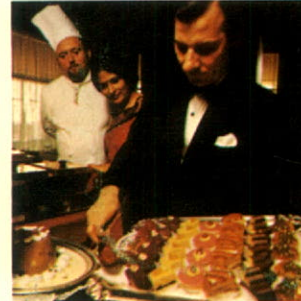


1974 FOUR SEASONS HOTELS LIMITED ANNUAL REPORT



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1974 FOUR SEASONS HOTELS LIMITED ANNUAL REPORT



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Four Seasons Hotels Limited
1100 Eglinton Avenue East
Toronto, Canada M3C 1H8
Telephone: 416-449-1750
Telex: 06-966669

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

STOCK EXCHANGE LISTINGS
Toronto Stock Exchange
Montreal Stock Exchange

TRADING SYMBOL
FRS

GENERAL COUNSEL
Henry and Brown
Toronto, Canada

AUDITORS
Wm. Eisenberg & Co.
Chartered Accountants
Toronto, Canada

PROVINCE OF INCORPORATION
Ontario (December 31, 1968)

FOUR SEASONS HOTELS

Inn on the Park, Toronto
Four Seasons, Jarvis, Toronto
Four Seasons Sheraton, Toronto
Four Seasons, Belleville
Four Seasons, Calgary
Four Seasons, Israel
Inn on the Park, London, England

HOTELS UNDER CONSTRUCTION

Le Quatre Saisons, Montreal
Four Seasons, Vancouver

HOTELS UNDER DEVELOPMENT

Four Seasons, Paris, France
Inn on the Park, Rome, Italy
Four Seasons, Yorkville, Toronto

CITIES UNDER CONSIDERATION

FOR FUTURE HOTELS
Denver, Colorado
Philadelphia, Penn.
Edmonton, Alberta
Washington, D.C.
Boston, Mass.

DIRECTORS & OFFICERS

MAX SHARP
Toronto Canada
Chairman of the Board
Elected Director 1968*

ISADORE SHARP
Toronto Canada
President and
Chief Executive Officer
Elected Director 1968*†

MURRAY B. KOFFLER
Toronto Canada
Vice President
Elected Director 1968*
Chairman and Chief
Executive Officer, Koffler
Stores Ltd.; President, Life
Products Co.; Director,
Rothmans of Pall Mall
Canada Ltd.

EDMOND M. CREED
Toronto Canada
Secretary
Elected Director 1968*
President, Creed Furs Ltd.

FREDERICK EISEN
Toronto Canada
Treasurer and
Assitant Secretary
Elected Director 1968

IAN F. MUNRO
Toronto Canada
Executive Vice President
Elected Director 1970

SIR GERALD GLOVER
London England
Elected Director 1971†
Senior Partner, Glover
and Company; Director,
Sun Alliance Assurance
Co. Ltd., Cadogan Gardens
Development Ltd.

LANFRANCO AMATO
Toronto Canada
Elected Director 1972†
Chairman, Olivetti
Canada Ltd.

*Member, Executive
Committee
†Member, Audit Committee

FINANCIAL HIGHLIGHTS 1974

*Based on the weighted average number
of shares outstanding throughout each
year after providing for preference share
dividends, and excluding extraordinary items.

	1974	1973
Revenue	\$24,748,223	\$22,432,775
Operating Profit		
Hotels	\$ 4,712,553	\$ 4,731,373
Real Estate	\$ 286,237	\$ 759,080
Net earnings	\$ 1,625,941	\$ 1,922,106
Earnings per share*	46.1¢	56.2¢
Cash flow	\$ 3,521,917	\$ 4,076,885
Cash flow per share*	\$ 1.17	\$ 1.27
Total consolidated assets	\$56,403,524	\$46,101,239
Retained earnings	\$ 7,794,175	\$ 6,897,404
Shareholders' Equity	\$18,912,647	\$18,015,876
Common shares		
Outstanding at year end	3,006,960	3,006,960
Owned in Canada	99%	99%

REPORT FROM THE PRESIDENT

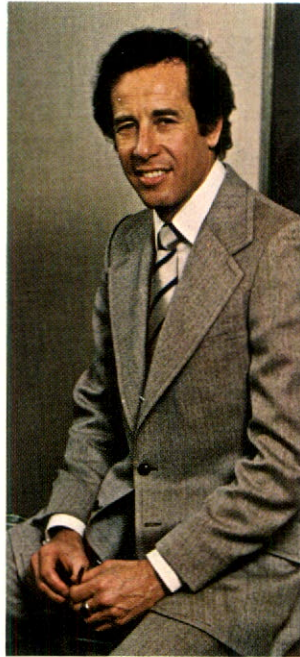
Although sales in 1974 were 10% higher than in 1973 and business at existing properties was maintained at projected levels, three major factors combined to lower this year's earnings.

Due to economic factors, the timing of several real estate developments has been delayed and consequently the profits that were anticipated in 1974 will now be realized during 1975 and 1976. However, the profit potential of these projects remains as projected and has not been affected by the delay. During 1974 we also experienced substantially higher U.K. income taxes due to higher U.K. tax rates, and as well were affected by a devaluation of the pound as against the Canadian dollar.

These three factors accounted for 13 cents per share.

Nevertheless in spite of these circumstances we are pleased with the operating results of our properties and look with enthusiasm and confidence to the future for continued growth.

Sales at \$24,748,223 for 1974 increased 10% over the \$22,432,775 achieved in 1973. Net earnings were \$1,625,941



as compared to the \$1,922,106 earned in 1973. Earnings per share were 46.1¢ and net earnings available for common shareholders was \$1,385,941.

The newest Four Seasons opened in late fall of 1974 and has now become one of Calgary's finest facilities. We expect our first western venture to provide us with a steady flow of earnings over the years.

The 410 room property in Vancouver will now open in early 1976. We have worked several years on this project and feel that our efforts will be rewarded in the years to come.

The 320 room Le Quatre Saisons will also open in early 1976 and will provide Montreal with a facility which we are confident will establish itself in that city

as the Inn on the Park London has in London, England. Sales efforts have been underway for some time and the hotel is being extremely well received.

