

GLENEAGLES HOTELS PLC

**DIRECTORS' REPORT
AND FINANCIAL STATEMENTS**

31 DECEMBER 1996

Registered No 97000

u.



GLENEAGLES HOTELS PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1996

DIRECTORS

PJ Lederer
AR Devereux
JI Lewis
Lord MacLaurin
PE Yea

SECRETARY

GW King

REGISTERED OFFICE

The Gleneagles Hotel
Auchterarder
Perthshire
PH3 1NF

The Directors present their report and audited financial statements of the Company for the year ended 31 December 1996.

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 was £2,286,000 (1995: £1,018,000). After paying dividends of £23,436,000 the loss for the year amounted to £21,841,000. This amount was deducted from reserves brought forward of £23,436,000, leaving reserves of £1,595,000 at the end of the financial year.

FIXED ASSETS

The movements in fixed assets are set out in note 7 to the financial statements.

DIVIDENDS

An interim dividend of £22,667,000 was paid in June 1996. A second interim dividend of £769,000 was paid in December 1996.

FUTURE DEVELOPMENTS

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

GLENEAGLES HOTELS PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1996 (Continued)

DIRECTORS AND THEIR INTERESTS

The names of the Directors of the Company are shown on page 1. BF Baldock resigned as Chairman of the Company on 28th June 1996 and PE Yea was appointed Chairman on the same date. No Director had a beneficial interest in the shares of the Company, any subsidiary undertaking or any subsidiary of the ultimate parent undertaking.

The Director's interests for PJ Lederer, A Devereux, Lord MacLaurin and J I Lewis in the shares of the Company's parent undertaking, Guinness PLC, are set out below. The Director's interests for PE Yea are shown in the annual accounts of Guinness PLC.

	<u>At 31 December 1996</u>		<u>At 1 January 1996</u>	
	Ordinary shares	Options over ordinary shares	Ordinary shares	Options over ordinary shares
PJ Lederer	14,399	138,166	10,066	128,366
AR Devereux	-	-	-	-
J I Lewis	7,427	228,283	6,000	200,338
Lord MacLaurin	16,372	-	16,372	-

During the year, the following movements in options over the ordinary shares of Guinness PLC took place:

		<u>Options granted during 1996</u>		<u>Options exercised during 1996</u>	
		<u>Number</u>	<u>Price (p)</u>	<u>Number</u>	<u>Price (p)</u>
PJ Lederer	*	7,025	460	-	-
PJ Lederer	***	2,650	460	-	-
PJ Lederer	**	1,949	354	1,824	411
J I Lewis	***	6,429	457.5	-	-
J I Lewis	***	8,804	460	-	-
J I Lewis	****	12,712	0.001	-	-

* These options were granted under the Executive Share Option Scheme.

** These options were granted under the UK Savings Related Share Option Scheme.

*** These options were granted under the Guinness Employee Incentive Trust 1994.

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

The options outstanding at 31 December 1996 have been granted under Group employee share participation schemes (including the Executive Share Option Scheme, the UK Savings Related Share Option Scheme, the Guinness Employee Incentive Trust 1994 and the Long Term Incentive Plan and are exercisable at varying dates between 1997 and 2006 and at varying prices between 149.5p and 548.5p. No contract or arrangement entered into by the Company in which any Director is interested has existed during the year.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The ultimate parent undertaking, Guinness PLC purchases liability insurance covering the Directors and officers of the Company and its subsidiary.

GLENEAGLES HOTELS PLC

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 Guinness group, its performance and economic and other matters affecting them.

POLICY ON PAYMENT OF CREDITORS

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.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 as at the end of the financial year 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

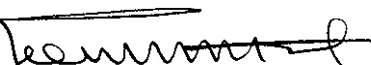
The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets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

AUDITORS

The Auditors, Price Waterhouse, have expressed their willingness to continue in office and a resolution concerning their re-appointment will be submitted at the Annual General Meeting.

