C

"Each opening of a new hotel or resort broadens awareness of the Four Seasons brand name and of the Company's reputation for excellence, and that leads to greater patronage for all our hotels and resorts. We must maintain excellence in both facilities and service. Even in a soft economy, it is essential to focus on the long term. Of course we have to deal aggressively with short-term pressures, but we won't undermine our principles or our commitment to long-term objectives. We have built a financially strong company with a clear sense of direction. We'll keep going in the same direction: carefully planned, responsible growth, unwavering standards of quality, the best, most caring and dedicated employees in this or any industry anywhere..."

Isadore Sharp
Chairman and President

Four Seasons
Hotels·Resorts

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 Wednesday, May 29, 1991, in the Regency Ballroom, Four Seasons Hotel, 21 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

Auditors

Peat Marwick Thorne

Dividend Information

11 cents per annum (post-split basis) paid semi-annually in January and July

Shareholder Information

Please contact Sandra Scott, Director, Investor Relations at (416) 441-4329

For reservations at Four Seasons hotels and resorts, please call toll-free:
(800) 268-6282 in Canada
(800) 332-3442 in the United States

Contents

Company Profile

Four Seasons Hotels is engaged in the management and ownership of medium-sized luxury hotels and resorts in major cities and resort destinations world-wide. The Company is committed to excellence in product and service and to achieving recognition as the world leader in its industry. Luxurious appointments, attention to individual tastes, and caring personal service are hallmarks of Four Seasons.

The income of Four Seasons is derived partly from equity investments in 13 of the 23 hotels under its management and partly through the provision of management services under long-term contracts. Both are important elements, though in recent years the management segment of the Company's business has grown more rapidly.

Having established a network of 23 hotels and resorts in North America, Hawaii, the Caribbean and London, England, Four Seasons is now focusing on expanding its presence in major international cities and luxury destination resorts. Nine new properties are under development in North America, Hawaii, Mexico, the Caribbean, Asia and Europe.

Expansion into international markets and resort operations will allow Four Seasons to better serve the travel needs of its existing North American customer base, and at the same time, introduce international business travellers to the Four Seasons product and attract them to Four Seasons hotels and resorts in North America and the rest of the world.

Net earnings of Four Seasons Hotels increased 15% to $17.3 million in 1990, in line with management's growth objectives. Despite positive operating results, 1990 was a year of significant challenges. The long-anticipated recession struck severely in the last six months of the year. In particular, the northeastern United States and Canadian hotels saw a substantial reduction in accommodation and catering business, with New York most severely affected.

A second major negative effect resulted from the Government of Canada's policy of high interest rates. Canadian interest rates exceeded short-term U.S. rates by 400 to 500 basis points throughout the year, resulting in an over-valued Canadian dollar. As the majority of the Company's earnings are in U.S. dollars and pounds sterling, translated earnings were significantly reduced.

In the face of these challenges, Four Seasons made two strategic decisions. In March, the Company's 67% interest in the Ottawa hotel was sold which reduced long-term debt and generated cash for key projects such as the renovation of The Pierre in New York and the Ritz-Carlton in Chicago. The Company also decided to sell its 50% interest in the Four Seasons Biltmore, Santa Barbara, subject to retaining long-term management responsibility. Although the sale will be delayed by the prevailing economic climate, it will ultimately enable the Company to reduce long-term debt and increase liquidity.

1991 Outlook

1991 will be a year of challenge and uncertainty for the hospitality industry. The dramatic slowing of the world economies has negatively affected domestic and international travel. This reduction was accelerated by the outbreak of the Gulf War and the resulting fear of international terrorism. Many Four Seasons customers, traditionally the last to be affected by recession, suddenly altered their travel patterns.

In response, Four Seasons implemented aggressive marketing strategies. Direct contact with customers is enabling the Company to meet changing market requirements. In addition, cost control programs have been applied. Although these programs are being vigorously pursued, no actions will be taken which reduce the satisfaction of the Four Seasons customer or diminish the Company's service leadership reputation.

As well, Four Seasons senior management team has reviewed its organizational structure to ensure that a core group of professional managers oversee the strategic direction of the Company. Day-to-day matters will continue to be the responsibility of hotel management personnel close to the customer. This tightly focused management structure will yield significant savings in hotel management costs in the years to come.

1991 and Beyond

The strategic response of Four Seasons in this unsettled time has been to concentrate on the objectives to be pursued over the long term. These objectives are to enhance the existing Four Seasons product where appropriate and to have resources available to pursue development and acquisition opportunities.

With these objectives in mind, the Company defined its financing needs for the next three years and decided

to raise funds in the capital markets. On February 14, 1991, a sale of special warrants for gross proceeds of $29.3 million was completed. This equity issue maintains a conservative leverage position, while also creating immediate liquidity. In addition, an issue of five-year unsecured debentures in the amount of $100 million was completed in March 1991. The Company's pro forma debt-to-equity ratio, net of cash, after giving effect to these financings is .43:1 as at December 31, 1990. The proceeds of these offerings will be used in part to refinance all existing short-term debt. These transactions strengthen the Company's ability to withstand current economic uncertainties and allow its physical product, level of service, balance sheet strength and long-term expansion program to remain uncompromised.

Conclusion

Business cycles inevitably include recessionary periods. Events such as the Gulf War place special pressures on nations, individuals and business enterprises. Despite these challenges, Four Seasons is in an advantageous position. The Company is part of a vigorous global industry which is not likely to lose momentum in the years ahead. The travel and tourism industry has grown into the world's largest employer, investor and revenue producer. Four Seasons is recognized as a leader in the luxury hotel sector of this large and expanding industry.

It is important in this year of structural and other corporate changes to conclude by re-emphasizing the essential element in the success of Four Seasons. Caring service cannot simply be mandated by management or enforced by policy. Individual employees, those dealing face to face with guests and those whose work behind the scenes contributes to the guests' satisfaction, are the Company's greatest strength. Their enthusiasm and dedication are immensely appreciated.

Isadore Sharp

Chairman and President

Members of the Management Committee are, left to right, Isadore Sharp, Chairman and President; John Young, Senior Vice-President, Human Resources; John Richards, Senior Vice-President, Marketing; Roger Garland, Executive Vice-President; Christopher Wallis, Senior Vice-President, Design and Construction; Douglas Ludwig, Senior Vice-President, Finance; David Mongeau, Senior Vice-President; James Brown, Senior Vice-President, Operations; and John Sharpe, Executive Vice-President.

"We see the Four Seasons name and reputation as

a precious asset. For discriminating travellers

it symbolizes much more than just the most comfortable

and most satisfying place to stay. It symbolizes

the attitude of Four Seasons people on every level:

people determined to assure that guests are

flawlessly accommodated and served

and that a consistent level of excellence is maintained.

As the Company has expanded, the brand name

has become more widely and favourably known.

It attracts new customers. It prompts those who

have stayed with us in one city to seek us out in others.

It represents something special, 'the gold standard'

in luxury hotels, in the words of one consumer authority.

What the public expects of us is no more than what we

expect of ourselves: constant effort, innovation, long-term

commitment, uncompromising quality and total reliability..."

John Sharpe

Executive Vice-President

In the Seasons Lounge at the Four Seasons Chicago, guests and visitors enjoy, in luxurious surroundings, the special Four Seasons comfort and service.

Without the Four Seasons attitude, it can't be a Four Seasons hotel or resort – and finding employees with the commitment, the concern for guests, the dedication to service, is not easy. Four Seasons emphasizes character and personality in selecting employees. Four Seasons people are motivated to act on their own, to see themselves as problem solvers, to have a sense of trust and independence. When there is an urgent problem, employees have the right to make an immediate decision – not just on the basis of a book of rules and procedures, but using plain common sense, confident that management will back them up.

In the luxury hotel and resort field, there is no room for complacency. The Company's concentration on quality in services and facilities is recognized both by customers and by the awards groups that define standards and monitor performance.

- *Institutional Investor* magazine included nine Four Seasons establishments in its 1990 list of the top 75 hotels in the world. Eight were included in the list of the top 25 in North America.
- A 1990 *Consumer Reports Magazine* survey rated Four Seasons as "the gold standard" in the luxury hotel field.
- In 1991 Four Seasons received 11 Five Diamond Awards from the American Automobile Association. For the tenth year in a row Four Seasons received more of the coveted awards than any other hotel company.
- The Mobil Guide's top honour, its Five Star Award, went in 1991 to the Four Seasons Hotel in Los Angeles and the Four Seasons Clift in San Francisco.

It is a business axiom that the best customer is the repeat customer, and this is especially true when customers trust a name, a reputation and a standard of service enough to go to the same company's establishments in different cities and resort areas. Guest loyalty is earned and kept only with great effort. A return visit is the most important award.

"We stay close to customers by paying attention to their preferences, by listening to their comments, by watching for ways to serve and assist. We do this through formal marketing research, industry advisory boards and day-to-day interaction with guests and meeting planners. The result? Innovations, like two-line telephones, special telephone equipment for the hearing impaired and overnight laundry and dry cleaning service for the harried business person who wants to travel light. Or it could be new recreational facilities or equipment designed to suit the level of expertise of individual guests. Our computerized records can even tell us what kind of pillow a regular guest likes. As for rates, we have to be sure we are in line with what the customer wants and is prepared to pay, and we certainly must deliver the appropriate value..."

John Richards

Senior Vice-President

Marketing

Guests respond to invitations. The marketing, advertising and promotional activities of Four Seasons are just another form of invitation. Positive responses are more likely if the invitee feels sure the experience will be up to expectations. So a great deal of effort goes into determining just what the guests would like to find. The guest might be a corporate traveller, a family on vacation, a conference of a hundred or more people from a firm or an association, or performance incentive award winners. Observation, conversation, surveys – scientific or subjective – all provide input. In these challenging economic times existing marketing programs are being maintained and intensified and overseas marketing efforts are being increased in line with the expansion of the Company's hotel and resort network.

In 1990, Four Seasons developed new and stronger ties with travel agents, incentive travel organizers and other travel planners.

- The new Lasting Impressions℠ program allows travel agents to provide gifts – candies, fruit, wine and other items – to their clients staying at Four Seasons hotels and resorts. Travel agents book 40 per cent of the Company's corporate business and almost all individual resort business.
- Three advisory committees were established, one drawn from the travel agency industry, one from incentive group planners and one from association and corporate travel planners. The committees meet regularly with Four Seasons management to discuss ideas relating to possible improvements in facilities and services.
- For frequent corporate guests, the new Private Reserve℠ program was established. It enables members to draw on a variety of special benefits and services, including access to the Four Seasons Private Concierge Network℠, even when they are not guests in one of the Company's hotels.

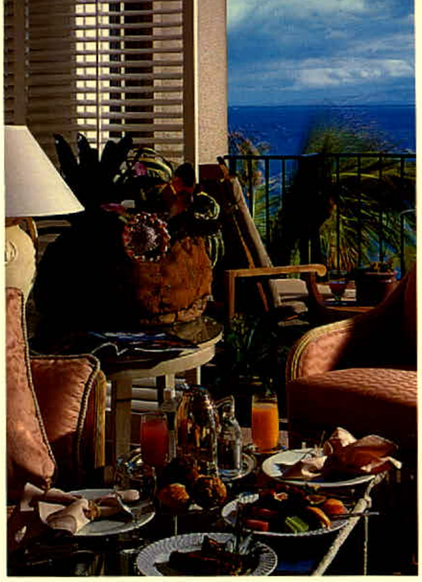
Four Seasons seeks constantly to provide what guests will appreciate and enjoy, often even before the guests know they want or would like it. Expectations include pleasant surprises.

Then there is another season – the happy season of childhood. Tastes and interests of young people are catered to, and special programs and playthings are offered.

"As we concentrate on hotel expansion abroad, and on adding resorts in various parts of the world, our existing North American hotels provide the base which enables us to plan our future with confidence. International and resort expansion will allow us to offer a known product alternative for our North American guests as they travel throughout the world. At the same time, we will be exposing customers in those new destinations to the Four Seasons way of doing business and consequently capturing their loyalty when they travel to North America. Demonstrating our service excellence to many countries and cultures will expand the Four Seasons brand name recognition dramatically. This recognition in turn provides the most effective means of developing significant outbound business from new markets. The strengthening of this brand value will lead to greater customer loyalty and to an increased market share in all locations where we operate..."

Roger Garland

Executive Vice-President



Bringing the outside in: A Four Seasons resort balances interior elegance and comfort with the grandeur and beauty of the landscape, the sea and the sky.

The long-term success of Four Seasons reflects its strong management organization and the service culture which forms an integral part of the working lives of all of its employees. This attitude translates into a special way of conducting business. It becomes the driving force of the organization. Because all Four Seasons people share common values and approaches to dealing with customers, the strength of the Company's service response is multiplied many times. Four Seasons believes that this focus on service and responsiveness to customer needs is what the markets of the future will increasingly demand. As the Company grows and as its customer base expands to new countries on several continents, this recognition will increase.

The opening of the Four Seasons Maui resort in early 1990 marked the beginning of a new phase for the Company. The existing hotel base – mostly urban North America plus London – was extended in both the geographical and conceptual senses. Maui was the first resort to be entirely planned and built under Four Seasons direction and has been recognized by many as establishing a new resort standard. A year later in February 1991, the Four Seasons Resort opened on the island of Nevis in the West Indies. These properties, when taken together with the three existing Four Seasons resorts and the five under development, will solidly establish Four Seasons presence in the luxury resort field.

As well, construction and development of four international urban hotels continues as planned. These Four Seasons hotels in Tokyo, Paris, Singapore and Mexico City will help build an awareness of Four Seasons name and service reputation in major urban centres outside North America, and this expansion is only the beginning.

"Moving to different continents and encountering different practices and cultures creates challenges for management. Negotiations must take these differences into account. Similar adjustments need to be made in the construction and operations planning phases. A Four Seasons hotel in Paris is naturally different from one in London or Chicago, but the level of quality and excellence, the sense of welcome and appreciation, the sensitivity to guests' concerns and interests, must be the same. So in Paris, as in other centres where projects are under way, a nucleus of Four Seasons people starts early to assemble a local staff that will embody the attitudes and qualities of Four Seasons and express them in a form adapted to the local culture and style. Literally, the best of both worlds..."

C Wallis

Christopher Wallis

Senior Vice-President

Design and Construction

A destination for travellers, but part of the daily life of the local community too: The Four Seasons Tokyo, opening in 1992, is already the choice of future Japanese brides.

With completion of projects now planned or under way, the Four Seasons group of hotels and resorts will grow from the 23 at the end of 1990 to a total of 32. Which leads naturally to the question of "Where next and under what circumstances?"