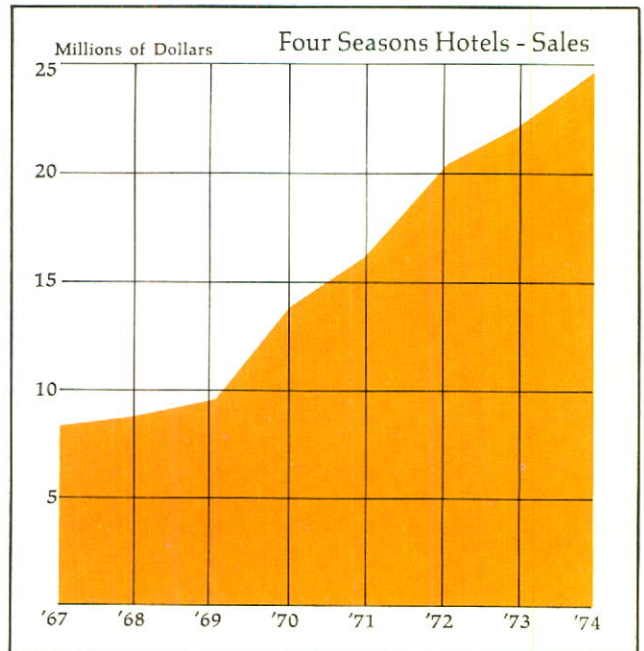
Our hotel developments in Paris and Rome are being temporarily delayed until such time as financial conditions improve in Europe. We now control the timing of development in each situation and are prepared to move ahead quickly once we are satisfied that a stabilizing condition prevails in Western Europe.

Work on Dallas and Ottawa has been suspended until financing can be arranged on terms that will allow for sound and proper development.

We are now proceeding with the new 250 room luxury hotel to be built in Toronto's York-

ville District. This project will be developed in partnership with the Louis Dreyfus group of Paris, France and will add an exciting dimension to the Toronto hotel market. Planning approval is now being obtained as the project has received community support.

The changes in world conditions over the past two years have necessitated a change in our approach to development. We are being asked to provide management expertise for some very exciting new ventures and now look to associate with major knowledgeable financial partners who have the ability to organize and proceed with development. Four Seasons will invest to a minority extent in the equity of a project and provide management to the operation.



This philosophy is allowing us to study more situations than previously had been the case. In view of the prolonged period of time needed to develop in Europe, we have focused attention on the key cities of the United States.

We are presently negotiating for management of new hotels in Denver Colorado, Philadelphia Penn., Boston Mass., Houston Texas, Edmonton Alberta, and Washington D.C. In each city we are fortunate in having the opportunity of creating a project strategically located and of a quality and standard that reflects our own approach to innkeeping.

During 1974 Four Seasons expanded its involvement in various real estate ventures and investments have now been made which will provide handsome returns over

the next several years. We see our real estate division becoming a very meaningful part of our company and we intend to continue this planned expansion programme in real estate investment which has proved to be most successful.

Our St. Clair Place Development in Toronto has received support from City Council and we are awaiting final approval for the combined commercial-residential complex. This development can now move ahead quickly and we should be under construction by the beginning of 1976.

Although we have lost considerable time in the planning stage the final result of the proposed development should prove to be a great benefit to Four Seasons.

1974 has been a year in which we have re-

examined the timing of each and every one of our ventures in order that we could assure ourselves of a proper and sound development schedule. The changing and uncertain economic conditions have prompted a reappraisal of the schedule for development but have not changed our initial enthusiasm and confidence in the end result of our product.

The opportunities that have been presented to us in other locations are being investigated thoroughly before any commitment is undertaken by our company.

We are confident of our ability to develop and operate hotels that cater to quality oriented markets and also of our ability to properly invest in the future potential of real estate development. Although recent times

have caused all businesses to reappraise their management philosophies, Four Seasons has shown that it is well able to effectively and efficiently adjust to these changes.

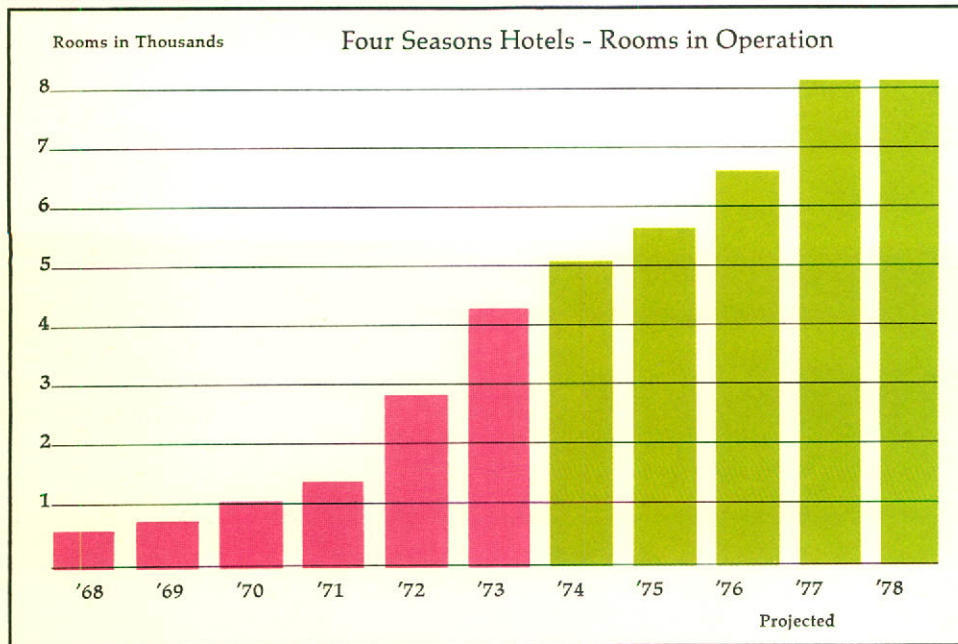
Our philosophy is and has been to proceed slowly with due regard for the extent of our liabilities. We feel that this philosophy has enabled us to continue our consistent record of growth and will in the future provide the company with a sound foundation upon which we can continue to grow.

