

GLENEAGLES HOTELS LIMITED
(FORMERLY GLENEAGLES HOTELS PLC)

DIRECTORS' REPORT
AND FINANCIAL STATEMENTS

30 JUNE 1998

Registered No 9700 0

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GLENEAGLES HOTELS LIMITED (FORMERLY GLENEAGLES HOTELS PLC)

DIRECTORS' REPORT FOR THE EIGHTEEN MONTH PERIOD ENDED 30 JUNE 1998

DIRECTORS

PJ Lederer
AR Devereux
JI Lewis
PE Yea

SECRETARY

RH Myddelton

REGISTERED OFFICE

The Gleneagles Hotel
Auchterarder
Perthshire
PH3 1NF

The Directors have pleasure in submitting their annual report, together with the audited financial statements for the eighteen month period ended 30 June 1998. On 17 December 1997 Grand Metropolitan Public Limited Company merged with Guinness PLC to form Diageo plc which as a result became the ultimate parent undertaking of the Company. The year end of Diageo plc and the Company was changed to 30 June and the financial statements have been prepared for the eighteen month period to 30 June 1998.

REVIEW OF THE BUSINESS

The Company was principally engaged during the year in operating The Gleneagles Hotel, Auchterarder, Perthshire.

RESULTS AND TRANSFERS TO RESERVES

Profit on ordinary activities before interest and taxation for the 18 months to 30 June 1998 was £4,809,000 (12 months to 31 December 1996: £2,286,000). After paying dividends of £1,595,000 the profit for the 18 months amounted to £1,760,000. This amount was added to reserves brought forward of £1,595,000, leaving reserves of £3,355,000 at the end of the financial period.

DIVIDENDS

A dividend of £1,595,000 was paid in December 1997.

FUTURE DEVELOPMENTS

The Directors are confident about the Company's future profitability.

The Company has carried out a review of computer systems for year 2000 compliance and costs incurred in making systems year 2000 compliant will be expensed at the point of commitment.

The ultimate holding company, Diageo plc, have appointed Lazard Brothers & Co. to invite offers for purchasing the Company as a going concern.

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

GLENEAGLES HOTELS LIMITED (FORMERLY GLENEAGLES HOTELS PLC)

DIRECTORS' REPORT FOR THE EIGHTEEN MONTH PERIOD ENDED 30 JUNE 1998 (Continued)

DIRECTORS AND THEIR INTERESTS

The names of the Directors of the Company are shown on page 1.

The Director's interests for PJ Lederer, A Devereux, and J I Lewis in the shares of the Company's ultimate undertaking, Diageo plc, are set out below. The Director's interests for PE Yea are shown in the financial statements of Diageo plc. Lord MacLaurin of Knebworth resigned as a director on 21 November 1997.

	At 30 June 1998				At 1 January 1997			
	Ordinary shares	'B' shares **	Medium Term Executive Plan *	Options over ordinary shares	Ordinary shares	'B' shares **	Medium Term Executive Plan *	Options over ordinary shares
PJ Lederer	46,224	302	4,175	72,688	16,223	-	-	138,166
A Devereux	-	-	-	-	-	-	-	-
J I Lewis	3,713	411	-	67,231	7,427	-	-	228,283

* Medium Term Executive Plan award granted 18 April 1997.

** Pursuant to a capital repayment implemented by Diageo plc on 2 February 1998, Diageo plc shareholders received 864 consolidated ordinary shares and 136 'B' shares for every 1,000 existing ordinary shares held on 30 January 1998. Shareholders were subsequently offered the opportunity to redeem their 'B' shares, and all outstanding 'B' shares were converted back to ordinary shares on 1 August 1998 at the rate of 70.993915 ordinary shares for every 100 'B' shares held.

During the eighteen months, the following movements in options over the ordinary shares of Diageo plc took place:

		Options granted during the 18 months to 30 June 1998		Options exercised during the 18 months to 30 June 1998	
		Number	Price (p)	Number	Price (p)
PJ Lederer	**	6,216	494	9,348	321
PJ Lederer	**			13,416	225.5
PJ Lederer	**			13,378	149.5
PJ Lederer	**			13,452	184
PJ Lederer	**			22,100	159.5
J I Lewis	*	12,970	0.001		
J I Lewis	**	21,255	494	37,815	457.5
J I Lewis	**			32,778	476
J I Lewis	**			44,162	492.5
J I Lewis	**			21,555	533.5
J I Lewis	**			19,493	513
J I Lewis	**			39,474	456

* These options were granted under the Long Term Incentive Plan.

