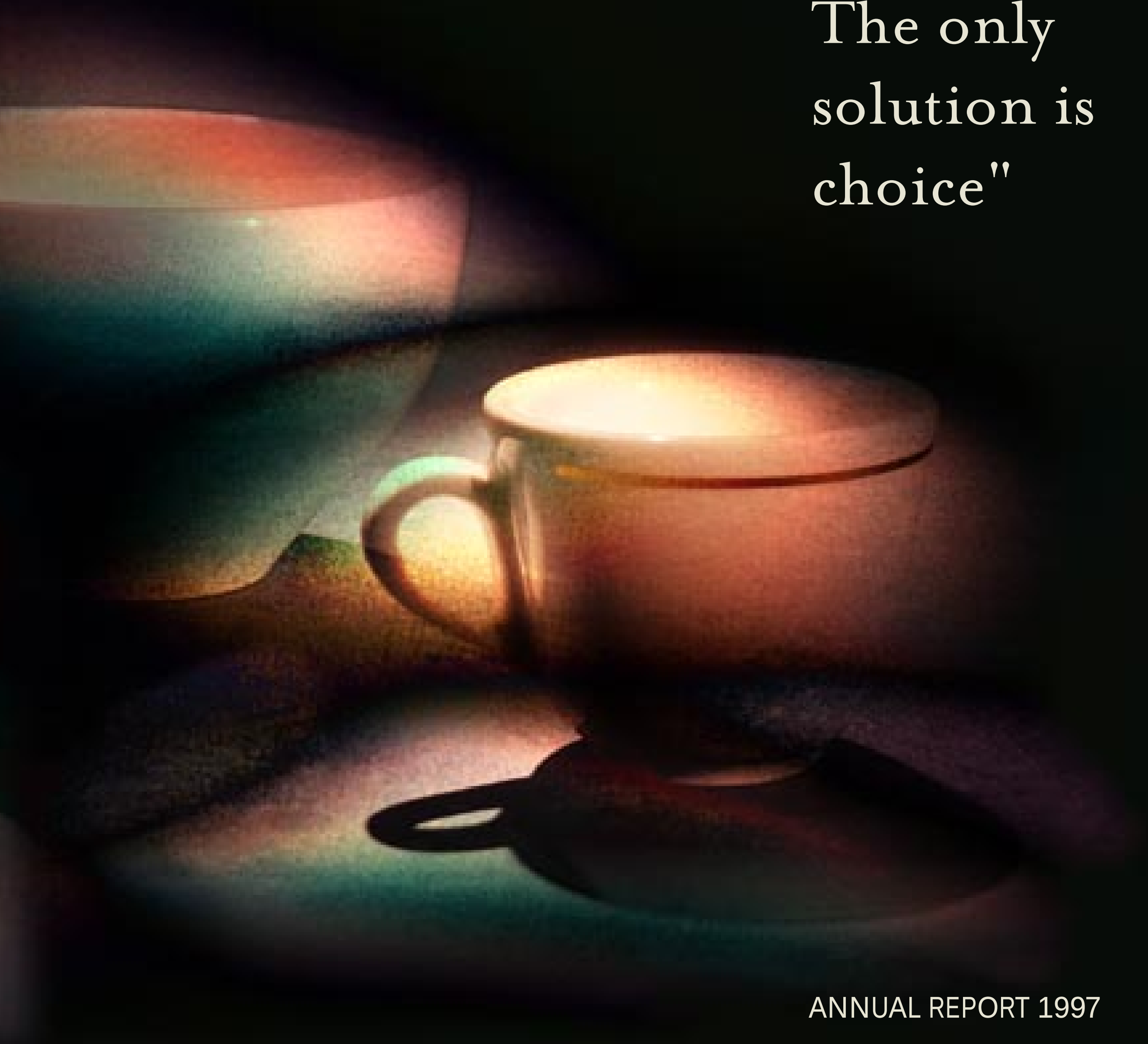
"The only constant is change

The only solution is choice"



ANNUAL REPORT 1997

CHOICE HOTELS
SCANDINAVIA

Sleep Comfort Quality Clarion

Content:

Choice as the Business Concept

History

Choice Hotels Scandinavia was founded in 1990 as a management company for hotels. A 20-year Master Franchise Agreement was entered into in 1994 with Choice International giving the Company the right to market its hotels in Scandinavia under the brand name Choice. Choice Hotels International was founded in the USA in 1939 and is currently one of the world's largest hotel operators with 4000 franchise hotels in 38 countries. The chain is also among the fastest growing hotel chains internationally.

The Hotel Segments

Choice Hotels Scandinavia is based on Choice Hotels International's business concepts of offering differentiated hotel services according to varying customer demand, and attaining scale economies by means of integrated operations. In Scandinavia, Choice markets itself through three brand names: Clarion, Quality and Comfort. This means that the chain consists of three hotel segments giving a broad coverage of market demand. The return on invested capital is maximised via efficient economies of scale, extensive franchise operation and acquisitions of hotels with potential for improvement.

The Choice Hotels in Scandinavia

The Choice organisation in Scandinavia is run efficiently and with a considerable degree of freedom. The organisation is untraditional and oriented around development and action. It focuses on sales & franchising, internal and external development, and financing & investments. By the end of 1997, Choice Hotels Scandinavia totalled 86 hotels in Norway, Sweden and Denmark.

Consolidated accounts

		1997	1996	Description
Profitability				
Net operting margin	%	16,2	4,5	Operating profits / operating revenues
Return on total assets	%	22,1		(Operating profits after financial items + financial expenses) / average total asset
Return on book equity	%	59,4		Pre-tax profits / average book equity
Cash flow	NOKm	226,9	23,3	Pre-tax profits - payable taxes + depreciation
Solidity / Capital				
Book value of equity at 31.12.	NOKm	546,5	123,7	
Equity-to-assets ratio	%	52,9	12,1	Total book equity / total assets
Debt-to-assets ratio	%	47,1	87,9	Total debt / total assets
Interest bearing debt	NOKm	252,8	649,6	
Share price (high / low)	NOK	31.00/ 21.00	N/A	
Share price at 31.12	NOK	25,00	N/A	
Liquidity				
Cash and cash equivalents	NOKm	278,0	117,6	
Current ratio		1,61	0,95	Total current assets / total current liabilities
Key Figures per share				
No. of outstanding shares at 31.12		39 640 285	425 749	
Average no. of shares		33 522 673	84 867	
Par value per share	NOK	0,10	5,00	
Cash flow per share (CFPS)	NOK	6,77	274,23	Cash flow / average no. of shares
Earnings per share (EPS)	NOK	6,36	143,06	Net profits / average no.of shares
Price / Earnings ratio (P/E)		3,9	N/A	Share price at 31.12 / Earnings per Share
Book equity per share	NOK	13,79	290,51	Book equity / no. of shares 31.12

The Segments

		Comfort		Quality		Clarion		Franchise	
		1997	1996	1997	1996	1997	1996	1997	1996
Operating revenues	NOKm	380,2	71,2	418,8	337,1	274,1		39,9	7,7
Operating profits before depreciation	NOKm	54,4	-2,4	51,5	42,7	8,9		-0,8	-3,5
Gross operation margin	%	14,3	-3,4	12,3	12,7	3,3		-2,0	-46,7
Occupancy rate	%	60		60		71			
Av. Rev per sold room	NOK	609		575		750			
No. of hotels / rooms at 31.12.									
Owned		8/ 610		2/ 429				10/ 1 039	
Rented		18/ 1 871		11/ 1 453		6/ 1 287		35/ 4 611	
Franchise		13/ 914		27/ 2 948				40/ 3 862	
Total		**39/ 3 395**		**40/ 4 830**		**6/ 1 287**		**85/ 9 512**	

”The road to success is dependent upon making the right choices”

1997 has been a milestone in building a powerful hotel chain. New equity offerings and the public listing on the Oslo stock exchange have laid the financial foundations required for expansion through a selective acquisition strategy. Currently the group has a solid capital base and comfortable liquidity ensuring that we can realise our growth ambitions in the years to come. By the end of 1997, Choice Hotels Scandinavia operated 86 hotels, of which 60 were in Norway, 24 in Sweden and 2 in Denmark. In September 1996, Choice Hotels Scandinavia consisted of 15 hotels.

Through concepts of franchising and market segmentation Choice Hotels Scandinavia has developed itself into one of the leading players in the Scandinavian hotels market. Our three segments give us the breadth in hotel services demanded by the market. By means of consciencious sales and marketing efforts we are continually strengthening our three brand names of Clarion, Quality and Comfort so that our customers can make the right choices.

1997 has been a year of radical changes for employees of Choice Hotels Scandinavia. Corporate cultures have merged together, new leaders have emerged and the number of hotels has increased substantially. It has been an exciting period with challenges for all our staff. We are proud of our pro-active employees, who on all levels display personal initiative and responsibility for both the Company’s and their own development. Concern about and personal service to customers make Choice Hotels Scandinavia a winner. It is our people who will be our most important resource on the road to further success.

Management is pleased with the development in sales shown in 1997. We foresee a continually strong hotel market, yet, increased

chain affiliation will fuel competition between the hotel operators. Our margins will be improved by focusing on costs, adding attractive hotels to our chain and taking more advantage of scale economies. The Group has the market coverage, balance sheet and organisation that will make Choice Hotels Scandinavia into one of the leading hotel chains in Europe.

Siri-Lill Stensby

President

GROUP RESULTS FOR 1997

Consolidated pre-tax profits in 1997 were NOK 174.9m, compared to NOK 12.3m in 1996.

Operating revenues in 1997 totalled NOK 1,305.6m, compared to NOK 419.0m in 1996. NOK 171.7m of 1997 revenues was attributable to income from sale of properties and property companies.

The consolidated operating costs for 1997 totalled NOK 1,094.3m. Net financial items totalled NOK 36.5m. In addition to the ordinary operating costs, expansion costs and start-up costs, 1997 results included costs of NOK 40.0m related to final payments to the founders, acquisition costs of Inter Nor Hotels AS and Othello AS, write-down of fixed assets and divestment costs of properties and property shares.

Choice Hotels Scandinavia ASA

In 1997, the parent company Choice Hotels Scandinavia ASA (CHS) had total operating revenues of NOK 138.4m (1996: NOK 33.9m) and operating costs of NOK 34.1m (NOK 19.6m), giving an operating profit of NOK 104.3m (NOK 14.3m). Pre-tax profits were NOK 93.2m (NOK 15.6m).

Comfort

The Comfort segment had net operating revenues of NOK 380.2m in 1997 (1996: 71.2m) Operating profits before depreciation were NOK 54.4m. The segment largely attained its financial goals, though the Swedish Comfort hotels consistently performed worse than expected.

Quality

The Quality segment had operating revenues of NOK 418.8m in 1997 (1996: NOK 337.1m). Even though Quality Ambassadeur in Drammen, withdrew from the chain in May 1997, the remaining Quality hotels total revenues exceeded their target by NOK 10.0m. The operating profit before depreciation of NOK 51.5m is considered satisfactory.

Clarion

The Clarion segment had total revenues of NOK 274.1m in 1997. The Group had no Clarion hotels in 1996. The segment had an operating profit before depreciation of NOK 8.9m. The financial results were weaker than expected, primarily due to start-up costs of Clarion Grand Olav Hotel in Trondheim and Clarion Gardermoen in Oslo. The latter opens in July 1998.

Choice Hotels AS – The Franchising Activities

The Group's franchising activities had revenues of NOK 39.9m (1996: NOK 7.5m) The increase is attributable to new franchise agreements. The Company incurred an operating loss of NOK 0.8m. The loss derives from costs of re-profiling former Inter Nor hotels and the launch of the loyalty card, Choice Inhotel Card.