Four Seasons optimism about the hotel industry continues and we are as confident as ever that the developments that have been worked on by the competent men and women in our company will produce the anticipated profits for many years to come.

I would personally like to thank all of our people for their dedicated efforts during the past years. Their support and enthusiasm has enabled Four Seasons to successfully continue its planned programme of development. We see no end to what can be created by hard work and imaginative thinking.



Isadore Sharp
President
May, 1975



TORONTO INN ON THE PARK

The Inn on the Park, located on a 15 acre site adjacent to Metropolitan Toronto's extensive park system is a very unique hotel offering a combination of well-equipped convention facilities for up to 1,000 people and luxury accommodations for its many guests in its 609 bedrooms and suites.

Only 15 minutes from downtown the Inn on the Park is surrounded by landscaped gardens and its two acre inner courtyard hosts many recreational facilities such as indoor and outdoor swimming pools, tennis and badminton courts, shuffleboard, sauna bath and exercise gym.

Opened in 1963 the Inn's consistent expansion has enabled it to meet the growing demands of travellers, diners, businessmen, convention planners and the community.

Highest international awards have been received for its cuisine and the hotel is known for excellence in decor, facilities and personalized service.





LONDON, ENGLAND INN ON THE PARK

Since its opening by HRH Princess Alexandra in 1970 the Inn on the Park London has become known as one of the world's finest hotels.

Located in Park Lane in London's elegant Mayfair district this 228 room luxury hotel is distinguished by its design, fine appointments and emphasis on personal service. Guest rooms are large and traditionally furnished while executive suites have private patios and balconies overlooking Hyde Park.

The hotel facilities include several conference and banquet rooms, dining rooms offering both haute cuisine and informal atmospheres and afternoon tea which is served in the lobby.

In its first year of operation the hotel was named Britain's Hotel of the Year by eminent critic Egon Ronay and has maintained this reputation for quality.



TORONTO FOUR SEASONS SHERATON

The Four Seasons Sheraton Hotel, located across from Toronto's City Hall, is the largest convention hotel in the Commonwealth. With 1450 bedrooms and suites, the hotel embraces a convention centre, two theatres, 70 boutiques, 2¹/₂ acres of gardens, and can accommodate up to 15,000 people.

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 of 2500 cars, and a 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.

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



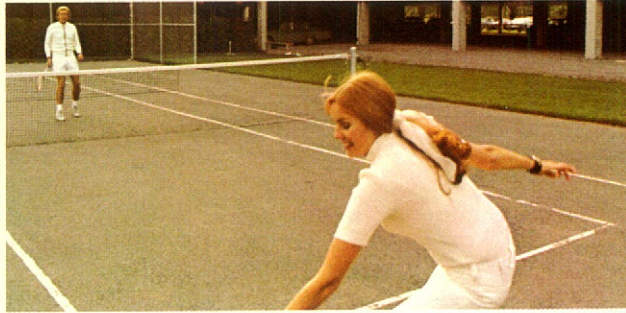


TORONTO FOUR SEASONS JARVIS

As the first motor hotel in downtown Toronto the Four Seasons Hotel has long been an established gathering place for businessmen and travelers who want an in-city location.

The hotel's 164 guest rooms surround an inner lounge and gardens.

Other facilities include a superb dining room offering continental cuisine, The Studio discotheque with live entertainment and a cocktail lounge which has become a favourite rendezvous for Torontonians.



BELLEVILLE FOUR SEASONS

Opened in 1971, the 125 room hotel is unique in that it combines resort facilities on a lake location with the Bell Canada Training Centre in a wing adjacent to the hotel.

In addition to the year round heated outdoor pool, tennis and badminton, guests can enjoy water sports in the Bay of Quinte.

CALGARY FOUR SEASONS

Located in the heart of downtown Calgary, adjoining the Calgary Convention Centre and the Glenbow Museum and Art Gallery, the 400 room Four Seasons Calgary opened in September 1974 with great success.

Facilities include "The Wheatshaf" for casual family dining; the elegant "Traders Dining Room" for an evening of dining and dancing; the library style "Traders Lounge" and "The Scotch Room" for more lively entertainment and dancing. Other facilities include an indoor swimming pool and whirlpool.

The Four Seasons Calgary also services the food and beverage requirements of the Calgary Convention Centre which is fully equipped to handle meetings from 20 to 2,500 people including audio-visual presentations and closed circuit TV.





ISRAEL FOUR SEASONS

This 14-storey development stands on a 200 foot cliff overlooking its own half mile of Mediterranean beach and consists of a 130 suite co-operatively owned apartment hotel. These suites are rented by Four Seasons Management to visiting public when unoccupied by their owners.



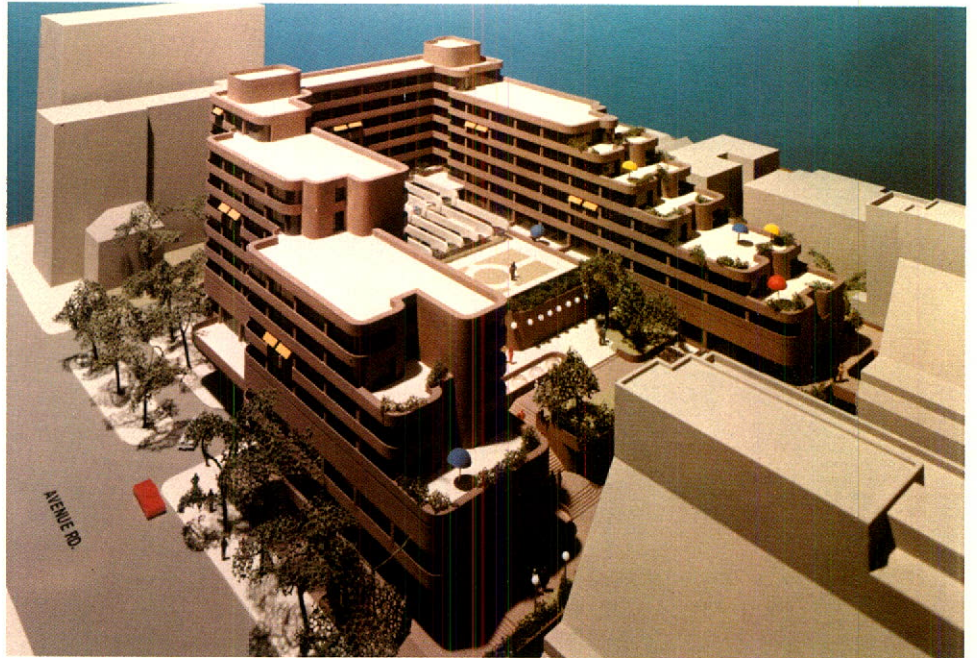
VANCOUVER FOUR SEASONS

The opening of the luxury 410 room Four Seasons Hotel in the heart of Vancouver is scheduled for January 1976. Strategically located at Georgia and Howe Streets it will become an integral part of the Pacific Centre complex which includes such new buildings as the Toronto Dominion Bank and the I.B.M. Tower.

