

**GLENEAGLES HOTELS LIMITED
FINANCIAL STATEMENTS**

YEAR ENDED 30 JUNE 2001

Company Registration No. SC97000



SCT SVYMH000 0013
COMPANIES HOUSE

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24/4/02

DIRECTORS' REPORT

The directors have pleasure in submitting their annual report, together with the audited financial statements for the year ended 30 June 2001.

Activities

The company was principally engaged during the year in operating The Gleneagles Hotel, Auchterarder, Perth.

Euro

The directors do not anticipate that there will be any implications on the activities of the company on the introduction of the euro. There are no costs associated with the introduction of the euro for Gleneagles Hotels Limited. A statement explaining the impact of the introduction of the euro, and the programme put in place to deal with this along with associated costs, for the Diageo group is disclosed in the annual report of the ultimate parent undertaking, Diageo plc.

Financial

The results for the year ended 30 June 2001 are shown on page 7.

An interim dividend of £8,000,000 has been paid for the year (2000 – £8,500,000).

The directors do not recommend the payment of a final dividend for the year ended 30 June 2001. (2000 - £Nil).

Directors

The directors who served during the year were as follows:

P J Lederer
A R Devereux
N C Rose

Since the year end, Mr A R Devereux resigned on 31 December 2001.

DIRECTORS' REPORT (continued)

Directors' emoluments

The emoluments of the directors are detailed in note 7 of these financial statements.

Directors' interests

No directors had any interest, beneficial or non-beneficial, in the share capital of the company or had a material interest during the year in any significant contract with the company or any subsidiary.

The directors who held office at the end of the financial year had the following beneficial interests in the ordinary shares of 28 ¹⁰¹/₁₀₈ p each in the ultimate parent company, Diageo plc:

(i) Ordinary shares and conditional rights to ordinary shares

	Ordinary shares		Conditional rights to ordinary shares				
	At beginning of year	At end of year	At beginning of year	Granted in year	Vested in year	Lapsed in year	At end of year
P J Lederer	6,976	8,243	4,750	-	-	-	4,750
A R Devereux	-	-	-	-	-	-	-

The directors were granted conditional rights to receive ordinary shares or, exceptionally, a cash sum under certain long term incentive plans, the Share Incentive Plan and the Total Shareholder Return Plan. The conditional rights to ordinary shares are subject to share performance criteria of Diageo plc ordinary shares. Full details of the performance criteria are disclosed in the annual report of the ultimate holding company, Diageo plc.

(ii) Options

	Options over ordinary shares			
	At beginning of year	Granted in year	Exercised in year	At end of year
P J Lederer	82,167	8,873	(51,784)	39,256
A R Devereux	-	-	-	-

DIRECTORS' REPORT (continued)

P J Lederer held the above options under Diageo plc share option schemes at prices between 354p and 631p per ordinary share exercisable by 13 October 2010. The options are granted at market value on the date the option is granted and the option price is payable when the option is exercised.

At 30 June 2001, N C Rose was also a director of the ultimate parent company, Diageo plc. Details of his beneficial interests in the ordinary shares of Diageo plc are shown in the Diageo plc annual report, copies of which can be obtained from 8 Henrietta Place, London W1G 0NB.

The mid-market share price of Diageo plc shares fluctuated between 560p and 792p during the year. The mid-market share price on 30 June 2001 was 780p.

At 30 June 2001, P J Lederer had an interest in 20,319,440 shares and 4,074,020 shares subject to call options held by trusts to satisfy grants made under Diageo incentive plans and savings related share option schemes.

Employee involvement

The company is committed to the development of employee consultation and, thereby, to their greater involvement in the company's operations. The directors are instrumental in ensuring that all employees are informed of the performance of the company and its plans for the future. At the highest level this includes presentations by the executive and senior managers of the major issues affecting the business, including future developments. On a wider basis information is communicated to employees through the use of paper bulletins, an intranet facility and regular team meetings where team leaders cascade information to employees. There is also an employee forum made up of employee representatives and management, which facilitates the sharing of information and ensures employees involvement in major operational issues.

