# Four Seasons Hotels Limited Annual Report 1972

## Four Seasons Hotels

| | |
|---|---|
| CANADA | |
| Inn on the Park | Toronto |
| Four Seasons Motor Hotel | Toronto |
| Four Seasons Sheraton Hotel | Toronto |
| Four Seasons Hotel | Belleville |
| Four Seasons Hotel | Vancouver* |
| Four Seasons Hotel | Calgary* |
| Inn on the Park | Montreal* |
| Four Seasons Hotel | Ottawa** |
| UNITED STATES | |
| Inn on the Park | Dallas, Texas** |
| OVERSEAS | |
| Inn on the Park | London |
| Inn on the Park | London*** |
| Four Seasons Hotel | London** |
| Four Seasons Hotel | Israel |
| Inn on the Park | Paris** |
| Inn on the Park | Rome** |
| Inn on the Park | Athens** |

*Under construction
**Under development
***Under development - 70 suite addition

REGISTRAR AND TRANSFER AGENT
Guaranty Trust Company of Canada
Toronto, Montreal, Winnipeg,
Calgary and Vancouver

STOCK EXCHANGE LISTING
Toronto Stock Exchange
Montreal Stock Exchange

GENERAL COUNSEL
Henry and Brown
Toronto

AUDITORS
Wm. Eisenberg & Co.
Toronto

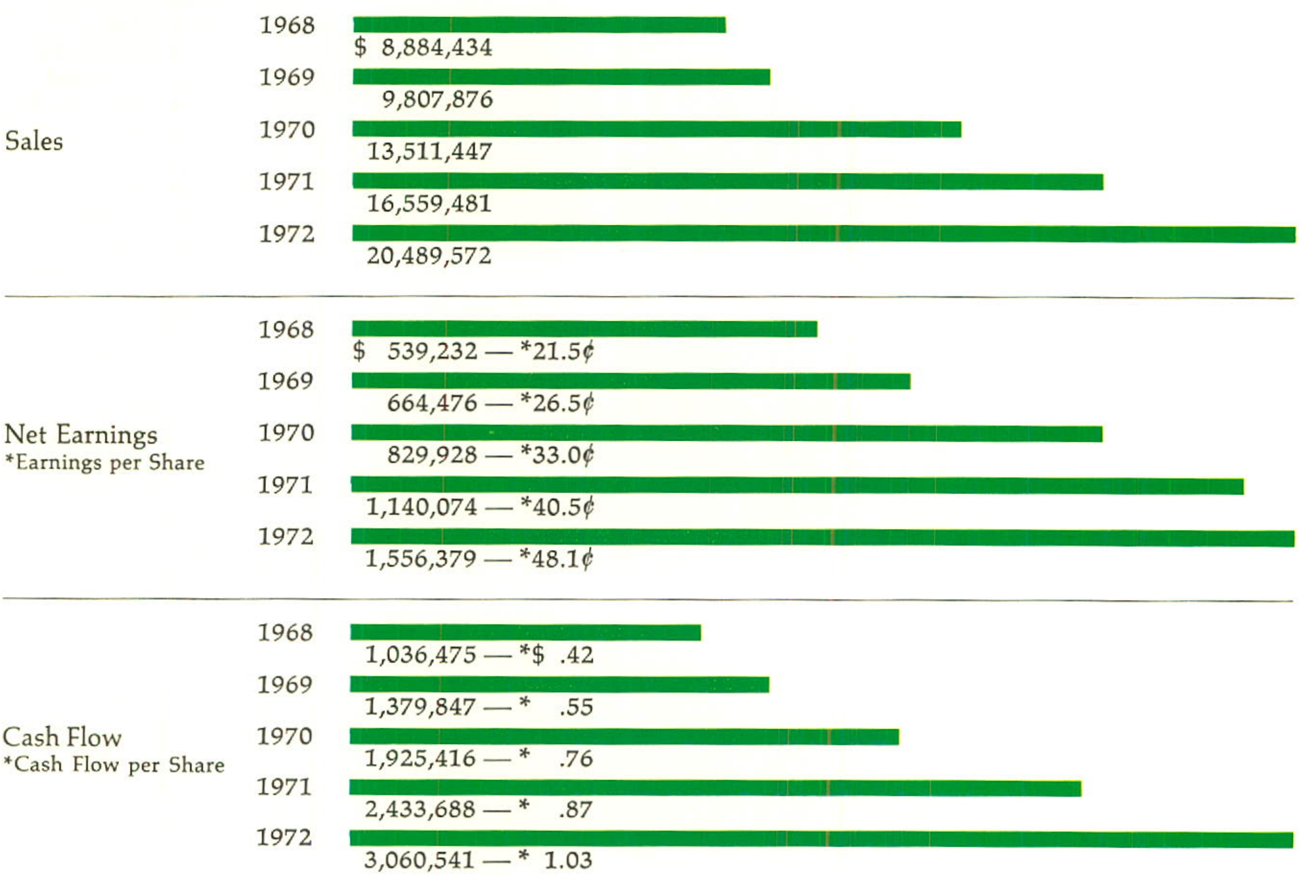
EXECUTIVE OFFICES
1100 Eglinton Avenue East
Don Mills, Ontario

## Financial Highlights

| | 1972 | | 1971 |
|---|---|---|---|
| Sales | $20,489,572 | +24% | $16,559,481 |
| Operating Profits — Hotels | 4,361,561 | +29% | 3,369,025 |
| — Real Estate | 170,355 | — | 167,952 |
| Net Earnings Before Extraordinary Item | 1,556,379 | +36% | 1,140,074 |
| Earnings per Share* | 48.1¢ | +19% | 40.5¢ |
| Cash Flow Before Extraordinary Item | 3,060,541 | +26% | 2,433,688 |
| Cash Flow per Share* | $1.03 | +18% | 87¢ |

*Based on the weighted average number of shares outstanding throughout each year after providing for preference share dividends in 1972 of $120,000 and before extraordinary income in 1972 of $125,150.

## Operating Review



I am extremely pleased to report that our 1972 year end results continued our growth pattern and showed a record 36% increase in earnings over 1971.

Sales at $20,489,572 increased 24% over the $16,559,481 achieved in the same period of 1971. Net earnings, after taxes and preferred dividends were $1,436,379 before an Extraordinary Item of $125,150 as compared to the $1,140,074 in 1971. Earnings per share before the Extraordinary Item were 48.1¢ over the 40.5¢, an increase of 19%. Earnings per share after the Extraordinary Item were 52.3¢.

Cash flow before the Extraordinary Item and after payment of Preference Share dividends at $3,060,541 showed an increase over the 1971 figure of $2,433,688. Cash flow per share was $1.03 before the Extraordinary Item as compared to 87¢ per share, an increase of 18%.

1972 was a fine year for our Company as the developments on which we have been working and planning for the last few years have progressed to the stage where they will soon become operational.

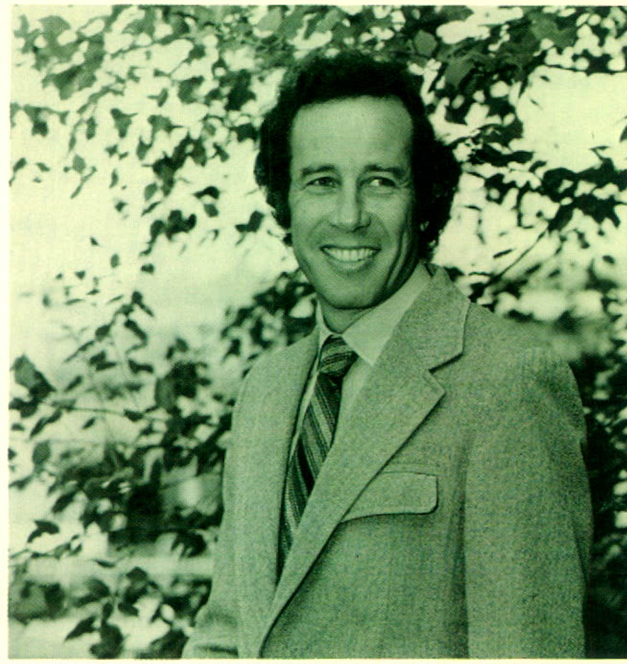
The Four Seasons Sheraton partially opened in late fall of 1972 and unfortunately the elevator strike gave the hotel more than its usual share of opening problems. However, with the strike now ended we expect to be fully operational by this summer. The response to the facilities has been extremely gratifying and business is booked well in advance for the next several years. The opening of this hotel culminates many years of hard work by both Sheraton and ourselves and we are all confident that a truly fine and profitable development has been created.