FINANCIAL ISSUES

The Group strengthened its financial position in 1997. Its equity-to-assets ratio at 31.12. was 52.9% compared to 12.1% at 01.01. Interest bearing debt was reduced by NOK 396.8m from NOK 649.6m to NOK 252.8m. The Board of Directors emphasises the very strong balance sheet of the Group.

In June of 1997, the Group re-financed its long term interest bearing debt through a syndicated bank mortgage of NOK 700m with Den norsk Bank ASA as lead underwriter. The mortgage extends over a period of 20 years, and NOK 474.3m was repaid in 1997 after the Company sold 8 of its hotels to Eiendomsspar AS.

The liquidity of the Group is good. Bank deposits and available drawing rights totalled NOK 387.3m at the end of the 1997 period.

OPERATING ISSUES

Following the creation of the Choice chain in Norway in 1990, the Group has experienced continuous growth. Its activities were substantially expanded in 1996 when the Group bought the Swedish Home Hotel group with 19 hotels in Sweden and Norway. Moreover, the Company entered into rental agreements for 4 additional hotels in Norway and 4 in Sweden.

The growth continued in 1997. In January 1997 the Group assumed management of Clarion Grand Olav Hotel in Trondheim and Clarion Tyholmen Hotel in Arendal. During the same month, CHS bought 51% of the shares in Inter Nor Hotels AS by means of a private placement of NOK 47.0 m. This stake secured CHS access to Inter Nor's market leading hotel bonus card, *Inhotel Card*, with 40 000 active users. Furthermore, CHS was able to access the leisure hotel card, *Nordisk Hotellpass*.

In January 1997, CHS bought the shares of the management company of Clarion Royal Christiania, Oslo, and Clarion Admiral Hotell, Bergen, Othello AS. These purchases gave CHS long-term rental contracts for Clarion Royal Christiania, Oslo, and Clarion Admiral Hotell, Bergen. In May 1997, CHS assumed management of Clarion Ernst Hotel in Kristiansand.

Chairman of the Board Petter A. Stordalen, Board member Ingebrikt Steen-Jensen and Board member Ragnar Sjoner

25 former Inter Nor hotels entered into franchise contracts with Choice Hotel AS in 1997. At the end of the year, 85 hotels had franchise agreements with Choice Hotel AS.

Considerable expansions were undertaken at Skjærgården Hotel and Badepark in 1997. The capacities of several other hotels were also increased.

Throughout 1997, the Company acquired the remaining shares of Comfort With Hotel in Tromsø, and Comfort Hotel Bakeriet, Trondheim.

The above mentioned hotels were sold together with 6 other hotel properties to Eiendomsspar AS in December 1997 as a part of the Group's strategy to concentrate its activities on hotel management and franchise.

Quality Park Hotel at Mastemyr, Norway was sold to Mr. Arthur Buchardt. Mr. Buchardt planned to expand the hotel with 130 rooms. This project was abondonned as the expansion costs involved were found to be prohibitively high. In January of 1998, CHS bought back the hotel property and resold it to City Finansiering AS in a sale-lease-back transaction. The period of the rental agreement with City Finansiering AS for the hotel is 20 years.

At the end of 1997, Choice Hotels Scandinavia grew further in Sweden through the purchase of Panorama Hotel in Gothenburg and the acquisition of a 20% share of Prize Hotels AB.
An additional 40% of the shares of Prize Hotels AB was acquired after the yearend 1997/1998.

STOCK EXCHANGE LISTING, NEW ISSUE – MERGER

At an extra-ordinary General Meeting on January 21st 1997 it was agreed to split the shares by 50, reducing the par value per share from NOK 5.00 to NOK 0.10 in order to increase liquidity in the shares. Simultaneously, it was decided that the shares were to be registred in the Central Register of Securities in Norway (VPS).

At the annual General Meeting on March 17th 1997 it was decided to convert the Company into a public share company (ASA) in preparation for a listing on the Oslo Stock Exchange. Accordingly, the Company changed its name to Choice Hotels Scandinavia ASA.

At an extra-ordinary General Meeting March 26th 1997 several equity offerings were agreed upon. Through an private placement offering external investors bought a total of 8m shares. Furthermore, there were private placements to shareholders of Inter Nor Hotels AS totalling 444,485 shares and to various groups of employees of a totalling 86,050 shares. Subsequent to the above mentioned equity offerings which took place during spring 1997, the Company's current registered share capital equals NOK 3,964,028.50 divided into 39,640,285 shares at a par value of NOK 0.10 each.

The Company`s application for listing of its shares on the Oslo Stock Exchange was accepted and the Company was listed on the Main List in May of 1997.

BOARD, MANAGEMENT AND EMPLOYEES

The Board of Directors constituted the following: Mr. Petter A. Stordalen (Chairman), Mr. Ingebrigt Steen-Jensen, Mr. Peter Groth and Mr. Ragnar Sjoner. Peter Groth resigned from the Board at his own request in the beginning of 1998.

Former President Mr. Harald Jacobsen resigned in September 1997. Ms. Siri-Lill Stensby was hired to succeed him, and she became President in November 1997.

There have been no further developments since the end of 1997/beginning of 1998.

The Board considers the working environment in the Company to be good and it has taken no special actions in this regard during 1997. The activitites of the Company do not pollute the environment beyond what is ordinary for hotel operations. The Company considers itself to have a good environmental profile.

The number of employees totalled approximately 1,900 for the Group and 10 for the parent company at 31.12.97.

The salary and benefits of the President are discussed in a separate note. Provisions of NOK 250,000 have been made for the remuneration of the Board of Directors.

Accounting fees for 1997 total NOK 271,250 in audit fees and NOK 772,000 for consulting services.

Other matters are described in the financial statements and notes thereto, as well as in the separate accounts of subsidiaries.

DEVELOPMENT AND PROSPECTS

During 1998 CHS will concentrate on developing its existing businesses where improvements in the Group's margins will be of paramount importance.

The efforts to strengthen CHS' presence in Sweden will be intensified in 1998.

PROFIT ALLOCATION, SHARE CAPITAL REPAYMENT

It will be proposed that the net profits for 1997 of NOK 90.7m will be allocated as follows:

Legal reserve	NOK 9,068,322
Group contribution	NOK 69,264,000
General reserve	NOK 12,350,898
Total allocation	NOK 90,683,220

Due to the strong balance sheet and ample liquidity of the Company, the Board proposes to increase the share capital of the Company by NOK 200m through a transfer from reserves and thereafter reduce the share capital with corresponding amount by repaying NOK 5.00 per share, to shareholders. The motion will be put forth at the Annual General Meeting on April 30th 1998 and, if accepted, the proposed repayment will take place at the end of August 1998.

SHAREHOLDER POLICY

The Company aims to give shareholders a competitive return on their investment by means of dividends and share price appreciation. The amount of dividend will depend upon the financial results of the Company as well as the general buisness climate.

The Company had 668 shareholders at the end of 1997. The largest shareholder was Chairman Petter A. Stordalen, who directly and indirectly controls 10,689,949 shares, or 27.0% of the share capital. As for the other members of the Board of Directors, Ragnar Sjoner owns 8,000 shares. President Siri-Lill Stensby owns 4,000 shares. None of the Company employees have option plans.

The Board would like to thank all employees of Choice Hotels Scandinavia for a splendid effort and excellent co-operation during the previous year.

27th March 1998

Petter A. Stordalen
Chairman of the Board

Ingebrigt Steen-Jensen
Board member

Ragnar Sjoner
Board member

Siri-Lill Stensby
President

(Amounts in NOK '000)

Parent company 1996	Parent company 1997	Note		Note	Group 1997	Group 1996
			OPERATING REVENUES AND OPERATING EXPENSES			
33 855	**138 411**	10	**Operating revenues**	27	**1 305 647**	**419 036**
0	0		Materials		142 004	63 734
5 855	15 165	11	Personnel costs	29	411 092	157 959
10 423	14 923	12	Other operating expenses	28	482 493	165 837
3 310	3 999	4	Depreciation	22	54 938	11 682
0	0		Bad debts	20	3 773	1 083
19 588	**34 087**		**Total operating expenses**		**1 094 300**	**400 295**
14 267	**104 324**		**Operating profit**		**211 347**	**18 741**
			FINANCIAL INCOME AND EXPENSES			
5 428	5 434		Interest from group companies			
4 522	2 687		Other financial income		13 193	6 810
0	-1 435		Interest to group companies			
-8 635	-17 810		Other financial expenses		-49 676	-13 225
1 315	**-11 124**		**Net financial items**		**-36 483**	**-6 415**
15 582	**93 200**		**Profit before taxes**		**174 864**	**12 326**
722	-2 517	8	Income taxes	26	37 654	-185
16 304	**90 683**		**Profit after taxes**		**212 518**	**12 141**
0	0		Minority interests		791	0
16 304	**90 683**		**Profit for the year**		**213 309**	**12 141**
			Profit for the year is distributed as follows			
1 630	9 068	13	Statutory reserve			
6 499	69 264		Contribution to group companies			
-11	0		Transfer from restricted reserve			
8 186	12 351	13	General reserve			
16 304	**90 683**		**Total distributions**			

CHOICE HOTELS SCANDINAVIA

(Amount in NOK '000)

Parent Company 1996	Parent Company 1997	Note		Note	Group 1997	Group 1996
			ASSETS			
			Current assets			
36 258	147 548	1	Cash and cash equivalents	19	277 998	117 586
0	0		Accounts receivable	20	63 304	41 289
45 850	398 564	2	Accounts receivable from group companies			
10 804	17 904	3	Other short term receivable		46 993	32 085
0	0		Inventory of supplies		9 461	6 356
92 912	**564 016**		**Total current assets**		**397 756**	**197 316**
			Non-current assets			
75 131	203 662	5	Shares in subsidiaries			
7 590	1 025	6	Other shares and ownerships	21	1 702	8 992
0	0		Deferred tax asset	25	12 895	0
53 043	0		Long term receivable from group companies			
4 660	12 160	8	Other long-term receivables	29	25 882	61 339
0	0		Goodwill	22	99 583	0
6 049	6 120	4	Machinery and equipment	22	79 027	67 670
95 010	0	4	Buildings	22	406 123	632 495
20 000	0	4	Land	22	9 912	53 624
261 483	**222 967**		**Total non-current assets**		**635 124**	**824 120**
354 395	**786 983**		**Total assets**		**1 032 880**	**1 021 436**
			LIABILITIES AND EQUITY			
			Current liabilities			
7 675	13 397		Accounts payable		62 327	43 342
0	0	7	Overdraft facility	23	0	3 173
1 291	20 337	8	Accrued payroll tax, national insurance contributions, holiday pay etc.		85 553	48 565
4 660	0	8	Income taxes payable		2 915	5 437
41 343	139 811		Current liabilities to group companies			
42 447	250 405	9	Other current liabilities		96 381	108 294
97 416	**423 950**		**Total current liabilities**		**247 176**	**208 811**
			Long term liabilities			
18 881	21 398	8	Deferred taxes	25	12 895	39 304
129 121	0		Other long term liabilities	24, 29	226 298	649 618
148 002	**21 398**		**Total long term liabilities**		**239 193**	**688 922**
245 418	**445 348**		**Total liabilities**		**486 369**	**897 733**
0	**0**		**Minority interests**		**9**	**18**
			Equity			
2 129	3 964		Share capital (39,640,285 shares at NOK 0.10)		3 964	2 129
982	0		Other restricted equity			
86 418	207 862		Statutory reserve			
17 280	17 280		Revaluation reserves			
2 168	112 529		General reserves			
0	0		Other reserves		542 538	121 556
108 977	**341 635**	13	**Total equity**	30	**546 502**	**123 685**
354 395	**786 983**		**Total long term liabilities and equity**		**1 032 880**	**1 021 436**
119 226	3 066	14	Collateral obligations	31	410 696	806 266
212 493	1 606 832	14	Guarantees	31	1 614 285	216 860