With the Iron Curtain no longer a barrier, the eastern part of Germany, Hungary and Czechoslovakia take on new significance as business and tourism destinations. Prague, Berlin and Budapest will be seriously considered as the nineties progress. In Western Europe, locations such as Zurich, Milan, Brussels, Madrid and Frankfurt are possibilities. Bangkok, Djakarta and Kuala Lumpur are emerging as vital Asian business centres. Seoul is the centre of an industrially advanced nation. Osaka, Japan's second city and in the longer term, Taipei, may be attractive.

This impressive list does not include potential resort sites, a growth category that may be of even greater interest. However, commitments will be made only when the right equity and financing partners are available, market and competitive conditions seem right, and there is an assurance that Four Seasons standards for location and facilities are met.

Financial partners bring their own expertise to bear on the development of a project and on the approach to local authorities and to sometimes complex local conditions. Entering the Tokyo market without a Japanese partner, for example, would have been unthinkable for Four Seasons. Many projects involve partners who are participating in other Four Seasons hotels and this experience is a major asset.

International development presents some special problems in meeting administrative requirements, dealing with local labour laws and regulations, harmonizing tax matters to avoid multiple taxation, and coping with public and government expectations that are not always clear to foreigners. But potential rewards are also great and Four Seasons has developed both the in-house expertise and the necessary alliances and contacts in Europe and Asia to help overcome these problems.

Location	Hotel/Resort	Date of opening[1]; Major renovations[2]	Date of appointment as manager	Number of rooms	Management Agreement Initial expiry	Management Agreement Final expiry	Ownership Equity interest	Ownership Title
CANADA								
Minaki	Minaki Lodge	1925[1]; 1986[2]	1990	144	–	–	100%	freehold
Montreal	Le Quatre Saisons	1976[1]	1976/1983	300	2003	2043	–	–
Toronto	Four Seasons Hotel	1974[1]; 1978[2]; 1984[2]	1978	381	2003	2077	100%	leasehold
Toronto	Inn on the Park	1963[1]; 1971[1]; 1985[2]	1963/1984	568	1994	2014	–	–
Vancouver	Four Seasons Hotel	1976[1]; 1990[2]	1974	385	2000	2035	100%	leasehold
UNITED STATES								
Northeast								
Boston	Four Seasons Hotel	1985[1]	1982	288	2010	2085	15%	freehold
New York	The Pierre	1929[1]; 1981[2]; 1991[2]	1981	206	2001	2011	100%	leasehold
Philadelphia	Four Seasons Hotel	1983[1]	1980	371	2013	2053	5%	freehold
Washington, D.C.	Four Seasons Hotel	1979[1]	1977	197	2007	2022	15%	freehold
Mid-West								
Chicago	Four Seasons Hotel	1989[1]	1987	343	2024	2104	7.7%	leasehold
Chicago	The Ritz-Carlton	1975[1]; 1991[2]	1977	431	2025	2075	25%	freehold
West Coast								
Los Angeles	Four Seasons Hotel	1987[1]	1985	285	2042	2062	–	–
Newport Beach	Four Seasons Hotel	1986[1]	1984	285	2016	2046	–	–
San Francisco	Four Seasons Clift Hotel	1915[1]; 1976[2]; 1983[2]; 1990[2]	1976/1983	329	2006	2066	–	–
Santa Barbara	Four Seasons Biltmore Hotel	1929[1]; 1988[2]	1987	236	2012	2072	50%◆	freehold
Seattle	Four Seasons Olympic Hotel	1924[1]; 1982[2]	1980	450	2040	2040	3.35%	leasehold
Carlsbad	Four Seasons Resort Aviara	◆◆◆	1989	444	2022	2082	5%◆◆	freehold

◆ *A formal plan has been adopted to dispose of Four Seasons' ownership interest in the Four Seasons Biltmore Hotel.*

◆◆ *Four Seasons has the right to acquire an additional 4.9% of the equity in this hotel.*

◆◆◆ *Under development – information concerning hotels under development is based upon agreements and letters of intent and may be subject to change. Expiry dates are calculated from the estimated dates of opening.*

Location	Hotel/Resort	Date of opening[1]; Major renovations[2]	Date of appointment as manager	Number of rooms	Management Agreement		Ownership	
					Initial expiry	Final expiry	Equity interest	Title
UNITED STATES (cont'd)								
Southwest								
Austin	Four Seasons Hotel	1986[1]	1985	292	1992	1992	–	–
Dallas	Four Seasons Resort and Club	1979[1]; 1986[1]	1979	315	2002	2042	–	–
Houston	Four Seasons Hotel	1982[1]	1979	399	2016	2046	–	–
Houston	Inn on the Park	1981[1]	1979/1985	381	2015	2075	–	–
Scottsdale	Four Seasons Resort	◆◆◆	1989	250	2019	2064	–	–
HAWAII								
Wailea, Maui	Four Seasons Resort	1990[1]	1987	372	2010	2055	–	–
Ko Olina, Oahu	Four Seasons Resort	◆◆◆	1989	335	2013	2068	–	–
North Kona, Hawaii	Four Seasons Resort	◆◆◆	1989	358	2018	2063	–	–
ENGLAND								
London	Four Seasons Inn on the Park	1970[1]; 1991[2]	1984	228	2054	2054	50%	leasehold
EUROPE								
Paris	Four Seasons Hotel	◆◆◆	1989	204	2022	2082	15%	freehold
ASIA								
Singapore	Four Seasons Hotel	◆◆◆	1990	260	2013	2033	–	–
Tokyo	Four Seasons Hotel	◆◆◆	1988	291	2002	2032	–	–
MEXICO AND THE CARIBBEAN								
Nevis	Four Seasons Resort	1991[1]	1989	196	2021	2066	15%	freehold
Mexico City	Four Seasons Hotel	◆◆◆	1990	233	2013	2038	–	–
Puerto Rico	Four Seasons Resort	◆◆◆	1989	350	2020	2065	–	–

◆◆◆ *Under development – Information concerning hotels under development is based upon agreements and letters of intent and may be subject to change. Expiry dates are calculated from the estimated dates of opening.*

Directors

Edmond M. Creed*
Retired Executive

Frederick Eisen
Executive Vice-President
Residential, Bramalea Limited

H. Roger Garland*+

Murray B. Koffler*+
Partner
The Koffler Group

Lionel H. Schipper+
President
Schipper Enterprises Inc.

Isadore Sharp*

Max Sharp
Retired Executive

John L. Sharpe*

Benjamin Swirsky+
Vice-Chairman
Bramalea Limited

Christopher Wallis

Officers

Isadore Sharp
Chairman and President

H. Roger Garland
Executive Vice-President

John L. Sharpe
Executive Vice-President

Christopher Wallis
Senior Vice-President

Douglas L. Ludwig
Treasurer

David C. Mongeau
Secretary

Kathleen Taylor
Corporate Counsel

Management Committee

James F. Brown
Senior Vice-President
Operations

H. Roger Garland
Executive Vice-President
Development, Finance and Administration

Douglas L. Ludwig
Senior Vice-President
Finance

David C. Mongeau
Senior Vice-President

John B. Richards
Senior Vice-President
Marketing

Isadore Sharp
Chairman and President

John L. Sharpe
Executive Vice-President
Operations

Christopher Wallis
Senior Vice-President
Design and Construction

John W. Young
Senior Vice-President
Human Resources

Area Vice-Presidents

Antoine Corinthios
Western North America and Asia

Charles J. Ferraro
Resorts

Wolf H. Hengst
Eastern North America and Europe

Corporate Vice-Presidents

J. Peter Buyze
Vice-President
Engineering

James Cardy
Vice-President
Purchasing

David B. Crowl
Vice-President
Sales

Michael Duwaji
Vice-President
Controller

Ivan Goh
Vice-President
Operations Support

Susan J. Helstab
Vice-President
Corporate Communications

H.E. (Duffy) Keys
Vice-President
Field Marketing

Alfons E. Konrad
Vice-President
Food and Beverage

George S. Lagusis
Vice-President
Design and Construction

Roy A. Paul
Vice-President
Development

Regional Vice-Presidents

Stan Bromley
Boston, Mexico City, New York, Washington, D.C.

James G. Fitzgibbon
Austin, Dallas, Houston

Raymond Jacobi
Toronto

John M. Johnston
Asia

Peter G. Martin
Newport Beach, San Francisco, Santa Barbara, Seattle

Nicholas Mutton
Chicago, Philadelphia

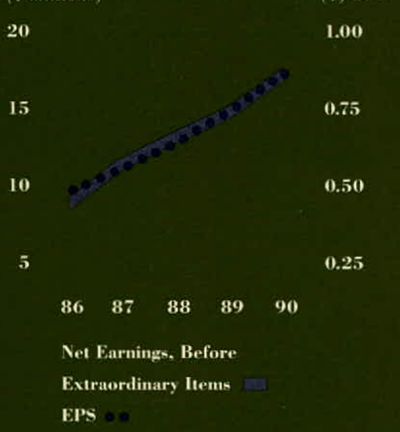
Ramon Pajares
London, Montreal, Paris

**Member of Executive Committee*
+Member of Audit Committee

Contents

Revenues Under Management

Net Earnings, Earnings Per Share



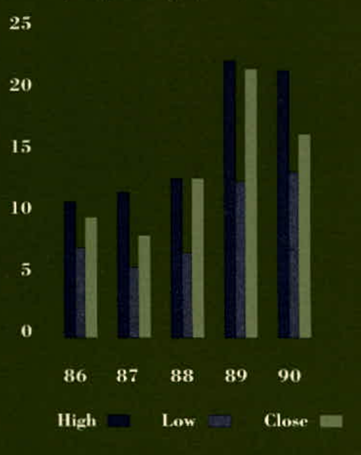
Financial Highlights

($ millions except for per share amounts)	1990	1989	1988
Total revenues of all managed hotels	$ 666.1	634.3	603.4
Net earnings before extraordinary items*	$ 17.3	15.0	13.1
Earnings per share before extraordinary items* (after stock split of January 8, 1990)	$ .86	.76	.67
Funds generated from operations	$ 26.2	26.7	25.4
Debt-to-equity ratio, net of cash	.54	.70	.48

**Net earnings after extraordinary items for 1988 were $34.8 ($1.77 per share after two-for-one stock split effective January 8, 1990)*

Stock Price Range

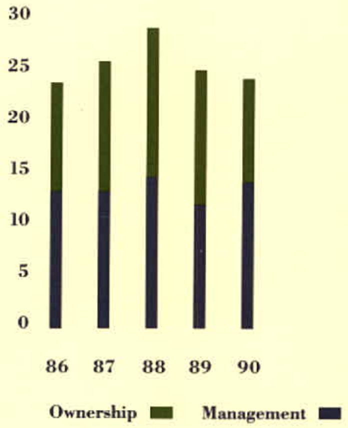
Adjusted to reflect the two-for-one stock split (January 8, 1990)



Management's Discussion and Analysis**

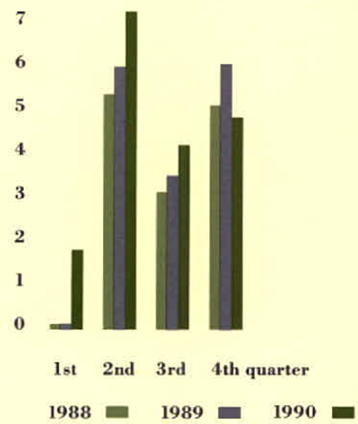
Earnings Before Interest and Taxes

($ millions)



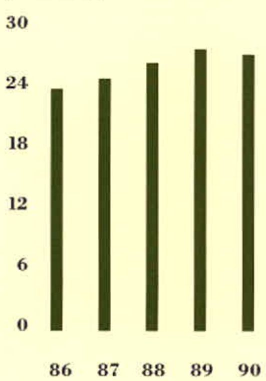
Quarterly Net Earnings

($ millions)



Funds Generated From Operations

($ millions)



THE YEAR IN REVIEW

1990 was Four Seasons Hotels Inc.'s fifth consecutive year of growth since becoming a public company in February 1986.

- Net earnings were up 15% over 1989 to $17.3 million. Included in 1990 net earnings was a $1.5 million after-tax gain related to the sale of the Four Seasons Hotel, Ottawa. Management's long-term target of 10% to 15% growth per annum has been met or exceeded every year since 1985.
- Return on equity was 15.4%. Average return on equity over the last five years has equalled management's long-term target of 20%.
- During the year dividends of 11¢ per share were paid. The dividend rate has increased by over 8% on a compound annual growth basis since 1986.
- The debt-to-equity ratio, net of cash, was .54:1 (or .77:1 if Four Seasons' share of the Santa Barbara hotel's mortgage is included in the ratio), which is better than management's target of 1:1.
- Net interest coverage in 1990 was 19.4 times (or 6.7 times if Four Seasons' share of the interest relating to the Santa Barbara hotel's mortgage is included in the ratio). This is well in excess of management's long-term target of 2:1.

THE ECONOMY

The Recession

The economic recession, which began in early 1990, has accelerated significantly over the last nine months. Management anticipates that the recession will continue through 1991. In areas such as the northeastern United States and eastern Canada, the Corporation is expecting the recession to be longer and deeper than generally anticipated.

The Gulf War and International Terrorism

Although Four Seasons has been planning for the economic recession for well over a year, management could not have anticipated the serious negative effects resulting from the Gulf War, which had an adverse impact upon travel and tourism world-wide. The fear of increased international terrorism related to the war contributed to a major decline in global travel. The negative effects of these factors were felt most strongly during the first two months of 1991, particularly at the Four Seasons Inn on the Park, London, The Pierre in New York and the Four Seasons, Toronto, as these hotels rely heavily on business generated by international travellers. Even with the end of the Gulf War, the world may be left with an overhanging fear of terrorism. Nonetheless, business travellers cannot delay their trips indefinitely and it is expected that pent-up demand may increase business throughout Four Seasons' system in the months to come. Although Four Seasons expects the negative impact of the Middle East situation to be confined to 1991, it is impossible to anticipate the full impact of the Gulf War on the Corporation's business.

Currency Fluctuations

U.S. Dollar – The continued decline in the U.S. dollar against the Canadian dollar negatively affected U.S. revenues under management by approximately $7.5 million in 1990. However, key indicators point to a decline in the Canadian dollar in 1991. To be conservative, management has not anticipated a decline in the Canadian dollar in its 1991 plan. The exchange fluctuations have little short-term economic significance to Four Seasons as

***All currency is in Canadian dollars, unless otherwise noted.*

the Corporation continues to reinvest its U.S. dollar cash flow in U.S. assets. In the longer term, it is expected that the U.S. dollar will outperform the Canadian dollar and that the Corporation will benefit from its substantial long-term investment in U.S. assets.

