

**GLENEAGLES HOTELS LIMITED
FINANCIAL STATEMENTS**

YEAR ENDED 30 JUNE 2002

Company Registration No. SC97000



DIRECTORS' REPORT

The directors have pleasure in submitting their annual report, together with the audited financial statements for the year ended 30 June 2002.

Activities

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

Financial

The results for the year ended 30 June 2002 are shown on page 8.

An interim dividend of £nil has been paid for the year (2001 – £8,000,000).

The directors do not recommend the payment of a final dividend for the year ended 30 June 2002. (2001 - £nil). The profit for the year transferred to reserves is £6,752,000 (2001 – loss of £3,395,000 transferred from reserves).

Directors

The directors who served during the year were as follows:

P J Lederer	
A R Devereux	(resigned 31 December 2001)
N C Rose	
D A Kemp	(appointed 28 March 2002)

DIRECTORS' REPORT (continued)

Directors' emoluments

The emoluments of the directors are detailed in note 6 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 (or date of <u>appointment</u>)	At end <u>of year</u>	At beginning of year (or date of <u>appointment</u>)	Granted <u>in year</u>	Vested <u>in year</u>	Lapsed <u>in year</u>	At end <u>of year</u>
P J Lederer	41,903	43,190	4,750	-	(2,375)	(2,375)	-
D A Kemp	3,307	3,372	-	-	-	-	-

The directors were granted conditional rights to receive ordinary shares or, exceptionally, a cash sum under certain long term incentive plans. 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 <u>appointment</u>)	Granted <u>in year</u>	Exercised <u>in year</u>	At end <u>of year</u>
P J Lederer	39,256	10,182	(1,949)	47,489
D A Kemp	20,475	-	-	20,475

DIRECTORS' REPORT (continued)

P J Lederer and D A Kemp held the above options under Diageo plc share option schemes at prices between 447p and 653p per ordinary share exercisable between 2002 and 2011. 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 2002, 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 644p and 940.5p during the year. The mid-market share price on 30 June 2002 was 852p.

At 30 June 2002, P J Lederer and D A Kemp both had an interest in 16,259,763 shares and 6,124,020 shares subject to call options held by trusts to satisfy grants made under Diageo incentive plans and savings related share option schemes. P J Lederer had an additional interest in 90,785 shares held by a trust 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 2002, in respect of the company, is 42 days (2001 – 42 days).

DIRECTORS' REPORT (continued)

Secretary

On 31 March 2003 R H Myddelton resigned and J J Nicholls was appointed as Secretary.

Auditor

In accordance with s385 of the Companies Act 1985 a resolution for the re-appointment of KPMG Audit plc as auditor of the company will be proposed at the Annual General Meeting.

By order of the board

A handwritten signature in black ink, appearing to read 'J J Nicholls', written in a cursive style.

J Nicholls
Secretary

The Gleneagles Hotel
Auchterarder
Perthshire
PH3 1NF

Date 28 April 2003

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

The following statement, which should be read in conjunction with the report of the independent auditor on pages 6 and 7, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditor 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, that applicable accounting standards 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 AUDITOR'S REPORT
TO THE MEMBERS OF GLENEAGLES HOTELS LIMITED**

We have audited the financial statements on pages 8 to 18.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

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 auditor, 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 our 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.

GLENEAGLES HOTELS LIMITED
Year ended 30 June 2002

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF GLENEAGLES HOTELS LIMITED (continued)**

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 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc.

KPMG Audit Plc
Chartered Accountants
Registered Auditor

Glasgow
Date 30 April 2003

PROFIT AND LOSS ACCOUNT

		Year ended 30 June 2002	Year ended 30 June 2001
	Notes	£000	£000 (restated see note 12)
TURNOVER	1	30,149	30,562
NET OPERATING COSTS	2	(25,992)	(25,455)
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST AND TAXATION		4,157	5,107
Interest receivable (net)	3	1,534	1,495
PROFIT BEFORE EXCEPTIONALS AND TAXATION		5,691	6,602
Profit on disposal of property		-	1,084
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		5,691	7,686
Taxation on profit on ordinary activities	4	1,061	(3,081)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		6,752	4,605
Dividends		-	(8,000)
Transferred to/(from) reserves		6,752	(3,395)

The notes on pages 11 to 18 form part of these financial statements

There is no difference between the reported profit for the year and the historical cost profit for the year, and consequently no note of historical cost profits and losses has been presented as part of the financial statements.

