

GLENEAGLES HOTELS LIMITED
(formerly GLENEAGLES HOTELS PLC)

FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 1999

Company Registration No. 97000



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DIRECTORS' REPORT

The directors have pleasure in submitting their annual report, together with the audited financial statements, for the year ended 30 June 1999.

On 30 July 1998 the company was re-registered as a private limited company.

Activities

The company was principally engaged during the year in operating The Gleneagles Hotel, Auchterarder, Perthshire. The directors foresee no changes in the company's activities.

Year 2000

The Year 2000 problem refers to the inability of some information systems and computerised equipment to handle four-digit years, causing them to generate inaccurate information and potentially to fail. The Diageo group established a compliance programme in each of its main business units (UDV, Pillsbury, Guinness, Burger King) and subsidiaries to investigate and manage potential impacts. Then programmes were co-ordinated at Group level with regular status reports to the Diageo board.

All critical systems and processes were declared Year 2000 Ready in September 1999, and to date no major issues have been identified. Procedures are in place to monitor developments and will continue for as long as the Year 2000 risk remains.

The full cost of managing the Year 2000 problem for Gleneagles Hotels Limited has not been identified separately, but is included within the overall programme cost shown in the annual report of the ultimate parent company, Diageo plc.

Euro

In accordance with the Treaty on European Union, signed at Maastricht on 7 February 1992, the third stage of Economic and Monetary Union (EMU) commenced on 1 January 1999. The Diageo Group's euro-readiness is being managed as a discrete business project. The Group expects to have systems and procedures in place which will enable it to conduct euro transactions appropriate to local market requirements.

The Diageo Group is also working actively with key business suppliers, joint distribution arrangement partners and customers. In addition, monetary union may have a significant impact on macroeconomic factors, including interest and foreign exchange rates

Key commercial risks, such as pricing transparency, have been analysed, with a view to reducing any impact through active management over the transition period and beyond. However, there can be no assurance that the euro will not have a negative impact. The impact of future entry to EMU of other European countries (particularly the United Kingdom) is being similarly analysed.

The cost associated with the euro-readiness project for Gleneagles Hotels Limited has not been identified separately but is included within the overall project cost in the annual report of the ultimate parent company, Diageo plc.

DIRECTORS' REPORT (continued)

Financial

The results for the period shown on page 8 are for the twelve months from 1 July 1998 to 30 June 1999.

The directors recommend that a final ordinary dividend of £3,000,000. (1998;£1,595,000) be paid.

Directors

The directors who served during the year were as follows:-

A R Devereux
P J Lederer
J I Lewis (Resigned 30 June 1999)
P E Yea (Resigned 30 June 1999)

Subsequent to the year end N C Rose was appointed a director on 1 July 1999.

Emoluments

The emoluments of the directors are detailed in Note 6 of these accounts.

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.

The directors who held office at the end of the financial year had the following beneficial interests in the shares of the ultimate parent company, Diageo plc:-

Shares and Awards over ordinary shares

Name of Director	Ordinary shares of 28 101/108p (1)	Ordinary shares of 28 101/108p (1)	Diageo LTIP (2)
	1.7.98 or date of appointment	30.06.99	Performance cycle commencing 1.1.99
A R Devereux	-	-	-
P J Lederer	9,219	9,922	4,750
J I Lewis	3,932	29,388	-

Options

Name of Director	1.7.98 or date of appointment	Granted during year	Exercised during year	30.6.99
A R Devereux	-	-	-	-
P J Lederer	72,688	1,510	2,103	72,095
J I Lewis	79,364	Nil	79,364	Nil

At 30 June 1999, P E Yea was a director of the ultimate parent company, Diageo plc. Details of his beneficial interests in the shares of Diageo plc are shown in the Diageo plc Annual Report and Accounts, copies of which can be obtained from 8 Henrietta Place, London W1M 9AG.

DIRECTORS' REPORT (continued)

The directors held the above options under Diageo plc share option schemes at prices between 354p and 533.5p per share exercisable by 2007.

The mid-market share price of Diageo plc shares fluctuated between 480.5p and 778.5p per share during the year. The mid-market share price on 30 June 1999 was 662.5p.

*** NOTES**

(1) Ordinary Shares

Interests in ordinary shares at 1 July 1998, or date of appointment where applicable, include B shares converted at a rate of 70.993915 ordinary shares to every 100 B shares, although the conversion actually occurred on 1 August 1998.

