



A copy of this document, which comprises a prospectus relating to William Hill plc as required by the listing rules made under section 142 of the Financial Services Act 1986, has been delivered to the Registrar of Companies in England and Wales for registration as required by section 149 of that Act.

Application has been made to the London Stock Exchange for the whole of the ordinary share capital of William Hill plc, issued and to be issued in connection with the Global Offer, to be admitted to the Official List. It is expected that listing will become effective and that unconditional dealings in Shares will commence on 1 March 1999. All dealings prior to the commencement of unconditional dealings will be at the sole risk of the parties concerned.

The directors of William Hill plc, whose names appear on page 5 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

For a discussion of certain risks and other factors that should be considered in connection with an investment in the Shares, see "Investment considerations" in Part 6.

William Hill plc

(Incorporated in England and Wales under the Companies Act 1985 with registered number 3447836)

Global Offer of 300 million Shares of 1p each sponsored by Warburg Dillon Read at a price expected to be between 155p and 175p per Share

Expected ordinary share capital immediately following completion of the Global Offer:

Authorised			Issued and fully paid	
Number	Amount		Number	Amount
350,000,000	£3,500,000	Shares of 1p each	300,000,000	£3,000,000

Upon Admission, the Shares will rank in full for all dividends and other distributions declared, made or paid on the ordinary shares of William Hill plc. In addition to the Shares, the Company will also have authorised and issued one non-voting deferred share of £1, further details of which are set out in paragraphs 2 and 3 of Part 7.

In connection with the Global Offer, Warburg Dillon Read may over-allocate or effect other transactions intended to enable it to satisfy any over-allocations or which stabilise, maintain or otherwise affect the market price of the Shares or any options, warrants or rights with respect to, or interests in, the Shares or other securities of the Company, in each case at levels which might not otherwise prevail in the open market. Such transactions may be effected on any securities market, over-the-counter market, stock exchange or otherwise. Such transactions, if commenced, may be discontinued at any time. Warburg Dillon Read does not intend to disclose the extent of any over-allocations under the Global Offer.

Warburg Dillon Read, the investment banking division of UBS AG, which is regulated in the United Kingdom by The Securities and Futures Authority Limited, is advising William Hill plc and the Selling Shareholder and no-one else in connection with the Global Offer and will not regard any other person as its customer in relation to the Global Offer and will not be responsible to anyone other than William Hill plc and the Selling Shareholder for providing the protections afforded to customers of Warburg Dillon Read nor for providing advice in relation to the Global Offer.

No person has been authorised to give any information or make any representations other than those contained in this document and, if given or made, such information or representations must not be relied upon as having been so authorised. Neither the delivery of this document nor any subscription or sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of William Hill plc since the date hereof or that the information herein is correct as of any time subsequent to the date hereof.

The Global Offer being made by means of this document is being made in the United Kingdom, the Isle of Man and the Channel Islands by means of an institutional and intermediaries offer, in the United Kingdom and the Isle of Man by means of an employees offer and outside the United Kingdom, the Isle of Man and the Channel Islands by way of private placings. Accordingly, this document may not be supplied to the public in any jurisdiction, other than the above-named territories, in which any registration, qualification or other requirements exist or would exist in respect of any public offering of shares.

This document does not constitute an offer of, or the solicitation of an offer to subscribe for or buy, any of the Shares offered hereby to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction. In particular, the Shares offered by this document have not been, and will not be, registered under the US Securities Act of 1933, as amended, and, subject to certain exceptions, may not be offered or sold within the United States or to or for the account of US persons.

Warburg Dillon Read may arrange for the offer and sale of Shares in the United States only to persons reasonably believed to be Qualified Institutional Buyers (as defined in Rule 144A under the Securities Act) in reliance on the exemption from the registration requirements of the US Securities Act provided by Rule 144A. Prospective purchasers are hereby notified that the sellers of the Shares may be relying on the exemption from the provisions of section 5 of the Securities Act provided by Rule 144A.

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

The distribution of this document 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. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. The Shares are not transferable except in accordance with, and the distribution of this document is subject to, the restrictions set out in paragraph 13 of Part 7.

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

Certain terms used in this document are defined in "Definitions and glossary" in Part 8.

NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY

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

FORWARD-LOOKING STATEMENTS

Certain statements in this document, including those under the captions "Summary Key Information", "Business and competitive strengths", "Financial information, current trading and prospects", "Profit estimate and pro forma financial information", "Investment considerations" and "Working capital" constitute "forward-looking statements" within the meaning of the US Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve risks, uncertainties and other factors, which may cause the actual results, performance or achievements of William Hill plc, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks, uncertainties and other factors include, among others: general economic and business conditions, particularly in the United Kingdom; changes in technology; structural or regulatory changes in the gambling industry; relationships with customers; competition; ability to attract personnel; and the extent of any Year 2000 and Euro compliance issues. These forward-looking statements speak only as of the date of this document.

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EXPECTED TIMETABLE FOR THE GLOBAL OFFER⁽¹⁾

Latest time for completed Employee Application Forms from employees to be received by the Registrars	5.00 pm on 17 February 1999
Latest time for completed Intermediaries Application Forms from Intermediaries to be received by Warburg Dillon Read	12.00 noon on 19 February 1999
Latest time for bids from institutions	5.00 pm on 19 February 1999
Announcement of the Offer Price and allocations	22 February 1999
Supplementary prospectus containing the Offer Price published	22 February 1999
Conditional dealings in Shares commence	9.00 am on 22 February 1999
Admission and unconditional dealings in Shares commence	9.00 am on 1 March 1999
Shares credited to CREST accounts	1 March 1999
Despatch of definitive share certificates	Commencing 1 March 1999

(1) Each of the times and dates in this timetable is subject to change without further notice. Where a time of day is specified, it refers to London time.

OFFER STATISTICS

Price Range ⁽¹⁾	155p to 175p
Number of Shares being offered ⁽²⁾	300 million
New Shares	72.4 million
Existing Shares	227.6 million
Market capitalisation ⁽³⁾	£495 million
Earnings per Share for the 52 weeks ended 30 December 1997 ⁽⁴⁾	19.7p
Pro forma estimated earnings per Share for the 52 weeks ended 29 December 1998 (after exceptional items) ⁽⁵⁾	8.1p
Pro forma estimated earnings per Share for the 52 weeks ended 29 December 1998 (before exceptional items) ⁽⁵⁾	18.6p

(1) The Offer Price may be set within, above or below the Price Range. A supplementary prospectus containing the Offer Price is expected to be published on 22 February 1999.

(2) The Selling Shareholder intends, subject to market conditions, to sell its entire shareholding in the Company. Based on an Offer Price at the mid-point of the Price Range, the Shares being offered will comprise 72.4 million New Shares to be issued by the Company and 227.6 million Existing Shares to be sold by the Selling Shareholder. The number of New Shares to be issued and the number of Existing Shares to be sold will vary depending on the Offer Price. If the Selling Shareholder sells its entire shareholding in the Company, the aggregate number of Shares to be issued and sold under the Global Offer will be 300 million.

(3) The figure for market capitalisation is based on an Offer Price at the mid-point of the Price Range. If the Offer Price is not set at such mid-point, the figure for market capitalisation will change.

(4) Extracted from Part 3. The earnings per Share for the 52 weeks ended 30 December 1997 have been calculated on the basis that there were 227.6 million Existing Shares in issue throughout that period, which assumes that the Offer Price is set at the mid-point of the Price Range.

(5) Extracted from Part 4. The pro forma estimated earnings per Share have been calculated as if the capital structure of the Company as it will be following the Global Offer had been in place for the 52 weeks ended 29 December 1998.

DIRECTORS, SECRETARY AND ADVISERS

Directors	Ian Alexander Martin (Non-Executive Chairman) John Michael Brown (Chief Executive Officer) Robert Lambert (Group Finance Director and Deputy Chief Executive) Michael John Blackburn (Non-Executive Director) Keith Hamill (Non-Executive Director) Charles Thomas Scott (Non-Executive Director) all of Greenside House, 50 Station Road, Wood Green, London N22 7TP
Secretary	Nigel Edwin Blythe-Tinker
Registered and head office	Greenside House 50 Station Road Wood Green London N22 7TP
Financial adviser, Sponsor and Global Co-ordinator	Warburg Dillon Read (a division of UBS AG) 1 Finsbury Avenue London EC2M 2PP
Solicitors and US Counsel to the Company	Freshfields 65 Fleet Street London EC4Y 1HS
Solicitors and US Counsel to the Sponsor and other Managers	Allen & Overy One New Change London EC4M 9QQ
Reporting accountants and auditors to the Company	Deloitte & Touche Chartered Accountants Hill House 1 Little New Street London EC4A 3TR
Principal bankers	National Westminster Bank Plc 30 North Audley Street London W1A 4UD
Registrars	IRG plc Balfour House 390-398 High Road Ilford Essex IG1 1NQ
Receiving bank	IRG plc New Issues Department P.O. Box No 166 Bourne House 34 Beckenham Road Beckenham Kent BR3 4TH

SUMMARY KEY INFORMATION

The following information is extracted from, and should be read in conjunction with, the full text of this document:

Business of the Group

- William Hill is a leading provider of bookmaking services in the United Kingdom, offering odds and taking bets on a wide variety of sporting and other events, and has one of the best known brand names within the UK bookmaking industry.
- Horse racing and greyhound racing, each of which has a year round programme of races in the UK, and soccer have traditionally been the most popular events upon which bets are placed and represented an aggregate of approximately 92% of the Group's turnover in the 39 weeks ended 29 September 1998.
- William Hill provides its customers with a full range of traditional betting products as well as a number of more recently introduced products. William Hill delivers its betting products to its customers in the UK principally through two established channels: a nationwide network of licensed betting offices ("LBOs") and its telephone betting operations based in Leeds.
- The Group is the second largest operator of LBOs in the UK, with more than 1,500 LBOs. In the 39 weeks ended 29 September 1998, LBOs generated approximately 80% of William Hill's turnover.
- William Hill is the market leader in UK telephone betting services and had 42% of the telephone betting market in the UK during 1997. William Hill has been a leader of innovation in this segment, having been the first major UK bookmaker to introduce freephone betting services and telephone debit card betting. The Group currently has approximately 31,000 active telephone credit betting customers and approximately 107,000 active telephone debit card betting customers. In the 39 weeks ended 29 September 1998, UK telephone betting generated approximately 17% of William Hill's turnover.
- The Group also provides bookmaking services free of betting duty to non-UK customers through its international telephone betting facility based in the Isle of Man.
- William Hill is the only major UK bookmaker which currently enables non-UK customers to place bets free of betting duty on the internet via the Group's website. Although internet betting is presently small in the context of the Group's total business, the results of internet betting on the 1998 World Cup were encouraging and this aspect of the Group's business continues to develop.
- The Group plans to increase the number of events and sports on which international telephone and internet betting is offered.
- William Hill has demonstrated that it is the UK industry leader in terms of product innovation. The range of products offered by William Hill and the rest of the UK bookmaking industry has expanded in the last three years with the introduction of numbers betting and electronic slot machines (known as "amusement with prize machines" or "AWPs") in the LBO estate.
- The rapid growth in new betting products has been a significant factor in the strong development of William Hill's operating profit in recent years.

Business and competitive strengths

William Hill believes the following have underpinned the Group's strong performance to date, and will be key factors in maintaining and further developing the business going forward:

- a leading, long established and widely recognised brand name;
- a substantial, high quality LBO estate;
- clear market leadership in the high growth UK telephone betting segment;
- a cash generative business;
- a stable gross win percentage;
- high entry barriers and industry consolidation in the core LBO business; and
- a proven, experienced and innovative management team.

Each of these factors is described in more detail in "Business and competitive strengths" in Part 1.

Business strategy

William Hill's strategic objective is to increase the Group's turnover and profits from the existing strong position of its core LBO and telephone bookmaking business, and by further developing its new channels of product delivery such as the internet. The key elements of William Hill's business strategy include:

Increasing turnover and profits from the core LBO business:

- developing and expanding the LBO estate;
- maximising contribution from higher margin products and AWP's;
- seeking profit margin improvement through managing costs and improving working practices; and
- competing on customer care and service standards.

Developing and expanding the telephone betting business:

- maintaining the existing customer base and encouraging increased betting;
- continuing to attract new customers;
- developing the international business; and
- seeking profit margin improvement through managing costs and improving working practices.

Maximising contribution from the fledgling internet betting business:

- significantly improving convenience; and
- developing and expanding betting opportunities worldwide.

Each of these elements is described in more detail in "Business strategy" in Part 1.

Financial information

The table below sets out key financial data for William Hill for the periods indicated which is extracted from Part 3:

	52 weeks ended 26 December 1995 (£ million)	53 weeks ended 31 December 1996 (£ million)	52 weeks ended 30 December 1997 (£ million)	39 weeks ended 30 September 1997 (£ million)	39 weeks ended 29 September 1998 (£ million)
Profit and Loss					
Turnover	1,551.3	1,647.5	1,672.7	1,288.3	1,394.6
Gross win	349.0	355.8	392.3	299.7	323.9
Profit on ordinary activities before exceptional items, interest and taxation	39.3	49.5	76.4	57.4	77.8
(Loss)/profit after taxation	(137.3) ⁽¹⁾	32.2	44.9	40.6	20.6
Cash Flow					
Operating cashflow	46.9	66.5	99.2	70.6	78.2

(1) After deducting exceptional items of £160.9 million.

Profit estimate

As described in Part 4, the Directors are estimating profit before exceptional items, interest and taxation for the 52 weeks ended 29 December 1998 to be £93.5 million.

Pro forma financial information

An unaudited pro forma consolidated profit estimate for the Group for the 52 weeks ended 29 December 1998 is set out in Part 4. Part 4 also sets out an unaudited pro forma consolidated net asset statement for the Group as at 29 September 1998. This pro forma information is based on the unaudited profit estimate set out in Part 4 and the audited consolidated balance sheet of the Group as at 29 September 1998 set out in Part 3, respectively, in each case adjusted to illustrate the effects of the Global Offer and the reduction of the Group's borrowings as a result of the Global Offer as if they had occurred at the beginning of 1998 and as at 29 September 1998, respectively.

Current trading and prospects

The Group has traded satisfactorily since 29 December 1998 (the end of the period to which the estimate set out in Part 4 of this document relates) and the Directors are confident of the prospects for the Group.

Dividends and dividend policy

It is envisaged that interim dividends will be paid by the Company in October and final dividends in May of each year, in the approximate proportions of one third and two thirds respectively of the total annual dividend. The Directors intend to adopt a progressive dividend policy which will reflect the long-term earnings potential of the Group, whilst maintaining an appropriate level of dividend cover.

The Directors consider that, had the Shares been listed for the whole of the 52 weeks ended 29 December 1998, and on the basis of the estimated pro forma earnings per Share before exceptional items of 18.6p as set out in Part 4, they would have recommended a total dividend of 5.8p (net) per Share for the 52 weeks ended 29 December 1998. Such a dividend would have been covered approximately 3.2 times by the estimated pro forma earnings per Share before exceptional items.

The first dividend to be declared by the Company following the Global Offer will be the interim dividend in respect of the 52 weeks ending 28 December 1999, which will be calculated on a pro-rata basis from the date of Admission and is expected to be paid in October 1999. A full final dividend in respect of the 52 weeks ending 28 December 1999 is expected to be paid in May 2000.

The Selling Shareholder

The Selling Shareholder is Nomura International plc which is a wholly-owned subsidiary of The Nomura Securities Co., Ltd., a major securities company and international finance house.

The Global Offer

The aggregate number of shares available under the Global Offer will be 300 million. Based on the mid-point of the Price Range, the Global Offer will comprise an issue of 72.4 million New Shares by the Company and the sale of 227.6 million Existing Shares by the Selling Shareholder. Under the Global Offer, all Shares will be issued or sold at the Offer Price, which will be agreed between Warburg Dillon Read, the Company and the Selling Shareholder. It is currently expected that the Offer Price will be within the Price Range, although it may be set above or below this range. A number of factors will be considered in determining the Offer Price and the basis of allocation, including the objective of establishing an orderly after-market in the Shares.

Admission is expected to take place, and unconditional dealings in the Shares are expected to commence, on the London Stock Exchange at 9.00 am on 1 March 1999. Prior to that time, it is expected that conditional dealings in the Shares will commence at 9.00 am on 22 February 1999 and settlement of such dealings will take place on 8 March 1999. These times and dates may be changed without further notice.

In the Institutional Offer, New and Existing Shares will be issued or sold to institutions and certain other investors in the UK and elsewhere. Only Existing Shares are being made available to Qualified Institutional Buyers in the United States, in reliance on Rule 144A under the Securities Act.

Individuals with a mailing address in the UK, the Isle of Man or Jersey can apply for New Shares through Intermediaries by completing application forms distributed through them or otherwise following their application procedures. Individuals with a mailing address in the Bailiwick of Guernsey can apply for New Shares provided such application is made through the Intermediary, Collins Stewart (CI) Limited. If there is sufficient demand under the Intermediaries Offer, at least 10% of the Shares available under the Global Offer will be made available to Intermediaries. If applications under the Intermediaries Offer exceed this level, and subject to the level of demand under the Institutional Offer, allocations under the Intermediaries Offer may be scaled down.

Employee Offer

Employees (both full and part time) of the Group who were in employment on 31 January 1999 will have the opportunity to subscribe for New Shares at the Offer Price under the Employee Offer. In connection with the Employee Offer, up to 5% of the Shares available under the Global Offer will be made available to eligible Group employees in priority to applications under the Institutional Offer. Eligible Group employees will be sent a separate application form for use in applying for Shares under the Employee Offer.

Use of proceeds

The net proceeds from the Global Offer received by the Company, together with cash resources of the Group, will be used to repay £81.5 million of indebtedness under the Term Loan Facility and £37.5 million of the principal amount outstanding under the Senior Subordinated Notes, together with associated costs, so as to leave the Group with net indebtedness of approximately £375 million. The Company will not receive any of the proceeds from the sale of Existing Shares by the Selling Shareholder.

Investment considerations

An investment in Shares involves risks, including those relating to or arising from the following: (i) the activities of William Hill are highly regulated, principally by the Betting Act, (ii) gambling debts are not enforceable legally in the United Kingdom, (iii) William Hill's primary products involve fixed-odds betting where winnings are paid on the basis of the stake placed and the odds quoted rather than derived from a pool of stake money received from all customers, (iv) William Hill faces competition from a variety of sources, including from the National Lottery, (v) William Hill's operating results are affected by seasonality and, in particular, the schedule of the horse races on which William Hill accepts bets and infrequent events such as the soccer World Cup and European Championships, (vi) the Group is dependent on the efforts and skills of a number of key personnel, (vii) William Hill's debt instruments contain certain conditions and covenants which may restrict the activities of the Group, (viii) any increase in the prevailing rate of horse racing levy or other method of funding horse racing or betting duty, (ix) the effect of existing or potential future regulation on the Group's international telephone and internet betting business is uncertain, (x) the Group may be exposed to risks associated with the Year 2000 and the introduction of EMU, and (xi) there is no established market in the Shares and, following Admission, the market price of the Shares could be subject to significant fluctuations. Further details of these risk factors are set out in "Investment considerations" in Part 6.

INTRODUCTION

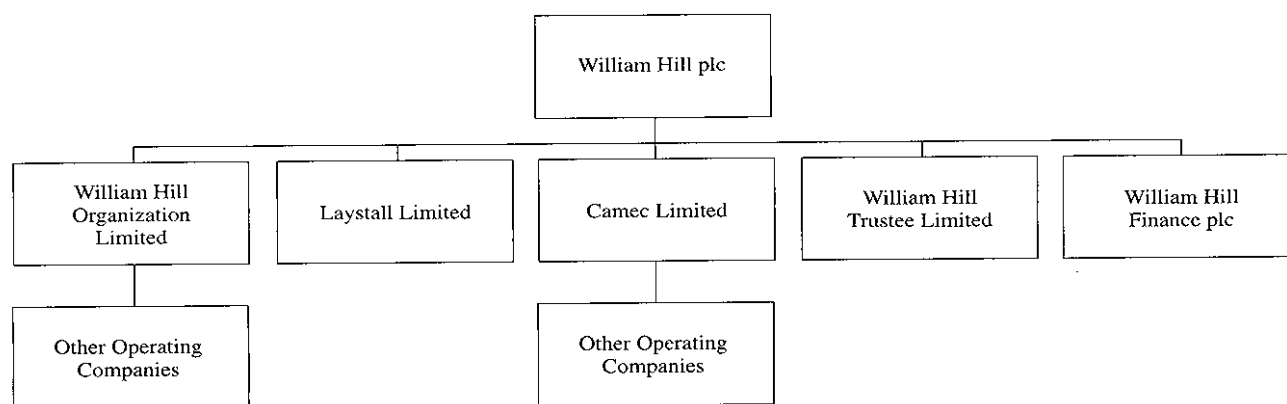
History of the Group

William Hill was originally founded in the 1930s as a telephone bookmaking business. The holding company of the business was William Hill Organization Limited ("WHO"). Having expanded considerably since its foundation, by 1988 William Hill was the second largest bookmaker in the United Kingdom, with over 900 LBOs and approximately 25,000 credit account customers. In December 1988, William Hill was acquired by Grand Metropolitan which began the process of integrating the William Hill operation with that of Mecca Bookmakers Limited (now called Camec Limited ("Camec")) which it had acquired some years earlier. This process was continued by Brent Walker, which purchased the combined William Hill and Mecca business from Grand Metropolitan in 1989, following Brent Walker's prior acquisition from Grand Metropolitan of 119 LBOs which were operated by Brent Walker Bookmakers Limited (now called Laystall Limited ("Laystall")). The new holding company for the combined bookmaking operations was The William Hill Group Limited (later renamed Blueslate Limited ("Blueslate")).

The Company was incorporated in England on 6 October 1997 and acquired WHO, Laystall and Camec, together with WHO's and Camec's respective subsidiaries, from Blueslate with effect from 1 October 1997.

The acquisition was funded by the Company utilising £380 million of the Bank Facilities, by the Selling Shareholder providing £150 million of interim funding to the Group (which has since been refinanced) and by the issue of £200 million of convertible unsecured loan stock to GBH (a special purpose company established by the Selling Shareholder), of which £100 million has been waived and the balance, together with aggregate accrued discount of £30 million, will be waived prior to Admission. Further details of the Group's ongoing funding arrangements are set out in paragraph 14 of Part 7.

The following chart shows the current corporate structure of the Group.



The Group's business

William Hill is a leading provider of bookmaking services in the United Kingdom, offering odds and taking bets on a wide variety of sporting and other events. The Group provides its customers with a full range of traditional betting products as well as a number of more recently introduced products.

Horse racing and greyhound racing, each of which has a year round programme of races in the UK, and soccer have traditionally been the most popular events upon which bets are placed and represented an aggregate of approximately 92% of the Group's total turnover in the 39 weeks ended 29 September 1998.

William Hill delivers its betting products to its customers in the UK principally through two established channels: a nationwide network of LBOs and its telephone betting operation based in Leeds. LBOs operate almost entirely on the basis of cash transactions with customers, while telephone betting is a non-cash operation primarily utilising customers' credit accounts or debit card facilities.

The Group is the second largest operator of LBOs in the UK, with more than 1,500 LBOs of which approximately 46% are located in London and South East England. In the 39 weeks ended 29 September 1998, 80% of William Hill's turnover and 87% of William Hill's gross win (turnover less customer winnings) were attributable to betting in LBOs (including AWP's).

William Hill is the market leader in UK telephone betting services and had 42% of the telephone betting market in the UK during 1997. The services comprise four discrete activities: credit betting, debit card betting, deposit betting and index (spread) betting. William Hill has been a leader of innovation in UK telephone betting, having been the first major UK bookmaker to introduce freephone betting services and telephone debit card betting. This has improved customer convenience and significantly increased the size of the UK telephone betting market. In the 39 weeks ended 29 September 1998, UK telephone betting generated approximately 17% of William Hill's turnover and 11% of the Group's gross win. The number of telephone betting transactions (excluding index betting) has grown from approximately 2.4 million bets in 1991 to approximately 4.0 million bets in 1997 and approximately 3.8 million bets in the first 39 weeks of 1998.

William Hill's LBOs handle approximately 250 million individual betting transactions in a year. The average stake wagered per transaction in the Group's LBOs in the 39 weeks ended 29 September 1998 was £5.82. This contrasts with an average stake of approximately £45 wagered per transaction by telephone for credit and debit card betting (excluding the higher spending "Golden Spurs" customers) in the 39 weeks ended September 1998.

The Group also provides bookmaking services free of betting duty to non-UK customers through its international telephone betting facility based in the Isle of Man.

William Hill is the only major UK bookmaker which currently enables non-UK customers to place bets free of betting duty on the internet via the Group's website. Although internet betting, which was introduced by William Hill in May 1998, is presently small in the context of the Group's total business (turnover is currently running at approximately £80,000 per week), the results of internet betting on the 1998 World Cup were encouraging and this aspect of the Group's business continues to develop.

The Group plans to increase the number of events and sports on which international telephone and internet betting is offered and to improve significantly the convenience of internet betting. Certain implications of these developments are set out in "Cross-border gambling" in Part 6.

William Hill has demonstrated that it is the UK industry leader in terms of product innovation and has played a leading role in lobbying the UK government for deregulation of the bookmaking industry. The range of products offered by William Hill and the rest of the UK bookmaking industry has expanded in the last three years with the introduction of numbers betting and AWP's in the LBO estate.

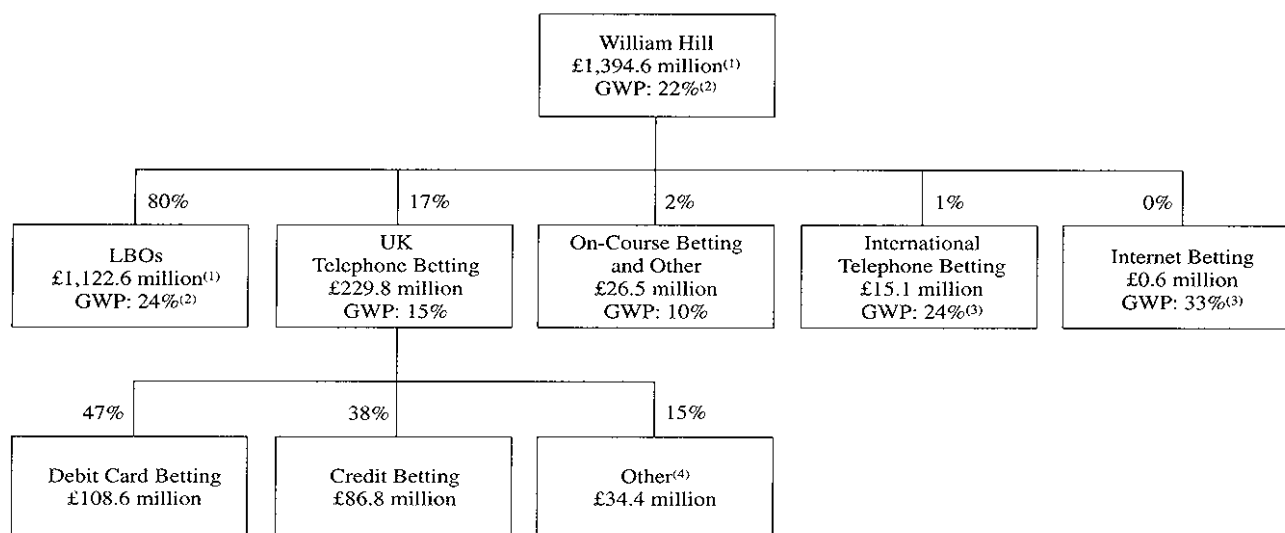
Numbers betting was pioneered by William Hill and generates significantly higher margins than traditional betting products. In the 39 weeks ended 29 September 1998, numbers betting accounted for 3% of William Hill's total turnover.

In June 1996, AWP's were introduced in LBOs as part of the relaxation of Betting Act restrictions. The Group has installed approximately 2,775 AWP's in its LBOs to date. In the 39 weeks ended 29 September 1998, AWP gross win (including VAT) accounted for 6% of William Hill's overall gross win. The Directors anticipate further growth from AWP's. The maximum permitted prize increased from £10 to £15 in October 1998 and the Directors expect the recent introduction of the £2 coin in the UK to have a positive effect on the cash-in-box derived from AWP's once it achieves wide circulation.

The rapid growth in numbers betting and AWP's has been a significant factor in the strong development of William Hill's operating profit in recent years.

The following chart provides certain information about William Hill for the 39 weeks ended 29 September 1998, including: (a) total turnover of William Hill and turnover associated with each of its principal product delivery channels; (b) the approximate proportion of William Hill's total turnover attributable to each of its principal product delivery channels; and (c) William Hill's turnover less customer winnings presented as a percentage of turnover (known as the "gross win percentage" or "GWP") associated with each of its principal product delivery channels.

Turnover and gross win percentage – 39 weeks ended 29 September 1998



(1) Including AWP's.

(2) Excluding AWP's.

(3) Due to the impact of the 1998 World Cup, these figures are considerably higher than the Directors anticipate will be achieved in the normal course of trading.

(4) Including UK deposit betting and index betting.

Satellite Information Services

SIS provides a service for UK bookmakers giving them access to real-time pre-event information and results, as well as live coverage of horse racing, greyhound racing and certain numbers draws, via satellite. SIS is owned 19% by William Hill and 23% by Ladbroke, the other main shareholders being Racal Electronics PLC, Racecourse Association Limited, United Media Holdings Limited and the Tote. William Hill's 19% interest in SIS was acquired at a total cost of £17.7 million, the Group having invested £11.6 million in SIS shares in September 1994 and a further £6.1 million in March 1998. SIS is currently treated as an associated undertaking of the Group for accounting purposes.

The UK betting industry

The UK betting industry is highly regulated, principally by the Betting Act which established a regulatory regime imposing, among other things, a variety of licensing requirements on bookmakers. It is illegal to operate as a bookmaker in the UK without a permit and each LBO is required to hold an individual licence. A licence may be refused on three discretionary grounds, one of which is that the granting of a licence would be inexpedient, having regard to the demand in the locality for LBO facilities and the number of LBOs available to meet that demand. As the betting market is mature, and unsatisfied local demand is difficult to demonstrate, new LBO licences are difficult to obtain, thereby restricting the ability of potential large scale competitors to enter the market other than by way of acquisition. The details of the regulatory environment in which the UK betting industry operates are set out in "UK regulation" below and further details are contained in "Risks associated with the UK gambling industry" in Part 6.

Whilst there are high barriers to entry within the LBO business, William Hill does face competition from other UK bookmakers in the business areas in which it operates and from the National Lottery. Further details are set out in "Competition" below. The Directors do not believe that William Hill currently faces significant competition from other participants in the UK gambling industry, namely casinos, bingo halls and soccer pools.

BUSINESS AND COMPETITIVE STRENGTHS

William Hill believes the following have underpinned the Group's strong performance to date and will be key factors in maintaining and further developing the business going forward:

- a leading, long established and widely recognised brand name;
- a substantial, high quality LBO estate;
- clear market leadership in the high growth UK telephone betting segment;
- a cash generative business;
- a stable gross win percentage;
- high entry barriers and industry consolidation in the core LBO business; and
- a proven, experienced and innovative management team.

Leading brand name

William Hill is a leading UK brand name, with 93% instant recognition amongst adult males (according to a July 1998 survey by NOP Solutions) and a strong reputation for quality. As acknowledged in the MMC Report, branding is particularly relevant to attracting new and irregular players.

High quality LBO estate

William Hill believes that its LBO estate is of high quality and is strategically well-sited. Almost half of the estate is in the South East of England where average spend per bet is higher than elsewhere in Great Britain.

Since 1990, the Group has extensively redeveloped and refurbished 69% of its LBO portfolio. According to a report in *The Sporting Life* in 1997, the Group had redeveloped and refurbished a greater proportion of its LBO estate than had been completed by the Group's major competitors. This enables William Hill to compete more effectively, attracting and retaining customers as a result of the quality of the service and facilities provided in the Group's LBOs. The quality of earnings from the portfolio has been enhanced further by rationalising or resiting selected LBOs or closing underperforming LBOs.

UK telephone betting

William Hill is the recognised market leader in the UK telephone betting market. The Company pioneered freephone and debit card betting. Its 42% market share in 1997 was larger than its two closest competitors combined.

The telephone betting service is provided to customers via a substantial and cost effective infrastructure. The Group operates a sophisticated call handling and routing service which enables it to handle over 300 simultaneous calls. "Dual capacity" staff, who are trained as call-handlers in addition to their other functions, enable the capacity to be tailored to demand in a highly cost-efficient manner. The Group operates a backup site to maintain service to customers in the event of failure of the primary facility.

William Hill's UK telephone betting business has experienced strong growth since 1991, with increased growth in the volume of active accounts, turnover and gross win. This growth has been driven mainly by the debit card service.

Cash generative business

As shown by the level of cash inflow before financing, the Group has been highly and consistently cash generative. This is due, in part, to a relatively low capital expenditure requirement. In addition, stock and debtors are low.

Stable gross win percentage

Historically, gross win percentage has fluctuated within a narrow range. This stability is due to the averaging effect of a very substantial number of transactions spread over a large number of events. This is supported by well proven risk control procedures.

Entry barriers and industry consolidation

New large-scale entrants to the LBO industry are unlikely due to considerable barriers to entry. A licence issued by the appropriate authority is required to operate an LBO. New licences are only granted where it can be shown that there is unsatisfied demand for bookmaking services in a particular geographic area. With substantially all

regions of the UK covered by licences granted to existing LBOs, it is difficult for new entrants to prove unsatisfied demand in most areas.

The economies of scale necessary to match the technology, breadth of service and quality of shop-fit offered by William Hill and other major UK bookmakers also act as a substantial barrier. These economies of scale have contributed to the present trend towards consolidation in the UK bookmaking industry. This has seen the combined market share of the top five bookmakers by number of LBOs increase from 46% in 1989 to 56% in 1997. Many bookmakers have been unable to compete effectively with the shop-fit and service standards pioneered by William Hill and the other major UK bookmakers. In addition, smaller bookmakers are often unable to offer either the full range of numbers bets and prizes or the same betting stake and payout level.

Management team

William Hill's senior management has had unparalleled experience in the industry, with four of the senior team each having over 30 years experience. John Brown, the Group's Chief Executive, is a significant figure in the political and financial debates affecting the bookmaking industry.

The Group's management is influential, and has a track record in promoting innovation, in the bookmaking industry. The Group played a major role in the industry's lobbying of the UK government for the 1.0% cut in betting duty, in March 1996, and recent deregulation. This has led, for example, to the introduction of AWP's in LBOs and the relaxation of advertising restrictions.

Additionally, the Group not only pioneered numbers betting products, such as "Lucky Choice", "49s" and "Magic Numbers", but succeeded in having them adopted and promoted by the other major UK bookmakers.

Under current management, William Hill became the first major UK bookmaker to provide freephone, telephone debit card and internet betting services.

Senior management is committed to the long term future of the Group and has agreed to the incentive arrangements referred to in "Directors, senior management and employees" below.

BUSINESS STRATEGY

William Hill's strategic objective is to increase the Group's turnover and profits from the existing strong position of its core LBO and telephone bookmaking business, and by further developing its new channels of product delivery such as the internet. The key elements of William Hill's business strategy include:

Increasing turnover and profits from the core LBO business:

- developing and expanding the LBO estate;
- maximising contribution from higher margin products and AWP's;
- seeking profit margin improvement through managing costs and improving working practices; and
- competing on customer care and service standards.

Developing and expanding the telephone betting business:

- maintaining the existing customer base and encouraging increased betting;
- continuing to attract new customers;
- developing the international business; and
- seeking profit margin improvement through managing costs and improving working practices.

Maximising contribution from the fledgling internet betting business:

- significantly improving convenience; and
- developing and expanding betting opportunities worldwide.

Increasing turnover and profits from the core LBO business

Developing and expanding the LBO estate

William Hill intends to continue to invest actively in upgrading and improving its current LBO portfolio, in order to improve its attractiveness to its customer base. The Group pursues a structured approach to estate development, new licences and acquisitions. Certain LBOs have been classified as candidates for either relocation

or extension. These opportunities are exploited as suitable properties become available. Since its establishment in 1990, the William Hill development team has achieved an average of more than 50 such projects (including new licences and acquisitions) per annum.

William Hill has a well established and regularly reviewed capital plan in which a number of LBOs have been designated as suitable for refurbishment or redevelopment. These opportunities are addressed on an ongoing basis.

The Group's management has significant experience of making strategic acquisitions of smaller independent bookmakers and integrating them successfully into its existing operations, although the Group's ability to make acquisitions has been constrained since 1989 due to restrictions on available cash during its ownership by Brent Walker. The Group intends to continue to make small, selective acquisitions where suitable opportunities can be identified, taking advantage of the general industry trend towards consolidation. In addition, licences for new LBOs will be sought where profitable opportunities arise.

Maximising contribution from higher margin products and AWP

The Group believes that the higher gross win numbers bets and sports betting are potential sources of new types of customers for William Hill and encourage some existing customers to bet more frequently.

Numbers betting was extremely popular when it was first introduced and it remains a highly profitable product for the Group. However, during 1998 there has been a decline in the games' popularity as their novelty has worn off. Management is pursuing a number of initiatives to maintain and increase interest in the concept as it matures. A nationwide "49s" promotion offering prizes such as cars and digital televisions was conducted over the Christmas period. Further promotions are being developed for 1999. The frequency of draws will continue to be optimised. For example, the frequency of "49s" draws has been reduced from four times per day to twice daily. William Hill and the other major UK bookmakers monitor the performance and popularity of the three numbers products, with the intention of revising the format of the games or introducing new concepts.

Reward systems have been designed to incentivise LBO employees to promote higher margin products. Interior and exterior LBO advertising is also used to promote these higher margin bets.

The Group intends to continue to pursue further growth from AWP. The optimum number of AWP in the LBO estate (subject to the current regulatory limit of two AWP per LBO) is continually sought through constant monitoring and review of individual LBO performance. Each machine is retained within the Group's LBO estate for approximately 18 months. The level of interest in individual machines is also monitored to optimise the frequency of rotation of the machines between different LBOs. Typically, each machine is rotated within the LBO estate every 13 weeks, subject to its performance.

Management expects the recent introduction of the £2 coin in the UK to have a positive effect on gross win from AWP, once it achieves wide circulation. William Hill will continue to lobby the UK government for changes that would allow an increase in the maximum number of AWP per LBO and the introduction of higher payout machines suited to the controlled betting environment provided by the LBOs.

Seeking profit margin improvement through managing costs and improving working practices

An ongoing process of cost-benchmarking across the LBO estate aims to ensure that LBOs are operated as efficiently as possible. Opportunities to improve profitability by closing, relocating or merging outlets are implemented on an ongoing basis. In the three years to 29 December 1998, 60% of rent reviews and lease renewals agreed have resulted in a nil increase, or in a rent reduction.

The Group is evaluating the potential benefits of installing electronic point of sale (EPOS) systems in its LBO estate. This should permit more efficient bet settlement and cost reductions, including a reduction in payout errors, and serve to improve the quality of information available to senior management. Further details are set out in "Information systems, EPOS" below. The Group intends to continue to develop the cost-benefit analysis for the project. A complete roll-out of the EPOS system throughout the LBO estate would cost approximately £20 million. This will only take place if expected returns are sufficiently attractive.

Competing on customer care and service standards

William Hill shop managers are paid according to the grade and performance of their LBO, as well as their personal performance. This creates a "shop-level" incentive to attract and retain custom.

The Group employs a market research agency to produce reports on the customer care and service standards at individual LBOs which are compiled following visits to the LBOs made by agency employees acting as customers

(known as "mystery shoppers"). The "mystery shopper" places bets, asks questions and generally observes the standard of customer care and service.

Upon joining William Hill, permanent LBO employees take part in an extensive training programme to provide them with customer relations and service skills. In addition, LBO managers periodically participate in an ongoing training programme to provide the skills needed to ensure that all LBOs satisfy the Group's high customer service standards.

Developing and expanding the telephone betting business

Maintaining the existing customer base and encouraging increased betting

William Hill believes that the convenience and efficiency of its UK telephone betting service is the key to maintaining customer loyalty. The telephone betting infrastructure, described above, enables customers to obtain information and place bets quickly, conveniently and free of telephone charges. Debit card account-holders are able to monitor their accounts by receiving (if they so wish) detailed statements either fortnightly or monthly.

William Hill runs an extensive programme of price-led advertising, in the UK national and sporting press, and on various television teletext services, such as "Teletext on 4" and Sky "Sportstext". This programme aims to ensure that existing and potential customers can access William Hill prices quickly and easily, from several sources.

These efforts are supported by a systematic programme of customer mailings, including the William Hill customer magazine, "Action Line". Higher spend credit customers become members of the "Golden Spurs" programme. These customers are given a priority freephone number with the aim of ensuring that their calls are taken immediately by the Group's most experienced call handlers. Periodic "renewal" programmes are also undertaken to encourage customer loyalty and to reactivate lapsed accounts. Lapsed account holders are offered incentives to recommence betting, normally a free bet.

