

**GLENEAGLES HOTELS LIMITED
FINANCIAL STATEMENTS**

YEAR ENDED 30 JUNE 2000

Company Registration No. 97000

10



DIRECTORS' REPORT

The directors have pleasure in submitting their annual report, together with the audited financial statements for the year ended 30 June 2000.

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 Ltd. 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 period shown on page 7 are for the twelve months from 1 July 1999 to 30 June 2000.

The directors recommend that a final ordinary dividend of £8,500,000 (1999 - £3,000,000) be paid.

Directors

The directors who served during the year were as follows:

P J Lederer
A R Devereux
N C Rose

Directors' emoluments

The emoluments of the directors are detailed in note 6 of these financial statements.

DIRECTORS' REPORT (continued)

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 (or date of appointment)	At end of year	At beginning of year (or date of appointment)	Granted in year	Vested in year	At end of year
Peter Lederer	9,922	7,937	4,750	-	-	4,750
Alan Devereux	-	-	-	-	-	-

The directors were granted conditional rights to receive ordinary shares or, exceptionally, a cash sum under the Guinness Long Term Incentive Plan ('Guinness LTIP'). The Guinness LTIP vested during the year and the directors received 56% and 80% of their conditional rights to ordinary shares respectively. 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 (or date of appointment)	Granted during the year	Exercised During the year	At end of year
Peter Lederer	72,095	11,033	(961)	82,167
Alan Devereux	-	-	(-)	-

DIRECTORS' REPORT (continued)

The directors held the above options under Diageo plc share option schemes at prices between 314p and 533.5p per ordinary share exercisable by 2007. 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 2000, Nick 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 384p and 696.5p during the year. The mid-market share price on 30 June 2000 was 593p.

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.

It is the policy of the company to encourage all employees to participate in a SAYE share option scheme. It is also parent Company policy to enable employees to benefit from the contribution they have made to the generation of profits. This is also done by way of a profit sharing scheme, paid in ordinary shares of Diageo plc, which is available to some employees.

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.

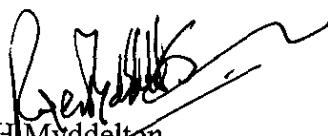
The number of days' purchases included in creditors as at 30 June 2000, in respect of the company, is 18 days.

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



R H Myddelton
Secretary

The Gleneagles Hotel
Auchterarder
Perthshire
PH3 1NF

Date

**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.

**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. 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 2000 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 24 April 2001

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 JUNE 2000**

		12 Months ended 30 June 2000	12 months ended 30 June 1999
	Notes	£000	£000
TURNOVER	2	28,907	27,934
NET OPERATING COSTS	3	(25,176)	(23,452)
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST AND TAXATION		3,731	4,482
Interest receivable		627	148
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		4,358	4,630
Taxation on profit on ordinary activities	4	2,064	(2,118)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		6,422	2,512
Dividends		(8,500)	(3,000)
Transfer (from) Reserves		(2,078)	(488)
RETAINED EARNINGS AT THE BEGINNING OF THE YEAR		2,867	3,355
RETAINED EARNINGS AT THE END OF THE YEAR		789	2,867

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.

GLENEAGLES HOTELS LIMITED

Year ended 30 June 2000

BALANCE SHEET AS AT 30 JUNE 2000

	Notes	30 June 2000 £000	30 June 1999 £000
FIXED ASSETS			
Tangible assets	7	<u>60,285</u>	<u>60,032</u>
CURRENT ASSETS			
Stock	9	871	1,149
Debtors	10	270,595	256,638
Cash in hand and at bank		<u>454</u>	<u>224</u>
		271,920	258,011
CREDITORS	11	<u>(82,051)</u>	<u>(65,811)</u>
NET CURRENT ASSETS		<u>189,869</u>	<u>192,200</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>250,154</u>	<u>252,232</u>
CAPITAL AND RESERVES			
Called up share capital	13	235,709	235,709
Profit and loss account		789	2,867
Revaluation reserve		<u>13,656</u>	<u>13,656</u>
SHAREHOLDERS FUNDS - EQUITY		<u>250,154</u>	<u>252,232</u>

Approved by the Board of Directors and signed on its behalf by:



PJ Lederer

Director

Date 12th April 2001

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 their 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.

(6)Compliance with new accounting standards

The financial statements comply with the following Financial Reporting Standards issued by the Accounting Standards Board.

FRS 15 – Tangible Fixed Assets. This standard addressses the measurement, valuation and depreciation of tangible fixed assets. The company has adopted the transitional arrangements of the standard and has retained the book value of certain tangible assets which were previously revalued. It is expected that no further valuations will be carried out.

Compliance with the above new standard has not given rise to any restatement of figures reported for prior periods.

In line with FRS 15 the company has separated the Hotel into building core and building surfaces elements and has begun to depreciate their amounts over their remaining useful lives in line with expected useful lives shown above.

The full year impact of this change is to increase the depreciation charge by £231k.