Facilities will include 8 dining rooms and lounges for a variety of tastes, year round indoor-outdoor pool, saunas, convention and banquet rooms equipped to handle 20 to 500 people.

TORONTO FOUR SEASONS YORKVILLE

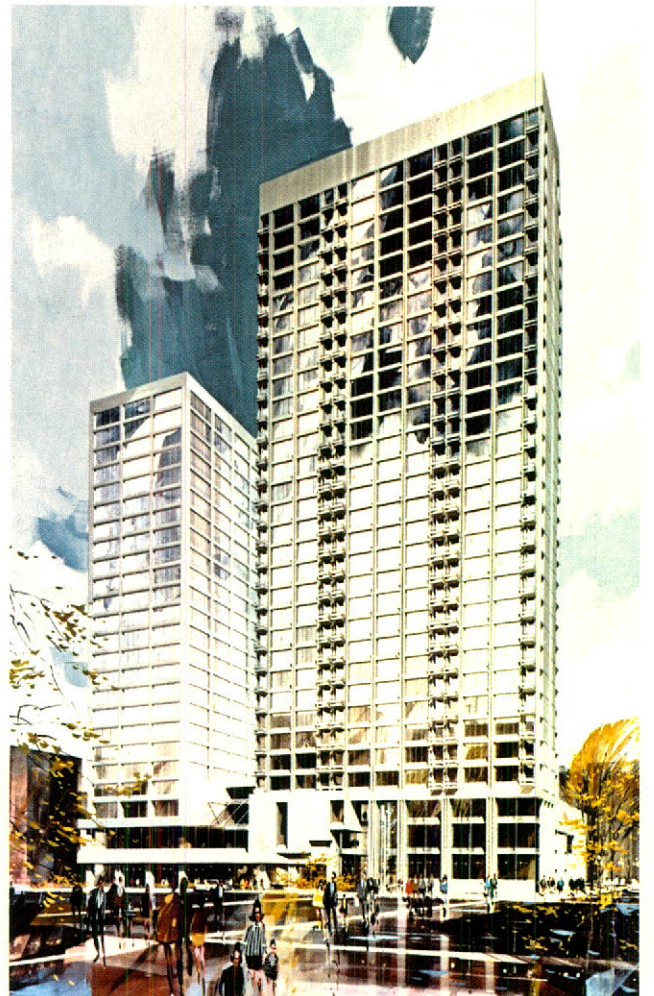
The completion of the new 250 room garden court hotel in Toronto's Yorkville district is scheduled for the spring of 1978. This exciting and distinctive hotel will include a skylit winter garden, creative landscaping on covered exterior terraces and a central garden court.

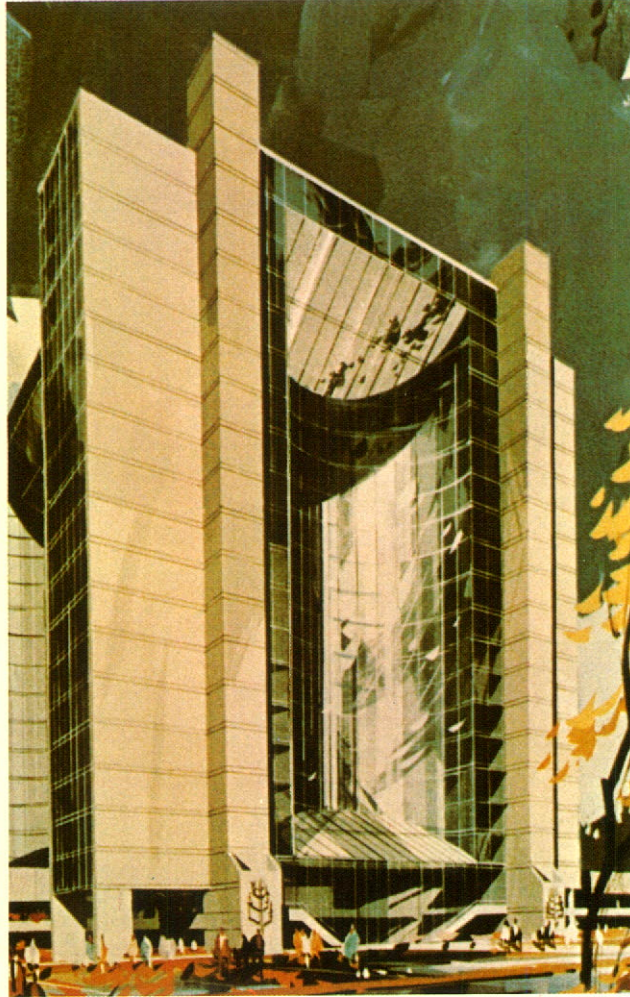
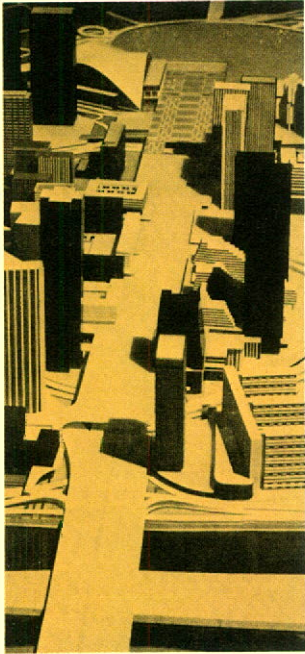


MONTREAL LE QUATRE SAISONS

Le Quatre Saisons located at the corner of the fashionable Peel and Sherbrooke Streets in the heart of Montreal, is scheduled to open in January 1976. This deluxe 320 room international hotel is distinguished by elegant interiors and highly personalized guest service.

