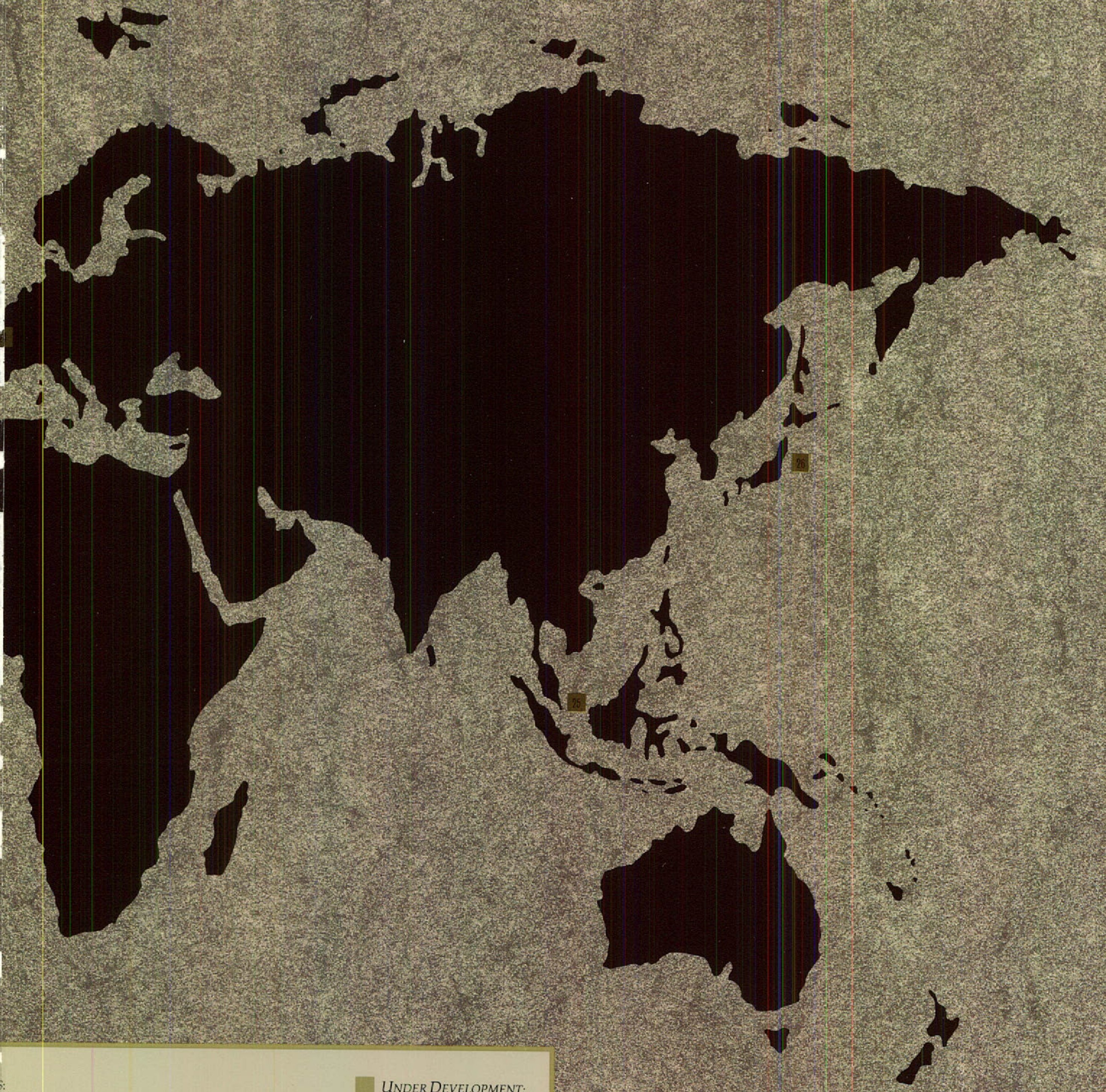
Four Seasons Hotels · Resorts

1988 ANNUAL REPORT



UNDER DEVELOPMENT:

UNITED STATES

7. SEATTLE
8. SAN FRANCISCO
9. SANTA BARBARA
10. LOS ANGELES
11. NEWPORT BEACH
12. AUSTIN
13. DALLAS
14. HOUSTON (2)
15. CHICAGO (2)
16. WASHINGTON, D.C.
17. PHILADELPHIA
18. NEW YORK
19. BOSTON
20. WAILEA, MAUI
21. NORTH KONA, HAWAII
22. MEXICO CITY
23. NEVIS
24. PARIS
25. SINGAPORE
26. TOKYO

Four Seasons
Hotels • Resorts

EXISTING HOTEL

CANADA

1. VANCOUVER
2. MINAKI
3. TORONTO (2)
4. OTTAWA
5. MONTREAL

ENGLAND

6. LONDON

Company Profile

The goal of Four Seasons Hotels is to operate the finest hotel or resort in each destination where it locates. It is the largest operator of medium-size, luxury hotels in the world. In its 27-year history, the company has built its reputation by delivering a consistently superior level of accommodation and personal service.

In total, Four Seasons has 22 hotels with almost 7,000 rooms under management and more than 10,000 employees.

There are 19 Four Seasons urban hotels serving the major cities in North America and London, England. The company's strategy is to remain sensitive to new opportunities in North America while focusing on growth in the major business centres of Japan and the Far East, Europe and Latin America.

Four Seasons also operates three resorts, in Dallas, Texas, Santa Barbara, California and Minaki, Ontario and plans to have seven in operation by 1994. Future expansion in this segment will focus on providing the company's clientele with the finest service, accommodations and facilities in the world's leading resort destinations.

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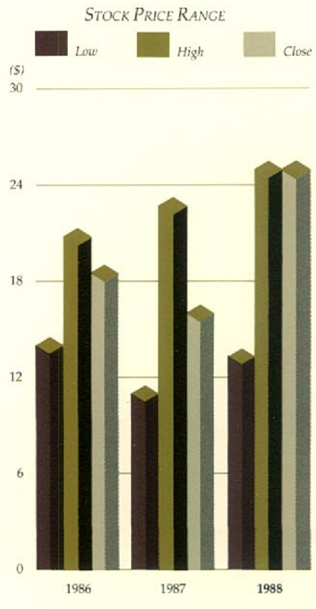
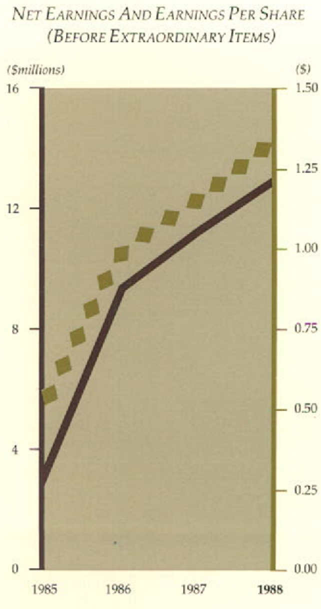
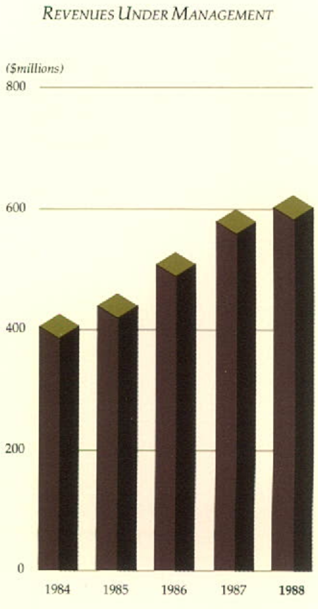
Financial Highlights