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

	12 months ended 30 June 2000 £000	12 months ended 30 June1999 £000
Raw materials and consumables	4,927	4,030
Staff costs (Note 5)	9,317	9,233
Other operating charges	9,190	8,722
Depreciation	1,742	1,467
	<u>25,176</u>	<u>23,452</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 OPERATING COSTS (Contd)

Net operating costs are stated after charging:

	12 months ended 30 June 2000	12 months ended 30 June 1999
	£000	£000
Directors Emoluments	173	195
Auditors' remuneration		
- audit	12	8
- others	63	

4 TAXATION

UK Corporation tax on the taxable profit for the year	-	(1,755)
Under provision in respect of previous years	-	(363)
Adjustment to prior years taxation charges	2,064	
Tax credit/(charge) for the period	2,064	(2,118)

From 1 July 1999 the company has agreed to change its policy from paying/charging for group relief so 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 2000.

5 STAFF COSTS AND EMPLOYE NUMBERS

(a) Staff Costs

Wages and salaries	8,736	8,381
Social security costs	581	622
Other pension costs	-	230
	9,317	9,233

(b) Average number of employees

	Number	Number
Full time	563	566
Part time	35	27
	598	593

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

6 DIRECTORS EMOLUMENTS

	12 Months ended 30 June 2000 £000	12 Months ended 30 June 1999 £000
Emoluments (excluding pension contributions)	173	195

The emoluments, and amounts receivable under long term incentive schemes, of the highest paid director amounted to £149,548 (12 months ended June 1999 - £171,129). The highest paid director is a member of a defined benefit scheme under which his accrued annual pension at the year end was £52,111 (1999 £47,120)

7 TANGIBLE ASSETS

	Freehold Land and Buildings £000	Plant £000	Fixtures & Fittings £000	Assets in course of construction £000	Total £000
At 1 July 1999	54,544	3,570	16,229		74,343
Additions	872	241	669	216	1,998
Disposals	0	0	(98)		(98)
At 30 June 2000	55,416	3,811	16,800	216	76,243

DEPRECIATION

At 1 July 1999	465	2,423	11,423		14,311
Charge for the year	302	178	1,262		1,742
Disposals	0	0	(95)		(95)
At 30 June 2000	767	2,601	12,590		15,958

NET BOOK VALUE

At 30 June 2000	54,649	1,210	4,210	216	60,285
At 1 July 1999	54,079	1,147	4,806	0	60,032

NOTES TO THE FINANCIAL STATEMENTS (continued)

8 INVESTMENTS

The company's investment in Golf Publishing was disposed of on the 2nd June 2000.

9 STOCKS

	30 June 2000 £000	30 June 1999 £000
Raw materials and consumables	140	252
Goods purchased for resale	731	897
	<hr/> 871	<hr/> 1,149

10 DEBTORS

Trade Debtors	2,505	2,695
Amounts owed by group undertakings in which company has a participating interest	261,811	247,949
Other Debtors	-	23
Corporation Tax	5,988	5,667
Prepayments and accrued income	291	304
	<hr/> 270,595	<hr/> 256,638

11 CREDITORS

	30 June 2000 £000	30 June 1999 £000
Payments received on account	2,012	1,800
Trade Creditors	701	780
Amount owed to group undertakings	76,430	58,341
Amounts owed to subsidiary undertaking	16	17
Social Security and Other Taxes	688	653
Accruals and deferred taxes	2,204	2,465
Corporation Tax	-	1,755
	<hr/> 82,051	<hr/> 65,811

NOTES TO THE FINANCIAL STATEMENTS (continued)

12 DEFERRED TAX

The full potential liability in respect of deferred taxation is as follows:

Deficit/Excess of capital allowances	(554)	(836)
Over accumulated depreciation		
Chargeable gains on property	7,100	7,100
	<hr/>	<hr/>
	6,546	6,264
	<hr/>	<hr/>

13 CALLED UP SHARE CAPITAL

	30 June 2000	30 June 1999
	£000	£000
Authorised:		
236,659,000 ordinary shares of £1 each	236,659	236,659
	<hr/>	<hr/>
Allocated and fully paid:		
235,709,000 ordinary shares of £1 each	235,709	235,709
	<hr/>	<hr/>
	235,709	235,709
	<hr/>	<hr/>

14 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	12 Months ended	12 months ended
	30 June 2000	30 June 1999
	£000	£000
Profit for the financial period	6,422	2,512
Dividend	(8,500)	(3,000)
Share Capital call on 50,000 ordinary shares	-	37
Opening shareholders' funds	252,232	252,683
	<hr/>	<hr/>
Closing shareholders' funds	250,154	252,232
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS (continued)

15 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.

16 CASH FLOW STATEMENT

The company is exempt from the preparation of a cash flow statement in accordance with Financial Reporting Standard No 1(Revised) as a wholly owned subsidiary of an EEC registered company which prepares a consolidated cash flow statement.

17 PARENT UNDERTAKING

The parent undertaking is preparing consolidated accounts for the year to 30 June 2000 and copies of the accounts for Diageo plc may be obtained from the Company Secretary, Diageo plc, 8 Henrietta Place, London, W1G ONB.