BALANCE SHEET

	Notes	30 June 2002 £000	30 June 2001 £000 (restated see note 12)
FIXED ASSETS			
Tangible assets	7	68,787	63,683
Investments	8	16	16
		<u>68,803</u>	<u>63,699</u>
CURRENT ASSETS			
Stocks	9	990	1,000
Debtors – due within one year	10	293,520	284,117
Debtors – due after one year	10	15	30
Cash in hand and at bank		775	1,140
		<u>295,300</u>	<u>286,287</u>
CREDITORS – due within one year	11	<u>(108,572)</u>	<u>(100,146)</u>
NET CURRENT ASSETS		<u>186,728</u>	<u>186,141</u>
PROVISIONS FOR LIABILITIES AND CHARGES	12	<u>(1,466)</u>	<u>(2,527)</u>
		<u>254,065</u>	<u>247,313</u>
CAPITAL AND RESERVES			
Called up share capital	13	235,709	235,709
Profit and loss account	15	4,732	(2,020)
Revaluation reserve	15	<u>13,624</u>	<u>13,624</u>
SHAREHOLDERS FUNDS - EQUITY		<u>254,065</u>	<u>247,313</u>

The notes on pages 11 to 18 form part of these financial statements.

The financial statements were approved by the board of directors on 29 April 2003
and signed on its behalf by:



PJ Lederer
Director

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2002	2001
	£000	£000
Profit/(loss) for the year	6,752	(3,395)
Total recognised gains and losses for the year	6,752	(3,395)
Prior year adjustment (note 12)	(2,527)	
Total recognised gains and losses since the last annual report	4,225	

NOTES TO THE FINANCIAL STATEMENTS

ACCOUNTING POLICIES

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.

The company has taken advantage of the exemption of preparing group accounts under section 228 of Companies Act 1985, for parent companies included in the financial statements of a larger group.

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.

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.

Deferred taxation

Deferred taxation is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19. On adoption of FRS 19 a prior year adjustment has arisen as set out in note 12.

NOTES TO THE FINANCIAL STATEMENTS

ACCOUNTING POLICIES (continued)

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.

1 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.

2 OPERATING COSTS

	2002 £000	2001 £000
Raw materials and consumables	4,721	4,776
Staff costs (note 5)	9,214	9,115
Other operating charges	10,136	9,782
Depreciation	1,921	1,782
	<hr/> 25,992	<hr/> 25,455

Net operating costs are stated after charging:

	2002 £000	2001 £000
Directors' emoluments	208	186
Auditors' remuneration - audit	12	12
- other	1	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 INTEREST RECEIVABLE (NET)

	2002	2001
	£000	£000
On loans to group undertakings	1,478	1,441
Other interest receivable	58	59
Less: payable on bank loans and overdrafts	(2)	(5)
	<u>1,534</u>	<u>1,495</u>

4 TAXATION

	2002	2001
	£000	£000
		(restated - note 12)
UK corporation tax at 30% (2001 – 30%) on the taxable profit for the year	-	-
Deferred taxation	1,061	(3,081)
Tax credit/(charge) for the period	<u>1,061</u>	<u>(3,081)</u>

Group relief is effected for nil consideration. As a consequence the company has neither a current tax charge nor credit for the two years ended 30 June 2002.

5 STAFF COSTS AND EMPLOYEE NUMBERS

	2002	2001
	£000	£000
(a) Staff costs		
Wages and salaries	8,633	8,549
Social security costs	581	566
	<u>9,214</u>	<u>9,115</u>

(b) Average number of employees	Number	Number
Full time	507	516
Part time	38	37
	<u>545</u>	<u>553</u>

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

	2002	2001
	£000	£000
Emoluments (excluding pension contributions)	208	186

The emoluments, and amounts receivable under long term incentive schemes, of the highest paid director amounted to £183,042 (2001 - £161,851). The highest paid director is a member of a defined benefit scheme under which his accrued annual pension at the year end was £64,999 (2001 - £58,424).

