# FORM 8-K/A

Current report filing [amend]

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## FILER

**PATRIOT AMERICAN HOSPITALITY INC/DE**

CIK:**16343**| IRS No.: **940358820** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **8-K/A** | Act: **34** | File No.: **001-09319** | Film No.: **99574811**
SIC: **6500** Real estate

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*STE 6001*
*DALLAS TX 75207*

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(COMMISSION FILE NUMBER): 001-09319
(COMMISSION FILE NUMBER): 001-09320

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K/A

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

DATE OF REPORT (DATE OF EARLIEST EVENT REPORTED): June 2, 1998

| | |
|---|---|
| PATRIOT AMERICAN HOSPITALITY, INC.<br>(Exact name of registrant as specified in its charter) | WYNDHAM INTERNATIONAL, INC.<br>(Exact name of registrant as specified in its charter) |
| DELAWARE<br>(State or other jurisdiction of incorporation or organization) | DELAWARE<br>(State or other jurisdiction of incorporation or organization) |
| 94-0358820<br>(I.R.S. Employer Identification No.) | 94-2878485<br>(I.R.S. Employer Identification No.) |
| 1950 Stemmons Freeway<br>Suite 6001<br>Dallas, Texas 75207<br>(214) 863-1000<br>(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices) | 1950 Stemmons Freeway<br>Suite 6001<br>Dallas, Texas 75207<br>(214) 863-1000<br>(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices) |
| JAMES D. CARREKER<br>CHIEF EXECUTIVE OFFICER<br>PATRIOT AMERICAN HOSPITALITY, INC.<br>1950 STEMMONS FREEWAY<br>SUITE 6001<br>DALLAS, TEXAS 75207<br>(214) 862-1000<br>(Name, address, including zip code, and telephone number, including area code and of agent for service) | JAMES D. CARREKER<br>CHAIRMAN OF THE BOARD AND<br>CHIEF EXECUTIVE OFFICER<br>WYNDHAM INTERNATIONAL, INC.<br>1950 STEMMONS FREEWAY<br>SUITE 6001<br>DALLAS, TEXAS 75207<br>(214) 863-1000<br>(Name, address, including zip code, and telephone number, including area code, of agent for service) |

COPIES TO:

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EXCHANGE PLACE
BOSTON, MASSACHUSETTS 02109-2881
(617) 570-1000

ITEM 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND EXHIBITS

This Current Report on Form 8-K/A is filed as an amendment to the Current Report on Form 8-K/A filed by Patriot American Hospitality, Inc. ("Patriot") and Wyndham International, Inc. ("Wyndham") on August 6, 1998, which amended the Current Report on Form 8-K filed by Patriot and Wyndham on June 17, 1998.

(a) Financial Statements of Businesses Acquired or to be Acquired

The index to the financial information for Arcadian International Limited and

Malmaison Limited is included on page F-1 of this report.

(b) Pro Forma Financial Information

None.

(c) Exhibits

<TABLE>
<CAPTION>

| Exhibit Number | Description |
|---|---|
| <S> | <C> |
| 23.1 | Consent of Arthur Andersen-London, England |

</TABLE>



SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be filed on its behalf by the undersigned thereunto duly authorized.

PATRIOT AMERICAN HOSPITALITY, INC.

Dated: March 26, 1999          By: /s/ Lawrence S. Jones
--------------------------------
Name: Lawrence S. Jones
Title: Executive Vice President and Treasurer

WYNDHAM INTERNATIONAL, INC.

By: /s/ Lawrence S. Jones
--------------------------------
Name: Lawrence S. Jones
Title: Executive Vice President and Treasurer



PATRIOT AMERICAN HOSPITALITY, INC.
WYNDHAM INTERNATIONAL, INC.

INDEX TO FINANCIAL INFORMATION

<TABLE>
<CAPTION>

HISTORICAL FINANCIAL INFORMATION

</TABLE>



Arcadian International Limited
(formerly Arcadian International Plc)
and subsidiary undertakings

Non statutory accounts 31 December 1997
together with auditors' report
Registered number: 409293



Auditors' report

To the Shareholders of Arcadian International Limited:

We have audited the accounts on pages 3 to 37 which have been prepared under the historical cost convention as modified by the revaluation of hotels and the accounting policies set out on pages 9 to 13. As explained in Note 2, the accounts have not been prepared for the purposes of Section 226 of the Companies Act 1985 and are therefore not statutory accounts.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS
The company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

BASIS OF OPINION
We conducted our audit in accordance with UK Auditing Standards issued by the Auditing Practices Board, which are substantially consistent with generally accepted auditing standards in the US, for which purpose our report is dual-dated in respect of Note 1.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's and the group'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 accounts 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 accounts.

PARENT COMPANY FINANCIAL SUPPORT
In forming our opinion, we have considered the adequacy of the disclosures made in Note 1 of the accounts concerning the uncertainty regarding the future financing of Patriot American Hospitality Inc, on whose continued financial support the company and group depend. In view of the significance of this uncertainty we consider that it should be drawn to your attention, but our opinion is not qualified in this respect.



Auditors' report (continued)

OPINION
In our opinion the accounts give a true and fair view of the state of affairs of the company and of the group as at 31 December 1997 and of the group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985 as would have applied if they had been

statutory accounts.

Arthur Andersen
Chartered Accountants

1 Surrey Street
London
WC2R 2PS

22 July 1998 (except with respect to the matter discussed in Note 1, as to which the date is 24 March 1999)



Consolidated profit and loss account
For the year ended 31 December 1997

| | Notes | 1997 L'000 | 1996 L'000 |
|---|---|---|---|
| Turnover | 3 | 31,782 | 30,453 |
| Cost of sales | | (15,825) | (14,400) |
| GROSS PROFIT | | 15,957 | 16,053 |
| Administrative expenses before exceptional costs (net) | | (11,055) | (10,559) |
| Exceptional administrative costs | 4 | (1,495) | - |
| Administrative expenses after exceptional costs | | (12,550) | (10,559) |
| Operating profit | | 3,407 | 5,494 |
| (Loss) profit on disposal of fixed assets | 5 | (11) | 380 |
| Share of operating losses of associated undertakings | 13 | (372) | (369) |
| Interest receivable and similar income | 6 | 1,533 | 265 |
| Interest payable and similar charges | 7 | (2,552) | (2,117) |
| PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION | 8 | 2,005 | 3,653 |
| Tax on profit on ordinary activities | 10 | (52) | (484) |
| PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION | | 1,953 | 3,169 |
| Minority interest | 18 | 44 | (33) |
| PROFIT FOR THE FINANCIAL YEAR | | 1,997 | 3,136 |
| Dividends paid and proposed on equity and non equity shares | 11 | (206) | (1,929) |
| RETAINED PROFIT FOR THE YEAR | | 1,791 | 1,207 |
| RETAINED PROFIT FOR THE YEAR | | | |
| The company | | 1,491 | 797 |
| Group undertakings | | 672 | 779 |
| Associated undertakings | | (372) | (369) |
| | | 1,791 | 1,207 |

All operations of the group continued throughout both years and no operations were acquired or discontinued.

A statement of movements on reserves is given in note 21.

The accompanying notes are an integral part of this consolidated profit and loss account.

Consolidated statement of total recognised gains and losses
For the year ended 31 December 1997

| | Group 1997 L'000 | Group 1996 L'000 |
|---|---|---|
| Profit for the financial year | 1,997 | 3,136 |
| Unrealised surplus on revaluation of fixed assets | 6,238 | 4,697 |
| Loss on foreign currency translation | (1,436) | (1,277) |
| TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR | 6,799 | 6,556 |

The accompanying notes are an integral part of this consolidated statement of total recognised gains and losses.



BALANCE SHEETS
For the year ended 31 December 1997

| | Notes | Group 1997 L'000 | Group 1996 L'000 | Company 1997 L'000 | Company 1996 L'000 |
|---|---|---|---|---|---|
| FIXED ASSETS | | | | | |
| Intangibles | 12 | 641 | - | - | - |
| Tangible assets | 12 | 87,281 | 77,180 | - | - |
| Investments | 13 | 17,523 | 7,928 | 71,385 | 61,648 |
| | | 105,445 | 85,108 | 71,385 | 61,648 |
| CURRENT ASSETS | | | | | |
| Stocks | 14 | 26,933 | 23,381 | - | - |
| Debtors | | | | | |
| - due within one year | 15 | 6,359 | 7,212 | 38,906 | 29,324 |
| - due after one year | 15 | - | 639 | - | - |
| Cash at bank and in hand | | 1,421 | 2,362 | 14 | 20 |
| | | 34,713 | 33,594 | 38,920 | 29,344 |
| CREDITORS: Amounts falling due within one year | 16 | (17,258) | (21,033) | (18,296) | (14,923) |
| NET CURRENT ASSETS | | 17,455 | 12,561 | 20,624 | 14,421 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 122,900 | 97,669 | 92,009 | 76,069 |
| CREDITORS: Amounts falling due after more than one year | 17 | (41,206) | (22,215) | (36,280) | (21,831) |
| NET ASSETS | | 81,694 | 75,454 | 55,729 | 54,238 |
| CAPITAL AND RESERVES | | | | | |
| Called-up ordinary share capital | 19 | 36,869 | 36,869 | 36,869 | 36,869 |
| Share premium | 21 | 13,392 | 13,392 | 13,392 | 13,392 |
| Revaluation reserve | 21 | 21,400 | 15,162 | - | - |
| Capital reserve | 21 | 7,531 | 7,627 | - | - |
| Goodwill write-off reserve | 21 | (246) | (137) | 1,750 | 1,750 |
| Profit and loss account | 21 | 1,937 | 1,582 | 3,718 | 2,227 |
| EQUITY SHAREHOLDERS' FUNDS | 22 | 80,883 | 74,495 | 55,729 | 54,238 |
| MINORITY INTEREST | 18 | 811 | 959 | - | - |
| TOTAL CAPITAL EMPLOYED | | 81,694 | 75,454 | 55,729 | 54,238 |

</TABLE>

SIGNED ON BEHALF OF THE BOARD

Director

The accompanying notes are an integral part of these balance sheets.



Consolidated Cash Flow Statement
For the year ended 31 December 1997

<TABLE>
<CAPTION>

| | | 1997 | | 1996 | |
|---|---|---|---|---|---|
| | | L'000 | L'000 | L'000 | L'000 |
| <S> | <C> | <C> | <C> | <C> | <C> |
| Net cash flow from operating activities | 23a | | 1,149 | | 5,568 |
| Returns on investments and servicing of finance | 23b | | (3,215) | | (3,340) |
| Taxation | 23b | | (581) | | (115) |
| Capital expenditure | 23b | | (13,240) | | (3,330) |
| Acquisitions and disposal | 23b | | - | | (15,273) |
| Equity dividends paid | | | (1,799) | | (1,128) |
| CASH OUTFLOW BEFORE FINANCING | | | (17,686) | | (17,618) |
| Financing | | | | | |
| - issue of ordinary shares (net of costs) | | - | | 15,777 | |
| - redemption of preference shares | | - | | (2,000) | |
| - increase in debt (net) | | 18,219 | | 3,683 | |
| | 23b | | 18,219 | | 17,460 |
| INCREASE (DECREASE) IN CASH IN THE YEAR | 23c | | 533 | | (158) |

</TABLE>

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT
For the year ended 31 December 1997

<TABLE>
<CAPTION>

| | Notes | 1997 | | 1996 | |
|---|---|---|---|---|---|
| | | L'000 | L'000 | L'000 | L'000 |
| <S> | <C> | <C> | <C> | <C> <C> | <C> |
| INCREASE (DECREASE) IN CASH IN THE YEAR | 23c | 533 | | (158) | |
| Cash inflow from debt | 23c | (18,219) | | (3,683) | |
| Change in net debt resulting from: | | | | | |
| - Cash flows | | | (17,686) | | (3,841) |
| - New finance leases | | | (145) | | (657) |
| - Foreign exchange translation differences | | | 96 | | 377 |
| MOVEMENT IN NET DEBT IN THE YEAR | | | (17,735) | | (4,121) |
| NET DEBT AT START OF YEAR | 23c | | (29,542) | | (25,421) |
| NET DEBT AT END OF YEAR | 23c | | (47,277) | | (29,542) |

</TABLE>

The accompanying notes are an integral part of this consolidated cash flow statement.

Notes to Accounts
For the year ended 31 December 1997

1 SUBSEQUENT EVENTS

a) On 6 April 1998 Patriot completed its acquisition of all the share capital of the company. Each shareholder received 60 pence in cash per ordinary share. Immediately following the completion of the transaction application was made to the Stock Exchange for delisting and to the Registrar of Companies to change the name of the company from Arcadian International plc to Arcadian International Limited.

b) In a related but separate transaction Patriot entered into an option agreement with the other shareholders of Malmaison Limited to purchase the balance of share capital and loan stock of Malmaison Limited not already owned by the company. The benefit of this option was passed from Patriot to the company. The option was exercised on 8 April 1998. The management contract with Malmaison Management Limited was terminated on the same day.

c) Patriot is a US Real Estate Investment Trust or `REIT' whose shares are paired and trade as a single unit with those of Wyndham International, Inc. ('Wyndham').