(2) The Diageo LTIP (LTIP)

Under the Diageo LTIP, approved in August 1998, eligible senior executives are granted a conditional right to receive shares or, exceptionally, a cash sum. The rights vest after the end of a three year period following the date of grant (the "performance cycle") provided a performance test is achieved and subject to the discretion of the trustees who operate the LTIP. The performance test is a comparison of the annualised percentage growth in Diageo's share price (assuming all dividends and capital distributions are re-invested) known as total shareholder return (TSR) with the TSRs of a defined peer group of 20 companies over a three year period. The remuneration committee will not recommend the release of awards if there has not been an underlying improvement in the financial performance of Diageo. The first LTIP performance cycle runs from 1 January 1998 to 31 December 2000 and the second from 1 January 1999 to 31 December 2001. Awards of shares will be released, subject to the performance test and the discretion of the trustees, in March 2001 and March 2002 respectively. The number of awards shown will only be released if Diageo reaches position five within the peer group (upper quartile). At position four 125% of the original awards will vest and, at position three or above, 150%. At position ten (median position), 50% of the awards will vest. Between median and upper quartile, vesting will be calculated on a straight line basis. Awards will lapse if Diageo does not reach position ten.

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 continue to place a high priority on good communications practices at all levels. Responsibility for ensuring that company employees are informed of and, where appropriate, consulted upon matters of concern affecting their immediate jobs rests with departmental managers with support from the personnel function. On-site group discussions between managers and employees are encouraged.

DIRECTORS' REPORT (continued)

On a wider basis, the company provides more general information to and for its employees concerning its performance and on economic and other matters affecting it. The methods used to disseminate such information are bulletins and related publications, including a monthly house journal. In addition, a twice yearly video presentation for employees sets out world-wide developments of the company, its products and its people. Information is also communicated when employees participate in induction or training courses, or by the circulation of information personally to all employees. The company has continued to maintain these practices during the year.

It is the policy of the parent company to encourage 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 improved profits. This is done by way of a profit sharing scheme, paid in ordinary shares of Diageo plc, in which all employees are entitled to participate.

The company continues to support initiatives by employees in fund-raising events to assist registered charitable organisations by matching the value of the support so raised.

Employment Policies

The company's managers are instructed to give sympathetic consideration, when recruiting, to applications from disabled persons and to bear in the mind the special needs of disabled employees in regard to training, structure of company premises and facilities and to ensure that disabled employees are not adversely affected in their career opportunities. Employees who become disabled and unable to continue in their existing jobs are given the opportunity to be retrained for suitable alternative employment.

It is recognised that the company's continuing success depends upon the quality of its employees and its policies are designed to attract, retain and motivate the best staff. This is achieved by offering equal opportunities regardless of sex, race, religion or disability.

DIRECTORS' REPORT (continued)

Supplier Payment Policy

Given the international nature of the Diageo Group's operations, there is no standard code in respect of payments to suppliers. Companies are responsible for agreeing terms and conditions for their 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 1999 in respect of the company is 16 days.

By Order of the Board



R H Myddelton
Secretary

The Gleneagles Hotel, Auchterarder, Perthshire PH3 1NF

Date *20 MARCH 2000*

DIRECTORS' REPORT IN RESPECT OF THE PREPARATION OF FINANCIAL STATEMENTS

The following statement, which should be read in conjunction with the auditors report, 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 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, that all 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.

REPORT OF THE AUDITORS TO THE MEMBERS OF GLENEAGLES HOTELS LIMITED

We have audited the financial statements on pages 8 to 17.

Respective responsibilities of directors and auditor

As described on page 6 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on these statements, and to report our opinion to you.

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 1999 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 23 March 2000

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 JUNE 1999**

		12 Months ended 30 June 1999	18 months ended 30 June 1998
	Notes	£000	£000
TURNOVER	2	27,934	38,657
NET OPERATING COSTS	3	(23,452)	(33,848)
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST AND TAXATION		4,482	4,809
Interest receivable		148	77
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		4,630	4,886
Taxation on profit on ordinary activities	4	(2,118)	(1,531)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		2,512	3,355
Dividends		(3,000)	(1,595)
Transfer (from)/To Reserves		(488)	1760
RETAINED EARNINGS AT THE BEGINNING OF THE YEAR/PERIOD		3,355	1,595
RETAINED EARNINGS AT THE END OF THE YEAR/PERIOD		2,867	3,355

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.