Continuing to attract new customers

William Hill has an ongoing programme of new customer recruitment for its UK telephone betting service. Independent market research is used to identify households indicating an interest in gambling. These people are sent details of the William Hill telephone betting service and are incentivised to establish accounts with William Hill.

Advertisements are placed almost daily in the UK sporting press and frequently in the "mainstream" national press. These are timed to coincide with, and promotional free bets are sometimes offered on, high profile televised events of interest to a broad spectrum of the public.

The Group also runs a "Recommend a Friend" programme. Existing account holders who successfully encourage a friend or relative to open a telephone betting account at William Hill receive free gifts. This has been an effective method of attracting new business.

Developing the international business

The international telephone betting business has experienced strong turnover growth since relocating offshore in May 1998. This enabled William Hill to offer bets free of betting duty for non-UK resident customers. Multilingual call handlers enable customers to obtain information and place bets in Italian and German, in addition to English. The facility is open for 18 hours each day. However, to date, the number of customers recruited has been too small to generate the number of betting transactions which are necessary to achieve a stable margin. The average bets placed by these customers are higher than for UK customers which also tends to increase profit volatility. Betting on the 1998 World Cup tournament produced good profits, but losses have been incurred subsequently. Management continues to focus on expanding the client base and reducing the level of profit volatility.

A North American sports betting service was launched in September 1998. This service now offers bets on baseball, basketball, ice hockey and American football matches. The number of currencies in which customers can place bets was expanded in October 1998 to US and Canadian dollars, Deutschmarks and Lire. It is expected that the full year benefit of these enhancements will come through in 1999. William Hill intends to capitalise on this by further promoting and marketing the international telephone service overseas, through a variety of media. Certain implications of the Group's proposed expansion of its international telephone betting business are set out in "Cross-border gambling" in Part 6.

Seeking profit margin improvement through managing costs and improving working practices

Call handlers are fully trained and make efficient use of the telephone operation's sophisticated bet-capture technology. Management continually monitors call handling efficiency, as measured by average bet-capture time and the number of calls waiting. Cycles of demand throughout the day and over a year are analysed to match capacity to demand at any time on a given day.

Maximising contribution from the fledgling internet betting business**Significantly improving convenience**

William Hill believes that the internet gaming market represents a significant growth opportunity for the Group. NUA Internet Surveys has indicated that 153 million people are on-line at present and according to the Internet Industry Almanac this will grow to 327 million people in 2000. The on-line gaming market in the United States and Europe alone has been estimated by Datamonitor to be US\$1.0 billion in 1999 and is forecast to grow to \$10.2 billion in 2002.

Although the internet gaming market is already highly competitive, William Hill believes that the Group is well placed to compete and that its respected brand name will be a key strength in ensuring that customers are comfortable with payment security. The Directors expect this to be a critical factor in differentiating William Hill's service from those of many smaller and less well known internet bookmakers.

William Hill's strategy is to offer a wide range of international sporting and non-sporting events through a quick, convenient and truly international service. The need for customers to deposit funds with William Hill, by bank transfer or via a cheque or credit card, before betting on the internet is believed to have been an impediment to the growth of the service to date. During the course of 1999, William Hill intends to enable customers to place "real-time" bets in a wider range of currencies.

Currently customers place bets only in sterling, but the facility to place bets in US and Canadian dollars, Deutschmarks, Lire and the Euro is expected to be introduced in 1999. A multilingual facility is also planned for 1999.

Developing and expanding betting opportunities worldwide

During 1999, William Hill intends to expand the range of bets offered to include sports events around the world. To date, the range of available bets offered by William Hill over the internet has been very limited. Quoting odds on events of particular local interest is expected to make the service more attractive to international gamblers.

To diversify the appeal of the service, William Hill intends to offer a number of typical casino games and to enable customers to bet on the outcomes of a wide range of international lotteries.

The internet betting service will be marketed aggressively via the internet itself. "Links" to sports related internet sites such as the PGA European Tour website for golf and Teamtalk for football are in place and William Hill intends to negotiate similar arrangements with other high profile sports internet sites.

Certain implications of the Group's proposed expansion of its internet betting business are set out in "Cross-border gambling" in Part 6.

PRINCIPAL CHANNELS OF PRODUCT DELIVERY

William Hill offers its betting products to customers in the UK principally through two established channels: a nationwide network of LBOs and its telephone bookmaking operations based in Leeds. The Group also provides bookmaking services to non-UK customers through its international telephone betting facilities based in the Isle of Man and through the internet, as well as operating betting facilities "on course" at racecourses in the UK. The following tables provide a breakdown of William Hill's total turnover and gross win, by channel of distribution, for the periods indicated.

	52 weeks ended 26 December 1995		53 weeks ended 31 December 1996		52 weeks ended 30 December 1997		39 weeks ended 30 September 1997		39 weeks ended 29 September 1998	
	(£ million)	%	(£ million)	%	(£ million)	%	(£ million)	%	(£ million)	%
Breakdown of turnover by channel										
LBOs (excluding AWP ⁽¹⁾ s)	1,343.7	87	1,399.1	85	1,383.2	83	1,067.1	83	1,105.2	79
AWP ⁽¹⁾ s	—	—	8.8	1	19.8	1	15.1	1	17.4	1
LBOs	1,343.7	87	1,407.9	86	1,403.0	84	1,082.2	84	1,122.6	80
UK telephone betting ⁽²⁾	177.2	11	204.4	12	235.3	14	177.8	14	229.8	17
International telephone betting	4.1	0	5.5	0	2.3	0	1.6	0	15.1	1
Internet betting	—	—	—	—	—	—	—	—	0.6	0
Other ⁽³⁾	26.3	2	29.7	2	32.1	2	26.7	2	26.5	2
Total turnover	1,551.3	100	1,647.5	100	1,672.7	100	1,288.3	100	1,394.6	100

(1) Turnover from AWP⁽¹⁾s is calculated on the basis of cash winnings less VAT.

(2) Includes index betting, which was introduced at the end of 1995.

(3) Principally on-course betting.

	52 weeks ended 26 December 1995		53 weeks ended 31 December 1996		52 weeks ended 30 December 1997		39 weeks ended 30 September 1997		39 weeks ended 29 September 1998	
	(£ million)	%	(£ million)	%	(£ million)	%	(£ million)	%	(£ million)	%
Breakdown of gross win by channel										
LBOs (excluding AWP ⁽¹⁾ s)	316.7	91	310.9	87	330.1	83	251.5	83	264.6	81
AWP ⁽¹⁾ s	—	—	10.2	3	23.3	6	17.7	6	20.5	6
LBOs	316.7	91	321.1	90	353.4	89	269.2	89	285.1	87
UK telephone betting ⁽²⁾	29.3	8	32.7	9	38.1	10	29.9	10	35.4	11
International telephone betting	0.6	0	0.6	0	0.2	0	0.2	0	3.6 ⁽³⁾	1 ⁽³⁾
Internet betting	—	—	—	—	—	—	—	—	0.2	—
Other ⁽⁴⁾	2.4	1	2.8	1	4.1	1	3.0	1	2.7	1
Total gross win	349.0	100	357.2	100	395.8	100	302.3	100	327.0	100

(1) Gross win from AWP⁽¹⁾s includes VAT.

(2) Includes index betting, which was introduced at the end of 1995.

(3) Due to the impact of the 1998 World Cup, these figures are considerably higher than the Directors anticipate will be achieved in the normal course of trading.

(4) Principally on-course betting.

Note: Investors should not rely solely on the summary information contained in the tables above, but should read them in conjunction with the financial information in Part 3.

Licensed betting offices

The principal business of William Hill is off-course bookmaking, which it carries out primarily through its nationwide network of more than 1,500 LBOs. In the 39 weeks ended 29 September 1998, 80% of William Hill's total turnover and 87% of William Hill's gross win were attributable to betting in LBOs (including AWP⁽¹⁾s).

The Group's LBOs offer a wide selection of betting services, comprising traditional betting products, numbers betting and AWP⁽¹⁾s. William Hill executes approximately 250 million betting transactions (excluding AWP⁽¹⁾s) per year in its LBOs, with an average transaction size of £5.82 in the 39 weeks ended 29 September 1998. Virtually all betting transactions in William Hill's LBOs are settled in cash.

William Hill's LBOs are distributed throughout Great Britain, although a number of regional concentrations have arisen as a result of the historic growth of the Group by acquisitions of smaller local chains of bookmakers.

The following table sets out certain information about William Hill's LBOs:

	LBOs ⁽¹⁾		Turnover ⁽²⁾⁽³⁾	
	No.	%	(£ million)	%
London and South East	693	46	540.0	49
North	366	24	247.6	23
Midlands and West	251	17	170.2	15
Scotland	197	13	147.4	13
Total	1,507	100	1,105.2	100

(1) As at 29 September 1998.

(2) For the 39 weeks ended 29 September 1998.

(3) Excluding AWP's.

William Hill has adopted the strategy of enhancing the LBO estate by resiting, extending and refurbishing certain LBOs and merging, closing or disposing of loss-making, marginally profitable and redundant facilities. As a result, shop fitting of around 69% of the Group's LBOs has been completed since 1990.

Due to the regulations relating to LBOs in the UK, it has historically been difficult for bookmakers to open large numbers of new LBOs. Since 1990, William Hill has opened 90 new LBOs. Prior to 1990, William Hill acquired LBOs from smaller independent bookmakers. However, since that time, cash constraints during its ownership by Brent Walker prevented William Hill from making significant acquisitions of LBOs. The average numbers of the Group's LBOs in 1995, 1996 and 1997 were 1,580, 1,546 and 1,520 respectively.

Turnover and gross win attributable to LBOs increased from £1,343.7 million in 1995 to £1,403.0 million (including AWP's) in 1997 and from £316.7 million in 1995 to £353.4 million (including AWP's) in 1997, respectively.

William Hill's LBOs are linked to its main operational headquarters in Leeds via a number of telephone and satellite links. These links are critical to William Hill's operations and its risk management as they provide the LBOs with the latest information on betting odds and allow statistical and other information (such as risk management information) to be passed between the LBO managers and William Hill's main operational headquarters. The Group operates a backup site to maintain service to customers in the event of failure of the primary facility.

The Group's LBOs also have the benefit of a satellite broadcasting service provided by SIS which was co-founded and is owned jointly by William Hill and other entities, including Ladbroke. The service transmits real-time, pre-event information and results, as well as live coverage of horse racing, greyhound racing and certain numbers draws, by satellite to each LBO. William Hill augments the SIS service by overlaying its own promotional audio material and tailored text services. Further details concerning SIS are set out in "Introduction, The Group's business" above and in "Information systems" below.

William Hill has installed AWP's in virtually all of its LBOs. There are currently approximately 2,775 AWP's in the Group's LBOs, which are leased from third parties. Each machine has a short life span in any one location (typically 13 weeks, subject to its performance) as a result of customers' declining interest in that particular machine and, accordingly, machines are rotated among William Hill's LBOs on a regular basis and new machines are added over time.

UK telephone betting

UK telephone betting is the second most important product delivery channel for William Hill, generating approximately 3.8 million telephone betting transactions in the 39 weeks ended 29 September 1998. William Hill is the market leader in UK telephone betting services and has led the market in innovations in telephone betting, having introduced freephone betting and debit card betting to the UK bookmaking industry.

William Hill's UK telephone betting services allow customers to place bets with the Group without visiting its LBOs, via freephone telephone lines. Telephone betting is a non-cash operation, utilising customer credit

accounts, debit card facilities and deposit facilities. In the 39 weeks ended 29 September 1998, UK telephone betting accounted for 17% of William Hill's total turnover and 11% of William Hill's gross win. The Company expects the Group's UK telephone betting operations to continue to provide opportunities for growth in the future.

William Hill's UK telephone betting operations are divided into a number of categories, distinguished by the method of payment for the bet. The categories, based on the method of payment, are credit betting, debit card betting and deposit betting. In addition, index betting is conducted through William Hill's telephone facilities. The following table shows the turnover generated by each of these categories:

	52 weeks ended 26 December 1995		53 weeks ended 31 December 1996		52 weeks ended 30 December 1997		39 weeks ended 30 September 1997		39 weeks ended 29 September 1998	
	(£ million)	%	(£ million)	%	(£ million)	%	(£ million)	%	(£ million)	%
UK telephone betting – turnover										
Credit betting	107.9	61	103.4	50	100.7	43	79.2	44	86.8	38
Debit card betting	62.8	36	77.4	38	103.1	44	76.6	43	108.6	47
Deposit betting	5.2	3	5.9	3	6.9	3	5.0	3	9.8	4
Index betting	1.3	—	17.7	9	24.6	10	17.0	10	24.6	11
Total	177.2	100	204.4	100	235.3	100	177.8	100	229.8	100

Note: Investors should not rely solely on the summary information contained in the table above but should read it in conjunction with the financial information in Part 3.

William Hill's UK telephone betting calls (other than index betting calls) are routed to the Group's telephone betting facilities in Leeds. In each case, calls are taken and bets recorded on William Hill's telephone and computer systems. William Hill uses the "Advanced Linkline" service from British Telecom to route incoming calls to the Leeds facility. Calls are free to the customer. The centre can handle more than 300 simultaneous calls and has a queuing capacity for a further 400 calls. Another British Telecom service, FeatureNet ACD, is employed to prioritise and distribute calls to available operators to minimise waiting times and maximise the number of calls handled. William Hill's telephone betting operations are highly dependent on the Group's information systems. Further details are set out in "Information systems" below. Index betting calls are routed to the Group's index betting operation in London.

Credit betting. Credit betting customers must fulfil William Hill's stringent creditworthiness standards. For each such customer, William Hill opens a telephone credit account from which the customer places bets and into which winnings may be paid. Statements of account are sent to customers on a fortnightly basis for settlement by return.

Credit betting divides into three categories of customer:

- low or medium stake customers who place bets via the Group's "Action Line" telephone facility and represent the majority of William Hill's credit betting customers;
- higher stake customers (known as "Golden Spurs" customers) representing the second largest category of telephone credit betting customer; and
- other bookmakers who use William Hill's telephone credit betting facilities to "lay-off" risk or hedge their own positions (see "Risk management, Hedging" below).

William Hill currently has approximately 31,000 active telephone credit betting customers. In the 39 weeks ended 29 September 1998, telephone credit betting produced total turnover for William Hill of £86.8 million. Since January 1996, the annual charge for credit betting bad debt has averaged 0.4% of credit betting turnover. Details of the Group's risk management techniques are set out in "Risk management" below.

Debit card betting. Debit card betting was set up by the Group in April 1991 to allow UK customers to place bets via bank cards that debit funds from customers' bank accounts. Funds are debited from customers' bank accounts and credited to William Hill's bank account. Customers' winnings are deducted from William Hill's bank account and credited to customers' bank accounts through the normal bank clearing system. William Hill was the first major UK bookmaker to introduce telephone bookmaking for debit card holders and believes it has been the UK market leader in this type of telephone betting since then. The Group currently has approximately

107,000 active telephone debit card betting customers. In the 39 weeks ended 29 September 1998, telephone debit card betting produced total turnover for William Hill of £108.6 million.

Deposit betting. William Hill provides a service for its UK customers to place bets from funds placed on deposit with William Hill, either via cash or a cheque paid in at an LBO or over the telephone via a debit card. William Hill markets its domestic telephone deposit betting business under the name "Phonabet". William Hill currently has approximately 2,800 active UK telephone deposit betting customers. In the 39 weeks ended 29 September 1998, UK telephone deposit betting produced total turnover for William Hill of £9.8 million.

Index betting. William Hill offers index betting via its telephone betting facility in London, permitting UK customers to make use of the Group's credit account, debit card and deposit betting facilities. William Hill's index betting operations currently have approximately 5,800 registered account holders. Further details of index betting are set out in "Products, Index betting" below. In the 39 weeks ended 29 September 1998, William Hill's index betting service produced a total turnover for William Hill of £24.6 million.

International telephone betting

William Hill provides a service for its non-UK customers to place bets from funds placed on deposit with the Group either by bank transfer, cheque or credit card. In May 1998, the Group's existing telephone betting business for non-UK customers, which was based in London, was closed and a centre in the Isle of Man was opened. Non-UK customers are able to place bets free of betting duty with the Isle of Man centre. William Hill employs multilingual staff to take calls from international callers for 18 hours a day to cater for various time zones.

Internet betting

William Hill first established an internet presence in June 1996 to provide sports betting prices. In advance of the 1998 World Cup, an interactive site based in the Isle of Man, offering bets free of betting duty for non-UK resident customers, was developed and launched in May 1998. Customers are, at present, able to bet on an interactive basis after depositing a minimum of £200. The Company was encouraged by the results during the 1998 World Cup and believes that the internet will bring a new dimension to the Group's business through the globalisation of the William Hill brand name and by attracting more non-UK customers to its services. William Hill aims to extend the different types of international event on which customers can bet and to provide a multilingual, on-line credit card betting facility enabling customers to place "real-time" bets in their preferred international currencies.

Certain implications of the Group's proposed expansion of its internet betting business are set out in "Cross-border gambling" in Part 6.

On-course betting

William Hill operates betting facilities at 51 of the 59 racecourses in the UK. Risk management procedures operate in relation to the other eight courses, either through William Hill's staff or other major bookmakers. Although small in terms of total gross win generation, on-course betting is an important part of William Hill's activities insofar as it: (a) allows William Hill to provide a "seamless" service to existing customers by allowing them to place bets with William Hill while visiting racecourses; (b) allows the Group to gather race information, which helps it to manage risk more effectively; (c) allows William Hill to hedge its positions and "lay-off" certain of its bets with other bookmakers; and (d) helps maintain William Hill's high profile in the racing industry. Bets made on-course are not subject to betting duty or horse racing levy.

PRODUCTS

William Hill's principal product consists of bets placed on sporting and other events. Bets on horse racing, greyhound racing and soccer are the most popular traditional bets. In addition to such traditional betting, William Hill provides numbers betting products, index betting products and operates AWP's.

The following table sets out an analysis of William Hill's turnover by different products for the periods indicated:

	52 weeks ended 26 December 1995		53 weeks ended 31 December 1996		52 weeks ended 30 December 1997		39 weeks ended 30 September 1997		39 weeks ended 29 September 1998	
	(£ million)	%	(£ million)	%	(£ million)	%	(£ million)	%	(£ million)	%
Breakdown of turnover by product										
Horse racing	1,145.2	74	1,185.0	72	1,170.8	70	896.6	70	958.7	69
Greyhound racing	293.6	19	293.2	18	279.4	17	220.1	17	229.4	16
Soccer	64.6	4	82.6	5	73.6	4	51.2	4	100.2 ⁽¹⁾	7
Other traditional betting	45.8	3	40.1	2	50.4	3	45.8	3	25.4	2
Total traditional betting	1,549.2	100	1,600.9	97	1,574.2	94	1,213.7	94	1,313.7	94
Numbers betting	0.2	0	18.8	1	52.4	3	41.3	3	38.6	3
AWPs	—	—	8.8	1	19.8	1	15.1	1	17.4	1
Index betting	1.3	0	17.7	1	24.7	2	17.0	2	24.6	2
Other	0.6	0	1.3	0	1.6	0	1.2	0	0.3	0
Total	1,551.3	100	1,647.5	100	1,672.7	100	1,288.3	100	1,394.6	100

(1) Includes betting on 1998 World Cup.

Note: Investors should not rely solely on the summary information in the table above, but should read it in conjunction with the financial information in Part 3. The breakdown of turnover within traditional betting products is derived from management information.

The GWP of numbers betting has historically been substantially higher than that of traditional betting, where betting on soccer has, in turn, had a higher GWP than betting on other traditional products.

Traditional betting

William Hill offers odds and accepts traditional bets on a wide variety of sporting events. Horse racing is the most important in terms of turnover (there are 59 racecourses in the UK staging approximately 1,100 race meetings and over 7,000 races a year), followed by greyhound racing and soccer. The Group also offers odds and accepts bets on many other sporting events, including rugby, cricket, tennis, golf, grand prix racing and American football. William Hill also takes traditional bets on non-sporting events, such as the outcome of political elections, Academy Award winners and popular music chart results.

Traditional bets can be simple win or lose type bets on a single selection or can be more complex, such as when a customer makes an accumulator bet on the outcome of a number of different races.

In the 39 weeks ended 29 September 1998, traditional betting accounted for 94% of William Hill's total turnover.

Numbers betting

Numbers betting was a major innovation for the UK betting industry. It was introduced by William Hill in November 1995, largely in response to the introduction of the National Lottery by the UK government in November 1994.

The first numbers betting game introduced by William Hill was "Lucky Choice", which allows customers to bet on the outcome of the twice weekly Irish Lottery. William Hill offers fixed-odds on one to five numbers being chosen out of six or seven drawn from a total of 42. William Hill introduced "Lucky Choice" and within a few months was joined by other major UK bookmakers. William Hill currently markets "Lucky Choice" jointly with Ladbroke and Coral.

In December 1996, a second William Hill innovation, "49s", a numbers betting game that allows customers to bet on the odds of their selecting one to five numbers out of a total of six drawn from 49, was marketed in conjunction with Ladbroke, Coral and the trade associations representing the smaller bookmakers. Numbers are

drawn twice daily and are shown live at the Group's LBOs and other participating LBOs via satellite. The number of draws per day has been varied from one per day on inception in December 1996 up to a maximum of four per day on evening racing days during the summer of 1998.

A third numbers game, "Magic Numbers", was introduced by William Hill in March 1998. "Magic Numbers" is a numbers betting game involving bets on four numbers out of twenty drawn every ten minutes throughout the day and displayed on William Hill's text system in every LBO. The gross win percentage for this game tends to be lower than that of the other numbers games, but draws are more frequent. On 1 June 1998, other bookmakers introduced "Magic Numbers" into their LBOs following the payment to William Hill of a one-off fee of £200,000 for the necessary rights. "Magic Numbers" is now marketed in conjunction with Ladbroke, Coral and independent bookmakers.

Numbers betting accounted for 3% of William Hill's total turnover in the 39 weeks ended 29 September 1998.

William Hill estimates that a significant proportion of turnover from numbers betting arises from the migration of traditional betting turnover. The higher margin earned on numbers betting, however, provides profit enhancement.

Amusement with prize machines (AWPs)

In June 1996, changes were made to UK regulations allowing up to two AWP's to be installed in each LBO. AWP's are electronic slot machines into which customers insert coins to play games of chance. Since June 1996, William Hill has installed AWP's in virtually all of its LBOs. There are currently approximately 2,775 AWP's in the Group's LBOs. In the 39 weeks ended 29 September 1998, AWP's accounted for approximately 1% of William Hill's turnover and 6% of William Hill's gross win, including VAT.

AWP's are leased from third parties for periods of approximately 18 months. Each machine has a short life span in any one location (typically 13 weeks, subject to its performance) as a result of customers' declining interest in that particular machine. Accordingly, individual machines are rotated among William Hill's LBOs on a regular basis and new machines are added over time. A significant part of managing William Hill's AWP business consists of monitoring each machine's performance so as to determine the appropriate time to replace that machine and the appropriate machine with which to replace it. The optimal number of AWP's for each LBO (subject to regulatory limits) is determined by management, primarily based on the popularity of AWP's in individual LBOs.

William Hill anticipates further growth from AWP's. The current maximum prize permitted by UK regulations was increased from £10 to £15 in October 1998. In addition, management expects the recent introduction of the £2 coin in the UK to have a positive effect on gross win derived from AWP's once it achieves wide circulation.

William Hill intends to lobby the UK government for changes that would allow more AWP's per LBO and allow new machines with a maximum prize higher than the £15 payout currently permitted, although these changes are not expected in the short term.

Index betting

Index betting (also known as spread betting) is a type of betting where customers can place more complex bets on, for example, an individual's or team's performance in a sporting or other event. Bets are placed through the Group's telephone betting facilities in London.

Mainly to complement its traditional product range, William Hill offers index betting on a variety of sporting events, including horse racing, soccer, rugby, cricket, tennis, golf, grand prix racing and American football, as well as on other events, such as political elections. Index bets taken by William Hill are regulated by the SFA because index betting is deemed to be a "contract for differences". Further details are set out in "Regulation, SFA" below.

CUSTOMER BASE

Of William Hill's LBO customers, 91% are male, around one quarter are from socio-economic groups A, B and C1 and around three quarters are relatively evenly drawn from groups C2, D and E. Socio-economic groups A, B and C1 comprise people who are classified as upper middle class, middle class or lower middle class,

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respectively. Socio-economic groups C2, D and E comprise people who are classified as skilled working class, unskilled working class or persons at a lower level of subsistence, respectively.

In contrast to the national average, users of William Hill's LBOs are most likely to be aged between 35-64 as shown below:

Age %	18-24	25-34	35-44	45-54	55-64	65+
National average	11	21	18	17	13	21
LBO customer	8	18	21	19	16	17

Source: Customer profiling research project dated August 1997 conducted for William Hill by Quaeator.

William Hill believes that its more recently introduced betting products (in particular, numbers betting) appeal to a wider customer base, in particular women, than its traditional products. Soccer betting and AWP's tend to attract younger male players.

Customers of William Hill's telephone betting operations, while still mostly male, are typically more affluent than LBO customers. The age profile differs between credit betting customers, on average older, and debit card betting customers, on average younger, than LBO customers.

MARKETING

Although the UK bookmaking industry continues to be highly regulated, the regulatory regime under which it operates has been relaxed in recent years such that the advertising and marketing of bookmaking activities is less strictly regulated now than at any time since the enactment of the Betting Act in 1963. This has largely been due to the lobbying by the bookmaking industry of the UK government. In particular, the restriction on the advertisement of LBO facilities and locations was removed in April 1997, although direct advertisements concerning LBOs and telephone betting services via radio or television remain prohibited.

William Hill runs an active marketing programme, via non-restricted media, promoting its LBOs and telephone betting service, in particular by:

- advertisements placed in the Racing Post almost every day;
- frequent advertisements in a variety of UK national newspapers;
- incorporating selling messages in LBO window displays;
- presenting odds and results on traditional bets daily on television's "Teletext on 4" text service and, on an equivalent service on satellite television, Sky "Sportstext";
- advertising space on hoardings at race meetings, often at the last fence and the finish line to maximise television exposure; and
- public relations initiatives which give the Group television and radio coverage.

A variety of other marketing initiatives for telephone betting, such as free bets and other incentive offers, are run periodically and advertised in the national press and other publications. Further details are set out in "Business strategy, Continuing to attract new customers" above.

The Directors believe that the Group's extensive advertising programme has been an important element in differentiating William Hill from competing UK telephone betting services and thereby maintaining William Hill's leading position in this market.

COMPETITION

William Hill faces competition from other UK bookmakers in the business areas in which it operates and from the National Lottery. Significant competitive factors among participants in the UK bookmaking business include, among other things, the location of their LBOs, the total number of LBOs in their portfolios, the fixed odds offered and the quality of service and facilities provided at LBOs and through their other product delivery channels.

In view of the regulatory environment, a key factor in determining the success of a bookmaker's business is the quality and location of that bookmaker's LBOs. Despite recent deregulation, many restrictions still apply to the establishment and operation of LBOs and William Hill is unlikely to be able to expand the number of LBOs which it operates significantly except through acquisitions of smaller bookmaking chains.

The table below shows the Group's major competitors and their respective numbers of LBOs and market shares by turnover as at 30 December 1997:

	No. of LBOs	% of total	Market share by 1997 turnover		
			LBOs %	Telephone %	Total %
Ladbroke	1,904	21.7	26	26	26
William Hill	1,515	17.2	22	42	24
Coral	833	9.5	12	10	12
Stanley	475	5.3	6	2	5
Tote	214	2.5	2	13	3
	<u>4,941</u>	<u>56.2</u>	<u>68</u>	<u>93</u>	<u>70</u>

Source: MMC Report.

In the MMC Report, the MMC estimated that, at the end of 1997, there were a total of 8,620 LBOs in operation in the UK. The LBOs held by UK bookmakers outside the top five at the end of 1997 are highly fragmented and are characterised by a large number of small operators. There has been significant industry consolidation as smaller independent bookmakers, unable to match the technology and breadth of service offered by the major bookmakers and/or adversely affected by the National Lottery (see below), have either sold their operations to the major bookmakers or closed. This consolidation reduced the number of betting office licences existing in the UK from over 9,850 in 1993 to approximately 8,980 at the end of 1997.

William Hill's only LBO competitors at a national level are Ladbroke and Coral. On 31 December 1997, Ladbroke entered into an unconditional agreement with Bass PLC to acquire Coral. However, on 23 September 1998, an announcement was made that the Secretary of State for Trade and Industry had blocked the proposed merger of Ladbroke and Coral and ordered Ladbroke to sell all of its interests in Coral within six months. The sale of Coral to Morgan Grenfell Private Equity was recently announced by Ladbroke.

Over the past six years, William Hill estimates that its LBO market share in terms of turnover has remained relatively constant at a level of approximately 22%.

William Hill's principal competitors in the UK telephone betting market are Ladbroke and the Tote. William Hill had 42% of the telephone betting market in the UK in 1997 with Ladbroke, its nearest rival, at 26% and the Tote at 13%.

The National Lottery

The establishment in the UK of the government sponsored National Lottery in 1994 has been a major factor behind consolidation in the bookmaking industry. The National Lottery has generally heightened the public profile of the gambling industry and has led to an increase in the annual aggregate gross win in the industry from approximately £4 billion in the 12 months ended 31 March 1994 to £7 billion in the 12 months ended 31 March 1997 (the most recent year for which data is available). The National Lottery has grown substantially, such that in the year ended 31 December 1997, turnover for the National Lottery was £5.4 billion.

However, the National Lottery also had a negative impact on other established forms of gambling, particularly in the year following its introduction, which has led to a number of smaller bookmakers closing. Independent research conducted by the Henley Centre, an economic research organisation, has estimated the gross negative impact of the National Lottery on the off-course bookmaking industry in 1995 to be approximately 9% in terms of turnover and approximately 32% in terms of profitability.

The introduction of the National Lottery was followed by a relaxation in the UK government's position with respect to the gambling industry. In this environment, successful government lobbying and the introduction of new betting products has reduced the effect of the National Lottery on the Group's performance in 1996, 1997 and 1998. This was as a result of, in particular:

- the introduction of AWP's in LBOs in 1996 (followed by an increase in the maximum payout in 1998);
- the introduction of William Hill's numbers products, "Lucky Choice", "49s" and "Magic Numbers", which appeal to a similar audience as the products offered by the National Lottery;
- a 1.0% reduction in betting duty in 1996 from 7.75% to 6.75% of total off-course turnover; and
- the relaxation of advertising restrictions in 1997.

UK REGULATION

Off-course betting was legalised in the United Kingdom in the early 1960s and is now a mature and highly-regulated industry with estimated total turnover of £6.7 billion in the year ended 31 March 1997. The market is regulated principally by the Betting Act to which, since its enactment in 1963, there have been a number of amendments. In addition, new rules have been adopted to regulate AWP's.

Requirements of the Betting Act

Pursuant to the Betting Act, bookmakers must apply for and obtain a bookmaking permit from the appropriate authority. Thereafter, permits must be renewed every three years. Permits are granted to persons found by the authorities to be "fit and proper." In addition to a bookmaker's permit, a person who wishes to operate an LBO must apply for and obtain a licence from the relevant local government authority for each LBO he operates.

Due to recent regulatory changes, LBO licences, like bookmakers' permits, must be renewed on 31 May 2000 and every three years thereafter. Local magistrates have discretion in determining whether to grant or renew LBO licences. They may refuse a licence on grounds that: (a) the premises to be used by the bookmaker are of an unsuitable layout, character, condition or location; (b) there is insufficient demand in the locality for additional betting facilities; or (c) the bookmaker's business has not been properly conducted in the past. An application for a new LBO licence is likely to result in objections from existing bookmakers in the area on grounds of insufficient demand. In practice, whilst new licences are difficult to obtain, magistrates do not refuse renewals of licences for well run LBOs.

Advertising and promotion

In the past, the Betting Act and associated regulations severely restricted the advertising of LBOs. In particular, the names and locations of, and the services offered by, LBOs were banned from television, radio and print media. Since April 1997, such information may appear in advertisements in print media. William Hill and other UK bookmakers who provide telephone betting services have typically advertised these services quite heavily in the UK sporting and national press and continue to do so.

The Directors believe that advertising William Hill's telephone betting services has enhanced the William Hill brand name generally and has, to a considerable extent, enhanced the visibility of its LBOs.

Betting duty, horse racing levy and dog racing levy

Pursuant to the Duties Act, William Hill is required to remit to the UK government 6.75% of the Group's domestic turnover in respect of off-course bets. William Hill expects the Group and the industry to continue to lobby the UK government to seek a reduction in this level of betting duty.

In addition, William Hill is required to remit to the Horse Race Betting Levy Board a levy (currently 1.42% of the Group's LBO turnover, 1.15% of the Group's telephone betting turnover and a nominal one-off fee of £120 per annum in respect of the Group's on-course turnover, in each case, attributable to horse racing) primarily for purposes of augmenting the prize money available for winning horses and improving certain racetrack amenities.

William Hill also pays to the British Greyhound Racing Fund a dog racing levy of 0.4% on all its off-course turnover attributable to dog racing, the payment of which is voluntary and for the purpose of supporting the dog racing industry.

SFA

Index bets placed with William Hill are regulated by the SFA, since index betting is deemed to be a "contract for differences". The Group conducts its index betting operations through its subsidiary, WHIL. As a result of being regulated by the SFA, William Hill and WHIL are subject to certain reporting, staffing and record keeping

requirements in respect of all index betting transactions. In particular, WHIL's directors must meet certain SFA criteria, and certain management personnel are SFA approved and qualified. Client funds must be segregated and proper records must be kept of client accounts and all index betting transactions.

Recent deregulation

As mentioned above, many of the restrictions on the LBOs' business have been relaxed including, for example, to permit the introduction of AWP's in LBOs in 1996 (followed by an increase in 1998 in the maximum prize). One reason for the easing of these restrictions has been the change in the UK government's position with respect to the gambling industry following the introduction of the National Lottery in 1994.

In addition to the issues discussed above, William Hill and other UK bookmakers have successfully lobbied the UK government for a number of amendments to the Betting Act including, for example, extending opening hours during summer months (introduced in 1993) and removing restrictions on the visibility from the street of the interiors of bookmakers' operations (in 1995).

The Group does not intend to seek amendments to the current licensing system (which it believes is necessary for proper control of gambling operations), but does intend, along with other UK bookmakers, to continue to lobby the UK government for a further easing of certain current legislative restrictions. Lobbying of the UK government will continue to seek more AWP's per LBO and the Group intends to seek permission to take bets on the outcome of the National Lottery, although the Directors doubt that these goals will be achieved in the foreseeable future. William Hill also intends to seek permission to introduce AWP's with a maximum prize higher than the £15 currently permitted. The Directors are hopeful that this may be achieved in the medium term.

RISK MANAGEMENT

William Hill utilises established risk management procedures and engages in certain hedging transactions to limit its exposure with respect to horse and greyhound racing. This is discussed further in "Risks associated with the UK gambling industry" in Part 6.

The majority (approximately 86-90%) of LBO turnover is generated from bets where the prices are not established by William Hill but are derived from the on-course betting markets. The risk from accepting potentially losing bets is significantly reduced because of the averaging impact from taking a very large number of individual bets over a very large number of events and is also tightly controlled through a four-stage risk management process which relies on: (a) access to up-to-date information; (b) stringent bet acceptance limits; (c) effective hedging; and (d) expert odds compilation. The averaging impact takes effect on all the bets that are placed through William Hill annually, being approximately 250 million LBO bets (at an average stake of £5.82 in the 39 weeks ended 29 September 1998) and approximately 4.8 million telephone bets (at an average stake of approximately £45 (excluding "Golden Spurs" customers) in the 39 weeks ended 29 September 1998) on more than 10,000 events.

Up-to-date information

Access to market information before a race or other event is critical. William Hill relies on information from the following sources:

Industry knowledge. Knowledge of odds compilers and management of both the industry and of individual events and selections.

Outside sources. Odds compilers and management rely on a variety of outside sources including consultants, newspapers, sporting publications and other media comments to obtain relevant information about individual events and selections.

Warm sources. Betting patterns of customers known to have access to information about individual horses or another subject of betting ("warm sources"). Significant bets placed through the telephone betting department from warm sources are monitored by management. This information may help in the assessment of a selection's true chances.

Overall telephone betting pattern. Telephone betting information recorded on computerised systems is summarised as a field book which identifies how much has been staked on each selection, total stakes and the potential liability for each selection. This indicates the weight of money on each selection in both the credit and debit departments.

Betting from sample LBOs. A total of 40 typical LBOs record all significant bets on horse racing on computerised systems in the same way as in the telephone betting operation. This information, designed to be representative of the entire LBO estate, is summarised in a separate field book in William Hill's betting control centre in Leeds and represents the betting patterns in the LBOs operating the sampling system. Extrapolation of this sample indicates both the weight of betting in the LBO estate and the overall potential liability on each selection.

LBO referrals and notifications. Bets which exceed LBO limits, which are from warm sources, which are from unusual or unidentified sources or which are of a type notified by LBO managers as being of interest to risk management are telephoned to William Hill's betting control centre in Leeds and entered on computerised systems to be included in the LBO fieldbook. A referred bet requires authorisation before acceptance. A notification is for information purposes after a bet has been accepted.

Monitoring of individual selections. In horse racing, the ten most backed runners in the morning prior to commencement of racing are identified for risk management from both LBO sampling and telephone betting.

On-course information. Telephone lines are open to William Hill's racecourse representatives ten minutes before a race is due to commence. The representative provides information on the on-course market, market movement and strengths of the market.

The above information enables management to reassess each selection based on a wide range of information, to assess potential exposure on each selection and to determine whether bet acceptances should be authorised.

Bet acceptance limits

William Hill is under no obligation to accept any bet. When a bet is considered undesirable by management, it may be refused or offered in part or with reduced odds. For different types of bets William Hill sets limits for LBOs on stake value and potential liability at which bets must be "notified" (that is, reported after acceptance) or "referred". Referred bets are accepted only after approval from William Hill's central betting control department. In practice, the proportion of bets refused is extremely small.

Hedging

The purpose of hedging or "laying-off" is to reduce potential liabilities by affecting the starting price of a selection. The majority (approximately 68%) of LBO horse racing turnover is generated from bets placed at the starting price. Bets placed on-course will shorten the odds of a selection and hence reduce William Hill's potential liabilities, but may extend the odds on other horses in the race. The decision to lay-off is dependent on a number of factors:

Size of potential liability. A total liability on an individual horse in excess of £100,000 will normally be considered for laying-off, although smaller amounts may also be considered. In addition, betting information from sample LBOs will also be assessed in circumstances where the potential liability on a single selection exceeds total stakes on the race by 100% or more.

Number of "losers" in a race. The number of "losers" is the number of horses running that would cause a loss for the race as a whole to the bookmaker if that horse won. It is not uncommon to have three or four "losers" in a race, especially where the total number of runners is high. To hedge on one horse would only lengthen the odds on the others, increasing their potential liability.

Management's assessment. Management's own assessment of the chances of a selection winning, taking into account information from all available sources, can affect marginal decisions to hedge.

Ability to influence odds. It is normally much easier to shorten high odds (such as 20-1) than low odds (such as 5-4).

Cost of hedging. At small horse race meetings, a hedging bet of as little as several hundred pounds may be sufficient to affect odds significantly. At large race meetings a hedging bet of even several thousand pounds may have little impact.

William Hill also hedges on greyhound racing although to a much lesser extent.

All the major UK bookmakers engage in hedging. More often than not, the major bookmakers have similar risk profiles and, accordingly, benefit from the hedging policies of each other. Using the above factors, William Hill annually hedges about £2 million to £3 million, or 0.1% to 0.2% of the Group's turnover in 1997.

William Hill does not hedge in some betting areas, including numbers, index, football and certain sporting and other events. In such areas, risk management primarily comprises careful compilation and, where possible, management of odds and acceptance or non-acceptance of bets.

Expert odds compilation

William Hill employs ten odds compilers based in Leeds. At least two opinions are sought on all events before odds are issued. Management considers William Hill's team of compilers to be of a very high standard. The majority (approximately 86-90%) of LBO turnover is generated from bets placed at prices which are not established by William Hill.

Applying the above techniques, William Hill and its management have shown their ability to manage the business with regard to the inherent characteristics of the business and maintain tight risk control which, subject to real changes such as product mix, has contributed to stable earnings, as measured by GWP. However, exceptional adverse results cannot be entirely eliminated.

INFORMATION SYSTEMS

William Hill operates a number of highly advanced information and communication systems in order to support its business. The principal systems operated by William Hill are:

LBO text and audio systems

The Group operates LBO text and audio systems, which provide information by satellite links to each LBO. William Hill's latest odds, prices from the race tracks and results as they occur are constantly displayed on the LBOs' multi-screen information display systems and broadcast over audio by William Hill's own commentators. Due to the importance of these systems to William Hill's business, they are backed up by a telephone service from British Telecom that allows any LBO to obtain text, audio or both in the event of a fault occurring in William Hill's satellite receiving equipment. In the event of a complete failure of the primary system, the back-up system capacity is sufficient to support all LBOs.

