Malmaison Limited

Financial statements for the year ended 31 December 1998
together with directors' and auditors' reports

Registered number: 3141385

Directors' report

For the year ended 31 December 1998

The directors present their annual report on the affairs of Malmaison Limited ("the company"), together with the financial statements and auditors' report, for the year ended 31 December 1998.

Principal activity and business review

The principal activity of the company is to act as holding company for the Malmaison group of companies.

On 8 April 1998 Patriot American Hospitality, Inc., ("Patriot US") through its wholly owned subsidiary, 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 by Arcadian together with all rights to the accrued interest on the loan stock. Patriot US 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').

Results and dividends

	1998	1997
	£	£
Loss for the year after taxation	1,583,008	21,527

The directors do not recommend the payment of a dividend (1997 - £nil).

Directors and their interests

The directors who served during the year are as shown below.

S.D. Bate	(resigned 8 April 1998)
R.K. Black	(resigned 8 April 1998)
R.R.A. Breare	(resigned 21 September 1999)
A.G. Dodd	(resigned 8 April 1998)
A. Haining	(resigned 8 April 1998)
K.W. McCulloch	(resigned 8 April 1998)
C.G. Upton	
P.A. Nussbaum	(appointed 8 April 1998, resigned 30 June 1999)
J. Bohlmann	(appointed 8 April 1998)
W.W. Evans III	(appointed 8 April 1998, resigned 30 June 1999)
E. Blum	(appointed 8 April 1998)

On 9 July 1999, A. Raymond and R.J. Tutty were appointed directors of the company. On 22 August 1999, J.D. Carreker was appointed a director of the company. The directors who held office at 31 December 1998 had no interests (including options) in the shares of the company.

Year 2000

The company has instituted a programme to review all aspects of the impact of Year 2000 and in particular to test and, where necessary, upgrade or replace computer systems and other equipment to ensure compliance with Year 2000 date related problems. The programme is on schedule and the majority of required modifications or replacements have been carried out.

Year 2000 (continued)

The financial costs of this programme were incurred by the individual group companies to which they specifically related.

Statement of directors' responsibilities

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

(i) select suitable accounting policies and then apply them consistently;

(ii) make judgements and estimates that are reasonable and prudent;

(iii) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and

(iv) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

By order of the Board,

C.G. Upton
Director

Gatton Place
St Matthew's Road
Redhill
Surrey RH1 1TA

17 December 1999

Auditors' report

To the Shareholders of Malmaison Limited:

We have audited the financial statements on pages 4 to 10 which have been prepared under the historical cost convention as modified by the revaluation of hotels and the accounting polices set out on page 6.

Respective responsibilities of directors and auditors

As described on page 2 the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Parent company financial support

In forming our opinion we have considered the adequacy of the disclosures made in Note 15 of the financial statements concerning the uncertainty regarding the future financing of Wyndham International Inc., on whose continued financial support the company depends. 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 financial statements give a true and fair view of the state of affairs of the company as at 31 December 1998 and of the company's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Arthur Andersen
Chartered Accountants and Registered Auditors

1 Surrey Street
London
WC2R 2PS

17 December 1999

Profit and loss account

For the year ended 31 December 1998

	Notes	1998	1997
		£	£
Administration expenses (net)		(507,942)	(131,949)
Operating profit		(507,942)	(131,949)
Interest payable and similar charges	2	(2,248,556)	(2,415,531)
Interest receivable		1,173,490	2,525,953
Loss on ordinary activities before taxation	3	(1,583,008)	(21,527)
Tax on loss on ordinary activities	4	-	-
Loss for the financial year		(1,583,008)	(21,527)

All recognised gains and losses are included in the profit and loss account. A reconciliation of movements on reserves is given in note 11.