Our existing operations continued to generate business as forecast and with this solid base of earnings we are confident of the success of our planned expansion programme.

Throughout this annual report our new developments are highlighted and described in greater detail. Each project has been carefully chosen in order that it will reflect Four Seasons' philosophy of development. We are trying to create a group of hotels each self-sufficient and singularly strong, capable of attracting and sustaining business on its own. Each development will reflect the environment in which it is located and will be related to the needs of that environment.

Our five year programme for hotel construction will, when completed in 1976, see a Four Seasons hotel located in most of the major

# Report from the President



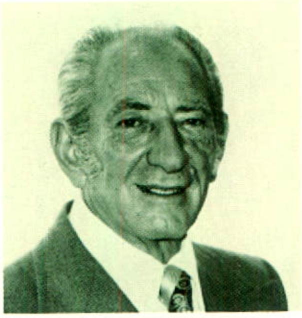
cities of Canada as well as the key cities of Europe. It is the intention of our Company to concentrate our future efforts on the expanding markets in other European cities, as well as specific situations in the United States and the other continents. Our approach to development and innkeeping dictates that we continue to service in a first class fashion, the business traveller, the convention delegate and the tourist. Over the next ten years the facilities that we are planning will do just that.

Hotels have had to keep pace with changing modes of transportation, changing social attitudes and changing economies. Today we are faced with making an assessment of the requirements of the new technology of business and our Company is creating and establishing future hotels for these new markets.

Four Seasons has paid great attention to the extent and quality of the facilities that we are providing in each new hotel. We feel that we have properly anticipated and created facilities that will enable us to continue our role as one of the leaders of the hotel industry, an industry which has yet to reach its real potential.

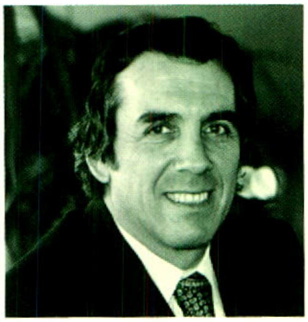
We feel that the 1970's will be an era of tremendous expansion and prosperity. The time and effort that our Company has devoted to the future will enable us to derive great satisfaction and benefit from this new prosperity. By 1976 we will have gained a foothold in the hotel industry and will have created a base that will allow us to undertake broader expansion into new and exciting areas of the world.

Isadore Sharp
President
May, 1973

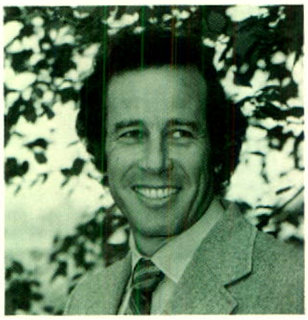


Max Sharp
DIRECTOR*
Chairman of the Board
Toronto, Ontario

Murray B. Koffler
DIRECTOR*
Vice President
Toronto, Ontario



Edmond M. Creed
DIRECTOR*
Secretary
Toronto, Ontario



Isadore Sharp
DIRECTOR**
President and
Chief Executive Officer
Toronto, Ontario

Ian F. Munro
DIRECTOR*
Executive Vice President
Toronto, Ontario

Lanfranco Amato
DIRECTOR**
Toronto, Ontario

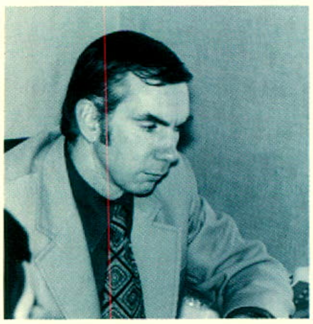
Sir Gerald Glover
DIRECTOR**
London, England

Frederick Eisen
DIRECTOR*
Treasurer and
Assistant Secretary
Toronto, Ontario

*Member of
Executive Committee
**Member of
Audit Committee

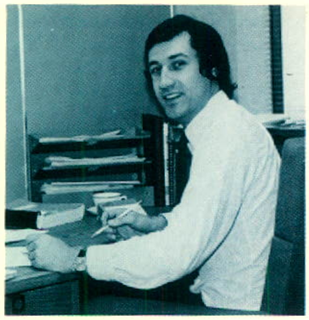
## Directors and Officers

# Head Office Executives



Robert K. Gerrard
GENERAL ADMINISTRATOR & ASS'T. TO EXEC. VICE PRESIDENT
Involved in administrating existing operations and co-ordinating development of new projects.

Geoffrey Pimblett
OPERATIONS PLANNING MANAGER



Chris Wallis
DEVELOPMENT COORDINATOR
Coordinates plans with architects and builders from sketch plans to final construction.

Georges Gourbault
FOOD SERVICES MANAGER
Supervises the quality and preparation of food purchased; menu planning and kitchen design.

George Schwab
VICE PRESIDENT - WESTERN REGION

Ken Jarvis
COMPTROLLER
Responsible for control of company's revenues, expenditures, forecasting, feasibility studies and budgeting for all operations.

Oscar Ross
CREATIVE DIRECTOR
Develops advertising material for all corporate operations.

John Sheard
DIRECTOR OF SALES
Directs marketing for all Four Seasons hotels, from head office and through Company's sales offices in New York, Montreal and Calgary.

Frank Orenstein
EXEC. ASS'T. TO THE PRESIDENT
Implements legal, corporate and financial planning for Four Seasons developments.

Bob Lee
PURCHASING MANAGER
Responsible for budgeting and buying furnishings and equipment for Four Seasons operations.

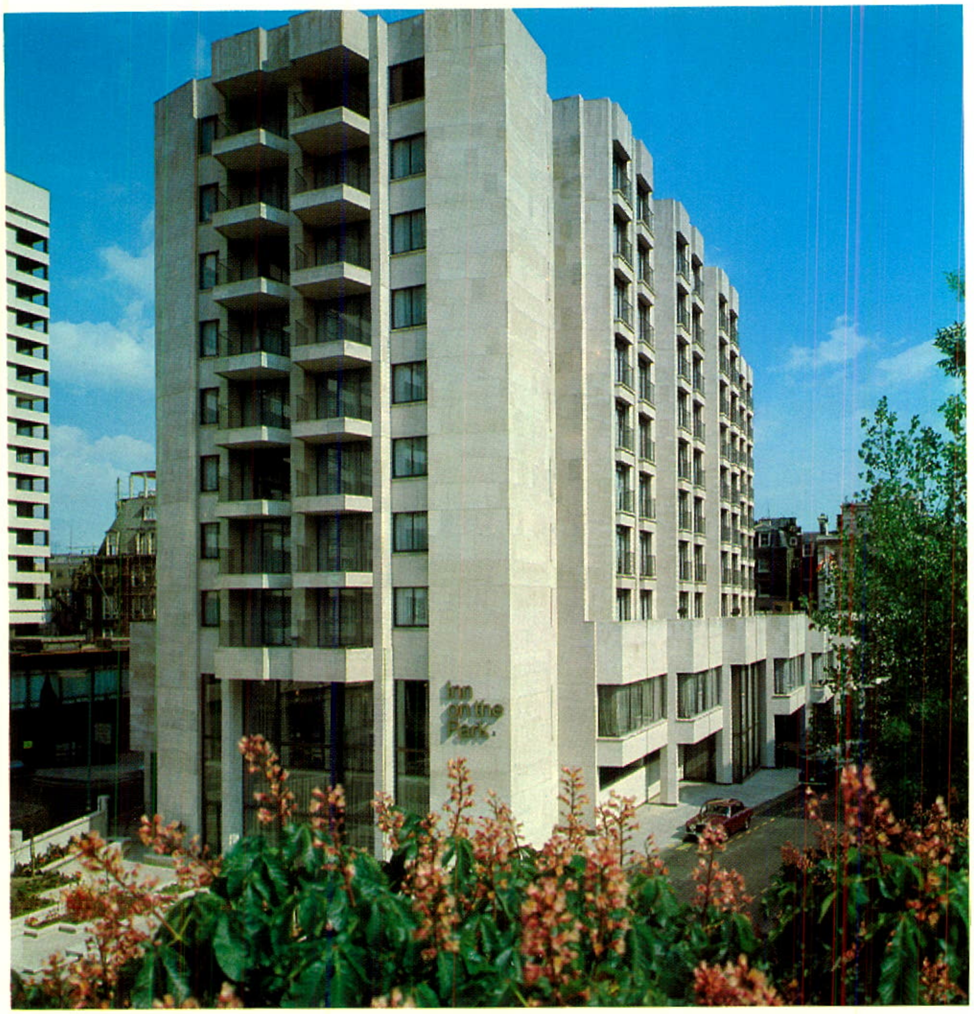
Bernard Toplitsky
ASSISTANT COMPTROLLER
Responsible for analysis of new and existing hotel's operational accounting data.