(Amount in NOK ´ 000)

Parent Company 1996	Parent Company 1997		Group 1997	Group 1996
		CASHFLOW FROM OPERATIONS		
12 194	-6 095	Cashflow from operations*)	54 203	23 214
-8 668	-83 715	Changes in working capital	21 194	82 409
3 526	**-89 810**	**Net changes in liquidity from operations**	**75 397**	**105 623**
		CASHFLOW FROM INVESTMENTS		
-3 633	-22 160	Investment in fixed assets	-351 560	-526 869
5	164 134	Divestment of fixed assets	607 116	2 469
-70 300	-143 070	Investments in other companies	-20 530	-8 937
8 948	93 365	Divestments in other companies	43 578	16 208
18 599	-7 500	Changes in other investments	35 457	-53 116
-46 381	**84 769**	**Net changes in liquidity from investments**	**314 061**	**-570 245**
		CASHFLOW FROM FINANCING		
0	50 010	Increases in liabilities	246 584	476 163
-11 979	-138 419	Repayments of liabilities	- 692 762	0
74 323	211 239	Increases in share capital	211 239	79 666
-2 040	0	Repayments of share capital	0	-2 040
-9 744	0	Equity changes due to mergers/spin-offs	0	-15 087
0	0	Other equity changes	5 893	-3 126
-6 717	-6 499	Group contribution/dividend payments	0	-6 717
43 843	**116 331**	**Net changes in liquidity from financing**	**-229 046**	**528 859**
988	**111 290**	**Total net changes in liquidity throughout the year**	**160 412**	**64 237**
35 270	**36 258**	**Cash and cash equivalents at 01.01**	**117 586**	**53 349**
36 258	**147 548**	**Cash and cash equivalents at 31.12**	**277 998**	**117 586**
		*) Calculated as follows:		
15 582	93 200	Profit before taxes	174 864	12 326
-6 698	-103 294	Gains on sales of fixed assets	-172 654	0
3 310	3 999	Depreciation	54 938	11 682
0	0	Income taxes paid	-2 945	-794
12 194	**-6 095**	**Cash flow from operations**	**54 203**	**23 214**

CHOICE HOTELS SCANDINAVIA

General
The accounts have been completed in accordance with Norwegian generally accepted accounting principles. There have been no changes in the accounting methods in 1997. Amounts in foreign currency have been disclosed seperately.

Consolidation Principles
Consolidated accounts include Choice Hotels Scandinavia ASA and all subsidiaries in which Choice Hotels Scandinavia ASA has either a direct or indirect controlling interest. The consolidated accounts have been completed as if the Group were one entity. Note 18 shows which companies have been included in the consolidated accounts for 1997.

With respect to consolidation of subsidiaries the ”purchase method” has been used. The differences between historic costs of shares in subsidiaries and the book value of net assets in the corresponding subsidiaries at the time of purchase have been analysed and allocated to the particular assets acquired. In cases where the purchase price exceeds the value of the assets, the excess is classified as goodwill and depreciated over the expected life to a maximum of 10 years. Consolidation is applied from the time of purchase until the time of divestment.

The share of profits and equity from minority interests are shown as separate items on the income statement and balance sheet.

All significant transactions and accounts payable between entities within the Group have been eliminated.

With consolidation of foreign subsidiaries the financial results are converted to NOK using an average exchange rate for the accounting period. End of year exchange rates are applied in the consolidated balance sheet. Conversion differences are offset against the equity of the Company.

Associated companies are defined as companies in which the CHS commands considerable influence (20-50% ownership) and the investment is considered to be of a long term nature. The investments are recorded under the ”equity method”, which implies that the net profits of associated companies are added to their historic cost.

The corporate structure of the Group consists of a large number of corporate entities which in turn are organised into sub-groups. The Norwegian Securities Commission has granted an exception from the requirements to produce group accounts for these sub-groups.

Classifications in the Balance Sheet
Current assets and short term liabilities include items that have payment due within a year from the balance sheet date.

Accounts receivable and debt related to inventories are always treated as short term items. Other assets and liabilities are treated as non-current assets and long term liabilities respectively.

Accounts Receivable
Accounts receivable are valued at the lower of book value or estimated realisable value at 31.12.

Inventories
Inventories are valued at the lower of cost (First-In-First-Out principle) or estimated realisable value.

Accounts Receivable and Debt Denominated in Foreign Currency
Accounts receivable and debt denominated in foreign currency are valued at the exchange rate at the balance sheet date.

Fixed Assets
Fixed assets are valued in the balance sheet as historic cost plus potential revaluations less ordinary depreciation. The depreciation rates are determined according to the particular assets' estimated economic life. In cases where the asset is related to rented hotel properties in which the asset becomes the property of the property owner after the rental contract period, the asset is depreciated over the period of the rental contract if the rental period does not exceed the estimated economic life of the asset. Maintenance is accounted for as an operating cost. In cases of fixed asset divestments, profits are included as operating revenues and losses are classified as operating costs.

Income taxes
Income taxes in the income statement include both the payable and deferred taxes related to the accounting period's profits. Deferred tax liabilites consist of both future taxes payable due to the reversal of temporary differences as well as deferred taxes related to valuation differences resulting from the consolidation of subsidiaries according to the ”purchase method”.

Pension Liabilities
In cases where the Group has pension liabilities in Norwegian companies, these liabilities are covered by collective pension plans with life insurers. These plans are treated as defined benefit plans.

Pension fund assets are valued at market value. Pension liabilities are valued at the present value of future pension payments earned by the balance sheet day. These liabilities are estimated based on assumptions about discount rate, expected wage increases and pension adjustments. Net pension liabilities are considered to be a long term liability, where as over-funded pension funds are treated as long term account receivable. Pension costs are included in the item wages and other personnel costs, and they consist of the pension earned, interest on pension liabilities, expected returns of pension fund assets, any change in assumptions, and deviations from estimated and actual pension asset returns.

Employees in Sweden are covered by a defined contribution plan.

Business Areas

The Group’s activities are limited to the hotel and restaurant business. Subsequently, there is no presentation of separate business areas. Geographically, the Group’s activities are located in Norway and Sweden. Note 27 shows the distribution of turnover between these countries.

Notes 1 - 17 are concerned with the parent company. Notes18 - 31 are related to the Group as a whole.

Note 1 - Cash and cash equivalents

NOK 985,856 of cash and cash equivalents is restricted cash for taxes due

Note 2 - Accounts receivable for group companies

Includes a receivable of SEK 320,556,082 from Home Hotel AB, which using the exchange rate at 31.12.97 is equal to NOK 297,283,710.

Note 3 - Other short term receivable

Other short term receivable includes an amount of NOK 12.000.000 owed by Eiendomsspar AS as a residual payment for the sale of the property Skjærgården Hotel og Badepark. According to a prior agreement the amount is withheld as collateral for completion of ongoing construction work at the hotel.

Note 4 - Non-current assets (Amounts in NOK)

	Machines, Equipment, etc.	Buildings	Land	Total
Historic cost 01.01.1997	10 144 275	99 426 003	20 000 500	129 570 778
Increases during the year	2 081 410	20 078 291	0	22 159 701
Decreases during the year (cost)	0	-119 504 294	-20 000 500	-139 504 794
Historic cost 31.12.1997	12 225 685	0	0	12 225 685
Accumulated depreciation and write-downs 31.12.1997	-6 105 665	0	0	-6 105 665
Book value 31.12.1997	6 120 020	0	0	6 120 020
Ordinary depreciation 1997	2 010 181	1 988 521	0	3 998 702
Annual rates of ordinary depreciation	20/33 %	2 %		

Investments and divestments in fixed asset in the last 5 years (Amounts in NOK ’000)

	Machines, equipment, etc.		Buildings		Land	
	Investments	Divestments	Investments	Divestments	Investments	Divestments
1993	223	-8	4 379	-1 495	0	0
1994	7 054	0	61 372	0	4 262	0
1995	53	-500	461	-15 014	0	-243
1996	2 205	-5	1 428	0	0	0
1997	2 081	0	20 078	-144 134	0	-20 001

The investments are at historic cost. Divestments are shown as sales price.

Note 5 - Shares in subsidiaries (Amounts in NOK)

The parent company had the following shares in subsidiaries at 31.12.1997:

Name of Subsidiary	Share capital	Ownership %	No. of shares	Par value	Book value
Quality Hotels Operations AS	5 000 000	100.0	5 000	1 000	4 980 200
Comfort Hotels Operations AS	5 000 000	100.0	5 000	1 000	5 000 000
Clarion Hotels Operations AS	200 000	100.0	200	1 000	200 000
Choice Hotels AS	500 000	100.0	500	1 000	500 000
Inter Nor Hotels AS	4 898 000	97.0	4 748	1 000	103 700 650
Othello AS	250 000	100.0	100	2 500	28 360 360
Home Hotels AS	25 000 000	100.0	2 500 000	10	1
Home Hotels AB	SEK 42 500 000	100.0	425 000	SEK 100	60 920 306
Total					203 661 517

Note 6 - Other shares and ownerships (Amounts in NOK)

Name of Company	Share capital	Ownership	No. of shares	Par value	Book value
Rica Hotell- og Restaurantkjede ASA	24 000 000		1 600	1	50 000
KS AS Skagen Hotellbygg		3.0			975 000
Total					1 025 000

Shares and other ownerships are valued at historic cost in the accounts.

Note 7 - Overdraft facility

The unused overdraft facility at Den norske Bank amounts to NOK 100.000.000 at 31.12.1997.

Note 8 - Income taxes (Amounts in NOK)

Below are the provisional differences between book pre-tax profit and the taxable profits for the year.

		1997		1996
Pre-tax profit		93 199 967		15 581 474
Permanent differences				
Profit through sale of share to group companies.			-6 697 817	
New issue costs	-14 691 049		-3 495 600	
Other items	146 604	-14 544 445	-1 263 091	-11 456 508
Group contribution		-69 264 000		-6 499 100
Change of temporary differences related to:				
- Current assets / current liabilities		-341 520		650 000
- Non current assets		57 793 840		-952 987
- Profit and Loss account		-66 560 520		2 677 130
Taxable profits		283 322		9
Nominal tax rate		28 %		28 %
Income tax		79 330		0
Loss carry-forward		79 330		0
Income taxes payable		0		0

Income taxes payable in 1996, NOK 4,660,000, relates to an adjustment tax in 1996. The amount is stipulated by the tax authorities and is included in the 1997 balanse of accrued payroll tax, national insurance contributions, holiday pay etc. The corresponding amount is accounted for as long term accounts receivable as it reduces future income taxes payable .

The table below shows the difference between accounting and tax values as well as deferred tax liabilities at the end of 1997 and 1996. Negative and positive temporary differences that reverse or can be reversed in the same period have been offset against each other.

