None  | None  |
| Andrew Smith    | None  | None  |
| Andrew Torrance | Thinktank Trust   | None  |
| Nick Wharton    | None  | Boots Optical (Holdings) PLC<br>Miller & Sandhouse Limited  |
| Steven Whyman   | None  | Exel Europe Limited<br>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
- 6.1.6 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:

| <b>Name</b>               | <b>Issued and fully paid up share capital</b>                  | <b>Nature of business/activity</b>                                 |
|---------------------------|--|--|
| 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 realized 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 Warranholders 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 Warranholder, 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 Warranholder, 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 Warranholder 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 Warranholder 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 uncanceled 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 uncanceled 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 uncanceled 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.