Only 15 minutes from downtown, this 615 room luxury hotel blends into the parklands and Don Mills suburbia that surrounds it.

The entire complex, including the recently opened 23 storey tower is one of the largest, best equipped convention hotels in Canada featuring a ballroom to seat 1000, and 17 conference rooms to accommodate between 20 to 300 people.

Opened in 1963, the Inn on the Park has been expanded consistently to meet the growing demands of travelers, diners, businessmen and convention planners.

## Inn on the Park, Toronto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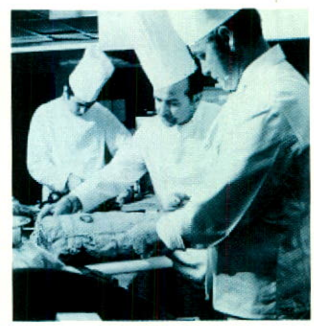
on the
Park.



Located in the heart of the distinctive Mayfair district this 10-storey, 228 room hotel which overlooks Hyde Park is in close proximity to London's traditional establishments of elegance.

Within a year after it was officially opened in 1970 by HRH Princess Alexandria, it was named Hotel of the Year by the Egon Ronay organization and has maintained its position as one of the finest hotels in the world.

The hotel is presently being expanded by an additional 70 luxury suites and construction is scheduled for completion by 1975.

## Inn on the Park, London - England

Unique in its convention setting complex, the 1450 room Four Seasons Sheraton is the largest convention hotel in the Commonwealth. Embracing a convention centre, two theatres, 70 boutiques, 2 1/2 acres of gardens, the hotel can accommodate up to 15,000 persons. Facilities also include 6 dining rooms, 5 cocktail lounges, a 20,000 sq. ft. convention hall, banquet hall for 2,500, and meeting rooms to handle 4,000; underground parking facilities for 2,500 cars, and a major health and squash club.

Walkways and underground concourses link the hotel with City Hall Square, and offices and shopping to the south and east of the hotel, a setting that emphasises the Centre as one of major international importance.

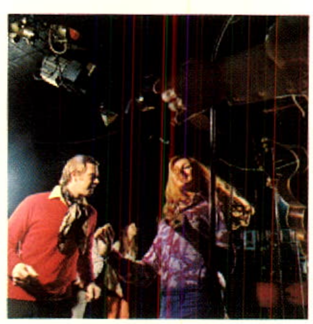
In this venture Four Seasons is a 49% partner with Sheraton Hotels Limited and International Telephone and Telegraph in the ownership of the project.

Four Seasons Sheraton Hotel, Toronto


An established gathering place for businessmen and others who want the convenience of a downtown location, the Four Seasons was the first motor hotel in the Toronto downtown core.

Its 165 guest rooms surround a pool, patio, terraced lounge and landscaped gardens as well as a cocktail lounge and dining rooms. The hotel also has a nighttime discotheque which by day serves as the television studio for Elwood Glover's "Luncheon Date."

Four Seasons Motor Hotel, Toronto




This 125 room hotel located on the Bay of Quinte, features one wing that houses hotel facilities while the other wing is used as a Bell Canada Training Centre with classrooms, laboratories and audio-visual training facilities.

In addition to swimming in the year-round heated outdoor pool, guests can enjoy tennis, boating and water sports. Other amenities include a 350 seat pub featuring live entertainment, a dining area that has a cocktail lounge, grill and Bell Telephone student lounges serving 300 people.

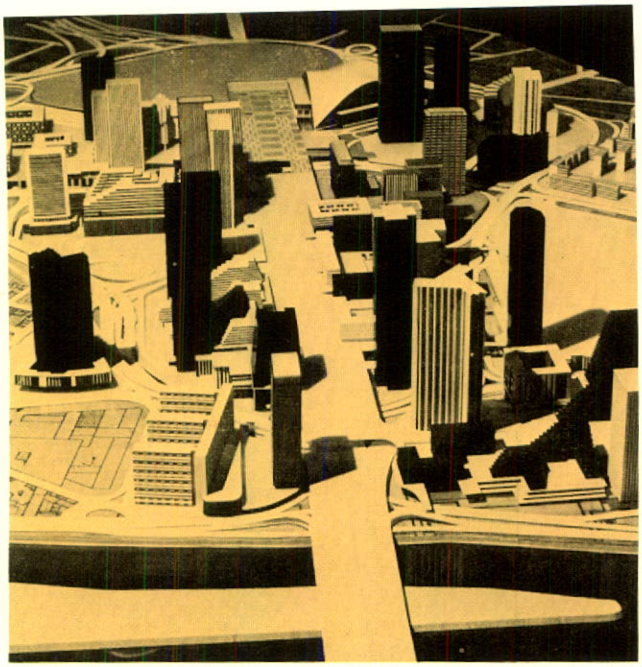
## Four Seasons Hotel, Belleville

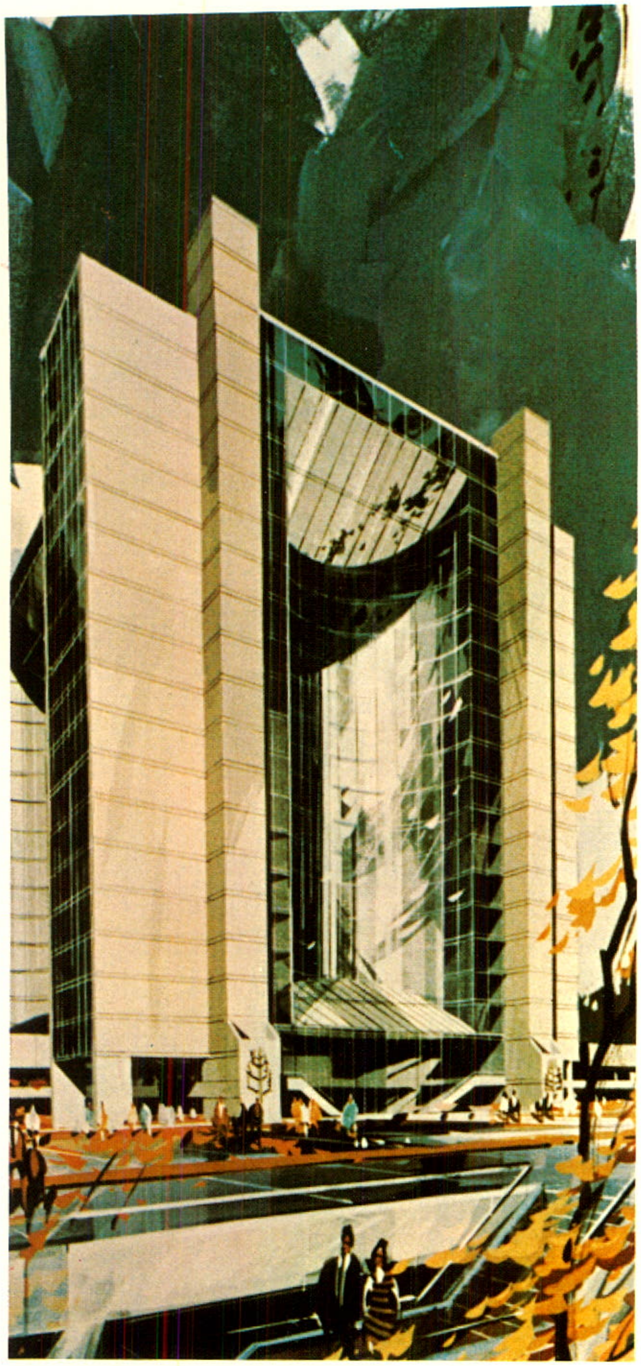
This imposing 14 storey structure overlooking the Mediterranean consists of 130 co-operatively owned suites. Many suite owners are businessmen from abroad who visit Israel periodically. When they are not staying at the Four Seasons their suites are readily rented to the public by the hotel management.