It is the policy of the company to encourage all employees to participate in a SAYE share option scheme.

Employment of disabled persons

Depending on their skills and abilities, disabled people are given the same consideration as others when applying for jobs and have the same opportunities for promotion, career development and training as other employees. Employees who become disabled and unable to continue in their existing jobs are given the opportunity to be retrained for suitable alternative employment.

Supplier payment policy

The company agrees terms and conditions for its business transactions when orders for goods and services are placed, ensuring that suppliers are aware of the terms of payment and including the relevant terms in contracts where appropriate. These arrangements are adhered to when making payments, subject to the terms and conditions being met by the supplier.

The number of days' purchases included in creditors as at 30 June 2001, in respect of the company, is 42 days.

DIRECTORS' REPORT (continued)

Auditors

The auditors, KPMG Audit Plc, are willing to continue in office and a resolution for their re-appointment as auditors of the company will be submitted to the Annual General Meeting.

By order of the board

A handwritten signature in black ink, appearing to read 'R H Myddelton', with a long horizontal flourish extending to the right.

R H Myddelton
Secretary

The Gleneagles Hotel
Auchterarder
Perthshire
PH3 1NF

Date 14 March 2002

**DIRECTORS' RESPONSIBILITIES
IN RESPECT OF THE PREPARATION OF FINANCIAL STATEMENTS**

The following statement, which should be read in conjunction with the report of the auditors, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the financial statements.

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit or loss of the company for the financial year.

The directors, in preparing the financial statements consider that, the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that accounting standards they consider to be applicable have been followed, and that it is appropriate to prepare the financial statements on the going concern basis.

The directors have responsibility for ensuring that the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors have general responsibility for taking such steps that are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF GLENEAGLES HOTELS LIMITED**

We have audited the financial statements on pages 7 to 15.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 5, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for an audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit 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 statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 30 June 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG Audit Plc
Chartered Accountants
Registered Auditor

Glasgow

Date 18 March 2002

GLENEAGLES HOTELS LIMITED

Year ended 30 June 2001

PROFIT AND LOSS ACCOUNT

		Year ended 30 June 2001	Year ended 30 June 2000
	Notes	£000	£000
TURNOVER	2	30,562	28,907
NET OPERATING COSTS	3	(25,455)	(25,176)
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST AND TAXATION		5,107	3,731
Interest receivable	4	1,495	627
PROFIT BEFORE EXCEPTIONALS AND TAXATION		6,602	4,358
Profit on disposal of property		1,084	-
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		7,686	4,358
Taxation on profit on ordinary activities	5	-	2,064
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		7,686	6,422
Dividends		(8,000)	(8,500)
Transfer (from) Reserves		(314)	(2,078)

The notes on pages 9 to 15 form part of these financial statements

There are no recognised gains or losses other than the profit for the year and consequently a statement of total recognised gains and losses has not been presented as part of the financial statements.

There is no difference between the profit for the year shown in the profit and loss account and the profit for the relevant years restated on an historical cost basis.

BALANCE SHEET

	Notes	30 June 2001 £000	30 June 2000 £000
FIXED ASSETS			
Tangible assets	8	63,683	60,285
CURRENT ASSETS			
Stock	9	1,000	871
Debtors – due within one year	10	284,133	270,500
Debtors – due after one year	10	30	95
Cash in hand and at bank		1,140	454
		286,303	271,920
CREDITORS – due within one year	11	(100,146)	(82,051)
NET CURRENT ASSETS		186,157	189,869
TOTAL ASSETS LESS CURRENT LIABILITIES		249,840	250,154
CAPITAL AND RESERVES			
Called up share capital	13	235,709	235,709
Profit and loss account	15	507	789
Revaluation reserve	15	13,624	13,656
SHAREHOLDERS FUNDS - EQUITY		249,840	250,154

The notes on pages 9 to 15 form part of these financial statements.