Facilities include a formal dining room featuring international cuisine with an orchestra for dancing and the spectacular "Atrium Lounge" with sloping glass ceiling.





PARIS FOUR SEASONS

Scheduled for completion by 1980 the Four Seasons Hotel will be located in the Defense development, a major commercial complex being undertaken by the Government of France. The 400 room luxury hotel will be part of one of the world's most exciting and futuristic developments and will be designed to cater to businessmen with its extensive meeting rooms and dining facilities.



ROME INN ON THE PARK

Construction of the luxury 387 room Inn on the Park, Rome is expected to commence early in 1976. The hotel will offer guests a breathtaking view of the Vatican and is located minutes from downtown Rome.

Individual courtyards will provide a swimming pool, outdoor cafe, formal gardens and tennis courts.

REAL ESTATE DEVELOPMENTS

It is the philosophy of Four Seasons Hotels Limited that real estate holdings shall create ongoing revenue for the Company, and that real estate operations shall not be of a speculative trading nature. In keeping with this philosophy, the Company increased its real estate holdings with the acquisition of additional land.

The majority of our real estate holdings are situated in "growth areas" and will contribute an ever increasing proportion of the total profits for the Company.

Processing of the approximately 1,500 acres of land with which we are currently involved is proceeding exceptionally well. It is anticipated that the majority of our property will be approved for development in one to five years and will consist of residential, industrial and shopping plazas.

The joint venture companies in which we are involved have been successful in obtaining Draft Plan approval from the Ministry of Housing for two of our residential subdivisions, one being



located in the Town of Vaughan and the other in the City of Belleville. The resulting profits are anticipated in 1975.

Florida

The energy crisis in the United States has slowed

down the sale of all housing. As a result, we have limited the construction of our condominiums in Fort Myers and have put a temporary hold on the proposed Punta Gorda project.

St. Clair Place

City of Toronto approval has now been received for the development of the former location of the Granite Club. The site, covering four acres of prime land in Central Toronto, will become an exciting residential, commercial and retail complex. Three office buildings on the St. Clair Avenue frontage will be connected at ground level by a podium containing retail stores, restaurants, malls and office lobbies. The southern portion of the site will consist of luxury condominium townhouses and two condominium apartment buildings.

It is anticipated that construction will commence in late 1975.

FIVE YEAR STATISTICAL SUMMARY



	1970	1971	1972	1973	1974
OPERATING RESULTS					
Revenue	\$13,586,447	\$16,963,181	\$20,645,176	\$22,432,775	\$24,748,223
Gross profit	3,288,796	4,196,251	5,589,715	6,625,730	6,196,422
Net profit before taxes	1,554,671	2,076,733	2,840,304	3,871,240	3,442,468
Income taxes	724,743	936,659	1,283,925	1,949,134	1,816,527
Income before extraordinary items	829,928	1,140,074	1,556,379	1,922,106	1,625,941
Net income	829,928	1,140,074	1,681,529	1,950,644	1,625,941
Cash flow	1,925,416	2,433,688	3,305,691	4,076,885	3,521,917
Dividends on all classes of stock	—	—	478,331	599,083	600,835
Retained earnings at year end	3,544,316	4,526,965	5,545,843	6,897,404	7,794,175
PER COMMON SHARE					
Net earnings after taxes, excluding extraordinary items	33¢	40.5¢	48.1¢	56.2¢	46.1¢
Assuming full conversion of preference shares, exercise of outstanding warrants and stock options	33¢	39¢	46.6¢	53¢	43.6¢
Annual dividends paid	—	—	12¢	12¢	12¢
Cash flow before extraordinary item	76.5¢	87¢	\$ 1.03	\$ 1.27	\$ 1.17
FINANCIAL CONDITION					
Working capital (deficiency)	(\$ 545,423)	\$ 1,841,430	\$ 280,273	\$ 687,116	\$ 831,868
Additions to fixed assets	5,718,378	5,136,110	2,430,100	822,906	5,083,871
Depreciation and amortization	659,381	823,931	1,077,550	1,137,328	1,175,133
Total assets	27,840,666	35,962,424	42,358,925	46,101,239	56,403,524
LIABILITY AND SHAREHOLDERS' EQUITY					
Current liabilities	\$ 3,494,204	\$ 4,183,791	\$ 5,211,802	\$ 5,344,908	\$ 7,176,435
Long-term debt	15,308,938	18,371,377	18,090,577	19,334,655	26,201,404
Deferred income tax	1,452,136	1,921,819	2,468,431	3,405,800	4,113,038
Shareholders' equity	7,585,388	11,485,437	16,588,115	18,015,876	18,912,647
SHAREHOLDERS					
Common shares outstanding	2,508,400	2,967,000	2,987,950	3,006,960	3,006,960
OPERATIONS					
Hotels in operation	5	5	5	6	7
Rooms in operation	1046	1255	1255	2700	3100