Facilities include a French cuisine dining room, cocktail lounge, sauna, heated fresh water swimming pool, tennis courts and extensive gardens.

The Four Seasons, Israel

# Under Development

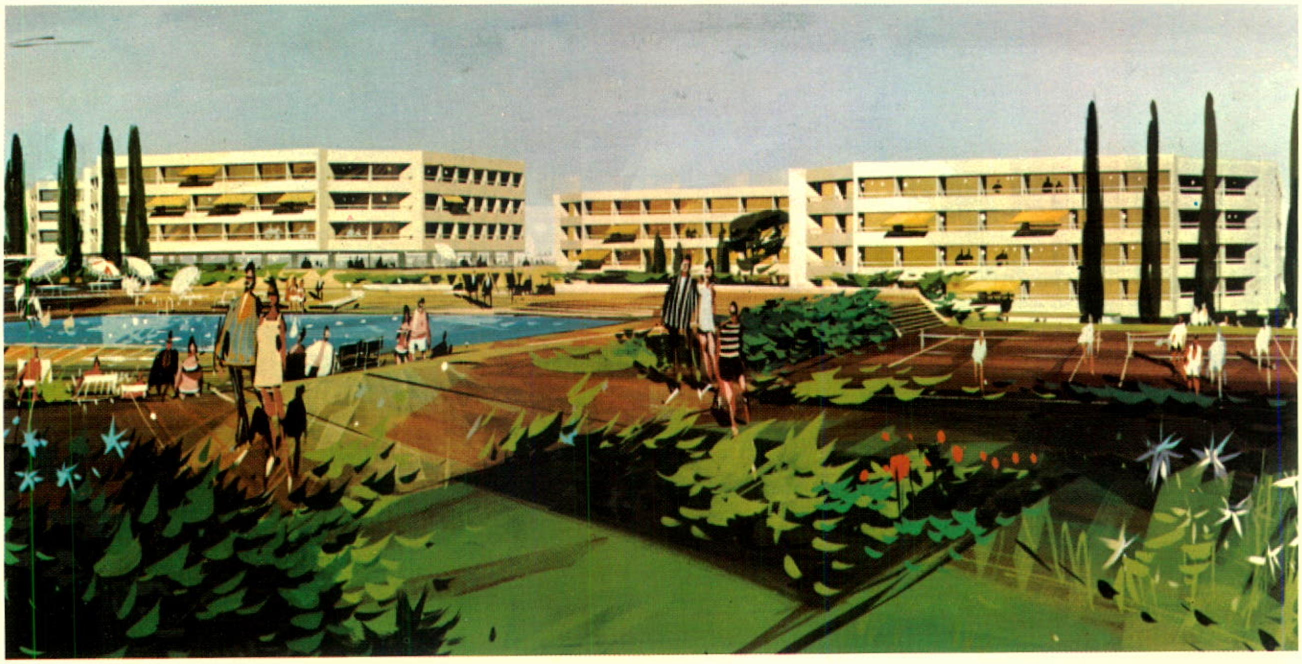


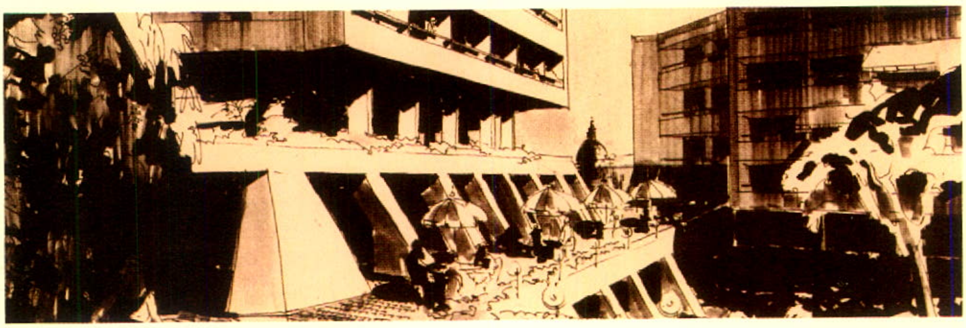


Scheduled for completion in late 1976, the Paris Inn will be located in the Defense development, a major commercial complex being undertaken by the French Government.

The 400 room luxury hotel will be part of one of the world's most exciting and futuristic commercial developments. Many North American and European head offices will be located at Defense which will certainly become one of the major business centres of Europe.

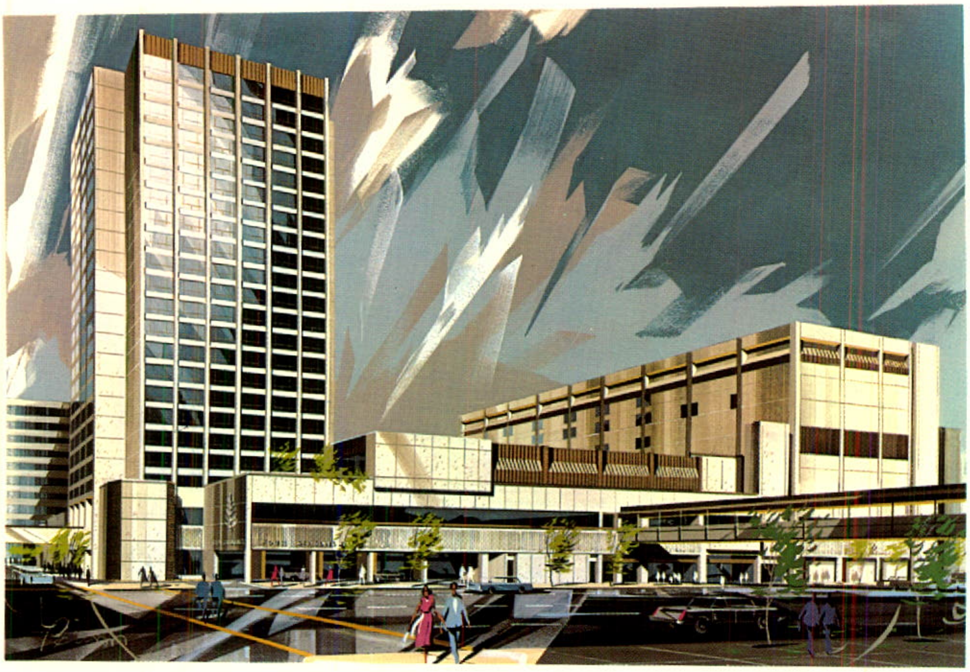
## Inn on the Park, Paris

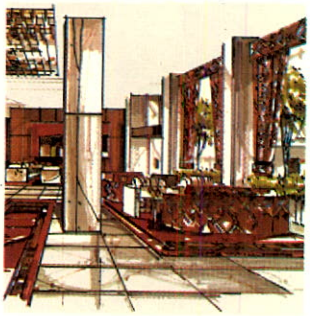




Expected to open in 1976, this 400 room luxury-style hotel will offer guests a breathtaking view of the Vatican. Located minutes from downtown Rome it is designed around four landscaped courtyards and surrounded by 20 acres of gardens. Individual courtyards will respectively provide a swimming pool, and outdoor cafe, formal gardens and tennis courts.

## Inn on the Park, Rome





This 400 room luxury hotel being built by Calgary Convention Centre Limited will be leased to Four Seasons when completed in the fall of 1974. Four Seasons will also look after food and beverage services for the city owned Convention Centre which is being built adjacent to the hotel.

A 250,000 sq. ft. museum and art centre being built by the Glenbow Foundation will rise from the podium level and become an integral part of this exciting tourist and convention complex.

Four Seasons, Calgary


Completion of the new luxury 410 room hotel in the heart of the city is scheduled for completion by early 1975. Strategically located at Georgia and Howe Streets it will be an integral part of the Pacific Centre complex and will be surrounded by such new towers as the Toronto Dominion Bank, the IBM Tower, Hudson's Bay and the Birks Building. In addition the hotel will be located at the crossroads of 1,000,000 sq. ft. of underground retail shopping.