Subsequent to the transaction, the trading stock and business of the group's hotels was sold to Wyndham and its subsidiaries Arcadian Hotels Limited and Malmaison Hotels Limited together ("the Wyndham UK Group") for book value at the transaction dates. The group continues to own the freehold and long leasehold interests in the hotels which have been leased to the Wyndham UK Group.

d) The company and its subsidiaries ("the group") are dependent on the continued financial support of Patriot. Patriot has confirmed its intention of providing continued financial support to the group to enable it to meet its liabilities as they fall due, for a period of at least twelve months from 22 July 1998. As described in (e) below, there is uncertainty regarding the future financing of Patriot which may impact its ability to provide continued financial support to the group.

e) In their Joint Quarterly Report on Form 10-Q for the quarterly period ended 30 June 1998, dated 14 August 1998, Patriot and Wyndham (the "Companies") reported, among other things, that expenses related to the rapid pace of acquisitions during the first six months of 1998, coupled with the Companies' operating expenses and capital expenditures and development programmes, had resulted in Patriot being fully drawn of all available funds under the existing Revolving Credit Facility as of 14 August 1998. The Companies further stated that, while they were then negotiating to obtain additional bank financing and other additional sources of capital, if the Companies were unable to secure additional sources of financing in the future, no assurances could be made that a future lack of financing sources would not have a material adverse effect on the Companies' financial condition and results of operations. In their subsequent Joint Quarterly Report on Form 10-Q for the quarterly period ended 30 September 1998, dated 20 November 1998, the Companies reiterated that if the Companies were unable to secure additional sources of financing in future, were unable to successfully refinance existing indebtedness, or were unable to obtain amendments to existing covenants under the Revolving Credit Facility, no assurance could be made that the Companies would be able to meet their financial obligations as they come due without substantial dilution of assets outside the ordinary course of business, restructuring of debt, externally forced revisions of its operations or similar actions. The Companies also reiterated no assurances could be given that the lack of future financing sources would not have a material adverse effect on the Companies' financial condition and results of operations.





1 SUBSEQUENT EVENTS (CONTINUED)

On 4 February 1999, the Companies filed a Current Report on Form 8-K which described amendments to its credit facility, and forward equity arrangements. Under the amended terms of Patriot's $2.7 billion credit facility, the $350 million payment due 31 January 1999 (and as a result of the events announced on 1 March 1999, as described below) the maturities of the $350 million payment due 31 January 1999 and the $400 million payment due 31 March 1999 were extended until 30 June 1999.

On 1 March, 1999, the Companies filed a Current Report on Form 8-K which included an announcement by the Companies that Patriot had entered into a definitive securities purchase agreement with a group of investors (the "Investors") providing for a $1 billion convertible preferred stock investment in the Companies. The Investors will own an approximate 29% interest in the Companies, assuming full subscription to a planned rights offering of $300 million of convertible preferred stock which would reduce the Investors' investment commensurately. The Boards of the Companies have unanimously approved the combination of the two companies (the "Restructuring") and conversion from a paired share real estate investment trust ("REIT") structure to a C Corporation pursuant to a restructuring plan. Under the terms of the restructuring plan, a newly formed subsidiary of Wyndham, a C Corporation, will be merged into Patriot, a REIT, as a result of which Patriot will become a wholly owned subsidiary of Wyndham.

The equity investment and the Restructuring are subject to stockholder approval and both are currently expected to be completed by 30 June 1999. The equity investment is also subject to antitrust clearance and certain other conditions and consents.

2 ACCOUNTING POLICIES

A summary of the principal accounting policies is set out below. All accounting policies have been applied consistently throughout the year and the preceding year.

a) ACCOUNTING CONVENTION

The accounts are prepared under the historical cost convention modified to include the revaluation of hotels and in accordance with applicable accounting standards except in relation to the absence of provision for the depreciation of freehold and long leasehold buildings, as set out in c), below. The accounts are not statutory accounts.

b) BASIS OF CONSOLIDATION

The group accounts consolidate the accounts of Arcadian International Limited and all its subsidiary and associated undertakings made up to 31 December 1997. The acquisition method of accounting has been adopted whereby the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.





2 ACCOUNTING POLICES (CONTINUED)

For acquisitions completed prior to 31 December 1996 goodwill arising on consolidation or on the acquisition of a business (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) has been written off against reserves. In accordance with Financial Reporting Standard No 10, for acquisitions completed since 1 January 1997, goodwill arising on consolidation or on the acquisition of a business is capitalised and amortised over its estimated useful life. Any excess of the aggregate of the fair value of the separable net assets acquired over the fair value of the consideration given is credited directly to reserves.

On disposal of previously acquired businesses, any attributable amount of goodwill previously written off is included in determining the profit or loss on disposal.

In the company's accounts, investments in subsidiary undertakings are stated at cost less amounts written off. Only interest and dividends received and receivable are credited to the company's profit and loss account.

c) TANGIBLE FIXED ASSETS

Freehold hotel properties and hotel properties on leases with 25 years or more to run at the balance sheet date are revalued annually and the resultant valuation is included in the balance sheet unless the surplus or deficit is immaterial. Where a material surplus or deficit arises, this is taken to the revaluation reserve to the extent available. Any permanent diminution in the value of such properties is charged to the profit and loss account.

In accordance with normal practice within the hotel industry, no depreciation is provided on freehold hotel properties or on hotel properties on leases with 25 years or more to run at the balance sheet date. The group's properties are maintained at all times in sound condition and to a high standard. Accordingly, the directors are of the opinion that the length of lives and residual values (based on prices prevailing at the time of acquisition or subsequent valuation) of these properties are such that any provision for depreciation would not be material

Interest on capital employed on land under development and on the costs of construction and refurbishment of hotels incurred until these projects are completed is, where appropriate, capitalised as part of the costs of construction. Costs of construction include an allocation of direct overheads, including internal labour and overhead costs.

Leasehold properties are amortised over the unexpired period of the lease where this is less than 25 years.

Depreciation is provided on a straight line basis as follows:

| | |
|---|---|
| Motor vehicles | 4 years |
| Office equipment | 4 years |
| Furniture, fittings and equipment | 5-10 years |
| Plant and machinery | 10-15 years |

d) FIXED ASSET INVESTMENTS
Investments are shown at cost less amounts written off. Provisions are made for any permanent diminution in value. Income is included (together with the related tax credit) in the consolidated accounts of the year in which it is receivable.





2 ACCOUNTING POLICES (CONTINUED)

e) INTERESTS IN ASSOCIATED UNDERTAKINGS
Associated undertakings are entities in which the group has a participating interest and over whose operating and financial policy it exercises a significant influence. They do not include subsidiary undertakings. These investments are dealt with by the equity method of accounting on consolidation. That is, the consolidated profit and loss account includes the appropriate share of these companies' profits less losses and the group's share of post-acquisition retained losses and reserves is added to the cost of investment in the consolidated balance sheet (see note 13).

Goodwill included in the acquisition cost of associated undertakings on acquisitions completed prior to 31 December 1996 has been written off against reserves on acquisition. In accordance with Financial Reporting Standard No 10, goodwill on acquisitions of associated undertakings completed since 1 January 1997 is capitalised and amortised over its estimated useful life.

Where transactions are entered into with associated undertakings, any element of unrealised profit or loss is eliminated on consolidation to the extent of the group's interest in that undertaking.

f) STOCKS
Stocks comprise pre-construction costs, hotel development sites and hotel operating stocks. They are stated at the lower of cost and net realisable value.

Pre-construction costs represent the cost of land, contractors' and professional fees, interest and an allocation of other direct and project overheads including internal labour and overhead costs. Costs are capitalised from the date at which the group acquires and maintains an interest in, or an option to acquire an interest in, a development site.

g) TAXATION
Corporation tax payable is provided on taxable profits at the current rate.

Advance corporation tax payable on dividends paid or provided for in the period is written off, except when recoverability against corporation tax payable is considered to be reasonably assured in the short term. Credit is taken for advance corporation tax written off in previous years when it is recovered against corporation tax liabilities.

The taxation liabilities of certain group companies are reduced wholly or in part by the surrender of losses by fellow group companies.

Deferred taxation has been calculated using the liability method. Deferred taxation is provided on timing differences which will probably reverse, at the rates of tax likely to be in force at the time of the reversal. Deferred tax is not provided on timing differences which, in the opinion of the directors, will probably not reverse.

h) PENSION COSTS
Pension costs represent contributions in respect of the year made by the group by reference to a uniform percentage of salary into employees' personal pension schemes. These costs are charged to the profit and loss account as they fall due.





2 ACCOUNTING POLICES (CONTINUED)
i) FOREIGN CURRENCY
In the accounts of individual undertakings, transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

For the purposes of consolidation and application of the equity method of accounting the closing rate method is used, under which translation gains or losses are shown as a movement on reserves. Profit and loss accounts of overseas subsidiary and associated undertakings are translated at the closing exchange rate.

j) TURNOVER
i) Hotels
Turnover comprises amounts receivable for goods and services provided, net of VAT and similar sales taxes.

ii) Project development
Turnover comprises project management fees and fees in relation to site procurement.

k) LEASES
The group enters into operating and finance leases.
Assets held under finance leases are initially reported at the fair value of the asset, with an equivalent liability categorised under creditors due within or after one year as appropriate. The asset is depreciated over the shorter of the lease term and its useful economic life. Finance charges are allocated to accounting periods over the period of the lease to produce a constant rate of return on the outstanding balance. Rentals are apportioned between finance charges and reduction of the liability. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

Rentals under operating leases are charged on a straight-line basis over the lease term and commitments are provided for in the balance sheet at the time the rental payments fall due. Further information on charges in the period and future commitments is given in note 26c).

l) GOVERNMENT GRANTS
Government grants relating to tangible fixed assets are treated as deferred income and credited to the profit and loss account by equal annual instalments over the period to which the grant relates.

m) CAPITAL INSTRUMENTS
Capital instruments are classified as liabilities if they contain an obligation to transfer economic benefits and if they are not included in shareholders' funds. Capital instruments are initially stated at the amount of the net proceeds after the deduction of issue costs. The finance cost recognised in the profit and loss account in respect of capital instruments other than equity shares is calculated so as to give a constant rate of return on the outstanding balance.





3 SEGMENT INFORMATION
The group is classified into two segments:

Hotels - relates to the operation and management of hotels.

Project development - relates to site and pre-construction costs, investment in resort developments and project management and co-ordination fees.

In the opinion of the directors, the disclosure of information for these segments would be prejudicial to the interests of the Group.

4 EXCEPTIONAL COSTS

Exceptional costs were incurred in 1997 in relation to the acquisition of the group by Patriot American Hospitality, Inc. ("Patriot") which completed on 6 April 1998 (see note 1a)).

5 (LOSS) PROFIT ON DISPOSAL OF FIXED ASSETS

Loss on disposal of fixed assets of L11,000 relates to the sale of Hunstrete House on 4 March 1997. These assets contributed Lnil (1996 - Lnil) to the group's profit from continuing operations during the year. No tax charge arose on this sale.

Profits of L380,000 in 1996 arose on the sale of land adjoining a hotel.

6 INTEREST RECEIVABLE AND SIMILAR INCOME

Investment income comprises:

| | 1997 L'000 | 1996 L'000 |
|---|---|---|
| Interest from associated undertakings (note 13a) | 1,355 | 70 |
| Interest from other participating interests (note 13) | 17 | 48 |
| Interest from short term bank deposits | 54 | 19 |
| Interest - other | 107 | 128 |
| | 1,533 | 265 |





7 INTEREST PAYABLE AND SIMILAR CHARGES

Interest payable and similar charges comprise:

| | 1997 L'000 | 1996 L'000 |
|---|---|---|
| On bank loans, overdrafts and other loans repayable within five years | | |
| - by instalments | 3,684 | 2,195 |
| - not by instalments | 87 | 693 |
| On all other loans | 88 | 47 |
| Write off of facility fees and costs following refinancing | - | 233 |
| | 3,859 | 3,168 |
| Less: Amounts capitalised on pre-construction costs and hotel development (notes 12 and 14) | (1,307) | (1,051) |
| | 2,552 | 2,117 |

Included in the above is the interest element of charges payable under finance leases contracts amounting to L88,000 (1996 - L47,000).

8 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after crediting:

| | 1997 L'000 | 1996 L'000 |
|---|---|---|
| a) Amortisation of government grants | - | 71 |
| b) Profit on sale of database access | - | 750 |

| | | |
|---|---|---|
| c) Fee for site introduction to associate undertaking | 256 | 365 |
| d) Foreign exchange gains, net | 144 | - |
| | ---------- | ---------- |
| | ---------- | ---------- |

And after charging:

| | | |
|---|---|---|
| a) Depreciation of tangible fixed assets | | |
| - owned | 1,102 | 963 |
| - held under hire purchase contracts and finance leases | 252 | 188 |
| b) Amortisation of intangible fixed asset | 4 | 67 |
| c) Rental payable, net | 216 | 109 |
| d) Other operating lease rentals | 34 | 37 |
| e) Auditors' remuneration - audit fees | 175 | 154 |
| f) Foreign exchange losses, net | - | 204 |
| g) Provision for costs of unlet commercial property | 200 | - |
| h) Provision against development project | - | 234 |
| i) Staff costs (note 9) | 10,677 | 9,338 |
| | ---------- | ---------- |
| | ---------- | ---------- |

</TABLE>

In addition, in the year ended 31 December 1997, the auditors received L165,000 for non-audit services provided during the year (1996 - L400,000) of which L62,000 related to costs associated with the sale of the company to Patriot.