By Order of the Board

GW King
Secretary



GLENEAGLES HOTELS PLC

AUDITORS' REPORT TO THE SHAREHOLDERS OF GLENEAGLES HOTELS PLC

We have audited the financial statements on pages 6 to 16 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 31 December 1996 and of the profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Price Waterhouse
Chartered Accountants and Registered Auditors
Edinburgh

2 July 1997

GLENEAGLES HOTELS PLC

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 1996**

	Notes	<u>1996</u> £000	<u>1995</u> £000
TURNOVER	2	23,585	20,902
NET OPERATING COSTS	3	(21,299)	(19,884)
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST AND TAXATION		<hr/> 2,286	1,018
Interest receivable		98	11,766
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		<hr/> 2,384	12,784
Taxation on profit on ordinary activities	4	(789)	(3,987)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		<hr/> 1,595	8,797
RETAINED EARNINGS AT THE BEGINNING OF THE YEAR		23,436	14,639
Dividends		(23,436)	0
RETAINED EARNINGS AT THE END OF THE YEAR		<hr/> <hr/> 1,595	<hr/> <hr/> 23,436

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

GLENEAGLES HOTELS PLC

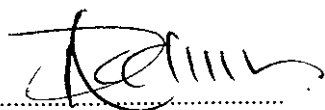
BALANCE SHEET AT 31 DECEMBER 1996

	Notes	<u>1996</u> £000	<u>1995</u> £000
FIXED ASSETS			
Tangible assets	7	56,410	55,654
		<u>56,410</u>	<u>55,654</u>
CURRENT ASSETS			
Stocks	9	816	858
Debtors - Due within one year	10	223,887	237,452
Cash in hand and at bank		1,924	2,977
		<u>226,627</u>	<u>241,287</u>
CREDITORS (Amounts falling due within one year)	11	(32,114)	(24,177)
		<u>194,513</u>	<u>217,110</u>
NET CURRENT ASSETS			
		<u>250,923</u>	<u>272,764</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<u>250,923</u>	<u>272,764</u>
CAPITAL AND RESERVES			
Called up share capital	13	235,672	235,672
Profit and loss account		1,595	23,436
Revaluation reserve		13,656	13,656
		<u>250,923</u>	<u>272,764</u>

Approved by the Board of Directors on

2nd July 1997

and signed on its behalf by:



PJ Lederer
Director

GLENEAGLES HOTELS PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1996

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.

(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, Guinness 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.

(8) Intra-Group Transactions

The Company is exempted from reporting intra-group related transactions in accordance with Financial Reporting Standard 8 because it is wholly owned by Guinness PLC.

GLENEAGLES HOTELS PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1996 (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

	<u>1996</u>	<u>1995</u>
	£000	£000
Raw materials and consumables	7,977	8,017
Staff costs (Note 5)	7,833	7,055
Depreciation	1,464	1,227
Other operating charges	4,025	3,585
	<u>21,299</u>	<u>19,884</u>

	<u>1996</u>	<u>1995</u>
	£000	£000
Net operating costs are stated after charging/(crediting):		
Directors' emoluments (Note 6)	154	151
Auditors' remuneration - audit	14	16
- non audit services	1	1
Release of provision against subsidiary debtor	0	(103)

4 TAXATION

	<u>1996</u>	<u>1995</u>
	£000	£000
UK Corporation tax on the taxable profit for the year at 33%	792	4,364
Deferred tax released	0	(377)
	<u>792</u>	<u>3,987</u>
Over provision in previous years	(3)	0
	<u>789</u>	<u>3,987</u>

The effective tax rate is lower than 33% primarily as a result of accelerated capital allowances.

GLENEAGLES HOTELS PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1996 (Continued)

5 STAFF COSTS AND EMPLOYEES

(a) Staff Costs	<u>1996</u>	<u>1995</u>
	£000	£000
Wages and salaries	6,839	6,214
Social security costs	475	433
Other pension costs (see note 16)	519	408
	<u>7,833</u>	<u>7,055</u>

(b) Average number of employees	<u>1996</u>	<u>1995</u>
	Number	Number
Full time	535	524
Part time	16	16
	<u>551</u>	<u>540</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 £154,257 from the Company during the year. (1995: £151,095). The other Directors including the Chairman are remunerated by fellow Group undertakings and there is no specific re-charge made to the Company in respect of their services. The emoluments of the highest paid Director, excluding pension contribution, were £117,298 (1995: £114,817). The number of Directors whose emoluments were within each of the following bands was:

£	<u>1996</u>	<u>1995</u>
	Number	Number
Nil	3	3
15,000 - 19,999	-	0
20,000 - 24,999	1	1
105,000 - 109,999	-	-
110,000 - 114,999	-	1
115,000 - 119,999	1	-

GLENEAGLES HOTELS PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1996 (Continued)