($millions except for per share amounts)	**1988**	1987	1986
Total revenues of all managed hotels	**$ 603.4**	584.3	509.3
Net earnings before extraordinary items*	**$ 13.1**	11.3	9.5
Earnings per share before extraordinary items*	**$ 1.33**	1.15	0.99
Cash flow from operations	**$ 26.9**	19.8	28.1
Return on equity	**23.1%**	24.9%	21.6%

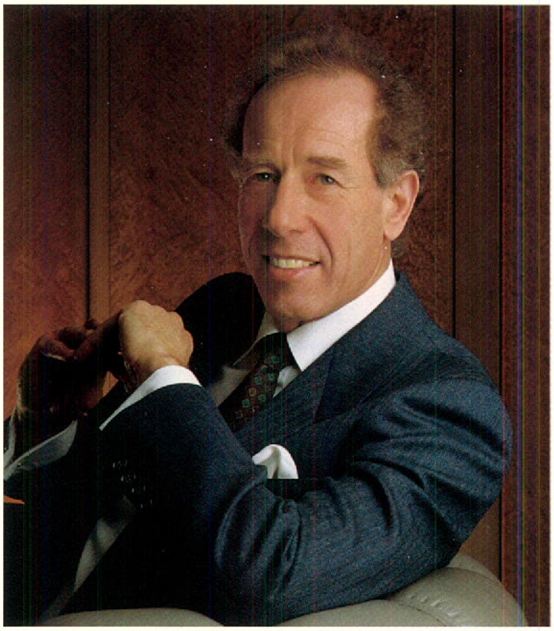
*** Net earnings after extraordinary items for 1988 were $34.8 ($3.54 per share)**







CHAIRMAN'S MESSAGE



Four Seasons hotels and resorts serve an average of 15,000 guests a day with a pride and dedication that has made us the largest operator of luxury hotels in the world. We built our reputation by anticipating and meeting the needs of the world's most discriminating travellers. In the past 27 years, our hotels and our people have gained Four Seasons international acclaim. In 1988, five of our hotels were ranked in the top eight in North America by the prestigious *Institutional Investor* magazine, while nine received the coveted Five Diamond Award, the highest honour of the American Automobile Association.

More importantly, we have won the loyalty of our guests – corporate executives and professionals who appreciate Four Seasons' commitment to service. Our reputation gives us one of the highest repeat customer levels in the industry and, I am happy to report, our third consecutive year of record earnings.

Indeed, the past year was one in which we not only met the goals we set ourselves, we exceeded them. Earnings rose to $13.1 million in 1988, up from $11.3 million in 1987 and $3.4 million only three years ago. Since 1985, our shareholders' equity has grown from $42 million to $85 million. In the past year, we lowered our debt/equity ratio, net of cash, to 0.45:1 and increased our cash flow to $27 million, more than double the 1985 level of $12 million.

These impressive results underscore one of our greatest resources – our financial strength. Combining this with a strategy of concentrating on medium-sized hotels of exceptional quality in key locations, we have created a formula for success in the luxury hotel industry.

Our growth is carefully planned with a long-term view based on two fundamental principles. We will not permit any compromise in our operating standards and we are committed to preserving our financial performance and capacity.

As part of our ongoing development, we have focused on building the best sales and marketing organization in the luxury hotel industry. In 1988, we expanded and upgraded our central reservations system and created computerized data bases that will allow us to more closely track our customers and their personal preferences.

We have our core North American network in place, with hotels in each of the major business centres. However, we remain sensitive to new opportunities in North America, for example, in Chicago, where this spring we opened our second hotel. In the immediate future, we will focus on new markets in the major business centres of Japan and the Far East, Europe and Latin America. We believe these locations have tremendous potential as business becomes increasingly global in nature and the demand for luxury accommodation grows accordingly.

Our business clientele want the Four Seasons' experience in a resort setting when they vacation with their families or attend conferences and planning sessions. We will provide that experience by concentrating on high-demand locations in California, Hawaii, the Caribbean and Mexico. Our three existing resorts in Dallas, Texas, Santa Barbara, California and Minaki, Ontario will be joined by the Four Seasons Resort in Maui, Hawaii this year and another on the Caribbean island of Nevis in 1990. By 1994, we anticipate having a total of seven resorts in operation, including a second in Hawaii.

In less than three decades we have built the world's leading luxury hotel group. This is attributable to our controlled development, but also, more importantly, to our people – employees at all levels who realize that every function plays a vital role in the success of our hotels.

The continuing dedication of our employees, a sound financial structure, and a total commitment to quality gives us the ability to extend Four Seasons to the great business cities and the most popular resort destinations of the world.

ISADORE SHARP
Chairman and President

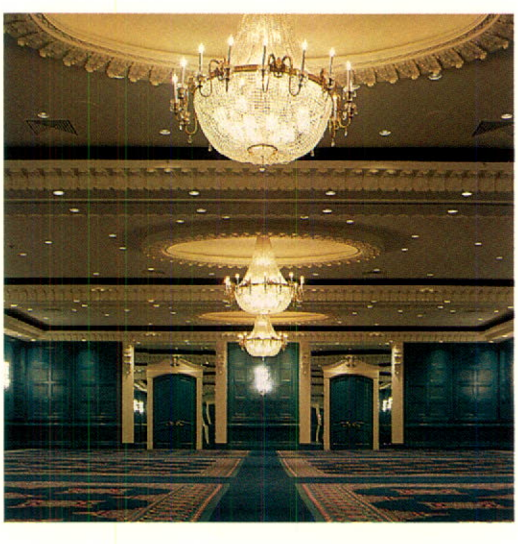
Existing Operations

How did Four Seasons build its leadership position in the upscale segment of the hotel industry?

During the past 27 years, Four Seasons has created a collection of hotels which today define the standard by which luxury hotels are judged. We did that by focusing on two essential ingredients – an absolute commitment to customer service and to establishing exceptional properties in key locations.

What is Four Seasons' strategy for maintaining its leadership?

We are continually redefining luxury service levels and improving our facilities in anticipation of our guests' needs. For example, we introduced two-line telephones, a feature immediately appreciated by our business guests. Operational standards are monitored on a regular basis to ensure service is consistent and that they exceed the ever-increasing expectations of our clientele.



The hotels themselves are being systematically refurbished and upgraded. In 1988 alone, Four Seasons and its partners spent $45 million on capital improvements. At the historic Four Seasons Biltmore in Santa Barbara, California, most of the U.S. $14 million refurbishing of all rooms and public areas has been completed. We invested $3.5 million to improve the lobby, ballroom and guest bathrooms in the Four Seasons Toronto, enhancing what was already considered the best hotel in Canada. At the Inn on the Park, London, England, we created 16 conservatory rooms, each with its own solarium sitting area.

What changes have you made in marketing to position Four Seasons for growth?

We have expanded and upgraded our central reservations system to process the more than 335,000 bookings we receive each year. We are developing two computerized data bases that will enhance customer service

The recently renovated Regency Ballroom at the Four Seasons Toronto – finely detailed panelled walls in rich blues and white with bevelled mirrors give the room an atmosphere befitting its name. ●RIGHT: The Library located beside the lobby at the Four Seasons Los Angeles – a quiet oasis to meet business associates or greet friends.

by allowing us to track both corporate account activity and individual guest histories company-wide. This information will be available to every one of our hotels and will allow us to know our customers better, so we can tailor our service and amenities to their needs.