BALANCE SHEET AS AT 30 JUNE 1999

	Notes	30 June 1999 £000	30 June 1998 £000
FIXED ASSETS			
Tangible assets	7	<u>60,032</u>	<u>59,675</u>
CURRENT ASSETS			
Stock	9	1,149	997
Debtors	10	256,638	242,032
Cash in hand and at bank		<u>224</u>	<u>1,474</u>
		258,011	244,503
CREDITORS	11	<u>(65,811)</u>	<u>(51,495)</u>
NET CURRENT ASSETS		<u>192,200</u>	<u>193,008</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>252,232</u>	<u>252,683</u>
CAPITAL AND RESERVES			
Called up share capital	13	235,709	235,672
Profit and loss account		2,867	3,355
Revaluation reserve		<u>13,656</u>	<u>13,656</u>
SHAREHOLDERS FUNDS - EQUITY		<u>252,232</u>	<u>252,683</u>

Approved by the Board of Directors on 21.3.00 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 comply with applicable UK accounting standards.

During the previous financial period, the financial period end was changed to 30 June. Accordingly the comparative accounting period runs from 1 January 1997 to 30 June 1998.

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 Nol (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) Depreciation

Tangible assets are depreciated principally on a straight line basis at annual rates estimated to write off their book value over the term of their useful lives. However, no depreciation is provided on freehold buildings other than the Equestrian Centre. Given their substantial physical construction and an estimated useful life of at least 100 years, together with the Company's commitment to maintain the fabric and to extend and make improvements from time to time, the Directors consider that the residual value based on prices prevailing at the time of acquisition or subsequent valuation is so high that their depreciation is insignificant. Details of depreciation are given in note 7.

(3) Stocks

Stocks are stated at the lower of cost and net realisable value. Cost represents the invoiced costs of goods purchased for resale.

(4) Deferred taxation

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

(5) Leased assets

Rentals under operating leases are charged against operating profit on a straight line basis over the term of the lease.

(6) Pensions

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 TURNOVER

Turnover represents the invoice value of goods sold and services provided, excluding value added tax. All turnover arises in the United Kingdom.

3 NET OPERATING COSTS

	12 months ended 30 June 1999 £000	18 months ended 30 June 1998 £000
Raw materials and consumables	4,030	6,135
Staff costs (Note 5)	9,233	13,110
Other operating charges	8,722	12,476
Depreciation	1,467	2,127
	<u>23,452</u>	<u>33,848</u>

Net operating costs are stated after charging:

Operating lease charge	- cars	-	97
Directors Emoluments		195	271
Auditors' remuneration	- audit	8	16
	- non audit services	-	1
		<u>-</u>	<u>1</u>

4 TAXATION

UK Corporation tax on the taxable profit for the twelve months at 30.75% (1998 - 30.3%)	1,755	1,523
Under provision in respect of previous years	363	8
	<u>2,118</u>	<u>1,531</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

5 STAFF COSTS AND EMPLOYEES

(a) Staff Costs	12 months ended 30 June 1999 £000	18months ended 30 June 1998 £000
Wages and salaries	8,381	11,337
Social security costs	622	840
Other pension costs	230	933
	<hr/> 9,233	<hr/> 13,110
	<hr/>	<hr/>
(b) Average number of employees	Number	Number
Full time	566	554
Part time	27	20
	<hr/> 593	<hr/> 574
	<hr/>	<hr/>

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

6 DIRECTORS EMOLUMENTS

	12 Months ended 30 June 1999 £000	18 Months ended 30 June 1998 £000
Emoluments (excluding pension contributions)	195	271

The emoluments, and amounts receivable under long term incentive schemes, of the highest paid director amounted to £171,129 (18 months ended June 1998 - £215,120). The highest paid director is a member of a defined benefit scheme under which his accrued annual pension at the year end was £47,120 (1998 £38,550).

NOTES TO THE FINANCIAL STATEMENTS (continued)

7 TANGIBLE ASSETS

	Freehold Land and Buildings £000	Plant £000	Fixtures & Fittings £000	Pre- Opening Expenses £000	Total £000
COST OR VALUATION					
At 1 July 1998	54,528	3,209	14,965	92	72,794
Additions	16	361	1447	0	1,824
Disposals	0	0	(183)	(92)	(275)
At 30 June 1999	54,544	3,570	16,229	0	74,343

DEPRECIATION

At 1 July 1998	392	2,276	10,359	92	13,119
Charge for the year	73	147	1,247	0	1,467
Disposals	0	0	(183)	(92)	(275)
At 30 June 1999	465	2,423	11,423	0	14,311

NET BOOK VALUE

At 30 June 1999	54,079	1,147	4,806	0	60,032
At 1 July 1998	54,136	933	4,606	0	59,675

Land and buildings are stated at cost or professional valuation less depreciation.