	1997	**1996**
- Current assets / current liabilities	-428 299	-699 999
- Non current assets	1 691 426	57 422 740
- Profit and Loss account	77 269 041	10 708 521
Amount determining deffered taxes	78 532 168	67 431 262
Nominal tax rate	28 %	28 %
Deffered tax liabilities	21 989 007	18 880 753
Included in shares of subsidiaries	-591 507	
Deffered tax liabilities	21 397 500	
Income taxes in the income statement consist of:		
Changes in deferred taxes	2 516 747	-722 271

Note 9 - Other current liabilities

Choice Hotels Scandinavia ASA has guaranteed the completion of the development work at Skjærgården Hotel and Badepark, which has been sold to Eiendomsspar AS as of 30.12.1997. In order to complete the project, provisions of NOK 13,700,000 have been made at 31.12.1997. Other current liabilities also include a mortgage of SEK 242,375,000 (NOK 224,778,575), with a floating interest rate. The Company has further loaned the total amount under the mortgage to Home Hotel AB with the Group's Swedish hotel properties as collateral. The mortgage will be transferred to Home Hotel AB in 1998.

Note 10 - Operating revenues (Amounts in NOK)

Operating revenues for 1997 consist of:	
Management fees from Group companies	21 931 387
Rent from Skjærgården Hotel and Badepark	11 594 265
Profit made through sale of properties and shares of property owning companies	102 026 604
Miscellaneous income	2 858 614
Total operating revenues	138 410 870

Note 11 - Presidents salary and benefits

Salary and benefits to the former President of the Group, who resigned in September 1997, totallled NOK 4.080.471. This also includes his final payment in accordance with his employment contract. Salary and benefits to the current President totalled NOK 400,514.

Note 12 - Rental agreements

The Company has entered into leasing agreements on six cars and miscellaneous furniture. The cars are leased for a period of two to three years. Furniture is leased for a period of two to five years. The total leasing costs in 1997 amounted to NOK 622,895.
The Company rents offices in Olav V's gt 6 in Oslo. The rental agreement expires at 01.01.2004. Annual rental costs total NOK 1,728,000.

Note 13 - Changes in equity (Amounts in NOK)

	Share capital	Other restricted equity	Legal reserve	Revaluation reserve	General reserve	Total
Equity 01.01.1997	2 128 745	982 230	86 418 177	17 280 000	2 167 803	108 976 955
Increase in share capital	982 230	-982 230				0
Issuance of shares	853 053		112 375 876		112 701 174	225 930 103
Share issuance costs					-14 691 049	-14 691 049
Net profits of the year			9 068 322		12 350 898	21 419 220
Total by 31.12. 1997	3 964 028	0	207 862 375	17 280 000	112 528 826	341 635 229

Note 14 - Collateral obligations and guarantees (Amounts in NOK)

Collateral obligations:

Machines, furniture and fittings, etc. have a book value of NOK 3,065,715 which is collateral for rental commitments, by subsidiaries

Guarantees:

Guarantees for rental commitments by subsidiaries*)	1 605 434 300
Guarantees for rental to leasing commitments by subsidiaries	1 112 600
Potential liability KS AS Skagen Hotellbygg	285 000
Total guarantees	1 606 831 900

*)Gurantees for rental commitments by subsidiaries represent annual guarantee amounts multiplied by the guarantee period.The amount is not discounted. The guarantee amount is distributed over the following time period:

	1-12 mo.	1-5 years	5-10 years	10-15 years	15-20 years
Guarantee amounts for the period	218 999 000	402 301 300	445 134 000	274 000 000	265 000 000
Average annual guarantee amounts	218 999 000	100 575 325	89 026 800	54 800 000	53 000 000

External annual rental costs for the Group for 1998 are estimated to be NOK 290.0m.

Note 15 - Conditional commitments

The employment contract with the President included a clause granting her the right to compensation equal to six months salary in addition to the legal resignation period of three months if she resigns of her own accord. If the Company were to terminate her employment, she would be entitled to compensation equal to twelve months salary as well the legal resignation period.
This does not apply to valid resignation.

Note 16 - "RISK" -amount

Continuous “RISK” per share at 01.01.1997 is estimated to be NOK 25.08 (622,195 share at a par value of NOK 5.00).

Note 17 - Pension liabilities

The Company has no pension liabilities to any employees

Note 18 - The Group

The Group consists of the following companies at 31.12.1997:

	% share owned by the Group		% share owned by the Group
Choice Hotels Scandinavia ASA (parent company)		Home Hotel AS	100
Quality Hotels Operations AS	100	Amanda Home Hotel AS	100
Quality Park Hotel AS	100	Atlantic Home Hotel AS	100
Quality Ambassadeur Hotel AS	100	Bakeriet Home Hotel AS	91
Hotellpartner Drammen AS	100	Bryggen Home Hotel AS	100
Quality Airport Hotel Stjørdal AS	100	Hammer Home Hotel AS	100
Quality Hafjell Hotel AS	100	Tollboden Home Hotel AS	100
Quality Airport Hotel Gardermoen AS	100	With Home Hotel AS	100
Quality Panorama Hotel AS	100	Home Hotel AB	100
Quality Airport Hotel Stavanger AS	100	AB Liljekonvaljen	100
Quality Kristiansand Hotel AS	100	Bilan Home Hotel AB	100
Quality Residence Hotel AS	100	Bolinder Munktell Home Hotel AB	100
Quality Vestlia Hotel AS	100	Eurostop Hotell & Restauranger AB	100
Badedrift AS	100	Fregatten Home Hotel AB	100
Quality Maritim Hotel Florø AS	100	Förvaltnings AB Bataljonen	100
Quality Edvard Grieg AS	100	HB Harpan	100
Comfort Hotels Operations AS	100	HB Nithammaren	100
Comfort Hotel Holberg AS	100	HB Ran 1	100
Comfort Hotel Børsparken AS	100	Home Hotel Ekonomiledning AB	100
Comfort Hotel Majorstuen AS	100	Home Hotel i Oskarshamn AB	100
Comfort Home Hotel Grand AS	100	Home Hotel i Umeå AB	100
Clarion Hotels Operations AS	100	Home Hotel i Jönköping AB	100
Clarion Royal Christiania Hotel AS	100	Home Hotel Invest AB	100
Clarion Admiral Hotel AS	100	Majoren Home Hotel AB	100
Clarion Gardermoen Hotel AS	100	Göteborgs Kongresservice AB	100
Clarion Grand Olav Hotel AS	100	Hotell Panorama KB	100
Clarion Tyholmen Hotel AS	100	BB Hotels AB	100
Clarion Ernst Hotel AS	100	Hotellfastigheter i Göteborg AB	100
Clarion Drift AS	100	KB Fregatten	100
Choice Hotels AS	100	Kompaniet Home Hotel AB	100
Inter Nor Hotels AS	100	Packhuset Home Hotel AB	100
Othello AS	100	Tapto Home Hotel AB	100

The Group's income statement for 1997 includes results for certain companies in the Group which have been sold during 1997, for the period under which these companies have been in Choice ownership. The companies are:

Sørlandets Hotell Compagnie AS
Strand Hotel Fevik AS
Mastemyr Hotel AS
Hotellgården AS
Tollbugt 43 AS
Torggården AS
KS Bryggen Hotel AS
KS Torggården AS
Bakerikvartalet AS
KS Bakerikvartalet
Sjøgaten Eiendomsutvikling AS

Note 19 - Cash and cash equivalents

NOK 11,804,924 of cash and cash equivalents are restricted for taxes due

Note 20 - Accounts receivable from customers

Losses on accounts receivable to customers, totalling NOK 2,881,776, have been deducted from accounts receivable. (1996: NOK 2,369,820).

Note 21 - Other shares and company ownerships (Amounts in NOK)

Name of company	Share capital	Ownership %	No. of shares	Par value	Book value
KS AS Skagen Hotelbygg		3.0			975 000
Prize Hotels AB *)	SEK 100,.000	20.0	200	SEK 100.00	236 771
Minor share holdings Norway (cost)					387 578
Minor share holdings Sweden (cost)					102 740
Total					1 702 089

*) Share of associated company.

Note 22 - Fixed assets (Amounts in NOK)

	Machinery equipment, etc.	Buildings	Land	Goodwill	Total
Historic cost 01.01.1997	90 293 573	654 910 690	53 624 474	0	798 828 737
Provisional differences	-136 843	-5 194 584	-215 708	0	-5 547 135
Increases during the year	48 144 102	183 971 396	9 492 000	109 952 270	351 559 768
Divestments during the year (cost)	-20 760 478	-420 947 235	-52 988 445	0	-494 696 158
Historic cost 31.12.1997	117 540 354	412 740 267	9 912 321	109 952 270	650 145 212
Accumulated depreciation and write-downs	-38 513 476	-6 617 219	0	-10 369 069	-55 499 764
Book value 31.12.1997	79 026 878	406 123 048	9 912 321	99 583 201	594 645 448
Ordinary depreciation 1997	31 690 787	12 878 205	0	10 369 069	54 938 061
Annual rate of ordinary depreciation	10/33 %	2 %		10/20 %	

Total capitalised revaluation reserves in the Group total NOK 42,993,217.

Investments and divestmenst of fixed assets in the last 5 years (Amounts in NOK ‘000)

	Machinery, equipment, etc.		Buildings		Land	
	Investments	Divestments	Investments	Divestments	Investments	Divestments
1993	2 846	-89	19 364	-1 495	0	0
1994	10 605	0	61 967	0	4 570	0
1995	3 850	-518	12 811	-15 014	0	-243
1996	55 728	-194	459 411	-2 275	29 960	0
1997	48 144	-6 568	183 971	-547 560	9 492	52 988

The investments are at historic cost. Divestments are shown as sales price.

Note 23 - Overdraft facility

The unused overdraft facility in Norwegian companies total NOK 100.000.000 at 31.12.1997.
The unused overdraft facility in Home Hotels AB, Sweden, is SEK 10,000,000 at 31.12.1997.

Note 24 - Other long term liabilities

Other long term liabilities includes a mortgage of SEK 242,375,000 (NOK 224,778,575) with a floating interest rate and with a price set at 31.12.1997.
The mortgage is repayable over 20 years with the Group’s Swedish hotel properties as collateral.

Note 25 - Deferred taxes

Below is a specification of the tax effect of temporary differences between book and tax values and the tax loss-carry-forward at the end of the year.
Deferred taxes in 1997 are calculated based on temporary differences which are not eliminated (primarily pension and valuation reserves on Group properties), using nominal tax rates (28%). The Group is, at the end of 1997, not in a tax paying position
Net deferred tax asset is not recorded in the balance sheet as this is restricted by the Securities Act.

(Amounts in NOK ‘000)		1997	1996
Current assets / current liabilities		-3 237	
Profit and Loss account		23 647	
Non current assets / long term liabilities		8 502	
Total differences		28 912	11 032
Loss-carry-forward	Norway	-25 922	-69 860
	Sweden	-122 804	-90 366
Net tax effect		-119 814	-149 194
Deferred taxes		12 895	39 304
Deferred loss-carry-forward		12 895	0
Net off-balance deferred tax asset		-119 814	-188 498

The tax loss-carry-forward in Sweden of SEK 473m is based on an estimate. This tax loss-carry-forward can only reduce future taxable profits in companies which the Group owned by the end of 1996. The right to carry the loss forward is not limited by time. The tax loss-carry-forward in Norway is NOK 92.6m and expires in the period 2005-2006.

Note 26 - Income taxes (Amounts in NOK '000)

	1997	1996
Income taxes payable in Norway	2 945	735
Income taxes payable in Sweden	0	59
Change in deferred taxes, Norway	-24 198	-609
Change in deferred taxes, Sweden	-16 401	0
Income taxes, as per the income statement	-37 654	185

Note 27 - Operating revenues (Amounts in NOK '000)

Operating revenues for 1997 consist of:

Room rentals	635 557
Food & Beverage revenues	392 152
Other sale of goods	75 113
Income from franchise activities and card products	28 224
Profits from sale of properties or shares in properties	171 682
Miscellaneous income	2 919
Total operating revenues	1 305 647

Of which operating revenues in Norway total NOK 1,097.6m and NOK 208,0m in Sweden.