We have also addressed the challenge of global name recognition – the fact that not everyone in our target markets knows that hotels such as The Pierre in New York, the Ritz-Carlton in Chicago, or the Inn on the Park, London are Four Seasons' operations. We've focused on improving brand recognition and in 1988, we attacked that goal by building the best sales and marketing organization in our industry segment. It's an aggressive marketing program that has seen us expand the size, scope and capabilities of our national sales offices allowing us to increase our business base both domestically and internationally.

Four Seasons' standards, world-class properties in key locations, the latest advances in computer technology and an aggressive marketing program – these are the elements which ensure our future growth and success.

Would Four Seasons be able to maintain its standards through an economic downturn?

Yes. We can't abandon the ingredients that made us a leader just because times get tough. We have the market and financial strength to see us through: a high profile in the luxury hotel segment, low debt level, significant cash flow and reliable management fee income. These, together with the ownership of hotels in historically stable locations such as New York, Chicago, London and Toronto, give us the resources necessary to maintain financial performance in difficult times.

Four Seasons' Central Reservations Office processes more than 335,000 bookings per year. We will soon augment this system with advanced data bases allowing us to track corporate account and individual guest histories. ● RIGHT: The entrance to the Cafe Pierre – one of New York's favourite restaurants – at the Pierre Hotel in New York City.


Cafe Pierre

International Development

One of the areas of growth you have identified is the international market. Which areas are you looking at?

We are now focusing on new opportunities in Europe, Japan and the Far East, and Latin America. Our strategy is to open one or two international urban hotels per year beginning in 1991.

In 1988, we signed a co-operation agreement with Fujita Group for the design, construction and operation of several Four Seasons hotels and resorts in Japan. We will establish and supervise the design and service standards for these properties, starting with the 300-room Four Seasons Tokyo, which is scheduled to open in 1991.

The Far Eastern market is a major growth area and one in which Four Seasons will play a pivotal role. The 300-room Four Seasons Singapore, on Orchard Boulevard, close to the centre of the internationally famous shopping district, is scheduled to open in late 1991.

In Europe, we are focusing on key business centres. In 1992, we plan to open the Four Seasons Paris, which will border on the Bois de Boulogne. It will be an exceptional, 200-room hotel, incorporating features not now found in the older established Parisian luxury hotels, with large bedrooms and bathrooms, the latest in extensive conference and meeting facilities and an excellent health club. Most importantly, it will offer Four Seasons service – courteous, efficient and friendly.

Mexico is the gateway to Latin America, and we anticipate opening our first hotel there in 1992. The Four Seasons Mexico City will be located on the Paseo de la Reforma with 250-rooms, and feature classic, low-rise Mexican residential style, incorporating the main dining room in a central courtyard.

The Four Seasons on Paseo de la Reforma, Mexico City will become a welcome respite from the bustle of one of the world's most populous cities. ●RIGHT: The classical Chinzan-So Gardens in Tokyo as will be seen from the lobby of the Four Seasons. The location of our first hotel in Japan will offer the traditional peace and tranquility rare in this crowded metropolis.

Moving into the international hotel market is a significant step in Four Seasons' development. What are the special strengths that will allow Four Seasons to compete effectively?

Our decision to move into the international market was the result of careful study and an honest assessment of our strengths.

Our research revealed that many of the existing international luxury hotels have difficulty meeting current demands. Our Inn on the Park, London, however, has been operating as Europe's most successful hotel for almost two decades. We have learned a great deal about competing internationally from this experience.

In addition, most of the existing international hotels were not designed to accommodate the needs of the business traveller of the '90s. Our design and construction team, having honed its expertise over the past 27 years, completely understands the elements required to create the environment necessary to satisfy this clientele.

How will Four Seasons duplicate its success internationally?

Through our people. We hire the best, train them in Four Seasons' culture and lead by example. In Europe and Mexico, we plan to staff the senior management levels with employees who have gained their experience in Four Seasons hotels. Other managers and employees will be hired locally.

We'll export our philosophy to other areas of the world, relying on the expanding numbers of senior managers who have attained their positions through growth within the Four Seasons' family. These individuals embody our standards and are charged with creating a new generation of Four Seasons employees whose goal will be to serve our guests to the fullest, worldwide.

The modern towers of the city state of Singapore overshadow the old buildings of its colonial past and its thriving port. The Four Seasons Hotel will be located close to Orchard Road, an internationally famous shopping district. ● RIGHT: Paris at night – the Four Seasons Hotel will offer North American luxury standards not normally found in this sophisticated European city.

Why is Four Seasons focusing on resorts?

Our clients have told us they would like to be able to enjoy Four Seasons' standards in a resort setting. We've found there are very few resorts in operation which give that level of accommodation and service.

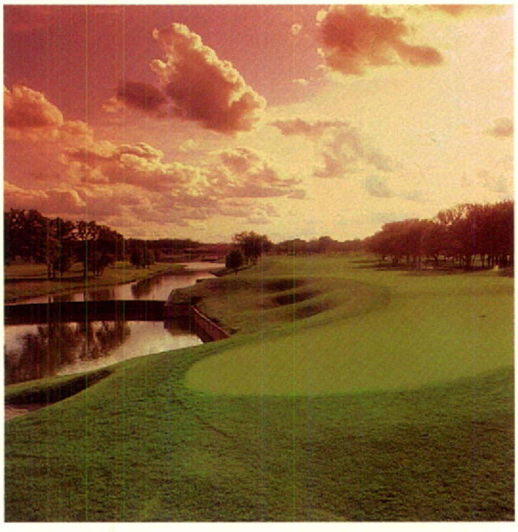
We're determined to fill this void in high demand resort locations such as Hawaii, California, the Caribbean and Mexico.

What will distinguish Four Seasons Resorts?

We'll succeed with our resorts by offering world-class operations in a segment of our industry that has experienced a shortage of operators really dedicated to this goal. We'll have a combination rare in the resort market – an attention to detail and a responsiveness to customer needs – in breathtaking settings.

Each property will take the fullest advantage of its natural surroundings and incorporate local flavour. Guest accommodations will be designed for longer stays, with spacious bedrooms and sitting rooms, extra large, luxurious bathrooms, and private terraces for dining. We'll combine these exceptional accommodations with extensive meeting, recreational and sports facilities.

Four Seasons will set the international standard for resorts and include lounges to cater to early-arriving and late-leaving guests, same day valet, packing and unpacking services, twice-daily maid service, and 24-hour room service. Outdoor dining in garden and patio settings will be emphasized, featuring the finest local produce, seafood, meat and game in dishes prepared the local way. Today's health and nutrition conscious travellers will continue to be satisfied with our alternative cuisine. Above all, our resorts will give us the opportunity to demonstrate to our guests over longer stays Four Seasons' consistent, unparalleled service. We will give them a lasting impression of the value inherent in the Four Seasons' experience, and affirm our reputation as the leading operator of luxury hotels in the world.



The championship golf course – home of the PGA Byron Nelson Classic – at the Sports Club of the Four Seasons Hotel and Resort in Dallas. ● RIGHT: Outdoor dining, privacy and Four Seasons' unobtrusive service at the Four Seasons Biltmore in Santa Barbara.

How many resorts do you plan to open?