Notes to Account (Continued)

9 INFORMATION REGARDING DIRECTORS AND EMPLOYEES
Particulars of employees are as shown below:

<TABLE>
<CAPTION>

| <S> | <C> 1997 L'000 | <C> 1996 L'000 |
|---|---|---|
| Employee costs during the year (excluding directors) amounted to: | | |
| Wages and salaries | 9,834 | 8,588 |
| Social security costs | 700 | 623 |
| Other pension costs | 143 | 127 |
| | ---------- | ---------- |
| | 10,677 | 9,338 |
| | ---------- | ---------- |
| | ---------- | ---------- |

</TABLE>

The average weekly number of persons employed by the group during the year (including executive directors) was as follows:

<TABLE>
<CAPTION>

| <S> | <C> Number | <C> Number |
|---|---|---|
| Hotel operations | 1,132 | 1,024 |
| Direct property operations | 8 | 7 |
| General and financial administration | 15 | 12 |
| | ---------- | ---------- |
| | 1,155 | 1,043 |
| | ---------- | ---------- |
| | ---------- | ---------- |
| REMUNERATION | | |
| | 1997 L'000 | 1996 L'000 |
| Emoluments | 712 | 707 |
| Fees to third parties in respect of directors' services | 70 | 42 |
| | ---------- | ---------- |
| | 782 | 749 |
| Compensation for loss of office | 15 | - |
| | ---------- | ---------- |
| | ---------- | ---------- |
| | 797 | 749 |
| | ---------- | ---------- |
| | ---------- | ---------- |

</TABLE>



Notes to Account (Continued)

9 INFORMATION REGARDING DIRECTORS AND EMPLOYEES (CONTINUED)
The above amounts do not include any gains made on the exercise of share options or the value of any shares or share options received under long-term incentive schemes. No directors exercised share options in the year (1996.- nil) and no shares were received or receivable under long-term incentive schemes by any of the directors.

Further details regarding payments made under these schemes subsequent to the year end in connection with the acquisition of the company by Patriot are given in note 20 and 26b)ii).

HIGHEST-PAID DIRECTOR
The above amounts for remuneration include the following in respect of the highest paid director.

| | 1997 L'000 | 1996 L'000 |
|---|---|---|
| Emoluments and long-term incentive schemes | 178 | 221 |

10 TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES
The tax charge is based on the profit for the year and comprises:

| | 1997 L'000 | 1996 L'000 |
|---|---|---|
| ACT written off | 52 | 484 |

The group has tax losses which may be available to carry forward against future profits. Certain of these losses may be relieved only against future trading profits.

A potential liability on deferred chargeable gains of L11,461,000 (1996-L5,700,000) exists following the revaluation of certain properties and the roll over of chargeable gains in prior years. This liability is not expected to crystallise in the foreseeable future as the directors do not intend to dispose of these assets. Consequently, no deferred taxation provision has been made in this respect.

11 DIVIDENDS PAID AND PROPOSED

| | 1997 L'000 | 1996 L'000 |
|---|---|---|
| Equity dividends on ordinary shares: | | |
| Interim paid 0.14p (1996 - 0.12p) | 206 | 133 |
| Final proposed nil (1996 - 1.08p) | - | 1,593 |
| | 206 | 1,726 |
| Non-equity dividend on preference shares: | | |
| 6% cumulative redeemable preference dividend | - | 203 |
| | 206 | 1,929 |

The dividend arising on the preference shares was accrued from the date of issue to 31 December 1996 when the shares were redeemed and the accrued dividend was paid.

Notes to Account (Continued)

12 INTANGIBLE AND TANGIBLE FIXED ASSETS
The movement in the year was as follows:

<TABLE>
<CAPTION>

| GROUP | Intangible fixed assets: Goodwill L'000 | Tangible fixed assets: Freehold properties L'000 | Leasehold properties over 25 years L'000 | Fittings, equipment and vehicles L'000 | Total tangible fixed assets L'000 |
|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> |
| COST OR VALUATION | | | | | |
| Beginning of year | - | 58,069 | 13,703 | 7,636 | 79,408 |
| Additions | 645 | 3,785 | 1,224 | 2,809 | 7,818 |
| Revaluations | - | 4,779 | 699 | - | 5,478 |
| Disposals | - | (1,489) | (60) | (476) | (2,025) |
| End of year | 645 | 65,144 | 15,566 | 9,969 | 90,679 |
| At valuation 1997 | - | 63,744 | 15,566 | - | 79,310 |
| At cost | 645 | 1,400 | - | 9,969 | 11,369 |
| DEPRECIATION AND AMORTISATION | | | | | |
| Beginning of year | - | - | - | 2,228 | 2,228 |
| Charge | | | | | |
| - continuing activities | 4 | - | - | 1,354 | 1,354 |
| Disposals | - | - | - | (184) | (184) |
| End of year | 4 | - | - | 3,398 | 3,398 |
| NET BOOK VALUE | | | | | |
| Beginning of year | - | 58,069 | 13,703 | 5,408 | 77,180 |
| End of year | 641 | 65,144 | 15,566 | 6,571 | 87,281 |
| At historical cost | 641 | 49,826 | 11,873 | 6,571 | 68,270 |
| LEASED ASSETS AND ASSETS HELD ON FINANCE LEASES INCLUDED IN THE ABOVE: | | | | | |
| NET BOOK VALUE | | | | | |
| BEGINNING OF YEAR | | | | 615 | 615 |
| END OF YEAR | | | | 1,059 | 1,059 |

</TABLE>

Intangible fixed assets relate to goodwill arising on the acquisition of a 20% interest in Beleggingsmaatschappij Stako II B.V. (`Stako') (note 13a). Goodwill relating to this acquisition is being amortised over 20 years.



Notes to Account (Continued)

12 INTANGIBLE AND TANGIBLE FIXED ASSETS (CONTINUED)
Additions to assets in course of construction include interest capitalised of L33,000 (1996 - L4,000). Cumulative interest capitalised included in the cost of tangible fixed assets amounts to L122,000 (1996 - L89,000).

Freehold and leasehold properties are included at valuation. The valuations were carried out by Weatherall Green & Smith, Chartered Surveyors, on an open market value at 30 September 1997 for existing use basis, inclusive of fittings and equipment and with the benefit of licences where applicable. The valuations are recorded after deducting the net book value of fittings and equipment.

On a historical cost basis, the net book amount of tangible fixed assets at 31 December 1997 would be L66,812,000 and the depreciation charge would not be materially different.

13 FIXED ASSET INVESTMENTS

The following are included in the net book value of fixed asset investments:

| GROUP | Associated undertakings | | Other participating interests | | | |
|---|---|---|---|---|---|---|
| | Shares L'000 | Loans L'000 | Shares L'000 | Loans L'000 | Other L'000 | Total L'000 |
| Beginning of year | 241 | 5,429 | 1,455 | 303 | 500 | 7,928 |
| Additions | 1,673 | 7,228 | - | - | - | 8,901 |
| Interest accrued | - | 94 | - | 17 | 36 | 147 |
| Transfer to current asset investment | - | - | (105) | - | - | (105) |
| Transfer from current asset Receivables | - | - | - | 955 | - | 955 |
| Unrealised profits on transactions With associated undertakings | (310) | - | - | - | - | (310) |
| Share of losses | (372) | - | - | - | - | (372) |
| Share of fixed asset revaluations | 760 | - | - | - | - | 760 |
| Loss on translation of overseas equity investments | (86) | (295) | - | - | - | (381) |
| End of year | 1,906 | 12,456 | 1,350 | 1,275 | 536 | 17,523 |



Notes to Account (Continued)

13 FIXED ASSET INVESTMENTS (CONTINUED)

| COMPANY | Subsidiary undertakings L'000 | Associated undertakings L'000 | Other participating interests L'000 | Other L'000 | Total L'000 |
|---|---|---|---|---|---|
| SHARES AT COST | | | | | |
| Beginning of year | 48,342 | 232 | 1,458 | 315 | 50,347 |
| Additions | 194 | 2,319 | - | - | 2,513 |
| Transfer | 105 | - | (105) | - | - |
| End of year | 48,641 | 2,551 | 1,353 | 315 | 52,860 |
| AMOUNTS WRITTEN OFF | | | | | |
| Beginning and end of year | (247) | - | - | - | (247) |
| LOANS | | | | | |
| Beginning of year | 7,980 | 2,866 | 303 | 399 | 11,548 |
| Advanced during year | - | 7,078 | - | - | 7,078 |
| Interest accrued | - | 94 | 17 | 35 | 146 |
| End of year | 7,980 | 10,038 | 320 | 434 | 18,772 |
| NET BOOK VALUE | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Beginning of year | 56,075 | 3,098 | 1,761 | 714 | 61,648 |
| End of year | 56,374 | 12,589 | 1,673 | 749 | 71,385 |

</TABLE>

Additions to subsidiary undertakings are comprised of additional costs relating to acquisitions completed in 1996.





13 FIXED ASSET INVESTMENTS (CONTINUED)
The principal subsidiary undertakings are shown below:

<TABLE>
<CAPTION>

| SUBSIDIARY UNDERTAKING | COUNTRY OF INCORPORATION AND OPERATION | PRINCIPAL ACTIVITY | PROPORTION OF ORDINARY SHARE CAPITAL AND VOTING RIGHTS HELD BY THE GROUP |
|---|---|---|---|
| <S> | <C> | <C> | <C> |
| Arcadian International Resorts Limited | England | Leisure development and project management | 100% |
| Arcadian UK Developments Limited | England | Property investment and project management | 100% |
| Arcadian France SA | France | Leisure development | 100% |
| Arcadian Group Services Limited | England | Management services | 100% |
| Hotel L'Horizon Limited | Jersey | Hotel operations | 100% |
| Arcadian Hotels (UK) Limited | England | Hotel operations | 100% |
| Chateau de Bessy SA | France | Leisure development | 54.7% |
| Ettington Park Group Limited | England | Hotel operations | 100% |
| The Mollington Banastre Hotel Limited | England | Hotel operations | 100% |
| Tillian Limited | England | Leasehold property owner and lessor | 100% |
| Chilston Park Limited | England | Hotel operations | 100% |
| Fattoria Villa Saletta Srl | Italy | Leisure development | 100% |
| Malmaison Management Limited | England | Hotel operations and project management | 50% |
| Stone Development SA | France | Leisure development | 100% |

</TABLE>

The results of all subsidiary undertakings are included in the group accounts. A complete list of subsidiary undertakings will be annexed to the next annual return to the Registrar of Companies.

a) ASSOCIATED UNDERTAKINGS
HOTEL GRESSY SNC
The group has a 25% stake in the ordinary share capital of Hotel Gressy SNC ("Gressy"), a company registered in France. The total carrying value of the group's investment is L1,393,000 at 31 December 1997 (1996 - L1,755,000).

The principal asset of Gressy is the hotel Le Manoir de Gressy, which completed its fourth year of trading in 1997. The directors are of the opinion, having consulted with their professional advisors, that on achievement of mature levels of trading the value of the group's share of Gressy exceeds the carrying value of the group's investment by a substantial margin.

The joint venture partner in Gressy has an option, exercisable in January 1999, to require the group to buy the partner's 75% shareholding in Gressy for a fixed consideration of Ffr 40 million (see note 26b)i)). The directors are of the opinion that due to the uncertainty regarding the exercise of this option it is only appropriate to account for the group's 25% holding in Gressy at this stage.





13 FIXED ASSET INVESTMENTS (CONTINUED)
a) ASSOCIATED UNDERTAKINGS (CONTINUED)

MALMAISON LIMITED

As at the balance sheet date the company held a 27% (1996 - 27%) stake in the ordinary share capital of Malmaison Limited ("Malmaison"), a company registered in England, at a carrying value of L232,000 (1996 - L232,000). In addition the company has L5,062,000 (1996 - L4,103,000) of subordinated loan stock and L3,000,000 (1996 - Lnil) of other subordinated loans receivable from Malmaison.

Interest on the subordinated loan stock is charged at 20% p.a. and is payable by equal half yearly instalments from 30 June 1998. The principal amounts under the loan stock instruments are redeemable in instalments due on 31 December 2003, 2004 and 2005. Interest on the other subordinated loans is charged at 10% p.a. payable quarterly. Interest on these loans has, where appropriate, been capitalised by Malmaison. Cumulative interest capitalised by Malmaison on these and on its other loans at 31 December 1997 was L1,679,000 (1996 - L98,000).

The company also holds 4,246,925 (1996 - 1,410,810) warrants to subscribe for ordinary shares in Malmaison of 1p each at par. Full subscription of these and other warrants issued by Malmaison would have increased the company's interest in Malmaison to 33% (note 26b) iv) and v)).

On 8 April 1998, the company purchased all the outstanding share capital and loan stock of Malmaison not held by the company (see note 1b)).

GREAT EASTERN HOTEL COMPANY LIMITED

The company owns 50% of the ordinary share capital of the Great Eastern Hotel Company Limited ("Great Eastern"), a company registered in England, at a carrying value of L50,000 (1996 - Lnil). In addition the company has L3,032,000 (1996 - Lnil) of subordinated loan stock receivable from Great Eastern. Interest on the subordinated loan stock is charged at 10% and is payable by equal half yearly instalments from 31 December 1999. The principal amount under the loan stock is redeemable at par on 30 June 2007.





13 FIXED ASSET INVESTMENTS (CONTINUED)

a) ASSOCIATED UNDERTAKINGS (CONTINUED)

BELEGGINGSMAATSCHAPPIJ STAKO II B.V. ("STAKO")

On 9 October 1997 the company acquired 18.2% and the right to a further 1.8% investment in the ordinary share capital of Stako, a company registered in the Netherlands for a total consideration of L1,965,000, of which L465,000 was deferred until June 1998. Other costs relating to this acquisition of L303,000 were incurred. Goodwill arising on the acquisition of L645,000 has been taken to intangible fixed assets and is being amortised over 20 years.

The table below sets out the preliminary fair value of the net assets of Stako at the date of acquisition and the effect on the consolidated balance sheet:

<TABLE>
<CAPTION>

| | Stako | |
|---|---|---|
| | Book Value L'000 | Fair Value L'000 |
| <S> | <C> | <C> |
| Fixed assets | 3,255 | 5,235 |
| Current assets | 6,329 | 6,329 |
| Current liabilities | (2,604) | (2,604) |
| Long term liabilities | (845) | (845) |
| Net assets | 6,135 | 8,115 |
| Group equity share 20% | | 1,623 |
| Goodwill | | 645 |
| Total acquisition cost | | 2,268 |

</TABLE>

The fair value adjustments made to the book value of Stako related to the revaluation of its land and buildings.