Pound Sterling – Fluctuations in the pound sterling are significant to Four Seasons as approximately 80% of the Corporation's ownership profits are attributable to the Four Seasons Inn on the Park, London. A sterling forward contract was in place to hedge 1990 earnings fully at $2.05. Anticipated 1991 earnings have been hedged at a rate of $2.32.

THE CORPORATION

Current Operating Environment

Management's overriding objective for the coming year is to emerge from the current economic environment as a financially and operationally stronger company. The following initiatives have been undertaken over the past twelve months to enable the Corporation to achieve this objective:

Marketing Initiatives – Four Seasons is staying in close contact with customers as they evaluate their spending decisions. The efforts of Four Seasons' eight National Sales Offices are being targeted to "recession-resistant" customer segments, such as the medical and pharmaceutical industries. Sales attention is also being focused on geographic regions, such as Texas and overseas markets, which are likely to grow in 1991.

Cost-Control Initiatives – Cost-control efforts have been aggressively pursued with the objective of achieving permanent reductions in Four Seasons' corporate management base and hotel operating costs. These efforts have focused on innovative ideas for changing the way the Corporation administers its business. At all hotels, costs have been cut in areas which will not affect the guest experience. Caring for customers is Four Seasons biggest competitive edge and cost-control programs will not compromise guest service standards or the Corporation's long-term position in the industry.

Capital Program Initiatives – While competitors are reducing capital spending during the economic slowdown, Four Seasons intends to continue capital spending levels to ensure that the quality of its facilities is maintained or improved. The resulting enhanced physical product should give Four Seasons a competitive advantage when economic growth returns to its major markets.

Operations Overview

Four Seasons operates two distinct segments: Hotel Management and Hotel Ownership. The Corporation's objective is to achieve a balance of earnings and cash flow between these two segments.

Hotel Management Segment – Generally, the Hotel Management Segment has the following characteristics:

- stable earnings and cash flow, as approximately two-thirds of Hotel Management revenues are derived from fees based upon total revenues of managed hotels.
- management agreements are generally long-term. The average remaining term, including all renewal options, of all existing management agreements, is 51 years.
- the segment is not capital intensive. Hotel owners are required to fund substantially all capital expenditures and working capital needed for the hotel, including funding of all employment and operating costs.

- the continued growth in the number of hotels under management should increase the value of the Four Seasons name world-wide. Hotel Management operations now represents the primary means by which Four Seasons participates in expansion opportunities. Concentrating on Hotel Management operations rather than Hotel Ownership operations has enabled Four Seasons to expand steadily in recent years without taking on significant capital risks.

1990 Hotel Management Results

Yield – In the hotel business the term *yield* is used, which is defined to be occupancy multiplied by average achieved room rate. For the 5-year period ended 1989 average yield of all hotels under Four Seasons' management grew at an annual compound rate of 6.5% per annum.

The 1990 average yield of all hotels under Four Seasons' management was flat as compared to 1989. However during the year, yields increased on the west coast, in Texas, the mid-west and London while declining in eastern Canada and the northeastern United States.

Revenues – Fee revenues from Hotel Management operations increased 20% in 1990 to $37.8 million from $31.5 million in 1989. This increase reflects the inclusion of management fees from the Four Seasons Resort, Maui since its March 20, 1990 opening, increased revenues at the Four Seasons Hotel, Chicago (in its first full year of operation) and at the Four Seasons hotels in Los Angeles and Boston, as well as a significant increase in development fees from eight of the ten hotels which were under development during 1990. Also included in fee revenues from Hotel Management operations for 1990 were $2.9 million of fees for current and prior years relating to the Four Seasons Hotel, Ottawa. A provision had been recorded against these fees in prior years which was reversed on the sale of the hotel in March 1990.

Earnings Before Interest and Taxes – In 1990, earnings before interest and taxes from Hotel Management operations increased 18.1% to $13.6 million as compared to the prior year. Total expenses of the Hotel Management Segment increased by 21% ($4.2 million) over 1989. These increased expenses resulted from the full-year impact of the changes that began in 1989 to expand Four Seasons' corporate infrastructure relating to its international hotel and resort development activities. During 1989 and 1990, Four Seasons opened three new National Sales Offices in Dallas, London and Tokyo and augmented its corporate marketing, purchasing, operations and design and construction departments. This caused the profit margin to decline to 36% for the year ended December 31, 1990. The profit margin is expected to return to historic levels (averaging over 40% from 1985 to 1988) as the ten hotels which were under development during 1990 are opened over the next few years and begin to generate additional fee revenues.

1991 Hotel Management Results – Revenues from Hotel Management operations are expected to decrease in 1991 due to the current economic climate and the impact of the Gulf War. The increase in fees arising from the February 1991 opening of the Nevis resort, and a full year of fee revenues earned at the new Four Seasons Resort, Maui, will be offset by the lower business volumes at other managed hotels due to the prevailing economic environment and by a decline in development fees earned in 1991 with respect to ongoing development projects. The decline in 1991 development fees is due to delays in project completions resulting in part from complex international regulatory and administrative requirements. Nonetheless, the cost control measures undertaken in the corporate management base should help support the profit margin in 1991.

Hotel Ownership Segment – Four Seasons holds an equity interest in 13 of the 23 hotels and resorts under management. The Hotel Ownership Segment has the following characteristics:

- it is capital and labour intensive and is subject to greater economic fluctuations than the Hotel Management Segment.
- generally, the Corporation's large equity positions are in premium locations in traditionally stable markets such as Toronto, London, New York and Chicago.
- equity ownership allows Four Seasons to share in the long-term capital appreciation in value which the Four Seasons name and operations bring to a property.

Four Seasons Hotel Ownership strategy is to acquire a 10% to 20% equity position, where offered, in new hotels and resorts which present attractive opportunities for long-term capital appreciation. The Corporation has acquired equity positions in the following properties under development: Paris (15%) and Aviara (5%).

1990 Hotel Ownership Results

Revenue – Revenue from Hotel Ownership operations declined 14.8% to $157.2 million in 1990 as compared to 1989. This decrease was due to the deconsolidation of the Four Seasons Biltmore, Santa Barbara effective March 1, 1990 (following the adoption of a formal plan for its disposition), the sale of the Four Seasons, Ottawa in March 1990 and a decline in the exchange rates used to translate Four Seasons' U.S. and U.K. revenues.

Earnings Before Interest and Taxes – Earnings before interest and taxes from Hotel Ownership operations were down 23.2% to $9.8 million in 1990. The New York hotel market was adversely affected by the reduction in corporate travel and entertainment activities caused by the major layoffs in the Wall Street investment community and by the economic recession which accelerated in the second half of 1990. The Pierre's operating earnings declined by $3.1 million, primarily as a result of the significant reduction in social catering and business entertaining. Due to the decrease in city-wide activity, The Pierre was unable to increase room rates to keep pace with inflation. This also contributed to the hotel's decline in earnings.

The sterling-denominated 1990 earnings of the Four Seasons Inn on the Park, London increased by 12.6% over 1989. However, the Canadian dollar-translated earnings were reduced by approximately $1.3 million resulting from a 13.5% decline in the exchange rate used to translate the hotel's earnings.

The two-year major renovation of the bathrooms, bedrooms and public areas at the Ritz-Carlton, Chicago negatively affected the hotel's occupancy rates during 1990. The disruption caused by the renovation program contributed to a decrease of $0.8 million in Four Seasons' share of the hotel's earnings. The renovation program is expected to be completed in the first quarter of 1991.

The weak results at The Pierre and the Ritz-Carlton, Chicago were partially offset by a $2.2 million pre-tax gain on the sale of the Four Seasons, Ottawa on March 8, 1990.

The earnings contribution of the Four Seasons, Toronto improved in 1990, despite a slowdown in the Toronto market in the second half of the year, due to a reduction in net rent expense. In the past, this hotel had not been a significant contributor to earnings, as all of its income had been absorbed by increased rent payments to the landlord for capital improvements made to the hotel during the early 1980s.

1991 Hotel Ownership Results – Management anticipates that 1991 earnings before interest and taxes from Hotel Ownership operations will be negatively affected by the consequences of the Gulf War and the deepening economic recession. The 1991 Canadian dollar earnings from the Four Seasons Inn on the Park, London are expected to be positively affected by a 13.2% improvement in the exchange rate used to translate the hotel's earnings. However, it is anticipated that this improvement will be more than offset by a decline in pound sterling earnings and a reduction in earnings at the Four Seasons, Toronto and The Pierre in New York due to room and banquet cancellations caused by the Gulf War and the general economic slowdown. The magnitude of these negative effects on the Corporation's Hotel Ownership earnings cannot yet be accurately quantified.

Equity Ownership Sales

Four Seasons, Ottawa – On March 8, 1990 the Four Seasons, Ottawa was sold. This transaction generated approximately $17.1 million cash, including deferred fees, which was used to reduce the Corporation's long-term and short-term debt positions. Four Seasons ceased to manage the property on February 28, 1991.

Four Seasons Biltmore, Santa Barbara – In March 1990, Four Seasons and VMS Realty of Chicago, its 50% partner, made a formal decision to dispose of the Four Seasons Biltmore, Santa Barbara, subject to the continuation of Four Seasons' hotel management contract. Although a marketing program was initiated in the second quarter of 1990, the sales effort has been slowed due to the prevailing uncertainty in the capital markets. Accordingly, it is not certain that a sale of the hotel will be consummated in 1991.

As a result of the decision to dispose of the hotel, the Corporation has deconsolidated its 50% interest in the fixed assets, long-term debt, operating results and interest costs of the hotel. The hotel is now accounted for separately in the Consolidated Financial Statements as "Assets held for resale".

In early 1990, VMS announced that it was experiencing financial difficulties and asked its creditors to consent to a non-judicial liquidation of its holdings. Since that time, Four Seasons has been negotiating with VMS and the lender of its equity investment in Santa Barbara, the VMS Hotel Investment Trust, to restructure VMS' interest in the property. Four Seasons has been advised that the Trust will be acquiring VMS' interest in the Santa Barbara hotel in exchange for certain consideration unrelated to this property. Four Seasons is discussing with the Trust the possibility of restructuring the partnership arrangements relating to the hotel. Subject to negotiation of formal documentation and completion of the transfer between VMS and the Trust, Four Seasons and the Trust have agreed to certain amendments to the partnership agreement which will limit the Trust's participation in the proceeds of any sale of the hotel. In return, Four Seasons has agreed to fund all operating and capital requirements of the hotel, if needed, until it is sold. The parties have also agreed that Four Seasons will make all decisions relating to the partnership and the hotel, and that Four Seasons will be entitled to earn an incentive fee in connection with its management of the hotel. The transaction with the Trust is expected to be completed in the first half of 1991.

LIQUIDITY

Working capital generated from operations decreased 2% to $26.2 million in 1990.

Due to high prevailing interest rates over the last 24 months, the Corporation financed its long-term requirements primarily through short-term bank facilities.

On February 14, 1991 the Corporation completed an underwritten private placement of 2,000,000 special warrants. Each special warrant had an issue price of $14.65 (resulting in aggregate gross proceeds to the Corporation of $29.3 million) and entitles the holder to acquire one Subordinate Voting Share for no additional consideration.

On February 27, 1991, the Board of Directors approved the issue of $100 million of unsecured debentures maturing in March 1996 with a coupon rate of 11.05%. The proceeds of the issue were swapped into U.S. dollars to take advantage of lower U.S. interest rates and to hedge the Corporation's significant U.S. income stream. After giving effect to the debenture issue, 50% of the Corporation's total debt will be in fixed U.S. dollar interest rate facilities. This transaction will reduce the risk associated with interest rate fluctuations.

The proceeds of these debt and equity financings were used to repay short-term indebtedness and have given the Corporation the liquidity to cover its operational, capital and development needs for at least the next 24 months. These financings also provide the flexibility needed to take advantage of hotel acquisition and development opportunities. By issuing equity as well as debt financing the Corporation has maintained a conservative debt-to-equity ratio. The pro forma debt-to-equity ratio, net of cash, after giving effect to the debt and equity issues was .43:1 as at December 31, 1990.

Debt Repayment

The Corporation had $57 million of secured short-term debt as at December 31, 1990. The proceeds from the $29.3 million issue of special warrants and from the issue of debentures were used to repay all of this debt, thereby allowing the Corporation to reduce its variable to fixed rate debt ratio to its long-term objective of 50%.

At December 31, 1990 Four Seasons had approximately $31.2 million of unused credit facilities available from various financial institutions. The Corporation intends to maintain available short-term operating lines of approximately $80 to $100 million.

Capital Expenditures

The owners of Four Seasons hotels spend on average 3% to 5% of gross revenues of the hotel per annum on capital expenditures. Additional funds are made available for special capital projects as required. In 1990, approximately $40 million was invested in capital projects by the hotel owners. Four Seasons' share of capital expenditures in hotels in which it holds an interest was $19 million in 1990 and is estimated to be $28 million in 1991.

The Pierre – During 1990, $5.7 million was spent at The Pierre, primarily for the renovation of the hotel's bathrooms and certain guest rooms and suites. A further US$11 million will be spent in 1991 upgrading guest rooms and public areas of the hotel. The US$18 million renovation program which began in 1990 is expected to be completed in 1992.

The Ritz-Carlton, Chicago – In 1990, the Ritz-Carlton, Chicago was in the second year of a program to renovate all bathrooms, guest rooms and public areas. Four Seasons' share of expenditures made during the year was $3.5 million. The renovation at the Ritz-Carlton, Chicago is expected to be completed in the first quarter of 1991 at a cost of approximately US$4 million, of which Four Seasons' share is US$1 million.

Four Seasons, Vancouver and Toronto – Guest room and suite renovation programs were carried out in Vancouver and Toronto at an aggregate cost of $6.3 million during 1990. In addition, $4.8 million will be spent in 1991 at the Four Seasons, Vancouver, completing the two-year renovation of guest rooms.

Four Seasons Inn on the Park, London – A two-year renovation at the Four Seasons Inn on the Park, London focusing on guest room and bathroom refurbishment has been proposed for 1991. It is anticipated that Four Seasons' share of this program will be approximately £2.5 million.

Equity Investment and Loans to Managed Hotels

During 1990, Four Seasons invested approximately $5.5 million in respect of its equity interests in the Four Seasons, Chicago and in the resorts in Nevis and Carlsbad. It is estimated US$14 million will be advanced in 1991 in respect of the Corporation's equity interests in the Four Seasons, Paris and in the resorts in Nevis and Carlsbad.

On December 30, 1990 Four Seasons acquired a 25% beneficial interest in the freehold of the Ritz-Carlton, Chicago at a cost of approximately US$13.5 million. At the same time, the Corporation also acquired a 50-year extension of the management agreement relating to the hotel.