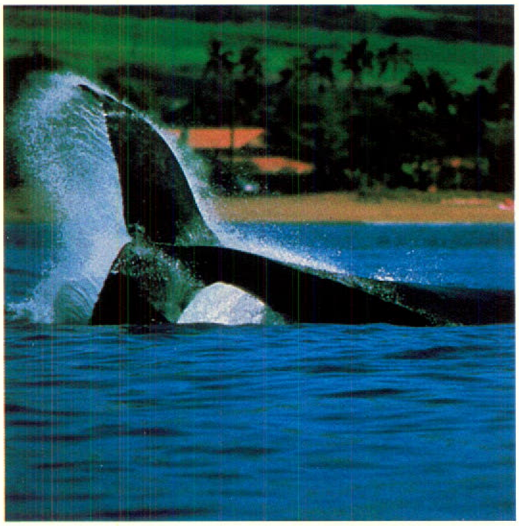
We hope to have seven in operation by 1994. Four Seasons resorts are already operating in Dallas, Texas, Santa Barbara, California and Minaki, Ontario. In 1989, we'll add the 374-room Four Seasons Wailea, Maui, our first resort in this popular Hawaiian destination. It will be set on 15 acres along one of the longest and most beautiful of Hawaii's beaches and include courtyards and terraces with magnificent gardens.

In 1990, we'll open our first Caribbean resort, the 196-room Four Seasons Nevis. It will be a spectacular resort in a 350-acre setting fronting on almost half a mile of the four-mile-long Pinney's Beach and offering a wide range of facilities. Guests will be able to work out at the resort's health club or on one of the ten professional-level tennis courts, including two grass courts, swim in a large, lagoon-shaped pool, or play a round of golf on a world-class 18-hole course designed by Robert Trent Jones, Jr.

In 1991, we plan to open our second Hawaiian resort at North Kona on the "Big Island". This resort will be part of a 1600-acre, ocean-front golf and residential development and will include a PGA Tournament quality golf course designed by Jack Nicklaus and 11 tennis courts, one with stadium seating.

How will you maintain your reputation so far away from your corporate headquarters?

Through Four Seasons employees. We establish standards, provide extensive training, lead by example and treat them with dignity and respect. Almost all our senior management team came up through the ranks and embody our tradition. When you combine their experience and loyalty with the desire and motivation of carefully chosen new employees, you have a combination that can go far beyond distance, language or cultural barriers. We'll continue this focus on employees as we expand, confident that they will provide our guests world-class service befitting our world-class accommodations.



Humpback whales return annually in the winter to Maalaea Bay, just north of Wailea, the location of the Four Seasons Resort on Maui. ● RIGHT: Sunsets over the Caribbean will be enjoyed by guests of the Four Seasons Resort at Pinney's Beach on secluded Nevis.

Financial Report

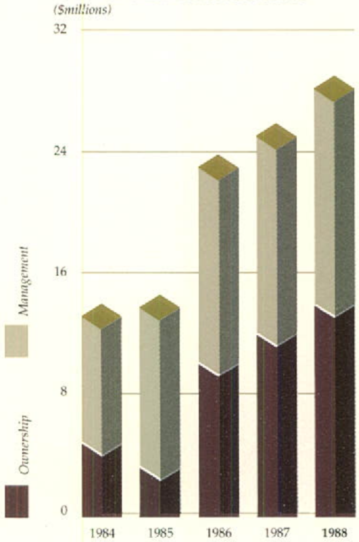
How did Four Seasons' financial performance in 1988 compare with objectives?

1988 recorded our third consecutive year of solid growth since becoming a public company in February 1986. Our results during this period have exceeded our stated goals and we have demonstrated, as we set out to do three years ago, that our financial record would be consistent with the quality of our operational performance.

Net earnings before extraordinary items increased 16.4% in 1988 to $13.1 million. Management's long-term target is to maintain earnings growth of 10-15% per annum.

Earnings before interest and taxes are split evenly between the Hotel Management and the Hotel Ownership operations. Management operations provide a long-term source of stable and predictable earnings and cash flow and are relatively insensitive to economic fluctuations. The 50% of Four Seasons' earnings which are derived from hotel ownership could potentially be affected by a prolonged economic downturn. However, the majority of our ownership earnings are derived from London, New York, Toronto and Chicago, which are historically more stable cities. Also, the financial leverage this segment provides during good economic periods, and the potential for participation in long-term appreciation in real estate values, compensate for potential short-term down cycles.

Earnings From Continuing Operations Before Interest And Taxes



During the year, the U.S. dollar declined 7.2% against the Canadian dollar. Since approximately 69% of our management income originates from our U.S. hotels and resorts, the weakening of the dollar had a negative impact of approximately $1.3 million on our management revenues. Ownership revenues were correspondingly $5.9 million lower due to the decline in the U.S. dollar. The U.S. dollar exchange fluctuations have little short-term economic significance. This is because our 1988 and 1989 U.S. cash flow will be fully reinvested in our U.S. investments.

1988 extraordinary items amounted to $21.7 million after tax. In brief: there was a $27.8 million extraordinary gain on the disposition of a 50% interest in the subsidiary which owns the London hotel; there was a $0.5 million loss on the sale of the Edmonton hotel; and there was a $5.55 million settlement reached regarding a dispute, which had been outstanding since 1981, involving the owners of the Pierre Hotel and the former lessee of The Pierre.

Return on equity in 1988 was 23.1%, as compared to 24.9% in 1987 and 21.6% in 1986. The return on equity in each of the past three years has exceeded management's long-term target of 20% per annum.

Cash flow before extraordinary items increased to $27 million in 1988, a gain of 36% over 1987. Management anticipates 1989 cash flow will be $30 million. The interest coverage ratio for 1988 was 3.8 times and our target for 1989 is 7.0 times.

We have a dividend policy to increase dividends to $0.19 per share, payable semi-annually, for the period commencing January 1, 1989. This compares to $0.165 per share effective January 1, 1988, a growth rate of 15%, and $0.15 per share in 1987 and 1986. This demonstrates management's continuing commitment to the shareholders.

Last year you disposed of 50% of the Inn on the Park, London. How did this transaction occur and what financial effect did it have?

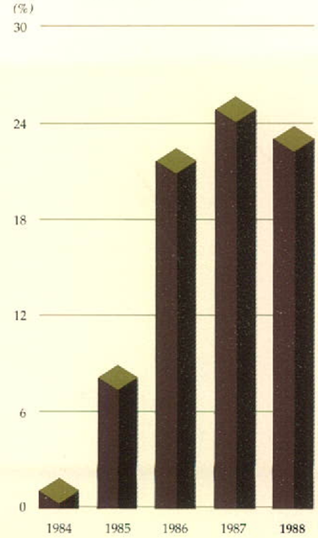
Kuo International exercised its option, acquired in 1984, to purchase a 50% interest in the Inn on the Park, London for £19.3 million or about $41 million. The proceeds from the disposition were used to pay down debt and, as a result, our debt-to-equity ratio, net of cash, fell to 0.45:1, well below our target of 1:1. This transaction resulted in an extraordinary after-tax gain of approximately $28 million. While the sale reduces our earnings from the hotel by 50%, this reduction will be substantially offset by a corresponding drop in interest expense.

Have you changed your ownership strategy?

No, our preference is to continue to take a 10-20% equity position in our hotels, limiting the financial exposure to a fixed dollar amount. However, each situation is evaluated on its own merits and, if necessary, we will vary our investment strategy to take advantage of long-term economic opportunities.

You have made substantial improvements at the Four Seasons Toronto. When do you expect this property to make a greater contribution to earnings?