NOTES TO ACCOUNT (CONTINUED)

13 FIXED ASSET INVESTMENTS (CONTINUED)
a) ASSOCIATED UNDERTAKINGS (CONTINUED)
The assets and liabilities of the associated undertakings, together with a summary of their income statements, as adjusted to bring their accounts into line with Arcadian group accounting policies, are as follows:

<TABLE>
<CAPTION>

| | Great Eastern | Stako | Malmaison | | Gressy | |
|---|---|---|---|---|---|---|
| | 1997 L'000 | 1997 L'000 | 1997 L'000 | 1996 L'000 | 1997 L'000 | 1996 L'000 |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| Intangible fixed assets | - | - | 1,525 | 1,349 | - | - |
| Tangible fixed assets | 6,643 | 5,697 | 19,940 | 3,453 | 11,022 | 12,342 |
| Investments | - | 101 | - | - | - | - |
| Capital work in progress | - | 440 | 13,313 | 5,106 | - | - |
| Current assets | | | | | | |
| - stocks | - | 2,324 | 67 | 14 | 63 | 81 |
| - debtors | 256 | 2,953 | 2,369 | 670 | 545 | 603 |
| - cash | 112 | 261 | 908 | 1,068 | - | 40 |
| Creditors | | | | | | |
| - amounts falling due within one year | (848) | (2,631) | (7,032) | (740) | (1,784) | (1,075) |
| - amounts falling due after more than one year | - | (1,091) | (12,897) | - | (5,194) | (6,071) |
| - shareholders loans falling due after more than one year | (6,063) | - | (16,276) | (10,827) | (4,458) | (4,958) |
| Net assets | 100 | 8,054 | 1,917 | 93 | 194 | 962 |
| GROUP'S SHARE OF EQUITY INTEREST | 50% | 20% | 27% | 27% | 25% | 25% |
| Group's share of net assets of associated undertaking | 50 | 1,611 | 518 | 25 | 48 | 241 |

</TABLE>



Notes to Account (Continued)

13 FIXED ASSET INVESTMENTS (CONTINUED)
A) ASSOCIATED UNDERTAKINGS (CONTINUED)

<TABLE>
<CAPTION>

| | Great Eastern | Stako | Malmaison | | Gressy | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 1997 L'000 | 1997 L'000 | 1997 L'000 | 1996 L'000 | 1997 L'000 | 1996 L'000 | 1997 L'000 | 1996 L'000 |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| TURNOVER | - | 1,160 | 2,687 | 168 | 2,662 | 2,381 | | |
| PROFIT (LOSS) BEFORE TAXATION | - | 155 | (958) | (90) | (671) | (1,375) | | |
| Group share of operating profit (loss) | - | 31 | (235) | (20) | (168) | (349) | (372) | (369) |
| Interest income from associated | | | | | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| undertaking | 94 | - | 1,261 | 70 | - | - | 1,355 | 70 |

</TABLE>

The group's interest in Great Eastern and Stako arose during 1997. Results for Great Eastern and Stako shown above are for the period post acquisition.

B) OTHER PARTICIPATING INTERESTS

ALJARAFE GOLF SA ("ALJARAFE")

The group owns a 10% stake in the ordinary share capital of Aljarafe, a company incorporated in Spain. This company, through its subsidiary, Club Zaudin Golf SA, operates a golf and country club in Seville and is in development of a 250 home residential scheme on adjacent land. The total cost of this equity investment is L1,311,000 (1996 - L1,311,000). The group also holds L955,000 of receivables which were reclassified from current asset receivables to fixed asset investments during the year in contemplation of a rights issue due to take place in 1998.

MENTMORE GOLF & COUNTRY CLUB PLC

The group has a 9% stake in the ordinary share capital of Mentmore Golf & Country Club Plc, a company registered in England and Wales. This stake was acquired on 31 July 1991 at a cost of L4,000. The group also holds L230,000 of secured subordinated loan stock 1999. Interest is charged at base rate plus 2% and paid on the earlier of the repayment date 30 June 1999, or any earlier date Mentmore Golf & Country Club Plc may elect. This loan stock and accrued interest receivable has been classified as loans owed by other participating interests.



Notes to Account (Continued)

14 STOCKS

The following are included in the net book value of stocks:

<TABLE>
<CAPTION>

| | Group | |
|---|---|---|
| | 1997 | 1996 |
| | L'000 | L'000 |
| <S> | <C> | <C> |
| Hotel operating stocks | 749 | 801 |
| Capital work in progress | 243 | 502 |
| Pre-construction costs | 25,941 | 22,078 |
| | 26,933 | 23,381 |

</TABLE>

The movement in stock includes capitalised interest of L1,274,000 (1996-L1,047,000). Cumulative interest capitalised included in stocks amounts to L3,300,000 (1996-L2,026,000).

a) Capital work in progress represents uncompleted development work being carried out on hotels.

b) Pre-construction costs, which relate principally to land or interests in land for which the group has options which are subject to time limits, comprise costs incurred in identifying and progressing leisure and resort opportunities until other project investors are found with whom to complete the development. It is in the nature of development projects that the timing and scale of any realisation is uncertain and may depend on factors beyond the control of the directors. The status of each project and its carrying value are regularly reviewed by the directors who remain confident that a programme of realisations will be achieved at above carrying value. An analysis of the constituent projects is shown below:

<TABLE>
<CAPTION>

| | 1997 | 1996 |
|---|---|---|
| | L'000 | L'000 |
| <S> | <C> | <C> |

| | | |
|---|---|---|
| DEVELOPMENT PROJECT | | |
| Villa Saletta | 16,227 | 14,732 |
| Chateau de Bessy | 7,048 | 4,965 |
| Villeneuve le Comte | 2,031 | 799 |
| Malmaison | - | 16 |
| Great Eastern | - | 621 |
| Other | 635 | 945 |
| | 25,941 | 22,078 |

</TABLE>

During the year the group acquired additional land at Chateau de Bessy for FFR 8,000,000 partly funded by forgiveness of a receivable. Land at Villeneuve le Comte was acquired during the year for FFR 9,000,000.





14 STOCKS (CONTINUED)
The costs capitalised against the Great Eastern were transferred to the company's interest in the Great Eastern Hotel Company Limited during the year (see note 13a)).

15 DEBTORS
The following are included in debtors:

<TABLE>
<CAPTION>

| | Group | | Company | |
|---|---|---|---|---|
| | 1997 L'000 | 1996 L'000 | 1997 L'000 | 1996 L'000 |
| <S> | <C> | <C> | <C> | <C> |
| Amounts falling due within one year: | | | | |
| Trade debtors | 1,803 | 2,286 | - | - |
| Amounts due from subsidiary undertakings | - | - | 35,393 | 27,856 |
| Amounts due from associated undertakings | 2,420 | 475 | 1,220 | - |
| Amounts due from other participating interests | - | 485 | - | - |
| Dividends due from subsidiary undertakings | - | - | 300 | 875 |
| VAT recoverable | 746 | 95 | 1,200 | - |
| Prepayments and accrued income | | | | |
| - ACT recoverable on intragroup dividend | - | - | - | 175 |
| - other | 582 | 1,126 | 169 | 210 |
| Other debtors | 808 | 2,745 | 624 | 208 |
| | 6,359 | 7,212 | 38,906 | 29,324 |
| Amounts falling due after more than one year: | | | | |
| Amounts due from other participating interests | - | 639 | - | - |
| | 6,359 | 7,851 | 38,906 | 29,324 |

</TABLE>

Amounts due from associated undertakings comprise L2,337,000 (1996-L436,000) due from Malmaison Limited and L83,000 (1996 - L39,000) from Hotel Gressy SNC.





16 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR
The following amounts are included in creditors falling due within one year:

<TABLE>
<CAPTION>

| | Group | Company |
|---|---|---|

| | 1997 L'000 | 1996 L'000 | 1997 L'000 | 1996 L'000 |
|---|---|---|---|---|
| Obligations under finance leases | 430 | 290 | - | - |
| Bank loans and overdrafts | 6,749 | 9,155 | 6,542 | 3,798 |
| Trade creditors | 2,969 | 3,262 | 201 | 119 |
| Amounts owed to other group undertakings | - | - | 9,562 | 7,967 |
| Other creditors | | | | |
| - ACT | 73 | 602 | 52 | 602 |
| - VAT | 1,238 | 935 | - | - |
| - social security and PAYE | 438 | 436 | - | - |
| - other creditors | 1,975 | 2,448 | - | - |
| Proposed final dividend | - | 1,593 | - | 1,593 |
| Accruals and deferred income | 3,386 | 2,312 | 1,939 | 844 |
| | 17,258 | 21,033 | 18,296 | 14,923 |

</TABLE>

Included in accruals and deferred income is L465,000 in respect of deferred consideration relating to the company's investment in Stako (see note 13a).

17 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR
The following amounts are included in creditors falling due after more than one year:

<TABLE>
<CAPTION>

| | Group | | Company | |
|---|---|---|---|---|
| | 1997 L'000 | 1996 L'000 | 1997 L'000 | 1996 L'000 |
| Bank loans and overdrafts | 40,505 | 21,831 | 36,280 | 21,831 |
| Obligations under finance leases | 701 | 384 | - | - |
| | 41,206 | 22,215 | 36,280 | 21,831 |

</TABLE>

The company has loan facilities of L44,500,000 (1996 - L40,500,000) of which L42,100,000 (1996 - L26,500,000) were drawn down at the year end. These facilities comprise term loan facilities of L24,000,000, a revolving facility of L18,000,000 and an overdraft facility of L2,000,000. The term loans and revolving facilities bear interest at between 1.25% and 1.75% above LIBOR, and the overdraft at 1.25% over Base rate. All are secured by a first charge on the group's hotels and other assets and are subject to financial covenants.





17 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (CONTINUED)
In addition, the group has loan facilities in Italy of L8,600,000 (1996 - L4,751,000) of which L4,225,000 (1996 - L4,751,000) was drawn down at year end. These facilities are for the specific purpose of financing the group's interest in the Villa Saletta project. This loan is secured solely against the assets of this development project. 50% of it is guaranteed by the company.

In addition, at 31 December 1997 the company has entered into interest swap agreements which have fixed the LIBOR rate at 6.03% on borrowings of L3,400,000 and 7.71% on borrowings of L10,000,000 and an interest rate cap agreement at 7.5% on borrowings of L6,600,000.

ANALYSIS OF BORROWINGS
Borrowings, gross of issue costs, are repayable as follows:

<TABLE>
<CAPTION>

| Group | | Company | |
|---|---|---|---|
| 1997 L'000 | 1996 L'000 | 1997 L'000 | 1996 L'000 |

| | | | | | |
|---|---|---|---|---|---|
| Due within five years | | | | | |
| - within 1 year | - finance leases | 430 | 290 | - | - |
| | - bank loans | 6,842 | 9,180 | 6,842 | 3,823 |
| - within 1-2 years | - finance leases | 273 | 251 | - | - |
| | - bank loans | 5,141 | 5,000 | 5,000 | 5,000 |
| - within 2-5 years | - finance leases | 428 | 133 | - | - |
| | - bank loans | 32,345 | 17,000 | 31,500 | 17,000 |
| - more than 5 years | - bank loans | 3,239 | - | - | - |
| | | 48,698 | 31,854 | 43,342 | 25,823 |

Of this total, amounts due within one year are included within creditors due within one year.

18 MINORITY INTEREST

| | 1997 L'000 | 1996 L'000 |
|---|---|---|
| Beginning of year | 959 | 1,450 |
| (Loss) profit on ordinary activities after tax | (44) | 33 |
| Disposal of subsidiary | - | (358) |
| Purchase of minority interest | (10) | - |
| Exchange movement | (94) | (166) |
| End of year | 811 | 959 |

During the year the group acquired the remaining 10% of the share capital of Stone Development SA.

All minority interests relate to equity interests.





19 SHARE CAPITAL

| | 1997 L'000 | 1996 L'000 |
|---|---|---|
| AUTHORISED | | |
| 225,000,000 (1996 - 225,000,000) ordinary shares of 25p each | 56,250 | 56,250 |
| | 56,250 | 56,250 |
| ALLOTTED, CALLED-UP AND FULLY-PAID | | |
| 147,475,845 (1996 - 147,475,845) ordinary shares of 25p each | 36,869 | 36,869 |
| | 36,869 | 36,869 |

20 SHARE OPTIONS AND WARRANTS

Under the Arcadian International Plc Executive Share Option Scheme, adopted on 13 September 1988 and approved on 22 September 1988 by the Board of the Inland Revenue, a number of employees and directors held options to subscribe for ordinary shares in the company.

During the year 18,213 share options were cancelled, the holder having retired from the board and 259,870 new share options were issued. No share options were exercised during the year.

The total number of options issued to directors as at 31 December 1997 was 4,094,588 (1996 - 4,112,801). The number of share options issued to other employees as at 31 December 1997 was 1,812,811 (1996 - 1,552,941). These options were exercisable between June 1997 and November 2007 at a price of between 35p and 55p.

As part of the Clipper Hotel Limited acquisition in 1993 the company issued warrants to subscribe for 1,250,000 new ordinary shares at 75 pence per share at any time before 31 December 2000.

Upon the acquisition of the company by Patriot, the warrants were cancelled and all the share options were either exercised or cancelled for consideration. The aggregate net proceeds to the directors of such exercise and or cancellation was L866,000.