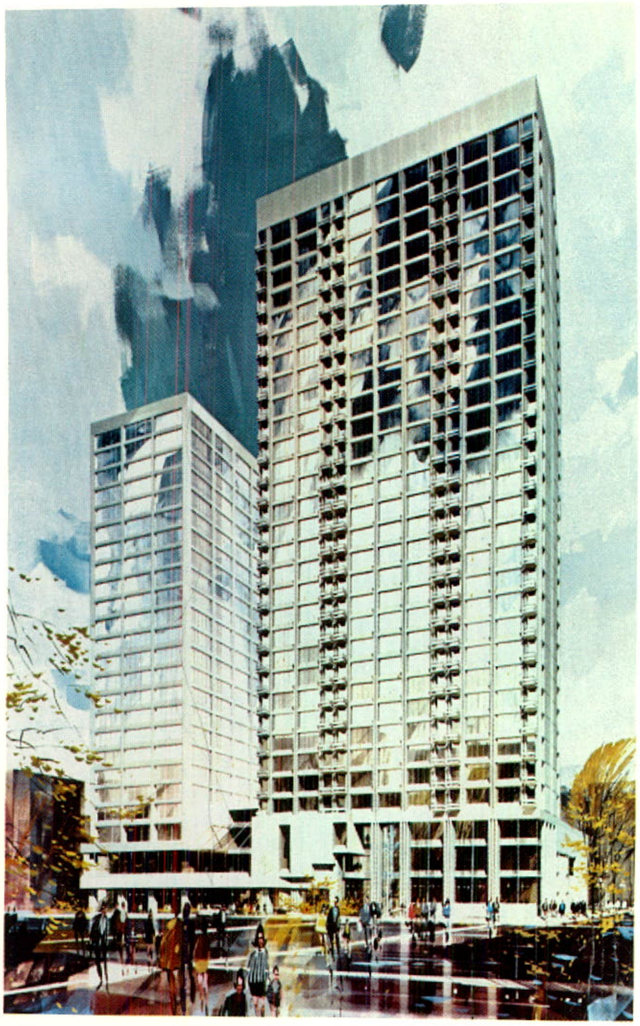
Four Seasons, Vancouver

## Inn on the Park, Montreal

This 330 room hotel will be patterned in style and service along the lines of the Company's Inn on the Park in London, England.

Facilities will include two haute-cuisine cafe restaurants, a nightclub, a ballroom with 500 seating capacity, meeting rooms and shopping boutiques.

Construction which began in May on the downtown Sherbrooke and Peel Streets site is scheduled to be completed in the spring of 1975.



The Inn on the Park — London, England will soon be expanded to provide another 70 suites to the existing facilities. Pictured here is the Gloucester House which adjoins the hotel and faces Piccadilly and Buckingham Palace. Its interior will be demolished for the expansion but the outside facade will be untouched in order that the historic charm of the building can still remain.

## Inn on the Park, London - England (Expansion)

## Inn on the Park, Dallas

Part of the Griffin Square project this 600 room luxury Inn on the Park hotel is a joint venture with Arlen Realty and Development Corp., a major public real estate company in the U.S.

Completion of the adjacent convention centre, second largest in the United States, and of the new Fort Worth/Dallas airport, one of the largest in the world, will increase demand for first class accommodation. Construction is scheduled to begin in 1974 with completion of the hotel expected by 1976.


In the Capital City, this new luxury 420 room hotel will become an integral part of the exciting downtown complex to be known as Canada Centre.

It will form a quadrangle surrounding a skylighted 20 storey courtyard. With construction expected to begin in 1974, it was planned and is being built in association with City Parking of Canada Limited.

## Four Seasons, Ottawa

St. Clair Avenue Complex

Four Seasons is presently developing plans to proceed with a commercial complex on the old Granite Club site on St. Clair Avenue West, Toronto. Agreement in principle has been reached on financing for the project with construction scheduled to commence early in 1974.

In Rosedale, Toronto the Kensington Towers apartments provide 225 suites and features such amenities as a health club with indoor and outdoor pools.

The company is presently selling the suites on a co-operative basis with more than two thirds already sold.

## Real Estate Developments

Kensington Towers

# Financial Report

FOUR SEASONS HOTELS LIMITED

# Consolidated Balance Sheet As at December 31, 1972

## ASSETS

| | 1972 | 1971 |
|---|---|---|
| CURRENT ASSETS | | |
| Cash on Hand and in Bank | $ 1,052,191 | $ 437,689 |
| Accounts Receivable (after Allowance for Doubtful Accounts 1972 — $168,885; 1971 $187,791) | 1,486,048 | 1,696,172 |
| Management Fees Receivable | 244,774 | 213,700 |
| Inventory of Food, Beverages and Supplies — at lower of Cost or Replacement Value | 567,679 | 487,919 |
| Accrued Interest Receivable | 79,251 | 763,505 |
| Short Term Loans Receivable | 1,790,566 | 2,197,647 |
| Sundry Amounts Receivable and Prepaid Expenses | 233,775 | 197,777 |
| Cash Surrender Value of Life Insurance | 37,791 | 30,812 |
| | $ 5,492,075 | $ 6,025,221 |
| DEFERRED DEVELOPMENT AND CONSTRUCTION COSTS (Note 3) | $ 759,881 | $ 687,728 |
| INVESTMENTS (Note 4) | | |
| South Side Development Limited | $ 9,486,275 | $ 4,000,000 |
| Equity in Mt. Pleasant Development Company | 134,382 | 130,965 |
| Equity in Kensington Development Company | 569,919 | 434,859 |
| Mortgage Receivable | — | 119,808 |
| | $10,190,576 | $ 4,685,632 |
| FIXED ASSETS (Note 5) | | |
| Land | $ 2,889,610 | $ 2,475,100 |
| Buildings | 15,618,112 | 14,842,038 |
| Furniture, Furnishings and Equipment | 7,246,992 | 6,168,788 |
| Leasehold Improvements (at Cost) | 1,058,525 | 1,057,108 |
| Vehicles (at Cost) | 19,333 | 19,333 |
| | $26,832,572 | $24,562,367 |
| Less: Accumulated Depreciation | 2,667,076 | 1,795,469 |
| | $24,165,496 | $22,766,898 |
| Linen, Tableware and Uniforms (Inventoried at the lower of Cost or Depreciated Value) | 1,199,643 | 1,141,393 |
| | $25,365,139 | $23,908,291 |
| OTHER ASSETS (Note 6) | | |
| Unamortized Financing Costs | $ 365,752 | $ 385,349 |
| Unamortized Pre-Opening Expenses | 185,502 | 270,203 |
| | $ 551,254 | $ 655,552 |
| | $42,358,925 | $35,962,424 |

The accompanying notes are an integral part of the financial statements.

## LIABILITIES

| | 1972 | 1971 |
|---|---|---|
| CURRENT LIABILITIES | | |
| Bank Indebtedness (Note 7) | $ 971,711 | $ 356,038 |
| Accounts Payable and Accrued Charges | 2,640,781 | 2,807,234 |
| Long Term Debt due within one year (Note 8) | 519,300 | 585,968 |
| Income Taxes Payable | 1,080,010 | 434,551 |
| | $ 5,211,802 | $ 4,183,791 |
| LONG TERM DEBT (Note 8) | 18,090,577 | 18,371,377 |
| DEFERRED INCOME TAXES (Note 9) | 2,468,431 | 1,921,819 |
| TOTAL LIABILITIES | $25,770,810 | $24,476,987 |

## SHAREHOLDERS' EQUITY

| | | |
|---|---|---|
| CAPITAL STOCK (Note 10) | | |
| Authorized | | |
| 2,000,000 First Preference Shares, with a Par Value of $10 each issuable in series | | |
| 6,000,000 Common Shares without Par Value | | |
| Issued and Fully Paid | | |
| 400,000 Series A First Preference Shares 6%, Cumulative, Redeemable, Convertible, with a Par Value of $10 each | $ 4,000,000 | $ — |
| 2,987,950 Common Shares without Par Value (1971 — 2,967,000 Shares) | 4,036,249 | 3,952,449 |
| RETAINED EARNINGS | 5,545,843 | 4,526,965 |
| SURPLUS ARISING FROM APPRAISAL OF FIXED ASSETS (Note 5) | 3,006,023 | 3,006,023 |
| TOTAL SHAREHOLDERS' EQUITY | $16,588,115 | $11,485,437 |
| | $42,358,925 | $35,962,424 |

Approved on behalf of the board
I. Sharp, Director
F. Eisen, Director

The accompanying notes are an integral part of the financial statements.