Satellite broadcasting services

In 1986, after relaxation of regulations permitted the broadcasting of live television in LBOs and as a reaction against the then monopoly information supplier, the major bookmakers in the UK formed SIS to provide satellite television, racing commentaries and audio and text information to the UK bookmaking industry. Satellite links provide LBO customers with real-time, pre-event information and results as well as live television broadcasts of horse and greyhound races and certain numbers draws. The system is fundamental to the overall service offered to customers at LBOs. SIS obtains its live television feed of horse races under a licence with the Racecourse Association Limited ("RCA") which is due to expire in 2002. RCA has indicated that it will wish to renegotiate the terms and conditions of the licence at, or prior to, that time. Management believes that, in view of RCA's obligations as a monopoly supplier of live broadcasts from its members' racecourses, William Hill will continue to receive a supply of television pictures to its LBOs.

Telephone betting systems

William Hill operates a telephone betting system, which is comprised of call handling, bet capture and bet settling systems. Call handling is provided by British Telecom in the form of the FeatureNet managed service, which allows calls to be routed and prioritised according to customer profile. Bet capture is performed on a Stratus fault-tolerant computer. Customer accounting is performed on a Hewlett-Packard 9000 Unix machine. The systems have direct links to National Westminster Bank for the authorisation of debit card transactions and the payment of winnings.

Risk management system

William Hill's risk management system provides real-time information on the Group's liabilities on a race-by-race basis. All bets taken over the telephone, together with the majority of those from 40 representative LBOs and referrals and notifications from all LBOs, are consolidated and summarised on a series of displays, which are used to decide whether to hedge in the on-course market.

Text information system

William Hill supplies text information to commercial broadcasters by land-line links. The information provided comprises William Hill's own odds on future events, live odds on horse and greyhound races as well as recent results.

EPOS

William Hill is currently investigating the possible installation of electronic, automated bet capture facilities in its LBOs. Such facilities would permit the immediate storage in electronic form of customers' handwritten bets, together with details of total stakes. The customer would receive a receipt comprising an image of the handwritten bet and a bar code used to identify the bet. Information entered into the system would be stored at the relevant LBO and, when the event to which the bet relates has taken place, the result would be fed automatically to the LBO's system from the Group's central site to enable the bet to be settled automatically. Currently, all bets are settled manually at LBOs. When a customer presents a winning receipt to a cashier, the bar code would be scanned to identify the winning amount.

Management is hopeful that the system will be demonstrated to provide improvements in operational efficiency, for example, by reducing the need for staff dedicated to bet settlement, by removing the element of human error (and its associated costs), by automating the existing security procedures and by improving management information.

An electronic point of sale system would be the biggest systems project ever undertaken by the Group, expenditure on which is currently estimated at approximately £20 million. The Directors believe that such a system would have a beneficial impact on operating costs and, to a small degree, on the LBOs' gross win percentage.

The Group is in the process of producing a system specification. The Directors estimate that this process will be completed in around May 1999, after which system development followed by testing will take place during the remainder of 1999. Implementation of the system could begin in 2000. However, the Group has the discretion to cancel the project at the end of any phase of development or testing and will continue to monitor the feasibility of the project and to assess the anticipated benefits, as against likely costs, from its full implementation.

YEAR 2000 COMPLIANCE

The Group, like most other companies, is faced with the Year 2000 issue, which is the result of computer programmes and microchip processors being designed with two digits rather than four to define the applicable year. This could result in miscalculations or a system failure on 1 January 2000, which, in turn, could disrupt a company's operations or render it unable to process its business transactions.

In 1996, the Group began implementing procedures to ensure that its equipment and software is Year 2000 compliant. At that time, board level responsibility for Group wide compliance was assigned to the Information Services Director. Additionally, a senior manager (the "Year 2000 Co-ordinator") was appointed to co-ordinate departmental efforts and liaise with the Group's key suppliers regarding their state of readiness.

Assessment and testing of the Group's IT and non-IT systems and implementation of modified systems and software is well advanced, with the majority having already achieved Year 2000 compliance. All of this work has been carried out "in house". Work has also been done to assess the readiness of the Group's suppliers. Assurances have been received from suppliers of goods and services which are critical to the Group's operations and which would be difficult to replace. From these assurances, each such supplier appears to be making the necessary preparations for the Year 2000.

The Directors do not expect the cost of implementing the Group's Year 2000 compliance programme to be material.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

The Board comprises two executive Directors and four non-executive Directors. Their names, ages and functions are as follows:

Name	Age	Function within the Group
Ian Martin	63	Non-Executive Chairman
John Brown	56	Chief Executive Officer
Robert Lambert	57	Group Finance Director and Deputy Chief Executive
Michael Blackburn	68	Non-Executive Director
Keith Hamill	46	Non-Executive Director
Charles Scott	49	Non-Executive Director

Directors

Ian Martin was appointed Non-Executive Chairman of the Group in January 1999. He is also non-executive Chairman of Unigate PLC, Newmond PLC and Erycinus plc. He qualified as a chartered accountant and subsequently became Chief Executive Officer of the Grand Metropolitan subsidiary Pillsbury Company and Chairman of Burger King world-wide from 1989 to 1992 and Group Managing Director and, finally, Deputy Chairman of Grand Metropolitan PLC from 1991 to 1993. In 1994 Mr Martin founded Glenisla Group, a European arm of the US venture capital house KKR. He was Chairman and Chief Executive Officer until 1997. He is also a non-executive director of House of Fraser PLC.

John Brown has been Managing Director of William Hill since December 1989 and is now Chief Executive. He is responsible for the overall strategy of the Group and William Hill's various departmental directors report directly to him. Mr Brown joined William Hill in 1959, starting as an office junior and working his way up through different parts of the business over the following 26 years, and was appointed Assistant Managing Director of WHO in 1985. Following a short departure from William Hill in January 1989, when he set up a consulting firm with Robert Lambert, he rejoined the Group in December 1989. Mr Brown is a high profile figure in the UK bookmaking and racing industries. He has been the leading figure in the development of numbers betting, chairs the Sports and Spread Betting Association and has become a significant figure in the political and financial debates affecting the industry. Mr Brown has also been a director of SIS since July 1991.

Robert Lambert has been Deputy Managing Director of William Hill since December 1989 and was Group Financial Director from the same date until December 1997. He is now Group Finance Director and Deputy Chief Executive. His responsibilities cover finance, financial and strategic planning, security and internal audit. He trained as an accountant with Price Waterhouse and joined Sears Plc as Chief Accountant of one of its subsidiary companies in 1967. Mr Lambert held the position of Financial Director of various Sears subsidiaries including William Hill (appointed in 1983). He left William Hill in January 1989 and set up a consulting firm with John Brown, but returned to the Group in December 1989.

Michael Blackburn was appointed a Non-Executive Director in January 1999. He is a chartered accountant and was the Managing Partner of Touche Ross & Co from 1984 to 1990 and Chairman from 1990 to 1992. He served on the board of Blueslate Limited (formerly The William Hill Group Limited) as a non-executive director from 1992 until December 1997, when the sale of the Group to Nomura was completed. Following his retirement from Touche Ross in 1992, Mr Blackburn has been a non-executive director of several companies including Chubb Security Limited and Steel Burrill Jones Group PLC.

Keith Hamill was appointed a Non-Executive Director in January 1999. He is currently finance director of WH Smith Group which he joined in 1996. He trained as a chartered accountant with Price Waterhouse, becoming a partner in 1987. Mr Hamill joined Guinness plc as Director of Financial Control in 1988 and became finance director of United Distillers in 1991. In 1993 he became finance director of Forte plc. He is also the Treasurer of Nottingham University and a member of the CBI Companies Committee. Between 1992 and 1998, Mr Hamill was a member of the Urgent Issues Task Force of the Accounting Standards Board.

Charles Scott was appointed a Non-Executive Director in January 1999. He qualified as a chartered accountant with Binder Hamlyn. Mr Scott joined IMS International Inc. in 1978, becoming Finance Director in 1986. In 1990 he joined Saatchi and Saatchi plc as Finance Director and later became Chief Executive and then Chairman. He is currently Chairman of Cordiant Communications Group and is a non-executive director of a number of companies, including adidas salomon ag and TBI plc.

Senior management

The day to day management of William Hill is conducted by the following executive officers. All of them are directors of WHO and some of them are also directors of certain other William Hill companies. The business address of all of them is Greenside House, 50 Station Road, Wood Green, London N22 7TP.

Name	Age	Function within the Group
John Brown	56	Chief Executive
Robert Lambert	57	Group Finance Director and Deputy Chief Executive
David Hart	51	Development Director
William Haygarth	44	Information Services Director
David Lowrey	50	Group Racing Director
Liam McGuigan	54	Operations Director
David Steele	36	Property Director
Shailen Wasani	38	Financial Director

David Hart was appointed Development Director in 1990. He is responsible for the development of William Hill's LBO estate and all licence and permit related matters. Mr Hart has worked in the bookmaking industry for 33 years including 17 years with Ladbroke prior to joining William Hill in his current role.

William Haygarth has been Information Services Director of William Hill since June 1990. His responsibilities include the development and maintenance of communications, computer equipment and software and the installation and maintenance of equipment in the LBOs. Since March 1998, Mr Haygarth has taken on overall responsibility for William Hill's AWP business. He is also responsible for implementing the Group's policy on Year 2000 compliance. Mr Haygarth has previously worked as a management consultant and a systems manager for other organisations.

David Lowrey has been Group Racing Director of William Hill since 1992. He has overall control of UK telephone betting, the sports information department, racecourse representatives, betting control, index betting, international telephone and internet betting. Mr Lowrey has over 35 years experience in the industry. He joined WHO in 1967 and has held various positions within William Hill including Regional Credit Co-ordinator and General Manager of Credit. He was appointed Director of Credit of William Hill in 1984.

Liam McGuigan was appointed Operations Director in 1992. He is responsible for the operations of William Hill's LBOs. Mr McGuigan has worked in the bookmaking business since 1959. He joined William Hill in 1978 after ten years' experience at Ladbroke. Within William Hill he has previously held the position of Regional Director and General Manager in Scotland.

David Steele is a Chartered Surveyor. Having joined William Hill as Estates Controller from Ladbroke in May 1990, Mr Steele was appointed Property Director in July 1997. He is responsible for all surveying and shopfitting, property renovation, lease renewals, rent reviews, disposals, letting regulations and other property related matters. He has previously worked for Louis Taylors as a General Practice Surveyor and as a Valuation Surveyor with the London Borough of Hackney.

Shailen Wasani joined William Hill as Group Financial Accountant in 1990 and was appointed Financial Controller in 1992 and Financial Director in July 1997. Mr Wasani is responsible for the whole of the finance function for WHO and reports to Robert Lambert, Group Finance Director. Prior to joining William Hill he worked for Leigh Carr (Chartered Accountants) as Audit/Investigations Manager and before that as Audit Manager for Ernst and Whinney.

Employees

As at 25 January 1999, William Hill had a total of 9,160 employees, comprising 2,761 full-time and 6,399 part-time (less than 35 hours per week). Approximately 88% of these were directly involved at LBO level.

A significant number of William Hill's employees (approximately 70% in January 1999) are part-time or part-year employees. Seasonal staff are principally recruited to work during the summer months (April to August) when the LBOs are permitted to remain open later in the evening.

Pay reviews are held annually. The most recent pay review was held in March 1998, when pay rates were increased across the board. Managers and cashiers received awards of between 3.0% and 5.4%.

William Hill operates one pension scheme for its staff, the William Hill Pension Scheme, which is open to certain longer-term employees. Further details are set out in paragraph 5 of Part 7.

Incentive policy schemes

The Directors believe that maintaining a workforce which is motivated to achieve the Group's objectives is fundamental to the continued prosperity of the Group. Accordingly, the Group operates the Permanent Employees Regional Commission Scheme ("PERCS"), which commenced on 1 April 1992, to encourage eligible staff to promote betting products which generate a high gross win percentage. Entitlements are calculated according to the level of turnover of these products in an LBO district for the six month periods from April to September and from October to March. Payments for periods ending in September and March are made in November and May, respectively. The entitlement for the LBO district is shared on the basis of 60% to managers and 40% to cashiers. The managers' share is divided equally between managers in the relevant district, with the district manager receiving an additional 25%, whilst the cashiers' share is divided in accordance with cashiers' contracted hours. Payments to staff under PERCS in the 52 weeks ended 30 December 1997 amounted to £3.0 million.

An incentive scheme also exists for telephone betting operators based on the total number of calls handled and the average duration of those calls.

The Group will operate the annual bonus scheme described in paragraph 6.2 of Part 7. Following Admission, the Group will operate the William Hill Sharesave Scheme and the William Hill Long Term Incentive Plan, each of which is described in paragraph 4 of Part 7. In addition, the Executive Directors and approximately 150 senior executives will participate in the Admission Bonus Scheme.

Corporate governance

The Board has reviewed "The Combined Code – Principles of Good Governance and Code of Best Practice" (the "Combined Code") which is appended to the Listing Rules of the London Stock Exchange. The Board considers that, on Admission, the Company will comply with the provisions of the Combined Code, save that it has not nominated one of the Non-Executive Directors to be the senior independent board member in addition to the Chairman.

Remuneration, audit and nominations and governance committees have been established. The remuneration committee is made up of independent Non-Executive Directors and is responsible for making recommendations to the Board on the Company's framework for executive remuneration and its cost and for determining, on the Board's behalf, specific remuneration packages for Directors, including pension rights and any compensation payments. The audit committee is also made up of independent Non-Executive Directors and is responsible for reviewing the scope and results of the annual audit, its cost effectiveness and the auditors' independence and objectivity and the results of the Group's internal audit. The nominations and governance committee is made up of a majority of non-executive Directors and is responsible for making recommendations to the Board in relation to Board appointments.

The members of the remuneration committee are Charles Scott (Chairman), Michael Blackburn, Keith Hamill and Ian Martin; the members of the audit committee are Keith Hamill (Chairman), Michael Blackburn and Ian Martin; and the members of the nominations and governance committee are Ian Martin (Chairman), Michael Blackburn, Keith Hamill, Charles Scott and John Brown.

INTELLECTUAL PROPERTY

William Hill has registered its name in various forms in the UK and has filed UK and European Community trade mark applications. Certain other key trading names, such as "Action Line", and logos, such as "HILL Sport", are also registered in the UK.

William Hill uses a mixture of packaged software under licence. William Hill has also internally developed software for which it owns the copyright and retains rights of ownership for new development projects.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Accountants' Report in Part 3. References to the "Group" in respect of financial information prior to 1 October 1997 relate to WHO and Camec and their respective subsidiaries, Laystall and WHTL, ("Old William Hill") prior to their acquisition by the Company with effect from 1 October 1997.

William Hill's financial year normally ends on the last Tuesday in December in each calendar year and in most years comprises exactly 52 weeks. Approximately every six years William Hill's financial year comprises 53 weeks, depending on the date on which the preceding financial year began and the date on which the last Tuesday in December falls in the current calendar year. Precise year-on-year comparisons of William Hill's financial condition and results of operations may be difficult in periods that contain a 53 week financial year, such as the Group's 1996 financial year.

Overview

William Hill analyses its financial results both on the basis of delivery channels and products. Analysed on the basis of delivery channels, the Group's turnover is derived principally from two sources: LBOs (including AWP) and telephone betting, with a small amount of turnover from other sources such as on-course betting. The Group's internet betting operations commenced in May 1998 and, although they have not produced significant turnover in the period under review, management expects a more significant contribution in the future.

The mix of turnover attributable to the Group's LBOs and telephone betting operations has remained relatively constant during the past three years, with the percentage contribution of the Group's UK telephone betting operations to the Group's total turnover showing an increase (11% in 1995, compared to 17% in the 39 weeks ended 29 September 1998) and the percentage contribution of the Group's LBOs to the Group's total turnover showing a comparable decrease (87% in 1995, compared to 80% (including AWP) in the 39 weeks ended 29 September 1998).

In the same period, the Group experienced significant growth in turnover attributable to its non-traditional betting products, particularly numbers betting (£0.2 million in 1995, compared to £52.4 million in 1997), index betting (£1.3 million in 1995, compared to £24.7 million in 1997) and AWP (£8.8 million in 1996, the year of their introduction, compared to £19.8 million in 1997), while turnover attributable to traditional betting products has increased slightly (£1,549.2 million in 1995, compared to £1,574.2 million in 1997). The performance of non-traditional and traditional betting products has been influenced by the migration of traditional betting turnover to alternative betting products.

The percentage of gross win from the Group's UK telephone betting operations increased from 8% in 1995 to 10% in 1997, and the percentage of gross win attributable to LBOs (including AWP) decreased slightly from 91% to 89%. Gross win derived from the Group's UK telephone betting operation increased significantly from £29.3 million in 1995 to £38.1 million in 1997.

AWP gross win represents cash in box (representing bets placed less prizes paid) from AWP machines. VAT is charged on AWP cash-in-box at a rate of 17.5%. AWP turnover is reported net of the VAT due whereas AWP gross win includes VAT.

William Hill's overall turnover and profit growth in recent years is principally attributable to organic growth delivered by (a) continuing the development and refurbishment of its LBO portfolio, (b) developing higher margin numbers betting products, (c) introducing AWP, (d) developing its telephone betting facilities, (e) managing bookmaking risk and operating costs tightly and (f) promoting deregulation of the bookmaking industry and successfully lobbying for a reduction in betting duty. Further details are set out in "Business strategy" in Part 1.

Relationship between turnover, gross win and gross win percentage

The interpretation of William Hill's results of operations is affected by the relationship between turnover on the one hand and gross win (turnover less customer winnings) and gross win percentage (gross win as a percentage of total turnover or "GWP") on the other. Turnover is measured by the total amount bet by William Hill's customers in LBOs and via William Hill's telephone betting operation, as well as by cash winnings on the Group's AWP net of VAT.

Turnover and gross win percentage are significantly influenced both by average customer behaviour and by betting results. In general, the average customer will earmark a specific maximum sum that he is prepared to

"lose". If an average customer loses such maximum sum rapidly, he is less likely to place further bets, resulting in lower turnover and a higher gross win percentage. On the other hand, if the average customer wins, he is more likely to continue to reinvest his winnings in additional bets until he has lost the sum which he had originally earmarked as the amount he was prepared to lose. Under these circumstances, turnover will be increased, but gross win percentage will be reduced. Because betting duty and the horse racing levy are calculated as a percentage of turnover, such increases in turnover may result in decreases in gross profit or vice versa.

The effects of the relationship between turnover, gross win and gross win percentage on the Group's results of operations can be significant in the short term but are less significant over the long term due to the averaging impact of a large number of small betting transactions. For these reasons, the Directors believe that gross win and gross win percentage are often more accurate comparative indicators of the Group's results of operations than total turnover.

Results of operations

The following table shows an analysis of turnover for the Group's betting products for the periods indicated:

	52 weeks ended 26 December 1995		53 weeks ended 31 December 1996		52 weeks ended 30 December 1997		39 weeks ended 30 September 1997		39 weeks ended 29 September 1998	
	(£ million)	%	(£ million)	%	(£ million)	%	(£ million)	%	(£ million)	%
Breakdown of turnover by product										
Horse racing	1,145.2	74	1,185.0	72	1,170.8	70	896.6	70	958.7	69
Greyhound racing	293.6	19	293.2	18	279.4	17	220.1	17	229.4	16
Soccer	64.6	4	82.6	5	73.6	4	51.2	4	100.2 ⁽¹⁾	7
Other traditional betting	45.8	3	40.1	2	50.4	3	45.8	3	25.4	2
Total traditional betting	1,549.2	100	1,600.9	97	1,574.2	94	1,213.7	94	1,313.7	94
Numbers betting	0.2	0	18.8	1	52.4	3	41.3	3	38.6	3
AWPs	—	—	8.8	1	19.8	1	15.1	1	17.4	1
Index betting	1.3	0	17.7	1	24.7	2	17.0	2	24.6	2
Other	0.6	0	1.3	0	1.6	0	1.2	0	0.3	0
Total	1,551.3	100	1,647.5	100	1,672.7	100	1,288.3	100	1,394.6	100

(1) Includes betting in 1998 World Cup.

Note: The breakdown of turnover within traditional betting products is derived from management information.

The following tables provide turnover and gross win data broken down by product delivery channel for the periods indicated:

	52 weeks ended 26 December 1995		53 weeks ended 31 December 1996		52 weeks ended 30 December 1997		39 weeks ended 30 September 1997		39 weeks ended 29 September 1998	
	(£ million)	%	(£ million)	%	(£ million)	%	(£ million)	%	(£ million)	%
Breakdown of turnover by channel										
LBOs (excluding AWP)	1,343.7	87	1,399.1	85	1,383.2	83	1,067.1	83	1,105.2	79
AWPs ⁽¹⁾	—	—	8.8	1	19.8	1	15.1	1	17.4	1
LBOs	1,343.7	87	1,407.9	86	1,403.0	84	1,082.2	84	1,122.6	80
UK telephone betting ⁽²⁾	177.2	11	204.4	12	235.3	14	177.8	14	229.8	17
International telephone betting ...	4.1	0	5.5	0	2.3	0	1.6 ⁽⁴⁾	0	15.1 ⁽⁴⁾	1
Internet betting ⁽³⁾	—	—	—	—	—	—	—	—	0.6 ⁽⁴⁾	0
Other ⁽³⁾	26.3	2	29.7	2	32.1	2	26.7	2	26.5	2
Total turnover	1,551.3	100	1,647.5	100	1,672.7	100	1,288.3	100	1,394.6	100

(1) Turnover from AWP is calculated on the basis of cash winnings less VAT.

(2) Includes index betting, which was introduced at the end of 1995.

(3) Principally on-course betting.

(4) The Group's international telephone betting operation based in London was replaced by its operation in the Isle of Man in May 1998. Internet betting was introduced in May 1998.

	52 weeks ended 26 December 1995		53 weeks ended 31 December 1996		52 weeks ended 30 December 1997		39 weeks ended 30 September 1997		39 weeks ended 29 September 1998	
	(£ million)	%	(£ million)	%	(£ million)	%	(£ million)	%	(£ million)	%
Breakdown of gross win by channel										
LBOs (excluding AWP)	316.7	91	310.9	87	330.1	83	251.5	83	264.6	81
AWPs ⁽¹⁾	—	—	10.2	3	23.3	6	17.7	6	20.5	6
LBOs	316.7	91	321.1	90	353.4	89	269.2	89	285.1	87
UK telephone betting ⁽²⁾	29.3	8	32.7	9	38.1	10	29.9	10	35.4	11
International telephone betting	0.6	0	0.6	0	0.2	0	0.2	0	3.6 ⁽³⁾	1 ⁽³⁾
Internet betting	—	—	—	—	—	—	—	—	0.2	0
Other ⁽⁴⁾	2.4	1	2.8	1	4.1	1	3.0	1	2.7	1
Total gross win	349.0	100	357.2	100	395.8	100	302.3	100	327.0	100

(1) Gross win from AWP includes VAT.

(2) Includes index betting, which was introduced at the end of 1995.

(3) Due to the impact of the 1998 World Cup, these figures are considerably higher than the Directors anticipate will be achieved in the normal course of trading.

(4) Principally on-course betting.

The following table shows the gross win percentage broken down by product delivery channel:

	52 weeks ended 26 December 1995 %	53 weeks ended 31 December 1996 %	52 weeks ended 30 December 1997 %	39 weeks ended 30 September 1997 %	39 weeks ended 29 September 1998 %
Gross win percentage by channel					
LBOs ⁽¹⁾	23.6	22.2	23.9	23.6	23.9
UK telephone betting	16.5	16.0	16.2	16.8	15.4
International telephone betting	14.6	10.9	8.6	12.5	23.8 ⁽²⁾
Internet betting	—	—	—	—	33.3 ⁽²⁾
Other	9.1	9.4	12.8	11.2	10.2
Total⁽¹⁾	22.5	21.2	22.5	22.3	22.2

(1) Gross win percentage excludes AWP.

(2) Due to the impact of the 1998 World Cup, these figures are considerably higher than the Directors anticipate will be achieved in the normal course of trading.

Note: Investors should not rely solely on the summary information contained in the four tables above, but should read them in conjunction with the financial information in Part 3.

39 weeks ended 29 September 1998 compared to 39 weeks ended 30 September 1997

The Group, as it is currently constituted, came into existence with effect from 1 October 1997, the date on which the Acquisition is deemed to have had effect.

Turnover. The Group's total turnover increased 8% from £1,288.3 million in the 39 weeks ended 30 September 1997 to £1,394.6 million in the 39 weeks ended 29 September 1998. This increase was due to a number of factors, including higher turnover derived from the LBOs and the telephone betting business being positively influenced by turnover associated with the 1998 World Cup, which spanned five weeks within the 39 weeks ended 29 September 1998, offset by a decrease in numbers betting turnover. The Group's gross win increased 8% from £302.3 million in the 39 weeks ended 30 September 1997 to £327.0 million in the 39 weeks ended 29 September 1998, which reflects higher turnover, including betting on the World Cup. There was a small increase in the margin, with good results on the 1998 World Cup and on business generally, offset particularly by a disappointing result on the Grand National and a lower margin on numbers betting.

LBO turnover increased 4% from £1,067.1 million in the 39 weeks ended 30 September 1997 to £1,105.2 million in the 39 weeks ended 29 September 1998. This increase in LBO turnover was assisted by betting associated with the 1998 World Cup, and there were increases in traditional betting, including non-World Cup soccer business, partly offset by lower turnover on numbers betting. In the same period, the Group's gross win attributable to

LBOs increased 5% from £251.5 million to £264.6 million, which reflects the increased volumes and better margin. General betting results and the World Cup had a positive impact on both turnover and gross win while a disappointing Grand National result and the reduction in the margin on numbers betting referred to above both had a negative impact. Both turnover and gross win benefited from the development and refurbishment of LBOs in 1998 and prior years.

UK and international telephone betting turnover increased 36% from £179.4 million in the 39 weeks ended 30 September 1997 to £244.9 million in the 39 weeks ended 29 September 1998. The increase in turnover included continued growth in the Group's traditional and spread betting products and in the international betting operations, including a significant contribution from the 1998 World Cup. In the same period, the Group's gross win attributable to UK and international telephone betting operations increased 30% from £30.1 million to £39.0 million, which principally reflects the increased volumes offset by lower margins.

AWP turnover increased 15% from £15.1 million in the 39 weeks ended 30 September 1997 to £17.4 million in the 39 weeks ended 29 September 1998. In the same period, the Group's AWP gross win increased 16% from £17.7 million to £20.5 million, again reflecting the continuing growth of the business.

The World Cup tournament ended on 12 July 1998 and the favourable outcome of many of the matches is reflected in the profits for the 39 weeks ended 29 September 1998. It is the nature of the business that individual events have varying impacts on the Group's short term profit margin, although historically the longer term profit margin has remained relatively stable.

The decline in turnover from numbers betting reflected, most probably, the high initial response to the numbers game, "49s", which was introduced in December 1996. A third numbers game, "Magic Numbers", was introduced in March 1998 and, on an industry wide basis, the number of "49s" game draws was increased in conjunction with a marketing initiative. In the absence of the growth which had been anticipated due, largely, to a decline in the games' popularity as their novelty has worn off, further consideration is being given, by the Company and by the industry, to future marketing initiatives, optimising the number of "49s" draws and the presentation of the various games, in an effort to address this decline. There can be no assurance that these efforts will be successful or that turnover from numbers betting will return to prior levels. The Directors consider that the level of numbers betting is influenced by the migration to or from the other betting opportunities offered by the Group. On average, numbers betting enjoys a higher margin, and migration can impact profit levels.

The margin earned from numbers betting was lower in 1998 than in 1997, as was expected given the decline in popularity described above, and the margin achieved was closer to the theoretical long term level anticipated from this type of business.

The international telephone operation in the Isle of Man commenced in May 1998, shortly after the Group's international operation based in London was closed, and the internet operation commenced a few weeks later. Both operations performed well in betting on the 1998 World Cup with margins influenced by the favourable results, although internet betting is presently extremely small in the context of the Group's total business. Internet betting, which in the 39 weeks ended 29 September 1998 generated turnover of £0.6 million and gross win of £0.2 million, is now available for European and Premier League soccer. It is planned to increase the number of events and sports on which internet betting is offered, to advertise the service on popular sports internet sites and to improve the interactivity of the site (including bet acceptance and cash transfer procedures). Since the 1998 World Cup, losses have been incurred in the international telephone betting operation. The number of customers recruited has been too small to generate the volume of betting transactions necessary to achieve a stable margin. Management continues to focus on expanding the client base and reducing the level of profit volatility.

Cost of sales. Cost of sales increased from £1,086.2 million in the 39 weeks ended 30 September 1997 (representing 84% of the Group's turnover in that period) to £1,174.7 million in the 39 weeks ended 29 September 1998 (representing 84% of the Group's turnover in that period).

Operating expenses. Operating expenses consist of direct costs incurred in running the Group's businesses and include staff costs, property expenses, amortisation and depreciation, profit or losses on sale of assets, costs associated with the Group's satellite information systems and other costs, including general administrative and advertising expenses. The Group's operating expenses remained constant at £144.7 million in both periods.

Exceptional items. During the 39 weeks ended 30 September 1997, the Group recorded net exceptional charges of £5.6 million, consisting of a charge of £5.2 million in respect of the write-down of a pension asset due to changes announced in the July 1997 UK national budget on the recoverability of tax credits by pension funds, £1.3 million in respect of the write-down of the net book values of administration buildings and a credit of £0.9 million in relation to the sale of warrants arising from certain asset disposals in 1992.

52 weeks ended 30 December 1997 compared to 53 weeks ended 31 December 1996

Turnover. The Group's total turnover increased 1% from £1,647.5 million in 1996 to £1,672.7 million in 1997. This increase was due to a number of factors, including higher turnover derived from numbers betting and telephone debit card betting and the first full year impact of AWP, offset by the fact that growth in these areas came, to some extent, at the expense of migrations from the Group's traditional betting products. The increase in total 1997 turnover was achieved in spite of the inclusion of a 53rd week in the Group's 1996 financial year and the effect of increased betting in 1996 associated with the 1996 European Football Championships. In the same period, the Group's gross win increased 11% from £357.2 million in 1996 to £395.8 million in 1997, which reflects higher turnover, favourable betting results for bookmakers generally, the higher margins associated with numbers betting products and the negative effect Dettori Day had on gross win in 1996.

LBO turnover decreased 1% from £1,399.1 million in 1996 to £1,383.2 million in 1997. This decrease reflected the inclusion of a 53rd week in the Group's 1996 financial year and the positive effect in 1996 of increased betting associated with the 1996 European Football Championships. In addition, the decrease in LBO turnover was influenced by the closure of a number of the Group's loss-making and marginal LBOs in the period and the migration of LBO customer spend to newer products. In the same period, the Group's gross win attributable to LBOs increased 6% from £310.9 million to £330.1 million, which reflects an improvement in the Group's betting results generally, the higher margins attributable to numbers betting products and the negative impact of Dettori Day on 1996 gross win, which was partially off-set by significant gross win in the 1996 European Football Championships. Both turnover and gross win benefited from the development and refurbishment of LBOs in 1997 and prior years.

UK and international telephone betting turnover increased 13% from £209.9 million in 1996 to £237.6 million in 1997. The increase in turnover was due to the continued growth in the Group's debit card operations as well as higher turnover associated with the Group's index betting products. In the same period, the Group's gross win attributable to UK and international telephone betting operations increased 15% from £33.3 million to £38.3 million, which principally reflects an increase in gross win from telephone debit card betting in 1997 as well as an increase in gross win from the Group's telephone credit betting operations in the year.

AWP turnover increased 125% from £8.8 million in 1996 to £19.8 million in 1997. AWP were introduced in June 1996 and the increase in turnover associated with AWP in 1997 primarily represents the first full year of their operation. In the same period, the Group's AWP gross win increased 128% from £10.2 million to £23.3 million, again reflecting the first full year of operation of the Group's AWP.

Cost of sales. Cost of sales decreased from £1,419.8 million in 1996 (representing 86% of the Group's turnover in that year) to £1,407.0 million in 1997 (representing 84% of the Group's turnover in that year).

Operating expenses. The Group's operating expenses increased 6% from £178.2 million in 1996 to £189.3 million in 1997. The increase in operating expenses was primarily due to increases in staff costs and in general administrative and advertising expenses and the first full year of AWP machine rentals.

Exceptional items. During 1997, the Group recorded net exceptional charges of £5.6 million, consisting of a credit of £0.9 million in relation to the sale of warrants arising from certain asset disposals in 1992, a charge of £1.3 million in connection with the write-down of an administrative property owned by the Group that was revalued in 1997 and a charge of £5.2 million in respect of the write-down of a pension asset due to changes announced in the July 1997 UK national budget on the recoverability of tax credits by pension funds.

53 weeks ended 31 December 1996 compared to 52 weeks ended 26 December 1995

Turnover. The Group's total turnover increased 6% from £1,551.3 million in 1995 to £1,647.5 million in 1996. The increase in turnover was due to a number of factors, including a substantial increase in turnover from index betting (£17.7 million in 1996, compared to £1.3 million in 1995), the introduction of AWP in June 1996 (generating turnover of £8.8 million), the introduction of numbers betting in late 1995 (generating turnover of £18.9 million in 1996) and the effect of the 53 week financial year in 1996. In the same period, the Group's gross win increased 2% from £349.0 million in 1995 to £357.2 million in 1996, which was largely due to increases during the period in gross win from AWP (an increase of £10.2 million), and telephone betting (an increase of £3.4 million). This increase was partially offset by a decrease in overall LBO gross win of £5.8 million during the period which was heavily influenced by the impact of Dettori Day in 1996.

LBO turnover increased 4% from £1,343.7 million in 1995 to £1,399.1 million in 1996. The increase in turnover associated with the Group's LBOs was influenced by the 1% reduction in March 1996 of betting duty which

increased betting activity generally, an increase in bets made in connection with the European Football Championships in 1996, the effect of the 53 week financial year in 1996 and the introduction of numbers betting in late 1995. These factors were partially offset by adverse weather conditions early in 1996, which resulted in an above average number of horse race cancellations and had a negative impact on Group turnover. Turnover benefited from the development and refurbishment of LBOs in 1996 and previous years, but was reduced by a decrease in the average number of LBOs (by 34) during the period. In the same period, the Group's gross win attributable to its LBO operations decreased 2% from £316.7 million to £310.9 million, influenced primarily by the negative impact of Dettori Day and the 1.0% decrease in betting duty, which had the effect, among others, of returning a greater amount of money to customers in the form of customer winnings. The factors were partially offset by increases in gross win in 1996 attributable to increased betting activity in connection with the 1996 European Football Championships.

UK and international telephone betting turnover increased 16% from £181.3 million in 1995 to £209.9 million in 1996. This increase was due to a number of factors, including an increase in bets made in connection with the European Football Championships in 1996, the effect of the 53 week financial year in 1996, growth in turnover attributable to index betting products, whose first full year contribution is reflected in 1996, and growth in debit card betting during the period. These factors were partially offset by reduced turnover attributable to adverse weather conditions in early 1996 (which reduced the number of horse races) and a decrease in telephone credit betting turnover. In the same period, the Group's gross win from UK and international telephone betting increased 11% from £29.9 million in 1995 to £33.3 million in 1996, which principally reflects increases in debit card betting, partially offset by losses incurred in connection with Dettori Day in September 1996.

In 1996, the Group recorded turnover of £8.8 million (net of VAT) from AWP's, which were introduced in June 1996. During the same period gross wins from AWP's (including VAT) were £10.2 million.

Cost of sales. Cost of sales increased 6% from £1,335.6 million in 1995 (representing 86% of the Group's turnover in that year) to £1,419.8 million in 1996 (representing 86% of the Group's turnover in that year).

Operating expenses. The Group's operating expenses increased 1% from £176.4 million in 1995 to £178.2 million in 1996. The increase in operating expenses reflected, among other things, AWP rental costs incurred for the first time in 1996.

Exceptional items. During 1996 the Group recorded exceptional income totalling £2.0 million, in respect of deferred compensation for the sale in 1992 of certain assets of the Group. The charge of £160.9 million in 1995 reflects the write-down in the value of the Group's LBOs which was made at that time.

Liquidity and capital resources

The Group's net cash flow from operating activities totalled £46.9 million, £66.5 million and £99.2 million for the periods ended 26 December 1995, 31 December 1996 and 30 December 1997, respectively. Such cash flow was used to fund capital expenditure and to pay dividends (£11.5 million in 1995 and £38.5 million in 1997). The remaining cash flow was used primarily for repayment of parent company loans. The Group's net cash flow from operating activities totalled £70.6 million for the 39 weeks ended 30 September 1997 (which was used, in part, to fund capital expenditure of £12.9 million and to pay dividends of £38.5 million) and £78.2 million for the 39 weeks ended 29 September 1998 (which was used, in part, to fund capital expenditure of £12.6 million and to pay net interest of £23 million).

Capital expenditure by the Group totalled £14.7 million in 1995, £9.9 million in 1996, £19.2 million in 1997 and £12.6 million in the 39 weeks ended 29 September 1998. Such capital expenditures primarily consist of the development and refurbishment of the Group's LBOs and investment in system upgrades. The Group financed these capital expenditures primarily through cash generated from its operations. The Group intends to continue to invest in its LBO portfolio and, subject to a demonstration of viability, in a new automated bet capture system. This new system, if introduced, would involve expenditure currently estimated at approximately £20 million which would be funded out of the Group's existing working capital or its cash flow from operations.

The Group incurred significant indebtedness in connection with the Acquisition which took place in late 1997. The indebtedness of the Group, as at the close of business on 29 December 1998, is described in paragraph 21 of Part 7. On 31 December 1998, the Group repaid £6.0 million in principal amount of the Term Loan Facility. In addition, £100 million of the principal amount of the CULS was waived on 26 January 1999 and, prior to Admission, the balance of the principal amount of the CULS, together with the accrued discount thereon, will be waived. Following Admission, the net proceeds of the Global Offer received by the Company, together with

cash resources of the Group, will be used to repay £81.5 million of the Term Loan Facility and £37.5 million of the principal amount of the Senior Subordinated Notes, together with associated costs, so as to leave the Group with net indebtedness of approximately £375 million. Details of the terms and conditions governing the Group's indebtedness, which place certain restrictions on the Group's activities, are set out in paragraph 14 of Part 7.

The Group's liquidity needs are expected to arise primarily from debt service on the Term Loan Facility, the Revolving Facility and the Senior Subordinated Notes, working capital needs and the funding of capital expenditures and investments. The Group's principal source of liquidity is cash generated from its operations.

CURRENT TRADING AND PROSPECTS

The Group has traded satisfactorily since 29 December 1998 (the end of the period to which the estimate set out in Part 4 of this document relates) and the Directors are confident of the prospects for the Group.

DIVIDENDS AND DIVIDEND POLICY

It is envisaged that interim dividends will be paid by the Company in October and final dividends in May of each year, in the approximate proportions of one third and two thirds respectively of the total annual dividend. The Directors intend to adopt a progressive dividend policy which will reflect the long-term earnings potential of the Group, whilst maintaining an appropriate level of dividend cover.

The Directors consider that, had the Shares been listed for the whole of the 52 weeks ended 29 December 1998, and on the basis of the estimated pro forma earnings per Share before exceptional items of 18.6p as set out in Part 4, they would have recommended a total dividend of 5.8p (net) per Share for the 52 weeks ended 29 December 1998. Such a dividend would have been covered approximately 3.2 times by the estimated pro forma earnings per Share before exceptional items.

The first dividend to be declared by the Company following the Global Offer will be the interim dividend in respect of the 52 weeks ending 28 December 1999, which will be calculated on a pro-rata basis from the date of Admission and is expected to be paid in October 1999. A full final dividend in respect of the 52 weeks ending 28 December 1999 is expected to be paid in May 2000.

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1 February 1999

Dear Sirs

William Hill plc (the "Company") and its subsidiaries (the "Group")

We report on the financial information set out below. This financial information has been prepared for inclusion in the prospectus dated 1 February 1999 relating to the global offer of shares in the Company (the "Prospectus").

Basis of preparation

The financial information for 1995 and 1996 is based on the combined audited financial statements of Old William Hill. Old William Hill, which does not exist as a legal entity, comprises William Hill Organization Limited, Camec Limited and their subsidiaries, Laystall Limited and William Hill Trustee Limited. The combined statements have been derived from the audited non-consolidated statutory financial statements for all the members of Old William Hill. The combined financial statements include adjustments made in order to show all the financial data on a consistent basis from year to year.

The Company acquired Old William Hill with effect from 1 October 1997 and accounted for its acquisition under the acquisition method of accounting. The financial information for the 52 weeks ended 30 December 1997 is based on the combined financial statements of Old William Hill for the 39 weeks from 1 January 1997 to the date of acquisition and the audited consolidated financial statements of the Company and its subsidiaries for the 13 weeks ended 30 December 1997.

The financial information for the 39 weeks ended 29 September 1998 is based on the audited consolidated financial statements of the Group for that period. The combined financial statements of Old William Hill for the 39 weeks ended 30 September 1997 are provided as comparatives.

The financial information includes interest charges and taxation for the three years ended 30 December 1997 and the 39 weeks ended 29 September 1998 which reflect the capital and debt structure of Old William Hill and the Company, respectively, and accordingly are not representative of the interest and taxation charges and financing cash flows of the Company and its subsidiaries that will exist or be incurred following the admission of the Company's ordinary shares to the Official List of the London Stock Exchange.