Notes to Account (Continued)

21 RESERVES

Of total reserves shown in the balance sheet as equity shareholders funds, the following amounts are regarded as distributable or otherwise:

<TABLE>
<CAPTION>

| | Company | |
|---|---|---|
| | 1997 L'000 | 1996 L'000 |
| DISTRIBUTABLE | | |
| - profit and loss account | 3,718 | 2,227 |
| NON-DISTRIBUTABLE | | |
| - share premium account | 13,392 | 13,392 |
| - goodwill write-off reserve | 1,750 | 1,750 |
| Total reserves | 18,860 | 17,369 |

</TABLE>

<TABLE>
<CAPTION>

| GROUP | Share premium account L'000 | Revaluation reserve L'000 | Capital reserve L'000 | Goodwill write-off reserve L'000 | Profit and loss account L'000 | Total L'000 |
|---|---|---|---|---|---|---|
| Beginning of year | 13,392 | 15,162 | 7,627 | (137) | 1,582 | 37,626 |
| Retained profit for the year | - | - | - | - | 1,791 | 1,791 |
| Exchange differences | - | - | - | - | (1,436) | (1,436) |
| Goodwill written off | - | - | (96) | (109) | - | (205) |
| Revaluation of fixed assets | - | 6,238 | - | - | - | 6,238 |
| End of year | 13,392 | 21,400 | 7,531 | (246) | 1,937 | 44,014 |

<CAPTION>

| COMPANY | Share premium account L'000 | Revaluation reserve L'000 | Capital reserve L'000 | Goodwill write-off reserve L'000 | Profit and loss account L'000 | Total L'000 |
|---|---|---|---|---|---|---|
| Beginning of year | 13,392 | - | - | 1,750 | 2,227 | 17,369 |
| Retained profit for the year | - | - | - | - | 1,491 | 1,491 |
| End of year | 13,392 | - | - | 1,750 | 3,718 | 18,860 |

</TABLE>

The cumulative amount of goodwill written off to reserves is L1,996,000 (1996 -

L1,887,000). The cumulative amount of discount on acquisition taken to capital reserve is L7,531,000 (1996 - L7,627,000)

Non equity preference share capital and accrued dividends were repaid on 31 December 1996.





22 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

| | Group | | Company | |
|---|---|---|---|---|
| | 1997 L'000 | 1996 L'000 | 1997 L'000 | 1996 L'000 |
| Profit for the financial year | 1,997 | 3,136 | 1,697 | 2,726 |
| Other recognised gains and losses relating to the year, net | 4,802 | 3,420 | - | - |
| | 6,799 | 6,556 | 1,697 | 2,726 |
| Ordinary dividends paid | (206) | (1,726) | (206) | (1,726) |
| Preference shares and dividends paid | - | (2,677) | - | (2,677) |
| Fair value adjustments on acquisition | - | 6,982 | - | - |
| Goodwill eliminated, (net) | (205) | (335) | - | - |
| New share capital subscribed, net | - | 15,192 | - | 15,192 |
| Net addition to shareholders' funds | 6,388 | 23,992 | 1,491 | 13,515 |
| Opening shareholders' funds | 74,495 | 50,503 | 54,238 | 40,723 |
| Closing shareholders' funds | 80,883 | 74,495 | 55,729 | 54,238 |

23 CASH FLOW INFORMATION
A) RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

| | 1997 L'000 | 1996 L'000 |
|---|---|---|
| Operating profit | 3,407 | 5,494 |
| Depreciation and amortisation | 1,358 | 1,218 |
| Increase in stocks | (3,067) | (2,216) |
| Increase in debtors | (70) | (1,406) |
| (Decrease) increase in creditors | (479) | 2,549 |
| Amortisation of grant income | - | (71) |
| NET CASH INFLOW FROM CONTINUING OPERATING ACTIVITIES | 1,149 | 5,568 |





23 CASH FLOW INFORMATION (CONTINUED)
B) ANALYSIS OF CASHFLOWS FOR HEADINGS NETTED IN THE CASHFLOW STATEMENT

| | 1997 L'000 | 1996 L'000 |
|---|---|---|
| RETURN ON INVESTMENT AND SERVICING OF FINANCE | | |

| | | |
|---|---|---|
| Interest received | 377 | 242 |
| Interest paid | (3,592) | (2,905) |
| Preference dividend paid | - | (677) |
| NET CASH OUTFLOW ON INVESTMENTS AND SERVICING OF FINANCE | (3,215) | (3,340) |
| Taxation | (581) | (115) |
| CASH OUTFLOW ON TAXATION | (581) | (115) |
| CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT | | |
| Purchase of tangible fixed assets | (7,022) | (2,657) |
| Disposal of tangible fixed assets | 1,857 | - |
| Purchase of investments | (1,554) | (289) |
| Loans to associates and other participating interests | (6,521) | (384) |
| NET CASH OUTFLOW FOR CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT | (13,240) | (3,330) |
| ACQUISITIONS AND DISPOSALS | | |
| Purchase of unincorporated business | - | (6,335) |
| Purchase of subsidiary | - | (9,814) |
| Cash and overdrafts acquired | - | 242 |
| Disposal of part interest in associated undertaken | - | 634 |
| NET CASH OUTFLOW ON ACQUISITIONS AND DISPOSALS | - | (15,273) |
| FINANCING | | |
| Issue of ordinary share capital | - | 16,587 |
| Issue costs | - | (810) |
| Redemption of preference share capital | - | (2,000) |
| Debt due within a year | | |
| - increase in borrowings | - | 4,692 |
| - repayment of borrowings | (5,818) | (6,976) |
| Debt beyond a year | | |
| - increase in borrowings | 23,725 | 22,000 |
| - repayment of borrowings | - | (15,856) |
| Capital element of finance lease rental payments | (370) | (177) |
| Proceeds of sale and lease back agreements | 682 | - |
| NET CASH INFLOW FROM FINANCING | 18,219 | 17,460 |

</TABLE>



Notes to Account (Continued)

23 CASH FLOW INFORMATION (CONTINUED)

c) ANALYSIS OF NET DEBT

<TABLE>
<CAPTION>

| | At 31 December 1996 L'000 | Cashflow L'000 | Other (non-cash) L'000 | Exchange movement L'000 | At 31 December 1997 L'000 |
|---|---|---|---|---|---|
| Cash | 2,362 | (941) | - | - | 1,421 |
| Overdraft | (3,316) | 1,474 | - | - | (1,842) |
| INCREASE IN CASH IN THE YEAR | | 533 | | | |
| Debt within a year | (5,914) | 5,818 | (5,000) | 96 | (5,000) |
| Debt after a year | (22,000) | (23,725) | 5,000 | - | (40,725) |
| Finance leases | (674) | (312) | (145) | - | (1,131) |
| CASH INFLOW FROM DEBT | | (18,219) | | | |
| | (29,542) | (17,686) | (145) | 96 | (47,277) |

</TABLE>

d) MAJOR NON-CASH TRANSACTIONS
i) During the year the group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of L145,000 (1996 - L657,000).

ii) During the year the group acquired land relating to the Chateau de Bessy development project through the forgiveness of Ffr 7.7m receivable.

24 ACQUISITIONS
a) EFFECT OF ACQUISITIONS ON THE GROUP CASH FLOW
i) Analysis of the net outflow of cash and cash equivalents in respect of the purchase of subsidiary undertakings.

<TABLE>
<CAPTION>

| <S> | 1997 L'000 <C> | 1996 L'000 <C> |
|---|---|---|
| Cash consideration | - | (10,430) |
| Cash at bank and in hand acquired | - | 242 |
| Bank overdrafts of acquired subsidiary undertakings | - | - |
| Amounts not yet paid | - | 616 |
| Net cash outflow in respect of subsidiary undertakings | - | (9,572) |

</TABLE>



Notes to Account (Continued)

24 ACQUISITIONS (CONTINUED)
b) EFFECT OF ACQUISITIONS ON THE GROUP CASH FLOW (CONTINUED)
ii) Analysis of the net outflow of cash and cash equivalents in respect of the purchase of unincorporated businesses.

<TABLE>
<CAPTION>

| <S> | 1997 L'000 <C> | 1996 L'000 <C> |
|---|---|---|
| Cash consideration | - | (6,553) |
| Amounts paid in prior year | - | 218 |
| Net cash outflow in respect of unincorporated businesses | - | (6,335) |

</TABLE>

25 DISPOSALS
a) BUSINESSES DISPOSED
On 4 March 1997 the group disposed of the Hunstrete House Hotel, near Bath, for a consideration of L1,860,000.

b) EFFECT OF DISPOSALS ON GROUP CASH FLOW

<TABLE>
<CAPTION>

| <S> | 1997 L'000 <C> | 1996 L'000 <C> |
|---|---|---|
| Cash | 1,860 | - |
| Disposal costs | (3) | - |
| Total consideration | 1,857 | - |

</TABLE>

The business sold during the year contributed Lnil (1996 - L60,000) to the group's net operating cashflow.

26 GUARANTEES AND OTHER FINANCIAL COMMITMENTS

a) CAPITAL COMMITMENTS

At the end of the year, capital commitments contracted for but not provided for were L150,000 (1996 - L1,930,000).

b) CONTINGENT LIABILITIES

i) The group has a 25% shareholding in Hotel Gressy SNC ("Gressy") through a subsidiary undertaking, Arcadian France S.A. The shareholders of Gressy are jointly and severally liable in respect of the liabilities of Gressy to the extent that such liabilities are not met from the assets of Gressy. Gross liabilities of Gressy, as at 31 December 1997 amounts to FFR 69,000,000. Arcadian France S.A. is a limited liability undertaking which has as its only assets an investment in Gressy and amounts receivable from Gressy.





26 GUARANTEES AND OTHER FINANCIAL COMMITMENTS (CONTINUED)

b) CONTINGENT LIABILITIES (CONTINUED)

Within the above amount the company has guaranteed leasing obligations of approximately FFR 2,250,000 Worms et Cie. the joint venture partner, has given a similar guarantee and arrangements are in place between the company and Worms et Cie. pursuant to which the respective liabilities of the company and Worms et Cie. are limited to 38% and 62% respectively of the amount guaranteed. The directors are of the opinion that no provision should be made in respect of this contingent liability.

The group has granted an option to the joint venture partner in Gressy, exercisable January 1999, to require the group to buy the partner's 75% shareholding in Gressy, together with the current account balance at that time, for a fixed consideration of Ffr 40,000,000 million payable in whole or in part in either cash or shares in the company, at the group's election. The directors' are of the opinion that, due to the uncertainty regarding the exercise of this option, it is inappropriate to recognise a liability in respect of this option.

ii) At the balance sheet date the company's directors and certain senior executives had interests in a long term incentive scheme. These interests are triggered in the event of a takeover of the company. The amount payable is based on the difference between the takeover share price and the price at which the interests in the scheme are granted. Following the acquisition by Patriot a payment of L1,180,000 was made under this scheme (see note 1a)).

iii) The company has provided two forms of guarantee to Malmaison Limited's senior lenders. The first relates to the overrun of construction costs of the hotels and is limited to the repayment of Malmaison Limited's senior debt of L9.5 million plus accrued interest thereon. The second relates to the repayment of L1.5 million of principal of the senior debt in the period to 31 December 1999 and the payment of any interest on the senior debt in that period. Should either guarantee be called, the company would be issued with additional `A' loan stock in Malmaison Limited with a preferred return.

iv) The group entered into an agreement with Malmaison Limited on 19 November 1996 under which it agreed to provide a committed subordinated loan facility of L5,750,000 and a committed revolving credit facility of up to L500,000. The loan facility is to be repaid on 31 December 2006 and the revolving credit facility on 31 December 1999. As at year end L3,000,000 (1996 - Lnil) was outstanding under this agreement (see note 13).





26 GUARANTEES AND OTHER FINANCIAL COMMITMENTS (CONTINUED)

b) CONTINGENT LIABILITIES (CONTINUED)

v) The company has granted to certain holders of A loan stock issued by Malmaison Limited the right to require the company to purchase 50%, (or on change of control of the company, 100%) of the A loan stock held by them (amounting to L4,440,000 together with any unpaid interest). The company has the option to settle the consideration in cash or by the issue of ordinary shares in the company or a combination of both. In the event of the allotment of ordinary shares the number to be issued is limited to 19.7 million at market price subject to a minimum of 40p per share.

Patriot purchased all of the outstanding loan stock in Malmaison Limited on 8 April 1998.

vi) Great Eastern Hotel Company Limited
The Great Eastern Hotel Company Limited ("Great Eastern"), of which the company owns 50% of the issued share capital, entered into an agreement to take a 125 year lease of the Great Eastern Hotel in the City of London from a subsidiary of The British Land Company plc ("British Land") which has itself a similar agreement to take a lease of the hotel from Railtrack Plc.

As part of the agreement British Land undertakes to provide L30,000,000 of funding towards Great Eastern's redevelopment costs. The company and its joint venture partner, Conran Holdings Limited ("Conran"), have jointly and severally guaranteed Great Eastern's performance of its redevelopment obligations to British Land and the company's liability under this performance guarantee is capped at L16,500,000. This figure is reduced by the amount of equity and loan stock funding to be provided by the company for the purpose of the redevelopment of up to L6,500,000. At the balance sheet date L3,082,000 had been funded (1996 - Lnil).

c) LEASE COMMITMENTS
The group has entered into non-cancellable operating leases in respect of property and hire purchase contracts in respect of furniture, fittings and equipment, the payments for which extend over a period of up to five years. The rents payable under the operating leases are subject to renegotiation at intervals specified in the leases. The group pays all insurance, maintenance and repairs of the properties so leased.



Notes to Account (Continued)

26 GUARANTEES AND OTHER FINANCIAL COMMITMENTS (CONTINUED)
c) LEASE COMMITMENTS (CONTINUED)
The minimum annual rentals under the foregoing leases are as follows:

<TABLE>
<CAPTION>

| | Group | | Company | |
|---|---|---|---|---|
| | 1997 L'000 | 1996 L'000 | 1997 L'000 | 1996 L'000 |
| <S> | <C> | <C> | <C> | <C> |
| Operating leases which expire | | | | |
| - within 1 year | 70 | 69 | 33 | 40 |
| - within 2-5 years | 147 | 105 | 57 | 67 |
| - after 5 years | 165 | 199 | 100 | 100 |
| | 382 | 373 | 190 | 207 |

</TABLE>

L279,000 (1996 - L134,000) of the above minimum annual rentals has been either sub-let in full to third parties or provided for as a shortfall in the sub-lease paid by those third parties.

