# 1991 Annual Report

Four Seasons
Hotels • Resorts

## Company Profile

Four Seasons Hotels and Resorts 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. Elegant appointments, attention to individual preferences, and caring personal service are hallmarks of Four Seasons.

The income of Four Seasons is derived partly from equity investments in 14 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 Company's strategic objective has been to concentrate on developing the management segment of the business.

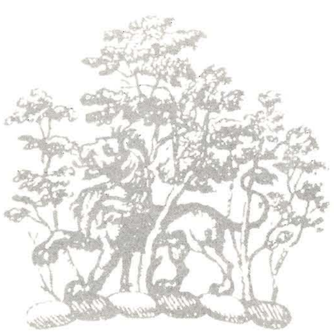
Having established a network of 23 hotels and resorts in North America, the Caribbean, London, England, and Tokyo, Japan, Four Seasons is now focusing on expanding its presence in major international cities and resort destinations. New urban properties are under development in Singapore, Mexico City and Paris. New resort properties are being developed in California and Hawaii.

Expansion into international markets will allow Four Seasons to better serve the travel needs of its existing North American customer base. At the same time, the Company will introduce customers in these new markets to the Four Seasons product, attracting new international business travellers to Four Seasons hotels and resorts in North America.

## Contents

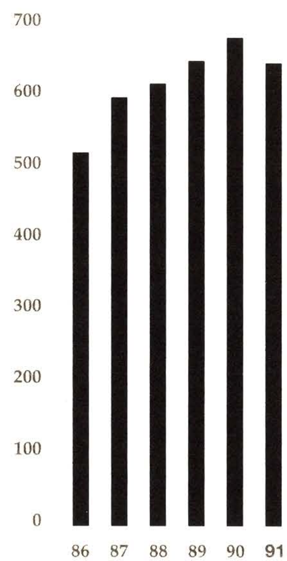
# *Financial Highlights*

| *($ in millions except for per share amounts)* | **1991** | 1990 | 1989 |
|---|---|---|---|
| Total revenues of all managed hotels | **$ 631.0** | 666.1 | 634.3 |
| Net earnings before extraordinary items | **$ 2.8** | 17.3 | 15.0 |
| Earnings per share before extraordinary items (after stock split of January 8, 1990) | **$ .13** | .86 | .76 |
| Funds generated from operations | **$ 11.2** | 26.2 | 26.7 |
| Debt-to-equity ratio, net of cash | **.86** | .54 | .70 |



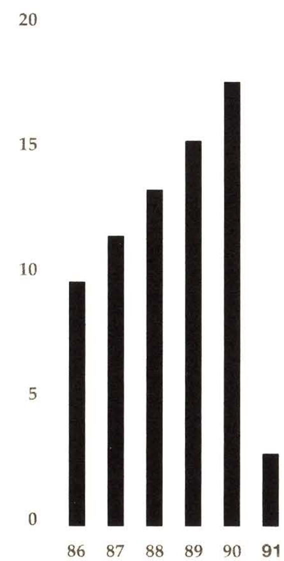
**Revenues under management**

*($ millions)*



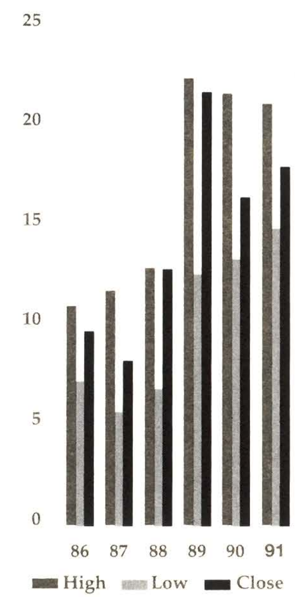

**Net earnings**

*($ millions)*



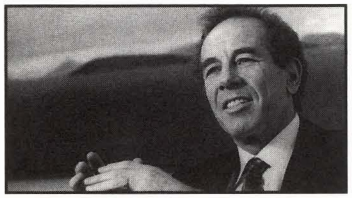

**Stock price range**

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



The extreme market conditions of 1991 presented Four Seasons and its employees with significant challenges. Over the past year, the Company's primary goal has been to deal with the current economic downturn as aggressively and effectively as possible while continuing to build for the future. Although Four Seasons did not achieve its profit objectives for 1991, it has succeeded in meeting other essential goals that will contribute to improved performance in the coming year and beyond.