7 TANGIBLE ASSETS

	<u>Freehold land and buildings</u> £000	<u>Plant</u> £000	<u>Fixtures & fittings</u> £000	<u>Pre- Opening Expenses</u> £000	<u>Total</u> £000
COST OR VALUATION					
At 1 January 1996	51,046	2,904	11,240	92	65,282
Additions	870	179	1,188	0	2,237
Disposals	0	0	(180)	0	(180)
At 31 December 1996	51,916	3,083	12,248	92	67,339
DEPRECIATION					
At 1 January 1996	215	1,729	7,603	81	9,628
Charge for year	71	240	1,142	11	1,464
Disposals	0	0	(163)	0	(163)
At 31 December 1996	286	1,969	8,582	92	10,929
NET BOOK AMOUNT					
At 31 December 1996	51,630	1,114	3,666	0	56,410
At 31 December 1995	50,831	1,175	3,637	11	55,654

GLENEAGLES HOTELS PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1996 (Continued)

7 TANGIBLE ASSETS (Continued)

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

	£000
Historical cost	37,321
Aggregate depreciation	(287)
Net book amount	<u>37,034</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 IN SUBSIDIARIES

The Company has the following subsidiary undertaking:

<u>Name</u>	<u>Type of share</u>	<u>% Held</u>
Equiscot Limited	Ordinary	100

The Company has undertaken to provide continuing financial support to Equiscot Limited if necessary.

Equiscot Limited is registered in Scotland and is principally engaged in operating the equestrian activities of the hotel.

In accordance with Section 228 of the Companies Act 1985, Group accounts are not submitted as the Company is a wholly owned subsidiary (Note 18).

GLENEAGLES HOTELS PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1996 (Continued)

9 STOCKS

	<u>1996</u>	<u>1995</u>
	£000	£000
Raw materials and consumables	313	396
Goods purchased for resale	503	462
	<u>816</u>	<u>858</u>

10 DEBTORS

	<u>1996</u>	<u>1995</u>
	£000	£000
Trade debtors	1,559	1,882
Amounts owed by subsidiary undertakings	15	135
Amounts owed by fellow subsidiary undertakings	216,340	235,181
Other debtors	43	86
Corporation tax	5,667	0
Prepayments and accrued income	263	168
	<u>223,887</u>	<u>237,452</u>

GLENEAGLES HOTELS PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1996 (Continued)

11 CREDITORS (Amounts falling due within one year)

	<u>1996</u>	<u>1995</u>
	£000	£000
Payments received on account	614	440
Trade creditors	796	1,226
Amount owed to group undertakings	27,084	15,604
Social security and other taxes	556	345
Accruals and deferred income	2,272	2,217
Corporation tax	792	4,345
	<u>32,114</u>	<u>24,177</u>

12 DEFERRED TAXATION

	<u>1996</u>	<u>1995</u>
	£000	£000
The full potential liability in respect of deferred taxation at a corporation tax rate of 33% is as follows:		
Excess of accelerated capital allowances over accumulated depreciation	423	372
Chargeable gains on property	8,430	8,500
	<u>8,853</u>	<u>8,872</u>

The potential gain is in respect of the Company's hotel which was acquired from a fellow subsidiary following a revaluation.

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

GLENEAGLES HOTELS PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1996 (Continued)

13 CALLED UP SHARE CAPITAL

	<u>1996</u>	<u>1995</u>
	£000	£000
Authorised:		
236,659,000 ordinary shares of £1 each	236,659	236,659
Allocated and fully paid:	235,659	235,659
235,659,000 ordinary shares of £1 each		
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

	<u>1996</u>	<u>1995</u>
	£000	£000
<u>Future capital expenditure</u>		
Contracted but not provided in the financial statements	0	312
Authorised but not contracted	0	1,038
	<u>0</u>	<u>1,350</u>

GLENEAGLES HOTELS PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1996 (Continued)

15 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	<u>1996</u>	<u>1995</u>
	£000	£000
Profit/(Loss) for the financial year	(21,841)	8,797
Opening shareholders' funds	272,764	263,967
Closing shareholders' funds	<u>250,923</u>	<u>272,764</u>

16 PENSION FUND

The Company is a member of a Group Pension Scheme which is operated by its parent undertaking, Guinness PLC. The Scheme is of the defined benefit type, is administered by trustees and is maintained independently of the finances of Guinness 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 Guinness PLC.

In accordance with the advice of the actuary, the charge to profit and loss for pensions is £519,000 (1995: £408,059).

17 CASH FLOW STATEMENT

The Company is exempt from the obligation to prepare a cash flow statement in accordance with Financial Reporting Standard 1 as a wholly owned subsidiary of an EEC registered company which prepares a consolidated cash flow statement.

18 PARENT UNDERTAKING

The parent undertaking is Guinness PLC, a company registered in England.

The parent undertaking is the only company preparing consolidated accounts and copies of the accounts for Guinness PLC may be obtained from The Company Secretary, Guinness PLC, 39 Portman Square, London W1H 0EE.