FOUR SEASONS HOTELS LIMITED

Consolidated Balance Sheet
as at December 31, 1974

ASSETS		
CURRENT ASSETS	1974	1973
Cash on Hand and in Bank	\$ 1,123,566	\$ 1,612,925
Accounts Receivable After Allowance for Doubtful Accounts 1974 — \$239,914; 1973 — \$165,520	2,598,890	1,556,167
Management Fees Receivable	80,100	133,723
Inventory of Food, Beverages and Supplies — at lower of Cost or Replacement Value	1,112,585	692,953
Short Term Loans Receivable	2,539,758	1,574,916
Other Amounts Receivable and Prepaid Expenses	515,911	452,340
Cash Surrender Value of Life Insurance	37,493	9,000
	\$ 8,008,303	\$ 6,032,024
DEFERRED DEVELOPMENT AND CONSTRUCTION COSTS (Note 3)	\$ 3,174,115	\$ 2,186,773
INVESTMENTS (Note 4)		
South Side Development Limited	\$11,941,545	\$10,814,285
Real Estate Partnerships and Joint Ventures	1,576,953	1,427,919
Other	202,548	58,917
	\$13,721,046	\$12,301,121
FIXED ASSETS (Note 5)		
Land	\$ 2,976,289	\$ 2,908,339
Buildings	16,710,081	15,948,949
Furniture, Furnishings and Equipment	10,664,474	7,640,075
Leasehold Improvements (at Cost)	1,677,732	1,058,525
Vehicles (at Cost)	26,207	33,688
	\$32,054,783	\$27,589,576
Less: Accumulated Depreciation	4,735,902	3,613,978
	\$27,318,881	\$23,975,598
Linen, Tableware and Uniforms (Inventoried at the lower of Cost or Replacement Value)	1,828,363	1,178,207
	\$29,147,244	\$25,153,805
OTHER ASSETS (Note 6)		
Unamortized Financing Costs	\$ 245,880	\$ 326,715
Unamortized Pre-Opening and Opening Expenses	2,106,936	100,801
	\$ 2,352,816	\$ 427,516
	\$56,403,524	\$46,101,239

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

LIABILITIES

	1974	1973
CURRENT LIABILITIES		
Bank Indebtedness (Note 7)	\$ 193,729	\$ 97,656
Accounts Payable and Accrued Charges	4,428,431	2,782,369
Long Term Debt due within one year (Note 8)	539,016	874,050
Income Taxes Payable	2,015,259	1,590,833
	<hr/>	<hr/>
Long Term Debt (Note 8)	\$ 7,176,435	\$ 5,344,908
Deferred Income Taxes (Note 9)	4,113,038	3,405,800
	<hr/>	<hr/>
TOTAL LIABILITIES	\$37,490,877	\$28,085,363

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 \$ 4,000,000

3,006,960 Common Shares, without Par Value (1973 – 3,006,960 Shares)

4,112,449 4,112,449

RETAINED EARNINGS

7,794,175 6,897,404

SURPLUS ARISING FROM APPRAISAL OF FIXED ASSETS (Note 5)

3,006,023 3,006,023

TOTAL SHAREHOLDERS' EQUITY

\$18,912,647 \$18,015,876

\$56,403,524 \$46,101,239

Approved on behalf of the board

I. Sharp, Director

F. Eisen, Director

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

AUDITOR'S 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, 1974 and the Consolidated Statements of Earnings, Retained Earnings, and Changes in Financial Position 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, 1974, and the result of its operations and the changes in its financial position 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, April 30, 1975

FOUR SEASONS HOTELS LIMITED

Consolidated Statement of Earnings
For the Year Ended December 31, 1974

	1974	1973
HOTEL REVENUE	\$24,748,223	\$22,432,775
Cost of Sales	\$ 4,986,107	\$ 4,515,712
Payroll and Related Expenses	8,104,181	6,569,245
Other Expenses	5,523,293	5,235,912
House Profit — Hotels	\$ 6,134,642	\$ 6,111,906
Rent, Municipal Taxes and Insurance	1,422,089	1,380,533
Operating Profits — Hotels	\$ 4,712,553	\$ 4,731,373
REAL ESTATE		
Share of Profits — Real Estate Operations	\$ 286,237	\$ 759,080
INTEREST EARNED	1,197,632	1,135,277
EARNINGS FROM OPERATIONS BEFORE THE FOLLOWING CHARGES	\$ 6,196,422	\$ 6,625,730
Interest on Long Term Debt	\$ 1,578,821	\$ 1,617,162
Depreciation	\$ 1,090,432	1,034,240
Amortization	84,701	103,088
EARNINGS BEFORE TAXES	\$ 3,442,468	\$ 3,871,240
Income Taxes — Current	1,109,289	960,221
— Deferred	707,238	988,913
NET EARNINGS BEFORE EXTRAORDINARY ITEM	\$ 1,625,941	\$ 1,922,106
Extraordinary Item (Note 13)	—	28,538
NET EARNINGS FOR THE YEAR	\$ 1,625,941	\$ 1,950,644
EARNINGS PER SHARE (Note 12)		
Before Extraordinary Item	46.1¢	56.2¢
After Extraordinary Item	46.1¢	57.2¢

FOUR SEASONS HOTELS LIMITED

Consolidated Statement of Retained Earnings
For the Year Ended December 31, 1974

	1974	1973
RETAINED EARNINGS AT BEGINNING OF YEAR	\$ 6,897,404	\$ 5,545,843
Add: Net Earnings for the Year	1,625,941	1,950,644
	\$ 8,523,345	\$ 7,496,487
Less: Dividends Paid — Preferred Shares	240,000	240,000
— Common Shares	360,835	359,083
License Transfer Fee Re 1969 (Note 16)	128,335	—
RETAINED EARNINGS AT END OF YEAR	\$ 7,794,175	\$ 6,897,404

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

FOUR SEASONS HOTELS LIMITED

Consolidated Statement of Changes in Financial Position
For the Year Ended December 31, 1974

	1974	1973
SOURCE OF FUNDS		
Operations		
Net Earnings for the Year	\$ 1,625,941	\$ 1,950,644
Add: Non Cash Charges to Income		
– Depreciation of Buildings, Furniture and Equipment	1,090,432	1,034,240
– Amortization of Pre-Opening and Financing Expenses	98,306	103,088
– Deferred Income Taxes	707,238	988,913
CASH FLOW FROM OPERATIONS	\$ 3,521,917	\$ 4,076,885
FINANCING		
Long Term Debt		
– Term Bank Loans	\$ 6,732,105	\$ 2,320,900
– Construction Obligations	671,479	–
Other Sources		
Employees' Stock Options Exercised	–	76,200
Sundry	–	20,650
	\$10,925,501	\$ 6,494,635
APPLICATION OF FUNDS		
Additional Deferred Development and Construction Costs	\$ 987,342	\$ 1,426,892
Additions to Investments		
– South Side Development Limited	1,127,260	1,328,010
– Real Estate Partnerships and Joint Ventures	149,034	723,618
– Other	143,631	58,917
Additions to Fixed Assets		
– Hotel Properties, Furniture, Furnishings and Operating Equipment	5,083,871	822,906
Increase in Pre-opening and Opening Expenses	2,090,836	–
Reduction of Long Term Debt (Net of Discounts Earned)	469,605	1,076,822
Dividends Paid – Preference Shares	240,000	240,000
– Common Shares	360,835	359,083
License Transfer Fee re 1969	128,335	–
Sundry	–	51,544
	\$10,780,749	\$ 6,087,792
NET INCREASE IN WORKING CAPITAL	\$ 144,752	\$ 406,843
WORKING CAPITAL AT BEGINNING OF YEAR	\$ 687,116	\$ 280,273
WORKING CAPITAL AT END OF YEAR	\$ 831,868	\$ 687,116