A summary of the principal differences between Generally Accepted Accounting Principles in the United Kingdom ("UK GAAP") and Generally Accepted Accounting Principles in the United States ("US GAAP") is set out in Note 34.

References to going concern in previous audit reports

References to going concern in the financial statements of Old William Hill for the 52 weeks ended 26 December 1995 and 53 weeks ended 31 December 1996 are no longer considered relevant in the light of the continued trading of Old William Hill.

Responsibility

The financial statements of the Group and of the entities comprising Old William Hill are the responsibility of the directors of the Company and of the entities comprising Old William Hill, respectively, who approved their issue.

The directors of the Company are responsible for the contents of the Prospectus in which this report is included.

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

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by us relating to the audit of the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion, the financial information set out below gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of the Group as at the dates stated and of its profits and losses, cash flows and recognised gains and losses for the periods then ended.

COMBINED AND CONSOLIDATED PROFIT AND LOSS ACCOUNTS

	Note	52 weeks ended 26 December 1995 (£ million)	53 weeks ended 31 December 1996 (£ million)	52 weeks ended 30 December 1997 (£ million)	39 weeks ended 30 September 1997 (£ million)	39 weeks ended 29 September 1998 (£ million)
Turnover	2	1,551.3	1,647.5	1,672.7	1,288.3	1,394.6
Cost of sales		(1,335.6)	(1,419.8)	(1,407.0)	(1,086.2)	(1,174.7)
Gross profit	3	215.7	227.7	265.7	202.1	219.9
Net operating expenses						
– ordinary		(176.4)	(178.2)	(189.3)	(144.7)	(144.7)
– exceptional	6	(160.9)	—	(6.5)	(6.5)	—
Operating (loss)/profit	5	(121.6)	49.5	69.9	50.9	75.2
Share of operating profit in associated undertakings	8	—	—	—	—	2.6
Exceptional items	6	—	2.0	0.9	0.9	—
(Loss)/profit on ordinary activities before interest and tax		(121.6)	51.5	70.8	51.8	77.8
Investment income	9	0.7	1.0	1.2	1.2	—
Net interest (payable)/receivable	10	(0.3)	7.4	(13.5)	1.2	(56.1)
(Loss)/profit on ordinary activities before taxation		(121.2)	59.9	58.5	54.2	21.7
Tax on (loss)/profit on ordinary activities	11	(16.1)	(27.7)	(13.6)	(13.6)	(1.1)
(Loss)/profit on ordinary activities after taxation		(137.3)	32.2	44.9	40.6	20.6
Dividends	12	(11.5)	—	(38.5)	(38.5)	—
Retained (loss)/profit for the financial period	26	(148.8)	32.2	6.4	2.1	20.6
(Loss)/earnings per ordinary share	13	(60.3)p	14.1p	19.7p	17.8p	9.0p

The turnover and operating (loss)/profit in each of the financial periods are derived from the Group's continuing activities.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	52 weeks ended 26 December 1995 (£ million)	53 weeks ended 31 December 1996 (£ million)	52 weeks ended 30 December 1997 (£ million)	39 weeks ended 30 September 1997 (£ million)	39 weeks ended 29 September 1998 (£ million)
(Loss)/profit for the financial period	(137.3)	32.2	44.9	40.6	20.6
Surplus arising on revaluation of tangible fixed assets	—	—	201.7	—	—
Other recognised gains and losses	—	—	8.9	—	—
Total recognised gains and losses relating to the period	(137.3)	32.2	255.5	40.6	20.6

COMBINED AND CONSOLIDATED BALANCE SHEETS

	Note	26 December 1995 (£ million)	31 December 1996 (£ million)	30 December 1997 (£ million)	30 September 1997 (£ million)	29 September 1998 (£ million)
Fixed Assets						
Tangible assets	14	439.9	436.7	642.6	438.0	645.9
Investments	15	11.6	11.6	21.2	11.6	26.1
		<u>451.5</u>	<u>448.3</u>	<u>663.8</u>	<u>449.6</u>	<u>672.0</u>
Current Assets						
Stocks	16	1.4	0.9	1.1	2.0	0.9
Debtors	17	20.8	18.2	10.0	12.2	11.5
Cash at bank and in hand		22.0	39.9	17.6	14.0	36.7
		<u>44.2</u>	<u>59.0</u>	<u>28.7</u>	<u>28.2</u>	<u>49.1</u>
Creditors: Amounts Falling Due Within One Year	18,20	<u>(56.2)</u>	<u>(37.8)</u>	<u>(74.8)</u>	<u>(43.3)</u>	<u>(66.5)</u>
Net Current (Liabilities)/Assets		<u>(12.0)</u>	<u>21.2</u>	<u>(46.1)</u>	<u>(15.1)</u>	<u>(17.4)</u>
Total Assets Less Current Liabilities		<u>439.5</u>	<u>469.5</u>	<u>617.7</u>	<u>434.5</u>	<u>654.6</u>
Creditors: Amounts Falling Due After More Than One Year	19,20	<u>(310.1)</u>	<u>(308.4)</u>	<u>(670.4)</u>	<u>(273.6)</u>	<u>(686.7)</u>
Provisions for Liabilities and Charges	24	<u>(3.5)</u>	<u>(3.0)</u>	<u>(0.7)</u>	<u>(0.7)</u>	<u>(0.7)</u>
Total Net Assets/(Liabilities)		<u><u>125.9</u></u>	<u><u>158.1</u></u>	<u><u>(53.4)</u></u>	<u><u>160.2</u></u>	<u><u>(32.8)</u></u>
Net investment by former parent undertaking	26	<u><u>125.9</u></u>	<u><u>158.1</u></u>	<u><u>—</u></u>	<u><u>160.2</u></u>	<u><u>—</u></u>
Capital and Reserves						
Share capital	25,26	—	—	—	—	—
Profit and loss account	26	—	—	(53.4)	—	(32.8)
Equity Shareholders' Funds		<u><u>—</u></u>	<u><u>—</u></u>	<u><u>(53.4)</u></u>	<u><u>—</u></u>	<u><u>(32.8)</u></u>

RECONCILIATION OF MOVEMENTS IN NET INVESTMENT/SHAREHOLDERS' FUNDS

	53 weeks ended 31 December 1996 (£ million)	52 weeks ended 30 December 1997 (£ million)	39 weeks ended 30 September 1997 (£ million)	39 weeks ended 29 September 1998 (£ million)
Profit on ordinary activities after taxation	32.2	44.9	40.6	20.6
Dividends	—	(38.5)	(38.5)	—
	<u>32.2</u>	<u>6.4</u>	<u>2.1</u>	<u>20.6</u>
Other recognised gains and losses	—	210.6	—	—
Decrease in net investment/shareholders' funds on acquisition by the Company	—	(428.5)	—	—
	<u>32.2</u>	<u>(211.5)</u>	<u>2.1</u>	<u>20.6</u>
Opening net investment/shareholders' funds	<u>125.9</u>	<u>158.1</u>	<u>158.1</u>	<u>(53.4)</u>
Closing net investment/shareholders' funds	<u><u>158.1</u></u>	<u><u>(53.4)</u></u>	<u><u>160.2</u></u>	<u><u>(32.8)</u></u>

COMBINED AND CONSOLIDATED CASH FLOW STATEMENTS

	Note	52 weeks ended 26 December 1995 (£ million)	53 weeks ended 31 December 1996 (£ million)	52 weeks ended 30 December 1997 (£ million)	39 weeks ended 30 September 1997 (£ million)	39 weeks ended 29 September 1998 (£ million)
Net cash inflow from operating activities	21	46.9	66.5	99.2	70.6	78.2
Returns on investments and servicing of finance						
Net interest received/(paid)		0.4	0.7	(9.0)	1.5	(23.0)
Dividends from other fixed asset investments		0.7	1.0	1.2	1.2	2.9
Net cash inflow/(outflow) from returns on investments and servicing of finance		1.1	1.7	(7.8)	2.7	(20.1)
Taxation						
UK corporation tax		—	—	(0.1)	—	—
Taxation received		—	0.1	1.1	1.1	—
Net cash inflow from taxation		—	0.1	1.0	1.1	—
Capital expenditure and financial investment						
Purchase of tangible fixed assets		(14.7)	(9.9)	(19.2)	(12.9)	(12.6)
Sale of tangible fixed assets		3.0	1.1	3.3	3.2	1.6
Net cash outflow from capital expenditure and financial investment		(11.7)	(8.8)	(15.9)	(9.7)	(11.0)
Payments to increase investment in associated undertakings		—	—	—	—	(6.1)
Equity dividends paid		(11.5)	—	(38.5)	(38.5)	—
Cash inflow before financing		24.8	59.5	38.0	26.2	41.0
Financing						
Expenses of raising finance		—	—	(22.8)	—	(5.2)
Purchase consideration		—	—	(702.1)	—	—
New borrowings/(repayments)		—	—	716.7	—	(16.7)
Financing payable to former parent undertaking		(42.3)	(41.6)	(52.1)	(52.1)	—
Net cash outflow from financing		(42.3)	(41.6)	(60.3)	(52.1)	(21.9)
(Decrease)/increase in cash		(17.5)	17.9	(22.3)	(25.9)	19.1

NOTES TO THE FINANCIAL INFORMATION

1. ACCOUNTING POLICIES

The financial information contained in this report has been prepared in accordance with Accounting Standards currently applicable in the United Kingdom, modified by the "Basis of Preparation" described above.

The significant accounting policies adopted in the preparation of the financial information are as follows:

Basis of combination/consolidation

The financial information includes the combined financial statements (in respect of Old William Hill) for the 52 weeks ended 26 December 1995 and 53 weeks ended 31 December 1996 and for the 39 weeks ended 30 September 1997, and the consolidated financial statements of the Company and its subsidiaries for the 13 weeks ended 30 December 1997 and the 39 weeks ended 29 September 1998. The financial information for the 52 weeks ended 30 December 1997 is based on the combined financial statements of Old William Hill for the 39 weeks from 1 January 1997 to the date of acquisition and the audited consolidated financial statements of the Company and its subsidiaries for the 13 weeks ended 30 December 1997.

The basis of preparation of the combined and consolidated financial statements for the period from 28 December 1994 to 29 September 1998 is referred to above.

The consolidated financial statements of the Company and its subsidiaries include the audited accounts of the Company and all its subsidiaries made up for the periods referred to above. Goodwill written off to reserves on a previously acquired business is charged or credited to the profit and loss account on subsequent disposal of that business. For accounting periods up to the 52 weeks ended 30 December 1997, goodwill arising on consolidation was written off to reserves as permitted by Statement of Standard Accounting Practice 22. Following the issue of Financial Reporting Standard 10 'Goodwill and Intangible Assets', from 31 December 1997 goodwill arising on acquisitions has been capitalised and amortised over its estimated useful economic life.

Turnover

Turnover represents amounts receivable in respect of bets placed on events which occurred by the period end and arises exclusively in the United Kingdom and Isle of Man.

Stocks

Stocks represent stocks of consumables and work in progress in stores or on site. They are stated at the lower of cost and net realisable value.

Tangible assets

Tangible assets are stated in the combined and consolidated balance sheets at fair value at the date of acquisition, less provision, if any, for permanent diminution in value together with additions at cost, less cumulative depreciation.

The values incorporated for licensed betting offices ("LBOs") include the value of the betting office licence, fixtures and fittings and the property all of which are considered to be an integral part of the valuation.

No depreciation is provided on the element of the licensed property which represents freehold land and buildings or the licence. In the opinion of the directors of the Company, annual expenditure on freehold buildings is sufficient to ensure that the residual value approximates to cost and therefore no provision for depreciation is required.

Depreciation on licensed properties has been provided on the element of the property that requires replacement. These assets together with other tangible fixed assets are depreciated over their estimated useful lives on a straight line basis as follows:

Long leasehold properties	- 65 years
Short leasehold properties	- Over the unexpired period of the lease
Fixtures, fittings, and equipment and motor vehicles	- At variable rates between 3 and 10 years

A Financial Reporting Standard is expected following on from FRED 17 "Tangible Fixed Assets". The accounting policies currently adopted by the Group in relation to the treatment of tangible assets are set out in the Accountants' Report in Part 3. The anticipated "FRS" may require a change in these policies. The directors of the Company have not yet determined whether any change in the accounting policy will be adopted by the Group in this respect.

Investments

Investments are stated at cost less provision, if any, for permanent diminution in value.

Shares in associated undertakings are accounted for using the equity method. The consolidated profit and loss accounts include the Group's share of pre-tax profits and attributable taxation of associated undertakings. In the consolidated balance sheets, the investment in associated undertakings is shown as the Group's share of net assets of associated undertakings, and the unamortised element of goodwill relating to the acquisition of associated undertakings.

Deferred taxation

Deferred taxation is provided on timing differences, arising from the different treatment of items for accounting and taxation purposes, which are expected to reverse in the future, calculated at the rates at which it is expected that tax will arise.

Capital instruments

Capital instruments are accounted for and classified as equity or non-equity share capital and debt according to their form. Convertible debt is separately disclosed and regarded as debt unless conversion actually occurs. Provision is made for the accrued premium payable on redemption of redeemable debt or non-equity interests.

Pension costs

A defined contribution scheme (the "Investment Plan") and a defined benefit scheme (the "Retirement Plan"), open to eligible employees in the businesses, commenced on 1 October 1990.

The Investment Plan closed on 5 April 1997 and existing members were offered membership of a new defined contribution scheme (the "Savings Plan").

The pension cost charged for the period in respect of the defined contribution arrangements represents contributions paid or payable under such arrangements.

The expected costs of providing pensions under the defined benefit arrangements, as calculated by the scheme's actuaries, are charged to the profit and loss account so as to spread the cost over the service lives of employees in the scheme in such a way that the pension cost is a substantially level percentage of current and expected future pensionable payroll.

Dilapidation expense

Provision is included in the financial statements of an estimate of the liability for dilapidations expenditure. The provision is based on dilapidations notified at the balance sheet date.

Leases

Rental costs under operating leases are charged to the profit and loss account in equal amounts over the periods of the leases.

2. TURNOVER AND SEGMENTAL ANALYSIS

The turnover, operating profit and net assets of both Old William Hill and the Group relate to the provision of betting services, all of which is conducted in the United Kingdom and the Isle of Man.

3. GROSS PROFIT

	52 weeks ended 26 December 1995 (£ million)	53 weeks ended 31 December 1996 (£ million)	52 weeks ended 30 December 1997 (£ million)	39 weeks ended 30 September 1997 (£ million)	39 weeks ended 29 September 1998 (£ million)
Gross win	349.0	355.8	392.3	299.7	323.9
Duty, levy, commission	(133.3)	(128.1)	(126.6)	(97.6)	(104.0)
Gross profit	<u>215.7</u>	<u>227.7</u>	<u>265.7</u>	<u>202.1</u>	<u>219.9</u>

4. TURNOVER AND GROSS WIN BY DELIVERY CHANNEL

Turnover and gross win by delivery channel is provided in the table below:

	52 weeks ended 26 December 1995 (£ million)	53 weeks ended 31 December 1996 (£ million)	52 weeks ended 30 December 1997 (£ million)	39 weeks ended 30 September 1997 (£ million)	39 weeks ended 29 September 1998 (£ million)
Turnover					
Licensed betting offices	1,343.7	1,407.9	1,403.0	1,082.2	1,122.6
UK telephone betting	177.2	204.4	235.3	177.8	229.8
International telephone betting	4.1	5.5	2.3	1.6	15.1
Internet betting	—	—	—	—	0.6
Other	26.3	29.7	32.1	26.7	26.5
Total turnover	<u>1,551.3</u>	<u>1,647.5</u>	<u>1,672.7</u>	<u>1,288.3</u>	<u>1,394.6</u>
Gross win					
Licensed betting offices (see note (a))	316.7	319.7	349.9	266.6	282.0
UK telephone betting	29.3	32.7	38.1	29.9	35.4
International telephone betting	0.6	0.6	0.2	0.2	3.6
Internet betting	—	—	—	—	0.2
Other	2.4	2.8	4.1	3.0	2.7
Total gross win (see note (b))	<u>349.0</u>	<u>355.8</u>	<u>392.3</u>	<u>299.7</u>	<u>323.9</u>

(a) Turnover and gross win for licensed betting offices is presented net of VAT on amusement with prizes machines ("AWPs"). Turnover and gross win for AWP are included within the licensed betting offices turnover and gross win above. The amounts included are as follows:

AWP turnover and gross win	—	8.8	19.8	15.1	17.4
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(b) For management reporting purposes, VAT on AWP is included within gross win and deducted in arriving at gross profit. On this basis, gross win would have been as follows:

Licensed betting offices	316.7	321.1	353.4	269.2	285.1
Total gross win	<u>349.0</u>	<u>357.2</u>	<u>395.8</u>	<u>302.3</u>	<u>327.0</u>

5. OPERATING (LOSS)/PROFIT

	52 weeks ended 26 December 1995 (£ million)	53 weeks ended 31 December 1996 (£ million)	52 weeks ended 30 December 1997 (£ million)	39 weeks ended 30 September 1997 (£ million)	39 weeks ended 29 September 1998 (£ million)
Net operating expenses					
Administration expenses – ordinary	176.4	178.2	189.3	144.7	144.7
Administration expenses – exceptional (note 6)	160.9	—	6.5	6.5	—
	<u>337.3</u>	<u>178.2</u>	<u>195.8</u>	<u>151.2</u>	<u>144.7</u>
Operating (loss)/profit is stated after charging/(crediting):					
Auditors' remuneration					
– audit fees	0.2	0.2	0.2	0.1	0.1
– other services	1.0	0.9	0.3	0.2	0.2
Depreciation	13.3	12.3	12.8	9.6	9.4
Operating lease charges:					
Land and buildings	20.5	21.5	20.8	15.2	15.0
Other	—	2.4	4.9	3.6	4.1
(Profit)/loss on sale of fixed assets	<u>(0.7)</u>	<u>0.1</u>	<u>0.3</u>	<u>0.2</u>	<u>(1.0)</u>

6. EXCEPTIONAL ITEMS

	52 weeks ended 26 December 1995 (£ million)	53 weeks ended 31 December 1996 (£ million)	52 weeks ended 30 December 1997 (£ million)	39 weeks ended 30 September 1997 (£ million)	39 weeks ended 29 September 1998 (£ million)
Administrative expenses – exceptional					
Provision for diminution in tangible fixed assets (a), (b)	(160.9)	—	(1.3)	(1.3)	—
Pension asset impairment (c)	—	—	(5.2)	(5.2)	—
	<u>(160.9)</u>	<u>—</u>	<u>(6.5)</u>	<u>(6.5)</u>	<u>—</u>
Non-operating exceptional items:					
Profit on disposal of Rapid Raceline	<u>—</u>	<u>2.0</u>	<u>0.9</u>	<u>0.9</u>	<u>—</u>

Administrative expenses – exceptional

- In 1995, following a trading downturn associated with the introduction of the National Lottery, a provision was made against the carrying value of tangible fixed assets. A provision of £160.9 million was charged to the profit and loss account in that year. There was no tax effect arising as a result of the provision against tangible fixed assets.
- An external valuation performed by Weatherall Green & Smith, Chartered Surveyors advised that, as at 1 September 1997, the open market value of the principal administrative property on an existing use basis, in accordance with the Statement of Asset Valuation Practice and Guidance Notes issued by the Royal Institution of Chartered Surveyors, was £2,200,000. This resulted in an impairment of £1.3 million. The impairment, which was considered to be permanent was provided for, and the asset written down accordingly. There was no tax effect arising as a result of the provision made.
- As at 1 January 1997 the pension surplus, which was included in other debtors, amounted to £8.6 million. In 1997, the UK government announced the abolition of the recovery of tax credits on dividends for pension schemes. The scheme's actuaries prepared a revised valuation to take account of the impact of the abolition on the pension surplus, which was estimated to be £5.2 million. An exceptional charge of £5.2 million was made in the profit and loss account in the 52 weeks ended 30 December 1997. The tax effect of the exceptional pension charge was a deferred tax credit of £1.7 million.

6. EXCEPTIONAL ITEMS (continued)

Non-operating exceptional items

Rapid Raceline, a telephone information business, was disposed of in 1992 for a total consideration of £12.7 million, £2.0 million of which was deferred, and warrants to acquire ordinary shares if the business was eventually floated on the London Stock Exchange.

The business was floated on 6 February 1997 and £2.0 million was received on 10 February 1997. The deferred consideration which was provided for at the time of disposal was released to profit in the 53 weeks ended 31 December 1996. There was no tax effect on the write back of the provision against the deferred consideration. The shares acquired as a result of the exercise of warrants were disposed of on 13 February 1997 for a profit of £0.9 million and this was accounted for in the 52 weeks ended 30 December 1997. The associated tax charge attributable to the exceptional profit on sale of warrants was £0.3 million.

7. STAFF COSTS AND DIRECTORS' EMOLUMENTS

	52 weeks ended 26 December 1995 (£ million)	53 weeks ended 31 December 1996 (£ million)	52 weeks ended 30 December 1997 (£ million)	39 weeks ended 30 September 1997 (£ million)	39 weeks ended 29 September 1998 (£ million)
Total remuneration, including directors, was:					
Wages and salaries	82.8	82.1	86.7	65.7	67.0
Social security costs	6.3	6.1	6.7	4.7	5.3
Other pension costs	1.6	1.9	1.8	1.7	1.3
	<u>90.7</u>	<u>90.1</u>	<u>95.2</u>	<u>72.1</u>	<u>73.6</u>
	52 weeks ended 26 December 1995 (£'000)	53 weeks ended 31 December 1996 (£'000)	52 weeks ended 30 December 1997 (£'000)	39 weeks ended 30 September 1997 (£'000)	39 weeks ended 29 September 1998 (£'000)
Directors' remuneration:					
Emoluments (excluding pension contributions)	1,276	1,721	2,107	1,666	1,245
	<u>(No.)</u>	<u>(No.)</u>	<u>(No.)</u>	<u>(No.)</u>	<u>(No.)</u>
Number of directors who are:					
Members of defined benefit pension schemes	8	8	9	9	9
	<u>(£'000)</u>	<u>(£'000)</u>	<u>(£'000)</u>	<u>(£'000)</u>	<u>(£'000)</u>
Highest paid director:					
Total remuneration excluding pension contributions	274	489	609	518	255
Amount of accrued pension at period end	92	100	116	116	137
Amount of accrued lump sum	493	283	581	578	1,368

Directors' emoluments for the 52 weeks ended 26 December 1995, 53 weeks ended 31 December 1996, 39 weeks ended 30 September 1997, and 52 weeks ended 30 December 1997 are in respect of the directors of the entities comprising Old William Hill. Included in the amounts disclosed above for these periods is remuneration for Robert Lambert of £219,503 for the 52 weeks ended 26 December 1995, £450,289 for the 53 weeks ended 31 December 1996, £477,346 for the 39 weeks ended 30 September 1997, £554,258 for the 52 weeks ended 30 December 1997 and £216,661 for the 39 weeks ended 29 September 1998.

7. STAFF COSTS AND DIRECTORS' EMOLUMENTS (continued)

The remuneration in these financial periods for John Brown, the highest paid director, is set out in the table above. These amounts were paid by William Hill Organization Limited ("WHO").

The average monthly number of persons employed, including directors, during the period, all of whom were engaged in the administration and provision of betting services, was as follows:

	52 weeks ended 26 December 1995 (No.)	53 weeks ended 31 December 1996 (No.)	52 weeks ended 30 December 1997 (No.)	39 weeks ended 30 September 1997 (No.)	39 weeks ended 29 September 1998 (No.)
Average monthly number of persons employed, including directors	9,983	9,371	9,479	9,636	9,296

8. SHARE OF OPERATING PROFIT IN ASSOCIATED UNDERTAKINGS

	52 weeks ended 26 December 1995 (£ million)	53 weeks ended 31 December 1996 (£ million)	52 weeks ended 30 December 1997 (£ million)	39 weeks ended 30 September 1997 (£ million)	39 weeks ended 29 September 1998 (£ million)
Share of operating profit in associated undertakings	—	—	—	—	3.5
Amortisation of goodwill	—	—	—	—	(0.9)
	—	—	—	—	2.6

9. INVESTMENT INCOME

	52 weeks ended 26 December 1995 (£ million)	53 weeks ended 31 December 1996 (£ million)	52 weeks ended 30 December 1997 (£ million)	39 weeks ended 30 September 1997 (£ million)	39 weeks ended 29 September 1998 (£ million)
Income from fixed asset investments	0.7	1.0	1.2	1.2	—

In respect of all periods, income from fixed asset investments represents dividend income from Satellite Information Services (Holdings) Limited ("SIS"). For the 39 weeks ended 29 September 1998, SIS has been accounted for as an associated undertaking (see notes 8 and 15).

10. NET INTEREST (PAYABLE)/RECEIVABLE

	52 weeks ended 26 December 1995 (£ million)	53 weeks ended 31 December 1996 (£ million)	52 weeks ended 30 December 1997 (£ million)	39 weeks ended 30 September 1997 (£ million)	39 weeks ended 29 September 1998 (£ million)
Interest receivable					
- bank deposits	0.9	0.7	2.6	1.7	0.9
- corporation/income tax credit	—	7.3	—	0.2	—
- share of interest receivable in associated undertakings	—	—	—	—	0.2
	0.9	8.0	2.6	1.9	1.1
Interest payable					
- Brent Walker loan notes	(0.4)	(0.6)	(0.7)	(0.7)	—
- bank loans and overdrafts	—	—	(2.8)	—	(24.2)
- Convertible unsecured loan stock	—	—	(1.9)	—	(18.0)
- Senior subordinated notes/High Yield Bond	—	—	(1.3)	—	(12.4)
- on deferred purchase consideration	—	—	(9.2)	—	—
- on late tax paid	(0.8)	—	—	—	—
- amortisation of finance costs	—	—	(0.2)	—	(2.6)
	(0.3)	7.4	(13.5)	1.2	(56.1)

11. TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES

	52 weeks to 26 December 1995 (£ million)	53 weeks to 31 December 1996 (£ million)	52 weeks to 30 December 1997 (£ million)	39 weeks to 30 September 1997 (£ million)	39 weeks to 29 September 1998 (£ million)
UK corporation tax - group	16.6	28.2	15.9	15.9	—
Share of tax charge of associated undertakings	—	—	—	—	1.1
Deferred taxation	(0.5)	(0.5)	(2.3)	(2.3)	—
	16.1	27.7	13.6	13.6	1.1

The tax charges for periods up to 30 December 1997 represent payments to Blueslate Limited and The Brent Walker Group PLC for tax losses surrendered. The tax charge for the 39 weeks ended 29 September 1998 represents the Group's share of the tax charge of its associated undertaking, SIS. There is no corporation tax charge for the Group for the 39 weeks ended 29 September 1998 due to the availability of tax losses brought forward in the trading companies and current year interest expense. As at 31 December 1997 there were approximately £47 million of tax losses in the trading companies and these losses were all utilised in the 39 week period ended 29 September 1998.

12. DIVIDENDS

	52 weeks ended 26 December 1995 (£ million)	53 weeks ended 31 December 1996 (£ million)	52 weeks ended 30 December 1997 (£ million)	39 weeks ended 30 September 1997 (£ million)	39 weeks ended 29 September 1998 (£ million)
Ordinary dividends	11.5	—	38.5	38.5	—
Dividends per share	5.0p	—	16.9p	16.9p	—

The above dividends for 1995 and 1997 were paid by entities comprising Old William Hill. The calculation of the dividends per share is based on the dividends payable for each financial period assuming that there were 227.6 million ordinary shares in issue throughout each such financial period.

13. (LOSS)/EARNINGS PER ORDINARY SHARE

The calculation of the (loss)/earnings per share is based on the loss or profit for each financial period assuming that there were 227.6 million ordinary shares in issue throughout each such financial period.

14. TANGIBLE FIXED ASSETS

	Land and buildings (£ million)	Fixtures, fittings and equipment (£ million)	Motor vehicles (£ million)	Total (£ million)
Cost				
At 26 December 1995	638.0	14.1	2.2	654.3
Additions	8.7	0.5	0.7	9.9
Disposals	(3.7)	(0.1)	(0.7)	(4.5)
At 31 December 1996	643.0	14.5	2.2	659.7
Additions	9.1	3.0	0.8	12.9
Disposals	(4.6)	(1.7)	(0.4)	(6.7)
At 30 September 1997	647.5	15.8	2.6	665.9
Revaluation	(16.2)	35.6	0.6	20.0
Additions	4.6	1.5	0.1	6.2
Disposals	(1.5)	—	(0.1)	(1.6)
At 30 December 1997	634.4	52.9	3.2	690.5
Additions	3.7	8.8	0.7	13.2
Disposals	(0.5)	(3.5)	—	(4.0)
At 29 September 1998	637.6	58.2	3.9	699.7
Accumulated depreciation				
At 26 December 1995	210.1	3.4	0.9	214.4
Charge for the period	10.9	0.8	0.6	12.3
Disposals	(3.0)	(0.2)	(0.5)	(3.7)
At 31 December 1996	218.0	4.0	1.0	223.0
Charge for the period	6.1	3.0	0.5	9.6
Impairment of leasehold building ...	1.3	—	—	1.3
Disposals	(4.0)	(1.6)	(0.4)	(6.0)
At 30 September 1997	221.4	5.4	1.1	227.9
Revaluation	(217.7)	35.4	0.6	(181.7)
Charge for the period	2.1	0.9	0.2	3.2
Disposals	(1.4)	—	(0.1)	(1.5)
At 30 December 1997	4.4	41.7	1.8	47.9
Charge for the period	1.5	7.4	0.5	9.4
Disposals	(0.3)	(3.2)	—	(3.5)
At 29 September 1998	5.6	45.9	2.3	53.8
Net book value:				
At 26 December 1995	427.9	10.7	1.3	439.9
At 31 December 1996	425.0	10.5	1.2	436.7
At 30 September 1997	426.1	10.4	1.5	438.0
At 30 December 1997	630.0	11.2	1.4	642.6
At 29 September 1998	632.0	12.3	1.6	645.9

14. TANGIBLE FIXED ASSETS (continued)

	26 December 1995 (£ million)	31 December 1996 (£ million)	30 December 1997 (£ million)	30 September 1997 (£ million)	29 September 1998 (£ million)
The net book value of land and buildings comprises:					
Freehold	61.0	59.7	74.8	59.8	75.6
Long leasehold	10.0	9.9	12.0	8.6	12.1
Short leasehold	356.9	355.4	543.2	357.7	544.3
	<u>427.9</u>	<u>425.0</u>	<u>630.0</u>	<u>426.1</u>	<u>632.0</u>
Gross value of assets on which depreciation is not provided	500.6	500.6	578.0	501.0	579.2

At 26 December 1995, 31 December 1996 and 30 September 1997 provisions of £160.9 million were carried against assets not depreciated.

An external valuation, as at 1 September 1997, was carried out by Weatherall Green & Smith, Chartered Surveyors, who advised that the open market value of the Group's LBOs on an existing use basis as fully operational business units and the principal administrative properties on an existing use basis, all in accordance with the Statements of Asset Valuation Practice and Guidance Notes issued by the Royal Institution of Chartered Surveyors, was an aggregate of £626.8 million which, when added to the net book value of tangible fixed assets not included in such valuation, indicated a total valuation for all tangible fixed assets of £639.7 million. As disclosed in note 27, the LBOs were revalued to reflect this valuation on acquisition of Old William Hill. No provisions were carried at 30 December 1997 and 29 September 1998 against assets not depreciated.

15. INVESTMENTS

	Associated undertakings (£ million)	Other investments (£ million)	Total (£ million)
Cost			
At 26 December 1995, 31 December 1996 and 30 September 1997	—	11.6	11.6
Revaluation	—	9.6	9.6
At 30 December 1997	—	21.2	21.2
Reclassification to associated undertakings	21.2	(21.2)	—
Movement in share of net assets	—	—	—
Goodwill arising on acquisition	5.8	—	5.8
Amortisation of goodwill	(0.9)	—	(0.9)
At 29 September 1998	<u>26.1</u>	<u>—</u>	<u>26.1</u>

The Group's interest in associated undertakings comprises:

	At 29 September 1998 (£ million)
Share of net assets	0.4
Goodwill arising on reclassification to associated undertaking	20.8
Goodwill arising on purchase of additional shareholding (note 27)	5.8
Accumulated amortisation	<u>(0.9)</u>
Interest in associated undertakings	<u>26.1</u>

15. INVESTMENTS (continued)

At 30 December 1997 WHO, a principal subsidiary of the Company, had an investment of 14.8% in the ordinary share capital of SIS, a company incorporated in Great Britain. During the 39 weeks ended 29 September 1998, WHO acquired an additional 4.2% stake in SIS, increasing its shareholding in SIS to 19% (see note 27). The investment has been accounted for as an associated undertaking using the equity method for the 39 weeks ended 29 September 1998.

At 29 September 1998 WHO holds directly or indirectly 33% of the entire share capital of Lucky Choice Limited and 33% of the entire share capital of 49's Limited. These companies were formed for the purpose of promoting and publicising certain numbers betting formats.

In the opinion of the directors of the Company, the results of these companies are not material to the results of the Group. Consequently, the investments have been stated at cost and have not been accounted for under the equity method which would normally be appropriate for an associated undertaking.

On 1 July 1998 and 12 November 1998 WHO received dividends of £2.9 million and £9.5 million, respectively, from SIS, the Group's associated undertaking.

16. STOCKS

	At 26 December 1995 (£ million)	At 31 December 1996 (£ million)	At 30 December 1997 (£ million)	At 30 September 1997 (£ million)	At 29 September 1998 (£ million)
Raw materials and consumables	0.4	0.5	0.4	0.4	0.3
Work-in-progress	1.0	0.4	0.7	1.6	0.6
	<u>1.4</u>	<u>0.9</u>	<u>1.1</u>	<u>2.0</u>	<u>0.9</u>

17. DEBTORS

	At 26 December 1995 (£ million)	At 31 December 1996 (£ million)	At 30 December 1997 (£ million)	At 30 September 1997 (£ million)	At 29 September 1998 (£ million)
Trade debtors	2.0	1.5	2.5	2.1	3.0
Other debtors	13.4	11.1	2.2	2.8	0.5
Prepayments	5.4	5.6	5.3	7.3	8.0
	<u>20.8</u>	<u>18.2</u>	<u>10.0</u>	<u>12.2</u>	<u>11.5</u>
Included in other debtors are the following amounts falling due after more than one year:					
Other debtors	<u>10.6</u>	<u>6.4</u>	<u>—</u>	<u>—</u>	<u>—</u>

18. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	At 26 December 1995 (£ million)	At 31 December 1996 (£ million)	At 30 December 1997 (£ million)	At 30 September 1997 (£ million)	At 29 September 1998 (£ million)
Bank loans and overdrafts (Note 20 (a))	—	—	20.8	—	7.8
Trade creditors	4.0	5.7	8.4	7.8	9.1
Corporation tax	2.6	2.7	2.3	2.4	2.3
Other taxation and social security	24.1	13.0	18.2	12.7	13.3
Other creditors	12.8	4.2	8.4	3.8	3.2
Accruals and deferred income	12.7	12.2	16.7	16.6	30.8
	<u>56.2</u>	<u>37.8</u>	<u>74.8</u>	<u>43.3</u>	<u>66.5</u>

19. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	At 26 December 1995 (£ million)	At 31 December 1996 (£ million)	At 30 December 1997 (£ million)	At 30 September 1997 (£ million)	At 29 September 1998 (£ million)
Bank loans (Note 20 (a))	—	—	335.1	—	332.2
Convertible unsecured loan stock (Note 20 (b))	—	—	192.9	—	211.9
Senior subordinated notes (Note 20 (c))	—	—	142.4	—	—
High Yield Bond due 2008 (Note 20 (d))	—	—	—	—	142.6
Amounts payable to Blueslate Limited (Note 20(f))	301.6	301.9	—	267.1	—
William Hill Organization Loan Notes due 2045 (Note 20(e))	6.5	6.5	—	6.5	—
Accruals and deferred income	2.0	—	—	—	—
	<u>310.1</u>	<u>308.4</u>	<u>670.4</u>	<u>273.6</u>	<u>686.7</u>

20. BORROWINGS

(a) Bank loans comprise:

- (i) £350 million Term Loan Facility which is repayable by instalments as shown in the table below. Interest on £300 million of the facility is fixed for three years until 22 December 2000 at 7.045% plus a margin (1.75% to 2.25%), by means of an interest rate swap, and on the balance at the same margin above variable LIBOR. If certain financial ratios are met a margin reduction of up to 0.75% is possible.

	At 26 December 1995 (£ million)	At 31 December 1996 (£ million)	At 30 December 1997 (£ million)	At 30 September 1997 (£ million)	At 29 September 1998 (£ million)
Less than one year	—	—	6.0	—	8.0
One to two years	—	—	8.0	—	9.0
Two to five years	—	—	54.0	—	64.0
Over five years	—	—	282.0	—	269.0
	<u>—</u>	<u>—</u>	<u>350.0</u>	<u>—</u>	<u>350.0</u>
Less: expenses relating to loan	—	—	(9.5)	—	(10.0)
	<u>—</u>	<u>—</u>	<u>340.5</u>	<u>—</u>	<u>340.0</u>
Amounts falling due within one year	—	—	5.4	—	7.8
Amounts falling due after more than one year	—	—	335.1	—	332.2
	<u>—</u>	<u>—</u>	<u>340.5</u>	<u>—</u>	<u>340.0</u>

Certain further mandatory prepayments are required to be made under the terms of the loan documentation, including, but not limited to, the net proceeds of certain asset sales, and an amount equal to 50% of available 'excess cash flow' as defined in the loan documentation. The above table does not reflect any mandatory prepayments that may arise as a result of such items.

20. BORROWINGS (continued)

- (ii) £50 million revolving credit facility which is available for seven years unless cancelled. Interest is charged at a margin of 1.75% above LIBOR and is subject to the same reduction in margin as noted above. A commitment fee of 0.75% per annum is payable on the undrawn element of the facility.

	At 26 December 1995 (£ million)	At 31 December 1996 (£ million)	At 30 December 1997 (£ million)	At 30 September 1997 (£ million)	At 29 September 1998 (£ million)
Revolving credit facility	—	—	16.7	—	—
Less: expenses relating to facility	—	—	(1.3)	—	—
Net amount falling due within one year .	—	—	15.4	—	—

During the 39 weeks ended 29 September 1998 the revolving credit facility drawn down at 30 December 1997 as to £16.7 million was repaid in full. The revolving credit facility drawn down at 29 September 1998 was £nil.

The £350 million term loan facility and the £50 million revolving credit facility are secured by a fixed charge on shares and certain other assets owned by the Company, an assignment by way of security of loans owed to the Company by its subsidiaries and a floating charge over all other assets of the Company.

William Hill Finance plc has granted to the banks and financial institutions providing the term loan facility and revolving credit facility a senior guarantee and a first ranking assignment by way of security over loans made by it to the Company. In addition a second ranking assignment to the holders of the High Yield Bonds has been granted.

The fair value of the interest rate swap agreement at 29 September 1998 was £(4.0) million (30 December 1997: £0.8 million). This represents the estimated amount that the Group would pay at 29 September 1998 (receive at 30 December 1997) to terminate the agreement taking into account current interest rates.

(b) Convertible unsecured loan stock

On 2 December 1997 the Company issued £352.5 million convertible unsecured loan stock ("CULS") to GBH for cash consideration of £200.0 million, equivalent to a 12% per annum discount. The CULS are redeemable at par on or at any time after 1 December 2002, unless previously converted or redeemed. Conversion is at the option of the loan note holder.

The conversion terms are one ordinary share of £1 each for every £1 of principal nominal amount of the CULS, where conversion takes place on or after 1 December 2002. The ordinary shares issued on conversion are to rank *pari passu* with the existing ordinary shares of the Company.

The earliest date of conversion was 1 April 1998. Where conversion takes place after 1 April 1998 but prior to 1 December 2002, the conversion terms are one ordinary share of £1 each for every £1 of the early redemption amount of the CULS. The early redemption amount is defined as the present value of the nominal amount of the CULS on the conversion date, discounted at 12% per annum from 1 December 2002.

Conversion after 1 April 1998, but prior to 1 December 2002, is conditional upon the effective admission of any of the issued ordinary share capital of the Company or any of its subsidiaries to the Official List of the London Stock Exchange, NASDAQ or the New York Stock Exchange.

The CULS rank *pari passu* with all other unsecured and unsubordinated obligations of the Company.

20. BORROWINGS (continued)

The 12% discount on the CULS is being accrued over the period until 1 December 2002. At 29 September 1998 £19.9 million had been accrued and included in creditors payable after more than one year.