RETURN ON EQUITY



Financial Report

Despite very good operating results, this hotel has not contributed significantly to our earnings because almost all its income and cash flow have been absorbed by increased rent payments to the landlord for capital improvements made during the early '80s. These additional rent payments should be substantially completed in 1989 and result in significant additional pre-tax earnings starting in 1989 and increasing each year after that.

How have the currency fluctuations affected revenues and earnings?

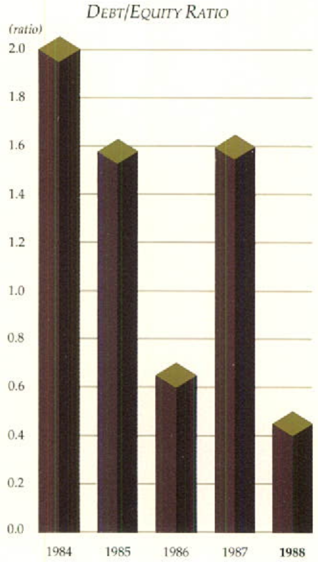
Four Seasons has minimized the negative impact of currency fluctuations by a systematic hedging program. This has been accomplished through reinvestment of our U.S. earnings in our U.S. operations. The purchase of forward contracts and the use of sterling debt have effectively hedged our U.K. earnings.

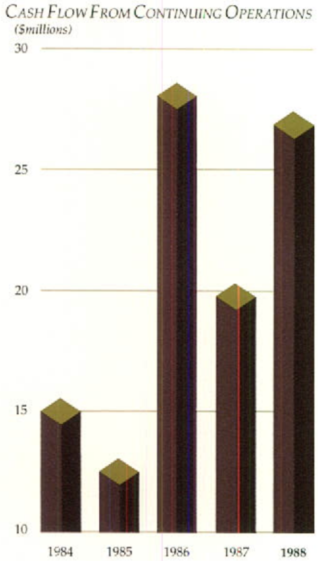
How do you manage your tax exposure, especially with your international expansion?

Our effective tax rate should fall by 2 to 3% in 1989 because of reductions in our statutory tax rate and as a result of our international tax planning. Four Seasons has carefully structured its operations in Canada, the U.S. and the U.K. to achieve the most effective tax position. The result has been to substantially improve cash flow over the past five years.

What are the prospects for the future?

With a solid earnings and cash flow base, low debt, and a strong equity position, Four Seasons is in excellent financial condition to carry out our development plans, and to maintain our high standards of capital replacements and refurbishing in our existing hotels.





Consolidated Statement Of Operations

for the year ended December 31, 1988 ($000's)	1988	1987
HOTEL MANAGEMENT OPERATIONS		
Total revenues of all managed hotels (note 1(a))	$ 603,406	584,332
Fee revenues (note 1(f))	$ 31,946	29,667
Expenses:		
General and administrative	16,851	16,137
Depreciation and amortization	1,019	777
Earnings before interest and taxes	14,076	12,753
HOTEL OWNERSHIP OPERATIONS		
Revenues	206,751	197,957
Expenses:		
Cost of sales and expenses	175,016	168,057
Fees to Hotel Management Operations (note 1(f))	10,338	10,932
Depreciation and amortization	7,370	6,733
Earnings before interest and taxes	14,027	12,235
Earnings before interest and taxes	28,103	24,988
Interest, net (note 7)	7,367	5,719
Earnings before income taxes	20,736	19,269
Income taxes (note 9):		
Current	3,149	2,811
Deferred	4,461	5,178
	7,610	7,989
Net earnings before extraordinary items	13,126	11,280
Extraordinary items (note 11)	21,713	–
Net earnings	$ 34,839	11,280
Earnings per share:		
Before extraordinary items	$ 1.33	1.15
After extraordinary items	$ 3.54	1.15
Fully-diluted earnings per share:		
Before extraordinary items	$ 1.25	1.09
After extraordinary items	$ 3.23	1.09

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheet

as at December 31, 1988 ($000's)	1988	1987
ASSETS		
Current assets:		
Cash and short-term investments	$ 8,426	10,420
Receivables (note 2)	24,212	22,951
Inventory	2,569	2,951
Prepaid expenses	3,347	4,112
Total current assets	38,554	40,434
Notes and mortgages receivable (note 3)	19,806	15,066
Investments in hotel partnerships and managed hotels (note 4(a))	11,384	10,702
Fixed assets (note 5)	120,651	116,559
Other assets	6,295	6,484
	$ 196,690	189,245
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 41,578	36,464
Long-term debt due within one year	6,548	1,369
Total current liabilities	48,126	37,833
Long-term debt (note 6)	40,474	81,484
Deferred income taxes	23,034	24,674
Shareholders' equity (note 8):		
Capital stock	37,731	37,578
Contributed surplus	4,784	4,773
Retained earnings	45,776	12,568
Equity adjustment from foreign currency translation	(3,235)	(9,665)
Total shareholders' equity	85,056	45,254
Commitments and contingencies (notes 4(c) and 10)		
	$ 196,690	189,245

Approved on behalf of the Board of Directors:

Director

Benjamin Swirsky **Director**

See accompanying notes to consolidated financial statements.

Consolidated Statement Of Cash Provided By Operations

for the year ended December 31, 1988 ($000's)		**1988**	1987
CASH PROVIDED BY (USED IN) OPERATIONS			
HOTEL MANAGEMENT OPERATIONS			
Earnings before interest and taxes	$	**14,076**	12,753
Add items not requiring an outlay of funds:			
Depreciation and amortization		**1,019**	777
Other		**297**	–
Working capital provided by Hotel Management Operations		**15,392**	13,530
HOTEL OWNERSHIP OPERATIONS			
Earnings before interest and taxes		**14,027**	12,235
Add (deduct) items not requiring (providing) an outlay (inflow) of funds:			
Depreciation and amortization		**7,370**	6,733
Other		**(870)**	(71)
Working capital provided by Hotel Ownership Operations		**20,527**	18,897
Interest		**(7,367)**	(5,719)
Current taxes		**(3,149)**	(2,811)
Working capital from operations		**25,403**	23,897
Change in non-cash working capital applicable to operations excluding current portion of long-term debt		**1,511**	(4,079)
Cash provided by operations	$	**26,914**	19,818

See accompanying notes to consolidated financial statements.

Consolidated Statement Of Changes In Financial Position

for the year ended December 31, 1988 ($000's)	1988	1987
CASH PROVIDED BY (USED IN)		
Operations	$ 26,914	19,818
Financing		
Long-term debt, including current portion, issued	20,231	36,702
Long-term debt, including current portion, repaid	(52,348)	(1,659)
Issuance (redemption) of shares	163	(1,298)
Other	(555)	(1,520)
Cash (used in) provided by financing	(32,509)	32,225
Capital Investments		
Mortgages and long-term receivables	(4,735)	(2,961)
Hotel and other investments	(1,168)	(207)
Proceeds on sale of hotel investments	39,815	–
Purchase of fixed assets	(26,163)	(51,492)
Other assets	(1,625)	(79)
Cash provided by (used in) capital investments	6,124	(54,739)
Dividends	(1,631)	(1,547)
Decrease in cash	(1,102)	(4,243)
Increase (decrease) in cash due to unrealized exchange gain (loss)	(892)	573
Cash and short-term investments, beginning of year	10,420	14,090
Cash and short-term investments, end of year	$ 8,426	10,420

See accompanying notes to consolidated financial statements.