Note 28 - Rental contracts

The Group has entered into rental contracts for all non-owned hotels under management, except for Clarion Admiral Hotel where there exists a management contract.

The rent is usually based on a percentage of the hotel's revenues, with an absolute minimum rent specified.

The rental contracts are long term. The average remaining rental period for the Group's rental contracts is approximately 11 years.

The company has company cars for which leasing contracts have been entered into. These leasing contracts last for two to three years.

In addition, there are leasing agreements for miscellaneous furniture and equipment. Furniture and equipment are leased for periods of three to five years. All leasing expenses have been classified as other operating expenses.

Note 29 - Pensions (Amounts in NOK '000)

The pension plans are treated according to the accounting standard set by NRS for pension costs.

The employees of the Home hotels in Norway (7 hotels) and employees of Clarion Royal Christiania Hotel AS are covered by pension plans that entitle them to future pension payments. These plans are treated as defined benefit plans.

The net pension fund assets/pension liabilities of the Group by 31.12.1997:

	Under-funded plans	Over-funded plans
Present value of accumulated pension liabilities	5 318	9 708
Value of pension fund assets	4 685	14 799
Estimated net pension fund assets / (liabilities)	-633	5 091
Estimate deviation	-	1 482
Net pension fund assets / (liabilities) in the balance sheet	-633	3 609

1997 pension costs	
The present value of last year's accumulated pensions	399
The interest cost of the pension liabilities	629
Return of pension fund assets	-1 102
Net pension costs	-74

The following economic and actuary assumptions have been made:

Return on pension fund assets	8.0 %
Discount rate	7.0 %
Annual expected wage increased / "G-adjustment"	3.0 %
Annual adjustment of pensions	0.0 %

Employees in the Swedish hotels are covered by a defined contribution plan. This means that they are not guaranteed in advance a known payment when retiring. The pay-out will depend upon the financial management of the pension contributions which have been made. The annual contribution is included under wages and social costs.

Note 30 - Changes in equity (Amounts in NOK '000)

Consolidated equity 01.01.1997		123 685 205
Proceeds from share issuance		
in Choice Hotels Scandinavia ASA	225 930 103	
Share issuance costs	-14 691 049	211 239 054
Currency translation differences		-1 730 215
Consolidated net profits 1997		213 308 514
Consolidated equity 31.12.1997		546 502 558

Note 31 - Collateral obligations and guarantees

Guarantees:

Guarantees for rental commitments by subsidiaries *)	1 609 474 000
Guarantees for leasing commitments by subsidiaries	4 526 000
Potential liability KS AS Skagen Hotellbygg	285 000
Total guarantees	1 614 285 000

*) Gurantees for rental commitments by subsidiaries represent annual guarantee amounts multiplied by the guarantee period. The amount is not discounted. The guarantee amount is distributed over the following time period:

	1-12 mo.	1-5 years	5-10 years	11-15 years	15-20 years
Guarantee amounts for the period	223 038 700	402 301 300	445 134 000	274 000 000	265 000 000
Average annual guarantee amounts	223 038 700	100 575 325	89 026 800	54 800 000	53 000 000

External annual rental costs for the Group for 1998 are estimated to be NOK 290.0m.

Collateral obligations:

NOK 250,282,075 of the total debt is secured by collateral.

Moreover, factoring agreements with financial institutions result in the collateralisation of accounts receivable from customers and inventories to provide security for the overdraft facility. Some of the furniture is used as collateral for subsidiaries' rental commitments.

The book value of collateralized assets is (Amounts in NOK):

Buildings	302 956 000
Land	9 912 321
Accounts receivable from customers	54 671 444
Inventories	8 149 897
Machinery, furniture, etc.	35 006 751
Total collateral obligations	410 696 413

Deloitte & Touche

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Translation from the original Norwegian version

To the Annual Shareholders' Meeting of Choice Hotels Scandinavia ASA

AUDITOR'S REPORT FOR 1997

We have audited the annual report and accounts of Choice Hotels Scandinavia ASA for 1997 which shows a profit for the year of NOK 90.683.220 for the parent company and a consolidated profit for the year of NOK 213.309.000. The annual report and accounts, which comprise the Board of Directors' report, profit and loss account, balance sheet, cash flow statement, notes to the accounts and consolidated accounts, are presented by the company's Board of Directors and its managing director.

Our responsibility is to examine the company's annual report and accounts, its accounting records and other related matters.

We have conducted our audit in accordance with relevant laws, regulations and Norwegian generally accepted auditing standards. We have performed those audit procedures which we have considered necessary to confirm that the annual report and accounts are free of material misstatements. We have examined, on a test basis, the evidence supporting the accounts and assessed the accounting principles applied, the estimates made by management, and the content and presentation of the annual report and accounts. To the extent required by Norwegian generally accepted auditing standards we have reviewed the company's internal control and the management of its financial affairs.

The Board of Directors' proposal for the application of the profit for the year is in accordance with the requirements of the Norwegian Joint-Stock Companies Act.

In our opinion, the annual report and accounts have been prepared in accordance with the requirements of the Norwegian Joint-Stock Companies Act and present fairly the financial position of the company and of the group as of December 31, 1997 and the result of its operations for the financial year, in accordance with Norwegian generally accepted accounting principles.

Oslo, March 31, 1998
DELOITTE & TOUCHE

Alf-Anton Eid
State Authorized Public Accountant (Norway)

Deloitte Touche Tohmatsu International

Bergen Florø Førde Haugesund Kristiansand Kristiansund Oslo
Sandefjord Sogndal Stavanger Steinkjer Trondheim Volda Ørsta

Medlemmer av Norges Statsautoriserte Revisorers Forening

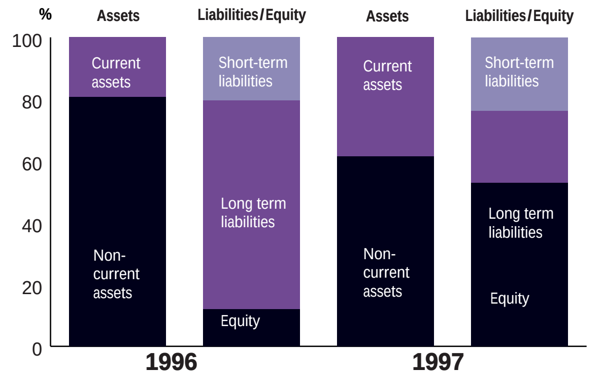
The Group had at the end of the year a total capital balance of NOK 1,032.9m which is an increase of NOK 11.4m over the previous year. Even though the level of total capital of the Group has not changed significantly, its financial structure has undergone substantial changes. The Group has strengthened its solidity through an increase in the equity-to-assets ratio from 12.1% to 52.9%. The increase is due to a share issuance which provided a total of NOK 211.2m and profits in 1997 of NOK 213.3m.

Throughout 1997 the Group has reduced its total debt from NOK 897.7m to NOK 486.4m. Total debt at the end of the year comprised of short term debt of NOK 247.2m and long term debt of NOK 239.2m. Of the NOK 239.2m long term debt, NOK 224.8m (SEK 242.4m) is a long term mortgage with Svenska Handelsbanken. The mortgage has a floating interest rate based on STIBOR + 0.6%, which in currently set at 5.35%. In addition to this mortgage, NOK 27.1m of the Group's debt is interest bearing.

The reduction in the Group's total debt is, among other factors, due to the repayment of mortgages on hotel properties sold during 1997. Of the 11 owned hotels, Quality Vestlia in Norway and Quality Panorama in Sweden had no mortgage at the end of the year. The hotels will be mortgaged for NOK 140m in the first half of 1998.

The Group has increased its liquidity position considerably during the year. Total current assets are NOK 397.8m, an increase of NOK 200.2m from 1996. In relation to the current debt, this gives a current ratio of 1.61. Cash and cash equivalents comprise NOK 278m of current assets. The high cash level is mainly due to the sale of hotel properties and new share issues carried out in 1997.

The Group's capital structure at 31.12.



New share Issuances – Merger, Stock Exchange Listing

At an extra-ordinary General Meeting on the 21st of January 1997, the shares were split from a par value of NOK 5.00 per share to NOK 0.10 per share. Following this transaction, the Company had a share capital of NOK 2,128,745 divided into 21,287,450 shares. The Company had several new share issuances in 1997. In connection with the merger with Jaco Holding AS and Skjærgården Hotel and Badepark AS in April of 1997, a total of 9,822,300 shares were issued. In the same month a private placement of 8m shares were placed with a limited number of investors in Norway and Sweden. Moreover, in May 1997 a private placement to shareholders of Inter Nor Hotels AS issued 444,485 shares, and in June 1997 private placement to employees in Choice Hotels Scandinavia ASA placed 86,050 shares. After these share issuances, the Company's current share capital totals NOK 3,964,028.50 divided into 39,640,285 shares at a par value of NOK 0.10 per share.

The Company was listed in May of 1997 on the Oslo Stock Exchange Main List. The Company was simultaneously converted into a public company (ASA), changing its name to Choice Hotels Scandinavia ASA.

Shareholder Policy

The aim of the Company's policy towards shareholders is that the share price at any moment in time reflects the undelying value of the Company. Shareholders are to be given an attractive financial return and thus the Company will have access to the equity market to ensure development of the Company. The return to the shareholders will emerge through long term share price appreciation and dividends. It is the aim of the Company that the shares of Choice Hotels Scandinavia ASA are seen as an attractive and liquid investment alternative to both Norwegian and foreign investors.

Shareholder Structure

The Company had 668 shareholders at the end of the year, of whom 620 were Norwegian and 48 foreign. The Company's largest shareholder, Mr. Christen Sveaas, sold all his holdings in the Company during the year. Chairman of the Board of Directors, Petter A. Stordalen owns either directly or indirectly 27.0% of the shares of Choice Hotels Scandinavia ASA. In general, the company's shareholder structure is dominated by institutional investors as well as a growing share of foreign investors.

Share Capital Repayment to Shareholders

Due to the good liquidity and strong balance sheet of the Company, the Board proposes to increase the share capital through a transfer from reserves and thereafter reduce the share capital of the Company and distribute NOK 5.00 per share to the shareholders, totalling a pay-out of NOK 200m. At the earliest, the repayment to the shareholders can be executed after the legal creditor notification period expires. The proposed repayment is expected by the end of August 1998.