	At 26 December 1995 (£ million)	At 31 December 1996 (£ million)	At 30 December 1997 (£ million)	At 30 September 1997 (£ million)	At 29 September 1998 (£ million)
Discounted loan notes	—	—	200.0	—	200.0
12% discount accrued	—	—	1.9	—	19.9
	—	—	201.9	—	219.9
Less: expenses relating to loan notes	—	—	(9.0)	—	(8.0)
	—	—	192.9	—	211.9

(c) Senior subordinated notes

	At 26 December 1995 (£ million)	At 31 December 1996 (£ million)	At 30 December 1997 (£ million)	At 30 September 1997 (£ million)	At 29 September 1998 (£ million)
Notes	—	—	150.0	—	—
Less: expenses relating to notes	—	—	(7.6)	—	—
	—	—	142.4	—	—

Interest on the senior subordinated notes issued by William Hill Finance plc was payable at 11% per annum. On 14 May 1998 the Senior Subordinated Notes were repaid in full. The Senior Subordinated Notes were replaced by a High Yield Bond of £150 million (see note 20(d)).

(d) High Yield Bond due 2008

	At 26 December 1995 (£ million)	At 31 December 1996 (£ million)	At 30 December 1997 (£ million)	At 30 September 1997 (£ million)	At 29 September 1998 (£ million)
Bond	—	—	—	—	150.0
Less: expenses relating to Bond	—	—	—	—	(7.4)
	—	—	—	—	142.6

On 14 May 1998 William Hill Finance plc issued £150 million of 10.625% High Yield Bonds ("Private Notes") due to mature in 2008. On the same date, the £150 million of 11% Senior Subordinated Notes issued by William Hill Finance Plc (see note 20(c)) were repaid, largely from the proceeds of this issue.

On 23 November 1998, pursuant to an exchange offer, £149.7 million of the Private Notes were exchanged for an equal amount of 10% Senior Subordinated Notes Due 2008 (the "Exchange Notes"), with terms substantially identical to the Private Notes, except that the Exchange Notes are registered on form F-4 under the US Securities Act of 1933, as amended.

Interest on the Exchange Notes and the remaining Private Notes accrues at a rate of 10.625% per annum and is payable semi-annually in arrears on 30 April and 31 October each year.

Unless previously redeemed the Exchange Notes will be redeemed by the issuer on 30 April 2008 for the principal amount. The Exchange Notes are redeemable in full or in part after 30 April 2003 at the option of the issuer at a redemption price in 2003 of 105.313% of the principal amount, reducing to 100% of the principal amount in 2007. Prior to 30 April 2001 the issuer may use the proceeds of one or more public equity offerings to redeem up to 35% of the Exchange Notes at a redemption price of 110.625% of the principal amount.

20. BORROWINGS (continued)

(e) William Hill Organization Loan Notes due 2045

	At 26 December 1995 (£ million)	At 31 December 1996 (£ million)	At 30 December 1997 (£ million)	At 30 September 1997 (£ million)	At 29 September 1998 (£ million)
William Hill Organization Loan Notes due 2045	6.5	6.5	—	6.5	—

The William Hill Organization Loan Notes due 2045 (the "Loan Notes") were constituted on 24 September 1994 to the value of £6.5 million and on that date were issued to The Brent Walker Group PLC in part consideration of the purchase of shares in SIS. Interest on the Loan Notes was only payable on receipt of dividends from SIS, in which event a proportion of such dividend equal to the ratio of the Loan Notes to the total purchase price of SIS shares was payable to the holder of the Loan Notes.

The Loan Notes were repaid to The Brent Walker Group PLC on 2 December 1997.

(f) Amounts payable to Blueslate Limited

	At 26 December 1995 (£ million)	At 31 December 1996 (£ million)	At 30 December 1997 (£ million)	At 30 September 1997 (£ million)	At 29 September 1998 (£ million)
Amounts payable to Blueslate Limited	301.6	301.9	—	267.1	—

Amounts payable to Blueslate Limited were repaid on 2 December 1997.

21. RECONCILIATION OF OPERATING (LOSS)/PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	52 weeks ended 26 December 1995 (£ million)	53 weeks ended 31 December 1996 (£ million)	52 weeks ended 30 December 1997 (£ million)	39 weeks ended 30 September 1997 (£ million)	39 weeks ended 29 September 1998 (£ million)
Operating (loss)/profit	(121.6)	49.5	69.9	50.9	75.2
Depreciation	13.3	12.3	12.8	9.6	9.4
(Profit)/loss on sale of fixed assets	(0.7)	0.1	0.3	0.2	(1.0)
(Increase)/decrease in stock	(0.8)	0.5	(0.2)	(1.1)	0.1
(Increase)/decrease in debtors	(0.4)	0.1	(0.6)	(2.7)	(3.0)
(Decrease)/increase in creditors	(5.4)	2.2	8.8	5.5	(3.5)
Pensions charge	1.6	1.8	1.7	1.7	1.0
Exceptional item	160.9	—	6.5	6.5	—
Cash inflow from operating activities	46.9	66.5	99.2	70.6	78.2

22. ANALYSIS OF NET DEBT

	At 26 December 1995 (£ million)	Cashflow (£ million)	At 31 December 1996 (£ million)	Cashflow (£ million)	Other non-cash changes (£ million)	At 30 December 1997 (£ million)	Cashflow (£ million)	Other non-cash changes (£ million)	At 29 September 1998 (£ million)
Cash at bank and in hand	22.0	17.9	39.9	(22.3)	—	17.6	19.1	—	36.7
Debt due within one year	—	—	—	(20.8)	—	(20.8)	16.7	(3.7)	(7.8)
Debt due after one year	(308.1)	(0.3)	(308.4)	(364.7)	2.7	(670.4)	0.4	(16.7)	(686.7)
	(286.1)	17.6	(268.5)	(407.8)	2.7	(673.6)	36.2	(20.4)	(657.8)

In the 52 week period ended 30 December 1997 other non-cash changes comprise £1.9 million discount accrued for the period on the CULS, and debt issue costs of £4.8 million accrued but unpaid at 30 December 1997, and finance costs amortised of £0.2 million.

Other non-cash changes in the 39 week period ended 29 September 1998 comprise £18.0 million discount accrued for the period on the CULS and debt issue costs accrued but unpaid at 29 September 1998 of £0.2 million, and finance costs amortised of £2.6 million.

23. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	52 weeks ended 26 December 1995 (£ million)	53 weeks ended 31 December 1996 (£ million)	52 weeks ended 30 December 1997 (£ million)	39 weeks ended 30 September 1997 (£ million)	39 weeks ended 29 September 1998 (£ million)
(Decrease)/increase in cash in the period	(17.5)	17.9	(22.3)	(25.9)	19.1
Corporation tax – group relief	(17.7)	(28.1)	(17.3)	(17.3)	—
Tax provisions	—	(13.8)	—	—	—
Loan repayments	12.5	24.5	273.6	—	16.7
Other cash repayments	29.9	17.1	13.6	13.6	—
Dividends paid	11.5	—	38.5	38.5	—
Increase in discount accrued on CULS	—	—	(1.9)	—	(18.0)
Cash inflow from increase in debt net of debt issue costs	—	—	(693.9)	—	—
Debt issue costs unpaid	—	—	4.8	—	0.2
Increase in debt issue costs paid	—	—	—	—	0.4
Finance costs amortised	—	—	(0.2)	—	(2.6)
Movement in net debt in the period	7.2	17.6	(405.1)	8.9	15.8
Net debt at beginning of period	(293.3)	(286.1)	(268.5)	(268.5)	(673.6)
Net debt at end of period	(286.1)	(268.5)	(673.6)	(259.6)	(657.8)

24. PROVISIONS FOR LIABILITIES AND CHARGES

	At 31 December 1996 (£ million)	At 30 December 1997 (£ million)	At 30 September 1997 (£ million)	At 29 September 1998 (£ million)
At beginning of period	3.5	3.0	3.0	0.7
(Released) during the period	(0.5)	(2.3)	(2.3)	—
Utilised during the period	—	—	—	—
At end of period	3.0	0.7	0.7	0.7
	Provided 26 December 1995 (£ million)	Provided 31 December 1996 (£ million)	Provided 30 December 1997 (£ million)	Provided 30 September 1997 (£ million)
Deferred taxation:				
Other	3.5	3.0	0.7	0.7
	Unprovided 26 December 1995 (£ million)	Unprovided 31 December 1996 (£ million)	Unprovided 30 December 1997 (£ million)	Unprovided 30 September 1997 (£ million)
Deferred taxation:				
Accelerated capital allowances	4.2	(0.7)	(3.2)	(4.9)
Tax losses	(2.4)	(2.4)	(24.8)	(16.1)
Short term timing differences	(1.9)	—	(0.9)	(0.9)
Other	(1.1)	—	—	—
Held over gains	7.6	5.4	4.5	4.7
	6.4	2.3	(24.4)	(30.4)

24. PROVISIONS FOR LIABILITIES AND CHARGES (continued)

The deferred taxation (liabilities)/assets have been computed at the tax rate expected to apply when the timing differences reverse. Prior to 31 December 1996, the tax rate applied was 33%. For accounting periods after this date, the tax rate applied was 31%.

25. CALLED UP SHARE CAPITAL

	The Company At 30 December 1997 (£ million)	The Company At 29 September 1998 (£ million)
Authorised:		
400,000,000 ordinary shares of £1 each	400	400
Allotted and fully paid:		
1 ordinary share of £1	—	—

On 6 October 1997, the Company issued one ordinary share of £1 at par for cash consideration.

No share capital is shown for the entities comprising Old William Hill, as this is presented as net investment by the former parent undertaking.

26. STATEMENT OF MOVEMENTS IN NET INVESTMENT/EQUITY SHAREHOLDERS' FUNDS

	Net investment by former parent undertaking (£ million)	Share capital (£ million)	Profit and loss account (£ million)	Total (£ million)
At 26 December 1995	125.9			
Profit for the financial year	32.2			
At 31 December 1996	158.1			
Profit for the financial period	2.1			
At 30 September 1997	160.2			
Decrease in investment by former parent undertaking on acquisition by the Company	(160.2)			
Shares issued during the period	—	—	—	—
Goodwill arising on acquisition by the Company	—	—	(57.7)	(57.7)
Profit for the financial period	—	—	4.3	4.3
At 30 December 1997	—	—	(53.4)	(53.4)
Profit for the financial period		—	20.6	20.6
At 29 September 1998		—	(32.8)	(32.8)

27. ACQUISITIONS

The entire share capitals of WHO, Camec Limited, Laystall Limited and William Hill Trustee Limited were acquired by the Company for a total consideration of £700.0 million, excluding incidental costs. A further £9.2 million was paid as interest on the deferred amount of this consideration, which was settled on 2 December 1997. The amount of goodwill arising as a result of the acquisition was £57.7 million. This was written off directly to reserves.

27. ACQUISITIONS (continued)

The Share Purchase Agreement was signed on 9 October 1997, with an effective acquisition date of 1 October 1997. The Acquisition has been accounted for using the acquisition method of accounting.

Goodwill arising from the acquisition was determined as follows:

	Book value of assets acquired (£ million)	Revaluation (£ million)	Other (£ million)	Fair value of assets acquired (£ million)
Tangible fixed assets	438.0	201.7	—	639.7
Fixed asset investments	11.6	9.6	—	21.2
Stocks	2.0	—	—	2.0
Debtors	12.2	—	—	12.2
Cash in hand	14.0	—	—	14.0
Creditors due in less than one year	(43.3)	—	(0.7)	(44.0)
Inter-company indebtedness	(273.6)	—	—	(273.6)
Provisions	(0.7)	—	—	(0.7)
	160.2	211.3	(0.7)	370.8
Goodwill				57.7
				428.5
Cash consideration				700.0
Expenses				2.1
Inter-company indebtedness				(273.6)
				428.5

On acquisition, the Company paid all amounts outstanding to the former parent companies, The Brent Walker Group PLC and Blueslate Limited, on behalf of its acquired subsidiaries. The amounts are now payable by the acquired subsidiaries to the Company.

The assets of Old William Hill, which consist primarily of LBOs, are most appropriately valued on a basis which takes into account the trading potential of the properties in accordance with the Statement of Standard Accounting Practice 22.

An external valuation, as at 1 September 1997, was carried out by Weatherall Green & Smith, Chartered Surveyors, who advised that the open market value of the Group's LBOs on an existing use basis, all in accordance with the Statement of Asset Valuation Practice and Guidance Notes issued by the Royal Institution of Chartered Surveyors, was an aggregate of £626.8 million which, when added to the net book value of fixed assets not included in such valuation, indicated a total valuation at that date of £639.7 million. Accordingly, the LBOs were revalued by £201.7 million to reflect this valuation.

Fixed asset investments were revalued on the most recent purchase price paid for shares in SIS. This is taken to be the closest approximation of the open market price of shares held.

On 11 March 1998, WHO acquired an additional 4.2% of the ordinary share capital of SIS for cash consideration of £6.1 million. The Group's total investment in SIS increased to 19.0% of the ordinary share capital. The additional premium arising as a result of the acquisition is being amortised over its estimated useful economic life, which does not exceed 20 years.

The table below sets out the acquisition of the additional 4.2% shareholding in SIS.

	£ million
Cash consideration	6.1
Net assets acquired	(0.3)
Goodwill arising on acquisition	5.8

No fair value adjustments were made to the book value of assets acquired.

28. CAPITAL COMMITMENTS

The Group had capital commitments as follows:

	At 26 December 1995 (£ million)	At 31 December 1996 (£ million)	At 30 December 1997 (£ million)	At 30 September 1997 (£ million)	At 29 September 1998 (£ million)
Contracted but not provided for	3.0	3.0	4.0	4.0	5.4

29. CONTINGENT LIABILITIES

The Group has given guarantees in respect of the rental of office premises to third parties on behalf of Satellite Information Services Limited, a subsidiary of SIS. The guarantees are given by Camec Limited but it has an indemnity from Bass plc, Sears plc, Ladbroke Group plc and The Horserace Totalisator Board for each of those companies' proportion of the liability. The guarantees are to the value of:

	At 26 December 1995 (£ million)	At 31 December 1996 (£ million)	At 30 December 1997 (£ million)	At 30 September 1997 (£ million)	At 29 September 1998 (£ million)
Guarantees	2.5	2.2	2.0	2.1	1.8

30. OPERATING LEASE COMMITMENTS

The Group was committed to making the following payments during the next year as follows:

	30 September 1997		30 December 1997		29 September 1998	
	Land and buildings (£ million)	Other (£ million)	Land and buildings (£ million)	Other (£ million)	Land and buildings (£ million)	Other (£ million)
Payments due within one year for leases which expire:						
Within one year	1.5	—	1.5	—	1.8	4.3
Within two to five years	2.9	5.3	2.8	5.1	3.2	—
After five years	14.8	—	14.8	—	14.6	—
	19.2	5.3	19.1	5.1	19.6	4.3

31. PENSION COSTS

Eligible employees of the acquired subsidiaries who chose to join are members of pension plans which provide benefits under defined contribution or defined benefit arrangements.

That part of the William Hill Pension Scheme providing defined benefits is subject to valuation by independent actuaries, the last formal valuation being carried out as at 5 April 1996 using the projected unit credit method, in which the actuarial liability makes allowances for projected earnings.

The principal 1996 valuation assumptions were:

Annual rate of return on investments	9.0% per annum
Annual increase in total pensionable remuneration	7/7.75% per annum
Annual increase in present and future pensions in payment	4.5% per annum

The market value of the assets of the scheme was £67.7 million at the date of valuation and the actuarial value placed on the assets was sufficient to cover 120% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The pension cost took account of the change in the surplus since the last valuation spread over the average remaining service lives of the members of the scheme.

31. PENSION COSTS (continued)

A review of the Retirement Plan (the defined benefit section of the Pension Scheme) was undertaken as at 5 October 1998. The Government's Budget in 1997 removed the ability of pension schemes to reclaim the tax credit associated with UK equity dividends. Therefore, the actuarial method of valuation previously used, which assumed the receipt of gross dividends, is no longer considered appropriate. As a result, it has been decided to adopt a market related approach to valuation and funding. The projected unit credit method has however been retained. The assumptions underlying the calculation of the liabilities were derived by reference to the gross redemption yield on long term gilts in conjunction with a pre-retirement equity enhancement, consistent with market conditions at the time of the review, of 1½% per annum. The results of the valuation, which showed that the market value of the assets was sufficient to cover 111% of the benefits that had accrued to members at the date of the review, have been adopted from 31 December 1997.

32. RELATED PARTIES

Nomura International plc ("Nomura") is a related party under Financial Reporting Standard 8 – Related Party Transactions. Nomura owns warrants which if exercised would give it 99.99% of the share capital of The Grand Bookmaking Holdings Limited ("GBH"), the Company's immediate parent undertaking. Through this warrant holding, Nomura has the ability to exercise a controlling influence. During the 52 week period ended 30 December 1997, the Company paid Nomura £15.4 million for assistance in raising finance for the acquisition of its subsidiaries.

The Company issued £352.5 million of CULS to GBH for cash consideration of £200 million, equivalent to a 12% per annum discount. Interest payable on the CULS of £1.9 million was charged in the 13 week period from the date of acquisition to 30 December 1997 and £18.0 million in the 39 weeks ended 29 September 1998.

In addition, £150 million of senior subordinated notes (the "Notes" – see note 20(c)) were issued by William Hill Finance plc to Nomura. On 14 May 1998 high yield bonds were issued by William Hill Finance plc to repay the Notes. Interest charged to the profit and loss account in respect of the Notes amounted to £1.3 million in the 13 week period from the date of acquisition to 30 December 1997 and £6.2 million in the 39 weeks ended 29 September 1998.

On 22 December 1997, the Company entered into an interest rate swap agreement with Nomura to fix interest rates on £300 million of bank loans at 7.045%, as disclosed in note 20(a). In the 39 weeks ended 29 September 1998, £1.6 million was credited to the profit and loss account in respect of amounts received and receivable from Nomura under the terms of the swap agreement. At 29 September 1998, amounts receivable from Nomura under the swap agreement amounted to £0.6 million.

During the 39 weeks ended 29 September 1998 the Group made purchases of £8.6 million from Satellite Information Services Limited, a subsidiary of the Group's associated undertaking, SIS. At 29 September 1998 the amount payable to Satellite Information Services Limited by the Group was £nil.

33. POST BALANCE SHEET EVENTS

On 18 January 1999 the Company announced its intention to apply for the whole of its ordinary share capital, issued and to be issued, to be admitted to the Official List of the London Stock Exchange.

On 26 January 1999 the Company increased its authorised share capital from £400,000,000 to £400,049,999 by the creation of 49,999 cumulative redeemable non-voting preference shares of £1 each. On that date, the Company issued 49,999 cumulative redeemable non-voting preference shares of £1 each at par.

On 26 January 1999 GBH, the Company's immediate parent company, waived its right to payment on redemption in respect of £100 million nominal amount of CULS (see note 20(b)).

34. SUMMARY OF PRINCIPAL DIFFERENCES BETWEEN UK GAAP AND US GAAP

The combined and consolidated financial statements are prepared in accordance with UK GAAP, which differs in certain significant respects from US GAAP. These differences relate principally to the following items. Whilst this is not a comprehensive summary of all differences between UK GAAP and US GAAP, other differences are considered unlikely to have a significant effect on the combined and consolidated profit for the financial period and shareholders' equity of the Company.

Goodwill and betting office licences

Under UK GAAP, prior to 30 December 1997, goodwill arising on consolidation was written off against reserves. Under UK GAAP betting office licences are treated as tangible fixed assets and are carried at fair value on acquisition with no systematic amortisation, as they have no finite economic life. The carrying value of these assets are evaluated periodically to determine whether there has been a loss in value, by reviewing current and estimated future earnings and cash flows on an undiscounted basis.

Under US GAAP, betting office licences are treated as intangible assets. The goodwill arising on consolidation and the betting office licence intangible asset are required to be amortised over the period of their estimated lives, to a maximum of 40 years.

Deferred taxation

Under UK GAAP, deferred taxes are accounted for to the extent that it is probable that a liability or asset will crystallise in the foreseeable future. Under US GAAP, deferred taxes are accounted for on all timing differences and a valuation allowance is established in respect of those deferred tax assets where it is more likely than not that some portion will remain unrealised. Deferred tax also arises in relation to the tax effect of other US GAAP adjustments.

Pensions

Pension costs are accounted for under the rules set out in SSAP 24. The objectives and principles of SSAP 24 are broadly in line with those set out in the US accounting standard for pensions, SFAS 87, Employers' Accounting for Pensions. The principal difference relates to the treatment of the pension asset which was recorded under US GAAP on the acquisition of Old William Hill by the Company. This reflected the Scheme's market valuation and would be adjusted to reflect the latest valuation of the Scheme (see note 31).

Exceptional items

Non-operating exceptional items under UK GAAP are treated as part of ordinary income under US GAAP.

Cash flow information

Cash flows under UK GAAP differ in certain presentational respects from the format required under SFAS 95. Under UK GAAP, cash paid or received for interest and income taxes are presented separately from operating activities and dividends paid are presented separately from financing activities. Under SFAS 95, cash flows from operating activities are based on the net income, which includes interest and income taxes. Under SFAS 95, dividends paid would be included within financing activities.

Proposed dividends

Under UK GAAP, dividends are included in the financial statements when recommended by the Board of Directors to the shareholders. Under US GAAP, dividends are not included in the financial statements until declared by the Board of Directors.

Yours faithfully

Deloitte & Touche
Chartered Accountants

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1 February 1999

PART 4 PROFIT ESTIMATE AND PRO FORMA FINANCIAL INFORMATION

PROFIT ESTIMATE

Unaudited consolidated profit estimate

On the bases set out below, the Directors estimate that the profit of the Group for the 52 weeks ended 29 December 1998 will be:

	£ million
Turnover	1,805.8
Profit on ordinary activities before exceptional items, interest and taxation	93.5
Net interest payable	(74.3)
Profit before tax	19.2
Tax	(1.4)
Profit after tax	17.8
Earnings per Share	7.8p

The unaudited consolidated profit estimate for the 52 weeks ended 29 December 1998 is based upon management projections for that period, taking into account the audited results for the 39 weeks ended 29 September 1998 (as set out in Part 3) and unaudited management information for the 13 weeks ended 29 December 1998.

The information has been prepared using the accounting policies described in Part 3 and on the following bases:

1. The profit estimate does not include any exceptional items associated with the Global Offer or the costs associated with the reduction of the Group's borrowings as a result of the Global Offer, which will be charged in the profit and loss account for the 52 weeks ended 28 December 1999.
2. The profit estimate includes an estimate of the Group's share of operating profit, taxation and interest from its associated undertaking SIS, which are derived from unaudited management information provided by SIS.
3. There will be no material change in the rates of taxation in the United Kingdom.
4. Earnings per Share have been calculated on the basis of estimated profit after taxation and on the basis that there were 227.6 million Existing Shares in issue throughout the 52 weeks ended 29 December 1998, which assumes that the Offer Price is set at the mid-point of the Price Range.

PRO FORMA FINANCIAL INFORMATION

Unaudited pro forma consolidated profit estimate

The Directors have set out below, for illustrative purposes only, an unaudited pro forma consolidated profit estimate for the Group for the 52 weeks ended 29 December 1998. The pro forma consolidated profit estimate is based on the unaudited consolidated profit estimate (as set out above) adjusted to illustrate the effects of the Global Offer and the reduction in the Group's borrowings as a result of the Global Offer, collectively "the Transaction", as if they had occurred on 31 December 1997.

Paragraph 12.34 of the Listing Rules of the London Stock Exchange requires that only adjustments that are directly attributable to the transactions concerned, which do not relate to future events and decisions, and which are factually supportable should be made.

The unaudited pro forma consolidated profit estimate does not purport to represent what the Group's results would actually have been had the Transaction in fact occurred on 31 December 1997 or to project the results of the Group at any future date. The pro forma consolidated profit estimate may not give a true picture of the Group's results because of its nature, being prepared for illustrative purposes only.

Unaudited pro forma consolidated profit estimate for the 52 weeks ended 29 December 1998

	Notes	Profit estimate (£ million)	Non-exceptional adjustments for the reduction of borrowings and the Global Offer (£ million)	Pre-exceptional pro forma profit estimate (£ million)	Exceptional adjustments for the reduction of borrowings and the Global Offer (£ million)	Pro forma profit estimate (£ million)
Turnover		1,805.8	—	1,805.8	—	1,805.8
Profit on ordinary activities before exceptional items, interest and taxation		93.5	—	93.5	—	93.5
Exceptional items	(1)	—	—	—	(14.7)	(14.7)
Net interest payable	(2)	(74.3)	42.0	(32.3)	—	(32.3)
Exceptional interest items	(3)	—	—	—	(20.8)	(20.8)
Profit before tax		19.2	42.0	61.2	(35.5)	25.7
Tax	(4)	(1.4)	(4.1)	(5.5)	4.1	(1.4)
Profit after tax		17.8	37.9	55.7	(31.4)	24.3
Earnings per Share	(5)	7.8p		18.6p		8.1p

- Adjustment has been made to reflect the charging of estimated professional fees and other costs of £8.4 million associated with the Global Offer. £3.7 million, being the underwriting costs in respect of New Shares to be issued under the Global Offer assuming that the Offer Price is set at the mid-point of the Price Range, will be set off against the share premium account. Estimated charges of £6.3 million have also been made in respect of the management incentive arrangements and shares to be issued to the William Hill Employee Trust referred to in paragraph 4 of Part 7.
- The net interest adjustment of £42.0 million is calculated to show the effect of the reduction of the Group's borrowings following the Global Offer as if completion of the Global Offer had occurred on 31 December 1997. The following adjustments have been made as a result of such reduction which are expected to have a continuing effect on the Group:
 - the elimination of £24.1 million of accrued discount, recorded as interest costs, in respect of the CULS which will be waived prior to Admission, which were previously charged in the profit estimate;
 - the reduction of interest costs totalling £4.2 million, which were previously charged in the profit estimate, in respect of £37.5 million of the Notes (and the funding which they refinanced) which will be repaid from the proceeds of the Global Offer. The impact of the repayment has been adjusted from 31 December 1997;
 - the reduction in interest costs totalling £11.9 million, which reflects the repayment of £81.5 million of the Term Loan Facility from the proceeds of the Global Offer and the reduction in the Group's interest charges on its Term Loan Facility from a fixed rate of 7.045% (plus a margin of 1.75% to 2.25%, subject to margin adjustment) to a fixed rate of 5.3% (plus a margin of 1.75% to 2.25%, subject to margin adjustment). Such interest costs were previously charged in the profit estimate. The fixed rate of 5.3% is the rate of interest which the Group has assumed will be available to it under new hedging arrangements to be entered into by the Group, in relation to the Term Loan Facility, following the Global Offer. The new interest rate has been applied to the remaining balance of the Term Loan Facility of £268.5 million; and
 - a reduction in the annual charge relating to the amortisation of financing fees of £1.8 million.

The resulting pro forma interest charge of £32.3 million can be analysed as follows:

 - interest charges of £12.0 million on the balance of £112.5 million of Notes, after repayment of £37.5 million from the proceeds of the Global Offer. The impact of the repayment has been adjusted from 31 December 1997;
 - interest charges of £19.1 million on the balance of £268.5 million of the Term Loan Facility, after repayment of £81.5 million from the proceeds of the Global Offer. Interest has been calculated at a fixed rate of 5.3% (plus a margin of 1.75% to 2.25%), subject to a margin adjustment of between 0.25% and 0.75%. The fixed interest rate has been applied to the remaining balance of the Term Loan Facility of £268.5 million;
 - finance fee amortisation charges of £1.9 million. The amortisation has been calculated on the residual finance fees not written off; and
 - net interest receivable of £0.7 million credited to the profit and loss account in the profit estimate for the 52 weeks ended 29 December 1998.
- The following adjustments have been made as a result of the reduction of the Group's borrowings following the Global Offer which are not expected to have a continuing effect on the Group:
 - the write-off of £4.3 million of the unamortised element of financing fees relating to the amount of the Group's borrowings which will be repaid or waived in connection with the Global Offer;
 - estimated costs of £2.0 million associated with the reduction of the Term Loan Facility;
 - estimated costs of £4.0 million relating to the premium of 10.625% payable on redemption of £37.5 million of the Notes; and
 - estimated costs of £10.5 million in respect of the close out of the existing hedging arrangements relating to the Term Loan Facility.
- The pro forma adjustments to the profit estimate do not give rise to a taxable profit as there are sufficient losses and allowances available to shelter the increase in profit. As a deferred tax asset is not recognised in respect of these items there is no effect on the tax charge.

5. Profit estimate earnings per Share have been calculated on the basis of the estimated profit after taxation and on the basis that there were 227.6 million Existing Shares in issue throughout the 52 weeks ended 29 December 1998, which assumes that the Offer Price is set at the mid-point of the Price Range.

Pre-exceptional pro forma profit estimate earnings per Share have been calculated on the basis of the pre-exceptional pro forma estimated profit after taxation and 300 million Shares, being the number of Shares expected to be in issue immediately following completion of the Global Offer.

Pro forma profit estimate earnings per Share have been calculated on the basis of the pro forma estimated profit after taxation and 300 million Shares, being the number of Shares expected to be in issue immediately following completion of the Global Offer.

Unaudited pro forma consolidated net asset statement

The unaudited pro forma consolidated net asset statement set out below has been prepared for illustrative purposes only and, because of its nature, it may not give a true picture of the financial position of the Group at 29 September 1998. It is based on the audited consolidated balance sheet of the Group as at 29 September 1998 as set out in Part 3 and adjusted to illustrate the effects of the Global Offer, taking into account the adjustments detailed below.

The unaudited pro forma consolidated net asset statement does not purport to represent what the Group's financial position would actually have been had completion of the Global Offer occurred on 29 September 1998 or the financial position of the Group at any future date.

Unaudited pro forma consolidated net asset statement as at 29 September 1998

	Note	As at 29 September 1998 (£ million)	Adjustments for the reduction of borrowings and the Global Offer (£ million)	Pro forma net assets (£ million)
Fixed assets				
Tangible assets		645.9	—	645.9
Investments		26.1	—	26.1
		672.0	—	672.0
Current assets				
Stocks		0.9	—	0.9
Debtors		11.5	—	11.5
Cash at bank and in hand	(1)	36.7	(28.6)	8.1
Creditors: amounts falling due within one year	(2)	(66.5)	(3.1)	(69.6)
Net current liabilities		(17.4)	(31.7)	(49.1)
Creditors: amounts falling due after more than one year	(3)	(686.7)	326.5	(360.2)
Provisions for liabilities and charges		(0.7)	—	(0.7)
Net (liabilities)/assets		(32.8)	294.8	262.0

- Adjustments have been made to reflect the receipt of the estimated proceeds of the Global Offer due to the Company of £119.4 million which, together with cash resources of the Group and £2.3 million from the issue of the Existing Shares, will be used to repay £81.5 million of the Term Loan Facility, £37.5 million of principal amount of the Notes, funding of the William Hill Employee Trust of £6.3 million and estimated professional fees and other costs of £28.6 million associated with the Global Offer and reduction of the Group's borrowings.
- Adjustment has been made to reflect the reclassification of £3.6 million of short term borrowings from cash to Creditors: amounts falling due within one year and bank loans of £0.5 million from creditors due within one year to creditors due after more than one year as a result of the amendment to the Term Loan Facility in connection with the Global Offer.
- Adjustments to creditors due after more than one year have been made to reflect:
 - the waiver of the CULS prior to Admission, together with related accrued discount, recorded as interest costs, totalling £219.9 million;
 - the repayment of £81.5 million of the Term Loan Facility and the repayment of £37.5 million of principal amount of the Notes;
 - the write-off of costs of £11.9 million relating to the unamortised element of financing fees. The fees relate to creditors which will be repaid or waived in connection with the Global Offer; and
 - the reclassification of bank loans of £0.5 million from creditors due within one year to creditors due after more than one year, as a result of the amendment to the Term Loan Facility in connection with the Global Offer.

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Cazenove & Co.
12 Tokenhouse Yard
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1 February 1999

Dear Sirs

William Hill plc

We have reviewed the accounting policies and calculations used in preparing the turnover, profit on ordinary activities before exceptional items, interest and taxation, net interest payable, profit before taxation, taxation and profit after taxation and earnings per Share, collectively the "profit estimate" of William Hill plc (the "Company") and its subsidiaries (the "Group") for the 52 weeks ended 29 December 1998, for which the directors of the Company are solely responsible, set out in Part 4 of the prospectus relating to the Company dated 1 February 1999 (the "Prospectus"). The profit estimate takes account of the results shown by audited accounts of the Group for the 39 weeks ended 29 September 1998, set out in Part 3 of the Prospectus, and the results shown by unaudited management accounts of the Group for the 13 weeks ended 29 December 1998.

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

In our opinion, the profit estimate, so far as the accounting policies and calculations are concerned, has been properly compiled on the basis adopted by the directors of the Company set out in Part 4 of the Prospectus and the basis of accounting is consistent with the accounting policies of the Group.

Yours faithfully

Deloitte & Touche

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Nomura International plc
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London EC1A 4NP

1 February 1999

Dear Sirs

William Hill plc

We refer to the estimate of turnover, profit on ordinary activities before exceptional items, interest and taxation, net interest payable, profit before taxation, taxation, profit after taxation and earnings per share, collectively the "profit estimate" of William Hill plc (the "Company") and its subsidiaries for the 52 weeks ended 29 December 1998 set out in Part 4 of the prospectus relating to the Company dated 1 February 1999.

We have discussed the profit estimate and the accounting policies under which it has been prepared with officials of the Company and Deloitte & Touche. We have also considered the report dated 1 February 1999 addressed to yourselves and ourselves by Deloitte & Touche, regarding the accounting policies and calculations underlying the profit estimate.

On the basis of the foregoing, we consider that the profit estimate referred to above, for which the directors of the Company are solely responsible, has been prepared after due and careful enquiry.

Yours faithfully

Philip Raper
Executive Director

Michael Davies
Executive Director

Deloitte & Touche



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1 February 1999

Dear Sirs

William Hill plc

We report on the unaudited pro forma consolidated profit estimate and unaudited pro forma consolidated net assets statement (the "pro forma financial information") set out in Part 4 of the prospectus dated 1 February 1999 (the "Prospectus") issued by William Hill plc (the "Company"). The pro forma financial information has been prepared for illustrative purposes only to provide information about how the Global Offer (as defined in the Prospectus) might have affected the financial information presented.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the pro forma financial information in accordance with paragraph 12.29 of the Listing Rules of the London Stock Exchange (the "Listing Rules").

It is our responsibility to form an opinion, as required by the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom our reports were addressed by us at the dates of their issue, and that responsibility imposed by section 152(1)(e) of the Financial Services Act 1986.

Basis of opinion

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

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

Opinion

In our opinion:

- (a) the pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Company; and
- (c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 12.29 of the Listing Rules.

Yours faithfully

Deloitte & Touche

PART 5 THE GLOBAL OFFER AND RELATED MATTERS

SELLING SHAREHOLDER

The Selling Shareholder is Nomura International plc. Nomura International plc is a wholly-owned subsidiary of The Nomura Securities Co., Ltd., a major securities company and international finance house. As part of the Global Offer, the Selling Shareholder intends, subject to market conditions, to sell its entire shareholding in the Company.

THE GLOBAL OFFER

Reasons for the Global Offer

William Hill has reached a stage in its development which the Directors consider makes it appropriate to seek a listing on the London Stock Exchange. Following the Global Offer, the Group intends to invest in its existing core LBO and telephone businesses, to seek to expand its LBO estate through selective acquisitions and to invest in the further development of its new channels of product delivery, such as the internet, and in the development of EPOS systems. Admission will also provide a means of providing more efficient access to the capital markets as well as providing the Group's employees with the opportunity to share in the benefits of equity ownership.

Shares subject to the Global Offer

Whilst the number of New Shares to be issued and the number of Existing Shares to be sold will vary depending on the Offer Price, if the Selling Shareholder sells its entire shareholding in the Company the aggregate number of Shares to be issued and sold under the Global Offer will be 300 million. The proceeds of the Global Offer received by the Company, together with cash resources of the Group, will be used to repay £81.5 million of indebtedness under the Term Loan Facility and £37.5 million of the principal amount outstanding under the Senior Subordinated Notes, together with associated costs, so as to leave the Group with net indebtedness of £375 million. The Company will issue such number of New Shares under the Global Offer as will enable it to make such repayments. The balance of Shares available under the Global Offer will be Existing Shares. Based on an Offer Price at the mid-point of the Price Range, the Shares subject to the Global Offer will comprise 72.4 million New Shares to be issued by the Company and 227.6 million Existing Shares to be sold by the Selling Shareholder. The Company will not receive any of the proceeds from the sale of Existing Shares by the Selling Shareholder.

Institutional Offer

Under the Institutional Offer, New and Existing Shares (subject to priority allocations under the Intermediaries Offer and the Employee Offer on the bases described below) will be available to institutional and certain other investors in the UK and elsewhere. Only Existing Shares are being made available to Qualified Institutional Buyers in the United States in reliance on Rule 144A under the Securities Act. Certain restrictions that apply to the distribution of this document and Shares in jurisdictions outside the UK are described in paragraph 13 of Part 7. The terms and conditions governing the Institutional Offer are set out in paragraph 17 of Part 7.

Intermediaries Offer

Individuals with a mailing address in the UK, the Isle of Man or Jersey can apply for New Shares through Intermediaries by completing application forms distributed by such Intermediaries or otherwise following their application procedures. Individuals with a mailing address in the Bailiwick of Guernsey can apply for New Shares provided such application is made through the Intermediary, Collins Stewart (CI) Limited. Under the Intermediaries Offer, applications may be made to subscribe for New Shares at the Offer Price (subject to it being determined). Applications must, however, be for Shares having a value at the Offer Price (when determined) of at least £1,000 for each individual application.

Allocations of Shares under the Intermediaries Offer will be at the absolute discretion of Warburg Dillon Read. If there is sufficient demand under the Intermediaries Offer, at least 10% of the total number of Shares available under the Global Offer will be made available to Intermediaries. If applications under the Intermediaries Offer exceed this level, and subject to the level of demand under the Institutional Offer, allocations under the Intermediaries Offer may be scaled down.

Applications by private investors through Intermediaries should be received by such Intermediaries by the time and date specified by the relevant Intermediary. Applications by Intermediaries under the Intermediaries Offer must be received by Warburg Dillon Read not later than 12 noon on 19 February 1999.

In making an application under the Intermediaries Offer, each Intermediary will be undertaking on its own behalf (not on behalf of any other person) to make payment for the Shares to which its application relates, in

accordance with the terms and conditions of the Intermediaries Offer. It will also be required to represent and warrant that its clients are not US persons or acting on behalf of any US person.

Intermediaries who wish to apply for Shares in the Intermediaries Offer may obtain copies of this document during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) until 19 February 1999 from the Company Announcements Office of the London Stock Exchange, London Stock Exchange Tower, Capel Court Entrance, off Bartholomew Lane, London EC2 (for collection only) and from Warburg Dillon Read, 1 Finsbury Avenue, London EC2M 2PP. An application by an Intermediary under the Intermediaries Offer must be made on an Intermediaries Application Form which may be obtained by Intermediaries only from Warburg Dillon Read at the above address. Completed Intermediaries Applications Forms should be returned by Intermediaries to the address stated on such forms so as to arrive no later than 12 noon on 19 February 1999. Further details regarding the Intermediaries Offer (including the detailed terms and conditions governing the Intermediaries Offer) are set out in the Intermediaries Application Form and the accompanying terms, conditions and procedural guidelines being sent to Intermediaries.

Intermediaries will be informed of settlement methods at or before the time they are notified of their allocations on or about 22 February 1999. In any case, they will be required to pay for Shares allocated to them by 11.00 am on 25 February 1999 by CHAPS transfer or, via CREST, against delivery of the Shares on 1 March 1999 or such earlier date after allocation as may be notified to them in writing.

The Intermediaries Offer will relate only to New Shares to be issued by the Company.

Employee Offer

15 million New Shares, representing 5% of the Shares available under the Global Offer, will be available on a priority basis for subscription by eligible employees under the Employee Offer. All Shares available under the Employee Offer will be New Shares and will be subscribed at the Offer Price (subject to it being determined). Applications must, however, be for New Shares having a value of at least £500 for each individual applicant.

Employees of the Group (both full and part time) who were in employment on 31 January 1999 will have the opportunity to subscribe at the Offer Price for New Shares under the Employee Offer. The detailed terms and conditions governing the Employee Offer are enclosed with the Employee Application Form being sent to eligible employees. Insofar as applications under the Employee Offer exceed the number of shares available under it, applications will be scaled down at the discretion of the Directors.

Applications by eligible employees under the Employee Offer must be received, together with a cheque or banker's draft (in sterling) for the value of Shares applied for, by the Registrars at the address specified on the Employee Application Form by not later than 5.00 pm on 17 February 1999. Eligible employees must apply in the Employee Offer on the personalised Employee Application Form which is posted to the employee.

Allocation and pricing

It is anticipated that Shares allocated under the Institutional Offer will be fully underwritten by the Managers, and Shares allocated under the Intermediaries Offer will be fully underwritten by Warburg Dillon Read, as described in "Underwriting arrangements" below. Allocations will be determined at the discretion of Warburg Dillon Read (following consultation with the Company and the Selling Shareholder) after indications of interest from prospective investors have been received.

All Shares issued or sold pursuant to the Global Offer will be issued or sold at the Offer Price. The Offer Price and the numbers of Shares allocated under the Global Offer are expected to be announced on 22 February 1999.