## Strength in Adversity



## Realizing Key Objectives

Years of experience have enabled Four Seasons to assemble an exceptionally skilled and dedicated staff. The Company's vast network of highly-trained, service-oriented individuals is one of its greatest strengths. In 1991, Four Seasons achieved its goal of maintaining the most motivated employee group in the industry.

At the same time Four Seasons responded promptly to market conditions with a vigorous and comprehensive cost-control program. The Company was able to reduce operating costs without compromising its standards or negatively affecting the guest experience.

Over the years, Four Seasons has earned a reputation for excellence that is unmatched in the hospitality industry. The strength of the Four Seasons' name provides the Company with a powerful competitive advantage. Research shows that in 1991, Four Seasons succeeded in broadening recognition of its brand name and enhancing its reputation for superior quality, exceptional service and good value.

Four Seasons also moved closer to becoming a global company with the opening of two new strategic properties. The Four Seasons, Tokyo marked the Company's entrance into the rapidly growing Asian marketplace. The Four Seasons Resort, Nevis established the Company's presence in the Caribbean and brought Four Seasons nearer to its goal of becoming a major operator of deluxe resorts.

## Focus on the Future

While severe recessionary conditions demanded and received Four Seasons immediate attention, the Company has never lost sight of its long-term goals and aspirations. Four Seasons continues to pursue ongoing strategies with the aim of achieving world-wide dominance of the deluxe hotel market. It is this commitment to long-term objectives that has brought Four Seasons through thirty years of change and it is this unwavering resolve that will continue to guide the Company.

Prospects for the immediate future remain somewhat uncertain. Caution in travel and entertainment spending is expected to continue and a recovery in the North American economy is projected to be slow. Four Seasons' strategic objective for 1992 is to improve the bottom line without jeopardizing future prospects. The Company will continue to respond aggressively to short-term market conditions while carrying out its judicious long-term plans.

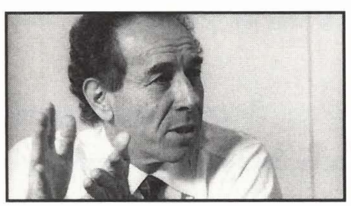
## Conclusion

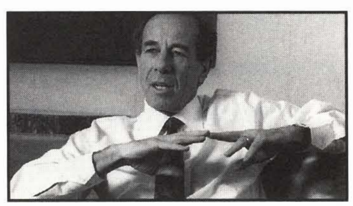
It is important to recognize that current recessionary conditions are part of an inevitable cycle of economic change. Four Seasons has experienced market downturns in the past, and is weathering the current downturn with confidence and determination. While 1991 has been a most formidable year, Four Seasons has out-performed its key competitors and strengthened its leadership position.

This measure of success can be directly attributed to Four Seasons' exceptional staff. It is their resourcefulness, skill, and fervent commitment to excellence that has enabled the Company to meet the challenges of the past year. It is with great pride that I thank Four Seasons' employees for their untiring efforts and unfailing optimism in such a difficult time.

Isadore Sharp

*Chairman and President*





Four Seasons Hotels and Resorts has emerged from 1991 in a position of relative strength. Over the past year, the Company has worked to increase its market share, heighten awareness of its brand name, and cultivate its competitive advantage in every area.

In reviewing Four Seasons' operating results for 1991, it is necessary to take extreme market conditions into account. The combined impact of the Gulf War, a continuing recession, and over-capacity in the North American hotel market resulted in the worst year the travel and hospitality industry has experienced in decades.

Four Seasons has not been immune to these negative business conditions. Net earnings for 1991 are down significantly. However, in the midst of this highly volatile economic environment, Four Seasons has succeeded in maintaining its leadership position. The Company has dealt with short-term market pressures as aggressively as possible while proceeding steadily forward on its well-defined, long-term course of action.

## Financial Strength

Four Seasons has the benefit of being a firmly established organization with a network of 23 hotels in major urban centres and resort destinations world-wide. The Company possesses a superior group of experienced and dedicated employees, a loyal customer base, and an unparalleled reputation for quality, service and value.

A conservative growth strategy and cautious financial management have placed Four Seasons in a stable position. Throughout the year, Four Seasons share price consistently outperformed the Standard and Poors Lodging Index. In early 1991, the Company raised $129.3 million through public debt and share offerings. The proceeds increased the Company's liquidity and were used, in part, to repay short-term debt. At .86:1 Four Seasons' debt-to-equity ratio is below its target of 1:1, and the Company's cash position remains strong.

Over the course of 1991, Four Seasons aggressively pursued cost-control initiatives with the aim of achieving permanent reductions in operating costs. The emphasis has been on maximizing efficiency and creative problem-solving. The Company has succeeded in reducing over-head costs without negatively affecting the guest experience in any way.