## AUDITORS' REPORT

To the Shareholders of Four Seasons Hotels Limited

We have examined the Consolidated Balance Sheet of Four Seasons Hotels Limited as at December 31, 1972, and the Consolidated Statements of Earnings, Retained Earnings, and Source and Application of Funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these Consolidated Financial Statements present fairly the financial position of the Company as at December 31, 1972, and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Wm. Eisenberg & Co.
Chartered Accountants
Toronto, Canada, May 4, 1973

FOUR SEASONS HOTELS LIMITED

## Consolidated Statement of Earnings
## For the Year Ended December 31, 1972

| | 1972 | 1971 |
|---|---|---|
| SALES | $20,489,572 | $16,559,481 |
| Cost of Sales | $ 4,287,025 | $ 3,444,337 |
| Payroll and Related Expenses | 5,776,899 | 4,812,434 |
| Other Expenses | 4,731,441 | 3,785,832 |
| House Profit — Hotel Operations | $ 5,694,207 | $ 4,516,878 |
| Rent, Municipal Taxes and Insurance | 1,332,646 | 1,147,853 |
| Gross Profit — Hotel Operations | $ 4,361,561 | $ 3,369,025 |
| Share of Profits — Real Estate Operations | 170,355 | 167,952 |
| Management Fees | 155,604 | 133,700 |
| Interest Earned | 902,195 | 525,574 |
| EARNINGS FROM OPERATIONS BEFORE THE FOLLOWING CHARGES | $ 5,589,715 | $ 4,196,251 |
| Interest on Long Term Debt | $ 1,599,861 | $ 1,225,587 |
| Directors' Salaries | 72,000 | 70,000 |
| Depreciation | 973,252 | 717,787 |
| Amortization | 104,298 | 106,144 |
| EARNINGS BEFORE TAXES | $ 2,840,304 | $ 2,076,733 |
| Income Taxes — Current | 737,313 | 466,976 |
| — Deferred | 546,612 | 469,683 |
| NET EARNINGS BEFORE EXTRAORDINARY ITEM | $ 1,556,379 | $ 1,140,074 |
| Extraordinary Item — Settlement Received re Balmoral Beach Hotel, Nassau | 125,150 | — |
| NET EARNINGS FOR THE YEAR | $ 1,681,529 | $ 1,140,074 |
| EARNINGS PER SHARE (Note 12) | | |
| Before Extraordinary Item | 48.1¢ | 40.5¢ |
| After Extraordinary Item | 52.3¢ | — |

FOUR SEASONS HOTELS LIMITED

## Consolidated Statement of Retained Earnings
## For the Year Ended December 31, 1972

| | 1972 | 1971 |
|---|---|---|
| RETAINED EARNINGS AT BEGINNING OF YEAR | $ 4,526,965 | $ 3,544,316 |
| Add: Net Earnings for the Year | 1,681,529 | 1,140,074 |
| Increase in Cash Surrender Value of Life Insurance | 6,979 | 7,187 |
| | $ 6,215,473 | $ 4,691,577 |
| Less: Dividends Paid — Preference Shares | 120,000 | — |
| — Common Shares | 358,331 | — |
| Life Insurance Premiums | 9,163 | 9,789 |
| Costs of Share Issues Written Off (net of Income Taxes) | 182,136 | 154,823 |
| RETAINED EARNINGS AT END OF YEAR | $ 5,545,843 | $ 4,526,965 |

The accompanying notes are an integral part of the financial statements.

FOUR SEASONS HOTELS LIMITED

# Consolidated Statement of Source and Application of Funds
## For the Year Ended December 31, 1972

| | 1972 | 1971 |
|---|---|---|
| SOURCE OF FUNDS | | |
| Operations | | |
| Net Earnings for the Year | $ 1,681,529 | $ 1,140,074 |
| Add: Non Cash Charges to Income | | |
| — Depreciation of Buildings, Furniture and Equipment | 973,252 | 717,787 |
| — Amortization of Pre-Opening and Financing Expense | 104,298 | 106,144 |
| — Deferred Income Taxes | 546,612 | 469,683 |
| CASH FLOW FROM OPERATIONS | $ 3,305,691 | $ 2,433,688 |
| Financing | | |
| Capital Stock | | |
| — Net Proceeds of Issue of 400,000 Series A First Preference Shares | 3,817,864 | — |
| — Net Proceeds of Issue of 228,000 Common Shares | — | 2,752,177 |
| Long Term Debt | | |
| — Net Proceeds of Issue of First Mortgage Sinking Fund Bonds, Series A | — | 2,670,000 |
| — Mortgages and Construction Obligations | 310,000 | 3,089,779 |
| Other Sources | | |
| Recovery of Deferred Development and Construction Costs | | |
| — Re: Vancouver Residential Project Discontinued (Note 14(c)) | 651,009 | |
| Advances from Joint Venture Fund | — | 1,104,100 |
| Employees' Stock Options Exercised | 83,800 | 10,400 |
| Sundry | 119,808 | 83,017 |
| | $ 8,288,172 | $12,143,161 |
| APPLICATION OF FUNDS | | |
| Additional Deferred Development and Construction Costs | $ 723,162 | $ 405,350 |
| Additions to Investments | | |
| — South Side Development Limited | 5,486,275 | 1,104,100 |
| — Mt. Pleasant Development Company | 3,417 | 55,470 |
| — Kensington Development Company | 135,060 | 175,336 |
| Additions to Fixed Assets | | |
| — Hotel Properties, Furniture, Furnishings and Operating Equipment | 2,430,100 | 5,136,110 |
| Reduction of Long Term Debt | 590,800 | 2,877,340 |
| Dividends Paid — Preference Shares | 120,000 | — |
| — Common Shares | 358,331 | — |
| Sundry | 2,184 | 2,602 |
| | $ 9,849,329 | $ 9,756,308 |
| NET CHANGE IN WORKING CAPITAL (Decrease) | ($ 1,561,157) | $ 2,386,853 |
| WORKING CAPITAL AT BEGINNING OF YEAR (Deficiency) | $ 1,841,430 | ($ 545,423) |
| WORKING CAPITAL AT END OF YEAR | $ 280,273 | $ 1,841,430 |

The accompanying notes are an integral part of the financial statements.

FOUR SEASONS HOTELS LIMITED

# Notes to Financial Statements
## As at December 31, 1972

### 1. ACCOUNTING PRESENTATION

The Consolidated Balance Sheet of Four Seasons Hotels Limited includes its wholly-owned subsidiaries, Four Seasons Hotels (London) Limited and Inn on the Park (Bahamas) Limited, and also includes the assets and liabilities of the Company's hotel in London, England.

Balances and transactions in other currencies have been translated into Canadian dollars on the following basis:

Current assets and current liabilities:

— at exchange rates in effect at December 31st,

Fixed assets and related long term debt, and other non-current assets and non-current liabilities:

— at exchange rates in effect when the assets were acquired and the liabilities were incurred,

Sales and Expenses:

— at the weighted average rate of exchange for the year.

### 2. DEPRECIATION POLICY

Annual depreciation is recorded by the Company as follows:

Buildings — 5% sinking fund basis over a 40 year period,

Furniture, furnishings and equipment — 10% straight line basis,

Leasehold improvements, London, England — straight line basis over the 21 year guaranteed term of the 84 year lease,

Vehicles — 30% diminishing balance basis.

### 3. DEFERRED DEVELOPMENT AND CONSTRUCTION COSTS

The deferred development and construction costs were incurred in respect of the following hotel projects:

| | |
|---|---|
| Vancouver | $303,358 |
| Calgary | 157,841 |
| Montreal | 34,365 |
| Paris | 205,273 |
| Rome | 42,335 |
| Other Locations | 16,709 |
| | $759,881 |

The costs consist of architectural and design fees and other expenses in connection with the development of specific projects which will be added to the cost of the project buildings or deferred as pre-opening expenses.

### 4. PARTNERSHIPS AND JOINT VENTURES

*(a) South Side Development Limited*

The Company has a 49% interest and Sheraton Hotels Limited has a 51% interest in South Side Development Limited which owns and operates the Four Seasons — Sheraton Hotel complex, constructed on land leased from the City of Toronto at Civic Square South.

The cost of the Four Seasons — Sheraton Hotel complex, estimated at $61,000,000, was financed by the issue of $40,000,000 first mortgage sinking fund bonds, equity investment of $20,000,000, and bank financing for the balance.