The Managers will be soliciting indications of interest in acquiring Shares under the Institutional Offer from prospective investors. Prospective investors will be required to specify the number of Shares which they would be prepared to acquire at the Offer Price (subject to it being determined). This process is expected to be completed by 5 pm on 19 February 1999 but the time for receipt of expressions of interest under the Institutional Offer may be extended at the discretion of Warburg Dillon Read (subject to the agreement of the Company and the Selling Shareholder) to a date not later than 24 February 1999.

It is currently expected that the Offer Price will be within the Price Range, but this range is indicative only and the Offer Price may be set above or below it. The Offer Price will be determined by Warburg Dillon Read with

the agreement of the Company and the Selling Shareholder. A number of factors will be considered in deciding the Offer Price and the bases of allocation under the Global Offer, including the level and the nature of the demand for Shares and the objective of encouraging the development of an orderly after-market in the Shares. Warburg Dillon Read may establish the Offer Price at a level determined in accordance with these arrangements, taking into account indications of interest received (whether before or after the times and/or dates stated) from persons (including market-makers and fund managers) connected with Warburg Dillon Read or with any other Manager.

Concurrently with the announcement of the Offer Price and the bases of allocation, a supplementary prospectus will be published (which will include, *inter alia*, a statement of the Offer Price).

The rights attaching to the New Shares and the Existing Shares will be uniform in all respects and they will form a single class for all purposes. The proportions in which particular allocations of Shares under the Institutional Offer will comprise Existing Shares and New Shares may vary at the discretion of Warburg Dillon Read. Certain rights of recourse arising pursuant to the Global Offer in respect of the Shares (including in relation to title to the Shares) may be derived from different persons according to whether the Shares acquired are New Shares (in respect of which such persons may not include the Selling Shareholder) or Existing Shares (in respect of which they may do so).

Over-allocation and stabilisation

In connection with the Global Offer, Warburg Dillon Read may over-allocate Shares. It may also effect other transactions intended to enable it to satisfy any over-allocations or which stabilise, maintain or otherwise affect the market price of the Shares or any options, warrants or rights with respect to, or interests in, Shares or other securities of the Company, in each case at levels which might not otherwise prevail in the open market. Such transactions may be effected on any securities market, over-the-counter market, stock exchange or otherwise. Such transactions, if commenced, may be discontinued at any time.

Warburg Dillon Read does not intend to disclose the extent of any over-allocations under the Global Offer, although individual investors may be required to disclose interests in Shares acquired pursuant to the Global Offer or arrangements connected with it in accordance with the disclosure requirements of the Act.

Dealing arrangements

The Global Offer is subject to the satisfaction of conditions contained in the Underwriting Agreement, including Admission occurring by 9.00 am on 8 March 1999 and to the Underwriting Agreement not having been terminated prior to Admission. Certain conditions (including Admission) are not capable of waiver. Further details of the Underwriting Agreement are set out in paragraph 12 of Part 7.

It is expected that dealings in the Shares will commence on a conditional basis on the London Stock Exchange at 9.00 am on 22 February 1999. The date for settlement of such dealings will be 8 March 1999.

All dealings between the commencement of conditional dealings and the commencement of unconditional dealings will be on a "when issued basis" and at the risk of the parties concerned. If the Global Offer does not become unconditional, these dealings will be void.

Admission is expected to take place, and unconditional dealings in the Shares are expected to commence on the London Stock Exchange, at 9.00 am on 1 March 1999. Settlements of dealings from this date will be on a five day rolling basis.

It is intended that, where applicable, definitive share certificates in respect of the Global Offer will be distributed from 1 March 1999.

These times and dates are indicative only and may be extended at the discretion of Warburg Dillon Read, with the agreement of the Company and the Selling Shareholder. However, the date by which unconditional dealings may commence will not be extended beyond 8 March 1999.

CREST and the Shares

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by a written instrument. The articles of association of the Company will permit the holding of Shares under the CREST system. The Company will apply for the Shares to be admitted to CREST

with effect from Admission. Accordingly, settlement of transactions in the Shares following Admission may take place within the CREST system if any shareholder so wishes.

CREST is a voluntary system and holders of Shares who wish to receive and retain share certificates will be able to do so. Investors applying for Shares under the Global Offer may, however, elect to receive Shares in uncertificated form if they are a system-member (as defined in the Uncertificated Securities Regulations 1995) in relation to CREST.

Shares available under the Employee Offer will not be available in uncertificated form and successful applicants will instead receive share certificates, which are expected to be distributed from 1 March 1999 to registered shareholders by post.

Underwriting arrangements

Immediately prior to the announcement of the Offer Price, the Managers are expected (but are not obliged) to enter into the Underwriting Agreement pursuant to which they will agree, subject to certain conditions, to subscribe or procure subscribers for New Shares and to purchase or to procure purchasers for Existing Shares which, in each case, are allocated pursuant to the Institutional Offer. Warburg Dillon Read is also expected to agree in the Underwriting Agreement to subscribe or procure subscribers for New Shares which are allocated under the Intermediaries Offer. All such subscriptions and purchases will be at the Offer Price. The Underwriting Agreement will contain a provision entitling Warburg Dillon Read to terminate the Global Offer (and the arrangements associated with it) at any time prior to Admission in certain circumstances. If this right is exercised, the Global Offer and these arrangements will lapse and any monies received in respect of the Global Offer will be returned to applicants without interest.

The Underwriting Agreement provides for the Managers to be paid commissions in respect of all New Shares and Existing Shares allocated pursuant to the Institutional Offer and for Warburg Dillon Read to be paid commissions (out of which it will pay commissions to Intermediaries) in respect of the New Shares allocated under the Intermediaries Offer.

Further details of the terms of the Underwriting Agreement are set out in paragraph 12 of Part 7.

Any commissions received by any of the Managers may be retained, and any Shares acquired by them may be retained or dealt in, by them for their own benefit. Investors should be aware that, while the ability of Managers to retain shares is not unusual in UK underwriting agreements, doing so to any significant degree could, by limiting the number of Shares available in the market, affect volatility in the market price of the Shares.

US securities legislation

The Shares have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, US persons except in accordance with Rule 144A under the Securities Act. Each Manager has agreed that it will not offer or sell Shares available under the Global Offer within the United States or to, or for the account or benefit of, US persons (i) as part of their distribution at any time, or (ii) otherwise until 40 days after the later of the commencement of the Global Offer and the settlement date, except in accordance with Rule 144A. Each Manager, at or prior to confirmation of sale of Shares available under the Global Offer, will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration to which it sells Shares during the distribution compliance period a confirmation or other notice setting out the restrictions on offers and sales of the Shares within the US or to, or for the account or benefit of, US persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the Global Offer, an offer or sale of Shares within the US by any dealer (whether or not participating in the Global Offer) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

PART 6 INVESTMENT CONSIDERATIONS

An investment in Shares will involve an element of risk. Accordingly, prior to making any investment decision, prospective purchasers of Shares should consider carefully certain risk factors applicable to William Hill described below and the other information contained in this document.

Risks associated with the UK gambling industry

The operation of gambling facilities in the UK is generally subject to extensive governmental regulation. In particular, the activities of William Hill are subject to the Betting Act. Various permits, licences, findings of suitability and approvals are required to be held by operators of bookmaking activities.

The regulatory authorities in the United Kingdom have discretion in the granting, renewing and cancellation of permits and licences and require that such permits and licences be renewed periodically.

In addition, gambling debts are not enforceable legally in the United Kingdom (and in certain other countries) and, therefore, William Hill may be unable to collect gambling debts from its credit customers in certain circumstances. While William Hill carries out its business in such a manner so as to reduce this risk (the proportion of the Company's business involving customer credit is small) and the Directors do not consider this a significant risk to the business, in theory there can be no assurance that William Hill will be able to recover all gambling debts from its customers in the future.

Each of William Hill's operational subsidiaries and all of its applicable key personnel currently hold all requisite permits, licences and approvals to operate in all the jurisdictions in which William Hill's operations are located. No assurance can be given, however, that any new, renewed or subsequent permits, licences or approvals that may be required by William Hill or its key personnel in the future will be granted or that existing permits, licences or approvals will be renewed or will not be cancelled. Further details are set out in "Regulation" in Part 1.

The Betting Act restricts the use of advertisements relating to the bookmaking business. In particular, William Hill is not currently permitted to advertise its business via television or radio in the UK. The Betting Act also restricts the type of gambling and other products William Hill may offer to its customers. In addition, certain products of William Hill are regulated by the SFA. While recent legislation has relaxed the applicability of certain provisions of the Betting Act to participants in the UK bookmaking industry, there can be no assurance that this relaxation will continue or that new restrictions will not be imposed.

Operators in the bookmaking business in the UK generally are subject to significant taxation and fees, including, in particular, betting duty payable to HM Customs & Excise, which is currently imposed at a rate of 6.75% on total off-course turnover. Such taxes and fees are subject to change at any time. William Hill pays substantial taxes and fees (such as horse racing levy and dog racing levy) with respect to its bookmaking operations and will be likely to incur similar taxes and fees in the future. Proposals to increase the horse racing levy, promoted by the British Horseracing Board, are discussed in "Horse racing financing" below. Any material increase in or the adoption of additional taxes or fees could have a material adverse effect on William Hill. Further details are set out in "Regulation" in Part 1.

In common with the other major bookmaking operators in the UK, William Hill is not a "pooling" betting operation. William Hill's primary products involve fixed odds betting where winnings are paid on the basis of the stake placed and the odds quoted rather than derived from a pool of stake money received from all customers. Consequently, although William Hill utilises risk management procedures to limit its exposure, there is no upper limit on the losses that could be incurred by William Hill in relation to each betting outcome. A bookmaker's odds are determined so as to provide an average return to the bookmaker over a large number of events. There is an inherently high level of variation in gross win percentage event by event and day by day. In the long term the gross win percentage remains fairly constant, but in the short term there is less certainty of profitability. In spite of this, daily losses in the LBO business are rare. Since the beginning of 1996, a daily loss on a gross win level has occurred in the LBO business on only seven occasions including, for example, on Dettori Day. Although on an annual basis William Hill has never suffered a loss as a result of payouts to winning customers made on its bookmaking operations, the Group has from time to time experienced significant losses with respect to individual events or betting outcomes. There can be no assurance that William Hill will not suffer such single-event losses in the future, the effect of which on the Company's operating results could be material. Further details are set out in "Introduction, The Group's business" in Part 1 and "Management's discussion and analysis of financial condition and results of operations" in Part 2.

Competition

William Hill faces competition from other UK bookmakers in the business areas in which it operates as well as from suppliers of other gambling products, such as the National Lottery. The Directors believe that its only competitors on a national level in the UK among bookmakers are Ladbroke and Coral in relation to LBOs and

Ladbroke and the Tote in relation to telephone betting. Management does not believe that William Hill currently faces significant competition from other participants in the UK gambling industry, namely casinos, bingo halls and soccer pools.

Significant competitive factors among participants in the UK bookmaking business include, among other things, the location of a bookmaker's LBOs, the total number of LBOs in a bookmaker's portfolio, the fixed odds offered and the quality of service provided in connection with betting products. Competition in the bookmaking industry in the United Kingdom is heavily constrained by the regulatory environment in a number of respects. In particular, UK regulations can restrict the location and, therefore, the number of new LBOs. A key factor in determining the success of a bookmaker's operations, therefore, is the quality and location of its existing LBOs.

Management believes that it is unlikely that it or its principal competitors will be able to expand significantly the number of LBOs operated other than through the acquisition of smaller bookmaking chains. The Directors believe that significant growth opportunities via any single acquisition are unlikely for William Hill.

Management intends to seek real underlying growth through the further development of its more recent products and channels and through continued investment in improving its LBO and telephone betting facilities. There can be no assurance, however, that such initiatives will result in increased turnover for William Hill. In addition, there can be no assurance that any further development or investment by William Hill will not be matched by the Group's competitors.

The UK government-sponsored National Lottery was introduced in 1994. In 1995, the first full year of its operation, the National Lottery had a significant adverse effect on the operating results of William Hill principally as a result of a reduction in the total number of bets placed with the Group. The negative effect of the National Lottery was reduced in 1996 and 1997 owing to a number of factors. However, the National Lottery will continue to compete with William Hill and other participants in the UK gambling industry. The Directors expect the National Lottery to seek to expand its own products and to continue to have a negative effect on William Hill's turnover and gross win. Further details are set out in "Competition, The National Lottery" in Part 1.

Seasonality and cyclicity

William Hill's operating results are affected by seasonality and, in particular, the schedule of the horse races on which William Hill accepts bets and from which a high proportion of the turnover of the Group is derived. The horse racing schedule in the UK is weighted towards the spring and summer months, with certain high profile races which attract significant betting activity, such as the Grand National and Derby, occurring during this period. Accordingly, William Hill has historically recorded higher turnover in the first half, particularly in the second quarter.

Furthermore, William Hill's operating results are affected by the schedules of other significant sporting events which may occur at regular time intervals, such as the European Football Championships and the World Cup.

Outdoor sporting events, particularly horse races, are subject to cancellations due to adverse weather conditions. Cancellation of one or more significant sporting events could cause fluctuation in turnover over the short term, which could have a material adverse impact on William Hill's cash flow.

In addition, William Hill's operating results, like those of other participants in the gambling industry, are cyclical in nature, with demand for William Hill's products influenced to a certain degree by general economic trends. While William Hill believes it can minimise the effects of these trends by, among other things, delaying certain capital expenditure programmes, there can be no assurance that William Hill's operating results will not be adversely affected by general economic trends in the future. For a discussion of the impact of seasonality and general economic trends on William Hill's results of operations, see "Management's discussion and analysis of financial condition and results of operations" in Part 2.

Dependence on key personnel

William Hill depends on the efforts and skills of a number of key personnel, including its Chief Executive, John Brown (56), its Group Finance Director and Deputy Chief Executive, Robert Lambert (57), its Operations Director, Liam McGuigan (54) and its Group Racing Director, David Lowrey (50). In addition, the Company's future success depends to a large extent on its ability to continue to attract, motivate and retain highly experienced or qualified employees. The loss of the services of such individuals, to the extent that William Hill could not replace them, or an inability to attract new personnel could have a material adverse effect on William Hill's business.

William Hill has entered into service agreements with the directors of WHO. These directors exercise day to day management of the Group. Further details are set out in "Directors, senior management and employees" in Part 1. Among other things, the service agreements of Mr Brown, Mr Lambert and the other directors of WHO require them to give one year's notice of their intention to resign. William Hill has not obtained "key man" life insurance policies for any of its personnel.

Holding company structure; compliance with covenants; interest rate risks

The Company and certain of its subsidiaries have significant indebtedness. These subsidiaries are required to comply with certain covenants contained in their debt instruments. Such covenants restrict the activities of William Hill and a breach of covenant, including a financial covenant, could result in the Company being prevented from paying dividends. Failure to comply with any of these covenants may result in acceleration of the maturity of indebtedness. Further details of these debt instruments are set out in paragraph 14 of Part 7.

As the Company is a holding company, its cash flow and its ability to pay dividends are dependent upon its subsidiaries. The Company may also be restricted in its payments of dividends depending on the availability of distributable profits.

Due to the fact that borrowings under William Hill's banking arrangements currently bear interest at floating rates, an increase in interest rates will (except to the extent interest rate hedges are in effect; see note 20 to the Accountants' Report in Part 3 above) reduce profits, as well as cash available for acquisitions, working capital, capital expenditures and general corporate purposes. There can be no assurance that the Group's financial condition and results of operations will not be adversely affected by a rise in interest rates.

Horse racing financing

On 14 January 1998, the British Horseracing Board issued a report on the financing of horse racing in the UK. The report identified as basic problems: (a) the high level of betting duty; (b) the high level of overhead expense incurred by operators of LBOs; (c) LBOs having a monopoly on selling horse racing betting products while offering competing betting products; and (d) the betting duty system which taxes at a flat rate regardless of the profit margin of each betting product. The report concluded that an additional annual investment of £105 million will be required to put British horse racing on a firm financial basis for it to be competitive internationally. The report recommended that £80 million of the required investment should be funded by an increase in the horse racing levy, to be financed either by the UK government or by the UK betting industry. The report also proposed that betting should be allowed in venues other than LBOs and called for a review of gambling legislation generally.

The Directors believe there is no current consensus in support of a change in financing the racing industry in general or in the rate of the horse racing levy in particular. For example, the then head of the British Horseracing Board resigned due to his disagreement with the report and in June 1998 the United Kingdom Betting Office Licensees Association released a report by Coopers & Lybrand that heavily criticised the British Horseracing Board's report. A formal response to this report was produced by the British Horseracing Board in July 1998. The principal author of the British Horseracing Board's original report has been elected as head of the British Horseracing Board on a mandate to seek to achieve the report's overall objectives. However, any significant change to present legislation would require government action, and there is no indication that this is on the UK government's current agenda. Notwithstanding the current situation, there can be no assurance that the changes recommended by the British Horseracing Board's report will not be introduced. Further details are set out in "Management's discussion and analysis of financial condition and results of operations" in Part 2.

Cross-border gambling

Most countries regulate or, in some cases, prohibit gambling activities. Historically, the regulation of the gambling industry has been organised at a national level. No international gambling regulatory regime exists. Accordingly, whilst the Company is satisfied that it complies with the law and regulation of the UK and the Isle of Man, where it has operations, whether, or the extent to which, existing domestic legislation in other countries applies to the international betting activities of William Hill is uncertain. In addition, certain countries have enacted specific legislation prohibiting internet gambling, such as the People's Republic of China, and similar legislation has been proposed, but not yet enacted, in others, including the United States. The Group has not undertaken a comprehensive review of the gambling law and regulation in every jurisdiction in which it advertises or from which it accepts bets. Accordingly, there can be no assurances that the application of existing and potential future law and regulation will not have a material adverse effect on the development and operation of the Group's international activities.

Year 2000 compliance

The Group's operations are highly dependent on technology and advanced information systems. William Hill is in the process of implementing a programme designed to ensure that all equipment and software used in connection with its services and internal operations systems will manage and manipulate data involving the transition of dates from 1999 to 2000 without functional or data abnormality and without inaccurate results related to such dates.

The Directors do not expect the cost of implementing its Year 2000 compliance programme to be material. However, there can be no assurance that this will be the case and that further additional costs will not be incurred in connection with such programme.

Any failure on the part of the Group or any third party upon which the Group relies to ensure that its equipment and software complies with the Year 2000 requirements could have a material adverse effect on William Hill's results of operations.

In view of the Directors' assessment of the Group's current state of readiness for Year 2000, the Directors see no benefit in creating contingency plans. There can be no assurance, however, that the Group will be fully Year 2000 compliant in time or at all. If for any reason the Group's preparations for Year 2000 compliance were inadequate, the failure to have a contingency plan could have a material adverse effect on the Group's financial condition and results of operations. Further details are set out in "Year 2000 compliance" in Part 1.

Absence of public market; determination of Offer Price; possible volatility of share price

There is currently no established trading market for the Shares. Although Warburg Dillon Read has informed the Company that it currently intends to make a market in the Shares, it is not obliged to do so and any such market-making may be discontinued at any time without notice. Accordingly, there can be no assurance as to the development or liquidity of any market for such securities. If an active public market does not develop, the market price and liquidity of the Shares may be adversely affected.

The Offer Price of the Shares offered under the Global Offer will be determined by negotiations among the Company, the Selling Shareholder and Warburg Dillon Read and may bear no relationship to the price at which the Shares will trade after Admission.

Following Admission, the market price of the Shares could be subject to significant fluctuations in response to various facts and events, including any regulatory changes affecting William Hill's operations, variations in the Company's operating results and business developments of the Group or its competitors.

European Monetary Union (EMU)

The current stated policy of the UK government is that any decision to join EMU will only be taken after a national referendum of the people and, in any event, not before 2002.

In the event that the United Kingdom joins EMU, William Hill will need to convert all of its business systems to ensure euro-compliance and will thereafter conduct its business in the euro currency, and these requirements could have material adverse effects on William Hill.

PART 7 ADDITIONAL INFORMATION

1. Incorporation

The Company was incorporated under the Act in England and Wales on 6 October 1997 as a private company limited by shares with registered number 3447836, and with the name The Grand Bookmaking Company Limited. It changed its name to William Hill Limited on 15 January 1999 and was re-registered as a public limited company under the Act in England and Wales on 28 January 1999. The principal legislation under which the Company operates is the Act.

2. Share capital

2.1 The Company was incorporated with an authorised share capital of £100 divided into 100 ordinary shares of £1 each of which one was issued fully paid in cash to Mitre House Nominees Limited of Mitre House, 160 Aldersgate Street, London EC1A 4DD, the subscriber to the memorandum of association.

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

- (a) on 6 October 1997, the ordinary share of £1 in issue was transferred by the original subscriber to GBH for £1 payable in cash;
- (b) on 1 December 1997, the authorised capital was increased from £100 to £400,000,000 by the creation of an additional 399,999,900 ordinary shares of £1 each; and
- (c) on 26 January 1999, the authorised capital was increased from £400,000,000 to £400,049,999 by the creation of 49,999 cumulative redeemable non-voting preference shares of £1 each and all such shares were issued to William Hill Investments Limited, a special purpose company established by the Selling Shareholder, fully paid in cash.

Accordingly, the Company's authorised share capital is £400,049,999 divided into 400,000,000 ordinary shares of £1 each and 49,999 cumulative redeemable non-voting preference shares of £1 each. Of such share capital, one ordinary share of £1 and 49,999 cumulative redeemable non-voting preference shares of £1 each have been issued and are fully paid and the remaining 399,999,999 ordinary shares of £1 each have not been issued.

2.3 By a resolution of the only shareholder of the Company entitled to vote, expected to be passed on 21 February 1999:

- (a) conditional upon Admission, the existing issued ordinary share of £1 will be redesignated as a non-voting deferred share of £1 having the rights described in paragraph 3 below;
- (b) conditional upon Admission, the existing 399,999,999 authorised but unissued ordinary shares of £1 each will be sub-divided into 39,999,999,900 ordinary shares of 1p each;
- (c) conditional upon Admission, the Directors will be authorised to allot such fixed number of Shares to the Selling Shareholder as is required to provide it with the requisite number of Existing Shares, conditional upon receipt by the Company of an unconditional undertaking from the Selling Shareholder to pay up such Shares in full in cash;
- (d) conditional upon Admission, 39,649,999,900 of the authorised but unissued ordinary shares of 1p each will be cancelled to reduce the number of authorised ordinary shares of 1p each to 350,000,000;
- (e) conditional upon Admission, the Directors will be given power to allot all such Shares pursuant to the authorities referred to in paragraph (c) above as if section 89(1) of the Act did not apply to the allotment; and
- (f) conditional upon the redemption of the 49,999 cumulative redeemable preference shares of £1 each referred to in paragraph 2.5 below, the authorised capital of the Company will be reduced further by cancelling the 49,999 unclassified shares of £1 each arising on such redemption.

2.4 By a resolution of the only shareholder of the Company entitled to vote, also expected to be passed on 21 February 1999 conditional upon Admission occurring no later than 1 April 1999 (or such later date as Warburg Dillon Read, the Company and the Selling Shareholder may agree):

- (a) the Directors will be authorised to allot any or all authorised but unissued Shares prior to the conclusion of the next annual general meeting of the Company;

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- (b) the Directors will be given power to allot any or all such Shares for cash pursuant to the authority referred to in paragraph (a) above as if section 89(1) of the Act did not apply to the allotment, provided that such power shall expire at the conclusion of the next annual general meeting of the Company and be limited to:
- (i) the allotment pursuant to the Global Offer of such fixed number of Shares as is required to provide the requisite number of New Shares;
 - (ii) the allotment of equity securities in connection with an offer or issue in favour of the holders of Shares on the register on a date fixed by the Directors where the equity securities attributable to the interests of all those shareholders are proportionate (as nearly as practicable) to the respective numbers of Shares held by them on that date but the Directors will be able to make such exclusions or other arrangements as they consider expedient in relation to fractional entitlements and legal or practical problems under the laws in any territory or the requirements of any regulatory body or stock exchange; and
 - (iii) the allotment of equity securities (otherwise than pursuant to sub-paragraphs (i) or (ii) above) having an aggregate nominal value not exceeding a fixed amount.
- 2.5 Conditional upon Admission, all of the 49,999 cumulative redeemable non-voting preference shares of £1 each will be redeemed at par, together with accrued but unpaid dividends thereon.
- 2.6 Immediately following Admission, the authorised share capital of the Company will be £3,500,001 comprising 350,000,000 Shares and one non-voting deferred share of £1.
- 2.7 The provisions of section 89(1) of the Act (which, to the extent not disapplied pursuant to section 95 of the Act, 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 capital of the Company except to the extent disapplied by the resolution referred to in sub-paragraph 2.4(b) above. This disapplication will give the Directors limited flexibility to issue Shares for cash following the Global Offer. The effect of the continuing obligations of the Company under the Listing Rules of the London Stock Exchange will be that, unless the approval of shareholders in general meeting is obtained, the Company must offer Shares to be issued for cash to existing holders of Shares on a *pro rata* basis. No such issue following Admission is presently in contemplation other than in connection with the share option and incentive arrangements referred to in paragraph 4 below.
- 2.8 Save as disclosed in this paragraph 2 and in paragraphs 4 and 7 below:
- (a) (other than intra-group issues by wholly-owned subsidiaries) since its incorporation, in the case of the Company, and during the three years preceding the date of this document, in the case of its subsidiaries, no share or loan capital of the Company or any of its subsidiaries has been created but not issued, or 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; and
 - (b) 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.
- 2.9 The Shares are in registered form and, from Admission, will be capable of being held in uncertificated form.

3. Memorandum and articles of association

The memorandum of association of the Company provides that its principal objects are to act and carry on the business of a holding company and to carry on the business of bookmakers. The objects of the Company are set out in full in clause 4 of the memorandum of association of the Company which is available for inspection at the address specified in paragraph 31 below.

The articles of association of the Company adopted, conditional upon Admission, (the "articles") include provisions to the following effect:

(a) Share rights

The deferred share of £1 confers no right to receive notice of, or to attend or vote at any general meeting of the Company, and no right to receive any dividend in respect thereof, but entitles the holder thereof, subject to the rights attaching to the Shares, on a return of capital on a winding up or otherwise to payment of the nominal amount paid up on that share.

Subject to the provisions of the Act and without prejudice to any rights attached to any existing shares or class of shares, any share may be issued with such rights or restrictions as the Company may by ordinary resolution determine or, subject to and in default of such determination, as the board shall determine.

The Company may issue any shares which are to be redeemed, or which at the option of the Company or the holder are liable to be redeemed. Subject to the articles and to the Act, the unissued shares of the Company (whether forming part of the original or any increased capital) are at the disposal of the board.

(b) Voting rights

Subject to the rights and restrictions attached to any class of shares, every member present in person (or in the case of a corporation present by a duly authorised representative) at a general meeting has upon a show of hands one vote, and every member present in person or by proxy has upon a poll one vote for every Share of which he is the holder.

No member shall be entitled to vote at any general meeting unless all calls or other sums presently payable by him in respect of shares in the Company have been paid.

Unless the board determines otherwise, a member who has been served with a disfranchisement notice after failure (whether by such member or by another person) to provide the Company with information concerning interests in those shares required to be provided under the Act, shall (for so long as the information is not supplied and for up to seven days thereafter) not be entitled to vote in respect of the shares in relation to which the information has not been supplied.

(c) Dividends and other distributions

Subject to the provisions of the Act, the Company may by ordinary resolution declare dividends in accordance with the respective rights of the members, but no dividend shall exceed the amount recommended by the board. The dividend shall be paid according to the amounts paid on shares in respect of which the dividend is paid, but no amount paid on a share in advance of calls shall be treated for these purposes as paid on the share.

Subject to the provisions of the Act, the board may pay interim dividends if it appears to the board that they are justified by the profits of the Company available for distribution.

The board may also pay at intervals settled by it any dividend payable at a fixed rate if it appears to the board that the profits available for distribution justify the payment. If the board acts in good faith it shall not incur any liability to the holders of shares conferring preferred rights for any loss they may suffer by the lawful payment of an interim dividend on any shares having deferred or non-preferred rights.

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.

The board may withhold payment from a person of all or any part of any dividend or other moneys payable in respect of shares in the Company if those shares represent at least a 0.25% interest in the Company's shares or any class thereof and if, in respect of those shares, such person has been served with a restriction notice after failure (whether by such person or by another) to provide the Company with information concerning interests in those shares required to be provided under the Act.

Except as otherwise provided by the rights and restrictions attached to any class of shares, all dividends will be declared and paid according to the amounts paid-up on the shares during any portion of the period in respect of which the dividend is paid.

The board may, if authorised by an ordinary resolution of the Company, offer any holder of shares the right to elect to receive shares by way of scrip dividend instead of cash in respect of the whole (or some part, to be determined by the board) of any dividend.

Any dividend which has remained unclaimed for 12 years from the date when it became due for payment shall, if the board so resolves, be forfeited and cease to remain owing by the Company.

Except as provided by the rights and restrictions attached to any class of shares, the holders of the Company's shares will under general law be entitled to participate in any surplus assets in a winding-up in proportion to their shareholdings. A liquidator may, with the sanction of an extraordinary resolution and any other sanction required by the Insolvency Act 1986, divide among the members in specie the whole or any part of the assets of the Company and may, for that purpose, value any assets and determine how the division shall be carried out as between the members or different classes of members.

(d) Variation of rights

Rights attached to any class of shares may be varied or abrogated with the written consent of the holders of not less than three-fourths in nominal value of the issued shares of that class, or the sanction of an extraordinary resolution passed at a separate general meeting of the holders of those shares.

(e) Lien and forfeiture

The Company will have a first and paramount lien on every share (not being a fully paid share) for all amounts (whether presently payable or not) called or payable in respect of that share. The Company may sell any share on which the Company has a lien if a sum in respect of which the lien exists is presently payable and is not paid within 14 days after notice has been given to the holder of the share demanding payment and stating that if the notice is not complied with the share may be sold.

The Company may from time to time make calls upon the members in respect of any amounts unpaid on their shares. Each member shall, subject to receiving at least fourteen days' notice, pay to the Company the amount called on his shares. In the event of non-payment, the board may give to the person from whom it is due not less than 14 clear days' notice requiring payment of the amount unpaid together with any interest which may have accrued and any costs, charges and expenses incurred by the Company by reason of such non-payment. The notice shall name the place where payment is to be made and shall state that if the notice is not complied with the shares in respect of which the call was made will be liable to be forfeited.

(f) Transfer of shares

A member may transfer all or any of his certificated shares by an instrument of transfer in any usual form or in any other form which the board may approve. An instrument of transfer shall be signed by or on behalf of the transferor and, unless the share is fully paid, by or on behalf of the transferee. An instrument of transfer need not be under seal.

The board may, in its absolute discretion and without giving any reason, refuse to register the transfer of a certificated share which is not a fully paid share, provided that the refusal does not prevent dealings in shares in the Company from taking place on an open and proper basis. The board may also refuse to register the transfer of a certificated share unless the instrument of transfer:

- (i) is lodged, duly stamped, with the Company and (except where the shares are registered in the name of a Recognised Person (as defined in the articles) and no certificate shall have been issued therefor) is accompanied by the relevant share certificate and such other evidence of the right to transfer as the board may require;
- (ii) is in respect of one class of share only; and
- (iii) is in favour of not more than four persons jointly.

The board may refuse to register a transfer of shares in the Company by a person if those shares represent at least a 0.25% interest in the Company's shares or any class thereof and if, in respect of those shares, such person has been served with a restriction notice after failure (whether by such person or by another) to provide the Company with information concerning interests in those shares required to be provided under the Act, unless (i) the transfer is an Approved Transfer (as defined in the articles), (ii) the relevant member is not himself in default as regards supplying the information required and certifies that no person in default as regards supplying such information is interested in any of the shares the subject of the transfer, or (iii) the transfer of the shares is required to be registered by the Uncertificated Securities Regulations 1995.

Notice of refusal to register a transfer must be sent to the transferee within two months after the date on which the instrument of transfer was lodged with the Company or the instruction to transfer shares was received by the Company from the Operator of a Relevant System (in each case, as defined in the Uncertificated Securities Regulations 1995), as the case may be.

No fee shall be charged for the registration of any instrument of transfer or other document relating to or affecting the title to any share.

Ordinary shares may be transferred by means of a Relevant System, including the Relevant System of which CRESTCo. Limited is the Operator (in each case, as defined in the Uncertificated Securities Regulations 1995).

(g) Alteration of share capital

The Company may from time to time by ordinary resolution increase, consolidate or, subject to the Act, subdivide its share capital. The Company may by ordinary resolution also cancel any shares which have not, at the date of the resolution, been taken or agreed to be taken by any person and diminish the amount of its authorised share capital by the amount of the shares so cancelled. Subject to the provisions of the Act, the Company may by special resolution reduce its share capital, capital redemption reserve and share premium account in any way.

(h) Purchase of own shares

Subject to the Act and without prejudice to any relevant special rights attached to any class of shares, the Company may purchase any of its own shares of any class (including without limitation redeemable shares) in any way and at any price (whether at par or above or below par).

(i) General meetings

The board shall convene and the Company shall hold general meetings as annual general meetings in accordance with the requirements of the Act. The board may call general meetings whenever and at such times and places as it shall determine.

(i) Directors

(i) Appointment of directors

Unless otherwise determined by ordinary resolution, the number of directors shall be not less than two and shall have no maximum. Directors may be appointed by the Company by ordinary resolution of shareholders or by the board. A director appointed by the board holds office only until the next following annual general meeting and if not re-appointed at such annual general meeting shall vacate office at its conclusion.

(ii) Age of directors

The provisions of the Act with regard to "Age limit for Directors" shall not apply to the Company but where the board convenes any general meeting of the Company at which (to the knowledge of the board) a director will be proposed for appointment or re-appointment who at the date for which the meeting is convened will have attained the age of 70 or more, the board shall give notice of his age in years in the notice convening the meeting.

(iii) No share qualification

A director shall not be required to hold any shares in the capital of the Company by way of qualification.

(iv) Retirement of directors by rotation

At every annual general meeting of the Company, as nearly as possible one-third of the directors, but at least one, will retire by rotation. The directors to retire will be those who have been longest in office and those who have at the start of the annual general meeting been in office for more than 3 years since their last appointment or re-appointment or, in the case of those who were appointed or re-appointed on the same day, will be (unless they otherwise agree) determined by lot. A retiring director shall be eligible for re-election. A director who is 70 or over at the date of the meeting shall also retire.

(v) Remuneration of directors

The emoluments of any director holding executive office for his services as such shall be determined by the board, and may be of any description.

The ordinary remuneration of the directors who do not hold executive office for their services (excluding amounts payable under any other provision of these articles) shall not exceed in aggregate £500,000 per annum or such higher amount as the Company may from time to time by ordinary resolution determine. Subject thereto, each such director shall be paid a fee (which shall be deemed to accrue from day to day) at such rate as may from time to time be determined by the board. In addition, any director who does not hold executive office and who serves on any committee of the board, goes or resides abroad for any purpose of the Company or performs services outside the scope of the ordinary duties of a director may be paid such extra remuneration as the board may determine.

In addition to any remuneration to which the directors are entitled under the articles, they may be paid all travelling, hotel and other expenses properly incurred by them in connection with their attendance at meetings of the board or committees of the board, general meetings or separate meetings of the holders of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties.

The board may provide benefits, whether by the payment of gratuities or pensions or by insurance or otherwise, for any past or present director or employee of the Company or any of its subsidiary undertakings or any body corporate associated with, or any business acquired by, any of them, and for any member of his family or any person who is or was dependent on him.

(vi) Permitted interests of directors

Subject to the provisions of the Act, and provided that he has disclosed to the board the nature and extent of any material interest of his, a director notwithstanding his office:

- (A) may be a party to, or otherwise interested in, any transaction or arrangement with the Company in which the Company is otherwise interested;
- (B) may act by himself or his firm in a professional capacity for the Company (otherwise than as auditor), and he or his firm shall be entitled to remuneration for professional services as if he were not a Director;
- (C) may be a director or other officer of, or employed by, or a party to any transaction or arrangement with, or otherwise interested in, any body corporate promoted by the Company or in which the Company is otherwise interested; and
- (D) shall not, by reason of his office, be accountable to the Company for any benefit which he derives from any such office or employment or from any such transaction or arrangement or from any interest in any such body corporate and no such transaction or arrangement shall be liable to be avoided on the ground of any such interest or benefit.

(vii) Restrictions on voting

A director shall not vote in respect of any contract, arrangement or proposal in which he has an interest which (together with any interest of any person connected with him) is to his knowledge material, but these prohibitions shall not apply to:

- (A) the giving of a guarantee, security or indemnity in respect of money lent or obligations incurred by him or 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 the director has assumed responsibility (in whole or part and whether alone or jointly with others) under a guarantee or indemnity or by the giving of security;
- (C) a 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 which offer he is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which he is to participate;
- (D) a contract, arrangement, transaction or proposal concerning any other body corporate in which he or any person connected with him is interested, directly or indirectly, and whether as an officer, shareholder, creditor or otherwise, if he and any persons connected with him do not to his knowledge hold an interest (as that term is used in sections 198 to 211 of the Act) representing 1% or more of either any class of the equity share capital of such body corporate (or any other body corporate through which his interest is derived) or of the voting rights available to members of the relevant body corporate (any such interest being deemed for the purpose of this Article to be a material interest in all circumstances);
- (E) a contract, arrangement, transaction or proposal for the benefit of employees of the Company or of any of its subsidiary undertakings which does not award him any privilege or benefit not generally accorded to the employees to whom the arrangement relates; and

- (F) a contract, arrangement, transaction or proposal concerning any insurance which the Company is empowered to purchase or maintain for, or for the benefit of, any directors of the Company or for persons who include directors of the Company.

(viii) Borrowing powers

The board may exercise all the powers of the Company to borrow money, to guarantee, to indemnify, to mortgage or charge its undertaking, property, assets (present and future) and uncalled capital, and to issue debentures and other securities whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. The board shall restrict the borrowings of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiaries so as to secure that, save with the previous sanction of an ordinary resolution of the Company, no money shall be borrowed if the aggregate principal amount outstanding of all Moneys Borrowed by the Company and its subsidiaries (as described in the articles) exceeds a sum equal to 3 times the Adjusted Capital and Reserves of the Company and its subsidiaries (as defined in the articles).

(ix) Indemnity of officers

Subject to the provisions of the Companies Acts (as defined in the articles) but without prejudice to any indemnity to which a director may otherwise be entitled, every director or other officer of the Company shall be indemnified out of the assets of the Company against any liability incurred by him in defending any proceedings, whether civil or criminal, in which judgment is given in his favour (or the proceedings are otherwise disposed of without any finding or admission of any material breach of duty on his part) or in which he is acquitted 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.

4. Share option and incentive arrangements

The Group will operate the following arrangements on or following Admission:

(a) The William Hill Admission Bonus Scheme

An arrangement has been established whereby the Executive Directors and approximately 150 senior executives will be entitled to participate in a bonus pool equal to 10% of the "Added Value" realised by the Selling Shareholder. For the purposes of calculating Added Value, it will be assumed that the Selling Shareholder's entire interest in the Company is disposed of. The term "added value" means broadly the cash proceeds of sale plus cash in hand in excess of normal working capital needs, less debt, flotation and indebtedness reduction costs, the Selling Shareholder's investment and an 11% per annum financing charge thereon.

A bonus pool of £2.7 million will be shared amongst approximately 140 eligible executives (excluding the eight individuals mentioned below). These amounts will be paid by the Selling Shareholder in cash on Admission save that, where relevant, any excess over £50,000 will be satisfied in cash or Shares in three equal tranches on the first, second and third anniversaries of Admission, with respect to the Shares, in the manner described below.

The two Executive Directors and six members of senior management will be entitled to share in the remainder of the bonus pool (that is, 10% of the "added value" less the £2.7 million referred to above). Messrs Brown and Lambert will each be entitled to approximately 26% of the remainder, and the balance will be shared amongst the remaining participants. Half of these individual entitlements will be paid by the Selling Shareholder in cash on Admission (unless the recipient elects to receive all or part of this element in Shares) and the remaining half will be satisfied in Shares. Participants will be granted the right to call for these Shares without payment; the right to call for these Shares will vest in equal tranches on the first, second and third anniversaries of Admission and will remain exercisable until the tenth anniversary of Admission. The participant's entitlement to call for Shares will generally depend on the participant remaining in employment with the Group at the date on which the relevant tranche vests unless the participant dies or leaves by reason of ill health, normal retirement, early retirement with the consent of the Board, redundancy or other involuntary termination not involving gross misconduct. On the basis that the Offer Price is set at the mid-point of the Price Range (that is 165p per Share) the bonus pool attributable to the eight participants would be £15.3 million. Of this, Messrs Brown and Lambert would each receive approximately £1.6 million in cash on Admission, and they would have the right to call for approximately 1 million Shares from the William Hill Employee Trust without payment in the manner described above. The Company will make a loan to the trustee of the William Hill Employee Trust to enable it to acquire under the

Global Offer the Shares required to satisfy entitlements under the Admission Bonus Scheme. Although this loan is being made by the Company, it is indirectly being funded by the Selling Shareholder because, as a result of the Global Offer, the return on its investment in the Company will be reduced correspondingly.