The table below shows the 20 largest shareholders of the Company as of 27.03.98:

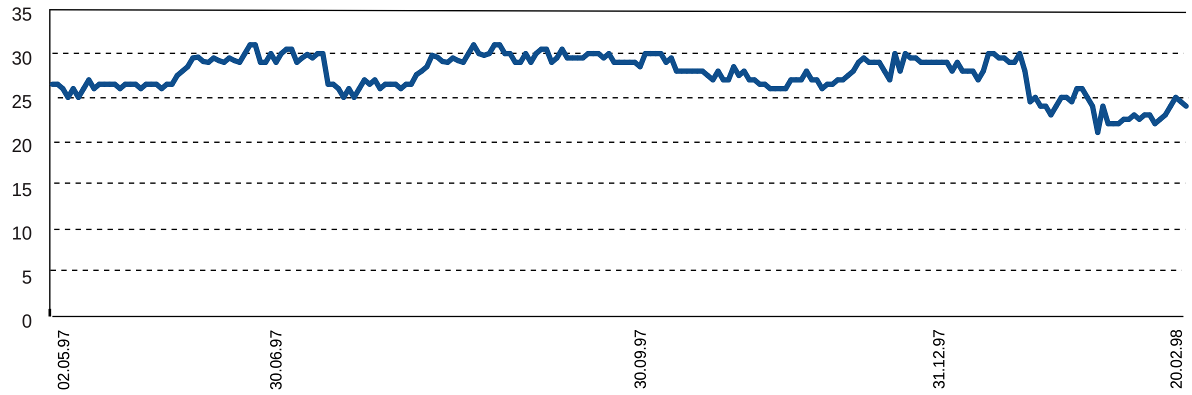
20 LARGEST SHAREHOLDERS:

	No. of shares	%
Petter Anker Stordalen and companies	10 689 949	27,0 %
Odin-fondene	3 957 050	10,0 %
Avanse-fondene	1 952 750	4,9 %
DnB Investor-fondene	1 764 000	4,5 %
K-fondene	1 642 243	4,1 %
Morgan Guarantee Trust Co.	1 546 000	3,9 %
Union Bank of Switzerland	1 419 000	3,6 %
Chase Manhattan Bank	1 040 500	2,6 %
The Northern Trust	1 000 000	2,5 %
Harald Jacobsen	684 515	1,7 %
Vital Forsikring	666 000	1,7 %
Federated International	564 000	1,4 %
Geir Wicklund	500 000	1,3 %
Industrifinans Aktiv	474 000	1,2 %
Statoils Pensjonskasse	452 000	1,1 %
Morgan Stanley Trust Co.	336 000	0,8 %
Fondsforvaltning.fondene	326 000	0,8 %
Ceder Bank	325 000	0,8 %
Fokus Bank	311 200	0,8 %
Boston Saf Dep & Trust	300 000	0,8 %
Other shareholders	9 690 078	24,4 %
Totalt no. of shares	**39 640 285**	**100,0 %**

Share price development

The Company was listed on the Oslo Stock Exchange in May 1997. The share price at the time of the listing was NOK 26.50. The share price has fluctuated to a maximum of NOK 31.00 and minimum of NOK 21.00. The share price at the end of the year was NOK 25.00 which gives a total capitalisation of NOK 991.0m.

Share price Choice Hotels Scandinavia ASA



”The Freedom to Choose is Our Resource”

The motto of our new organisation in Choice Hotels Scandinavia could have been ”Aim for the stars, but keep both feet on the ground”. It is an organisation characterised by professionalism, enthusiasm, congeniality and high responsiveness. We have proven our flexibilty and adaptibility through the growth and changes we have accomplished. Today, Choice consists of people with energy and self-confidence which in turn reflects on the Group. Our systems for reporting and monitoring emphasise quality assurance and give efficient feedback on deviations. Previously, we separated management responsibility for our three segments, whereas now, we are one organisation responsible for the total Group. Hence, we co-ordinate our activities and enjoy synergy between all of them. We will continue to strengthen our three separate brand names, yet we will do so in a coordinated way.

From the front left: Director of Operations Bobbo Steen, Director of Sales and Franchise Linda Bernander Silseth, Vice-president Investor Relations Jon Erik Brøndmo. From the back left: Vice-president Project Development Torgeir Silseth, Financial Director Paal Nordheim, Director of Business Development Erik Bruu and President Siri-Lill Stensby.

”The diverse employee creates our product”

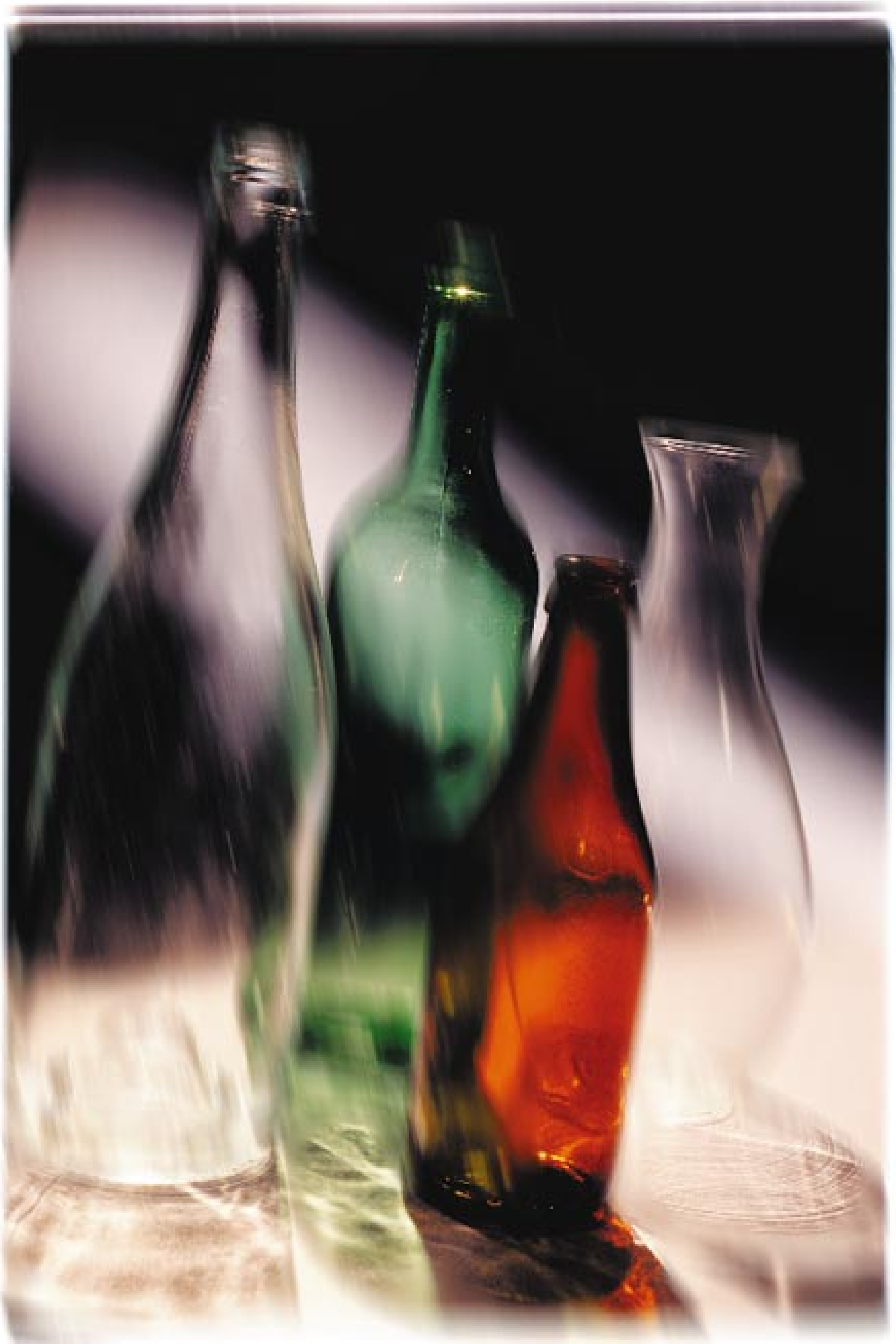
Our guests will find a hotel they are comfortable with, whether they arrive in shorts or in a dinner jacket. This is what our segmentation is all about: to meet the customer’s requirement regardless of his or her situation. There might be shades of grey between our segments, indeed they have many commonalities such as the personal service and empathy which dominate all of our hotels.

Next, we present some characteristics of each of our three segments:

Our Clarion hotels are first class full-service hotels of a very high standard, usually located in city centres. The hotels are amongst the largest within our Group, commonly offering several restaurants and other amenities targeted at businessmen and business-women. The Clarion hotels have all the facilitites to satisfy our most demanding guests.

Full-service also denotes our Quality hotels, the largest of our segments both in Scandinavia and world-wide. Quality is often selected for conference as well as leisure purposes as these hotels are characterised by a relaxed atmosphere. Quality hotels may also be associated with recreational facilities.

The Comfort hotels are usually our smallest hotels, giving them a more personal quality. The Bed & Breakfast concept has been the model for this segment, thus this product offers business travellers efficient accommodation. The Comfort hotels keep high standards in combination with a distinct local area influence, indeed they may well be classical city hotels such as Comfort Hotel With in Tromsø and Comfort Hotel Bakeriet in Trondheim.



”It is choice that makes life interesting”

The Choice franchise contract, irrespective of hotel ownership, offers a wide range of services. For instance, our own booking system, Choice 2001 - the channel into the global booking systems. 3800 Choice hotels are on-line by means of Choice 2001. Moreover, the frequent guest card Choice Inhotel Card has attracted 45,000 loyal guests in Scandinavia, and Nordic Hotel Pass has 110,000 previous customers in its database. All of our hotels also benefit from the alliance agreements we have in place, and they can participate in high visibility marketing campaigns. The choice of the chain is effeciently communicated via co-ordinated and focused sales and marketing efforts.

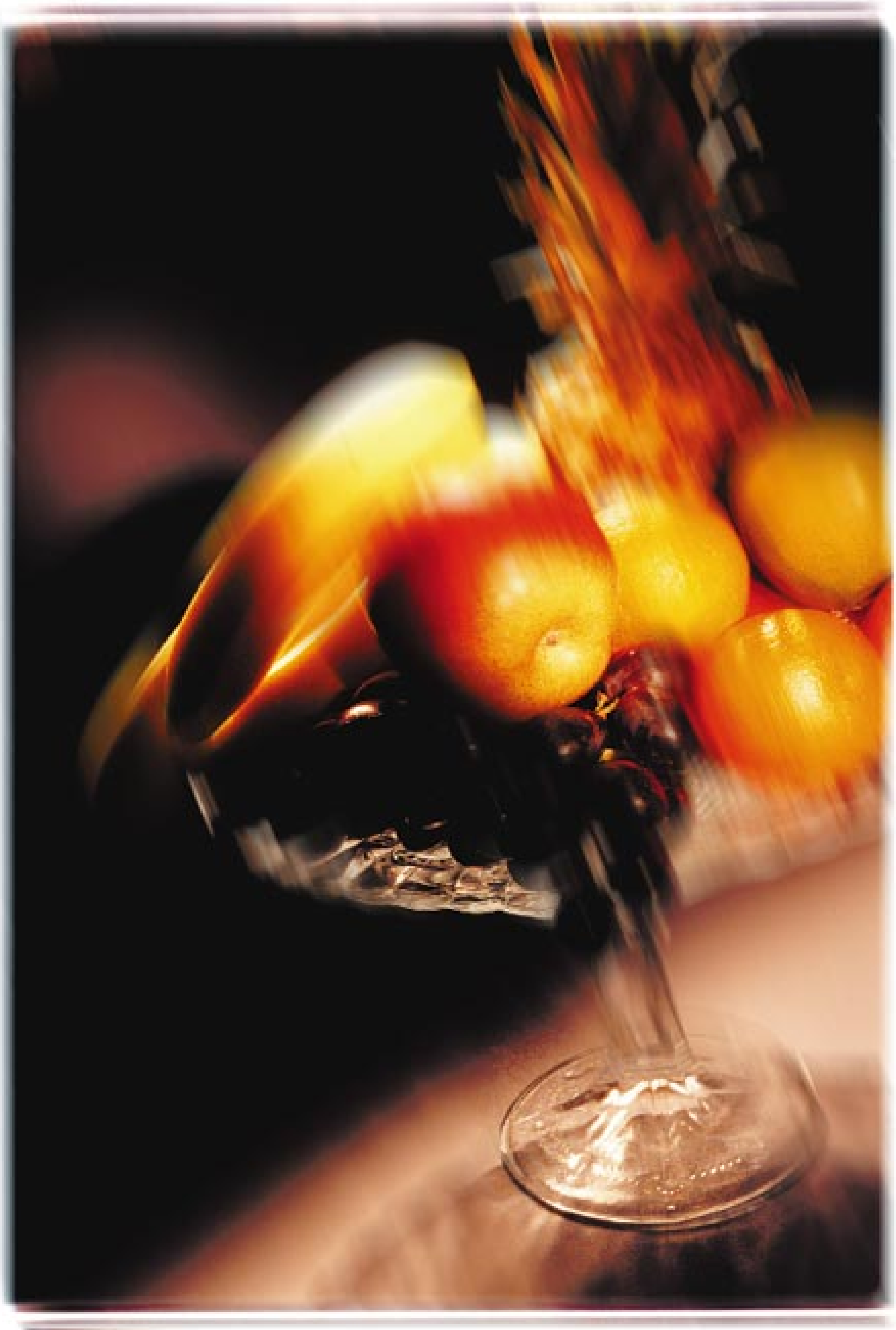
Stockholm '98
i orange
Bestill nå - bo billigere!
ÅLESUND, NORWAY
Comfort
Quality

”There is no wrong choice, only different choices”

The Choice chain is of a sufficient size to make the choice simple for our corporate clients regardless of their size. The strategic segments and range of our services enable us to become ”one-stop” providers of hotel services. This is also made possible by our integrated position in a major international hotel chain, as well as our existing network of travel agents and tour operators world-wide. Choice and availability make us the first choice for firms and conference hosts based in Scandinavia.