Consolidated Statement Of Retained Earnings

for the year ended December 31, 1988 ($000's)	1988	1987
Retained earnings, beginning of year	**$ 12,568**	2,835
Net earnings for the year	**34,839**	11,280
Dividends	**(1,631)**	(1,547)
Retained earnings, end of year	**$ 45,776**	12,568

See accompanying notes to consolidated financial statements.

Management's Responsibility For Financial Reporting

The management of Four Seasons Hotels Inc. is responsible for the preparation and integrity of the financial statements and related financial information of the Company. The consolidated financial statements, notes and other financial information included in the Annual Report were prepared in accordance with accounting principles generally accepted in Canada. The statements also include estimated amounts based on informed judgement of current and future events. These estimates are made with appropriate consideration of the materiality of the amounts involved. The financial information presented elsewhere in the Annual Report is consistent with that in the financial statements.

Management maintains a system of internal controls and budgeting procedures which are designed to provide reasonable assurance that assets are safeguarded and transactions are executed and recorded in accordance with management's authorization. To augment the internal control system, the Company maintains a comprehensive program of internal audits covering significant aspects of its operations.

The Company's Audit Committee is appointed by the Board of Directors annually. The Committee meets with the internal and independent auditors (who have free access to the Audit Committee) and with management to satisfy itself that each group is properly discharging its responsibilities and to review the financial statements and the independent auditors' report. The Audit Committee reports its findings to the Board of Directors for their consideration in approving the financial statements for issuance to the shareholders.

Peat Marwick, the independent auditors appointed by the shareholders of the Company, have examined the financial statements in accordance with generally accepted auditing standards and their report follows.

Isadore Sharp
Chairman and President

H. Roger Garland
Executive Vice-President

Auditors' Report

To the Shareholders of Four Seasons Hotels Inc.

We have examined the consolidated balance sheet of Four Seasons Hotel Inc. as at December 31, 1988 and the consolidated statements of operations, cash provided by operations, changes in financial position and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures 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, 1988 and the results 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.

Toronto, Canada
February 17, 1989

Peat Marwick
Chartered Accountants

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1988 ($000's except for per share amounts)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(a) Basis of presentation:

The Corporation is incorporated under the Business Corporations Act of the Province of Ontario and is engaged through its subsidiaries in the management of and the investment in hotel properties in Canada, the United States, and London, England. At December 31, 1988 the Corporation managed 21 hotels and had an equity interest in 13 hotels. The Corporation earns management and other related fees under long-term management contracts based generally on a percentage of total revenues of all managed hotels.

The Corporation's accounting policies and its standards of financial disclosure comply with accounting principles that are generally accepted in Canada. The significant accounting policies are summarized below.

(b) Principles of consolidation:

The consolidated financial statements include the accounts of the Corporation and its subsidiaries together with the Corporation's share of the assets, liabilities, revenues and expenses of hotel joint ventures in which it participates (note 4(b)). The Corporation consolidates four leased or wholly-owned hotel investments and proportionately consolidates four joint venture investments.

Investments in five other hotel partnerships are accounted for by the cost method because the percentage ownership does not give the Corporation significant influence.

In the event of a decline in the value of an investment which is other than temporary, the investment is written down to estimated realizable value.

(c) Translation of foreign currencies:

Foreign currency balances and transactions are translated into Canadian dollars at the rates of exchange on the balance sheet date for monetary items, on the date of transaction for non-monetary items and at the rates in effect during the year for revenues and expenses, except for those fees which are hedged by foreign exchange forward contracts, which are translated at the contract rates. The resulting gains or losses are included in the determination of net income, except for gains or losses related to long-term monetary items which are deferred and amortized on a straight-line basis over their ascertainable lives.

The financial statements of foreign investments, which are designated as self-sustaining operations, are translated as follows:

(i) Assets and liabilities at rates of exchange on the balance sheet date.

(ii) Revenue and expense items at average rates of exchange in effect during the year, except for hotel net revenues which are hedged by foreign exchange forward contracts, in which case the net revenues are translated at the contract rates.

(iii) The resulting exchange gains and losses are deferred and included as a separate component of shareholders' equity.

(d) Fixed assets:

Land, buildings, furniture, fixtures, equipment and leasehold interests and improvements are recorded at cost less accumulated depreciation and amortization.

Operating equipment which includes linen and tableware is valued at the lower of average cost and replacement cost.

(e) Depreciation and amortization of fixed assets:

Depreciation on buildings is recorded on a sinking fund basis over the lesser of the estimated useful life of the building or 40 years. The sinking fund method provides a depreciation charge in amounts which increase annually, consisting of a fixed annual sum together with interest thereon compounded at 5% per annum.

Depreciation on furniture, fixtures and equipment is recorded on a straight-line basis at rates which will fully depreciate the assets over their estimated useful lives. The estimated composite useful lives for furniture, fixtures and equipment range from five to ten years.

Amortization of leasehold interests and improvements is recorded on a straight-line basis over the term of the lease to a maximum of 25 years.

(f) Intercompany management fees:

Included in the statement of operations are intercompany revenues and expenses relating to management fees charged by the Hotel Management Operations to the Hotel Ownership Operations. The basis of calculation for these fees is consistent with third-party management agreements. These charges have been disclosed in the statement of operations.

(g) Comparative figures:

Comparative figures for 1987 have been reclassified to conform with the 1988 presentation.

2. RECEIVABLES:

	1988	1987
Trade accounts	$ 10,374	12,439
Receivable from hotel partnerships, affiliates and managed hotels	5,910	5,466
Other	7,928	5,046
	$ 24,212	22,951

3. NOTES AND MORTGAGES RECEIVABLE:

Included in the notes and mortgages receivable of $19,806 (1987 – $15,066) is an amount of $6,558 (1987 – $5,074) due from directors, officers and employees representing share purchase loans and interest-free house mortgage loans. The remaining mortgages bear interest at rates varying from 10% to bank prime plus 2%.

Mortgages in the amount of $3,820 mature in 1990 and $2,754 in 1993. The majority of the remaining mortgages receivable mature after 1993.

4. HOTEL INVESTMENTS:

(a) Hotel partnerships and managed hotels:

The Corporation's investment in hotel partnerships and managed hotels of $11,384 (1987 – $10,702) represents capital investments, advances and unamortized development costs for hotels which are carried on a cost basis.

(b) Included in the consolidated financial statements is the Corporation's proportionate share of hotel joint venture assets of $55,080 (1987 – $56,838), liabilities of $39,956 (1987 – $43,105), revenues of $29,612 (1987 – $31,425) and net loss before taxes of $3,241 (1987 – $2,592). The London hotel is not included in these amounts although its balance sheet has been proportionately consolidated as at December 31, 1988 as a result of the disposal of a 50% interest in the hotel on December 30, 1988 (note 11).

(c) The Corporation is contingently liable for all obligations of those partnerships and joint ventures in which it has a general partnership interest. However, against this contingent liability the Corporation would have a claim upon the assets of the partnerships and joint ventures and their partners.