(b) The William Hill Sharesave Scheme (the "Sharesave Scheme")

Any employee or full time Executive Director of the Company or any of its participating subsidiaries who satisfies such service qualifications (not exceeding 5 years) as the Board shall determine from time to time will be eligible to participate in the Sharesave Scheme whenever it is operated. Full time Executive Directors and all employees of the Group employed on 1 March 1998 will be entitled to participate in the initial grant which is intended to be made shortly after Admission.

Invitations to apply for options may normally only be issued during the 42 day period following the Company's announcement of its results for the last preceding financial year, half year or other period. Invitations may also be issued during the 42 day period following the approval of the Sharesave Scheme by the Inland Revenue. Invitations may only be issued outside these periods in exceptional circumstances. No options may be granted more than 10 years after the adoption of the Sharesave Scheme.

Eligible employees who apply for options are required to enter into a savings contract to save a monthly amount of not less than £5 (or such other amount as is permitted by legislation from time to time and approved by the Board) and not more than £250 (or such higher amount as is permitted by legislation from time to time and approved by the Board) for the term of the relevant savings contract. The number of Shares over which an option is granted is limited to the number which may be purchased at the exercise price out of the repayment proceeds of the related savings contract, including any bonus payable under the savings contract. Options may be granted over new or existing shares in the Company.

If the Board receives more acceptances than there are Shares available, applications may be scaled down.

The exercise price of an option shall be determined by the Board and shall not be less than the higher of 80% of the average of the middle market quotations of a Share on the London Stock Exchange averaged over three dealing days immediately before the Invitation Date; and in the case of any option under which Shares may be issued, the nominal value of a Share. In the case of options granted pursuant to invitations made before Admission, it is intended that the option price will be 80% of the market value of a Share at the end of the day on which Admission occurs but will not be less than 80% of the Offer Price. The preference of the Board would have been to set the exercise price of options granted under the Sharesave Scheme shortly after Admission at a discount of 20% to the Offer Price. If the Shares initially trade at a premium, employees will be granted options over fewer Shares than those over which they would otherwise have been granted options. The Board is investigating the possibility of establishing a mechanism to make available to employees, at the time of exercise of such options, an appropriate number of additional Shares to equate to an exercise price set at a discount of 20% to the Offer Price. Any such mechanism would be subject to the approval of the Inland Revenue.

Options will normally be exercisable within a period of 6 months from the date on which the savings contract matures. Under the initial invitations, participating employees will be given a choice as to whether this will occur 3, 5 or 7 years after the savings contract commenced, depending on the savings contract to which the option is linked. No options will be granted pursuant to invitations issued before Admission if Admission does not occur.

Options will be exercisable early in certain specified circumstances including an optionholder's death, or if the optionholder ceases to be employed by reason of injury, disability, redundancy or retirement or on the sale of the business or the subsidiary company by which he is employed or, where the option has been held for at least 3 years, for any reason other than dismissal for cause. Options will also be exercisable within 6 months or, if earlier, at the end of a compulsory acquisition period, on a takeover, winding-up or the sanctioning by the court of a scheme of arrangement of the Company. Alternatively, following a takeover, options may, with the agreement of the acquiring company, be rolled over to become options over the acquiring company's shares. On early exercise, optionholders may purchase only so many Shares as their savings at the relevant date under the relevant savings contract together with any bonus will allow.

If an optionholder ceases employment other than in the specified circumstances, his options will lapse.

If requested to do so by the Company, the William Hill Employee Trust (or another employee trust established by the Company) will transfer shares to optionholders on exercise of their options. The trust will have power to subscribe for Shares and to purchase Shares in the market to satisfy the exercise of options.

Shares allotted or transferred pursuant to the exercise of an option will rank *pari passu* with Shares in issue at the date of exercise, but will not participate in any dividend or other rights by reference to a record date which precedes the date of exercise of the option.

Options are not transferable and any attempt to transfer them will cause the option to lapse immediately.

Benefits under the Sharesave Scheme will not be pensionable.

On a variation of the Company's share capital the exercise price and/or the number of Shares comprised in an option may be adjusted with the approval of the Inland Revenue provided that the auditors of the Company certify that the adjustment is in their opinion fair and reasonable.

Amendments to the Sharesave Scheme which are to the advantage of eligible employees or optionholders are generally subject to the prior approval of the Company in general meeting. The Board may make minor amendments to the Sharesave Scheme without the prior approval of the Company in general meeting to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment, or to benefit the administration of the Sharesave Scheme. All changes are subject to the prior approval of the Inland Revenue.

(c) Long Term Incentive Plan (the "Plan")

The Plan will be administered by the Remuneration Committee. It will be operated in conjunction with the William Hill Employee Trust (the "Trust"). The Trust may be used to hold the Shares which are subject to awards under the Plan until the maturity of such awards. The Trust is to be constituted by a trust deed to be entered into between the Company and an independent corporate trustee (the "Trustee"). It is envisaged that the Plan will first be operated shortly after Admission.

The Trust may not acquire Shares if, as a result, the total number of Shares held by the Trustee would exceed 5% of the Company's issued ordinary share capital at that time.

Under the Plan, awards (over newly issued or existing Shares) may be made by the Trustee, in its absolute discretion, to eligible executives recommended by the Remuneration Committee. The Remuneration Committee will also recommend to the Trustee the number of Shares that should be comprised in each award. It is envisaged that awards will be made annually, provided this is justified by corporate and individual performance. Awards may only be made within the period of 42 days following Admission and thereafter within the period of 42 days following announcement by the Company of its results for any period (or, in exceptional circumstances, at such other time as the Remuneration Committee thinks fit). Awards will be granted under seal, for no monetary consideration. No awards may be made more than ten years after the adoption of the Plan.

To the extent that existing Shares are used under the Plan, the Company will provide funds, by way of loan or contribution, to the Trustee to enable it to acquire Shares on the London Stock Exchange. To the extent that new Shares are issued for the purposes of the Plan, institutional investors' guidelines on dilution of equity in connection with share schemes (as summarised in (d) below) will be complied with.

Only full time executive Directors and senior executives of the group who are not within two years of retirement will be eligible to participate in the Plan.

The maximum number of Shares which may be awarded in any financial year (calculated by reference to the market value of those Shares at the date an award is made) will not exceed 75% of a participant's basic salary.

Each half of an award under the Plan will be subject to a different performance condition which will determine whether, and to what extent, Shares under that half of the award will vest.

The initial performance condition for one half of each award will relate to the growth in the Company's total shareholder return ("TSR") over a three year period, compared to that achieved over the same period by an appropriate group of comparator companies. The comparator group will initially comprise the constituent companies in the FT-SE 250 Index at the date of the award. TSR is the aggregate of share price growth and dividends paid (assuming that such dividends are reinvested in ordinary shares during the three year period), and is commonly adopted as a measure of comparative performance. This element of the award will be released on a sliding scale between median and top quartile performance. 33.3% of this element of the award will be released for median performance and 100% of this element will be released for a ranking at or above the top quartile.

Where TSR ranking is between the upper quartile and the median position, the award will be realisable on a straight line basis between 33.3% and 100%. If the Company's performance is below the median, none of the Shares in this element will vest. The base price for TSR comparison purposes will generally be the average share price for the final two months of the financial year prior to the making of awards. In the case of the initial awards, the price for TSR comparison purposes will be the average share price in the period of 14 days prior to the award.

The initial performance condition for the other half of each award will relate to the compound growth in the Company's earnings per Share ("EPS"). This element of the award will be released on a sliding scale on the Company achieving between 2% and 6% compound annual growth in EPS in excess of RPI over a three year period starting with the financial year in which the award is made. 33.3% of this element will be released at the lower point and 100% of this element at or above the higher point. Where EPS is between 2% and 6%, this element of the award will be realisable on a straight line basis. If the Company's compound annual growth in EPS is less than 2% in excess of RPI, none of the Shares in this element will vest.

The Remuneration Committee may decide to make awards subject to different performance conditions which it considers appropriate in future years, providing that any such performance conditions are no less onerous.

At the end of the three year period the participant will be entitled to call for the release of the number of Shares which vest on maturity of each element of the award.

If a participant leaves employment before maturity of the award, his or her award will normally lapse.

However:

- (i) if the reason for leaving is injury, ill-health, disability, retirement at or after his normal retirement age, early retirement (as agreed by the Remuneration Committee), wrongful dismissal or any other reasons which the Trustee (on the recommendation of the Remuneration Committee) so decides in its absolute discretion, a participant's award will remain in force, subject to the performance conditions, provided that on maturity of the award, the number of shares in the award will be scaled down pro rata to the participant's actual service during the period to which the award relates;
- (ii) if the reason for leaving is death, a participant's award will be capable of realisation by his personal representatives to the extent the performance conditions, in relation to each element of the award, are satisfied at the date of death, within the period of six months from such date; and
- (iii) if the Company is taken over, a participant's award will vest to the extent that the performance conditions, in relation to each element of the award, are satisfied at the date the takeover becomes unconditional.

Awards are not transferable and may only be realised by the persons to whom they are granted (or, in the case of death, by their personal representatives).

Benefits under the Plan will not be pensionable.

In the event of a variation of the Company's ordinary share capital, the number of ordinary shares subject to an award may be adjusted by the Trustee.

Shares issued under the Plan will rank *pari passu* with all other Shares then in issue. The Company will apply to the London Stock Exchange for such Shares to be admitted to the Official List.

The Remuneration Committee may alter the rules of the Plan provided that alterations to the Plan which are to the advantage of employees or participants are not made without the prior approval of the shareholders of the Company in general meeting. The requirement to obtain the prior approval of shareholders will not, however, apply to any minor alteration which benefits the administration of the Plan. In addition, no amendment may operate to adversely affect any right already acquired by a participant.

(d) Limitations on dilution of capital

No option may be granted under the Sharesave Scheme or award granted under the Plan which would, at the time of grant, cause the number of Shares which have been or may be issued in pursuance of options or awards granted under all share schemes established by the Company to exceed any of the following limits:

- (i) 10% of the Company's issued ordinary share capital (or 5% of such capital if only awards under the Plan and any future discretionary share option scheme are taken into account) in relation to options or awards granted in the ten years ending with the date of grant thereof; and
- (ii) 5% of the Company's issued ordinary share capital (or 3% of such capital if only awards under the Plan and any future discretionary share option scheme in any three year period are taken into account) in relation to options or awards granted in the five years ending with the date of grant thereof.

Options granted pursuant to invitations issued prior to Admission under the Sharesave Scheme do not count towards the above limits.

Where options under the Sharesave Scheme or awards under the Plan will be satisfied by a transfer of existing Shares purchased on the market by an employee trust, the above limits do not apply.

(e) Annual bonus scheme

It is intended that the Executive Directors and approximately 150 senior executives of the Group should participate in an annual bonus scheme, details of which are set out in paragraph 6.2 below.

5. Pension scheme

The Group operates one exempt approved occupational pension scheme for its staff, the William Hill Pension Scheme ("WHPS").

The WHPS has two sections. One section provides defined benefits based on Pensionable Pay and length of service (the "Retirement Plan"). The other is a defined contribution section which was introduced with effect on and from 6 April 1997 (the "Savings Plan"). The Savings Plan replaced the William Hill Investment Plan (see below) and is currently closed to new entrants.

Pensionable Pay is defined as basic pay and overtime (excluding lump sum bonuses) minus the lower earnings limit for national insurance contribution purposes (the "lower earnings limit").

Employees over the age of 30 but under the age of 63, who have completed five years of continuous service and who are contracted to work at least 16 hours per week are eligible to join the Retirement Plan. They pay contributions at the rate of 5% of Pensionable Pay.

Members of the Savings Plan may elect to pay contributions ranging between 1.5% to 5% of Pensionable Pay. The employers match the members' contributions (for a maximum period of 5 years) and pay a further 2% of Pensionable Pay for members who joined on 6 April 1997 for a maximum period of 5 years.

Employees who are contracted to work less than 16 hours per week are not eligible to join the WHPS. This restriction and certain other features of the WHPS (for example, the age and service criteria) may be viewed as indirect discrimination for the purposes of the equal treatment laws.

The applicable time limits for part time employees bringing claims and backdating benefits are currently being challenged before the European Court of Justice. The outcome of these decisions could potentially have an impact on the pension costs for William Hill.

The actuarial valuation of the WHPS as at 5 April 1996 revealed a surplus. The actuarial review carried out as at 5 October 1998 confirmed that the surplus still existed at that time. Further details of the 5 October review are set out at note 31 to the Accountants Report in Part 3. The employers are therefore currently on a contribution holiday. Because the scheme is contracted-out on a Protected Rights basis, minimum payments of £308,194 were paid during the tax year ending on 5 April 1998. The actuary is monitoring the funding position annually.

From 1 October 1990 to 5 April 1997, the Group operated a second occupational pension scheme, the William Hill Investment Plan ("Investment Plan"). The Investment Plan was an exempt approved defined contribution scheme. Employees who were contracted to work for at least 16 hours per week or those who were over the age of 21 and had completed one year of service were eligible to join. The Investment Plan was closed with effect on and from 5 April 1997 and immediately went into wind-up. Active members were offered membership of the Savings Plan for future service.

William Hill is considering introducing new pension arrangements for employees who are not eligible to join the WHPS, particularly for those who would have been eligible to join the Investment Plan had it not been closed.

William Hill also operates a Funded Unapproved Retirement Benefit Scheme ("Furbs") for two of its senior employees who are affected by the Earnings Cap (specified under section 590(C)(6) of the Income and Corporation Taxes Act 1988). Employers pay contributions at a fixed percentage of Pensionable Pay above the Earnings Cap.

The Group operates a group personal pension ("GPP") in the Isle of Man for three employees who have been relocated there. Members of the GPP have been promised benefits which are equivalent to those that they would

have received had they been in the Retirement Plan ("target benefits"). Members of the GPP contribute 5% of Pensionable Pay. The employer pays such contributions to the GPP as the actuary advises are necessary to ensure that the GPP will provide the target benefits. The employer will meet any shortfall in the GPP when benefits become payable.

6. Directors' service contracts and letters of appointment

- 6.1 Both the Executive Directors have entered into new service agreements with the Company. The agreements will become effective on Admission.

In line with the recommendations of the Combined Code, the Executive Directors' service agreements can be terminated by the Company giving to the executive not less than 12 months' notice in writing at any time. The executive is required to give not less than 12 months' notice in writing if he wishes terminate his service agreement.

The annual basic salaries of John Brown and Robert Lambert are £245,191 and £207,879 respectively. This sum includes any sum due to the directors as director's fees from the Company or any Group Company. The salary is subject to review at least annually in accordance with the Company's practice from time to time.

The Executive Directors may from time to time be invited to participate in bonus or like schemes introduced by the Company, and have an entitlement to participate in the William Hill Long Term Incentive Plan (receiving awards in respect of Shares equal in value to 50% of salary in respect of the 1999 financial year). The Executive Directors are entitled to membership of the Company's pension scheme. They are provided with a company car and may also be provided with life assurance and medical insurance benefits.

- 6.2 It is intended that the Executive Directors and approximately 150 senior executives of the Group should participate in an annual bonus scheme in respect of the 1999 financial year. The 1999 scheme has yet to be adopted by the Remuneration Committee, but it is intended that it will be similar to annual bonus schemes operated by the Group in previous years. The 1999 scheme will provide participants with an opportunity to earn a bonus equal to a percentage of their annual salary, such percentage being determined by reference to the Company's performance against budget for the financial year, measured in terms of profit before interest and tax. The maximum bonus payable will be 50% of salary in the event of performance outstripping a target set by the Remuneration Committee by 25% or more.
- 6.3 Ian Martin serves the Company as Chairman under a letter of appointment effective from 1 December 1998. His appointment may be terminated on three months' notice at any time, or in accordance with the articles of association. Under his letter of appointment Mr Martin is entitled to a fee of £125,000 per annum, payable monthly in arrears. In addition, Mr Martin will be entitled to a further fee of £62,500 per annum, payable annually in advance, which will, after tax, be used to purchase Shares in the market. The first such payment will be made within 14 days of Admission, and subsequent payments will be made within 14 days of the announcement of the Company's annual results. The Shares will normally be purchased within 14 days of payment.
- 6.4 Keith Hamill, Charles Scott and Michael Blackburn serve the Company as non-executive directors under letters of appointment effective from 1 January 1999. Their appointment may be terminated at any time without compensation in accordance with the articles of association of the Company. Under their letters of appointment, each such non-executive director is entitled to receive a fee of £25,000 per annum. The Company will also reimburse out-of-pocket expenses.
- 6.5 The total aggregate remuneration of the Directors for the 52 weeks ended 29 December 1998 was £628,614 including pension contributions and benefits in kind.
- 6.6 In addition to any amounts payable under the proposed annual bonus scheme in respect of the 1999 financial year, the amount payable by the Group to the Directors for the current financial year under arrangements in force at the date of this document is estimated to be £1.5m.
- 6.7 There is no arrangement under which any Director has agreed to waive future emoluments, nor has there been any waiver of emoluments during the 52 weeks ended 29 December 1998.

7. Directors' interests

- 7.1 None of the Directors has an interest in the issued share capital of the Company which is required to be notified to the Company pursuant to sections 324 and 328 of the Act or is required to be entered in the register referred to in section 325 of the Act, and no person connected with them (within the meaning of

section 346 of the Act) has an interest in the issued share capital of the Company which would, if such connected person were a Director, be required to be notified to the Company pursuant to sections 324 or 328 of the Act or be required to be entered into the register referred to in section 325 of the Act, other than the interests in Shares arising under the Admission Bonus Scheme (described in paragraph 4(a)) and any Shares which may be allocated to any of the Directors under the Global Offer.

- 7.2 Following Admission, the Executive Directors will be interested in the following number of Shares under the Admission Bonus Scheme based on the mid-point of the Price Range:

John Brown	1 million Shares
Robert Lambert	1 million Shares

In addition, the Executive Directors intend to apply for options under the Sharesave Scheme and will be entitled to participate in the Long Term Incentive Plan.

- 7.3 The Directors intend to apply for the following number of Shares under the Global Offer:

Ian Martin	25,000 Shares
Michael Blackburn	20,000 Shares
Charles Scott	20,000 Shares

- 7.4 No loans or guarantees have been granted or provided to or for the benefit of the Directors by the Company or any of its subsidiaries.

- 7.5 No Director has or has had any interest in any transaction which is or was unusual in its nature or conditions or significant to the business of William Hill which (i) has been effected by the Company during the current or immediately preceding financial year or (ii) was effected by the Company during an earlier financial year and remains in any respect outstanding or unperformed.

8. Substantial shareholdings

Based on the assumption that the Selling Shareholder will sell its entire shareholding in the Company under the Global Offer, the Directors are not aware of any interest (within the meaning of Part VI of the Act) which, following the Global Offer, will represent more than 3% of the issued share capital of the Company, or of any person who, following the Global Offer, directly or indirectly, jointly or severally, will exercise or could exercise control over the Company.

9. Principal subsidiary undertakings

The Company is the holding company of the Group. The following table shows details of the Company's principal subsidiary undertakings. Each of these companies is wholly owned by a member of the Group, the issued share capital of each is fully paid and each is included in the consolidated accounts (unless otherwise specified):

Name of Company	Registered or principal office	General nature of business	Share capital (issued and fully paid)
William Hill Finance plc	Greenside House 50 Station Road Wood Green London N22 7TP	Investment company	3,810,000 ordinary shares of £1 each
William Hill Organization Limited	Greenside House 50 Station Road Wood Green London N22 7TP	Holding company, operation of LBOs	14,685,856 ordinary shares of 10p each; 100 'B' shares of 10p each represented by a £10 warrant to bearer
Laystall Limited	Greenside House 50 Station Road Wood Green London N22 7TP	Operation of LBOs	980,100,038 ordinary shares of 5p each; 100 'B' shares of 10p each represented by a £10 warrant to bearer
Camec Limited	Greenside House 50 Station Road Wood Green London N22 7TP	Operation of LBOs	10,000 ordinary shares of £1 each; 100 'B' shares of 10p each represented by a £10 warrant to bearer

Name of Company	Registered or principal office	General nature of business	Share capital (issued and fully paid)
Windsors (Sporting Investments) Limited	15 Mark Lane Leeds LS1 8LB	Holding company of various trading subsidiaries	5,512,000,000 ordinary shares of 5p each; 26,636,302 deferred shares of £1 each
James Lane Group Limited	Greenside House 50 Station Road Wood Green London N22 7TP	Operation of LBOs	10,908,000 ordinary shares of 10p each
Camec (Scotland) Limited	Greenside House 50 Station Road Wood Green London N22 7TP	Operation of LBOs	2,000 ordinary shares of £1 each
Camec (Provincial) Limited	Greenside House 50 Station Road Wood Green London N22 7TP	Operation of LBOs	10,000 ordinary shares of £1 each
Camec (Southern) Limited	Greenside House 50 Station Road Wood Green London N22 7TP	Operation of LBOs	6,268,864 ordinary shares of 5p each
William Hill Index (London) Limited	Greenside House 50 Station Road Wood Green London N22 7TP	Spread betting	15,000 ordinary shares of £1 each
William Hill (Course) Limited	15 Mark Lane Leeds LS1 8LB	On-course betting	20,210,000 ordinary shares of 5p each
William Hill (Strathclyde) Limited	9/15 North Drive Glasgow G1 4BL	Operation of LBOs	10,000 ordinary shares of £1 each
William Hill (Midlands) Limited	15 Mark Lane Leeds LS1 8LB	Operation of LBOs	3,030 ordinary shares of £1 each
William Hill (Southern) Limited	Greenside House 50 Station Road Wood Green London N22 7TP	Operation of LBOs	45,225 ordinary shares of £1 each
William Hill (North Eastern) Limited	15 Mark Lane Leeds LS1 8LB	Operation of LBOs	1,519,220 ordinary shares of 5p each
William Hill (Football) Limited	Greenside House 50 Station Road Wood Green London N22 7TP	Operation of LBOs	10,000 ordinary shares of £1 each
Sherman Racing (Western) Limited	15 Mark Lane Leeds LS1 8LB	Holding company	210 ordinary shares of £1 each
William Hill (Scotland) Limited	9/15 North Drive Glasgow G1 4BL	Operation of LBOs	21,000 ordinary shares of £1 each
Ken Munden (Turf Accountant) Limited	15 Mark Lane Leeds LS1 8LB	Holding company	102,247 ordinary shares of £1 each
William Hill (North Western) Limited	15 Mark Lane Leeds LS1 8LB	Operation of LBOs	900 ordinary shares of £1 each
William Hill Credit Limited	15 Mark Lane Leeds LS1 8LB	Telephone betting and promotions	15,150 ordinary shares of £1 each
William Hill (Caledonian) Limited	9/15 North Drive Glasgow G1 4BL	Operation of LBOs	30,000 ordinary shares of £1 each
William Hill (Western) Limited	Greenside House 50 Station Road Wood Green London N22 7TP	Operation of LBOs	11,000 ordinary shares of 10p each

Name of Company	Registered or principal office	General nature of business	Share capital (issued and fully paid)
William Hill (London) Limited	Greenside House 50 Station Road Wood Green London N22 7TP	Operation of LBOs	2 ordinary shares of £1 each
William Hill (Grampian) Limited	9/15 North Drive Glasgow G1 4BL	Operation of LBOs	1,000 ordinary shares of £1 each
William Hill (IOM) Limited	15/19 Athol Street Douglas Isle of Man	International telephone betting and internet betting	10 ordinary shares of £1 each

10. Principal investments

10.1 Details of William Hill's main investments in other undertakings over the last three financial years and during the current financial year are as follows:

Name of company	Registered or principal office	General nature of business	Share capital issued and percentage owned
Satellite Information Services (Holdings) Limited	17 Corsham Street, London N1 6DR	Sports broadcasting and information services	221,606 ordinary shares of 10p each (19% owned by the Group)

10.2 Of the 19% interest in SIS (represented by 42,102 ordinary shares) referred to in paragraph 10.1 above, approximately 4% (represented by 9,310 ordinary shares) was acquired by the Group from Bass PLC in March 1998 for a consideration of £6.1 million. Further details are set out in paragraph 14 below.

11. Premises

William Hill's principal administrative offices are located in London and are occupied under a lease expiring in 2111. William Hill's main operational facilities in Leeds are occupied under two leases expiring in 2011 and 2016, respectively.

Details of the principal properties of the Group are set out below:

Address	Description	Tenure	Expiry of term	Current rent per annum	Occupier
Part 1st, 4th and 5th Floors, Alders' Department Store, 15 Mark Lane, Leeds	Offices related to various operational and administrative functions of the Group's business	Leasehold	24 December 2016	£229,000	William Hill Organization Limited
1st, 2nd and 3rd Floors, St John's Centre, Leeds	Offices related to various operational and administrative functions of the Group's business	Leasehold	23 June 2011	£330,000	William Hill Organization Limited
Greenside House, 50 Station Road, Wood Green, London N22 7TP	Head office	Leasehold	28 September 2111	Peppercorn	Camec Limited

The majority of William Hill's real property is occupied under lease and constitutes the premises from which its LBOs operate. As at 22 January 1999, of William Hill's 1,688 property interests, 1,502 were leaseholds, with 210 leases contractually expiring prior to 31 December 1999. Of the leasehold interests, all but three of those situated in England and Wales have statutory renewal rights, whereby the tenant is entitled to a new lease upon expiry of the old one, unless the landlord can prove one of a limited number of grounds of opposition. These include, apart from certain circumstances where the tenant is in default, the landlord requiring possession to carry out substantial development works, or requiring the premises for his own business or residential use. 154 leasehold interests are situated in Scotland where there are no such statutory rights and renewals are the subject of contractual negotiations. Only 8 of these interests contractually expire before 31 December 2002. As at 22 January 1999, William Hill owned a total of 186 freehold properties.

Properties which have become surplus to the requirements of the Group have, in general, been disposed of to third parties. The majority of such properties are leasehold and disposal activity is focused on surrendering the properties back to the landlord. Where leases are assigned to third parties, the Group remains liable for rent and performance of the terms of the leases if the relevant third party defaults. However, the Group is currently making payment under the doctrine of first tenant's liability in relation to only one such property and this liability is insignificant.

12. Underwriting Agreement

12.1 Prior to the announcement of the Offer Price, the Company, the Directors, the Selling Shareholder, Warburg Dillon Read and each of the other Managers are expected to enter into the Underwriting Agreement. Pursuant to the Underwriting Agreement, it is expected that, *inter alia*:

- (i) the Company will agree, subject to certain conditions, to allot and issue, at the Offer Price, the New Shares to be issued in connection with the Institutional Offer, the Intermediaries Offer and the Employee Offer;
- (ii) the Selling Shareholder will agree, subject to certain conditions, to sell the Existing Shares in the Institutional Offer at the Offer Price;
- (iii) the Managers will severally agree, subject to certain conditions, to procure subscribers (or subscribe themselves) for New Shares and to procure purchasers (or to purchase themselves) Existing Shares pursuant to the Institutional Offer. Warburg Dillon Read will agree to subscribe or procure subscribers for New Shares under the Intermediaries Offer;
- (iv) Warburg Dillon Read (for itself and on behalf of the other Managers) will deduct from the proceeds of the Institutional Offer a commission of 3.25% of the product of the Offer Price and the number of Shares allotted or sold pursuant to the Institutional Offer. Warburg Dillon Read will also deduct from the proceeds of the Intermediaries Offer a commission (out of which it will pay commission to which Intermediaries are entitled under the Intermediaries Offer) of 3.25% of the product of the Offer Price and the number of Shares allocated pursuant to the Intermediaries Offer. The commissions will be paid by the Selling Shareholder and the Company in proportion to the number of Shares sold or issued by each of them;
- (v) the obligations of the Company to issue New Shares and the Selling Shareholder to sell Existing Shares under the Underwriting Agreement will be, and the obligations of the Managers to procure subscribers and/or purchasers for or, failing which, themselves to subscribe or purchase Shares will be, subject to certain conditions. These conditions will include, amongst others, the absence of any breach of warranty under the Underwriting Agreement or Admission failing to occur by not later than 9.00 am on 8 March 1999. In addition, Warburg Dillon Read (for itself and on behalf of the other Managers) has the right to terminate the Underwriting Agreement, exercisable in certain circumstances prior to Admission;
- (vi) the Selling Shareholder will agree to pay any stamp duty and/or stamp duty reserve tax arising on the sale of Existing Shares (subject to a maximum amount of 50p per £100 or part thereof of the Offer Price in the case of stamp duty and a maximum rate of 0.5% of the Offer Price in the case of stamp duty reserve tax);
- (vii) the Company will agree to pay the costs, charges, fees and expenses of the Global Offer (together with any related value added tax). To the extent that the Company is legally prohibited from paying, or does not pay (even if legally permitted), the Selling Shareholder will agree to pay any such costs, charges, fees and expenses;
- (viii) each of the Company, the Selling Shareholder and the Executive Directors will give certain representations, warranties and other undertakings to Warburg Dillon Read and each of the other Managers;
- (ix) each of the Company and the Selling Shareholder will give certain indemnities to Warburg Dillon Read and each of the other Managers;
- (x) the Company will agree, *inter alia*, not to enter into any agreement or arrangement nor do nor permit to be done any act or thing which may involve any increase in, or obligation (whether contingent or

otherwise) to issue, allot or grant options over, Shares (other than a grant, in accordance with normal practice, or the exercise of options under the arrangements described in paragraph 4 above) which would require the publication of listing particulars until the preliminary announcement of its results for the 52 weeks ending 28 December 1999, without the prior written consent of Warburg Dillon Read; and

- (xi) the parties will give certain covenants to each other regarding compliance with laws and regulations affecting the making of the Global Offer in relevant jurisdictions.

12.2 The Company, the Selling Shareholder and Warburg Dillon Read entered into an agreement dated 15 January 1999 under which Warburg Dillon Read was appointed as sponsor in connection with Admission and Global Co-ordinator in connection with the Global Offer, and, *inter alia*, the Company has given certain undertakings and indemnities to Warburg Dillon Read.

13. Securities laws

The distribution of this document and the offer of 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.

(a) United States of America

Due to the following restrictions, purchasers of Shares in the United States are advised to consult legal counsel prior to making any offer for, resale, pledge or other transfer of the Shares.

Each purchaser of the Shares offered hereby will be deemed to have represented and agreed as follows (terms used herein that are defined in Rule 144A ("Rule 144A") or Regulation S under the Securities Act ("Regulation S") are used herein as defined therein):

- (1) The purchaser is (A) (i) a qualified institutional buyer within the meaning of Rule 144A (a "QIB"), (ii) aware, and each beneficial owner of Shares has been advised, that the sale of Shares to it is being made in reliance on Rule 144A and (iii) acquiring such Shares for its own account or for the account of a QIB with respect to whom it has the authority to make, and does make, the representations and warranties set forth herein or (B) acquiring the Shares in an offshore transaction outside the United States in a transaction which is in compliance with Regulation S.
- (2) The purchaser understands that the 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. Such purchaser acknowledges that the Shares (whether in physical, certificated form or in uncertificated form held in CREST) offered and sold in accordance with Rule 144A are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act and that no representation is made as to the availability of the exemption provided by Rule 144 for resales of Shares. The purchaser understands that the Shares may not be deposited into any unrestricted depositary receipt facility in respect of Shares established or maintained by a depositary bank, unless and until such time as such Shares are no longer restricted securities within the meaning of Rule 144(a)(3) under the Securities Act.
- (3) The Shares sold to QIBs pursuant to Rule 144A (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 (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 WHO 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.

(b) Australia

It is intended to lodge this document with the Australian Securities and Investments Commission in accordance with the provisions of ASIC Class Order 94/1299 to permit the distribution of Shares to certain clients of Warburg Dillon Read Australia Equities Limited and Potter Warburg Securities Pty Ltd, the Australian Private Client subsidiary of UBS AG. It is not an invitation or offer to the public in Australia to apply for or acquire Shares, nor is it an invitation or offer to persons to acquire Shares in any place in which or to any person to whom it would not be lawful to make such an offer or invitation.

(c) Belgium

This document and any related documents to be published by the Company are not intended to constitute, and should not be construed as, a public offering in Belgium. Such documents may not be distributed to the Belgian public. The Shares may not be publicly offered for sale in Belgium, and no steps may be taken which would constitute, or result in, a public offering of the Shares in Belgium. Any purchase of Shares in the Global Offer in Belgium should be made in the name, and for the own account, of institutional investors listed in article 3.2 of the Royal Decree of 9 January 1991 (as amended). This document has not been, and will not be, submitted for approval to the Belgian Commission for Banking and Finance.

(d) Bermuda

Any outward cash investment in non-Bermuda area currency by a person deemed resident in Bermuda for exchange control purposes will require permission to be issued under the Exchange Control Act 1972 of Bermuda and related regulations to that person in respect of the conversion of Bermuda dollars to non-Bermuda currency.

(e) Canada

The Shares have not been, and will not be, qualified for sale under the securities laws of Canada or any province or territory of Canada and may not be offered or sold, directly or indirectly, in Canada or to any resident of Canada except pursuant to an exemption from the prospectus requirements under applicable securities laws of Canada or any province or territory of Canada.

(f) France

This document is addressed to qualified investors or a restricted group of investors in France as defined by article 6 of Ordinance No. 67-833 of 28 September 1967. It is not a public document. This placement has not been authorised by the French Economy Ministry and has not been submitted to the *Commission des Opérations de Bourse* (the French Stock Exchange authority). The addressee of this document, if in France, acts on his own account.

(g) Germany

Each of the Managers has acknowledged that no German language selling prospectus within the meaning of the German Sales Prospectus Act (the "SPA") has been or will be prepared and published and that within the Federal Republic of Germany the Shares shall only be offered to persons who purchase or sell transferable securities for their own account or for the account of others in the context of their trade, profession or occupation pursuant to section 2, n 1 of the SPA. Insofar and to the extent that the SPA is applicable to the Managers or their activities (each Manager being responsible to ascertain whether or not the SPA is applicable to it or its activities), each of the Managers has represented that it has not engaged and has agreed that it will not engage in public advertising within the meaning of the SPA with respect to the Shares or sell any Shares through actions other than as provided in section 2, n 1 of the SPA.

(h) Italy

The offer contained in this document is addressed, insofar as Italian residents are concerned, solely to professional investors pursuant to Article 100 of Decreto Legislativo No.58 of 24 February 1998.

(i) Luxembourg

The Shares may not be offered, sold or delivered to the public within the Grand Duchy of Luxembourg. This document is only intended in Luxembourg for institutional investors. It is personal to each offeree and does not constitute an offer to any other person or to the public in Luxembourg generally to subscribe for or otherwise to acquire the Shares. Distribution of this document in Luxembourg to any person other than the offeree and those persons, if any, retained to advise such offeree with respect thereto is unauthorised and any disclosure of any of its contents, without the prior written consent of the Company, is prohibited. Each prospective purchaser, by accepting delivery of this document or any documents referred to herein, accepts these selling and offer restrictions.

(j) Netherlands

The Shares will not be offered or sold in The Netherlands other than to persons or entities who trade or invest in securities in the conduct of a profession or business (which include banks, securities firms, investment funds, insurance companies, pension funds and large enterprises through their treasury departments or finance company).

(k) Republic of Ireland

Insofar as the Republic of Ireland is concerned, this document and the information contained herein is confidential and has been prepared and is intended for use on a confidential basis solely by those persons in the Republic of Ireland to whom it is sent. It may not be reproduced, redistributed or passed on to any other person in the Republic of Ireland or published in whole or in part for any purpose. It does not constitute an invitation to the public in the Republic of Ireland or any section thereof to subscribe for or purchase any shares or other securities in any company and accordingly is not a prospectus within the meaning of the Irish Companies Act, 1963 (as amended) or the Irish European Communities (Transferable Securities and Stock Exchange) Regulations 1992.

(l) Singapore

The Shares may not be offered or sold, nor may any document or other material in connection with the Shares be distributed, either directly or indirectly, (i) to persons in Singapore other than under circumstances in which such offer or sale does not constitute an offer or sale of the Shares to the public in Singapore, or (ii) to the public or any member of the public in Singapore other than pursuant to, and in accordance with the conditions of, an exemption invoked under Division 5A of Part IV of the Companies Act, Chapter 50 of Singapore (the "Singapore Companies Act") and to persons to whom the Shares may be offered or sold under such exemption. This document has not been registered as a prospectus with the Registrar of Companies in Singapore. Accordingly, this document and any other document or material in connection with the Global Offer may not be circulated or distributed, nor may the Shares be offered or sold, whether directly or indirectly, to the public or any member of the public in Singapore other than (a) to an institutional investor or other person specified in Section 106C of the Singapore Companies Act, (b) to a sophisticated investor, and in accordance with the conditions, specified in Section 106D of the Singapore Companies Act or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Singapore Companies Act.

(m) Spain

The Shares may not be offered or sold in Spain by means of a public offer as defined and construed by Spanish law but may be offered or sold in Spain in compliance with the requirements of Law 24/1988, of 28 July 1988, on the Spanish Securities Market and the Royal Decree 291/1992, of 27 March 1992, on issues and public offers for the sale of securities, as amended by Royal Decree 2590/1988 of 7 December 1988.

14. Material contracts

The following material contracts (not being contracts entered into in the ordinary course of business or contracts which have been available for inspection in the last two years) have been entered into by a member of the Group within the period of two years immediately preceding the date of this document:

(a) Underwriting Agreement

The Underwriting Agreement referred to in paragraph 12 above, which is expected to be entered into once the Offer Price has been set.

(b) Share Purchase Agreement

On 9 October 1997, the Company entered into a share purchase agreement with Brent Walker relating to all the share capital of WHO, Laystall, Camec and WHTL (the "Share Purchase Agreement") for a total purchase price (including repayment of certain indebtedness due to Brent Walker and its subsidiaries) of £700 million (the "Acquisition Consideration") plus certain fees and expenses (the "Acquisition"). The Acquisition was deemed to be effective as of 1 October 1997, and was completed on 2 December 1997, at a total cost to the Company, including fees, taxes and expenses, of approximately £730 million. The accounting for the Acquisition is described in note 27 of Part 3. The Company was incorporated on 6 October 1997 for the purpose of effecting the Acquisition and has no prior operating history.

The Company financed the Acquisition Consideration and such fees and expenses from the following sources:

- (a) £380 million from borrowings under secured credit facilities to the Company (comprised of a £350 million term loan facility (the "Term Loan Facility"), split into (i) a £175 million tranche A facility (the "Tranche A Facility"), (ii) a £100 million tranche B facility (the "Tranche B Facility") and (iii) a £75 million tranche C facility (the "Tranche C Facility"), and £30 million drawn down from a £50 million revolving credit facility, which has since been repaid (the "Revolving Facility"));
- (b) £150 million from an interim senior subordinated note provided by Nomura to William Hill Finance which was repaid, on 14 May 1998, principally using the net proceeds of the issuance of the Senior Subordinated Notes (referred to below); and
- (c) £200 million from the issuance by the Company to GBH of convertible unsecured redeemable loan stock ("CULS").

In connection with the Acquisition and the offering of the Senior Subordinated Notes, the Selling Shareholder received investment banking, financial advisory and other fees in the aggregate of approximately £17 million from the Company.

(c) Credit Agreement

In connection with the Acquisition, the Company and WHO (together, the "Obligors") entered into a credit agreement on 2 December 1997, with Bankers Trust International PLC as arranger ("Arranger"), Bankers Trust Company as agent ("Agent") and Bankers Trust Company Limited as security agent ("Security Agent") (the "Original Credit Agreement"). Bankers Trust Company syndicated the facilities under the Original Credit Agreement to a syndicate of banks and financial institutions. The Original Credit Agreement was amended pursuant to an amending agreement dated 1 February 1999. The Original Credit Agreement, as so amended, is referred to below as the "Credit Agreement".

General

The facilities constituted by the Credit Agreement comprise the Term Loan Facility split into the Tranche A Facility (of which £128.96 million in principal amount will remain outstanding following the prepayment to be made out of the proceeds of the Global Offer), the Tranche B Facility (of which £76.31 million in principal amount will remain outstanding following such prepayment) and the Tranche C Facility (of which £57.23 million in principal amount will remain outstanding following such prepayment) and the £50 million Revolving Facility, which is available by way of advances, letters of credit or guarantees. The Company is required to amortise the Tranche A Facility over seven years with the final repayment on 31 December 2004; the Tranche B Facility is repayable in two instalments in June and December 2005; and the Tranche C Facility is repayable in two instalments in June and December 2006. The commitments under the Revolving Facility terminate on 30 November 2004, and amounts drawn down under the Revolving Facility must be repaid by 31 December 2004.

The proceeds of the Term Loan Facility and a portion of the available credit under the Revolving Facility were used to pay a portion of the Acquisition Consideration and to pay related fees and expenses. Any undrawn credit

from time to time under the Revolving Facility will be available for the general corporate purposes of the Group. The Credit Agreement provides that certain subsidiaries of the Company may, subject to certain conditions, from time to time become additional borrowers under the Revolving Facility.

Interest rate; fees

Advances under the Tranche A Facility and advances under the Revolving Facility initially bore interest at a rate equal to LIBOR plus 1.75%. This margin over LIBOR may be reduced to not less than 1.00% following satisfaction of certain financial performance tests.