In 1990, Four Seasons invested US$4.6 million in the Four Seasons Biltmore, Santa Barbara for the completion of the Coral Casino Beach & Cabana Club renovation and operating shortfalls. Four Seasons also advanced a loan of US$3.3 million to the hotel on behalf of VMS, Four Seasons' 50% partner, which defaulted on its funding obligations during the year. Four Seasons has the right to convert this default loan into equity by diluting VMS' interest in the hotel. To date, Four Seasons has not elected to exercise this right pending the outcome of the negotiations with the VMS Hotel Investment Trust.

During 1990, Four Seasons made loans of approximately $7.9 million to various managed hotels pursuant to its management obligations. During the year, Four Seasons received repayment of $4.7 million on one of its loans to a managed hotel. Loans to managed hotels earn market interest rates, are typically secured on the hotel property and are generally repayable out of operating cash flow from the hotel or on the sale or refinancing of the hotel or termination of the relevant management agreement. Four Seasons expects to lend a further US$24 million over the next few years to certain managed hotels now under development.

Taxes

The Corporation's effective tax rate declined from 23.5% in 1989 to 21.8% in 1990 due to an increase in earnings not subject to tax. This lower tax rate should be sustainable over the next few years. In 1991, Four Seasons expects to continue to defer the majority of taxes on its Canadian and U.S. taxable income, primarily through the use of available capital cost allowance deductions.

SUMMARY

Management's objective in 1990 was to increase the Corporation's financial strength. The recent completion of the $29.3 million equity issue helped to maintain Four Seasons' strong debt-to-equity position. In addition, management adopted a tough stance on costs without compromising quality and service. Four Seasons should emerge from these uncertain economic times as a stronger company, more dominant in the luxury segment of its industry.

Although 1991's results will be adversely affected by the consequences of the Gulf War, Four Seasons looks to 1992 with confidence that its product and development program will be enhanced by the important strategic actions taken during these difficult times.

Annual Information Form**

Four Seasons Hotels Inc. was incorporated under the laws of Ontario on January 6, 1978. The registered and principal office of Four Seasons Hotels Inc. is located at 1165 Leslie Street, Toronto, Ontario M3C 2K8. The Subordinate Voting Shares of the Corporation are listed on The Toronto Stock Exchange and The Montreal Exchange.

Unless the context otherwise requires, in this annual information form the term "Corporation" means Four Seasons Hotels Inc., and the term "Four Seasons" means Four Seasons Hotels Inc. together with its subsidiaries and includes the predecessor corporations of such subsidiaries.

The business of the Corporation is carried out through its various operating subsidiaries. In North America and the United Kingdom the business of hotel management is carried out by the Corporation's wholly-owned subsidiary, Four Seasons Hotel Limited ("FSHL"), an Ontario corporation. Four Seasons' equity interests in North American hotels are generally held through partnerships or directly by FSHL. The Corporation's 50% ownership interest in the Four Seasons Inn on the Park, London is held through its U.K. subsidiaries.

The management of international hotels (other than the London hotel) is generally carried out by Four Seasons Hotels Administration B.V., a Netherlands corporation and a wholly-owned subsidiary of FSHL. Four Seasons' equity interests in international hotels are structured having regard to the legal, tax and accounting requirements of the particular jurisdiction and the ownership objectives of Four Seasons.

BUSINESS OF FOUR SEASONS

Four Seasons is engaged in the management and ownership of medium-sized luxury urban hotels and resort hotels. Four Seasons currently manages 23 hotels containing approximately 7,400 guest rooms located in principal cities and resort destinations in Canada, the United States, London, England and the Caribbean. Four Seasons owns a freehold or leasehold interest in 13 of these hotels. Nine additional urban hotels and resort hotels, containing approximately 2,700 guest rooms, are under development in Europe, Asia, the United States, the Caribbean and Mexico. Four Seasons will own an equity interest in two of these new properties.

Four Seasons earns revenue from hotel management and hotel ownership operations. Revenues are derived from basic, incentive and other fees earned in respect of the management of hotels under long-term management contracts (having an average remaining term of 51 years). Basic fees are calculated as a percentage of the gross revenue of each hotel, whereas incentive fees are related to the profitability of each hotel. Four Seasons also earns development, technical services and purchasing fees in connection with the development and construction of new hotels. Four Seasons' earnings from hotel ownership are derived from cash flow participation and realization of capital appreciation upon the sale of the ownership interest. The majority of Four Seasons' hotel ownership investments are represented by three wholly-owned operations (the Four Seasons, Toronto, the Four Seasons, Vancouver and The Pierre, New York), a 50% ownership interest in the Four Seasons Inn on the Park, London, a 50% ownership interest in the Four Seasons Biltmore, Santa Barbara and a 25% ownership interest in The Ritz-Carlton, Chicago. The remaining ownership positions are non-material or minority positions (less than 20%) which do not contribute materially to Four Seasons' current earnings.

***All currency is in Canadian dollars, unless otherwise noted.*

Market Position and Marketing Strategy

Four Seasons' principal objective is to operate the finest urban hotel or resort hotel in each destination in which it locates. Four Seasons achieves room rates which are among the highest in each of its market areas. Hotel design, decor and service standards are carefully tailored by Four Seasons to appeal to the luxury segment of the market for business and leisure travel. Hotel decor is residential in style, and lobbies and public areas are typically decorated with antiques, original art and fresh flowers. Each Four Seasons hotel provides such amenities as concierge service, non-smoking rooms and floors, 24-hour room service, seminar and meeting facilities, fine cuisine (including health-conscious Alternative Cuisine℠ menus), overnight valet and shoeshine services and twice-daily maid service. Most hotels also offer modern health and fitness facilities.

New resort hotels will be designed to be sensitive to the natural environment. Meeting rooms will feature outdoor views and access to the open air, and rooms and bathrooms will be much larger than in urban hotels. An early arrival/late departure service will provide additional flexibility and comfort to resort guests.

The business strategy of Four Seasons is to serve the luxury segment of the market for business and resort travel world-wide. Having established a network of hotels in major North American destinations, the Caribbean and London, England, Four Seasons is now focusing on expanding its presence in major international cities and luxury destination resorts. Expansion into international markets and resort operations is intended to allow Four Seasons to better serve the travel needs of its existing North American customer base and, at the same time, introduce international business travellers to the Four Seasons product and attract them to Four Seasons hotels and resorts in North America and the rest of the world. To ensure that Four Seasons quality and service levels are maintained, growth will be controlled, and will occur only in locations that satisfy Four Seasons' market segment objectives.

Four Seasons has gained a reputation for quality, service and innovation in the luxury segment of the business and leisure travel market. Nine Four Seasons hotels were ranked among the world's top 75 hotels in a survey of international financiers published in the September 1990 issue of Institutional Investor. Eight Four Seasons hotels were ranked in the top 25 hotels in the "Americas" regional rankings. Four Seasons properties in Boston, Houston and Vancouver appeared in the American regional ranking for the first time, while the hotels in Chicago (Ritz-Carlton), Toronto, Montreal, Washington, D.C. and New York (The Pierre) made repeat appearances. The Four Seasons Inn on the Park, London was included in the "European" listing, as has been the case in nine of the past ten years. For 1991, for the tenth consecutive year, Four Seasons topped the list of hotels receiving the American Automobile Association Five Diamond Award for excellence, an award based upon superiority of guest facilities, services and atmosphere. Four Seasons properties received 11 of the 47 awards. The Four Seasons, Vancouver has received the American Automobile Association Five Diamond Award every year since the awards began in 1977. In addition, two Four Seasons hotels were among the 21 hotels and resorts to receive 1991 Mobil Five-Star Awards. Six Four Seasons properties (more than any other hotel group) ranked in the Condé Nast Traveller's 1990 Readers' Choice Awards.

Demand for luxury hotel accommodation is derived from two sources: business travel (including group and conference business) and leisure or tourist travel. Four Seasons estimates that business and leisure travel represents approximately 66% and 34%, respectively, of Four Seasons' overall occupancy. Forty per cent of sales are derived each from the sale of guest rooms and from the sale of food and beverages, with the balance being attributable to the sale of other services to hotel guests.

Four Seasons marketing strategy is to focus on meeting the needs of the luxury market for both business and leisure travel. Four Seasons 18 existing urban hotels and the four urban hotels under development are all located in major business and commercial centres, either in urban cores or in significant suburban developments. Accommodation in or near such areas is of particular importance to business travellers. In addition, all of these hotels are located in areas that have access to attractions for tourists, such as sites of interest, retail and entertainment facilities and special events.

Four Seasons' five existing resorts and the five resorts under development are principally located in premier vacation destinations. These resorts are intended in part to provide a vacation alternative to the business travellers who form Four Seasons customer base at its urban hotels.

Competition from other hotels is vigorous in all of Four Seasons market areas. Four Seasons believes that its competition arises primarily from individual luxury hotels, small luxury hotel chains and a few specific properties of certain larger hotel chains.

To meet this competition, Four Seasons is constantly striving to maintain and improve the quality and scope of its services. In recent years, Four Seasons has expanded its list of amenities to include Private Reserve℠, a custom-tailored corporate service program which provides Four Seasons regular corporate customers and travel planners with certain exclusive benefits and services. These include a private reservation line, 24-hour confirmations, guaranteed corporate rates, priority waiting lists, special access to Four Seasons world-wide concierge services (regardless of whether the person is staying at the hotel), complimentary room upgrades on a space-available basis, 24-hour business services and pre-registration and express check-out.

Approximately 40% of Four Seasons' urban business and virtually all of its resort business is booked through travel agents. To acknowledge its commitment to servicing, and the importance of, the travel agent community, Four Seasons introduced Lasting Impressions℠. This program incorporates the introduction of a standardized amenity program which enables travel agents to provide in-room gifts for their clients, an expanded staff to work with the travel agent market, a special resort desk at Four Seasons' centralized reservations offices dedicated to travel agent business, and the payment of agency commissions within 72 hours of a guest's departure.

Business Strategy

Since the early 1980s, hotel management, rather than hotel ownership, has become the primary focus of Four Seasons' business. When it first entered the hotel business, Four Seasons was both the manager and owner of its hotels. As these hotels matured and Four Seasons' reputation and expertise as a manager became better known, other hotel owners and developers approached Four Seasons to manage new properties. Hotel management now represents the primary means by which Four Seasons participates in appropriate expansion opportunities. Four Seasons manages or will manage hotels in which it has no equity interest on behalf of a number of major developers and financial institutions, including: USAA of San Antonio; the Irvine Company of Newport Beach; Kuo Investments Limited of Singapore; TSA and Associates of Hawaii; JMB Realty Corporation of Chicago and Banque Paribas of Paris.

Concentrating on hotel management, rather than hotel ownership, has enabled Four Seasons to expand steadily in recent years. Four Seasons' emphasis on hotel management operations reduces its exposure to the risks inherent in the highly capital and labour intensive characteristics of hotel ownership. Hotel ownership can also be significantly affected by seasonal and business cycle risks to a much greater degree than Hotel Management. Hotel management activities are characterized by relatively stable earnings and cash flow as the majority of Four Seasons' fee revenue is based upon total revenues of the hotels which it manages. Hotel ownership will, however, remain an important aspect of Four Seasons' business. Equity participation is generally structured so as to limit the financial exposure of Four Seasons to a fixed dollar amount. Four Seasons will not acquire an equity interest in a hotel for which it does not have management responsibility. Equity interests are viewed as long-term investments that Four Seasons generally expects to maintain for the duration of its management of the particular hotel. Four Seasons seeks to structure its relationships with other investors so that its equity interest can be dealt with separately from its management interest. This approach enables Four Seasons to dispose of equity ownership interests as sale opportunities arise without jeopardizing its management interest. Four Seasons' current strategy is to acquire a 10% to 20% equity interest in hotels which present attractive opportunities for capital appreciation. Four Seasons is not necessarily offered an equity position in all new hotels and resorts.

Four Seasons' objective is to achieve a balance of earnings and cash flow between hotel management and hotel ownership operations. For 1990, hotel management earnings before interest and taxes contributed 58% of total operating earnings (48% for the year ended December 31, 1989). Both the hotel management and ownership segments are currently seasonal. The first quarter of the year is traditionally the slowest quarter for urban hotels, while the second and fourth quarters are the strongest. The opening of five additional resorts should reduce the cyclical nature of earnings in the future due to the strong first quarter occupancies typically enjoyed by resorts.

Although its partners are primarily responsible for financing and managing the development of hotels, Four Seasons also assumes a significant pre-opening role. It advises on and must approve the design and construction specifications of the hotel during the development stage to ensure that it meets Four Seasons standards. Four Seasons earns a variety of fees for these pre-opening services.

At present, Four Seasons is associated through its ownership of hotels with a number of North American and international developers, including: JMB Realty Corporation of Chicago; TSA and Associates of Hawaii; Bramalea Limited of Toronto; Louis Dreyfus Corporation of New York; Dumez Immobilière of Paris; The Meridian Companies of New York; and Kuo Investments Limited of Singapore.

Future revenue and income growth for Four Seasons will be derived from the basic, incentive, purchasing and refurbishing fees earned in connection with the management of existing and future hotels, and development, technical services and purchasing fees earned in connection with the development and construction of new hotels. Four Seasons' earnings from hotel ownership are derived from cash flow participation and realization of capital appreciation upon the sale of the ownership interest.