** These options were granted under the executive share option schemes.

GLENEAGLES HOTELS LIMITED (FORMERLY GLENEAGLES HOTELS PLC)

DIRECTORS' REPORT FOR THE EIGHTEEN MONTH PERIOD ENDED 30 JUNE 1998 (Continued)

DIRECTORS AND THEIR INTERESTS

The options outstanding at 30 June 1998 have been granted under Group employee share participation schemes (including the Guinness Executive Share Option Scheme 1995, the Guinness Savings Related Share Option Scheme and the Guinness Employee Incentive Trust 1994) and are exercisable at varying dates between 1998 and 2007 and at varying prices between 328p and 533.5p. The mid-market price of Diageo plc shares at 30 June 1998 was 711 pence. The highest mid-market price during the period was 762.5 pence and the lowest mid-market price was 533 pence.

No contract or arrangement entered into by the Company in which any Director is interested has existed during the period.

EMPLOYEES

The Directors recognise that training and development are fundamental to the Company's continuing effective and efficient operation. There is, therefore, a commitment to a systematic approach to the training and development of the Company's employees which includes a review and assessment of the individual's requirements taking account of those categories of employees who may have special needs.

The Company's managers are instructed to give sympathetic consideration, when recruiting, to applications from disabled persons and to bear in mind the special needs of disabled employees (including those who become disabled whilst in the Company's employment) in regard to training, structure of the Company's premises and facilities etc., and to seek to ensure that the handicaps suffered by disabled employees do not adversely affect their promotion prospects.

Responsibility for ensuring that the Company's employees are informed of and, where appropriate, consulted on matters of concern to them affecting their immediate jobs rests with the Company's managers. On a wider basis the Company provides more general information to and for its employees concerning the Diageo Group, its performance and other matters affecting them.

SUPPLIERS

The company does not operate a standard code in respect of payments to suppliers. The company is responsible for agreeing the terms and conditions under which business transactions with its suppliers are conducted, including terms of payment. It is company policy that the payments to suppliers are made in accordance with these terms.

During the period to 30 June 1998 the Company took an average of 14 days to settle its suppliers.

GLENEAGLES HOTELS LIMITED (FORMERLY GLENEAGLES HOTELS PLC)

DIRECTORS' REPORT FOR THE EIGHTEEN MONTH PERIOD ENDED 30 JUNE 1998 (Continued)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those financial statements, the Directors are required to

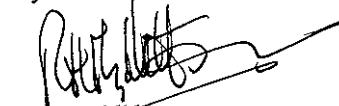
- select suitable accounting policies and then apply them consistently.
- make judgements and estimates that are reasonable and prudent.
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS

The auditors, Price Waterhouse merged with Coopers & Lybrand on 1 July 1998 and a resolution to appoint the new firm, PricewaterhouseCoopers, as auditors to the company will be proposed at the Annual General Meeting.

By Order of the Board



RH Myddelton
Secretary

4th September 1998

GLENEAGLES HOTELS LIMITED (FORMERLY GLENEAGLES HOTELS PLC)

AUDITORS' REPORT TO THE SHAREHOLDERS OF GLENEAGLES HOTELS LIMITED

We have audited the financial statements on pages 6 to 15 which have been prepared under the historical cost convention, except for the revaluation of land and buildings, and the accounting policies set out on page 8.

Respective Responsibilities of Directors and Auditors

As described on page 4 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 those 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 1998 and of the profit for the eighteen months then ended and have been properly prepared in accordance with the Companies Act 1985.



Price Waterhouse
Chartered Accountants and Registered Auditors
Edinburgh

A. September 1998

GLENEAGLES HOTELS LIMITED (FORMERLY GLENEAGLES HOTELS PLC)

PROFIT AND LOSS ACCOUNT FOR THE EIGHTEEN MONTH PERIOD ENDED 30 JUNE 1998

		18 months ended 30 June 1998 £000	12 months ended 31 December 1996 £000
	Notes		
TURNOVER	2	38,657	23,585
NET OPERATING COSTS	3	(33,848)	(21,299)
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST AND TAXATION		4,809	2,286
Interest receivable		77	98
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		4,886	2,384
Taxation on profit on ordinary activities	4	(1,531)	(789)
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		3,355	1,595
RETAINED EARNINGS AT THE BEGINNING OF THE PERIOD/YEAR		1,595	23,436
Dividends		(1,595)	(23,436)
		<hr/>	<hr/>
RETAINED EARNINGS AT THE END OF THE PERIOD/YEAR		3,355	1,595
		<hr/>	<hr/>

There are no recognised gains or losses other than the profit for the period, and all operations are continuing.