The Company's investment of $9,486,275 is shown at cost and consists of $49,000 of share capital and a loan of $9,437,275 bearing interest at 10% per annum. In 1973, the Company advanced an additional $313,725 to complete its total investment to the $9,800,000 maximum required.

South Side Development Limited follows the policy of deferring pre-opening costs and operating losses incurred prior to opening and during the first twelve months following opening. The Four Seasons — Sheraton Hotel opened on February 25, 1973 after having commenced partial operations on October 16, 1972. Accordingly, pre-opening costs and any losses incurred up to February 25, 1974 will be deferred and amortized over five years commencing with the twenty-fifth month after opening.

International Telephone and Telegraph Corporation, the parent company of Sheraton Hotels Limited, and ITT Sheraton Corporation of America have covenanted to purchase, at the Company's request all or any part of the Company's total equity investment at any time during the first three years following the opening of the development at the amount thereof plus interest; and thereafter up to 1/2 of the Company's total equity investment at any time during the following 10 years at fair market value.

*(b) Mt. Pleasant Development Company*

The Company has a 47 1/2% interest in Mt. Pleasant Development Company, a partnership which owns certain properties in Toronto consisting of an existing office building and the adjoining property which is to be developed as a real estate investment.

The properties are subject to mortgages and a bank loan which totalled $598,009 at October 31, 1972, the fiscal year-end of the partnership.

During its 1972 fiscal year, the partnership added $14,697 to its land account, being the net carrying charge of the undeveloped portion of the property.

The Company's equity is shown at cost plus its share of the partnership profits from the existing office building.

*(c) Kensington Development Company*

The Company has a 35% interest in Kensington Development Company, a partnership which acquired two existing apartment buildings in Toronto — 21 Dale Avenue and 484 Avenue Road — for development and sale as co-operative apartments.

21 Dale Avenue was sold to Kensington Apartments Limited, the shares of which, carrying with them the beneficial interest in and exclusive right to occupy designated apartment suites, are in the course of being sold to the public. At October 31, 1972, the fiscal year-end of the partnership, 40% of the apartment suites had been sold. The shares representing the unsold suites are beneficially owned by the partnership which is entitled to rent such suites pending sale.

The unsold apartment suites are subject to mortgages and a bank loan which totalled $2,701,976 at October 31, 1972.

Development of 484 Avenue Road as a co-operative apartment project was discontinued in 1972 and the property was sold.

The Company's equity is shown at cost plus its share of the partnership profits.

*(d) Yonge-Clair Development Company*
The Company has a 75% interest in Yonge-Clair Development Company, a partnership which constructed new club premises for the Granite Club on Bayview Avenue in suburban Toronto under an agreement pursuant to which the partnership acquired the Granite Club's existing club premises on St. Clair Avenue in midtown Toronto.

The partnership is planning a commercial development on the four acre St. Clair Avenue site.

The property is subject to a bank loan which amounted to $5,467,704 (U.S.) at December 31, 1972.

5. LAND, BUILDINGS, FURNITURE, FURNISHINGS AND EQUIPMENT
The land, buildings, furniture, furnishings and equipment were appraised by Chaffe, MacKenzie and Ray Limited as at September 1, 1968. Their report dated November 28, 1968, indicated a market value of $12,620,000, which was reduced by management to $12,000,000. The surplus arising from this appraisal of the land, buildings, furniture, furnishings and equipment was $3,006,023. All additions to these fixed assets after September 1, 1968 were recorded at cost.

6. (a) UNAMORTIZED FINANCING COSTS
Financing costs relating to long term debt are amortized in equal annual instalments over the terms of the respective debt issues. Discounts earned on debt retirement have been credited to the related unamortized financing cost.

Financing costs relating to share issues have been charged net of income taxes, to retained earnings in the year of the share issue.

(b) UNAMORTIZED PRE-OPENING EXPENSES
It is the Company's policy to defer hotel pre-opening expenses until a hotel opens for business. Subsequently, these expenses are amortized in equal annual instalments over the first five years of operation.

7. BANK INDEBTEDNESS
The bank indebtedness is secured by a general assignment of book debts.

8. LONG TERM DEBT

| Long Term Debt comprises the following: | At Dec. 31, 1972 | At Dec. 31, 1971 |
|---|---|---|
| Mortgages Payable: | | |
| ■ Great West Life Assurance Company on The Four Seasons Motor Hotel, the Inn on the Park, Toronto and a portion of the Carlton Street property adjacent to the Four Seasons Motor Hotel and owned by the Company, due July 15, 1984, interest at 7%, plus a participation in the gross bedroom rentals of the Four Seasons Motor Hotel | $ 927,850 | $ 977,650 |
| ■ Joseph P. Thomson (1957) Limited on a portion of the land on Carlton Street, due May 31, 1972, interest at 7½% | — | 35,234 |
| ■ Marya Pocius on 118-124 Carlton Street adjacent to the Four Seasons Motor Hotel, due October 31, 1982, interest only at 7% | 310,000 | — |
| ■ Shell Canada Limited on the service station property at Jarvis and Carlton Streets, due August 1, 1988, interest at 6¾% | 286,562 | 296,710 |
| ■ Great West Life Assurance Company on the Inn on the Park, Toronto, The Four Seasons Motor Hotel and a portion of the Carlton Street property owned by the Company, due February 1, 1987, interest at 7¼%, plus a participation in the gross bedroom rentals of the Inn on the Park, Toronto | 3,743,000 | 3,908,400 |
| ■ Great West Life Assurance Company on the Inn on the Park, Toronto, The Four Seasons Motor Hotel and a portion of the Carlton Street property owned by the Company, due June 1, 1996, interest at 9½% plus a participation in the gross bedroom rentals of the Inn on the Park, Toronto | 4,854,500 | 5,000,000 |
| ■ First Mortgage Sinking Fund Bonds, Series A, on the Four Seasons — Belleville, due April 1, 1996, interest at 8¾% ($94,500 of Series A Bonds were retired in 1972. This constitutes prepayment of Sinking Fund requirements for 1973 and 1974.) | 2,755,500 | 2,850,000 |
| Conditional Sale Contract for furniture, furnishings and equipment — Inn on the Park, London, maturing in monthly instalments at a rate of interest varying from 7½% to 10% per annum, due in 1980 (Payable in Sterling £434,352) | 1,055,465 | 1,212,351 |
| Series A Debentures: A first floating charge on all the Company's assets situated in the Province of Ontario, due February 3, 1989, interest at 7% per annum. The Company is required to establish a sinking fund sufficient to retire $250,000 of principal on February 3, in each of the years 1973 to 1988 inclusive. ($323,000 of Series A Debentures were retired in 1971. This constitutes prepayment of sinking fund requirements for 1973 and part of 1974.) | 4,677,000 | 4,677,000 |
| | $18,609,877 | $18,957,345 |
| Less: Due within one year | 519,300 | 585,968 |
| | $18,090,577 | $18,371,377 |

Long Term Debt due in each of the next five years

| | |
|---|---|
| 1973 | $519,300 |
| 1974 | 705,050 |
| 1975 | 831,300 |
| 1976 | 834,300 |
| 1977 | 900,300 |

9. INCOME TAXES

For income tax purposes, the Company has claimed capital cost allowances on buildings, furniture, furnishings and equipment which are in excess of the depreciation recorded in the accounts. The Company has also claimed for tax purposes in the current year, certain costs such as hotel development and pre-opening expenses and finance and interest charges which are deferred or capitalized for accounting purposes. The resulting reduction of current income taxes for 1972, amounting to $546,612, will become payable in future years when these amounts already claimed for tax purposes will be charged against income and accordingly, this amount was added to deferred income taxes.

In addition, for income tax purposes, the Company has claimed capital cost allowances of 100% of the inventories of linen, tableware and uniforms. The resulting reduction of current income taxes for 1972 amounted to $26,329; the accumulated reduction of income taxes amounts to $555,478. This accumulated reduction of income taxes will not become payable as long as the Company continues in the hotel business and maintains the inventories of linen, tableware and uniforms, and accordingly, no deferred income tax provision has been made therefor.