Advances under the Tranche B Facility initially bore interest at a rate equal to LIBOR plus 2.00%. This margin over LIBOR may be reduced to not less than 1.25% following satisfaction of certain financial performance tests.

Advances under the Tranche C Facility initially bore interest at a rate equal to LIBOR plus 2.25%. This margin over LIBOR may be reduced to not less than 1.50% following satisfaction of certain financial performance tests.

A commitment fee calculated at a rate equal to 0.75% of the daily, undrawn amount of the Revolving Facility is payable quarterly in arrears. Certain agency fees are payable to the Agent and the Security Agent.

Prepayments

Certain mandatory prepayments are required to be made pursuant to the Credit Agreement, including (a) 100% of the net proceeds of certain asset sales (unless such proceeds are committed to be applied to certain permitted investments within 360 days of the sale and held in a separate cash collateral account pending reinvestment) and (b) an amount equal to 50% of available "excess cash flow" (as defined in the Credit Agreement) in any financial year. In addition, the Obligors must prepay all indebtedness under the Credit Agreement on the occurrence of either of the following: (1) the sale of all or substantially all of the shares, business, undertaking or assets of the Company; or (2) any change of control of the Company. Optional prepayments are permitted without premium or penalty but subject to customary breakage and capital costs.

Security

Subject to the terms of the Intercreditor Deed (referred to below), the indebtedness under the Credit Agreement is secured by a first priority fixed and floating charge over all of the tangible and intangible assets of the Company (including a first ranking security assignment of inter-company indebtedness owed by the Group companies to the Company) and a first ranking security assignment of the inter-company loan from William Hill Finance to the Company.

Dividends

The Credit Agreement permits the payment of dividends by the Company provided no Event of Default or Potential Event of Default (in each case, as defined in the Credit Agreement) is continuing.

Certain covenants

The Credit Agreement contains numerous operating and financial covenants, including, without limitation, requirements to maintain: minimum ratios of EBITDA to net cash interest, EBITDA to total senior interest and cash flow to total debt service; and maximum ratios of total indebtedness to net worth and limitations on capital expenditure. (All relevant terms are defined in the Credit Agreement). In addition, the Credit Agreement includes covenants relating to limitations on amalgamations and changes of business, limitations on sales and other disposals, limitations on indebtedness and other liabilities, limitations on liens, restrictions on hedging counterparties, limitations on other treasury transactions, limitations on guarantees and other contingent liabilities, limitations on loans, limitations on leasing, limitations on investments, acquisitions and joint ventures, limitations on the issuance or redemption of shares and limitations on the making of interest or other payments under the Notes.

Events of default

The Credit Agreement contains events of default including, without limitation, a breach by the Company of any of the financial covenants referred to above.

(d) Intercreditor Deed

On 2 December 1997, the Company, William Hill Finance, GBH, Nomura, Bankers Trust Company as agent and Bankers Trustee Company Limited as security agent entered into an Intercreditor Deed (the "Intercreditor Deed"). The principal effect of the Intercreditor Deed is to (i) regulate the respective priority of debt arising pursuant to the Credit Agreement and debt arising in respect of the Notes (as defined below); (ii) govern the circumstances in which payment may be made in respect of the Notes; and (iii) restrict the circumstances and manner in which holders of the Notes may enforce rights against members of the Group.

(e) Indenture

An indenture (the "Indenture") dated 14 May 1998 was entered into by (1) William Hill Finance, (2) the Company and (3) The Bank of New York, as Trustee (the "Trustee"), pursuant to which the Senior Subordinated Notes were issued by William Hill Finance. A portion of the Notes has been registered under the Securities Act.

Principal, maturity and interest

The Notes collectively aggregate to £150 million in principal amount and mature on 30 April 2008. Interest on the Notes accrues at the rate of 10% per annum.

Redemption at the option of William Hill Finance

The Notes will be redeemable, at William Hill Finance's option, on and after 30 April 2003 at redemption prices declining rateably from 105.313% of principal amount for the twelve months commencing 30 April 2003 to 100.000% on and after 30 April 2007, plus in each case accrued and unpaid interest thereon, if any, to the applicable redemption date. However, on or prior to 30 April 2001, William Hill Finance may, at its option, use the net cash proceeds of one or more Public Equity Offerings (as defined in the Indenture) to redeem up to 35% of the original aggregate principal amount of the Notes at a redemption price equal to 110.625% of the then outstanding principal amount thereof plus accrued and unpaid interest thereon, if any, to the relevant date of redemption provided that at least 65% of the original aggregate principal amount of the Notes remains outstanding immediately after any such redemption. The Global Offer will constitute a Public Equity Offering as defined in the Indenture. The Company intends to lend a portion of the proceeds of the Global Offer to William Hill Finance to enable it to redeem £37.5 million in principal amount of the Notes. Further details are set out in Part 4.

Repurchase at the option of holders of Notes

The Indenture provides that upon the occurrence of a change of control (which would not include the Global Offer), each holder of Notes will have the right to require that William Hill Finance purchase all or a portion of such holder's Notes at a purchase price equal to 101% of the principal amount thereof then outstanding plus accrued and unpaid interest thereon, if any, to the date of repurchase.

Security

The Notes are secured by a second priority security assignment of the inter-company loan from William Hill Finance to the Company and a second priority assignment of the inter-company loans from the Company to certain of its subsidiaries.

Covenants

The Indenture places certain limitations on, among other things, the Company's ability to (a) incur additional indebtedness, (b) make certain other restricted payments (including, under certain circumstances, the payment of dividends), (c) impose restrictions on the ability of a subsidiary to pay dividends or make certain payments to the Company, (d) merge or consolidate with any other person or (e) dispose of all or substantially all of the assets of the Company. The Directors do not expect these restrictions to impose any practical restrictions on the ability of the Company to declare dividends.

(f) Increase of shareholding in SIS

Pursuant to the articles of association of SIS, WHO exercised its pre-emption rights and acquired an additional 9,310 ordinary shares in SIS from Bass PLC for a consideration of £6.1 million at the time of the sale of Coral to Ladbroke in March 1998.

15. UK taxation

15.1 General

The following statements are only a guide to the general position and are based on current UK taxation legislation and practice of the UK Inland Revenue. They relate to persons who are resident or ordinarily resident in the UK for UK tax purposes and who are the beneficial owners of Shares. The comments below may not apply to certain classes of shareholders such as dealers in securities. 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.

15.2 Close company

The Directors have been advised that the Company is not presently, and following completion of the Global Offer is not expected to be, a close company as defined by section 414 of the Income and Corporation Taxes Act 1988.

15.3 Dividends

Under current UK taxation legislation, no tax is withheld from dividend payments by the Company. However, when it pays a dividend, the Company has to account to the Inland Revenue for advance corporation tax ("ACT"). The current rate of ACT is equal to a quarter of the amount of the dividend paid. ACT paid by the Company can be set off against its liability to corporation tax, subject to certain limits and restrictions. The requirement to account for ACT is to be abolished for dividends paid on or after 6 April 1999.

The Company does not intend to declare any dividends before 6 April 1999 and, accordingly, the summary which follows assumes that it will not do so.

(a) Individuals

In respect of dividends paid after 5 April 1999, the tax regime will change although the changes will not result in an increased tax liability for UK resident individual shareholders. With effect from 6 April 1999 the rate of tax credits on dividends paid by the Company will reduce to 10% of the gross dividend. Further, 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 UK resident individual shareholders liable to income tax at only the lower or basic rate, the tax credit will continue to satisfy in full such shareholders' liability to income tax on the dividend. UK resident individual shareholders liable to income tax at the higher rate will be subject to income tax on the gross dividend at 32.5%, but will be able to set the tax credit off against part of this liability. The effect of the reduction of the higher rate of income tax on dividends to 32.5% will be that an individual shareholder who is liable to the higher rate of income tax will continue to have a liability, after taking account of the tax credit, equal to one quarter of the cash dividend received.

(b) Companies

A corporate shareholder resident in the UK (for tax purposes) will not normally be liable for UK tax on the receipt of a dividend and will be able to treat any dividend received and the related tax credit as franked investment income. As a general rule, a corporate shareholder will be able to use the tax credit on dividends received to satisfy its own liability to account for ACT on dividends, up to the same amount, which it in turn pays. However, in respect of dividends paid on or after 6 April 1999, this use of the tax credit to frank its own distributions will no longer be possible.

(c) Non-Residents

Shareholders resident outside the UK should note that, following the planned reduction in the rate of the tax credit to 10%, from 6 April 1999, they may not be entitled to any payment from the Inland Revenue in respect of the tax credits on dividends on their Shares.

(d) Pension Funds

UK pension funds will not be entitled to reclaim the tax credits on dividends paid by the Company.

15.4 Chargeable gains

A disposal of the Shares by a shareholder resident or ordinarily resident for tax purposes in the UK or a shareholder who carries on a trade, profession or vocation in the UK through a branch or agency and has used, held or acquired the Shares for the purposes of such trade, profession or vocation or such branch or agency may, depending on the shareholder's circumstances, (subject to any available exemption or relief) give rise to a

chargeable gain or an allowable loss for the purposes of UK taxation of chargeable gains. A shareholder who is an individual and who has, on or after 17 March 1998, ceased to be resident or ordinarily resident for tax purposes in the UK for a period of less than five years and who disposes of Shares during that period may also be liable to UK taxation of chargeable gains (subject to any available exemption or relief).

15.5 Stamp Duty and Stamp Duty Reserve Tax

The conveyance or transfer on sale of Shares will generally be subject to ad valorem stamp duty on the instrument of transfer at the rate of 50p per £100 (or part thereof) of the amount or value of the consideration given. Stamp duty is normally the liability of the purchaser or transferee of the Shares.

An unconditional agreement to transfer Shares will normally give rise to a charge to Stamp Duty Reserve Tax ("SDRT") at the rate of 0.5% of the amount or value of the consideration for the 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 or the transferee of the Shares.

Where 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 depository receipts, stamp duty or SDRT may be payable at a rate of £1.50 per £100 (or part thereof) or 1.5%, respectively of the amount or value of the consideration payable or, in certain circumstances, the value of the Shares. Clearance service providers may opt, under certain circumstances for the normal rates of SDRT to apply to a transfer of Shares into, and to transactions within, the service instead of the higher rate applying to an issue or transfer of Shares into the clearance service.

The UK Finance Act 1996 introduced tax provisions to cater for the introduction of a paperless share transfer system, known as CREST, in the UK. Under these provisions, paperless transfers of Shares within CREST are generally liable to SDRT, rather than stamp duty, at the rate of 0.5% of the amount or value of the consideration payable. CREST is obliged to collect SDRT on relevant transactions settled within the system. Deposits of Shares into CREST will generally not be subject to SDRT, 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% of the value of the consideration.

Special rules apply to agreements made by market intermediaries in the ordinary course of their business.

In relation to the New Shares being issued by the Company, no liability to stamp duty or SDRT will arise on the issue or on the issue of definitive share certificates in respect of such shares by the Company other than in circumstances involving depository receipts or clearance services referred to above.

In relation to the sale of the Existing Shares by the Selling Shareholder, a liability to stamp duty and/or SDRT will arise in relation to their sale by the Selling Shareholder under the Institutional Offer. Under the terms of the Underwriting Agreement the Selling Shareholder has agreed to meet the liability to stamp duty of original purchasers of Existing Shares (at no more than the rate of 50p per £100 or part thereof of the Offer Price) which will arise on such initial sale. The Selling Shareholder will also meet any liability to SDRT of the original purchasers arising in respect of the initial transfer of the Existing Shares by the Selling Shareholder within the CREST system (at no more than the rate of 0.5% of the Offer Price).

16. US Federal income taxation considerations

The following discussion is a summary of certain US federal income tax consequences under present law of the purchase, ownership and disposition of Shares. The discussion is not a full discussion of all tax considerations that may be relevant to a decision to purchase Shares. The discussion addresses only US Holders that will hold Shares as capital assets and use the US dollar as their functional currency. It does not address the tax treatment of investors subject to special rules, such as banks, dealers, insurance companies, tax-exempt entities, holders of 10% or more of the Company's voting shares, persons holding Shares as part of a hedging, straddle, conversion or constructive sale transaction and persons who are resident or ordinarily resident in the United Kingdom. **Prospective purchasers should consult their tax advisors about the US federal, state and local tax consequences to them of an investment in the Shares.**

As used here, "US Holder" means a beneficial owner of Shares that is (i) a US citizen or resident, (ii) a corporation, partnership or other business entity organized under US laws, (iii) a trust subject to the control of a US person and the primary jurisdiction of a US court and (iv) an estate the income of which is subject to US federal income tax regardless of its source.

16.1 Dividends

Dividends paid with respect to the Shares generally will be included in the gross income of a US Holder as ordinary income from foreign sources. The dividends will not be eligible for the dividends-received deduction available to corporations. Dividends paid in pounds sterling will be includible in a US dollar amount based on the exchange rate in effect on the date of receipt whether or not the payment is converted into dollars at that time. Any gain or loss recognized on a subsequent conversion of the pounds sterling for a different amount will be US source ordinary income or loss. Distributions to US Holders of additional Shares or rights to acquire additional Shares that are made as part of a pro rata distribution to all shareholders of the Company generally will not be subject to federal income tax.

Upon receiving a dividend from the Company, US Holders entitled to the benefits of the UK-US income tax treaty may apply to the UK Inland Revenue for a payment equal to the amount of tax credit that UK resident individuals can claim against UK tax imposed on the dividend. The dividend and the tax credit payment are subject to a 15% UK withholding tax. US Holders must treat the tax credit payment as additional ordinary income from foreign sources. US Holders can claim a foreign tax credit or a deduction for the UK withholding tax subject to generally applicable limitations. From 6 April 1999, the tax credit available to UK individual shareholders will be reduced and the UK withholding tax will exactly equal the tax credit payment due to qualified US Holders. The offsetting payments will not actually be made. US Holders should consult their tax advisors about any resulting change in the US tax treatment of the tax credit payment and the withholding tax. The UK-US income tax treaty is being renegotiated, and a new or modified treaty is likely to alter the treatment of dividends.

16.2 Capital gains

US Holders will recognize capital gain or loss on the sale or other disposition of the Shares. Any gain or loss generally will be treated as arising from US sources.

16.3 Passive foreign investment company

The Company believes that it is not and will not become a passive foreign investment company ("PFIC") for US federal income tax purposes. A non-US company is a PFIC in any taxable year in which, after taking into account the income and assets of certain subsidiaries, either (i) at least 75% of its gross income is passive income or (ii) at least 50% of the average value of its assets is attributable to assets that produce or are held to produce passive income.

If the Company were a PFIC in any year during which a US Holder owned Shares, the US Holder would be subject to additional taxes on any excess distributions received from the Company and any gain realized from sale or other disposition of the Shares (regardless whether the Company continued to be a PFIC). A US Holder has an excess distribution to the extent that distributions on Shares during a taxable year exceed 125% 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, (i) the excess distribution or the gain is allocated ratably over the US Holder's holding period, (ii) the amount allocated to the current taxable year is taxed as ordinary income 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. If the Shares were to be listed on a qualified stock exchange, US Holders could elect to mark the Shares to market annually rather than to be taxed under the regime just outlined.

The US Congress has considered from time to time various measures that would change the tax treatment of US shareholders in PFICs.

16.4 Information reporting and backup withholding

Dividends from the Shares and proceeds from sale of the Shares may be reported to the US Internal Revenue Service and a 31% backup withholding tax may apply to such amounts unless the holder (i) is a corporation, (ii) provides an accurate taxpayer identification number (in the case of a US Holder) or a properly executed IRS Form W-8 (in the case of other holders) or (iii) otherwise established a basis for exemption. The amount of any backup withholding tax will be allowed as a credit against the US Holder's US federal income tax liability. After 1999, the requirements and procedures for establishing an exemption from information reporting and backup withholding will change.

17. Terms and conditions of the Institutional Offer

(a) Introduction

These terms and conditions apply to persons agreeing to subscribe for New Shares or purchase Existing Shares under the Institutional Offer.

Each person to whom these terms and conditions apply, as described above, who is himself a Manager or who confirms his agreement to a Manager to subscribe for New Shares or purchase Existing Shares (an "Investor") agrees with each of Warburg Dillon Read and the other Managers, the Registrars of the Company, the Company and the Selling Shareholder to be bound by these terms and conditions as being the terms and conditions upon which Shares will be issued and sold under the Institutional Offer. An Investor shall, without limitation, become so bound (if a Manager) by notifying the Registrars on behalf of the Company, Warburg Dillon Read and the Selling Shareholder of his name or (if not a Manager) by a Manager confirming to the Investor its allocation and so notifying the Registrars of the Company on behalf of the Company, Warburg Dillon Read and the Selling Shareholder.

(b) Agreement to acquire Shares

Conditional on Admission occurring prior to 8 March 1999, an Investor agrees to become a member of the Company and agrees to subscribe for or purchase from the Selling Shareholder, as more particularly described below, at the Offer Price, the number of Shares allocated to such Investor under the Institutional Offer in accordance with the arrangements described in Part 5. Each Investor acknowledges and agrees that it will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time before or after Shares are issued or sold to it. This does not affect any other rights such Investor may have.

(c) Payment for Shares

Each Investor undertakes to pay the Offer Price for the Shares issued or sold to such Investor in such manner as shall be directed by the Manager submitting a bid on behalf of such Investor. Liability for stamp duty and SDRT is described in paragraph 15.5 above.

(d) Warranties

Each Investor and, in the case of paragraphs (iv), (v) and (vi) below, any person confirming an agreement to subscribe or purchase Shares on behalf of an Investor or authorising a Manager to notify an Investor's name to the Registrars of the Company, warrants to the Company, the Selling Shareholder and Warburg Dillon Read (for itself and as agent and trustee for each Manager which has procured such Investor) that:

- (i) if the Investor is a natural person, such Investor is not under the age of majority (18 years of age in the UK) on the date of such Investor's agreement to subscribe or purchase Shares under the Institutional Offer;
- (ii) in agreeing to subscribe or purchase Shares under the Institutional Offer, the Investor is relying only on this document, and not on any other information or representation concerning the Group or the Global Offer. Such Investor agrees that none of the Company, the Selling Shareholder, Warburg Dillon Read or the other Managers nor any of their respective officers or directors will have any liability for any such other information or representation;
- (iii) if the laws of any place outside the UK are applicable to the Investor's agreement to subscribe or purchase Shares, such Investor has complied with all such laws and none of the parties mentioned under "Introduction" above will infringe any laws outside the UK as a result of such Investor's agreement to subscribe or purchase Shares or any actions arising from such Investor's rights and obligations under these terms and conditions, and the articles;
- (iv) in the case of a person who confirms to a Manager on behalf of an Investor an agreement to subscribe or purchase Shares and/or who authorises a Manager to notify the Investor's name to the Registrars of the Company as mentioned under "Introduction" above, that person warrants that he has authority to do so on behalf of the Investor as provided in "Introduction" above;
- (v) the Investor is not, and is not applying as nominee or agent for, a person which is, or may be mentioned in any of sections 67, 70, 93 and 96 of the Finance Act 1986 (depository receipts and clearance services); and
- (vi) in the case of a person who confirms to a Manager on behalf of an Investor which is an entity other than a natural person an agreement to subscribe or purchase Shares and/or who authorises a Manager to notify such Investor's name to the Registrars of the Company, that person warrants that he has authority to do so on behalf of the Investor.

(e) Supply and disclosure of information

If the Company or Warburg Dillon Read or any of the other Managers or any of their agents request any information about an Investor's agreement to subscribe or purchase Shares, such Investor must promptly disclose it to them.

(f) Miscellaneous

The rights and remedies of the Company, the Selling Shareholder, Warburg Dillon Read, the other Managers and the Registrars of the Company under these terms and conditions are in addition to any rights and remedies which would otherwise be available to each of them, and the exercise or partial exercise of one will not prevent the exercise of others.

On application, each Investor must disclose, in writing or orally, to the relevant Manager:

- (a) if he is a natural person, his nationality; or
- (b) if he is a discretionary fund manager, the jurisdiction in which the funds are managed or owned.

All documents will be sent at the Investor's risk. They may be sent by post to such Investor at the address notified to the relevant Manager.

Each investor agrees to be bound by the articles (as amended from time to time) once the Shares which such Investor has agreed to subscribe or purchase have been issued or transferred to such Investor.

The contract to subscribe or purchase Shares and the appointments and authorities mentioned herein will be governed by, and construed in accordance with, the laws of England. For the exclusive benefit of the parties mentioned under "Introduction" above, each Investor irrevocably submits to the jurisdiction of the English courts in respect of these matters. This does not prevent an action being taken against an Investor in any other jurisdiction.

In the case of a joint agreement to subscribe or purchase Shares, references to an Investor in these terms and conditions are to each of such Investors and such Investors' liability is joint and several.

The Company, the Selling Shareholder and Warburg Dillon Read expressly reserve the right to modify the Institutional Offer at any time before the Offer Price and allocations are determined.

18. Litigation

No member of the Group is or has been engaged in nor (so far as the Company is aware) has pending or threatened, any legal or arbitration proceedings which may have or have had in the recent past (including at least the twelve months preceding the date of this document) a significant effect on the financial position of the Group.

19. Significant changes

Save with respect to the waiver by GBH of the CULS issued by the Company referred to in paragraph 21 below, there has been no significant change in the financial or trading position of the Group since 29 September 1998, the date to which the latest audited financial statements of the Group have been published.

20. Working capital

In the opinion of the Company, taking into account its existing bank facilities, as amended, and the net proceeds of issuing the New Shares under the Global Offer, the working capital available to the Group is sufficient for the Group's present requirements, that is for at least the twelve months following the date of this document.

21. Indebtedness

As at the close of business on 29 December 1998, the Group had outstanding secured indebtedness under the Term Loan Facility of £350.0 million, upon which £0.6 million of interest is accrued, indebtedness under the CULS of £352.5 million, which was issued at a 12% discount and had a value of £226.0 million, secured indebtedness under the Senior Subordinated Notes of £150.0 million, upon which £2.6 million of interest is accrued, and guarantees to third parties of £1.8 million on behalf of its associate SIS in respect of the rental of office premises.

Save as disclosed in the paragraph above and in paragraph 11 above, and apart from intra-group liabilities, at the close of business on 29 December 1998 the Group had no loan capital outstanding or created but unissued or any other borrowings or indebtedness in the nature of borrowings, including term loans, bank overdrafts, liabilities under acceptances (other than normal trade bills) or acceptance credits, mortgages, charges, guarantees or other contingent liabilities.

At the close of business on 29 December 1998, the Group had cash at bank of £28.8 million, which included £1.6 million held by WHIL to meet the SFA requirement to maintain adequate financial resources.

£6 million in principal amount of the Term Loan Facility was repaid by the Group on 31 December 1998.

£100 million in principal amount of the CULS was waived by GBH on 26 January 1999 and the balance, together with accrued discount, will be waived prior to Admission.

22. Nature of financial information

Financial information relating to William Hill contained in this document does not constitute statutory accounts within the meaning of section 240 of the Act. Statutory accounts for the Group in respect of the 52 weeks ended 30 December 1997 have been delivered to the Registrar of Companies in England and Wales. The auditors of the Company, Deloitte & Touche, Chartered Accountants and Registered Auditors, of Hill House, 1 Little New Street, London EC4R 3TR, have audited the Company's accounts for the 52 weeks ended 30 December 1997.

23. Available information in the United States

The Company and William Hill Finance are subject to the informational requirements of the US Securities Exchange Act of 1934, as amended (the "Exchange Act"). The registration statements (and the exhibits and schedules thereto) filed by the Company and William Hill Finance, as well as the periodic reports and other information filed by the Company and William Hill Finance with the Securities and Exchange Commission (the "Commission"), may be inspected and copied at the Public Reference Section of the Commission at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, USA and at the regional offices of the Commission located at Room 1400, Suite 1300, 7 World Trade Center, New York, New York 10048, USA and Suite 1400, Citicorp Center, 500 West Madison Street, Chicago, Illinois 60661, USA. Copies of such materials may be obtained from the Public Reference Section of the Commission, Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, USA, and its public reference facilities in New York, New York and Chicago, Illinois at the prescribed rates. All reports, proxy and information statements and other information regarding registrants that file electronically with the Commission may be viewed on the Web site (<http://www.sec.gov>) maintained by the Commission.

Pursuant to the Indenture, in the event that either the Company or William Hill Finance ceases to be subject to the informational requirements of the Exchange Act, the Company and William Hill Finance have agreed that, so long as any Notes remain outstanding, the Company or (as the case may be) William Hill Finance will file with the Commission (but only if the Commission at such time is accepting such voluntary filings) copies of the financial information that would have been contained in such annual reports and quarterly reports, including a "management's discussion and analysis of financial condition and results of operations", that would have been required to be filed with the Commission pursuant to the Exchange Act. Each of the Company and William Hill Finance will also furnish such other reports as it may determine or as may be required by law.

24. Enforcement of civil liabilities under US federal securities laws

Each of the Company and the Selling Shareholder is a public limited company incorporated under English law. All of the Directors are citizens of the UK, and all or a substantial portion of the assets of the Company, the Selling Shareholder and the Directors are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon the Company, the Selling Shareholder or the Directors or to enforce against them in the US courts judgements obtained in US courts predicated upon the civil liability provisions of the US federal securities laws. There is doubt as to the enforceability in England, in original actions or in actions for enforcement of judgements of the US courts, of civil liabilities predicated upon US federal securities laws.

25. Bases and sources

25.1 Statements that by 1988 William Hill was the second largest bookmaker in the UK are derived from the report by the MMC dated August 1989 relating to the merger situation in connection with the acquisition of WHO by Grand Metropolitan in December 1989.

25.2 The following references and statements are derived from the MMC Report:

- (a) references to William Hill being a leading provider of bookmaking services in the UK;
- (b) statements that the Group is the second largest operator of LBOs in the UK;
- (c) statements that William Hill is the market leader in UK telephone betting services and that its 42% market share in 1997 was larger than its two closest competitors combined;
- (d) statements that William Hill has demonstrated that it is the industry leader in terms of product innovation;
- (e) statements that numbers betting products were pioneered by William Hill;
- (f) statements that the combined market share of the top five bookmakers in the UK bookmaking industry increased from 46% in 1989 to 56% in 1997;
- (g) statements that of William Hill's LBO customers, 91% are male, around one quarter are from socio-economic groups A, B and C1 and around three quarters are relatively evenly drawn from groups C2, D and E; and
- (h) statements that the estimated total turnover in the year ended 31 March 1997 for the off-course betting industry was £6.7 billion.

25.3 Statements that the establishment of the National Lottery has led to an increase in the annual aggregate gross win in the gambling industry from approximately £4 billion in the 12 months ended 31 March 1994 to £7 billion in the 12 months ended 31 March 1997 are derived from Mintel.

25.4 Statements that the National Lottery's turnover for the year ended 31 December 1997 was £5.4 billion are derived from Camelot's National Lottery sales analysis.

26. Directorships and partnerships

The following table shows in respect of each of the Directors the names of all companies and partnerships outside the Group of which he has, at any time in the five years prior to the date of this document, been a director or partner, as appropriate (excluding subsidiaries of any such companies). Each directorship or partnership is currently held unless stated otherwise.

Director	Company or partnership name	
Ian Martin	Castanea Consulting Limited	
	Castanea Interiors & Antiques Limited	
	Erycinus plc	
	Glenisla Group Ltd	Resigned
	Granada Group PLC	Resigned
	Grand Metropolitan PLC	Resigned
	House of Fraser PLC	
	Newmond PLC	
	Newsquest Capital Inc	Resigned
	Newsquest Holdings Limited	Resigned
	RRN Holdings Ltd	Resigned
	The St Paul Co's Inc.	Resigned
	Unigate PLC	
John Brown	49's Limited	
	Betting Office Licensees Association Limited	
	Blueslate Limited	
	The Brent Walker Group PLC	
	Lambert Brown Limited	
	Lucky Choice Limited	
	Numbers On Line Limited (formerly Leading Names Limited)	
	Satellite Information Services (Holdings) Limited	

Director	Company or partnership name	
Robert Lambert	Blueslate Limited Lambert Brown Limited Numbers On Line Limited (formerly Leading Names Limited)	
Michael Blackburn	Aerostructures Hamble Holdings plc Anglo American Insurance Group (UK) plc Anglo American Insurance Holdings Limited Birds Hill Oxshott Estate Co Limited Blue Arrow Holdings Limited Blueslate Limited Chubb Security plc GEI International plc J.W. Spear & Sons plc Steel Burrill Jones Group PLC Voices for Hospices W.W. (1990) Limited	Resigned Resigned Resigned Resigned Resigned Resigned Resigned Resigned Resigned Resigned
Keith Hamill	Aldrington Investments Limited Cretegame Limited Forte Capital, Inc. Forte Hotels Europe Limited Forte International B.V. Forte Jersey Limited Forte Pension Services Limited Forte PLC Forte USA, Inc. Meridien S.A. Puritan Maid Limited Societe Des Hotels Meridien S.A. United Distillers International Limited York Holdings Limited WH Smith Group plc	 Resigned Resigned Resigned Resigned Resigned Resigned Resigned Resigned Resigned Resigned Resigned
Charles Scott	adidas salomon ag Cordiant Communications Group plc EMCORE Corporation Joe's Developments KIRCAL Ltd Robert Walters plc Saatchi and Saatchi plc TBI plc	 Resigned

27. Brent Walker and Blueslate

- 27.1 John Brown was appointed a director of Brent Walker, the conglomerate, on 11 July 1992. Brent Walker was placed in administrative receivership on 15 December 1997. The statement of affairs prepared by the directors of Brent Walker estimated that the deficiency as regards creditors, as at 14 January 1998, was £1,251,085,000.
- 27.2 John Brown and Robert Lambert were appointed directors of Blueslate, the holding company of the William Hill business within the Brent Walker group, on 20 September 1989. Michael Blackburn was appointed a director of Blueslate on 30 June 1992. Blueslate was put into creditors voluntary liquidation following a meeting of creditors on 17 December 1997. The statement of affairs prepared by the liquidators estimated that the deficiency as regards creditors, as at 8 December 1997, was £333,101,313.

28. Consents

- 28.1 Warburg Dillon Read has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of the references to its name, and its letter contained in Part 4, in the form and

context in which they appear and has authorised the contents of that part of Part 4 consisting of its letter for the purposes of section 152(1)(e) of the Financial Services Act 1986.

- 28.2 Deloitte & Touche has given and has not withdrawn its written consent to the inclusion of its report in Part 3 and its reports on the profit estimate and the pro forma financial information in Part 4, in the form and context in which they appear and has authorised the contents of such Parts of this document for the purposes of section 152(1)(e) of the Financial Services Act 1986. Deloitte & Touche is a firm of chartered accountants and registered auditors and is independent of the Company.

29. General

- 29.1 The total costs (exclusive of any value added tax) payable by the Company in connection with the Global Offer are estimated to amount to approximately £12.1 million (including underwriting, selling and management commissions of an aggregate of 3.25%, equal to £3.7 million at the mid-point of the Price Range).
- 29.2 There are no arrangements in existence under which future dividends are to be waived or agreed to be waived.
- 29.3 The mid-point of the Price Range of 165p per Share represents a premium of 164p over the nominal value of 1p per Share.
- 29.4 No temporary documents of title will be issued with respect to the Shares.

30. Managers to the Global Offer

The Managers to the Global Offer are Warburg Dillon Read (Sponsor, Global Co-ordinator and Bookrunner), Deutsche Bank AG London (Joint Lead Manager) of 6 Bishopsgate, London EC2N 4DA, BT Alex. Brown International (Co-Lead Manager), a division of Bankers Trust International PLC, of 135 Bishopsgate, London EC2M 3XT and Cazenove & Co. (Co-Lead Manager) of 12 Tokenhouse Yard, London EC2R 7AN.

31. Documents for inspection

Copies of the following documents may be inspected at the offices of Freshfields, 65 Fleet Street, London EC4Y 1HS during usual business hours on any day (Saturdays, Sundays and public holidays excepted) until 19 February 1999:

- (a) the existing memorandum and articles of association of the Company and the memorandum and articles of association of the Company to be adopted with effect from Admission;
- (b) the Accountants' Report of Deloitte & Touche reproduced in Part 3 and the statement of adjustments relating thereto;
- (c) the profit estimate and pro forma financial information, together with the reports of Deloitte & Touche and the letter of Warburg Dillon Read, reproduced in Part 4;
- (d) the letters issued to the two Executive Directors under the Admission Bonus Scheme, and pro forma letters issued to other categories of participant in that scheme;
- (e) the Trust Deed of the William Hill Employee Trust referred to in paragraph 4(a);
- (f) the rules of the Sharesave Scheme referred to in paragraph 4(b);
- (g) the rules of the Long Term Incentive Plan referred to in paragraph 4(c);
- (h) the service agreements and letters of appointment referred to in paragraph 6;
- (i) the material contracts referred to in paragraph 14; and
- (j) the written consents referred to in paragraph 28.

1 February 1999

PART 8 DEFINITIONS AND GLOSSARY

Definitions

Acquisition	the acquisition by the Company of all the share capital of the entities comprising Old William Hill pursuant to the Share Purchase Agreement
Act	the UK Companies Act 1985 (as amended)
Admission	admission of the Shares to the Official List of the London Stock Exchange becoming effective
Admission Bonus Scheme	the Admission Bonus Scheme described in paragraph 4(a) of Part 7
Bank Facilities	the Term Loan Facility and the Revolving Facility
Betting Act	the UK Betting, Gaming and Lotteries Act 1963 (as amended)
Brent Walker	The Brent Walker Group PLC
Camec	Camec Limited, formerly Mecca Bookmakers Limited
Company	William Hill plc, formerly The Grand Bookmaking Company Limited
Coral	Coral Racing Group, formerly a division of Bass PLC
Credit Agreement	the credit agreement between the Company, WHO, Bankers Trust International PLC, Bankers Trust Company and Bankers Trustee Company Limited, as amended, described in paragraph 14 of Part 7
CREST	the system for the paperless settlement of trades in listed securities, of which CrestCo. Limited is the operator
CULS	the convertible unsecured redeemable loan stock issued by the Company to GBH described in Part 3
Directors or Board	the directors of the Company
EPOS	electronic point of sale
Employee Application Form	form for use by eligible employees of the Group applying for Shares under the Employee Offer
Employee Offer	the priority offer being made to eligible employees of the Group more fully described in Part 5, the terms and conditions governing which are set out in the Employee Application Form and accompanying documents
EMU	European Economic and Monetary Union
Executive Directors	John Brown and Robert Lambert
Existing Shares	the Shares being sold by the Selling Shareholder under the Global Offer
GBH	The Grand Bookmaking Holdings Limited
Global Offer	the Institutional Offer, the Intermediaries Offer and the Employee Offer
Grand Metropolitan	Grand Metropolitan Public Limited Company
Indenture	the indenture between William Hill Finance, the Company and The Bank of New York dated 14 May 1998 described in paragraph 14 of Part 7
Institutional Offer	the bookbuilt offer of Shares to institutional investors described in Part 5, the terms and conditions governing which are set out in paragraph 17 of Part 7
Intercreditor Deed	the intercreditor deed between the Company, William Hill Finance, GBH, Nomura, Bankers Trust Company and Bankers Trustee Company Limited described in paragraph 14 of Part 7

Intermediaries	member firms of the London Stock Exchange and other securities houses, regulated by the SFA, including appointed Share Shops, who are existing clients of Warburg Dillon Read
Intermediaries Application Form	the form for use by Intermediaries applying for Shares under the Intermediaries Offer
Intermediaries Offer	the offer of New Shares to Intermediaries more fully described in Part 5, the terms and conditions governing which are set out in the Intermediaries Application Form and accompanying documents
IT systems	information technology systems
Ladbroke	Ladbroke Group PLC
Laystall	Laystall Limited, formerly Brent Walker Bookmakers Limited
London Stock Exchange	London Stock Exchange Limited
Long Term Incentive Plan	the long term incentive plan to be operated by the Group for senior executives, as described in paragraph 4(c) of Part 7
Managers	persons underwriting the Institutional Offer, as set out in the Underwriting Agreement and named in paragraph 30 of Part 7
MMC	the Monopolies and Mergers Commission
MMC Report	the report by the MMC dated September 1998 relating to the merger situation in connection with the acquisition by Ladbroke of the Coral betting business
New Shares	new Shares to be issued by the Company under the Global Offer
Nomura	Nomura International plc
Non-Executive Directors	the Directors other than the Executive Directors
Notes	the Senior Subordinated Notes
Offer Price	the price at which each Share is to be issued or sold under the Global Offer
Official List	the Official List of the London Stock Exchange
Old William Hill	WHO, Camec and their subsidiaries, Laystall and WHTL
Price Range	the range of prices set out in this document between which the Offer Price is expected to be set (although the Offer Price may be set outside this range), as described in Part 5
Qualified Institutional Buyers or QIBs	has the meaning given by Rule 144A
Revolving Facility	the £50 million secured revolving facility provided to the Company pursuant to the Credit Agreement
Rule 144A	Rule 144A under the Securities Act
Securities Act	the Securities Act of 1933 of the United States, as amended
Selling Shareholder	Nomura

Senior Subordinated Notes	the £150 million aggregate principal amount of 10% senior subordinated notes due 2008 issued by William Hill Finance and guaranteed by the Company
SFA	The Securities and Futures Authority Limited
Share Purchase Agreement	the share purchase agreement between the Company and Brent Walker described in paragraph 14 of Part 7
Shares	ordinary shares of 1p each in the capital of the Company
Sharesave Scheme	the sharesave scheme established by the Company for employees of the Group as described in paragraph 4(b) of Part 7
Share Shops	Charles Schwab Europe, Hargreaves Lansdown, NatWest Stockbrokers and Skipton Share Dealing Services
SIS	Satellite Information Services (Holdings) Limited or its subsidiary Satellite Information Services Limited, as the context requires
Stanley	Stanley Leisure plc
subsidiary	has the meaning given in section 736 and section 736A of the Act
Term Loan Facility	the £175 million, £100 million and £75 million secured term facilities provided to the Company pursuant to the Credit Agreement
Tote	The Horserace Totalisator Board
UK or United Kingdom	The United Kingdom of Great Britain and Northern Ireland and its dependent territories
UK GAAP	generally accepted accounting principles in the UK
Underwriting Agreement	the underwriting agreement to be entered into between the Company, the Selling Shareholder, the Directors, Warburg Dillon Read and the other Managers described in paragraph 12 of Part 7
US or United States	United States of America, its territories and possessions, any state of the United States and the District of Columbia
US GAAP	generally accepted accounting principles in the US
VAT	UK Value Added Tax, currently 17.5%
Warburg Dillon Read	Warburg Dillon Read, the investment banking division of UBS AG
WHIL	William Hill Index (London) Limited
WHO	William Hill Organization Limited
WHTL	William Hill Trustee Limited
William Hill or the Group	the Company and its subsidiaries, or any one of them as the context may require save in "Management's discussion and analysis of financial condition and results of operations" in Part 2, where references to the "Group" refer to William Hill or Old William Hill, as the case may be, as constituted in the time periods to which such references relate
William Hill Employee Trust or Trust	the William Hill Employee Trust, an employee share ownership trust established by the Company, as described in paragraph 4(c) of Part 7
William Hill Finance	William Hill Finance plc, the issuer of the Senior Subordinated Notes

GLOSSARY

amusement with prize machines or AWP's	electronic slot machines into which customers insert coins to play games of chance; current UK regulations allow AWP's in LBO's to pay cash prizes of up to £15
betting duty	a duty charged by the UK government, currently 6.75%, on off-course turnover payable by bookmakers pursuant to the Duties Act
Dettori Day	28 September 1996 when jockey Frankie Dettori rode seven consecutive winning horses at Ascot against very high odds, resulting in an £8.0 million loss to the Group
dog racing levy	a voluntary levy, currently 0.4% of the Group's off-course turnover, relating to greyhound racing for the purpose of supporting greyhound racing in the UK
Duties Act	the UK Betting and Gaming Duties Act 1981 (as amended)
fixed odds bet	a bet in which the odds are fixed by the bookmaker and are not influenced by the number of customers placing bets
Gaming Board	United Kingdom Gaming Board
gross win	gross turnover less customer winnings
gross win percentage or GWP	gross win as a percentage of gross turnover
horse racing levy	a current levy of 1.42% on the Group's LBO horse racing turnover, a current levy of 1.15% on the Group's telephone betting turnover and a fixed fee of £120 per annum in respect of on-course turnover, in each case attributable to horse racing and payable to the Horse Race Betting Levy Board, primarily for purposes of augmenting the prize money available for winning horses and providing certain racecourse amenities
index betting or spread betting	in index (or spread) betting customers can place more complex bets on an individual's or team's performance in a sporting or other event
LBO	licensed betting office
numbers betting	a type of fixed odds wager in which customers place bets on the odds of one or more numbers being drawn from a pool of numbers
odds	the ratio of potential winnings to the stake placed by the customer; for example, if the odds are 2-1, the winnings will be £2 for every £1 staked
starting price	the average odds offered by on-course bookmakers at the time a race begins; these are determined for each runner by the starting price returners of MGN Limited (publishers of the Racing Post) and the Press Association on the basis of their observations of the prices available from on-course bookmakers
warm sources	customers known to have access to information about individual events or selections