Freehold land and Buildings are not depreciated with the exception of the equestrian centre. Other fixed assets are depreciated on a straight line basis to residual values over their estimated useful lives within the following ranges:

Equestrian Centre	36 Years
Plant & Machinery	4-12 Years
Fixtures & Fittings	4- 7 Years

The Gleneagles Hotel was revalued as at 31 December 1992 on the basis of an open market valuation for existing use as a fully licensed operating resort hotel with golf and leisure facilities and inclusive of plant and fixtures and fittings at an amount of £54 million. Under historical cost principles, freehold land and buildings would be stated at £40 million.

NOTES TO THE FINANCIAL STATEMENTS (continued)

8 INVESTMENTS

The company has the following investment:

Name	Type of share	Held
Golf Publishing Limited	Ordinary	50

Golf Publishing Limited is registered in Scotland and is principally engaged in the publication of golf magazines. Gleneagles Hotels Limited has a 50% participating interest in Golf Publishing through a Joint Venture agreement. The Company received £47,500 from Golf Publishing for management services in the year and was owed £63,641 at 30 June 1999.

9 STOCKS

	30 June 1999 £000	30 June 1998 £000
Raw materials and consumables	252	140
Goods purchased for resale	897	857
	<hr/> 1,149	<hr/> 997

10 DEBTORS

Trade Debtors	2,695	2,605
Amounts owed by group undertakings in which company has a participating interest	247,949	233,635
Other Debtors	23	28
Corporation Tax	5,667	5,667
Prepayments and accrued income	304	97
	<hr/> 256,638	<hr/> 242,032

NOTES TO THE FINANCIAL STATEMENTS (continued)

11 CREDITORS

	30 June 1999 £000	30 June 1998 £000
Payments received on account	1,800	1,831
Trade Creditors	780	658
Amount owed to group undertakings	58,341	44,564
Amounts owed to subsidiary undertaking	17	17
Social Security and Other Taxes	653	515
Accruals and deferred taxes	2,465	2,387
Corporation Tax	1,755	1,523
	<hr/>	<hr/>
	65,811	51,495
	<hr/>	<hr/>

12 DEFERRED TAX

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

Deficit/Excess of capital allowances		
Over accumulated depreciation	(836)	296
Chargeable gains on property	7,100	7,100
	<hr/>	<hr/>
	6,264	7,396
	<hr/>	<hr/>

The chargeable gain is in respect of the company's hotel.

No deferred taxation has been provided in these accounts, as the timing differences are not expected to reverse in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS (continued)

13 CALLED UP SHARE CAPITAL

	30 June 1999 £000	30 June 1998 £000
Authorised:		
236,659,000 ordinary shares of £1 each	236,659	236,659
Allocated and fully paid:		
235,709,000 ordinary shares of £1 each	235,709	235,659
Allocated and partly paid:		
50,000 ordinary shares of £1 each, 25p paid	—	13
	<u>235,709</u>	<u>235,672</u>

14 COMMITMENTS

At 30 June 1999 the company has no capital commitments.

15 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	12 Months ended 30 June 1999 £000	18 months ended 30 June 1998 £000
Profit for the financial period	2,512	3,355
Dividend	(3,000)	(1,595)
Share Capital call on 50,000 ordinary shares	37	-
Opening shareholders' funds	252,683	250,923
Closing shareholders' funds	<u>252,232</u>	<u>252,683</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

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.

A valuation of the scheme was performed in 1995 by R Watson & Sons, Consulting Actuaries and particulars of the valuation are contained in the accounts of Diageo plc.

The charge to the profit and loss account for the year to 30 June 1999 for pensions is £230,000 (18 months to 30 June 1998: £933,000).

17 OPERATING LEASE COMMITMENTS

	30 June 1999 £000	30 June 1998 £000
Within one year	0	75

18 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.

19 PARENT UNDERTAKING

The parent undertaking is preparing consolidated accounts for the year to 30 June 1999 and copies of the accounts for Diageo plc may be obtained from the Company Secretary, Diageo plc, 8 Henrietta Place, London, W1M 9AG.