5. FIXED ASSETS:

	1988	1987
Land	$ 7,354	5,564
Buildings	45,375	44,208
Furniture, fixtures and equipment	51,962	56,065
Leasehold interests and improvements	44,963	39,859
	149,654	145,696
Accumulated depreciation and amortization	(36,602)	(35,508)
	113,052	110,188
Operating equipment	7,599	6,371
	$ 120,651	116,559

6. LONG TERM DEBT:

	1988	1987
Term loans:		
Payable in Pounds Sterling:		
£15,000, interest at 12%	$ –	36,704
Payable in U.S. dollars:		
$1,000, interest at LIBOR + ½%, due 1989	1,192	–
$4,500, interest at LIBOR + 1%, due 1990	5,364	5,857
Mortgages:		
Payable in U.S. dollars:		
$22,500, interest at LIBOR +1½%, secured by fixed charges on a specific property, due 1992	27,040	29,523
Secured by fixed charges on specific properties, due on varying dates to 1993, interest at prime plus ½ %	7,933	8,133
Other long-term liabilities	5,493	2,636
	47,022	82,853
Due within one year	6,548	1,369
	$ 40,474	81,484

The annual principal repayments of long-term debt are as follows:

1989	$ 6,548
1990	5,975
1991	709
1992	27,135
1993	3,473
Subsequent to 1993	3,182
	$ 47,022

7. INTEREST:

Interest expense, net is comprised as follows:

	1988	1987
Interest expense	$ 9,656	7,532
Interest income	(2,289)	(1,813)
Interest expense, net	$ 7,367	5,719

8. SHAREHOLDERS' EQUITY:

(a) Capital Stock:

Authorized:

2,781,283 Multiple Voting Shares ("MVS"), voting (12 votes per share) and ranking equally with Subordinate Voting Shares ("SVS") as to dividends and distributions on liquidation or wind-up of the Corporation. The shares are convertible into SVS on a one for one basis at the option of the holder. The shares automatically convert into SVS upon any transfer outside of the family of Isadore Sharp, except a transfer of a majority of the shares to a purchaser who also makes an equivalent offer to purchase all outstanding MVS and SVS.

Unlimited Subordinate Voting Shares, voting (one vote per share) and ranking equally with MVS as to dividends and distributions on liquidation or wind-up of the Corporation.

259,000 Employee Preference Shares ("EPS"), non-voting and ranking equally (to the extent of issue price plus declared and unpaid dividends) with MVS and SVS as to distributions on liquidation or wind-up of the Corporation. Dividends will be as determined by the Board of Directors. The shares are convertible at the option of the holder (20% exercisable on the anniversaries of the first through fifth years from the date of issue) into 1.07143 SVS per EPS. The shares must be redeemed by the Corporation within 35 days after the holder ceases to be an employee of the Corporation, or after ten years from issuance.

Unlimited First Preference Shares, non-voting and ranking prior to all other shares with respect to payment of dividends and distributions on liquidation or wind-up of the Corporation. The dividend rate, redemption and conversion rights are to be determined prior to issuance by the directors of the Corporation.

Issued and fully paid:

	1988		1987	
	Shares	**Stated Value**	Shares	Stated Value
MVS	**2,781,283**	**$ 61**	2,781,283	$ 61
SVS	**7,104,637**	**34,700**	7,018,063	34,172
EPS	**198,000**	**2,970**	223,000	3,345
		$ 37,731		$ 37,578

There are 988,592 SVS reserved for issuance under option plans. Options on 560,000 SVS are reserved for issuance to four senior officers. Options on 500,000 SVS are currently exercisable at $12.60 per share, expiring in December 1995. Options on 60,000 SVS have been issued at $6.33 per share, of which 30,000 are currently exercisable and 30,000 become exercisable in December 1989. All such options become immediately exercisable in the event of the retirement, incapacity or death of the senior officer or a change in control of the Corporation. During the year 90,000 options were exercised for proceeds of $570.

Under executive share option plans, eligible directors, executives and employees may be granted options to acquire SVS at a price which is not less than 90% of the fair market value at the date of grant. The options will not be transferable and will be for a term of 10 years, exercisable in varying proportions on the first, second, third, fourth and fifth anniversaries of the date of grant. All such options become immediately exercisable in the event of the retirement, incapacity or death of the director, executive or employee or a change in control of Corporation. In 1988, options for 159,000 SVS (1987 – 212,000) were granted at prices varying between $17.80 and $21.57 per share (1987 – $14.00 per share). During the year 750 options were exercised at $14 per share.

In 1988, 12,000 EPS (1987 – 44,000) were redeemed by the Corporation for cash and 13,000 EPS (1987 – 18,000) were converted into 13,924 SVS (1987 – 19,280).

In November 1987, the Corporation filed its intention to acquire a maximum of 546,040 SVS through a normal course issuer bid, such shares to be bought at market prices through the facilities of the Toronto Stock Exchange and The Montreal Exchange. In 1988, 18,100 SVS (1987 – 59,200) having original issue proceeds of $254 (1987 – $829) have been purchased for aggregate consideration of $243 (1987 – $740) and cancelled. The excess of the issue price of these shares over the aggregate repurchase price paid was credited to contributed surplus. The issuer bid expired in November 1988.

(b) Equity adjustment from foreign currency translation:

The change in the equity adjustment from foreign currency translation is primarily caused by:

(i) changes in the exchange rates used to translate the Corporation's net investment in self-sustaining foreign operations; and

(ii) $6,707 which has been applied against the gain recognized on disposal of a 50% interest in the self-sustaining subsidiary which owns the London hotel (note 11).

The components of the equity adjustment from foreign currency translation are as follows:

8. SHAREHOLDERS' EQUITY: *(continued)*

(b) Equity adjustment from foreign currency translation: *(continued)*

	1988	1987
Working capital	$ **(386)**	230
Fixed assets, net	**(6,194)**	785
Other assets	**265**	765
Long-term debt	**3,079**	(11,252)
Deferred taxes	**1**	(193)
Total equity adjustment from foreign currency translation	$ **(3,235)**	(9,665)

9. INCOME TAXES:

The effective rate of income taxes provided in the consolidated statement of operations varies from the rates specified in the taxing statutes as follows:

	1988 %	1987 %
Combined basic Canadian federal and provincial income tax rate	**45.1**	50.0
Lower foreign income tax rate	**(4.4)**	(6.3)
Equity earnings not subject to tax	**(4.0)**	(2.2)
	36.7	41.5

10. LEASES:

The Corporation has entered into lease agreements for certain hotel properties for periods up to the year 2054. The lease terms may be extended under renewal options.

Future minimum lease payments, exclusive of any contingent rentals and occupancy costs, are as follows:

1989	$ 16,587
1990	15,495
1991	14,049
1992	16,917
1993	17,339
Subsequent to 1993	248,045

11. EXTRAORDINARY ITEMS:

Extraordinary items are as follows:

Gain realized on disposition of a 50% interest in the subsidiary which owns the London hotel, net of income tax recoverable of $1,715	$ 27,794
Disposal of the Edmonton hotel assets, net of income tax recoverable of $1,144	(533)
Settlement of a dispute relating to one of the Corporation's leased hotels, net of income tax recoverable of $4,558	(5,548)
	$ 21,713

12. SEGMENTED INFORMATION:

	1988	1987
Revenues:		
United States	$ **75,849**	77,061
Canada	**108,821**	103,817
United Kingdom	**50,964**	43,745
Intersegment revenues	**(7,275)**	(7,931)
Total consolidated revenues (note 1(f))	$ **228,359**	216,692
Operating profit:		
United States	$ **2,640**	4,000
Canada	**12,749**	9,530
United Kingdom	**12,714**	11,458
Total operating profit	$ **28,103**	24,988
Identifiable assets:		
United States	$ **78,201**	75,583
Canada	**42,653**	39,035
United Kingdom	**9,896**	20,021
	130,750	134,639
Corporate assets	**54,556**	43,904
Investments	**11,384**	10,702
Total identifiable assets	$ **196,690**	189,245