Description of Hotels and Resorts

The Corporation presently manages 23 hotels and resorts and has nine hotels and resorts under development. These properties are described in the following table:

Hotel and Location	Date of opening/major renovations	Date of appointment as manager[1]	Facilities: Number of rooms	Facilities: Other features	Management agreement: Initial expiry	Management agreement: Final expiry[2]
Four Seasons Hotel Austin, Texas	1986	1985	292	–	1992	1992[3]
Four Seasons Hotel Boston, Massachusetts	1985	1982	288	100 condominium apartments[4]	2010	2085
Ritz-Carlton Hotel Chicago, Illinois	1975/1991	1977	431	Carlton Club[4,5] 20 residential apartments[4,5]	2025	2075
Four Seasons Hotel Chicago, Illinois	1989	1987	343	15 residential apartments[4,5]	2024	2104
Four Seasons Resort and Club Dallas, Texas	1979/1986	1979	315	Racquet and fitness facilities[4] Two 18-hole golf courses[4] 12,000 sq. ft. spa[4]	2002	2042
Four Seasons Hotel Houston, Texas	1982	1979	399	119 residential apartments	2016[6]	2046[6]
Inn on the Park Houston, Texas	1981	1979/1985	381	–	2015	2075
Four Seasons Inn on the Park London, England	1970/1991	1984	228	–	2054	2054
Four Seasons Hotel Los Angeles, California	1987	1985	285	–	2042	2062
Four Seasons Minaki Lodge Minaki, Ontario	1925/1986	1990	144	2,800 foot airstrip[5] 9-hole golf course[5]	–	–
Le Quatre Saisons Montreal, Quebec	1976	1976/1983	300	–	2003	2043
Four Seasons Resort Nevis, West Indies	1991	1989	196	2,100 feet of ocean frontage 18-hole Robert Trent Jones II-designed golf course[5] 5,000 sq. ft. of meeting and banquet facilities[5]	2021	2066
Four Seasons Hotel Newport Beach, California	1986	1984	285	–	2016	2046
The Pierre New York, New York	1929/1981/1991	1981	206[7]	109 co-operative apartments[4]	2001	2011
Four Seasons Hotel Philadelphia, Pennsylvania	1983	1980	371	705,000 sq. ft. of leasable office space[5] Garage[4,5]	2013	2053
Four Seasons Clift Hotel San Francisco, California	1915/1976/1983/1990	1976/1983	329	–	2006	2066
Four Seasons Biltmore Santa Barbara, California	1929/1988	1987	236	Coral Casino Beach & Cabana Club[5]	2012	2072
Four Seasons Olympic Hotel Seattle, Washington	1924/1982	1980	450	13,704 sq. ft. of leasable office space[4,5] 31,143 sq. ft. of leasable retail space[4,5] Garage[5]	2040	2040
Four Seasons Hotel Toronto, Ontario	1974/1978/1984	1978	381	7,400 sq. ft. of leasable retail space[4,5]	2003	2077

Hotel and Location	Date of opening/major renovations	Date of appointment as manager[1]	Facilities: Number of rooms	Other features	Management agreement: Initial expiry	Final expiry[2]
Inn on the Park Toronto, Ontario	1963/1971/ 1985	1963/1984	568	15 shops and boutiques Health club 10,936 sq. ft. of leasable office space	1994	2014
Four Seasons Hotel Vancouver, British Columbia	1976/1990	1974	385	–	2000	2035
Four Seasons Resort Wailea, Maui, Hawaii	1990	1987	372	–	2010	2055
Four Seasons Hotel Washington, D.C.	1979	1977	197	75,225 sq. ft. of leasable office space[5] 9,690 sq. ft. of leasable retail space[5]	2007	2022
Under Development[8] **Resorts**						
Four Seasons Resort Aviara Carlsbad, California	[8]	1989	444	8-acre fitness facility[5] 39,600 sq. ft. of meeting and banquet space[5] 18-hole Arnold Palmer-designed golf course[5]	2022	2082
Four Seasons Resort Costa Isabela, Puerto Rico	[8]	1989	350	28,000 sq. ft. of meeting and banquet space 18-hole golf course ATP world tennis facility 8,400 sq. ft. health club	2020	2065
Four Seasons Resort Ko Olina, Oahu Hawaii	[8]	1989	335	6,500 sq. ft. spa facility Two 18-hole golf courses 23,700 sq. ft. of meeting and banquet facilities	2013	2068
Four Seasons Resort North Kona, Hawaii Hawaii	[8]	1989	358	18-hole Jack Nicklaus-designed TPC golf course 20,000 sq. ft. of meeting space	2018	2063
Four Seasons Resort Scottsdale, Arizona	[8]	1989	250	22,900 sq. ft. of meeting space 18-hole golf course, designed by Morrish and Weiskopf	2019	2064
Urban						
Four Seasons Hotel Mexico City, Mexico	[8]	1990	233	17,000 sq. ft. of meeting and banquet facilities	2013	2038
Four Seasons Hotel Paris, France	[8]	1989	204	Two storeys of luxury condominiums	2022	2082
Four Seasons Hotel Singapore	[8]	1990	260	28,000 sq. ft. sports facility (including indoor tennis and squash courts)	2013	2033
Four Seasons Hotel Tokyo, Japan	[8]	1988	291	14,000 sq. ft. fitness facility 26,050 sq. ft. of conference and banquet facilities	2002[9]	2032[9]

Notes:

1 In some cases, Four Seasons' appointment as manager precedes the date of opening or renovation of the particular hotel. In such cases, Four Seasons typically assists the owners in the development, construction and refurbishment of, and the purchase of furniture, fixtures and equipment for, the hotel and receives fee income for such services.

2 Final expiry is the expiry date if all renewal options are exercised.

3 In 1988, the original owner of the Four Seasons Hotel, Austin defaulted in its obligation under the first mortgage on the property. The mortgagee subsequently foreclosed and shortly thereafter negotiated a new management agreement with Four Seasons for the management of the Austin hotel. The management agreement now provides that it may be terminated at the option of either party on 90 days' notice.

4 Four Seasons receives fee income for the management of these facilities.

5 Four Seasons has an equity interest in these facilities.

6 The management agreement may be terminated by the owners in the event of a change of control of Four Seasons.

7 Includes 30 co-operative suites leased by Four Seasons from individual owners and operated by Four Seasons as hotel rooms.

8 Information concerning hotels under development is based upon agreements and letters of intent and may be subject to change. Expiry dates are calculated from the estimated date of opening.

9 The management agreement may be terminated by the owner if control of the Corporation is transferred to a competitor of the owner.

Four Seasons has equity interests in 15 hotels, including two that are under development. These interests are described in the following table:

		Nature of ownership		
Hotel and Location	**Equity interest**	**Structure and form of participation**	**Title**	**Encumbrances**
Four Seasons Resort Aviara Carlsbad, California	5%[1]	Partnership – Limited Partner	Freehold	[2]
Four Seasons Hotel Boston, Massachusetts	15%	Partnership – 0.5% General Partner and 14.5% Limited Partner	Freehold	First mortgage
Four Seasons Hotel Chicago, Illinois	7.7%	Partnership – Limited Partner	Leasehold, initial expiry 2024, options to extend to 2104	[3]
Ritz-Carlton Hotel Chicago, Illinois	25%	Partnership – General Partner	Freehold	First mortgage[4]
Four Seasons Inn on the Park London, England	50%	Corporate joint venture	Leasehold, initial expiry 1998, options to extend to 2054	–
Four Seasons Minaki Lodge Minaki, Ontario	100%	Wholly-owned	Freehold	First mortgage[5]
Four Seasons Resort Nevis, West Indies	15%	Corporate joint venture	Freehold	First and second charge
The Pierre New York, New York	100%	Wholly-owned	Leasehold, expiring 2001, options to extend to 2011, currently being renegotiated	[3]
Four Seasons Hotel Paris, France	15%	Partnership – General Partner	Freehold	[2]
Four Seasons Hotel Philadelphia, Pennsylvania	5%	Partnership – Limited Partner	Freehold	First mortgage
Four Seasons Biltmore Santa Barbara, California	50%[6]	Partnership – General Partner	Freehold	First mortgage[7]
Four Seasons Olympic Hotel Seattle, Washington	3.35%	Partnership – General Partner[8]	Leasehold, expiring 2040	First and second mortgages
Four Seasons Hotel Toronto, Ontario	100%	Wholly-owned	Leasehold, initial expiry 2003, options to extend to 2077	[3]
Four Seasons Hotel Vancouver, British Columbia	100%	Wholly-owned	Leasehold, initial expiry 2000, options to extend to 2035	[3]
Four Seasons Hotel Washington, D.C.	15%	Partnership – General Partner[8]	Freehold	First mortgage

Notes:

1 Four Seasons has the right to acquire an additional 4.9% of the equity in this hotel.

2 No financing arrangements have yet been made for these properties.

3 Leasehold may be subject to mortgage financing by the lessor, but in most cases Four Seasons has entered into a non-disturbance agreement with the mortgagees.

4 The first mortgage is in the principal amount of US$16.5 million, bears interest at 8.5% per annum and is due December 1, 1991.

5 The first mortgage is in the principal amount of $3 million and is due December 31, 1993.

6 A formal plan has been adopted to dispose of Four Seasons' ownership interest in the Four Seasons Biltmore. Reference is made to Management's Discussion and Analysis "Equity Ownership Sales – Four Seasons Biltmore, Santa Barbara".

7 The first mortgage is in the principal amount of US$45 million, and bears interest at LIBOR plus 1⅝%, and is due December 31, 1992.

8 Four Seasons has an indemnity from the other general partners or general partner for the portion of liabilities of the partnership in excess of its equity interest.

Hotel Management Operations

Four Seasons provides hotel management services to 18 urban hotels and five resort hotels. Five of these hotels are located in Canada, 16 in the United States, one in the Caribbean and one in the United Kingdom. Four additional urban hotels and five additional resort hotels are under development.

Four Seasons assumes exclusive responsibility for all aspects of the day-to-day management of each of the hotels, including: establishing and implementing standards of operation; hiring, training and supervising staff; creating and maintaining financial controls; complying with laws and regulations; and providing for the safekeeping, repair and maintenance of the physical assets. Four Seasons performs these services within the guidelines contained in annual operating and capital plans that are submitted to the owners of the hotel during the last quarter of the preceding year for their review and approval. All structural changes, major refurbishing programs and major repairs require the separate approval of hotel owners prior to implementation by Four Seasons. In return for these services, Four Seasons earns basic management fees and other related fees and, in certain circumstances, incentive fees.

Under its management agreements, Four Seasons directs the operation of the hotel for the owner. The owner is responsible for funding the operational and capital requirements for the hotel. In certain circumstances Four Seasons provides capital loans and operating deficit loans to the owners. Capital loans are used to assist owners with major refurbishing programs either to bring a hotel into conformity with or to maintain a hotel at Four Seasons standards. Operating deficit loans are used to offset short-term operating shortfalls in the early stages of a hotel's operations. Capital loans and operating deficit loans are interest bearing, are secured by a charge on the property (or in one case by an assignment of the owner's interest in the property) and generally are repayable out of hotel cash flow or on the sale or refinancing of the hotel or the termination of the relevant management agreement. At December 31, 1990, Four Seasons had advanced an aggregate of $20.6 million in capital loans and operating deficit loans to certain hotels and expects to advance a further US$24 million in respect of hotels under development.

At December 31, 1990, there were approximately 10,700 employees located at the 23 hotels managed by Four Seasons, the eight national sales offices, the central reservations offices and the corporate offices. Hotel employees are usually employed by the hotel owner but are under the direction of Four Seasons. Of the approximately 2,000 employees directly employed by Four Seasons, approximately 1,750 are employed in wholly-owned hotels, and approximately 250 are employed in the national sales offices, the central reservations offices and the corporate offices.

Thirty per cent of Four Seasons' 23 hotels under management are subject to labour union contracts. These include The Pierre in New York, the Ritz-Carlton in Chicago, the Four Seasons Clift in San Francisco and all Canadian hotels with the exception of Minaki Lodge. The only union contracts subject to renegotiation in 1991 are those at the Four Seasons Vancouver and the Valet Workers' contract at the Four Seasons Clift, San Francisco.

The selection, training and development of hotel employees is a major focus for both corporate office and local hotel management. In a highly personal service business, all aspects of employee attitude and job performance are critical to achieving and maintaining a consistently high-quality experience for guests. Programs, developed by the corporate human resources staff and implemented in the field under the supervision of the Corporate Director of Training, range from the particulars of task execution to the generalities of human resources management. This training activity is intended to ensure consistency in service and quality and an understanding and appreciation of Four Seasons' philosophy and operating principles.

Four Seasons is responsible for the development of overall marketing and advertising strategies which include establishing broad national awareness of the Four Seasons' product as well as developing local market potential for specific hotels. Corporate marketing services include: the development and placement of national advertising and assistance with local advertising; the operation of national sales offices in New York, Washington, Chicago, Dallas, Los Angeles, Toronto, Tokyo and London, England to develop group and corporate business for hotels; the operation of a centralized reservation service which utilizes a toll-free telephone number and is accessible by the major airline and international reservations networks; and the development and implementation of promotional programs. Four Seasons receives a corporate sales and marketing fee and corporate advertising charge and centralized reservation service charge from all hotels, thereby enabling it to recover substantially all of the costs of providing these services.

Each hotel has its own sales and marketing staff. Corporate marketing staff oversee planning and implementation of programs at the local level and organize training and development programs for local sales and marketing staff. The local marketing strategy concentrates on developing rooms, food and beverage business for hotels locally and regionally and on promoting the hotel as a centre of community activity with a view to developing local revenues, particularly from catering.

Four Seasons also provides a centralized purchasing system for goods and services at all the hotels in return for a centralized purchasing fee. Management agreements provide that consumables, operating supplies and equipment may be acquired through the centralized purchasing system if the cost to the owner (including the centralized purchasing fee) is no greater than the cost which would otherwise be paid to third-party suppliers. Four Seasons also receives centralized purchasing fees with respect to purchases of furniture, fixtures and equipment approved in the hotels' annual capital budgets.

The corporate design and construction department assumes a co-ordinating consulting role for owners of existing hotels or hotels under development in the physical design and layout of the hotel interiors including public areas, bedrooms and "back of the house" (such as kitchen and service areas). This department earns pre-opening development, technical services and purchasing fees in the case of new hotels and refurbishing fees in the case of major renovation projects in existing properties. The "Executive Suite" is an example of a concept developed by the Design and Construction department to respond to a particular market need and has now been incorporated into 19 hotels. These guest rooms combine a regular bedroom and adjacent sitting room, providing many of the advantages of a traditional suite at a more economical cost.

The following is a description of fees and charges typically provided for in Four Seasons' pre-opening and management agreements.

Type of Fee/Description

Basic management fee and other related fees	Percentage of annual gross operating revenue of the hotel, calculated and paid monthly.
Incentive fee	Percentage of defined profit or of annual net cash flow of the hotel after specified deductions, payable monthly or quarterly, subject to adjustment at year-end, or payable annually.
Pre-opening development, technical services and purchasing fees	Negotiated amounts, payable in monthly instalments prior to the opening of the hotel.
Centralized purchasing fee	Percentage of cost of purchases of food and beverage inventories, operating supplies and furniture, fixtures and equipment.
Refurbishing fee	Percentage of total cost of approved refurbishing programs.
Corporate sales and marketing fee and corporate advertising charge	Percentage of annual budgeted gross operating revenue of the hotel, payable monthly and calculated on the basis of Four Seasons' cost of providing the services.
Centralized reservation service charge	Monthly fee per hotel room, calculated on the basis of Four Seasons' cost of providing the services.

During 1990, approximately 69% of total fee revenues were derived from fees calculated as a percentage of the gross operating revenue of all managed hotels. During 1990, Four Seasons also earned pre-opening development, technical services and purchasing fees for eight of the ten hotels under development.