The financial statements were approved by the board of directors on
14 March 2002 and signed on its behalf by:



PJ Lederer
Director

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

(1) Basis of preparation

The financial statements are prepared under the historical cost convention modified by the revaluation of certain land and buildings, and in accordance with applicable UK accounting standards.

The company is a wholly owned subsidiary of Diageo plc and is included in the consolidated financial statements of Diageo plc which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard No 1 (Revised 1996). The company is also exempt under the terms of Financial Reporting Standard No 8 from disclosing related party transactions (but not balances) with entities that are part of the Diageo plc group or investees of the Diageo plc group.

(2) Tangible Fixed assets

Land & Buildings are stated at cost or at professional valuation, less depreciation. Freehold land is not depreciated. Leaseholds are depreciated over the unexpired period of the lease. Other tangible fixed assets are depreciated on a straight line basis to estimated residual values over their expected useful lives within the following ranges.:

Equestrian Centre	36 Years
Building Core	100 Years
Building Surfaces	25 Years
Plant & Machinery	4-12 Years
Fixtures & Fittings	4- 7 Years

Reviews are carried out if there is some indication that impairment may have occurred, to ensure that fixed assets are not carried at above their recoverable amounts.

Profit or loss on the sale of property is the difference between the disposal proceeds and the net book value, including any revaluation of the asset. Any amount in the revaluation reserve relating to such an asset is transferred directly to the profit and loss account reserve and is not included in the profit for the year.

(3) Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes raw materials, direct labour and expenses, and an appropriate proportion of production and other overheads.

(4) Deferred taxation

Deferred taxation is provided only to the extent that a liability is expected to become payable within the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES (Contd)

(5)Pensions and other post employment benefits

The employees of the company are members of a group scheme managed by Diageo plc. The costs of providing pensions and other post employment benefits is charged against profits on a systematic basis, with pension surpluses and deficits allocated over the expected remaining service lives of current employees. Differences between the amounts charged in the profit and loss account and payments made to pension or other plans are treated as assets or liabilities in the balance sheet. Deferred tax is accounted for on these assets and liabilities. Particulars of the valuation of the group schemes are contained in the financial statements of Diageo plc.

2 ANALYSIS OF TURNOVER AND PROFIT BEFORE TAXATION

The turnover and profit before taxation are attributable to one class of business, that of hotels, all of which is carried out in the United Kingdom.

3 OPERATING COSTS

	2001 £000	2000 £000
Raw materials and consumables	4,776	4,927
Staff costs (Note 6)	9,115	9,317
Other operating charges	9,782	9,190
Depreciation	1,782	1,742
	<u>25,455</u>	<u>25,176</u>

Net operating costs are stated after charging:

	2001 £000	2000 £000
Directors' Emoluments	186	173
Auditors' remuneration - audit	12	12
- other	-	63

NOTES TO THE FINANCIAL STATEMENTS (continued)

4 INTEREST

	2001 £000	2000 £000
External Interest Received	59	64
External Interest Paid	(5)	-
Inter Company Interest Received	1,441	563
	<u>1,495</u>	<u>627</u>

5 TAXATION

	2001 £000	2000 £000
UK Corporation tax on the taxable profit for the year	-	-
Adjustment to prior years taxation charges	-	2,064
Tax credit/(charge) for the period	<u>-</u>	<u>2,064</u>

From 1 July 1999 the group has changed its policy in respect of group relief such that group relief is effected for nil consideration. As a consequence the company has neither a current tax charge nor credit for the year ended 30 June 2001.

6 STAFF COSTS AND EMPLOYEE NUMBERS

(a) Staff Costs	2001 £000	2000 £000
Wages and salaries	8,549	8,736
Social security costs	566	581
	<u>9,115</u>	<u>9,317</u>
(b) Average number of employees	Number	Number
Full time	516	563
Part time	37	35
	<u>553</u>	<u>598</u>

Part time employees are included in the above analysis on the basis of their full time equivalents.