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

Balance sheet

31 December 1998

	Notes	1998 £	1997 £
Fixed assets			
Intangible assets	5	-	141,433
Investments	6	4,549,501	4,903,826
		4,549,501	5,045,259
Current assets			
Debtors	7	23,335,002	11,275,980
Cash at bank and in hand		1,424	3,237,429
		23,336,426	14,513,409
Creditors: amounts falling due within one year	8	(6,530,132)	(3,162,567)
Net current assets		16,806,294	11,350,842
Total assets less current assets		21,355,795	16,396,101
Creditors: amounts falling due after more than one year	9	(22,818,202)	(16,275,500)
Net (liabilities) assets		(1,462,407)	120,601
Capital and reserves			
Called-up share capital	10	174,000	174,000
Profit and loss account	11	(1,636,407)	(53,399)
Equity shareholders' funds		(1,462,407)	120,601

Signed on behalf of the Board

C.G. Upton Director

17 December 1999

The accompanying notes are an integral part of this balance sheet.

Notes to financial statements

31 December 1998

1 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) Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with the provisions of the Companies Act 1985 and with applicable accounting standards.

The company is exempt from the requirement of FRS 1 to present a cash flow statement because at 31 December 1998 it was a wholly owned subsidiary of Patriot American Hospitality, Inc. which prepared consolidated financial statements for the period which are publicly available.

b) Taxation

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

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.

c) Investments

Investments in subsidiary undertakings are stated at cost less amount written of. Only dividends and interest received or receivable are credited to the company's profit and loss account.

d) Turnover

Turnover represents amounts receivable in the normal course of business, net of trade discounts, VAT and other sales related taxes.

2 Interest payable and similar charges

	1998 £	1997 £
On bank loans repayable within 5 years – not repayable by instalments	1,595	1,459
Facility fees	176,743	581
On loans from group undertakings	2,070,218	2,413,491
	2,248,556	2,415,531

3 Loss on ordinary activities before taxation

The company employs no staff. Auditors remuneration was borne by another group company. No director received emoluments from the company in respect of services provided to the company during the year (1997 - £nil).

Notes to financial statements (continued)

4 Tax on loss on ordinary activities

	1998	1997
	£	£
Corporation tax at 31% (1997 - 31.5%)	-	-

No current year corporation tax charge is recorded as a loss has been calculated for tax purposes.

5 *Intangible fixed assets*

	Development costs
	£
Cost	
Beginning of year	141,433
Additions	-
Transfers to other group companies	(141,433)
End of year	-

6 Investments

The company has investments in the following subsidiary undertakings.

Subsidiary undertakings	Country of incorporation and operation	Principal activity	Proportion of ordinary share capital	Proportion of voting rights
The Malmaison Company (Edinburgh) Limited	England	Hotel ownership	100%	100%
The Malmaison Hotel (Glasgow) Limited	Scotland	Hotel ownership	100%	100%
The Malmaison Hotel (Newcastle) Limited	England	Hotel ownership	100%	100%
The Malmaison Hotel (Manchester) Limited	England	Hotel ownership	100%	100%
The Malmaison Hotel (Leeds) Limited	England	Hotel ownership	100%	100%
Malmaison Brand Limited	Scotland	Brand ownership	100%	100%
Malmaison Resources Limited	England	Hotel management	99%	-

	Total
	£
Cost	
Beginning of year	4,903,826
Additions	1
Disposals	(354,326)
End of year	4,549,501

7 Debtors

	1998 £	1997 £
Amounts falling due within one year:		
VAT	-	273,432
Edinburgh setup costs	-	255,630
Work in progress	79,579	-
Prepaid loan facility fees	222,538	100,981
Amounts owed by other group undertakings	22,885,767	10,645,937
Other debtors	147,118	-
	23,335,002	11,275,980

8 Creditors: amounts falling due within one year

	1998 £	1997 £
Trade creditors	22,207	202,121
Amounts owed to other group undertakings	4,158,987	-
Accrued interest	-	2,679,524
Other creditors	1,569,999	-
Accruals and deferred income	14,754	280,922
VAT payable	764,185	-
	6,530,132	3,162,567

9 Creditors: amounts falling due after more than one year

	1998 £	1997 £
Amounts owed to Arcadian International Ltd	22,818,202	16,275,500

Amounts owed to the parent undertaking are unsecured and are repayable on demand.