There are no commitments in respect of finance leases entered into before 31 December 1997 but due to commence after that date.

27 RELATED PARTY TRANSACTIONS
The nature of the group's investment in its associated undertakings is set out in note 13. The group had the following transactions with these associate undertakings, all of which were rendered on commercial terms were as follows:

a) MALMAISON

<TABLE>
<CAPTION>

| <S> | 1997 L'000 | 1996 L'000 |
| --- | --- | --- |
| Management fees | 471 | 229 |
| Loan stock interest | 917 | 70 |
| Mezzanine debt interest | 423 | - |
| Finders fees | 350 | 500 |
| Finance facility arrangement fee | 150 | - |
| | ---------- | ---------- |
| | ---------- | ---------- |

</TABLE>

Finders fees were charged in respect of the identification, and negotiation to purchase land sites.

Subsequent to the balance sheet date Malmaison became a subsidiary of the company (see note 1b).





27 RELATED PARTY TRANSACTIONS (CONTINUED)

b) GRESSY

<TABLE>
<CAPTION>

| <S> | 1997 L'000 | 1996 L'000 |
| --- | --- | --- |
| Management fees | 136 | 62 |
| | ---------- | ---------- |
| | ---------- | ---------- |

c) GREAT EASTERN

<CAPTION>

| <S> | 1997 L'000 | 1996 L'000 |
| --- | --- | --- |
| Project development fees | 50 | 50 |
| Loan stock interest | 94 | - |
| | ---------- | ---------- |
| | ---------- | ---------- |

</TABLE>



Malmaison Limited
and subsidiary undertakings

Non-statutory financial statements 31 December 1997
together with auditors' report
Registered number: 3141385



Auditors' report

TO THE SHAREHOLDERS OF MALMAISON LIMITED:

We have audited the accounts on pages 2 to 21 which have been prepared under the historical cost convention as modified by the revaluation of hotels and the accounting polices set out on pages 6 to 8. As explained in Note 2, the accounts have not been prepared for the purposes of Section 226 of the Companies Act 1985 and are therefore not statutory accounts.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with UK Auditing Standards issued by the Auditing Practices Board which are substantially consistent with generally accepted auditing standards in the US, for which purpose our report is dual-dated in respect of Note 1. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's and the group'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 accounts 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 accounts.

PARENT COMPANY FINANCIAL SUPPORT

In forming our opinion we have considered the adequacy of the disclosures made in Note 1 of the accounts concerning the uncertainty regarding the future financing of Patriot American Hospitality Inc, on whose continued financial support the company and group depend. In view of the significance of this uncertainty we consider that it should be drawn to your attention, but our opinion is not qualified in this respect.

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the group as at 31 December 1997 and of the group's loss and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985 as would have applied if they had been statutory accounts.

Arthur Andersen
Chartered Accountants and Registered Auditors

1 Surrey Street
London
WC2R 2PS

17 July 1998 (except with respect to the matter discussed in Note 1, as to which the date is 24 March 1999).



Consolidated profit and loss account
For the year ended 31 December 1997

<TABLE>
<CAPTION>

| | Notes | Year ended 31 December 1997 L'000 | 53 week period ended 31 December 1996 L'000 |
|---|---|---|---|
| <S> | <C> | <C> | <C> |
| TURNOVER | 3 | 2,687 | 168 |
| Cost of sales | | (1,245) | (81) |
| GROSS PROFIT | | 1,442 | 87 |
| Administration expenses (net) | | (1,098) | (71) |
| OPERATING PROFIT | 3 | 344 | 16 |
| Investment income | 4 | 69 | 8 |
| Interest payable and similar charges | 4 | (1,371) | (114) |
| LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION | 5 | (958) | (90) |
| Tax on loss on ordinary activities | 7 | - | - |
| LOSS ON ORDINARY ACTIVITIES AFTER TAXATION | | (958) | (90) |
| RETAINED LOSS FOR THE PERIOD | | (958) | (90) |

| | | |
|---|---|---|
| RETAINED LOSS FOR THE PERIOD | | |
| The company | (22) | (30) |
| Group undertakings | (936) | (60) |
| | (958) | (90) |

</TABLE>

All operations of the group continued throughout both periods and no operations were acquired or discontinued.

Consolidated statement of total recognised gains and losses
For the year ended 31 December 1997

<TABLE>
<CAPTION>

| <S> | Year ended 31 December 1997 L'000 <C> | 53 week period ended 31 December 1996 L'000 <C> |
|---|---|---|
| LOSS FOR THE PERIOD | (958) | (90) |
| Unrealised surplus on revaluation of fixed assets | 2,791 | - |
| TOTAL RECOGNISED GAINS AND LOSSES FOR THE PERIOD | 1,833 | (90) |

</TABLE>

A statement of movements on reserves is given in note 16.

The accompanying notes are an integral part of these statements.



Balance sheets
31 December 1997

<TABLE>
<CAPTION>

| | | Group | | Company | |
|---|---|---|---|---|---|
| <S> | Notes <C> | 1997 L'000 <C> | 1996 L'000 <C> | 1997 L'000 <C> | 1996 L'000 <C> |
| FIXED ASSETS | | | | | |
| Intangible assets | 8 | 1,525 | 1,274 | - | - |
| Tangible assets | 9 | 33,253 | 8,851 | 141 | - |
| Investments | 10 | - | - | 4,904 | 4,960 |
| | | 34,778 | 10,125 | 5,045 | 4,960 |
| CURRENT ASSETS | | | | | |
| Stocks | 11 | 67 | 13 | - | - |
| Debtors | 12 | 2,181 | 959 | 11,276 | 5,100 |
| Cash at bank and in hand | | 908 | 1,068 | 3,237 | 961 |
| | | 3,156 | 2,040 | 14,513 | 6,061 |
| CREDITORS: Amounts falling due within one year | 13 | (7,032) | (1,405) | (3,160) | (201) |
| NET CURRENT (LIABILITIES) ASSETS | 1a | (3,876) | 635 | 11,353 | 5,860 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 30,902 | 10,760 | 16,398 | 10,820 |
| CREDITORS: Amounts falling due after more than one year | 14 | (28,985) | (10,688) | (16,276) | (10,688) |
| NET ASSETS | | 1,917 | 72 | 122 | 132 |
| CAPITAL AND RESERVES | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Called-up share capital | 15 | 174 | 162 | 174 | 162 |
| Profit and loss account | 16 | (1,048) | (90) | (52) | (30) |
| Revaluation reserve | 16 | 2,791 | - | - | - |
| TOTAL EQUITY SHAREHOLDERS' FUNDS | 17 | 1,917 | 72 | 122 | 132 |

</TABLE>

SIGNED ON BEHALF OF THE BOARD

Director

The accompanying notes are an integral part of these balance sheets.

MALMAISON LIMITED



Cash flow statement
For the year ended 31 December 1997

<TABLE>
<CAPTION>

| <S> | Notes <C> | Year ended 31 December 1997 L'000 <C> | 53 weeks Period ended 31 December 1996 L'000 <C> |
|---|---|---|---|
| Net cash inflow (outflow) from operating activities | 18a | 1,205 | (206) |
| Returns on investments and servicing of finance | 18b | (1,231) | 8 |
| Capital expenditure and financial investment | 18b | (18,052) | (2,978) |
| Acquisitions | 18b | (247) | (757) |
| Cash outflow before financing | | (18,325) | (3,933) |
| Financing | | | |
| - issue of shares | 18b | - | 103 |
| - increase in debt | 18b | 18,165 | 4,898 |
| (DECREASE) INCREASE IN CASH IN THE PERIOD | 18c | (160) | 1,068 |

</TABLE>

Reconciliation of net cash flow to movement in net debt
For the year ended 31 December 1997

<TABLE>
<CAPTION>

| <S> | Notes <C> | Year ended 31 December 1997 L'000 <C> | 53 weeks Period ended 31 December 1996 L'000 <C> |
|---|---|---|---|
| (Decrease) increase in cash in the period | | (160) | 1,068 |
| Cash inflow from increase in debt | 18c | (18,165) | (4,898) |
| Change in debt resulting from cash flows | | (18,325) | (3,830) |
| Undistributed loan stock | | - | (1,238) |
| Loan stock issued for non-cash consideration | | - | (4,340) |
| New finance leases | 18c | (238) | - |
| Movement in net debt in the period | | (18,563) | (9,408) |
| NET DEBT AT START OF YEAR | | (9,408) | - |
| NET DEBT AT END OF YEAR | 18c | (27,971) | (9,408) |

</TABLE>

The accompanying notes are an integral part of these statements.

MALMAISON LIMITED



Notes to accounts
For the year ended 31 December 1997

1 NET CURRENT LIABILITY POSITION AND SUBSEQUENT EVENTS

(a) The net current liabilities of the group at 31 December 1997 are L3,876,000 (1996 - net assets L635,000). Arcadian International Limited has confirmed its intention of providing continued financial support to the group to enable it to meet its liabilities as they fall due, for a period of at least twelve months from the date of signing these accounts. Patriot American Hospitality Inc ("Patriot") has confirmed its intention of providing continued financial support to Arcadian International Limited to enable Arcadian to meet its liabilities as they fall due, for a period of twelve months from 22 July 1998. As described in (e) below, there is uncertainty regarding the future financing of Patriot which may impact its ability to provide continued financial support to the group.

(b) On 18 March 1998 the company acquired the trade and assets of the Malmaison Hotel in Edinburgh for a cash consideration of L4,949,000 for which the company had paid a deposit of L247,500 before year end. MHM Limited, a related company (see note 20c), held a management contract with this hotel.

(c) On 8 April 1998 Arcadian International Limited ("Arcadian"), acquired all the outstanding share capital and loan stock in the company not already owned by Arcadian. Outstanding warrants and deferred shares were also acquired together with all rights to the accrued interest on the loan stock. The management contract with the Malmaison Management Limited was terminated on the same day.

(d) Patriot is a US Real Estate Investment Trust or `REIT' whose shares are paired and trade as a single unit with those of Wyndham International, Inc. (`Wyndham'). Subsequent to the transaction, the trading stock and business of the group's hotels was sold to the Wyndham group for book value at the transaction dates. The group continues to own the freehold interests in the hotels which have been leased to Wyndham's subsidiary, Malmaison Hotels Limited.

(e) In their Joint Quarterly Report on Form 10-Q for the quarterly period ended 30 June 1998, dated 14 August 1998, Patriot and Wyndham (the "Companies") reported, among other things, that expenses related to the rapid pace of acquisitions during the first six months of 1998, coupled with the Companies' operating expenses and capital expenditures and development programmes, had resulted in Patriot being fully drawn of all available funds under the existing Revolving Credit Facility as of 14 August 1998. The Companies further stated that, while they were then negotiating to obtain additional bank financing and other additional sources of capital, if the Companies were unable to secure additional sources of financing in the future, no assurances could be made that a future lack of financing sources would not have a material adverse effect on the Companies' financial condition and results of operations. In their subsequent Joint Quarterly Report on Form 10-Q for the quarterly period ended 30 September 1998, dated 20 November 1998, the Companies reiterated that if the Companies were unable to secure additional sources of financing in the future, were unable to successfully refinance existing indebtedness, or were unable to obtain amendments to existing convenants under the Revolving Credit Facility, no assurance could be made that the Companies would be able to meet their financial obligations as they come due without substantial dilution of assets outside the ordinary course of business, restructuring of debt, externally forced revisions of its operations or similar actions. The Companies also reiterated no assurances could be given that the lack of future financing sources would not have a material adverse effect on the Companies' financial condition and results of operations.





1 NET CURRENT LIABILITY POSITION AND SUBSEQUENT EVENTS (CONTINUED)

On 4 February 1999 the Companies filed a Current Report on Form 8-K which described amendments to its credit facility and forward equity arrangements. Under the amended terms of Patriot's $2.7 billion credit facility (and as a result of the events announced on 1 March 1999 as described below) the maturities of the $350 million payment due 31 January 1999 and the $400 million payment due 31 March 1999 were extended until 30 June 1999.

On 1 March 1999, the Companies filed a Current Report on Form 8-K which included an announcement by the Companies that Patriot had entered into a definitive securities purchase agreement with a group of investors (the "Investors") providing for a $1 billion convertible preferred stock investment in the Companies. The Investors will own an approximate 29% interest in the Companies, assuming full subscription to a planned rights offering of $300 million of convertible preferred stock which would reduce the Investors' investment commensurately. The Boards of the Companies have unanimously approved the combination of the two companies (the "Restructuring") and conversion from a paired share real estate investment trust ("REIT") structure to a C Corporation pursuant to a restructuring plan. Under the terms of the restructuring plan, a newly formed subsidiary of Wyndham, a C Corporation, will be merged into Patriot, a REIT, as a result of which Patriot will become a wholly owned subsidiary of Wyndham.

The equity investment and the Restructuring are subject to stockholder approval and both are currently expected to be completed by 30 June 1999. The equity investment is also subject to antitrust clearance and certain other conditions and consents.

2 ACCOUNTING POLICIES

A summary of the principal accounting policies is set out below. All accounting policies have been applied consistently throughout the year and during the preceding period.

a) ACCOUNTING CONVENTION

The accounts are prepared under the historical cost convention, modified to include the revaluation of hotels, and in accordance with applicable accounting standards except in relation to the absence of provision for the depreciation of freehold and long leasehold buildings, as set out in d) below. The accounts are not statutory accounts.

b) BASIS OF CONSOLIDATION

The group accounts consolidate the accounts of Malmaison Limited and all its subsidiary undertakings to 31 December 1997. The acquisition method of accounting has been adopted whereby the results of subsidiary undertakings acquired or disposed of in the period are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal. Goodwill arising on consolidation or on the acquisition of a business (representing the excess of the fair value of the consideration given over the fair view of the separable net assets acquired) is capitalised and amortised over a 20 year period. Any excess of the aggregate of the fair value of the separable net assets acquired over the fair value of the consideration given is credited directly to reserves.