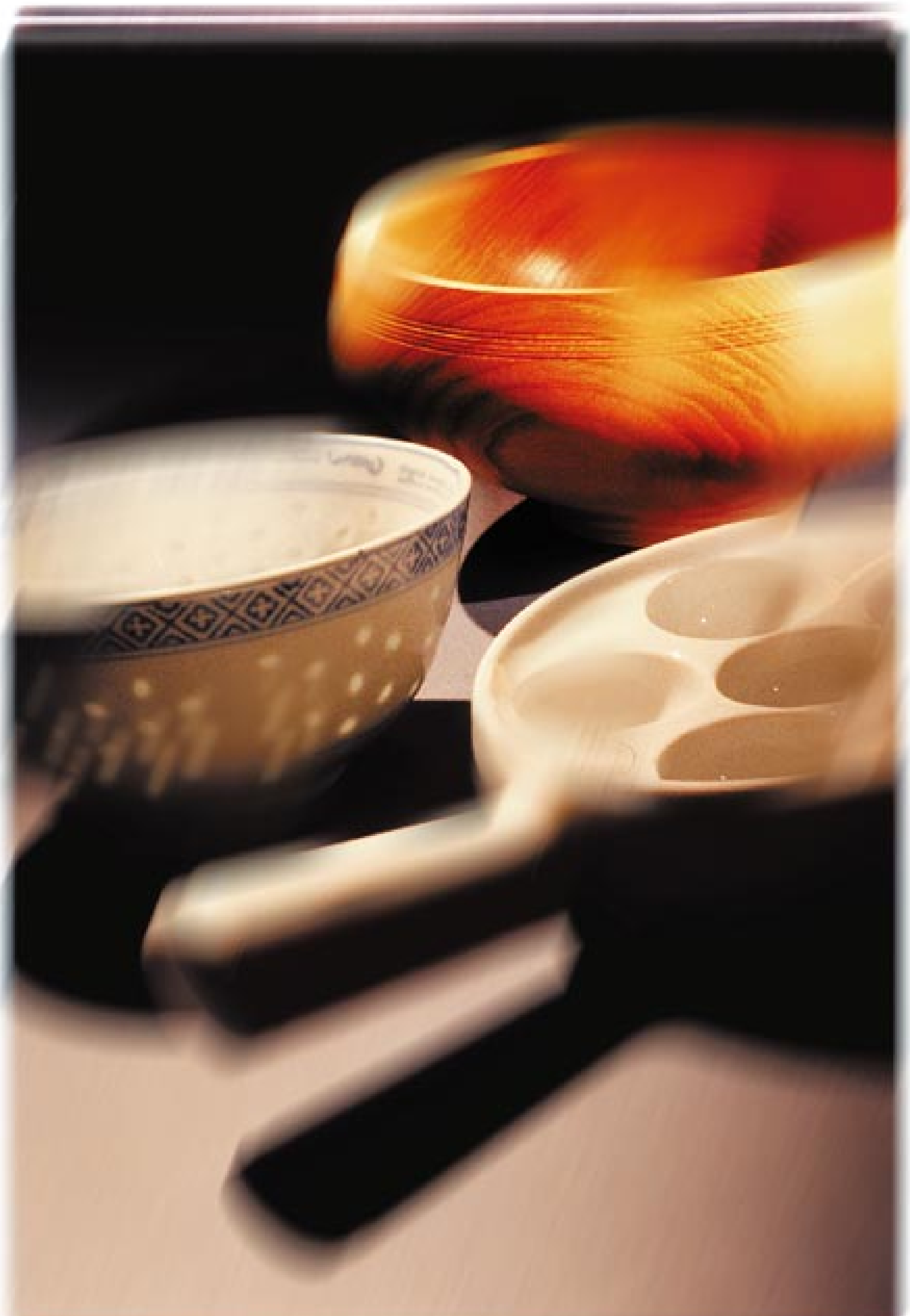
"It is easy to choose from the top shelf"

The world grows smaller as we travel more. The travel industry is the largest industry in the world and the fastest growing service industry. The hotel market in Scandinavia has seen radical changes in the last few years, and Choice Hotels Scandinavia has decisively contributed to this through its substantial expansion. Growth has become a significant factor of success in a market characterised by increased competition and new definitions of service. The same applies to the categorisation of the demands of the guests and the corresponding product adjustment. The emergence of large chains in the hotel business follows a globalisation of business in general and the increasing quality requirements of hotel guests. We can observe that the Choice hotels meet the guests expanding awareness about what they expect, and we receive daily indications that our product segmentation reaps success.



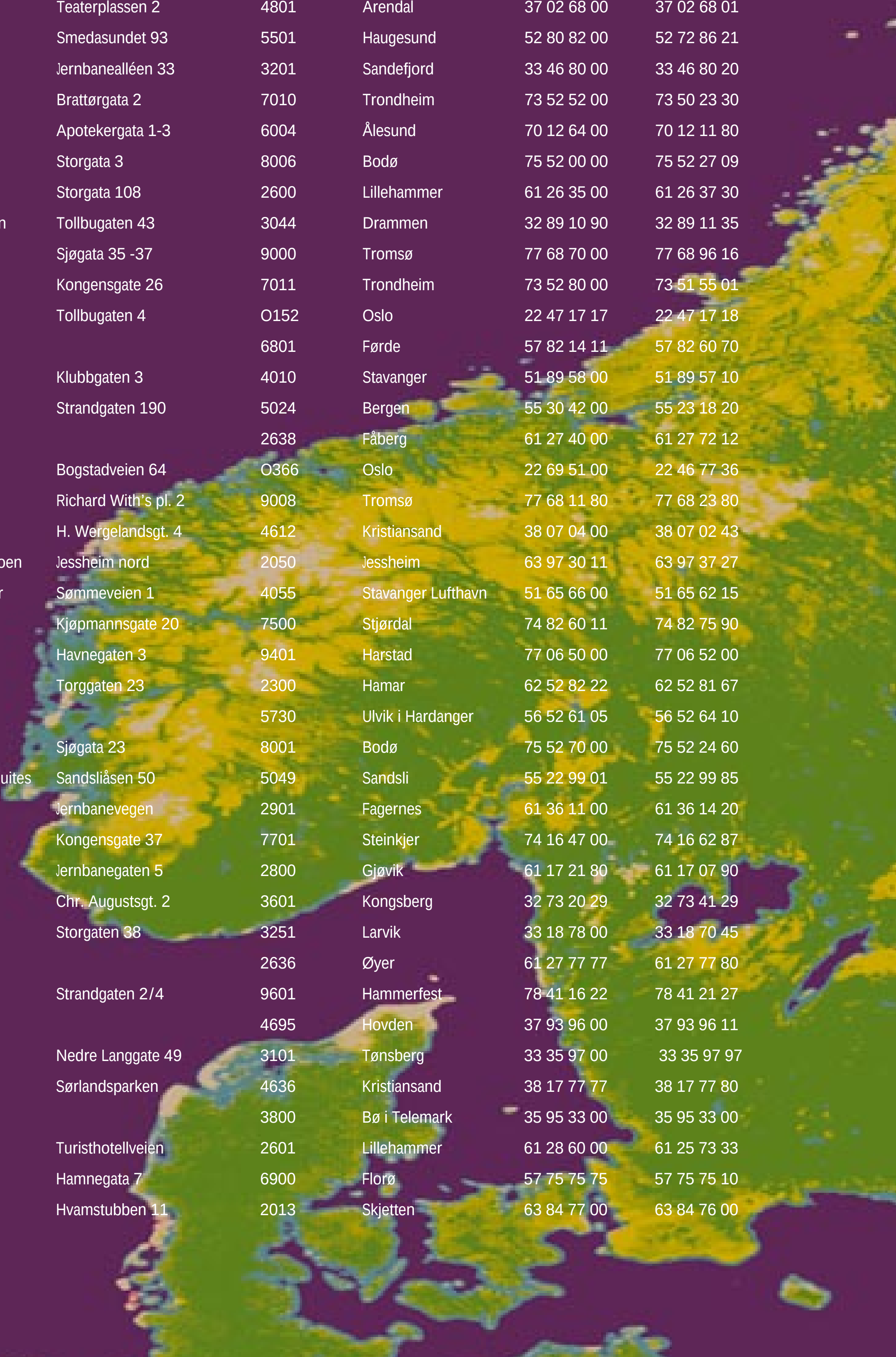
"The Free Will of Man Shapes the Future"

It is the choices of our guests that represent the origin of Choice Hotels Scandinavia. The guests set the requirements, and we deliver the products. In this world, living habits change more than ever and we experience new ways of prioritising time and money. This indicates clearly that the market is willing to pay for service, yet only that service which is defined and expected. No more, no less. Segmentation in terms of target customers and their situation is thus inevitable. Responsibility in terms of environmental consciousness is also a pre-condition in gaining the trust of customers. In the Choice Group we focus on efficient operations and conscientious choices of materials and vendors. Our actively listening organisation intends to convince existing and new guests that our hotels continuously recognise and adopt new requirements and desires.