7 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 2001	58,556	3,948	18,065	693	81,262
Transfers	-	-	166	(166)	-
Additions	994	71	739	5,245	7,049
Disposal	-	(16)	(127)	-	(143)
At 30 June 2002	<u>59,550</u>	<u>4,003</u>	<u>18,843</u>	<u>5,772</u>	<u>88,168</u>

DEPRECIATION

At 1 July 2001	1,129	2,782	13,668	-	17,579
Charge for the year	451	162	1,308	-	1,921
Disposals	-	(6)	(113)	-	(119)
At 30 June 2002	<u>1,580</u>	<u>2,938</u>	<u>14,863</u>	<u>-</u>	<u>19,381</u>

NET BOOK VALUE

At 30 June 2002	<u>57,970</u>	<u>1,065</u>	<u>3,980</u>	<u>5,772</u>	<u>68,787</u>
At 1 July 2001	<u>57,427</u>	<u>1,166</u>	<u>4,397</u>	<u>693</u>	<u>63,683</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

8 INVESTMENTS

	2002	2001
	£000	£000
Investment in subsidiary undertakings	16	16

The company's investment in the ordinary share capital of its subsidiary undertakings at the balance sheet date comprised the following:

<i>Company</i>	<i>% Shares held</i>	<i>Country of Incorporation</i>	<i>Nature of Business</i>	<i>Class of Shares</i>
Gleneagles Resort Developments Limited	100	Scotland	Development	Ordinary
Equiscot Limited	100	Scotland	Non-Trading	Ordinary

9 STOCKS

	2002	2001
	£000	£000
Raw materials and consumables	185	182
Goods purchased for resale	805	818
	<hr/> 990	<hr/> 1,000

10 DEBTORS

	2002		2001	
	Due within one year £000	Due after one year £000	Due within one year £000	Due after one year £000
Trade debtors	3,015	15	2,885	30
Amounts owed by group undertakings	284,465	-	275,087	-
Corporation tax	5,988	-	5,988	-
Prepayments and accrued income	52	-	157	-
	<hr/> 293,520	<hr/> 15	<hr/> 284,117	<hr/> 30

NOTES TO THE FINANCIAL STATEMENTS (continued)

11 CREDITORS – due within one year

	2002	2001
	£000	£000
Payments received on account	2,581	2,756
Trade creditors	1,684	1,659
Amounts owed to group undertakings	102,738	93,764
Amounts owed to subsidiary undertakings	16	16
Social security and other taxes	123	412
Accruals	1,430	1,539
	<u>108,572</u>	<u>100,146</u>

12 PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred taxation £000
Balance brought forward at 1 July 2000: As previously reported	-
Prior year adjustment	<u>(554)</u>
As restated	(554)
Charge for year ended 30 June 2001	<u>3,081</u>
Balance at 1 July 2001 (restated)	2,527
(Credit) for the year	<u>(1,061)</u>
Deferred tax at 30 June 2002	<u>1,466</u>

The prior year adjustment is a consequence of the adoption of FRS 19 – Deferred Tax. The adjustment has resulted in an increase in the deferred tax liability at 30 June 2001 of £2,527,000 and an increase in the tax charge in respect of that year of £3,081,000.

NOTES TO THE FINANCIAL STATEMENTS (continued)

	2002	2001
	£000	£000
The components of deferred tax at 30% (2001: 30%) are as follows:		(restated)
Excess of capital allowances over accumulated depreciation	1,566	2,625
Short term timing differences	(100)	(98)
	<u>1,466</u>	<u>2,527</u>

No provision has been made for taxation of £7,766,000 potentially arising on the sale of the property for its revalued amount.

13 SHARE CAPITAL

	2002	2001
	£000	£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

	2002	2001
	£000	£000
		(restated)
Profit for the financial year (2001: £7,686,000 restated by £3,081,000 - see note 12)	6,752	4,605
Dividend	-	(8,000)
	6,752	(3,395)
Opening shareholders' funds (2001: £250,154,000 restated by £554,000; 2002: £249,840,000 restated by £2,527,000 - see note 12)	<u>247,313</u>	<u>250,708</u>
Closing shareholders' funds	<u>254,065</u>	<u>247,313</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

15 MOVEMENT IN RESERVES

	Profit & loss account £000	Revaluation reserve £000
Opening balance at 1 July 2001 as previously stated	507	13,624
Prior year adjustment (note 12)	(2,527)	-
Opening balance at 1 July 2001 as restated	(2,020)	13,624
Profit for the financial year	6,752	-
Closing balance at 30 June 2002	4,732	13,624

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 2002 may be obtained from the registered office at 8 Henrietta Place London, W1G 0NB.