Hotel management agreements have remaining terms, including all renewal options, averaging 51 years. The management agreements in respect of all hotels under development contain options to renew for additional terms. Typically, management agreements may be terminated by the non-defaulting party upon default in payment, unremedied failure to comply with the terms of the management agreement or financial distress. In addition, management agreements in respect of 19 of the 23 operating hotels and seven of the hotels under development permit the owner of the hotel to terminate or to refuse to accept a renewal option in respect of the management agreement if the hotel fails to achieve specified levels of performance. To date, no owner has exercised the right to terminate or refused to accept a renewal option. Typically, Four Seasons is given certain options to remedy a deficiency in financial performance upon payment to the owner of the amount of the deficiency. In certain cases, this deficiency payment is structured as a repayable advance.

Four Seasons usually receives a non-disturbance agreement from third-party hotel owners and the hotel mortgagees so that, in the event of a sale or foreclosure, Four Seasons will be able to continue to manage the hotel under the same terms and conditions. Generally, the transferee of the owner or the mortgagee, as the case may be, must agree to be bound by the provisions of the existing management agreement. Four Seasons can usually refuse to consent to the transfer if the transferee is unable to meet certain financial tests, is a competitor, or is a person of ill repute.

All hotels are insured against property damage and liability at the expense of the owner, and Four Seasons is entitled to the protection of such insurance. Four Seasons is also insured against loss of fee income in the event of business interruption at Four Seasons hotels. In addition, Four Seasons obtains an indemnity from the owner in respect of damages caused by acts, omissions and liabilities of the employees of the hotel or of Four Seasons except damages resulting from Four Seasons' gross negligence or wilful misconduct.

A different arrangement exists with respect to the Four Seasons Hotel, Tokyo where the local owner, a lodging company, oversees the day-to-day operation of the hotel on the instruction of and in compliance with standards, policies and procedures established by Four Seasons.

Hotel Ownership Operations

Four Seasons has an equity interest in 13 of the 23 existing hotels and two of the hotels under development and has equity partners in 11 of these hotel investments. Four Seasons seeks equity partners which have experience and resources that should be of assistance in the financing and management of the construction and development of the particular hotel. Four Seasons advises on the design, development, or refurbishment of the hotel and acts as manager after the hotel opens.

Four Seasons, directly or indirectly, owns interests in the leasehold of six hotels. In the five cases where there are separate management agreements, the term of the leasehold and the term of the management agreement (including renewal options) are consistent. In the remaining case, the lease incorporates terms similar to those normally included in a management agreement.

Hotels under Development

Properties being developed include resorts in: Kona, Hawaii, Hawaii; Ko Olina, Oahu, Hawaii; Carlsbad, California; Costa Isabela, Puerto Rico; Scottsdale, Arizona; and international urban properties in Tokyo, Paris, Singapore and Mexico City. Four Seasons has ownership interest in two of the nine hotels under development: The Four Seasons Hotel, Paris and the Four Seasons Resort, Aviara, Carlsbad. The cost of Four Seasons' 15% equity participation in the Four Seasons, Paris is anticipated to amount to approximately US$8.7 million. The cost of Four Seasons' 5% equity participation in the Four Seasons, Aviara is anticipated to amount to approximately US$4 million. Four Seasons has an option to acquire an additional 4.9% equity interest in the Aviara hotel.

Risks Associated with Foreign Operations

The primary financial risk associated with foreign operations is that of foreign currency fluctuations vis-à-vis the Canadian dollar. Reference is made to the discussion of foreign currency in Management's Discussion and Analysis.

Over the next five years, Four Seasons plans to open an additional six properties outside of North America. The expansion involves some operational risk as a result of the different environments (economic, social and political) that will be encountered. Four Seasons anticipates that travel originating within North America will sustain its growth in these markets and that growth and expansion in new markets will enhance the awareness of, and value inherent in, the Four Seasons name.

The Environment

It is not anticipated that environmental protection requirements will have any effect on capital expenditures, earnings and the competitive position of Four Seasons in future years. Nonetheless, Four Seasons tries to anticipate and respond to relevant environmental concerns. For example, Four Seasons has had a successful energy conservation policy in operation for the past nine years. In its second year of implementation $1.2 million was saved. A waste management system is presently being implemented at all hotels and resorts based upon research and experiences at several hotels under management. It is estimated that the cost of waste disposal at the hotels under management will be reduced by one-third when the system is in place and that additional revenues will be earned through the sale of recyclables.

Four Seasons' standard specifications for new hotels have been modified to eliminate the use of chlorofluorocarbons for refrigeration and halon for fire extinguishers. Existing hotels will phase out chlorofluorocarbons and halon within the next five years.

Four Seasons' Design and Construction department endeavours to protect or replace trees, where necessary, at construction sites. The main objective of these initiatives is to protect the resources of the communities in which Four Seasons operates hotels.

Trademarks and Tradenames

Much time and effort is spent each year on surveillance, registration and protection of the Four Seasons tradenames, trademarks and servicemarks which Four Seasons believes have become synonymous in the lodging industry with a standard of uncompromising attention to detail and an unwavering dedication to excellence. Two main factors contribute to the importance of this program:

1. The growth of the reputation of Four Seasons and its hotels in recent years, evidenced by frequent media exposure and consumer and industry endorsement.
2. The frequency and common usage of the words "Four Seasons" in the English language for various fields of endeavour.

The trademark protection and development effort varies each year in proportion to the changing nature of Four Seasons' operations and the conflicts that may arise with third parties. The nine new hotels and resorts under development will carry the Four Seasons name. The few existing hotels with different names (such as the Inn on the Park, London) will have their identification with the Four Seasons brand name strengthened.

Future Hotel Opportunities

Four Seasons will continue to serve the luxury segment of the market for business and leisure travel and intends to maintain and improve upon the standards established in existing properties and in the hotels presently under development. Four Seasons continues to review opportunities to manage and acquire equity interests in additional existing and newly constructed hotels in targeted areas.

For the foreseeable future, Four Seasons' expansion plans will focus primarily on urban hotel and resort hotel opportunities in Europe and the Far East and selected resort and urban developments in North America, Mexico and the Caribbean.

Four Seasons has entered into an arrangement with Fujita Tourist Enterprises Co. Ltd. under which Four Seasons and Fujita have agreed to explore jointly for and exploit opportunities for the development, operation and management of world-class luxury hotels and resorts in Japan under the Four Seasons name. The Fujita Group is one of Japan's foremost travel and hospitality operators.

In addition, Four Seasons has formed a joint venture relationship with Hotel Properties Limited ("HPL"), a member of the Kuo group of companies, for the purpose of acquiring rights to manage world-class luxury hotels and resorts under the Four Seasons name in Asia (other than Japan) and in Australia and New Zealand. Each of Four Seasons and HPL has a 50% interest in the joint venture. HPL is a publicly traded company based in Singapore which is engaged in the business of hotel ownership, condominium development and, to a lesser degree, food distribution.

Selected Consolidated Financial Information

(Dollar amounts are in millions, except per share amounts)

		1990	1989	1988	1987	1986
Consolidated Revenues		$ 188.16	207.79	228.36	216.69	194.71
Net Earnings before Extraordinary Items	Total	$ 17.32	15.04	13.13	11.28	9.52
	**Per Share	$ .86	.76	.67	.58	.50
Total Assets		$ 241.87	230.55	196.69	189.25	142.36
Long-Term Debt		$ 39.22	37.73	42.87	81.48	41.18
Cash Dividends Per Share		$ .11	.11	.10	.08	.08
Net Earnings after Extraordinary Items	Total	$ 17.32	15.04	34.84	11.28	9.52
	**Per Share	$ .86	.76	1.77	.58	.50
**Fully Diluted Earnings Per Share		$ .84	.74	1.62	.55	.47

***The shares of Four Seasons Hotels Inc. are listed on The Toronto and Montreal Stock Exchanges.*

There are three significant factors affecting the comparability of the above data.

The first factor was the acquisition of a 50% interest in the Four Seasons Biltmore Hotel, Santa Barbara in March 1987 which resulted in the increase in long-term debt in 1987.

The second factor was the December 1988 sale of a 50% interest in the Four Seasons Inn on the Park, London to Kuo Investments Limited of Singapore ("Kuo") for aggregate consideration of approximately $40 million. This interest was acquired by Kuo pursuant to an option it received in 1984 as partial consideration for a loan made to one of Four Seasons' U.K. subsidiaries. The acquisition price for the 50% interest was used to retire indebtedness of Four Seasons' U.K. subsidiaries to Kuo and others. In connection with this transaction, the management agreement relating to the hotel was amended to reduce Four Seasons' basic management fee and eliminate incentive fees. The reduction in Four Seasons' fees and corresponding reduction in its participation in the earnings of the Four Seasons Inn on the Park, London was substantially offset by the resulting reduction of interest expense. In addition, the transaction resulted in a decrease in consolidated revenues in 1989, and a 1988 after-tax extraordinary accounting gain to the Corporation of approximately $27.8 million.

The third factor was that, effective the beginning of the second quarter of 1990, the consolidated statements of operations do not include the results of operations of, or the interest costs relating to, the Four Seasons Biltmore, Santa Barbara. These operating results and interest costs have been deconsolidated due to adoption of a formal plan to dispose of the hotel.

Reference is made to Management's Discussion and Analysis for further discussion of the factors affecting comparability of data.

Selected Consolidated Quarterly Financial Information

(Dollar amounts are in thousands, except per share amounts)

		4th Quarter 1990	4th Quarter 1989	3rd Quarter 1990	3rd Quarter 1989	2nd Quarter 1990	2nd Quarter 1989	1st Quarter 1990	1st Quarter 1989
a. Consolidated Revenues	$	52,091	59,749	42,947	50,368	48,768	55,662	44,350	42,008
b. Net Earnings before Extraordinary Items Total	$	4,631	5,803	4,020	3,373	6,947	5,742	1,724	118
Per Share	$	.23	.29	.20	.17	.34	.29	.09	.01
c. Net Earnings after Extraordinary Items Total	$	4,631	5,803	4,020	3,373	6,947	5,742	1,724	118
Per Share	$	.23	.29	.20	.17	.34	.29	.09	.01
Fully Diluted Earnings Per Share	$	.22	.29	.20	.16	.33	.28	.09	.01

The Board of Directors of the Corporation has established a policy of paying an annual dividend of $0.11 per share, payable semi-annually. There is presently no intent to change the dividend policy. There are no restrictions which prevent the Corporation from paying dividends.

Directors and Officers

The names of the directors and officers of the Corporation, the offices held by them and their principal occupations are as follows:

Name and municipality of residence	Office	Principal occupation
Edmond M. Creed[1] Schomberg, Ontario	Director	Retired executive
Frederick Eisen Toronto, Ontario	Director	Executive Vice-President, Residential, Bramalea Limited (real estate corporation)
H. Roger Garland[1,2] Toronto, Ontario	Executive Vice-President and Director	Executive Vice-President, Development, Finance and Administration, Four Seasons Hotels Limited
Murray B. Koffler[1,2] Toronto, Ontario	Director	Partner, The Koffler Group (investment group)
Lionel H. Schipper[2] Toronto, Ontario	Director	President, Schipper Enterprises Inc. (investment company)
Isadore Sharp[1] Toronto, Ontario	Chairman, President and Director	Chairman, President and Chief Executive Officer, Four Seasons Hotels Limited
Max Sharp Toronto, Ontario	Director	Retired executive

(Continued)

Directors and Officers *(Continued)*

Name and municipality of residence	Office	Principal occupation
John L. Sharpe[1] Mississauga, Ontario	Executive Vice-President and Director	Executive Vice-President, Operations Four Seasons Hotels Limited
Benjamin Swirsky[2] Toronto, Ontario	Director	Vice-Chairman, Bramalea Limited (real estate corporation)
Christopher Wallis Toronto, Ontario	Senior Vice President and Director	Senior Vice President, Design and Construction, Four Seasons Hotels Limited
Douglas L. Ludwig Toronto, Ontario	Senior Vice-President and Treasurer	Senior Vice-President, Finance, Four Seasons Hotels Limited
David C. Mongeau Richmond Hill, Ontario	Senior Vice-President and Secretary	Senior Vice-President and Secretary, Four Seasons Hotels Limited
Kathleen Taylor Toronto, Ontario	Corporate Counsel	Corporate Counsel, Four Seasons Hotels Limited

Notes:

1 Member of Executive Committee.

2 Member of Audit Committee.

Terms of Office

Edmond M. Creed, Murray B. Koffler, Isadore Sharp and Max Sharp have served as directors of the Corporation's predecessor Corporation since January 9, 1978.

Frederick Eisen, H. Roger Garland, John L. Sharpe, Benjamin Swirsky and Christopher Wallis were elected to the Board of Directors of the Corporation's predecessor Corporation on October 1, 1985.

Lionel H. Schipper was appointed to the Board of Directors on February 18, 1988.

All of the Directors will hold office until the next annual meeting of shareholders, or until their successors are elected or appointed.

All of the officers and directors of the Corporation have held their principal occupations for more than five years with the exception of: Edmond M. Creed who was Chairman and President of Creeds Limited prior to August 1986; Frederick Eisen who was Corporate Advisor to Bramalea Limited prior to September 1990, and an executive with Max Sharp & Son Construction Limited prior thereto; Benjamin Swirsky who was Chief Executive Officer of Bramalea Limited prior to August 1990; Douglas L. Ludwig who was Vice-President, Corporate Controller of Four Seasons Hotels Limited prior to September 1987; David C. Mongeau who was Vice-President, General Counsel and Secretary of Four Seasons Hotels Limited prior to July 1990, Corporate Counsel of Four Seasons Hotels Limited prior to July 1987 and a lawyer with the Toronto law firm of Goodman & Goodman prior to August 1986; and Kathleen Taylor who was a lawyer with the Toronto law firm of Goodman & Goodman prior to June 1989.

Additional information including directors' and officers' remuneration and indebtedness, and options to purchase securities is contained in Four Seasons Hotels Inc.'s Information Circular as of March 30, 1990, prepared for the May 15, 1990 annual meeting of shareholders. A copy of such document may be obtained upon request from the Secretary of Four Seasons Hotels Inc.