AS OF 01.03.1998

Hotels in Norway	Visiting address	Postal code	Location	Tel.:	Fax:
Clarion Admiral Hotel	C. Sundts gate 9	5001	Bergen	55 23 64 00	55 23 64 64
Clarion Ernst Hotel	Rådhusgt. 2	4601	Kristiansand	38 12 86 00	38 02 03 07
Clarion Grand Olav Hotel	Kjøpmannsgate 48	7010	Trondheim	73 53 53 10	73 53 57 20
Clarion Oslo Airport Hotel	Sør-Gardermoen	2060	Gardermoen	63 94 94 94	63 94 94 95
Clarion Refsnes Gods		1501	Moss	69 27 04 11	69 27 25 42
Clarion Royal Christiania Hotel	Biskop Gunnerusgt. 3	0106	Oslo	23 10 80 00	23 10 80 80
Clarion Tyholmen Hotel	Teaterplassen 2	4801	Arendal	37 02 68 00	37 02 68 01
Comfort Home Hotel Amanda	Smedasundet 93	5501	Haugesund	52 80 82 00	52 72 86 21
Comfort Home Hotel Atlantic	Jernbanealléen 33	3201	Sandefjord	33 46 80 00	33 46 80 20
Comfort Home Hotel Bakeriet	Brattørgata 2	7010	Trondheim	73 52 52 00	73 50 23 30
Comfort Home Hotel Bryggen	Apotekergata 1-3	6004	Ålesund	70 12 64 00	70 12 11 80
Comfort Home Hotel Grand	Storgata 3	8006	Bodø	75 52 00 00	75 52 27 09
Comfort Home Hotel Hammer	Storgata 108	2600	Lillehammer	61 26 35 00	61 26 37 30
Comfort Home Hotel Tollboden	Tollbugaten 43	3044	Drammen	32 89 10 90	32 89 11 35
Comfort Home Hotel With	Sjøgata 35 -37	9000	Tromsø	77 68 70 00	77 68 96 16
Comfort Hotel Augustin	Kongensgate 26	7011	Trondheim	73 52 80 00	73 51 55 01
Comfort Hotel Børsparken	Tollbugaten 4	0152	Oslo	22 47 17 17	22 47 17 18
Comfort Hotel Førde		6801	Førde	57 82 14 11	57 82 60 70
Comfort Hotel Grand	Klubbgaten 3	4010	Stavanger	51 89 58 00	51 89 57 10
Comfort Hotel Holberg	Strandgaten 190	5024	Bergen	55 30 42 00	55 23 18 20
Comfort Hotel Hunderfossen		2638	Fåberg	61 27 40 00	61 27 72 12
Comfort Hotel Majorstuen	Bogstadveien 64	0366	Oslo	22 69 51 00	22 46 77 36
Comfort Hotel Saga	Richard With's pl. 2	9008	Tromsø	77 68 11 80	77 68 23 80
Comfort Hotel Skagerak	H. Wergelandsgt. 4	4612	Kristiansand	38 07 04 00	38 07 02 43
Quality Airport Hotel Gardermoen	Jessheim nord	2050	Jessheim	63 97 30 11	63 97 37 27
Quality Airport Hotel Stavanger	Sømmeveien 1	4055	Stavanger Lufthavn	51 65 66 00	51 65 62 15
Quality Airport Hotel Stjørdal	Kjøpmannsgate 20	7500	Stjørdal	74 82 60 11	74 82 75 90
Quality Arcticus Hotel	Havnegaten 3	9401	Harstad	77 06 50 00	77 06 52 00
Quality Astoria Hotel	Torggaten 23	2300	Hamar	62 52 82 22	62 52 81 67
Quality Brakanes Hotel		5730	Ulvik i Hardanger	56 52 61 05	56 52 64 10
Quality Diplomat Hotel	Sjøgata 23	8001	Bodø	75 52 70 00	75 52 24 60
Quality Edvard Grieg Hotel & Suites	Sandsliåsen 50	5049	Sandsli	55 22 99 01	55 22 99 85
Quality Fagernes Hotel	Jernbanevegen	2901	Fagernes	61 36 11 00	61 36 14 20
Quality Grand Hotel	Kongensgate 37	7701	Steinkjer	74 16 47 00	74 16 62 87
Quality Grand Hotel	Jernbanegaten 5	2800	Gjøvik	61 17 21 80	61 17 07 90
Quality Grand Hotel	Chr. Augustsgt. 2	3601	Kongsberg	32 73 20 29	32 73 41 29
Quality Grand Hotel Farris	Storgaten 38	3251	Larvik	33 18 78 00	33 18 70 45
Quality Hafjell Hotel		2636	Øyer	61 27 77 77	61 27 77 80
Quality Hammerfest Hotel	Strandgaten 2/4	9601	Hammerfest	78 41 16 22	78 41 21 27
Quality Hovden Høyfjellshotell		4695	Hovden	37 93 96 00	37 93 96 11
Quality Klubben Hotel	Nedre Langgate 49	3101	Tønsberg	33 35 97 00	33 35 97 97
Quality Kristiansand Hotel	Sørlandsparken	4636	Kristiansand	38 17 77 77	38 17 77 80
Quality Lifjell Hotel		3800	Bø i Telemark	35 95 33 00	35 95 33 00
Quality Lillehammer Hotel	Turisthotellveien	2601	Lillehammer	61 28 60 00	61 25 73 33
Quality Maritim Hotel	Hamnegata 7	6900	Florø	57 75 75 75	57 75 75 10
Quality Olavsgaard Hotel	Hvamstubben 11	2013	Skjetten	63 84 77 00	63 84 76 00



Quality Oppdal Hotel		7340	Oppdal	72 42 11 11	72 42 08 24
Quality Panorama Hotel	Trondheim syd	7005	Trondheim	72 88 65 22	72 88 86 26
Quality Park Hotel	Lienga 11	1410	Kolbotn	66 80 75 00	66 80 86 62
Quality Prinsen Hotel	Kongensgate 30	7012	Trondheim	73 53 06 50	73 53 06 44
Quality Residence Hotel	Vågen 33	4300	Sandnes	51 62 35 00	51 66 32 45
Quality Ringerike Hotel	Kongensgate 3	3500	Hønefoss	32 12 72 00	32 12 72 05
Quality Røros Hotel	An-Magrittsvei	7460	Røros	72 41 10 11	72 41 00 22
Quality Savoy Hotel	Universitetsgt. 11	0164	Oslo	22 20 26 55	22 11 24 80
Quality Scandinavia Hotel	Løvenvoldgata 8	6002	Ålesund	70 12 31 31	70 13 23 70
Quality Skjærgården Hotel & Badepark	Stathellevn. 35	3970	Langesund	35 97 30 11	35 97 30 02
Quality Sogndal Hotel	Gravensteinsgata 5	5801	Sogndal	57 67 23 11	57 67 26 65
Quality Stord Hotel	Kjøtteinsveien	5400	Stord	53 40 25 00	53 40 25 01
Quality Straand Hotel		3853	Vrådal i Telemark	35 05 61 00	35 05 63 50
Quality Sunnfjord Hotel	Storehagen	6801	Førde	57 82 40 00	57 82 65 22
Quality Ulstein Hotel	Varleite	6065	Ulsteinvik	70 01 30 00	70 01 39 30
Quality Vestlia Hotel		3580	Geilo	32 09 06 11	32 09 16 89

Hotels in Sweden

Comfort Eurostop Hotel Arlandastad	Cederströmsslinga	195 86	Arlandastad	46 85 95 111 00	46 85 95 101 10
Comfort Eurostop Hotel Halmstad	E6-Fyllebro	301 19	Halmstad	46 35 18 35 00	46 35 18 38 99
Comfort Eurostop Hotel Jönköping	Ryhovsgatan	550 12	Jönköping	46 36 18 36 00	46 36 18 36 87
Comfort Eurostop Hotel Örebro	Borglundsgatan	701 19	Örebro	46 19 20 50 00	46 19 20 52 99
Comfort Home Hotel Bilan	Karlbergsgatan 3	652 24	Karlstad	46 54 10 03 00	46 54 21 92 14
Comfort Home Hotel Bolinder Munktell	Munktellstorget	633 43	Eskiltuna	46 16 16 78 00	46 16 12 77 12
Comfort Home Hotel Fregatten	Hamnplan	432 44	Varberg	46 34 07 70 00	46 34 06 11 121
Comfort Home Hotel Kompaniet	Folkungavägen 1	611 34	Nyköping	46 155 28 80 20	46 155 28 16 73
Comfort Home Hotel Majoren	Torggatan 7	541 30	Skövde	46 500 41 06 10	46 500 48 92 50
Comfort Home Hotel Packhuset	Skeppsbrogatan 26	392 31	Kalmar	46 48 05 70 00	46 48 08 66 42
Comfort Home Hotel Post	Stora Torget	572 33	Oskarshamn	46 49 11 60 60	46 49 11 70 18
Comfort Home Hotel Tapto	Jungsfrugatan 57	115 31	Stockholm	46 86 64 50 00	46 86 64 07 00
Comfort Home Hotel Uman	Storgatan 52	903 26	Umeå	46 90 12 72 20	46 90 12 74 20
Comfort Home Hotel Victoria	F. E. Elmgrens gatan 5	551 13	Jönköping	46 36 71 28 00	46 36 71 50 50
Comfort Hotel Prize	Carlsgatan 10 C	211 20	Malmö	46 40 611 25 11	46 40 611 23 10
Comfort Hotel Prize	Kungsbron 1	111 20	Stockholm	46 8 566 222 00	46 8 566 224 36
Comfort Hotel Savoy	Västra Torggatan 1a	652 24	Karlstad	46 54 15 66 40	46 54 15 74 29
Comfort Hotel Umeå	Norrlandsgatan 5	903 27	Umeå	46 90 12 58 00	46 90 14 10 75
Quality Grand Hotel	V. Storgatan 15	291 21	Kristianstad	46 44 10 36 00	46 44 12 57 82
Quality Hotel 11	Maskingatan 11	417 64	Göteborg	46 31 779 11 11	46 31 779 11 10
Quality Panorama Hotel	Eklandsgatan 51-53	400 22	Göteborg	46 31 767 70 00	46 31 767 70 70

Hotels in Denmark

Comfort Hotel Europa Excelsior	(1/6-98)				
Quality Hotel Høje Taastrup	Carl Gustavsgade 1	2630	Taastrup	45 43 99 77 66	45 43 99 72 66
Quality Hotel Østerport	Oslo Plads 5	2100	København	45 33 11 22 66	45 33 12 25 55

"The choice is yours"

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CHOICE HOTELS
SCANDINAVIA

Sleep Comfort Quality Clarion

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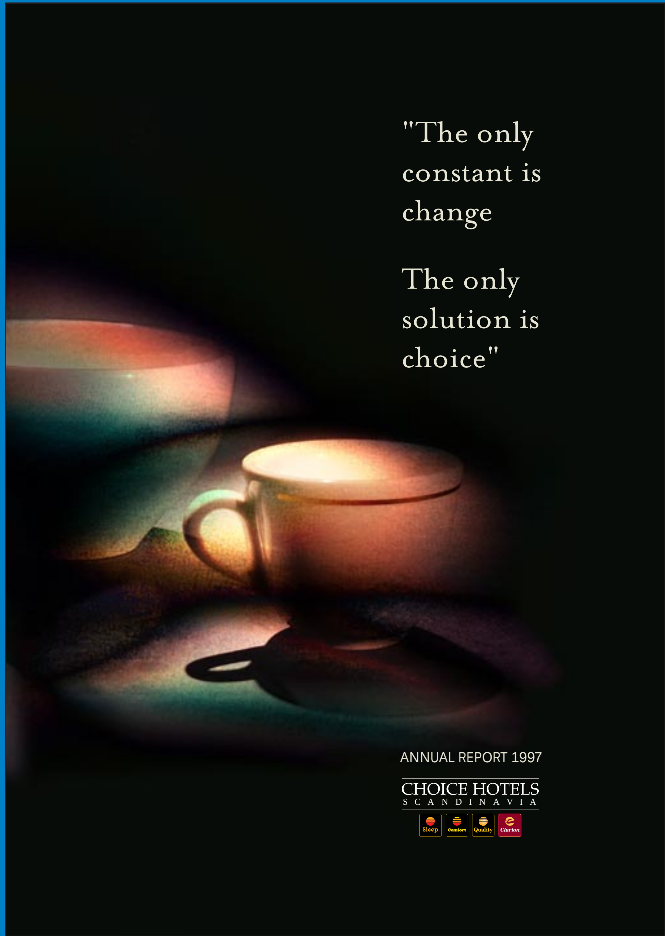

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