Five Year Summary

for the years ended December 31, ($000's)	**1988**	1987	1986	1985	1984
HOTEL MANAGEMENT OPERATIONS					
Total revenues of all managed hotels	**$ 603,406**	584,332	509,314	440,514	405,141
Fee revenues	**$ 31,946**	29,667	27,822	23,397	19,047
Expenses:					
General and administrative	**16,851**	16,137	14,260	12,157	10,060
Depreciation and amortization	**1,019**	777	796	594	819
Earnings before interest and taxes	**14,076**	12,753	12,766	10,646	8,168
HOTEL OWNERSHIP OPERATIONS					
Revenues	**206,751**	197,957	175,776	148,809	142,730
Expenses:					
Cost of sales and expenses	**175,016**	168,057	150,290	130,772	124,646
Fees to Hotel Management Operations	**10,338**	10,932	8,893	7,303	6,916
Depreciation and amortization	**7,370**	6,733	6,386	7,546	6,324
Earnings before interest and taxes	**14,027**	12,235	10,207	3,188	4,844
Earnings from continuing operations before interest and taxes	**28,103**	24,988	22,973	13,834	13,012
Loss from discontinued operations before interest and taxes	–	–	–	340	2,092
Interest, net	**7,367**	5,719	4,846	6,400	7,966
Earnings before income taxes	**20,736**	19,269	18,127	7,094	2,954
Income taxes:					
Current	**3,149**	2,811	1,940	1,483	1,054
Deferred	**4,461**	5,178	6,672	2,162	1,463
	7,610	7,989	8,612	3,645	2,517
Earnings before extraordinary items	**13,126**	11,280	9,515	3,449	437
Extraordinary items	**21,713**	–	–	1,208	4,730
Net earnings	**$ 34,839**	11,280	9,515	4,657	5,167
Funds from continuing operations before extraordinary items	**$ 25,403**	23,897	22,885	14,345	12,097

HOTEL INFORMATION

HOTEL AND LOCATION	DATE OF OPENING[1] ACQUISITION BY FSH[2] MAJOR RENOVATIONS[3]	NUMBER OF ROOMS	MANAGEMENT AGREEMENT INITIAL EXPIRY	FINAL EXPIRY	OWNERSHIP EQUITY INTEREST	TITLE
FOUR SEASONS HOTEL, Austin, Texas	1986[1]	292	1992	1992	–	–
FOUR SEASONS HOTEL, Boston, Massachusetts	1985[1]	288	2010	2085	15%	Freehold
RITZ-CARLTON HOTEL, Chicago, Illinois	1975[1]/1977[2]	431	2025	2025	25%	Leasehold
FOUR SEASONS HOTEL, Chicago, Illinois	1989[1]	344	2024	2104	8%	Leasehold
FOUR SEASONS HOTEL AND RESORT, Dallas, Texas	1986[1]	315	2002	2042	–	–
FOUR SEASONS HOTEL, Houston, Texas	1982[2]	399	2016	2046	1%	Freehold
INN ON THE PARK, Houston, Texas	1981[1]	381	2015	2075	–	–
INN ON THE PARK, London, England	1970[1]	228	2054	2054	50%	Leasehold
FOUR SEASONS HOTEL, Los Angeles, California	1987[1]	285	2041	2061	–	–
MINAKI LODGE, Minaki, Ontario*	1925[1]/1986[2]	144	1997	1997	100%	Freehold
LE QUATRE SAISONS, Montreal, Quebec	1976[1]/1983[2]	300	2003	2043	–	–
THE PIERRE, New York, New York	1929[1]/1981[2]	204	2001	2001	100%	Leasehold
FOUR SEASONS HOTEL, Newport Beach, California	1986[1]	284	2016	2046	–	–
FOUR SEASONS HOTEL, Ottawa, Ontario	1972[1]/1977[2]	236	2002	2017	67%	Freehold
FOUR SEASONS HOTEL, Philadelphia, Pennsylvania	1983[1]	371	2013	2053	5%	Freehold
FOUR SEASONS CLIFT HOTEL, San Francisco, California	1915[1]/1976[2]/1983[3]	330	2006	2066	–	–
FOUR SEASONS BILTMORE HOTEL, Santa Barbara, California	1929[1]/1987[2]/1988[3]	236	2012	2072	50%	Freehold
FOUR SEASONS OLYMPIC HOTEL, Seattle, Washington	1924[1]/1982[2]	450	2040	2040	3%	Leasehold
FOUR SEASONS HOTEL, Toronto, Ontario	1974[1]/1978[2]/1984[3]	380	2003	2077	100%	Leasehold
INN ON THE PARK, Toronto, Ontario	1963 + 1971[1]/1985[3]	568	1994	2014	–	–
FOUR SEASONS HOTEL, Vancouver, British Columbia	1976[1]	385	2000	2035	100%	Leasehold
FOUR SEASONS HOTEL, Washington, D.C.	1979[1]	197	2007	2022	15%	Freehold
UNDER DEVELOPMENT						
FOUR SEASONS RESORT, Wailea, Maui, Hawaii	1989[1]	374	2009	2054	–	–
FOUR SEASONS RESORT, Nevis, West Indies	1990[1]	196	2020	2065	15%	Freehold
FOUR SEASONS HOTEL, Tokyo, Japan	1991[1]	300	2001	2031	–	–
FOUR SEASONS RESORT, North Kona, Hawaii, Hawaii	1991[1]	350	2016	2061	–	–
FOUR SEASONS HOTEL, Singapore	1991[1]	300	2021	2081	–	–
FOUR SEASONS HOTEL, Paris, France	1992[1]	200	2022	2082	15%	Freehold
FOUR SEASONS HOTEL, Mexico City, Mexico	1992[1]	250	2012	2037	–	–

Note: Information concerning hotels under development is based upon agreements and letters of intent and may be subject to change. The dates of opening have been estimated. Expiry dates are calculated from the estimated dates of opening.

** Managed by Elgin House Resort Limited*

FOUR SEASONS HOTELS INC.

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Chairman
Creeds Limited

FREDERICK EISEN

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MURRAY B. KOFFLER*†
Partner
The Koffler Group

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MAX SHARP
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CHRISTOPHER WALLIS

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Assistant Secretary

** Member of Executive Committee*
†Member of Audit Committee

FOUR SEASONS HOTELS LIMITED

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Ottawa, Toronto

CORPORATE INFORMATION

CORPORATE OFFICE
1165 Leslie Street, Toronto, Ontario, Canada M3C 2K8
Telephone: (416) 449-1750
FAX: (416) 441-4374

ANNUAL MEETING
The Annual Meeting of Shareholders will be held on Monday, May 8, 1989 in the Regency Ballroom, Four Seasons Hotel, Avenue Road, Toronto, Ontario, Canada at 4:30 p.m.

STOCK LISTINGS
The Toronto Stock Exchange
The Montreal Exchange
Stock Ticker Symbol: FSH

TRANSFER AGENT AND REGISTRAR
Montreal Trust Company
Halifax, Montreal, Toronto, Winnipeg, Regina, Calgary, Vancouver

DIVIDEND INFORMATION
19 cents per annum paid semi-annually in January and July

SHAREHOLDER INFORMATION
Please contact the Investor Relations Department

AUDITORS
Peat Marwick

For reservations at Four Seasons hotels, please call:
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(800)332-3442 in the U.S.

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