2 ACCOUNTING POLICIES (CONTINUED)

No profit and loss account is presented for Malmaison Limited, as provided by section 230 of the Companies Act 1985. The company's loss for the year, determined in accordance with the Act, was L22,000 (1996 - L30,000)

In the company's accounts, investments in subsidiary undertakings are stated at cost less amounts written off. Only interest and dividends received or receivable are credited to the company's profit and loss account.

c) INTANGIBLE FIXED ASSETS

(i) The Malmaison brand is carried at cost less amounts written off. Provision is made for any permanent diminution in value. The directors having considered the residual value and useful economic life of the brand, believe any provision for amortisation would not be material.

(ii) Pre-opening and marketing expenses incurred up to the commencement of full trading by hotels are deferred and written off over three years.

Freehold hotel properties and hotel properties on leases with 25 years or more to run at the balance sheet date are revalued periodically and the resultant valuation is included in the balance sheet unless the surplus or deficit is immaterial. Where a material surplus or deficit arises, this is taken to the revaluation reserve to the extent available. Any permanent diminution in the value of such properties is charged to the profit and loss account.

d) TANGIBLE FIXED ASSETS (CONTINUED)

In accordance with normal practice within the hotel industry, no depreciation is provided on freehold hotel properties or on hotel properties on leases with 25 years or more to run at the balance sheet date. The group's properties are maintained at all times in sound condition and to a high standard. Accordingly, the directors are of the opinion that the length of lives and residual values (based on prices prevailing at the time of acquisition or subsequent valuation) of these properties are such that any provision for depreciation would not be material.

Work in progress comprises hotel development sites in the course of construction. It is stated at cost, which represents the cost of land, contractors' costs, professional fees, interest and an allocation of other direct and project overheads. Costs are capitalised from the date on which the group acquires an interest in a development site.

Interest on capital employed on land under development and on the cost of construction of hotels incurred until these projects are completed may, where appropriate, be capitalised as part of the costs of construction.

Depreciation is provided on a straight line basis over the following periods:

| | |
|---|---|
| Office equipment | 4 years |
| Furniture, fittings and equipment | 5-10 years |
| Plant and machinery | 10-15 years |

e) FIXED ASSET INVESTMENTS

Investments are shown at cost less amounts written off. Provision is made for any permanent diminution in value.





2 ACCOUNTING POLICIES (CONTINUED)

f) STOCKS

Stocks are valued at the lower of cost and net realisable value.

g) TAXATION

Corporation tax payable is provided on taxable profits at the current rate.

The taxation liabilities of certain group companies are reduced wholly or in part by the surrender of losses by fellow group companies.

Deferred taxation has been calculated on the liability method. Deferred taxation is provided on timing differences which will probably reverse, at the rates of tax likely to be in force at the time of reversal. Deferred tax is not provided on timing differences which, in the opinion of the directors, will probably not reverse.

h) TURNOVER

Turnover comprises amounts receivable for goods and services provided, net of VAT and similar sales taxes.

i) LEASES

Assets held under finance leases are initially reported at the fair value of the asset, with an equivalent liability categorised under creditors due within or after one year as appropriate. The asset is depreciated over the shorter of the lease term or its useful economic life. Finance charges are allocated to accounting periods over the period of the lease to produce a constant rate of return on the outstanding balance. Rentals are apportioned between finance charges and reduction of the liability. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful economic lives.

Rentals under operating leases are charged on a straight-line basis over the lease term and commitments are provided for in the balance sheet at the time the rental payments fall due.

j) GOVERNMENT GRANTS

Government grants relating to tangible fixed assets are treated as deferred income and credited to the profit and loss account by equal instalments over the period to which the grant relates. Where any grant repayments are required under the terms of the grant, such repayments are recorded in the profit and loss account in the period to which they relate.

k) CAPITAL INSTRUMENTS

Capital instruments are classified as liabilities if they contain an obligation to transfer economic benefit and if they are not included in shareholders' funds. Capital instruments are initially stated at the amount of the net proceeds after the deduction of issue costs. The finance cost recognised in the profit and loss account in respect of capital instruments other than equity shares is calculated so as to give a constant rate of return on the outstanding balance.

3 SEGMENT INFORMATION

All of the group's turnover and operating profit arise from the operation of hotels, all of which are in the UK.





4 INVESTMENT INCOME AND INTEREST PAYABLE

<TABLE>
<CAPTION>

| | Year ended 31 December 1997 L'000 | 53 week period to 31 December 1996 L'000 |
|---|---|---|
| Investment income comprises: | | |
| - interest on cash at bank | 69 | 8 |
| Interest payable comprises | | |
| - subordinated loan stock | 2,275 | 212 |
| - senior debt | 326 | - |
| - mezzanine debt | 409 | - |
| | 3,010 | 212 |
| Less interest capitalised | (1,639) | (98) |
| | 1,371 | 114 |

</TABLE>

5 LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

Loss on ordinary activities before taxation is stated after charging/(crediting):

<TABLE>
<CAPTION>

| | Year ended 31 December 1997 L'000 | 53 week period to 31 December 1996 L'000 |
|---|---|---|
| Staff costs (note 6) | 723 | 41 |
| Amortisation and amounts written off | | |
| - goodwill | 22 | 4 |

| | | |
|---|---|---|
| - pre-opening expenses | 65 | 5 |
| Depreciation of tangible fixed assets | | |
| - owned | 81 | 6 |
| - held under hire purchase contracts and finance leases | 26 | - |
| Amortisation of grants | (10) | - |
| Auditors remuneration | | |
| - audit services | 35 | 16 |
| | ---------- | ---------- |

</TABLE>





6 STAFF COSTS

Particulars of employees (including executive directors) are shown below:

<TABLE>
<CAPTION>

| <S> | Year ended 31 December 1997 L'000 <C> | 53 week period to 31 December 1996 L'000 <C> |
|---|---|---|
| Employee costs during the period amounted to: | | |
| Wages and salaries | 673 | 37 |
| Social security costs | 50 | 4 |
| | ---------- | ---------- |
| | 723 | 41 |
| | ---------- | ---------- |

</TABLE>

The average monthly number of persons employed by the group for the periods were as follows:

<TABLE>
<CAPTION>

| <S> | 1997 Number <C> | 1996 Number <C> |
|---|---|---|
| Hotel operations | 65 | 38 |
| Administration | 2 | 2 |
| | ---------- | ---------- |
| | 67 | 40 |
| | ---------- | ---------- |

</TABLE>

Directors' remuneration:

No director received any remuneration for their services to any group company during the year.

7 TAX ON LOSS ON ORDINARY ACTIVITIES

There is no taxable profit in the current year, and accordingly, no charge to tax arises.

A potential liability on deferred chargeable gains of L1,300,000 (1996 - L450,000) exists following the revALuation of property. In addition a further L240,000 (1996 - L63,000) of deferred tax liabilities is present within the group. These amounts are unprovided for due to the existence of brought forward tax losses. Such losses may be relieved only against future trading profits.





8 INTANGIBLE FIXED ASSETS

The movement in the year was as follows:

<TABLE>
<CAPTION>

| Group | Brand L'000 | Goodwill L'000 | Pre-opening expenses L'000 | Total L'000 |
|---|---|---|---|---|
| COST | | | | |
| Beginning of year | 800 | 436 | 47 | 1,283 |
| Additions | - | - | 394 | 394 |
| Adjustment of goodwill (see note 10) | - | (56) | - | (56) |
| End of year | 800 | 380 | 441 | 1,621 |
| AMOUNTS WRITTEN OFF | | | | |
| Beginning of year | - | 4 | 5 | 9 |
| Amortisation | - | 22 | 65 | 87 |
| End of year | - | 26 | 70 | 96 |
| NET BOOK VALUE | | | | |
| Beginning of year | 800 | 432 | 42 | 1,274 |
| End of year | 800 | 354 | 371 | 1,525 |

</TABLE>



Notes to accounts (continued)

9 TANGIBLE FIXED ASSETS

The movement in the year was as follows:

<TABLE>
<CAPTION>

| | Freehold land and buildings L'000 | Work in progress L'000 | Furniture, fixtures & equipment L'000 | Total L'000 |
|---|---|---|---|---|
| GROUP | | | | |
| COST OR VALUATION | | | | |
| Beginning of year | 3,058 | 5,410 | 389 | 8,857 |
| Additions | 8,799 | 10,958 | 1,961 | 21,718 |
| Reclassification | 3,055 | (3,055) | - | - |
| Revaluations | 2,791 | - | - | 2,791 |
| End of year | 17,703 | 13,313 | 2,350 | 33,366 |
| At valuation | 17,703 | - | - | 17,703 |
| At cost | - | 13,313 | 2,350 | 15,663 |
| DEPRECIATION | | | | |
| Beginning of year | - | - | 6 | 6 |
| Charge | - | - | 107 | 107 |
| End of year | - | - | 113 | 113 |
| NET BOOK VALUE | | | | |
| Beginning of year | 3,058 | 5,410 | 383 | 8,851 |
| End of year | 17,703 | 13,313 | 2,237 | 33,253 |
| LEASED ASSETS AND ASSETS HELD ON FINANCE LEASES INCLUDED IN THE ABOVE: | | | | |
| NET BOOK VALUE | | | | |
| BEGINNING OF YEAR | - | - | - | - |

| | | | | |
|---|---|---|---|---|
| END OF YEAR | - | - | 212 | 212 |

</TABLE>

Additions to work in progress include interest capitalised of L1,639,000 (1996 - L98,000). Cumulative interest capitalised included in the cost of tangible fixed assets amounts to L1,737,000 (1996 - L98,000).

Freehold properties are included at valuation. The valuations were carried out by Edward Symmons (Hotel & Leisure) Limited, Chartered Surveyors, on an open market value at 31 December 1997 for existing use basis, inclusive of fittings and equipment and with the benefit of licences where applicable during the year. The valuations are recorded after deducting the net book value of fittings and equipment is recorded against freehold land and buildings. Additions made subsequent to the valuations are recorded at cost.

On a historical cost basis, the net book amount of tangible fixed assets at 31 December 1997 would be L30,462,000, and the depreciation charge would not be materially different.





9 TANGIBLE FIXED ASSETS (CONTINUED)

<TABLE>
<CAPTION>

| COMPANY | Work in progress L'000 |
|---|---|
| COST | |
| Beginning of year | - |
| Additions | 141 |
| End of year | 141 |

</TABLE>

10 FIXED ASSET INVESTMENTS

<TABLE>
<CAPTION>

| | Company 1997 L'000 | 1996 L'000 |
|---|---|---|
| Subsidiary undertakings | 4,904 | 4,960 |

</TABLE>

The movement in the year relates to actual professional fees being less than estimated on the subsidiaries acquired in 1996. In the group accounts, goodwill has been reduced accordingly (see note 8).

a) PRINCIPAL GROUP INVESTMENTS

The principal subsidiary undertakings are shown below:

<TABLE>
<CAPTION>

| SUBSIDIARY UNDERTAKINGS | Country of incorporation and operation | Principal Activity | Proportion of ordinary share capital and voting rights held by the group |
|---|---|---|---|
| The Malmaison Hotel (Glasgow) Limited | Scotland | Hotel operations | 100% |
| The Malmaison Hotel (Newcastle) Limited | England | Hotel operations | 100% |
| The Malmaison Hotel (Manchester) Limited | England | Hotel operations | 100% |
| The Malmaison Hotel (Leeds) Limited | England | Hotel operations | 100% |
| Malmaison Brand Limited | Scotland | Brand ownership | 100% |

</TABLE>

b) ACQUISITION OF SUBSIDIARY UNDERTAKINGS

On 15 April 1997 the company formed The Malmaison Hotel (Leeds) Limited.





11 STOCKS

<TABLE>
<CAPTION>

| | Group | |
|---|---|---|
| | 1997 | 1996 |
| | L'000 | L'000 |
| <S> | <C> | <C> |
| Hotel operating stocks | 67 | 13 |

</TABLE>

12 DEBTORS

<TABLE>
<CAPTION>

| | Group | | Company | |
|---|---|---|---|---|
| | 1997 | 1996 | 1997 | 1996 |
| | L'000 | L'000 | L'000 | L'000 |
| <S> | <C> | <C> | <C> | <C> |
| Amounts falling due within one year: | | | | |
| Trade debtors | 287 | 34 | - | - |
| Amounts owed by subsidiary undertakings | - | - | 10,646 | 4,743 |
| VAT | 507 | 590 | 273 | 357 |
| Other debtors | 1,251 | 27 | 256 | - |
| Prepayments and accrued income | 136 | 14 | 101 | - |
| Prepaid facility fees | - | 294 | - | - |
| | 2,181 | 959 | 11,276 | 5,100 |

</TABLE>

Included in other debtors above is L247,500 relating to a deposit made by the company on the acquisition of the Malmaison hotel in Edinburgh (see note 1b).