GLENEAGLES HOTELS LIMITED (FORMERLY GLENEAGLES HOTELS PLC)

BALANCE SHEET AT 30 JUNE 1998

	Notes	30 June 1998 £000	31 December 1996 £000
FIXED ASSETS			
Tangible assets	7	59,675	56,410
CURRENT ASSETS			
Stocks	9	997	816
Debtors	10	242,032	223,887
Cash in hand and at bank		1,474	1,924
		244,503	226,627
CREDITORS (Amounts falling due within one year)	11	(51,495)	(32,114)
NET CURRENT ASSETS		193,008	194,513
TOTAL ASSETS LESS CURRENT LIABILITIES		252,683	250,923
CAPITAL AND RESERVES			
Called up share capital	13	235,672	235,672
Profit and loss account		3,355	1,595
Revaluation reserve		13,656	13,656
		252,683	250,923

Approved by the Board of Directors on

4th September 1998

and signed on its behalf by:

.....
PJ Lederer
Director

GLENEAGLES HOTELS LIMITED (FORMERLY GLENEAGLES HOTELS PLC)

NOTES TO THE FINANCIAL STATEMENTS - 30 JUNE 1998

1 ACCOUNTING POLICIES

(1) Basis of accounting

The financial statements have been prepared under the historical cost convention modified to include the revaluation of land and buildings and in accordance with applicable accounting standards.

The Company is a wholly owned subsidiary of another UK registered company. Accordingly, and as permitted by Section 228 of the Companies Act 1985, consolidated accounts of the company and its subsidiaries have not been prepared. The company has also taken advantage of the exemption under Financial Reporting Standard No. 8 as it is a wholly owned subsidiary. Details of the company's parent company, and the address from which copies of its accounts may be obtained, are given in Note 19. Income from joint ventures is recognised as it becomes payable.

(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, the Company's commitment to maintain the fabric and to extend and make improvements from time to time, and an estimated useful life of at least 100 years, 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) Pre-opening expenses

Pre-opening expenses in respect of the marketing and publicity costs of the Hotel's developments are capitalised as part of fixed assets and depreciated over three years after the year of opening.

(4) Stocks

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

(5) Deferred taxation

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

(6) Leased assets

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

(7) Pensions

The Company is a member of a Group Pension Scheme which is operated by its parent undertaking, Diageo plc. Contributions to the scheme are assessed by a qualified actuary based on the cost of providing pensions across all participating companies. Costs are not determined for each individual company and accordingly contributions are charged to the profit & loss account when they become payable.

NOTES TO THE FINANCIAL STATEMENTS - 30 JUNE 1998 (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

	18 months ended 30 June 1998 £000	12 months ended 31 December 1996 £000
Raw materials and consumables	12,476	7,977
Staff costs (Note 5)	13,110	7,833
Other operating charges	6,135	4,025
Depreciation	2,127	1,464
	<u>33,848</u>	<u>21,299</u>

Net operating costs are stated after charging/(crediting):

Operating lease charge - Cars (Note 17)	97	0
Directors' emoluments (Note 6)	271	154
Auditors' remuneration - audit	16	14
- non audit services	0	1
	<u>0</u>	<u>1</u>

4 TAXATION

UK Corporation tax on the taxable profit for the eighteen months at 31.3%. (1996 - 33%)	1,523	792
Under/(Over) provision in previous years	8	(3)
	<u>1,531</u>	<u>789</u>

NOTES TO THE FINANCIAL STATEMENTS - 30 JUNE 1998 (Continued)

5 STAFF COSTS AND EMPLOYEES

(a) Staff Costs	18 months ended 30 June 1998	12 months ended 31 December 1996
	£000	£000
Wages and salaries	11,337	6,839
Social security costs	840	475
Other pension costs (see note 16)	933	519
	<u>13,110</u>	<u>7,833</u>
(b) Average number of employees	Number	Number
Full time	554	535
Part time	20	16
	<u>574</u>	<u>551</u>

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

6 DIRECTORS' EMOLUMENTS

Two directors received emoluments totalling £270,502 from the Company for the 18 months (year ended 31 December 1996: £154,257). The other directors including the chairman are remunerated by fellow group undertakings and there is no specific recharge made to the Company in respect of their services. The emoluments of the highest paid director for the 18 months were £215,120 (year ended 31 December 1996: £117,298). The accrued pension of the highest paid director at 30 June 1998 was £38,550. Retirement benefits are accruing to 3 of the directors under the Group's defined benefit pension scheme.