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

FOUR SEASONS HOTELS LIMITED

Notes to Financial Statements
As at December 31, 1974

1. ACCOUNTING PRESENTATION

The Consolidated Balance Sheet of Four Seasons Hotels Limited includes its wholly-owned hotel subsidiaries.

The Company's investment in real estate partnerships and joint ventures, whether directly or through subsidiaries, is recorded on the equity basis.

The Company's investment in South Side Development Limited is recorded on a cost basis (see Note 4(a)).

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 monthly 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 — straight line basis over the guaranteed terms of the leases,

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:

	1974	1973
Calgary	\$ —	\$ 554,971
Vancouver	1,245,124	535,497
Montreal	338,187	363,303
Dallas	206,441	109,148
Rome	346,955	178,846
Paris	507,451	327,373
Ottawa	59,734	38,440
Toronto - Yorkville	315,588	3,923
Other Locations	154,635	75,272
	<u>\$3,174,115</u>	<u>\$2,186,773</u>

The costs consist of architectural and design fees and other amounts directly related to the development of specific projects which will be added to the cost of the project assets or deferred as pre-opening expenses.

4. INVESTMENTS

(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 Company's investment of \$11,941,545 is shown at cost plus accrued interest, and consists of \$49,000 of share capital and a loan of \$11,892,545 bearing interest at 10% per annum.

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, accordingly, pre-opening costs and any losses incurred up to February 25, 1974 have been deferred and will be amortized over five years commencing with the twenty-fifth month after opening. During the period February 25, 1974 to December 31, 1974, South Side Development Limited recorded a loss of \$2,670,366.

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 up to January 1, 1976 at cost plus accrued 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.

Because of the foregoing options, and because management feels that there has been no long term impairment in the value of its investment, the Company carries its investment at cost plus accrued interest, and has not recorded its share of the 1974 loss of South Side Development Limited.

(b) Real Estate Partnerships and Joint Ventures

The Company and its subsidiaries are engaged in several real estate developments through partnerships and joint ventures.

A financial summary of the Company's and its subsidiaries' proportionate interest in these real estate partnerships and joint ventures is as follows:

	1974	1973
ASSETS		
Investment Properties Under Development	\$ 6,424,140	\$ 5,419,467
Land Held for Development and Sale	2,871,806	1,827,578
Co-Operative and Condominium Units for Sale	721,711	981,260
Mortgages Receivable	2,022,062	1,891,197
Other Assets	746,490	260,745
	<u>\$12,786,209</u>	<u>\$10,380,247</u>
LIABILITIES		
Mortgages and Bank Loans	\$10,056,530	\$ 8,289,671
Other Liabilities	1,152,726	662,657
	<u>\$11,209,256</u>	<u>\$ 8,952,328</u>
COMPANY'S EQUITY	<u>\$ 1,576,953</u>	<u>\$ 1,427,919</u>

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. The surplus arising from this appraisal

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 AND OPENING EXPENSES

It is the Company's policy to defer hotel pre-opening and opening expenses until after a hotel is fully operational. Subsequently, these expenses are amortized over five years on a straight-line basis.

During 1974 hotel pre-opening and opening expenses were increased by costs relating to the opening of the Four Seasons — Calgary. The hotel opened for business on September 20, 1974, and became fully operational in early 1975.

7. BANK INDEBTEDNESS

The bank indebtedness is secured by a general assignment of book debts (see Note 8 re Term Bank Loans).

8. LONG-TERM DEBT

Long-Term Debt comprises the following:

	At Dec. 31, 1974	At Dec. 31, 1973
Term Bank Loans — due in 1976. The Company intends to replace the Term Bank Loans with long term financing.		
— Payable in Canadian Funds — \$4,437,705		
— Payable in United States Funds — \$4,615,300		
Secured by a general assignment of the Company's book debts, and by a debenture and first floating charge on the furniture, furnishings and equip- ment of the Four Seasons — Calgary.	\$ 9,053,005	\$ 2,320,900
Construction Obligations — due in 1976	671,479	—
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 ⁰ / ₁₀ , plus a participation in the gross bedroom rentals of the Four Seasons Motor Hotel	819,500	878,050

■ Marya Pocius on 118-124 Carlton Street adjacent to the Four Seasons Motor Hotel, due October 31, 1982, interest only at 7 ⁰ / ₁₀	\$ 310,000	\$ 310,000
■ Shell Canada Limited on the service station property at Jarvis and Carlton Streets, due August 1, 1988, interest at 6 ³ / ₄ ⁰ / ₁₀	263,346	276,649
■ 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 7 ¹ / ₄ ⁰ / ₁₀ , plus a participation in the gross bedroom rentals of the Inn on the Park, Toronto	3,395,000	3,569,000
■ 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 9 ¹ / ₂ ⁰ / ₁₀ plus a participation in the gross bedroom rentals of the Inn on the Park, Toronto	4,563,500	4,709,000
■ First Mortgage Sinking Fund Bonds, Series A, on the Four Seasons — Belleville, due April 1, 1996, interest at 8 ³ / ₄ ⁰ / ₁₀ (Sinking Fund requirements have been prepaid for 1975 and part of 1976).	2,667,000	2,667,000
Conditional Sale Contract for furniture, furnishings and equipment — Inn on the Park, London, maturing in monthly instalments at a rate of interest varying with the prime rate, due in 1980. (Payable in Sterling £318,389.)	787,590	922,106
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 ⁰ / ₁₀ 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. (\$346,000 of Series A Debentures were retired in 1974. Sinking fund requirements of \$290,000 have been prepaid in respect of 1975 and part of 1976.)	4,210,000	4,556,000
	<u>\$26,740,420</u>	<u>\$20,208,705</u>
Less: Due Within One Year	539,016	874,050
	<u>\$26,201,404</u>	<u>\$19,334,655</u>

Long-Term Debt due in each of the next five years	
1975	\$ 539,016
1976	10,488,784
1977	908,300
1978	926,800
1979	943,750

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 and opening expenses and finance and interest charges which are deferred or capitalized for accounting purposes. The resulting reduction of current income taxes for 1974, amounting to \$707,238, 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.