13 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

<TABLE>
<CAPTION>

| | Group | | Company | |
|---|---|---|---|---|
| | 1997 | 1996 | 1997 | 1996 |
| | L'000 | L'000 | L'000 | L'000 |
| <S> | <C> | <C> | <C> | <C> |
| Bank loans and Senior debt | 550 | - | - | - |
| Trade creditors | 1,447 | 448 | 202 | 49 |
| Accrued interest | 2,677 | - | 2,677 | - |
| Other creditors | 197 | 19 | - | 12 |
| VAT | 34 | - | - | - |
| Grants | 564 | - | - | - |
| Accruals and deferred income | 1,563 | 938 | 281 | 140 |
| | 7,032 | 1,405 | 3,160 | 201 |

</TABLE>

14 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

<TABLE>
<CAPTION>

| | Group | | Company | |
|---|---|---|---|---|
| | 1997 | 1996 | 1997 | 1996 |
| | L'000 | L'000 | L'000 | L'000 |
| <S> | <C> | <C> | <C> | <C> |
| Senior debt | 10,602 | - | - | - |
| Mezzanine debt | 3,000 | - | 3,000 | - |
| Subordinated debt | 13,276 | 10,476 | 13,276 | 10,476 |

| | | | | |
|---|---|---|---|---|
| Grants | 1,974 | - | - | - |
| Other | 133 | 212 | - | 212 |
| | 28,985 | 10,688 | 16,276 | 10,688 |

</TABLE>





During the year the group was awarded a L2,400,000 grant in relation to the Malmaison Manchester property and a L148,000 grant in relation to the Malmaison Glasgow property.

SENIOR DEBT

At 31 December 1997 the group had senior borrowing facilities of L22,300,000 (1996 - L9,500,000) of which L12,389,000 (1996 - Lnil) was drawn down. Borrowings are repayable on a quarterly basis from 31 March 1998, incur interest at 2.5% p.a. above LIBOR, are secured by a first fixed and floating charge on the group's hotels and other assets, and are subject to financial covenants.

Amounts shown for senior debt are net of facility fees L1,237,000 (1996 - Lnil).

MEZZANINE DEBT

The company has entered into a mezzanine loan facility agreement of L5,750,000 and a working capital facility of L500,000 with Arcadian International Limited. The loan facility incurs interest at 10% and is repayable on 31 December 2006 and the working capital facility incurs interest at 3% above The Royal Bank of Scotland Plc base rate and is repayable on 31 December 1999. These facilities are secured by second charges on the group's hotel properties. Drawings under these facilities at 31 December 1997 were L3,000,000 and Lnil respectively (1996 Lnil and Lnil).

SUBORDINATED DEBT

The loan stock is unsecured, bears interest at 20% per annum, and is repayable in instalments between 2003 and 2005 (see note 20). At 31 December 1997 issued loan stock was as follows:

<TABLE>
<CAPTION>

| <S> | 1997 L'000 <C> | 1996 L'000 <C> |
|---|---|---|
| `A' loan stock | 5,873 | 5,873 |
| `B' loan stock | 4,603 | 4,603 |
| `C' loan stock | 2,800 | - |
| | 13,276 | 10,476 |

</TABLE>

14 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (CONTINUED)

On 15 April 1997 the company issued L1,700,000 of `C' loan stock in connection with interalia the purchase of a development site in Leeds.

On 10 December 1997 the company issued a further L1,100,000 of `C' loan stock in connection with interalia the part repayment of the mezzanine loan with Arcadian International Limited, a related party.

The A, B and C loan stock rank pari passu in all respects with the exception of the winding up of the company. In this case the C loan stock is subordinated to the A and B loan stock. The B loan stock is subordinated to the A loan stock and all classes of loan stock are subordinated to the claims of all other creditors.

ANALYSIS OF BORROWINGS

Borrowings are repayable as follows:

| | | Group 1997 L'000 | Group 1996 L'000 | Company 1997 L'000 | Company 1996 L'000 |
|---|---|---|---|---|---|
| Due within five years | | | | | |
| - within 1 year | - finance leases | 78 | - | - | - |
| | - bank loans | 600 | - | - | - |
| - within 1-2 years | - finance leases | 78 | - | - | - |
| | - bank loans | 1,400 | - | - | - |
| - within 2-5 years | - finance leases | 56 | - | - | - |
| | - bank loans | 6,300 | - | - | - |
| More than 5 years | - bank loans | 4,089 | - | - | - |
| | - mezzanine loan | 3,000 | - | 3,000 | - |
| | - subordinated loan stock | 13,276 | 10,476 | 13,276 | 10,476 |
| | | 28,877 | 10,476 | 16,276 | 10,476 |

15 CALLED-UP SHARE CAPITAL

| | 1997 L'000 | 1996 L'000 |
|---|---|---|
| AUTHORISED | | |
| 25,100,000 (1996 - 19,100,000) ordinary shares of 1p each | 251 | 191 |
| 1,900,000 (1996 - 1,900,000) `B' deferred convertible shares of 1p each | 19 | 19 |
| | 270 | 210 |
| ALLOTTED, CALLED-UP AND FULLY-PAID | | |
| 17,400,000 (1996 - 16,150,000) ordinary shares of 1p each | 174 | 162 |

15 CALLED-UP SHARE CAPITAL (CONTINUED)

During the year the company issued 1,250,000 shares as part consideration for the acquisition of The Malmaison Hotel (Manchester) Limited in 1996.

Arcadian International Limited and K.W. McCulloch have the right before 31 December 2005, to subscribe for a number of deferred shares, which are convertible into ordinary shares at par upon the sale of a substantial part of the assets of the group, the admission of the ordinary shares of the company to the London Stock Exchange or control of the company passing to one shareholder. The number of deferred shares subject to this right is determined by the value attributable to the group in the transaction. Upon the acquisition of the share capital of the company by Patriot American Hospitality, Inc. ("Patriot"), K.W. McCulloch transferred the right to 1,390,581 deferred shares to Patriot (see note 1).

As at 31 December 1996 the company had in issue warrants to subscribe for 1,410,811 ordinary shares exercisable at par. On 15 April 1997 the company issued warrants to subscribe for 4,949,026 ordinary shares exercisable at par. On 10 December 1997 the company issued warrants to subscribe for 3,202,311 ordinary shares exercisable at par. All the warrants in issue were acquired by Patriot on the 8 April 1998 (see note 1).





16 RESERVES

Of total reserves shown in the group and company's balance sheets, the following amounts are regarded as distributable or otherwise:

| | Group 1997 L'000 | Group 1996 L'000 | Company 1997 L'000 | Company 1996 L'000 |
|---|---|---|---|---|
| Distributable | | | | |
| - profit and loss account | (1,048) | (90) | (52) | (30) |
| Non distributable | | | | |
| - revaluation reserve | 2,791 | - | - | - |
| TOTAL RESERVES | 1,743 | (90) | (52) | (30) |



Notes to accounts (continued)

16 RESERVES (CONTINUED)

| | Revaluation reserve L'000 | Profit and loss account L'000 | Total L'000 |
|---|---|---|---|
| GROUP | | | |
| Beginning of the year | - | (90) | (90) |
| Accumulated loss for the year | - | (958) | (958) |
| Revaluation of operating hotels | 2,791 | - | 2,791 |
| End of year | 2,791 | (1,048) | 1,743 |
| COMPANY | | | |
| Beginning of the year | - | (30) | (30) |
| Accumulated loss for the year | - | (22) | (22) |
| End of year | - | (52) | (52) |

17 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

| | Group 1997 L'000 | Group 1996 L'000 | Company 1997 L'000 | Company 1996 L'000 |
|---|---|---|---|---|
| Loss for the financial year | (958) | (90) | (22) | (30) |
| Other recognised gains and losses relating to the year | 2,791 | - | - | - |
| New share capital subscribed | 12 | 162 | 12 | 162 |
| Net addition to (reduction in) shareholders' funds | 1,845 | 72 | (10) | 132 |
| Opening shareholders' funds | 72 | - | 132 | - |
| Closing shareholders' funds | 1,917 | 72 | 122 | 132 |

18 CASH FLOW INFORMATION

a) RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

| | Year ended 31 December | 53 week period to 31 December |
|---|---|---|

| | 1997 L'000 | 1996 L'000 |
|---|---|---|
| Operating profit | 344 | 16 |
| Depreciation and amortisation charges | 194 | 15 |
| Increase in stocks | (54) | (1) |
| Increase in debtors | (343) | (748) |
| Increase in creditors | 1,073 | 512 |
| Amortisation of grant income | (10) | - |
| NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES | 1,205 | (206) |

MALMAISON LIMITED



Notes to accounts (continued)

b) ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

| | Year ended 31 December 1997 L'000 | 53 week period to 31 December 1996 L'000 |
|---|---|---|
| RETURNS ON INVESTMENTS AND SERVICING OF FINANCE | | |
| Interest received | 69 | 8 |
| Interest and facility fees paid | (1,300) | - |
| | (1,231) | 8 |
| CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT | | |
| Expenditure on tangible fixed assets | (19,270) | (2,978) |
| Expenditure on intangible fixed assets | (394) | - |
| Grants received | 1,612 | - |
| | (18,052) | (2,978) |
| ACQUISITIONS | | |
| Purchase of subsidiary undertakings | - | (410) |
| Deposits to purchase subsidiary undertaking | (247) | - |
| Cash acquired | - | 53 |
| Purchase of brand name | - | (400) |
| NET CASH OUTFLOW FOR ACQUISITIONS | (247) | (757) |
| FINANCING | | |
| Issue of ordinary share capital | - | 103 |
| Repayment of finance leases | (24) | - |
| Debt due within one year | 600 | - |
| Debt due greater than one year | 17,589 | 4,898 |
| CASH INFLOW FROM FINANCING | 18,165 | 5,001 |

18 CASH FLOW INFORMATION (CONTINUED)

c) ANALYSIS OF NET DEBT

| | Beginning of year L'000 | Cash flow L'000 | Other (non-cash) L'000 | End of year L'000 |
|---|---|---|---|---|
| Cash on hand and at bank | 1,068 | (160) | - | 908 |
| Finance leases | - | 24 | (238) | (214) |
| Debt due within one year | - | (600) | - | (600) |

| | | | | |
|---|---|---|---|---|
| Debt due after 1 year | (10,476) | (17,589) | - | (28,065) |
| | (9,408) | (18,325)) | (238) | (27,971) |

</TABLE>

d) MAJOR NON-CASH

During the year the group entered into finance lease arrangements in respect of assets with a total capital value at the





inception on the leases of L238,000 (1996 - Lnil).

19 GUARANTEES AND OTHER FINANCIAL COMMITMENTS

a) CAPITAL COMMITMENTS

At the end of the year capital commitments were:

<TABLE>
<CAPTION>

| | Group 1997 L'000 | Group 1996 L'000 | Company 1997 L'000 | Company 1996 L'000 |
|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> |
| Contracted for but not provided for | 3,614 | 13,441 | - | - |

</TABLE>

b) CONTINGENT LIABILITIES

The company has guaranteed and secured by a floating charge on its own assets overdrafts and other liabilities of certain subsidiary undertakings, the amount outstanding at 31 December 1997 being L12,389,000 (1996 - Lnil).





20 RELATED PARTY TRANSACTIONS

a) A. Haining and R.K. Black, both shareholders in the company during the year, are directors of Botts & Company Limited and financial advisers to the company. During the year Botts & Company Limited received fees of L160,000 (1996 - L119,000). In addition, as at 31 December 1997, Botts & Company Limited held 4,439,955 (1996 - L2,925,000) subordinated loan stock (see note 15).

b) R.R.A. Breare and C.G. Upton are both directors of Arcadian International Limited ("Arcadian"), a shareholder of the company. During the year Arcadian received fees of L500,000 (1996 - L500,000).

In addition, as at 31 December 1997, Arcadian held 5,061,972 (1996 - L4,102,500) subordinated, loan stock (see note 15).

c) K.W. McCulloch a shareholder of the company during the year, is also a director of and the majority shareholder in MHM Limited. Arcadian and MHM Limited have a joint venture, Malmaison Management Limited, which has a ten year management contract for the group's hotels. Management fees payable for the year ended 31 December 1997 under this contract were L143,000 (1996 - L9,000).

In addition, as at 31 December 1997, K.W. McCulloch held 1,090,081 (1996 - L1,024,650) subordinated loan stock (see note 15).

In 1996 Malmaison Management Limited entered into project co-ordination agreements with the group to assist with the development of its hotels. Amounts payable in the year ended 31 December 1997 under these agreements were L471,000 (1996 - L240,000).

d) Arcadian and K.W. McCulloch, as shareholders in Malmaison Management Limited, have the right to subscribe for deferred shares in the company in the event of a realisation of the assets of the group before 31 December 2005. Further details are given in note 15.

e) In 1996 Arcadian entered into two forms of guarantee on behalf of a syndicate of banks, led by Coutts & Company, in favour of the banks. The first relates to the overrun of construction costs of the hotels and is limited to the amount of the group's senior debt of L9.5 million plus accrued interest thereon. The second relates to the repayments of L1.5 million of principal of the senior debt in the period to 31 December 1999 and the payment of any interest on the senior debt in that period. Should any payments be made by Arcadian under the terms of either guarantee, Arcadian would receive additional A loan stock in the company to the value of any such payment.

Exhibit 23.1

CONSENT OF CHARTERED ACCOUNTANTS AND REGISTERED AUDITORS

As Chartered Accountants and Registered Auditors, we hereby consent to the incorporation by reference in the Joint Registration Statements on Form S-3, dated 4 May 1998, 8 July 1998, 25 September 1998, and 5 October 1998, and Form S-8, dated 8 June 1998, of Patriot American Hospitality, Inc. and Wyndham International, Inc., of our reports dated 22 July 1998 and 17 July 1998, respectively, except for note 1 in each of our reports, as to which the date is 24 March 1999, of the financial statements of Arcadian International Limited (formerly Arcadian International Plc) and subsidiary undertakings and Malmaison Limited and subsidiary undertakings, which are included in the Joint Current Report on Form 8-K/A of Patriot American Hospitality, Inc. and Wyndham International, Inc., dated 2 June 1998.

/s/ Arthur Andersen

1 Surrey Street
London
WC2R 2PS
26 March 1999