PRINCIPAL HOLDERS OF SECURITIES

As at February 20, 1991, the only person or company that owns of record, or is known by the Corporation to own beneficially, directly or indirectly, securities of the Corporation carrying more than 10% of the voting rights attaching to any class of voting securities of the Corporation is as follows:

Name and Address	Designation of Class	Type of Ownership	No. of Securities	Percentage of Class
Triples Holdings Limited[1] Toronto, Ontario	Multiple Voting Shares	beneficially and of record	5,562,566	100%

Note:

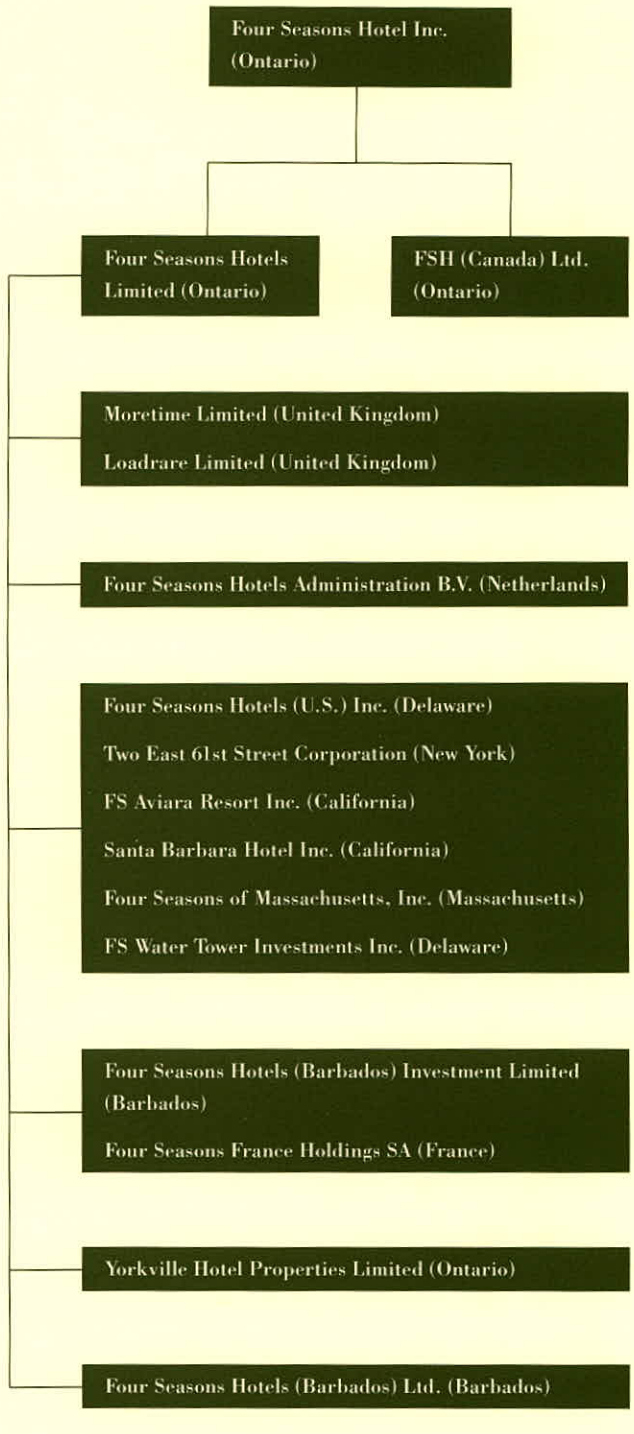
1 All the outstanding shares of Triples Holdings Limited are beneficially owned by Isadore Sharp and members of his immediate family. Mr. Sharp and his wife are trustees of two trusts which beneficially own 50,386 and 50,834 Subordinate Voting Shares, respectively.

As at February 20, 1991, the directors and senior officers of the Corporation and members of their respective families, as a group, owned beneficially, directly or indirectly, the following number of Subordinate Voting Shares and Multiple Voting Shares:

Designation of Class	No. of Shares	Percentage of Class
Subordinate Voting Shares	1,981,614	3.6%
Multiple Voting Shares	5,562,566	100%

CORPORATE CHART

The following chart illustrates Four Seasons' corporate structure, including all significant subsidiaries of the Corporation and their jurisdictions of incorporation. Each of these corporations is, directly or indirectly, a wholly-owned subsidiary of the Corporation.



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 Corporation. 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 judgements 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 Corporation maintains a comprehensive program of internal audits covering significant aspects of its operations.

The Corporation'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 Thorne, the independent auditor appointed by the shareholders of the company, has examined the financial statements in accordance with generally accepted auditing standards.

Isadore Sharp
Chairman and President

H. Roger Garland
Executive Vice-President

Auditor's Report

To the Shareholders of Four Seasons Hotels Inc.

We have audited the consolidated balance sheets of Four Seasons Hotels Inc. as at December 31, 1990 and December 31, 1989 and the consolidated statements of operations, cash provided by operations, changes in financial position and retained earnings for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1990 and December 31, 1989 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Toronto, Canada
February 20, 1991,
(except for note 13, for which the date is February 28, 1991)

Peat Marwick Thorne
Chartered Accountants

Consolidated Statements of Operations

Years ended December 31, 1990 and 1989 *($000's except for per share amounts)*	1990	1989
Consolidated Revenues *(note 1(f))*	**$ 188,156**	207,787
HOTEL MANAGEMENT OPERATIONS		
Total revenues of all managed hotels *(note 1(a))*	**$ 666,092**	634,336
Fee revenues *(note 1(f))*	**$ 37,820**	31,524
Expenses		
General and administrative	**22,820**	18,835
Depreciation and amortization	**1,399**	1,173
Earnings before interest and taxes	**13,601**	11,516
HOTEL OWNERSHIP OPERATIONS		
Revenues	**157,214**	184,506
Expenses		
Cost of sales and expenses	**136,069**	156,006
Fees to Hotel Management Operations *(note 1(f))*	**6,878**	8,243
Depreciation and amortization	**6,739**	7,537
Gain on sale of hotel *(note 11(a))*	**2,240**	–
Earnings before interest and taxes	**9,768**	12,720
Earnings before interest and taxes	**23,369**	24,236
Interest, net *(note 7)*	**1,208**	4,570
Earnings before taxes	**22,161**	19,666
Income taxes *(note 9)*		
Current	**1,225**	1,304
Deferred	**3,614**	3,326
	4,839	4,630
Net earnings	**$ 17,322**	15,036
Earnings per share *(note 8(b))*	**$ 0.86**	0.76

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

As at December 31, 1990 and 1989 ($000's)	1990	1989
ASSETS		
Current assets:		
Cash and short-term investments	$ 8,087	9,561
Receivables *(note 2)*	34,131	33,060
Inventory	2,514	2,602
Prepaid expenses	3,517	3,731
Total current assets	48,249	48,954
Notes and mortgages receivable *(note 3)*	27,426	27,743
Investments in hotel partnerships and managed hotels *(note 4(a))*	22,103	16,877
Assets held for resale *(note 11(b))*	32,565	–
Fixed assets *(note 5)*	96,021	125,152
Other assets	15,501	11,823
	$ 241,865	230,549

	1990	1989
LIABILITIES & SHAREHOLDERS' EQUITY		
Current liabilities:		
Bank indebtedness	$ 28,702	26,907
Accounts payable and accrued liabilities	40,905	42,426
Long-term debt due within one year	913	10,971
Total current liabilities	70,520	80,304
Long-term debt *(note 6)*	39,215	37,725
Deferred income taxes	19,772	18,681
Shareholders' equity *(note 8)*:		
Capital stock	38,328	38,067
Contributed surplus	4,784	4,784
Retained earnings	73,884	58,769
Equity adjustment from foreign currency translation	(4,638)	(7,781)
Total shareholders' equity	112,358	93,839
Commitments and contingencies *(note 10)*		
	$ 241,865	230,549

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board of Directors:

Isadore Sharp
Director

Benjamin Swirsky
Director

Consolidated Statements of Cash Provided by Operations

Years ended December 31, 1990 and 1989 ($000's)	1990	1989
CASH PROVIDED BY (USED IN):		
HOTEL MANAGEMENT OPERATIONS		
Earnings before interest and taxes	$ 13,601	11,516
Add items not requiring an outlay of funds:		
Depreciation and amortization	1,399	1,173
Other	438	899
Working capital provided by Hotel Management Operations	15,438	13,588
HOTEL OWNERSHIP OPERATIONS		
Earnings before interest and taxes	9,768	12,720
Add (deduct) items not requiring (providing) an outlay (inflow) of funds:		
Depreciation and amortization	6,739	7,537
Gain on sale *(note 11(a))*	(2,240)	–
Other	(1,097)	(1,302)
Working capital provided by Hotel Ownership Operations	13,170	18,955
Interest	(1,208)	(4,570)
Current taxes	(1,225)	(1,304)
Working capital from operations	26,175	26,669
Change in non-cash working capital applicable to operations excluding current portion of long-term debt	(6,485)	(10,273)
Cash provided by operations	$ 19,690	16,396

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Financial Position

Years ended December 31, 1990 and 1989 ($000's)	1990	1989
CASH PROVIDED BY (USED IN):		
Operations	$ 19,690	16,396
Financing		
Long-term debt, including current portion, issued	28,551	1,326
Long-term debt, including current portion, repaid	(11,074)	(860)
Issuance of shares *(note 8)*	261	336
Other	(1,007)	(1,762)
Cash provided by (used in) financing	16,731	(960)
Capital Investments		
Notes and mortgages receivable, increase	(14,241)	(19,298)
Notes and mortgages receivable, decrease	15,974	7,767
Hotel investments	(5,401)	(4,880)
Assets held for resale	(20,076)	–
Proceeds on sale of hotel investment	10,775	–
Purchase of fixed assets	(19,123)	(15,884)
Other assets	(5,465)	(5,459)
Cash used in capital investments	(37,557)	(37,754)
Dividends	(2,207)	(2,043)
Decrease in cash	(3,343)	(24,361)
Increase (decrease) in cash due to unrealized foreign exchange gain (loss)	74	(219)
Cash and short-term investments less bank indebtedness, beginning of year	(17,346)	7,234
Cash and short-term investments less bank indebtedness, end of year	$ (20,615)	(17,346)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Retained Earnings

Years ended December 31, 1990 and 1989 ($000's)	1990	1989
Retained earnings, beginning of year	$ 58,769	45,776
Net earnings for the year	17,322	15,036
Dividends	(2,207)	(2,043)
Retained earnings, end of year	$ 73,884	58,769

See accompanying notes to consolidated financial statements.

December 31, 1990 and 1989

(Dollar amounts are in thousands except per share amounts)

1. **Summary of Significant Accounting Policies:**

(a) Basis of presentation:

The Corporation is incorporated under the Business Corporations Act, 1982 of the Province of Ontario and is engaged through its subsidiaries in the management of and the investment in hotel and resort properties. At December 31, 1990 the Corporation managed 23 hotels, had an equity interest in 12 of these and had 10 hotels under development. The Corporation earns management and other related fees under long-term management contracts based generally on a percentage of total revenues of the managed hotels. A number of the Corporation's management contracts are subject to certain performance tests which if not met could allow a contract to be terminated prior to its maturity. The Corporation generally has various rights to cure any such defaults to avoid termination.

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))*; except for subsidiaries and hotel joint ventures subject to formal plans of disposal, in which case the subsidiary or joint venture is not consolidated and is carried at the lower of the equity carrying value and net realizable value. At December 31, 1990, the Corporation consolidates four leased or wholly-owned hotel investments, proportionately consolidates two joint venture investments and accounts for one hotel joint venture, subject to a formal plan of disposal, on the equity basis.

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 the estimated recoverable amount.

(c) Translation of foreign currencies:

Foreign currency balances and transactions are translated into domestic currencies 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 designated as revenue hedges, which are translated at the exchange rate in effect at the date of designation, and fees 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. Foreign currency forward contracts which are not hedges are marked to market values, and the resulting gains or losses are included in the determination of income.

The financial statements of foreign investments, which are designated as self-sustaining operations, are translated into Canadian dollars 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, and is charged to operations as consumed.

(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.

(f) Intercompany management fees:

Included in the consolidated statements 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 consolidated statements of operations. Consolidated revenues are calculated as the sum of fee revenues and revenues from hotel ownership less inter-segment fee expenses included in the expenses of Hotel Ownership Operations.

2. Receivables:

	1990	1989
Trade accounts	$ 10,165	12,086
Receivable from hotel partnerships, affiliates and managed hotels	14,719	10,295
Other	9,247	10,679
	$ 34,131	33,060

3. Notes and Mortgages Receivable:

	1990	1989
Due from directors, officers and employees, non-interest-bearing mortgages	$ 2,933	9,217
Unsecured loans to managed hotels at rates varying between prime + ½% to prime + 1% including US$8,598 (1989 – US$3,350)	13,272	7,537
Secured loans to managed hotels, at rates varying between LIBOR + 1% and prime + ½%, US$9,659 (1989 – US$9,489)	11,221	10,989
	$ 27,426	27,743

Notes and mortgages receivable from directors, officers and employees in the amount of $5,098 were sold December 28, 1990 subject to a guarantee given to the buyer in the amount of $510.

Notes and mortgages in the amount of $17,917 mature in 1993. The majority of the remaining notes and mortgages receivable mature after 1995.

4. Hotel Investments:

(a) Hotel investments and managed hotels:

The Corporation's investment in hotel partnerships and managed hotels of $22,103 (1989 – $16,877) represents capital investments, advances and unamortized development costs for hotels which are carried on a cost basis.

(b) Hotel joint ventures:

Included in the consolidated financial statements is the Corporation's proportionate share of hotel joint venture assets of $19,768 (1989 – $63,306), liabilities of $7,134 (1989 – $44,913), revenues of $35,184 (1989 – $54,035) and net profit before taxes of $7,517 (1989 – $5,001).

5. Fixed Assets:

	1990 *(Note 11)*	1989
Land	$ 1,000	7,165
Buildings	6,991	44,879
Furniture, fixtures and equipment	63,587	56,356
Leasehold interests and improvements	60,851	49,940
	132,429	158,340
Accumulated depreciation and amortization	(44,171)	(41,169)
	88,258	117,171
Operating equipment	7,763	7,981
	$ 96,021	125,152

6. Long-Term Debt:

	1990	1989
Demand loans:		
US$8 million is secured by a first mortgage on the Corporations's head office building; the balance is secured by a first floating charge debenture over virtually all of the Corporation's Canadian assets	$ 28,000	–
Term loans:		
Payable in U.S. dollars – $4,500, interest at LIBOR + 1%, due 1990	–	5,211
Mortgages:		
Payable in U.S. dollars – $22,500, interest at LIBOR plus 1⅝%, secured by fixed charges on a specific property, due 1992 *(note 11(b))*	–	26,055
Secured by fixed charges on specific properties		
– due in 1993, interest at the lesser of 15% of principal and 25% of defined profits	3,000	3,000
– due in 1990, interest at bank prime plus ½%	–	4,933
Other long-term liabilities, including capital leases	9,128	9,497
	40,128	48,696
Due within one year	913	10,971
	$ 39,215	37,725

A portion of the Corporation's demand loans has been classified as long-term because the Corporation issued special warrants on the Corporation's Subordinate Voting Shares for $28,000 pursuant to an underwriting agreement dated January 31, 1991. The proceeds of the issue will be used to repay these loans *(note 13(a))*.