NOTES TO THE FINANCIAL STATEMENTS (continued)

7 DIRECTORS EMOLUMENTS

	2001	2000
	£000	£000
Emoluments (excluding pension contributions)	186	173

The emoluments, and amounts receivable under long term incentive schemes, of the highest paid director amounted to £161,851 (2000 - £149,548). The highest paid director is a member of a defined benefit scheme under which his accrued annual pension at the year end was £58,424 (2000 - £52,111).

8 TANGIBLE ASSETS

	Freehold Land and Buildings £000	Plant £000	Fixtures & Fittings £000	Assets in course of construction £000	Total £000
COST OR VALUATION					
At 1 July 2000	55,416	3,811	16,800	216	76,243
Transfers	-	-	82	(82)	-
Additions	3,208	137	1,348	559	5,252
Disposals	(68)	-	(165)	-	(233)
At 30 June 2001	58,556	3,948	18,065	693	81,262

DEPRECIATION

At 1 July 2000	767	2,601	12,590	-	15,958
Charge for the year	362	181	1,239	-	1,782
Disposals	-	-	(161)	-	(161)
At 30 June 2001	1,129	2,782	13,668	-	17,579

NET BOOK VALUE

At 30 June 2001	57,427	1,166	4,397	693	63,683
At 1 July 2000	54,649	1,210	4,210	216	60,285

NOTES TO THE FINANCIAL STATEMENTS (continued)

9 STOCKS

	2001	2000
	£000	£000
Raw materials and consumables	182	140
Goods purchased for resale	818	731
	<u>1,000</u>	<u>871</u>

10 DEBTORS

	2001	2000
	Due within one year	Due after one year
	£000	£000
Trade Debtors	2,885	30
Amounts owed by group undertakings	275,103	-
Corporation Tax	5,988	-
Prepayments and accrued income	157	-
	<u>284,133</u>	<u>30</u>

11 CREDITORS – due within one year

	2001	2000
	£000	£000
Payments received on account	2,756	2,012
Trade Creditors	1,659	701
Amount owed to group undertakings	93,764	76,430
Amounts owed to subsidiary undertaking	16	16
Social Security and Other Taxes	412	688
Accruals and deferred taxes	1,539	2,204
	<u>100,146</u>	<u>82,051</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

12 DEFERRED TAX

	2001 £000	2000 £000
The unprovided, full potential liability in respect of deferred taxation is as follows:		
(Deficit)/Excess of capital allowances over accumulated depreciation	2,625	(554)
Short Term Timing Differences	(98)	-
Chargeable gains on property	7,766	7,100
	<u>10,293</u>	<u>6,546</u>

13 SHARE CAPITAL

	2001 £000	2000 £000
Authorised:		
236,659,000 ordinary shares of £1 each	<u>236,659</u>	<u>236,659</u>
Allotted, called up and fully paid:		
235,709,000 ordinary shares of £1 each	<u>235,709</u>	<u>235,709</u>

14 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2001 £000	2000 £000
Profit for the financial year	7,686	6,422
Dividend	(8,000)	(8,500)
Opening shareholders' funds	250,154	252,232
Closing shareholders' funds	<u>249,840</u>	<u>250,154</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

15 MOVEMENT IN RESERVES

	Profit & Loss Account £000	Revaluation Reserve £000
Opening Balance at 1 July 2000	789	13,656
Profit for the financial year	7,686	-
Dividend	(8,000)	-
Transfer from revaluation reserve	32	(32)
Closing Balance at 30 June 2001	<u>507</u>	<u>13,624</u>

16 PENSION FUND

The company is a member of a group pension scheme, which is operated by its parent undertaking, Diageo plc. The scheme is of the defined benefit type, administered by trustees and is maintained independently of the finances of Diageo plc and its subsidiaries.

17 PARENT UNDERTAKING

The immediate and ultimate parent undertaking is Diageo plc, a company incorporated and registered in England. The consolidated accounts of Diageo plc for the year ended 30 June 2001 may be obtained from the registered office at 8 Henrietta Place London, W1G 0NB.