10 Called-up share capital

	1998 £	1997 £
Authorised		
25,100,000 ordinary shares of 1p each	251,000	251,000
1,900,000 'B' deferred convertible shares of 1p each	19,000	19,000
	270,000	270,000
Allotted, called-up and fully-paid		
17,400,000 ordinary shares of 1p each	174,000	174,000
	174,000	174,000

Notes to financial statements (continued)

11 Reserves

	1998	1997
	£	£
Beginning of year	(53,399)	(31,872)
Retained loss for the year	(1,583,008)	(21,527)
End of year	(1,636,407)	(53,399)

12 Contingent liabilities

The company, along with other group undertakings, has given a cross-guarantee secured on the assets of the company for the amount of approximately £16.25 million (1997 - £9.5 million) in support of bank loans, overdrafts and other liabilities of group undertakings.

13 Financial commitments

At 31 December 1998 the company had a commitment to provide additional equity to The Malmaison Hotel (Leeds) Limited, a subsidiary, to fund the construction of the Malmaison Hotel in Leeds. The funds provided under this commitment totalled £2,222,561 (1997 - £nil).

14 Ultimate parent company

As at 31 December 1998, Patriot American Hospitality, Inc., registered in the United States, was the company's ultimate parent company. Patriot American Hospitality, Inc. was a US Real Estate Investment Trust whose shares were paired and traded together as one unit on the New York Stock Exchange with those of Wyndham International, Inc. The financial statements of Patriot American UK Limited, Patriot American Hospitality, Inc. and Wyndham International, Inc. are publicly available and may be obtained on request from The Secretary, Gatton Place, St Matthews Road, Redhill, Surrey RH1 1TA.

As a subsidiary undertaking of Patriot American Hospitality, Inc., the company has taken advantage of the exemption in FRS 8 "Related party disclosures" not to disclose transactions with other members of the group headed by Patriot American Hospitality, Inc. and Wyndham International, Inc.

Subsequent to 31 December 1998, as described in note 15, the ultimate parent company became Wyndham International, Inc.

15 Parent company financial support

a) The company is dependent on the continued financial support of its ultimate parent, Wyndham International, Inc. ("Wyndham"). Wyndham has confirmed its intention of providing continued financial support to the company to enable it to meet its liabilities as they fall due, up to 31 December 2000. As described below, there has been uncertainty regarding the future financing of Wyndham.

Notes to financial statements (continued)

15 Parent company financial support (continued)

b) In the Joint Quarterly Report on Form 10-Q for the quarterly period ended 30 June 1998, dated 14 August 1998, Patriot American Hospitality, Inc. ("Patriot") and Wyndham (the "Companies") reported that they were 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.

c) On 30 June 1999, Wyndham completed a $1 billion equity investment with a group of investors. On 30 June 1999, Wyndham closed on a new $2.45 billion credit facility, consisting of a $1.3 billion term loan with a seven year term, a $500 million revolving credit facility with a five year term and a $650 million increasing rate loan facility with a five year term. The proceeds of the equity investment and new facility were used to repay outstanding obligations under existing facilities.

d) As a condition of the equity investment, the pairing agreement with Patriot was terminated and a restructuring carried out whereby Patriot became a wholly-owned subsidiary of Wyndham. Patriot's status as a real estate investment trust terminated with effect from 1 January 1999 and Patriot became a taxable corporation at that date. As a result of the restructuring, Wyndham will pay significantly more earnings than was previously the case because Wyndham is not required to distribute at least 95% or more of its taxable income to shareholders. Wyndham anticipates that its enhanced ability to retain earnings will allow it to utilise cash from operating activities to fund maintenance, capital expenditure and acquisitions.

e) The directors of the company believe that following the equity investment and restructuring, Wyndham will be in a position to provide continued financial support to the company and accordingly consider it reasonable to prepare the financial statements on a going concern basis.