The annual principal repayments of long-term debt (other than the demand loans discussed in the preceding paragraph) are as follows:

1991	$ 913
1992	540
1993	3,544
1994	548
1995	552
Subsequent to 1995	6,031
	$ 12,128

7. **Interest:**

Interest expense, net is comprised as follows:

	1990	1989
Interest on long-term debt *(note 11(b))*	**$ 841**	4,912
Other interest expense	**4,276**	2,625
Interest income	**(3,494)**	(2,967)
Interest capitalized	**(415)**	–
Interest expense, net	**$ 1,208**	4,570

8. **Shareholders' Equity:**

(a) Capital Stock:

Authorized:

5,562,566	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 winding up of the Corporation. MVS 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 winding up of the Corporation.
290,000	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 winding 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 2.14286 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, issuable in series, non-voting and ranking prior to all other shares with respect to payment of dividends and distributions on liquidation or winding up of the Corporation. The dividend rate, redemption and conversion rights, if any, are to be determined prior to issuance by the directors of the Corporation.
Unlimited	Second Preference Shares, issuable in series, non-voting and ranking prior to all other shares except the First Preference Shares with respect to payment of dividends and distributions on liquidation or winding up of the Corporation. The dividend rate, redemption and conversion rights, if any, are to be determined prior to issuance by the directors of the Corporation.

Issued and fully paid:

	MVS		SVS		EPS		
	Shares	Stated Value	Shares	Stated Value	Shares	Stated Value	Total
December 31, 1988	5,562,566	$61	14,209,274	$34,700	198,000	$2,970	$37,731
Redeemed for cash	–	–	–	–	(8,000)	(120)	(120)
Converted	–	–	82,702	579	(38,600)	(579)	–
Options exercised for cash	–	–	120,000	456	–	–	456
December 31, 1989	5,562,566	61	14,411,976	35,735	151,400	2,271	38,067
Redeemed for cash	–	–	–	–	(2,000)	(30)	(30)
Converted	–	–	61,281	429	(28,600)	(429)	–
Options exercised for cash	–	–	52,500	291	–	–	291
December 31, 1990	5,562,566	$61	14,525,757	$36,455	120,800	$1,812	$38,328

The number of MVS and SVS (and all related per share amounts) have been adjusted to reflect the two-for-one stock split which became effective January 8, 1990, as approved at the Special Meeting of Shareholders (the "Meeting") on December 19, 1989.

1,000,000 SVS were previously reserved for issuance at $6.30 per share under an option granted to the chief executive officer of the Corporation. At the Meeting, shareholders approved a Long-term Incentive Plan whereby these options were cancelled in return for the right to receive a special payment on an arm's-length sale of control of the Corporation ("the sale"). The first portion of the payment will be an amount equal to 5% of the aggregate amount received by all shareholders after deduction of a base price of $6.30 per share sold. The officer is also entitled to an additional payment equal to 5% of the aggregate amount received by all shareholders after deduction of a base price of $20.84 per share sold if the per share consideration received by holders of SVS on the sale is equal to or greater than 125% of the weighted average trading price of SVS in board lots traded on The Toronto Stock Exchange during the period commencing six months and ending one month prior to the first public announcement of the sale. The first portion of the payment was fully vested on December 31, 1989. The additional payment vested as to 20% on each of December 19, 1989 and 1990 and provided the sale has not occurred, will vest by an additional 20% each year thereafter until fully vested on December 19, 1993. The right to receive the two payments may be transferred among members of the officer's family, their holding companies and trusts. In the event of the death of the officer, the right to the payments passes to his legal or personal representatives, heirs or permitted assigns.

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 are not transferable, have a term of ten years, and become 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 retirement, incapacity or death of the director, executive or employee or a change in control of the Corporation. As at December 31, 1990 there were options outstanding on 1,481,000 SVS at prices varying between $7.00 and $17.97 per share.

(b) Earnings per share:

	Year ended December, 31, 1990
Fully diluted earnings per share	**$ 0.84**
Pro forma earnings per share after giving effect to the issuance of 2,000,000 Special Warrants on February 14, 1991, convertible into one SVS for each Special Warrant, for net proceeds of $28,000 *(note 13(a))*	**$ 0.89**
Pro forma fully diluted earnings per share *(note 13(a))*	**$ 0.87**

(c) Equity adjustment from foreign currency translation:

The change in the equity adjustment from foreign currency translation is primarily caused by changes in the exchange rates used to translate the Corporation's net investment in self-sustaining foreign operations.

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

	1990	1989
Working capital	**$ (1,721)**	(1,330)
Fixed assets, net	**(7,838)**	(9,066)
Other assets	**687**	(609)
Long-term debt	**4,234**	3,144
Deferred taxes	**–**	80
Total equity adjustment from foreign currency translation	**$ (4,638)**	(7,781)

9. Income Taxes:

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

	1990	1989
	%	%
Combined basic Canadian federal and provincial income tax rate	**41.5**	41.5
Lower foreign income tax rates	**(11.9)**	(13.8)
Earnings not subject to tax	**(7.8)**	(3.5)
Other	**–**	(0.7)
	21.8	23.5

10. Commitments and Contingencies:

(a) Lease commitments:

The Corporation has entered into lease agreements for certain hotel properties for periods up to the year 2040. The lease terms may be extended under renewal options.

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

1991	$ 11,849
1992	11,849
1993	11,885
1994	11,936
1995	11,936
Subsequent to 1995	169,850
	$ 229,305

(b) Contingencies:

(i) The Corporation is contingently liable for all the obligations of certain of the partnerships and joint ventures in which it has a direct interest *(note 4)*. However, against this contingent liability the Corporation would have a claim upon the assets of the partnerships and joint ventures and their partners.

(ii) The Corporation is contingently liable for those obligations identified as (a), (b) and (c) below in connection with the transfer in February, 1986 of certain assets and liabilities to a company which is owned by certain shareholders of the Corporation:

(a) notes and mortgages payable in the aggregate amount of $28,150 as at December 31, 1990;

(b) guarantees and undertakings given by the Corporation related to certain of the transferred assets aggregating $4,091 as at December 31, 1990;

(c) any other contingent liabilities related to the transferred assets. The Corporation is not aware of any other contingent liabilities related to the transferred assets.

The company has indemnified the Corporation for any payments made by the Corporation in respect of these contingent liabilities.

The book value of the company as at December 31, 1990 is greater than $17,000 in excess of the liabilities disclosed above.

(iii) In the ordinary course of its business, the Corportion is named as defendant in legal proceedings resulting from incidents taking place at hotels owned or managed by it. The Corporation maintains comprehensive liability insurance and also requires hotel owners to maintain adequate insurance coverage. The Corporation believes such coverage to be of a nature and amount sufficient to ensure that it is adequately protected from suffering any material financial loss as a result of such claims.

11. Disposals of Investments in Hotel Joint Ventures:

(a) Ottawa hotel:

On March 8, 1990, the Corporation sold its interest in the Ottawa hotel and recognized a gain on this disposal of $2,240. In addition, the Corporation collected incentive fees of $2,932 which had not previously been included in income.

(b) Assets held for resale:

The Corporation has identified certain assets to be disposed of, as follows:

Investment in the Four Seasons Biltmore, Santa Barbara hotel*	$ 21,529
Investment in a freehold interest	11,036
	$ 32,565

*Effective March 1, 1990, the Corporation implemented a formal plan to dispose of its interest in the Four Seasons Biltmore, Santa Barbara hotel. The Corporation has accounted for this decision by discontinuing the recognition of its proportionate share of the results of operations of the hotel effective March 1, 1990, and de-consolidating its investment in the partnership that owns the hotel. The Corporation's investment in the partnership is now carried at the lower of its net equity carrying value as at March 1, 1990 and its net realizable value.

The Corporation continues to charge the hotel for normal management and other fees specified in the management agreement with the partnership.

The Corporation has initiated a program to sell the hotel; however, in light of current economic conditions in the real estate and hotel industries, it is uncertain that a sale will be consummated in 1991.

It is contemplated that the Corporation will continue to manage the hotel upon sale.

As at December 31, 1990 the Corporation's investment in the partnership was comprised of:

Working capital	$ 6,304
Fixed assets	41,348
Long-term debt payable (US$22,500) *(note 6)*	(26,123)
Net investment	$ 21,529

Revenues from the hotel included in Hotel Ownership consolidated revenues for the two months ended February 28, 1990 are $1,678 and revenues for the ten months ended December 31, 1990 excluded from Hotel Ownership consolidated revenues are $11,648.

In 1990, the joint venture partner announced that it was experiencing financial difficulties and began negotiations with its lender. As a result, the partner's lender has advised the Corporation that it will be acquiring the partner's interest in the hotel. The Corporation and the partner's lender have agreed to certain amendments to the partnership agreement which will limit the participation of the partner's lender in the proceeds of any sale of the hotel. In return, the Corporation has agreed to fund all operating and capital requirements of the hotel. The parties have also agreed that the Corportion will make all decisions relating to the partnership and the hotel and that the Corporation is entitled to earn an incentive fee in connection with management of the hotel.

12. Segmented Information:

	1990	1989
Revenues:		
United States	$ 89,191	96,642
Canada	74,135	82,675
United Kingdom	24,830	28,470
Total consolidated revenues *(note 1(f))*	$ 188,156	207,787
Operating profit:		
United States	$ 6,770	9,323
Canada	8,643	5,675
United Kingdom	7,956	9,238
Total operating profit	$ 23,369	24,236
Identifiable assets:		
United States	$ 124,685	111,651
Canada	98,493	106,480
United Kingdom	18,687	12,418
Total assets	$ 241,865	230,549

13. Subsequent Events:

(a) Equity issue:

Pursuant to an underwriting agreement dated January 31, 1991, effective February 14, 1991, the Corporation issued and sold 2,000,000 Special Warrants at a price of $14.65 per Special Warrant for gross proceeds of $29,300. Each Special Warrant entitles the holder to receive one SVS without additional payment and may be exercised at any time during the period expiring on the 6th business day after the day on which a receipt is issued by the last of the securities regulatory authorities in each of the provinces of Canada in which a prospectus is to be filed by the Corporation relating to the SVS to be issued on exercise of the Special Warrants. If a holder of Special Warrants fails to exercise all Special Warrants held by such holder by such time, the Special Warrants will be exercised on behalf of the holder, unless the holder otherwise directs.

If a receipt has not been issued by April 15, 1991, the holders may elect to exercise the Special Warrants and acquire SVS or to surrender the Special Warrants for cancellation and receive repayment of the original issue price plus interest. If either of these options has not been exercised by May 15, 1991 the Special Warrants will be exercised on behalf of the holder, unless the holder otherwise directs. Net proceeds of this issue were $28,000 and will be used to reduce outstanding indebtedness.

(b) Debenture issue:

Pursuant to an underwriting agreement dated February 27, 1991, the Corporation agreed to issue and sell $100,000 of 11.05% Debentures due March 25, 1996. The underwriter's fee and the expenses of the issue, estimated to be $996.5, will be paid by the Corporation out of its general funds. Approximately 30% of the net proceeds will be used to reduce outstanding indebtedness and the balance will be used to fund capital requirements.

(c) Other:

The Four Seasons Resort in Nevis, under development as at December 31, 1990, formally opened February 15, 1991. Effective February 28, 1991 the Corporation ceased to manage the Four Seasons Hotel in Ottawa *(note 11(a))*.

Six-Year Review

for the years ended December 31 (Dollar amounts are in millions except per share amounts)	1990	1989	1988	1987	1986	1985	5-year Annual Compound Growth Rate
Summary of Operations							
Revenues under management	$ 666.1	634.3	603.4	584.3	509.3	441.0	8.6%
Consolidated revenues	$ 188.2	207.8	228.4	216.7	194.7	164.9	2.7%
Management operations E.B.I.T.*	$ 13.6	11.5	14.1	12.8	12.8	10.6	5.1%
Ownership operations E.B.I.T.*	$ 9.8	12.7	14.0	12.2	10.2	3.2	25.0%
Total E.B.I.T.*	$ 23.4	24.2	28.1	25.0	23.0	13.8	11.0%
Net interest expense	$ 1.2	4.6	7.4	5.7	4.8	6.4	
Tax rate	21.8%	23.5%	36.7%	41.5%	47.5%	51.4%	
Net income before extraordinary items	$ 17.3	15.0	13.1	11.3	9.5	3.5	41.0%
Changes in Financial Position							
Funds generated by operations	$ 26.2	26.7	25.4	23.9	22.9	14.5	12.6%
Mortgages and long-term receivables	$ 1.7	(11.5)	(4.7)	(3.0)	(4.5)	(6.1)	
Hotel and other investments	$ (5.4)	(4.9)	(1.2)	(0.2)	(1.1)	(2.3)	
Assets held for resale	$ (20.1)	–	–	–	–	–	
Sales (purchases) of hotels	$ 10.8	–	39.8	(40.1)	0.8	6.5	
Capital expenditures	$ (19.1)	(15.9)	(26.2)	(11.4)	(8.7)	(13.8)	
Depreciation and amortization	$ 8.1	8.7	8.4	7.5	7.2	8.1	
Capitalization and returns							
Debt, net of cash	$ 60.7	66.0	38.6	72.4	28.5	66.1	
Shareholders' equity	$ 112.4	93.8	85.1	45.3	44.0	41.9	21.8%
Debt-to-equity ratio, net of cash	0.5	0.7	0.5	1.6	0.7	1.6	
Return on equity ratio	15.4	16.0	23.3	24.9	21.7	11.1	
Per share data**							
E.B.I.T.D. per share***	$ 1.56	1.66	1.85	1.65	1.56	n.a.	
Earnings per share, before extraordinary items – basic	$ 0.86	0.76	0.67	0.58	0.50	0.27	26.0%
Earnings per share, before extraordinary items– fully diluted	$ 0.84	0.74	0.63	0.55	0.47	0.27	25.4%
Cash dividend per share	$ 0.11	0.11	0.10	0.08	0.08	n.a.	8.5%
Book value per share	$ 5.56	4.72	4.32	2.30	2.27	n.a.	25.0%
Other Data**							
Dividend yield	0.69%	0.52%	0.78%	0.52%	0.40%	n.a.	
Market price at year-end	$ 16.00	21.13	12.50	8.00	9.44	n.a.	14.2%
Common stock outstanding (millions)	20.1	19.9	19.7	19.7	19.4	n.a.	
Market capitalization (millions)	$ 323.2	419.8	246.0	157.6	182.9	n.a.	15.3%
Interest coverage	19.4	5.3	3.8	4.4	4.7	2.1	
Available rooms	7,400	7,050	6,705	7,270	6,995	6,143	
Employees	10,700	10,300	9,900	10,000	9,000	7,000	

**Earnings before interest and taxes*

***All share and per share data reflect a two-for-one stock split in January 1990*

****Earnings before interest, taxes and depreciation*

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