10. CAPITAL STOCK

*(a) Subdivision of Common Shares*

On March 3, 1972 Articles of Amendment were obtained subdividing the authorized shares of the Company on a two for one basis effective April 5, 1972. The effect of the subdivision is to increase the authorized capital from 3,000,000 to 6,000,000 shares, and to increase the shares outstanding as at December 31, 1971 from 1,483,500 to 2,967,000. The warrants and employees' stock options were also subdivided on a two for one basis. See Notes 10 (e) and 10 (f).

*(b) Amendments to Authorized Capital*

Articles of Amendment were obtained on May 11, 1972 redesignating the authorized shares without par value of the Company as common shares without par value and increasing the authorized capital of the Company by the creation of 2,000,000 First Preference Shares with a par value of $10 each issuable in series. The Articles of the Company were further amended on May 11, 1972 to designate 400,000 of such First Preference Shares as 6% Cumulative Redeemable Convertible First Preference Shares, Series A and fixing the attributes of the Series A Preference Shares.

*(c) New Issue*

During 1972, the Company issued for cash, 400,000 6% Cumulative Redeemable Convertible First Preference Shares, Series A, par value $10 each, at a price of $10 per share, totalling $4,000,000. Series A First Preference Shares are convertible to Common Shares on the basis of one Common Share upon payment of $1.00 for each Series A Preference Share converted up to June 1, 1977; and upon payment of $3.00 for each Series A Preference Share converted up to June 1, 1982.

*(d) Increase in Common Shares*

During 1972, 20,950 shares without par value were issued for cash of $83,800. Following is a summary of the common shares account reflecting the changes in 1972:

| | Common Shares | |
|---|---|---|
| | Number of Shares | Amount |
| Balance, January 1, 1972 (Subdivided) | 2,967,000 | $3,952,449 |
| Stock Options exercised by employees | 20,950 | 83,800 |
| Balance, December 31, 1972 | 2,987,950 | $4,036,249 |

*(e) Warrants*

On November 15, 1971, warrants were issued to the holders of the 7% Sinking Fund Debentures, Series A. The warrants entitle the bearers thereof to purchase an aggregate of 200,000 shares at $5 per share up to February 3, 1976 and at $6 per share thereafter up to February 3, 1979 when they expire.

The Company has reserved 200,000 shares for issuance upon the exercise of the warrants.

*(f) Stock Options*

As at December 31, 1972, there were reserved 19,850 shares for issuance upon exercise of stock options granted by the Company to a director, senior officers and to certain employees to purchase shares at a price of $4 per share at a rate of 20% per annum of the number of shares originally optioned with cumulative provisions expiring on January 3, 1974.

11. RESTRICTIONS ON DIVIDENDS

The Trust Deed for the 7% Sinking Fund Debentures, Series A contains provisions restricting the payment of any cash dividends which would have the effect of reducing consolidated retained earnings below $1,945,703, or reducing shareholders' equity (as therein defined) below consolidated funded obligations (as therein defined).

As at December 31, 1972, consolidated retained earnings amounted to $5,545,843, shareholders' equity, as defined, amounted to $16,036,861, and consolidated funded obligations, as defined, amounted to $4,677,000.

12. EARNINGS PER SHARE

Earnings per share for 1972, after providing for preference share dividends of $120,000, were 48.1¢ before the extraordinary item and 52.3¢ after the extraordinary item, based upon the weighted average number of shares outstanding during the year — 2,983,430 shares, (1971 — 2,813,750 shares).

The exercise of all outstanding warrants and stock options in 1972 would have resulted in a dilution in earnings per share of 1.5¢. The conversion of the preference shares to common shares in 1972 would have had no dilutive effect on earnings per share.

13. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate direct remuneration paid in 1972 to directors and senior officers of the Company was $191,938 (1971 — $180,799).

14. LEASES

(a) The Company and South Side Development Limited have executed a ground lease and a building agreement with the Corporation of the City of Toronto. The interest of the Company in both the ground lease and the building agreement has been assigned to South Side and South Side has assumed all of the obligations of the Company thereunder and agreed to indemnify the Company against all claims, costs, demands and expenses which the Company may incur thereunder. In addition, International Telephone and Telegraph Corporation and ITT Sheraton Corporation of American have agreed to indemnify the Company against that proportion of all claims, costs, demands and expenses incurred by the Company by reason of its being a party to the ground lease and building agreement which is equal to the percentage of their interest in South Side. The ground lease requires the payment of rental at the rate of $1 per annum until the date of completion of the project, $240,000 per annum for the next seven years and $390,000 per annum, plus varying percentages of revenue, for the remaining years of the lease term, up to a total of ninety-five years from the date of completion of the project. The lease is a net lease and requires South Side to pay all other expenses including real property taxes.

(b) In 1970 the Company entered into an agreement with Two Parks Development Limited of London, England, whereby the Company's subsidiary, Four Seasons Hotels (London) Limited, leased for 84 years, consisting of six 14 year terms, the hotel in London, and sub-leased such hotel to the Company for a term of 10 years. The Company has guaranteed the obligations of its subsidiary under the lease for a period of 21 years, including payment of rent, in the amount of £205,000 per annum during the first 14 year term of the lease.

(c) During 1972 the Company terminated its agreement and lease with Harbour Park Developments Limited of Vancouver. Deferred development and construction costs incurred in respect of the Vancouver residential project were recovered.

15. CONTINGENT LIABILITIES

(a) As a result of the amalgamation and the issuance of 250,000 shares of the Company to the public in 1969, The Liquor License Commission of Ontario has taken the position that the license transfer fee provisions of the Liquor License Act of Ontario are applicable and that fees in the amount of $128,335 are payable, which position the Company, on the advice of counsel, is disputing.

(b) The Company is contingently liable for all of the obligations of the partnerships in which it has an interest (Note 4). However, against this contingent liability, the Company would have a claim upon the assets of its partners.

(c) The Company is defending a mechanic's lien action instituted in 1971, arising out of a contract to construct the Four Seasons — Belleville. The Company believes that it has complied with the statutory holdback requirements and that it has a good defense to such action. The Company is contingently liable under a letter of credit in the amount of $900,000 given to discharge the liens registered against the Four Seasons — Belleville.

16. SUBSEQUENT EVENTS AND FUTURE COMMITMENTS

*Four Seasons — Calgary*
The Company has agreed to lease and operate, on a long term basis, a 400 room hotel in Calgary and to service the food and beverage requirements of the adjacent civic convention centre. Construction of the hotel and convention centre commenced in late 1972 with completion expected at the end of 1974. Under the terms of the lease agreement, the Company will be required to provide the hotel furniture, furnishings and equipment at an estimated cost of $2,000,000.

*Four Seasons — Vancouver*
The Company has agreed to lease and operate on a long term basis a 410 room hotel being a part of the Pacific Centre complex located in downtown Vancouver. It is expected that construction of the hotel will commence during 1973 for completion in 1975. The Company will be required to provide the hotel furniture, furnishings and equipment at an estimated cost of $2,000,000.

*Inn on the Park — Montreal*
The Company has entered into a joint venture agreement to develop a 330 room luxury hotel in downtown Montreal. The joint venture in which the Company owns a 30% interest, has acquired the site and has arranged the long term financing required for the construction of the hotel including the furnishings and equipment. Construction commenced in 1973 with completion scheduled in 1975. The Company will operate the hotel on behalf of the joint venture under a management agreement.

*Inn on the Park — Rome*
The Company has entered into a joint venture agreement with a major Italian government-controlled company to develop a 400 room luxury hotel in Rome, Italy. In 1973 the joint venture, in which the Company owns a 50% interest, purchased a 20 acre site overlooking the Vatican. Construction is expected to commence in 1974 with completion scheduled for 1976. The Company has arranged a bank credit of $1,000,000 for its estimated equity interest in the joint venture.

The Company will operate the hotel under a long term lease agreement with the joint venture, and will be required to furnish and equip the hotel at an estimated cost of $2,500,000.

*Inn on the Park — Paris*
Subject to certain conditions being satisfied, the Company has been awarded the right to construct a 400 room deluxe hotel in Zone A of the Défense Région of Paris, a major redevelopment project under the auspices of the government of France. The Company intends to enter into a joint venture with French interests for construction and ownership of the hotel which will be operated by the Company on behalf of the joint venture. Construction is expected to commence in 1974 with completion scheduled in 1976. The Company has arranged a bank credit of $1,000,000 for its estimated equity investment in the joint venture.

Four Seasons Hotels Limited

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