10. CAPITAL STOCK

(a) Series A First Preference Shares

Each Series A First Preference Share is convertible to 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.

(b) Common Shares

As at December 31, 1974, common shares were reserved as follows:

For issuance to preferred shareholders under conversion privileges attaching to Series A Preference Shares	400,000
For issuance under share purchase Warrants	199,840
For issuance to employees for stock options	
— at \$3.62 per share	132,000
— at 10% below market price at the date the option is granted	1,830
	<u>133,830</u>
	<u>733,670</u>

(c) 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 199,840 shares for issuance upon the exercise of the outstanding warrants.

(d) Stock Options

During 1974 the Company cancelled an option granted in 1973 to a director and senior officer to purchase a total of 132,000 common shares at \$7.10 per share. A new option was granted to the director and senior officer to purchase a total of

132,000 common shares at \$3.62 per share for a period of ten years from September 20, 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, 1974, consolidated retained earnings amounted to \$7,794,175, shareholders' equity amounted to \$16,559,831, and consolidated funded obligations amounted to \$4,210,000.

12. EARNINGS PER SHARE

Earnings per share for 1974, after providing for preference share dividends of \$240,000 were 46.1¢, based upon the weighted average number of shares outstanding during the year — 3,006,960 shares, (1973 — 2,993,260 shares).

The exercise of all outstanding warrants and employees' stock options in 1974 would have resulted in a dilution in earnings per share of 2.5¢. The conversion of the preference shares to common shares in 1974 would have had no dilutive effect on earnings per share.

13. EXTRAORDINARY ITEMS

In 1973, Mt. Pleasant Development Company sold an investment property which had not been acquired for resale. The Company's proportionate share of the gain arising from this sale amounted to \$28,538 and is shown as an extraordinary item.

14. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate direct remuneration paid in 1974 to directors and senior officers of the Company was \$458,095 (1973 — \$330,180).

15. LEASES

The Company has entered into lease agreements for certain hotel properties for periods up to 1999. The lease terms may be extended under renewal options. The total minimum rentals paid in 1974 amounted to \$484,179 exclusive of additional amounts based on percentages of revenue, real property taxes, and other occupancy charges. The total minimum annual rentals payable under all leases currently in force amounts to \$1,287,929.

16. LICENSE TRANSFER FEE RE 1969

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. In 1974, the transfer fees were paid under protest and an appeal is pending.

17. CONTINGENT LIABILITIES

(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 America 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 required 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) The Company is contingently liable for all of the obligations of the partnerships in which it has a direct interest (Note 4(b)). However, against this contingent liability, the Company would have a claim upon the assets of its partners. The Company has guaranteed the bank loan obligations of certain of its real estate subsidiaries.

18. COMMITMENTS AND SUBSEQUENT EVENTS

Four Seasons — Vancouver

The Company has agreed to lease and operate on a long-term basis a 430 room hotel, being a part of the Pacific Centre complex, located in downtown Vancouver. Construction of the hotel commenced during 1973 with completion scheduled in early 1976. The Company will be required to provide the hotel furniture, furnishings, equipment and other assets. The Company has arranged a bank credit of \$10,000,000 to cover these costs.

Le Quatre Saisons — 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, acquired the site and commenced construction in 1973 with completion scheduled in late 1975. The joint venture has arranged interim financing for completion of construction including furniture, furnishings and equipment. The Company has contingently guaranteed \$6,666,666 (U.S.) of this financing. The Company will operate the hotel on behalf of the joint venture under a management agreement.

Inn on the Park — Dallas

The Company has entered into a joint venture agreement to develop a 465 room hotel in downtown Dallas, Texas.

The joint venture in which the Company owns a 50% interest will arrange the long term financing required for the construction of the hotel including the furniture, furnishings and equipment. Construction will commence when financing arrangements have been completed. The Company's maximum equity contribution to the joint venture is limited by agreement to \$1,500,000. 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 387 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. The joint venture will arrange the long term financing for the construction of the hotel including the furniture, furnishings and equipment. Construction will commence when financing arrangements have been completed. The Company has arranged a bank credit of \$1,500,000 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.

Inn on the Park — Paris

The Company has been awarded the right to construct a 410 room deluxe hotel in Zone A of the Defense Region of Paris, a major redevelopment project under the auspices of the government of France. The Company has entered into an agreement with S.A. Louis Dreyfus et Cie. to form a joint venture in which the company will hold a 50% interest. The joint venture will arrange the long-term financing for the construction of the hotel, including the furniture, furnishings and equipment. Construction will commence when financing arrangements have been completed. The Company has arranged a bank credit of \$1,000,000 for its estimated equity investment in the joint venture. The Company will operate the hotel on behalf of the joint venture under a management agreement.

Four Seasons — Ottawa

The Company has agreed to manage, on a long term basis a 440 room hotel to be built in downtown Ottawa. Construction will commence when the owners have arranged suitable financing. The Company will not be required to make any capital investment.

Four Seasons — Yorkville

The Company has entered into a joint venture agreement with a subsidiary of S.A. Louis Dreyfus et Cie. to develop a 250 room luxury hotel in Toronto's Yorkville district. The joint venture, in which the Company owns a 50% interest, has acquired the site and will construct the hotel including the furniture, furnishings and equipment. Construction will commence when zoning approvals have been obtained and financing arrangements have been completed. The Company will operate the hotel on behalf of the joint venture under a management agreement.