NOTES TO THE FINANCIAL STATEMENTS - 30 JUNE 1998 (Continued)

7 TANGIBLE ASSETS

	<u>Freehold land and buildings</u>	<u>Plant</u>	<u>Fixtures & fittings</u>	<u>Pre-opening expenses</u>	<u>Total</u>
	£000	£000	£000	£000	£000
COST OR VALUATION					
At 1 January 1997	51,916	3,083	12,248	92	67,339
Transfers	0	0	148	0	148
Additions	2,872	126	2,646	0	5,644
Disposals	(260)	0	(77)	0	(337)
At 30 June 1998	54,528	3,209	14,965	92	72,794

DEPRECIATION

At 1 January 1997	286	1,969	8,582	92	10,929
Transfers	0	0	138	0	138
Charge for year	106	321	1,700	0	2,127
Disposals	0	(14)	(61)	0	(75)
At 30 June 1998	392	2,276	10,359	92	13,119

NET BOOK AMOUNT

At 30 June 1998	54,136	933	4,606	0	59,675
At 1 January 1997	51,630	1,114	3,666	0	56,410

NOTES TO THE FINANCIAL STATEMENTS - 30 JUNE 1998 (Continued)

7 TANGIBLE ASSETS (Continued)

Under historical cost principles, freehold land and buildings would be stated at

	1998 £000
Historical cost	40,872
Aggregate depreciation	(392)
Net book amount	<u>40,480</u>

The following table shows the principal rates of depreciation used in the year:

Equestrian centre	3%
Plant	8-25%
Fixtures and fittings	14%-25%
Pre-opening expenses	33%

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. The revaluation was performed by Knight, Frank & Rutley, Chartered Surveyors.

8 INVESTMENTS

The Company has the following investment:

<u>Name</u>	<u>Type of share</u>	<u>% Held</u>
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% interest in Golf Publishing Limited through a Joint Venture agreement. The Company received £225,000 from Golf Publishing Limited for management services in the eighteen months and was owed £53,000 at 30 June 1998.

The business of Equiscot Limited, a wholly owned subsidiary of the company, was transferred into Gleneagles Hotels Limited on 1 January 1997. The investment in Equiscot is held at book value of £Nil.

NOTES TO THE FINANCIAL STATEMENTS - 30 JUNE 1998 (Continued)

9 STOCKS

	<u>30 June</u> <u>1998</u>	<u>31 December</u> <u>1996</u>
	£000	£000
Raw materials and consumables	140	313
Goods purchased for resale	857	503
	<u>997</u>	<u>816</u>

10 DEBTORS

Trade debtors	2,605	1,559
Amounts owed by subsidiary undertakings	0	15
Amounts owed by fellow subsidiary undertakings	233,635	216,340
Other debtors	28	43
Corporation tax	5,667	5,667
Prepayments and accrued income	97	263
	<u>242,032</u>	<u>223,887</u>

11 CREDITORS (Amounts falling due within one year)

Payments received on account	1,831	614
Trade creditors	658	796
Amount owed to group undertakings	44,564	27,084
Amounts owed to subsidiary undertakings	17	0
Social security and other taxes	515	556
Accruals and deferred income	2,387	2,272
Corporation tax	1,523	792
	<u>51,495</u>	<u>32,114</u>

NOTES TO THE FINANCIAL STATEMENTS - 30 JUNE 1998 (Continued)

12 DEFERRED TAXATION

	<u>30 June</u>	<u>31 December</u>
The full potential liability in respect of deferred taxation	<u>1998</u>	<u>1996</u>
is as follows:	£000	£000
Excess of accelerated capital allowances over accumulated depreciation	296	423
Chargeable gains on property	7,100	8,430
	<u>7,396</u>	<u>8,853</u>

The potential 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.

13 CALLED UP SHARE CAPITAL

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

14 COMMITMENTS

At 30 June 1998 all capital commitments are provided for in the financial statements (1996:Nil).

NOTES TO THE FINANCIAL STATEMENTS - 30 JUNE 1998 (Continued)

15 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	18 months ended 30 June 1998 £000	12 months ended 31 December 1996 £000
Retained Profit/(Loss) for the financial period	1,760	(21,841)
Opening shareholders' funds	250,923	272,764
Closing shareholders' funds	<u>252,683</u>	<u>250,923</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, is 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 18 months to 30 June 1998 for pensions is £933,000 (year ended 31 December 1996:£519,000).

17 OPERATING LEASE COMMITMENTS

The Company is contracted to make operating lease payments in the following year in respect of car leases which expire:

	<u>1998</u> £000	<u>1996</u> £000
Within one year	<u>75</u>	<u>0</u>

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 Diageo plc, a company incorporated and registered in England.

The parent undertaking is preparing consolidated accounts for the eighteen month period ended 30 June 1998 and copies of the accounts for Diageo plc may be obtained from the Company Secretary, Diageo plc, 8 Henrietta Place, London, W1M 9AG.