## Building on Success

Four Seasons' brand name is, without a doubt, its greatest asset. Customers have come to regard the Four Seasons name as an unspoken guarantee of superior quality, exceptional service, and good value. Research shows that between 1989 and 1991, Four Seasons strengthened its leadership position in the U.S. in each of these essential areas. In addition, Four Seasons leads the way in ability to reliably satisfy its customers from hotel to hotel. Consistency in service and experience is the crucial element in building and maintaining Four Seasons' reputation.

While costs have been aggressively addressed, Four Seasons has been careful to uphold the integrity of its product. As a result, there exists today an even greater distinction between Four Seasons and its competitors. As the industry trend in cutting services and standards persists, this marked distinction will grow.

The personal brand of service that customers value, and that Four Seasons consistently delivers, is the product of a long-term investment in its personnel. Four Seasons employees share a wealth of experience, an unwavering commitment to service excellence, and a powerful ability to anticipate and fulfill the needs of customers. Four Seasons has resisted the trend to cut training and development programs and has retained the most skilled employee group in the industry. These individuals, so vital to the Company's success, remain loyal and committed to achieving the shared goals of Four Seasons.

*Left to right:*

John Sharpe
*Executive Vice-President*

Christopher Wallis
*Senior Vice-President, Design and Construction*

James Brown
*Senior Vice-President, Operations*

Roger Garland
*Executive Vice-President*

## Awards and Recognition

In 1991, Four Seasons and its staff were again honoured by customers and awards groups that define standards and monitor performance.

- The Mobil Guide's highest endorsement, its Five-Star Award, went to three Four Seasons hotels, more than any other hotel company. The Four Seasons, Chicago was the only new hotel to be so honoured in 1991.
- The American Automobile Association presented Four Seasons with eleven of its illustrious Five Diamond Awards in 1992. This marks the eleventh consecutive year that Four Seasons has received substantially more of the coveted awards than any other hotel company.
- Institutional Investor magazine included ten Four Seasons establishments on its prestigious list of the top 75 hotels in the world – a distinction unmatched by any other hotel company.
- Condé Nast Traveler Reader Survey ranked no less than six Four Seasons establishments among the top ten hotels in the United States.

## Global Expansion

At Four Seasons Hotels and Resorts, responsible growth is more than an astute business strategy, it is a philosophy. The Company's ongoing commitment to this philosophy has resulted in fundamental stability and strength. Four Seasons has secured its presence in North America with a solid network of hotels and resorts in major centres across the continent. Restrictions on capital in North American markets will make it extremely difficult, if not impossible, for competitors to finance developments in key cities in the forseeable future, giving Four Seasons a growing competitive advantage.

With a North American base firmly entrenched, Four Seasons has focused on global expansion. The long-term strategy is to position Four Seasons in key markets around the world. This will enable the Company to serve the international travel needs of its North American customer base. At the same time, Four Seasons will acquaint new markets with its brand name and product, and draw new customers to its North American hotels and resorts.

January 16, 1992 marked the opening of the Four Seasons, Tokyo – a milestone in the Company's history. Strategically located in Japan's historic Chinzan-so Gardens, the hotel has established the Company's presence in Asia, and has generated valuable brand name exposure in the world's fastest-growing market.

## Urban Properties Under Development

The Four Seasons, Singapore is under construction and, after earlier delays, is now proceeding on schedule. Designed to be the finest hotel in its market, the Singapore property is slated to open in 1993.

The Four Seasons, Mexico City is currently under construction. This exceptionally well-located and thoughtfully designed hotel will now open in 1994.

The development of Four Seasons' new urban property in Paris, France has been temporarily delayed, and is now expected to open in 1995. This postponement is due to unforeseen changes in zoning and regulatory approvals to the entire re-development area within which the hotel is located.

Four Seasons is now investigating expansion opportunities in key business centres in Eastern Europe, Western Europe, Asia, and South America in primary markets that are not burdened with oversupply and where availability of capital is less restricted by the current economic environment.

*Left to right:*

David Mongeau
*Senior Vice-President*

Douglas Ludwig
*Senior Vice-President, Finance*

John Young
*Senior Vice-President, Human Resources*

John Richards
*Senior Vice-President, Marketing*

## Resort Properties Under Development

The creation of Four Seasons resorts was based on a simple, yet unique formula: provide the same high levels of quality and personal service found in Four Seasons hotels in select resort destinations around the world.

Nowhere is this formula more evident than in the newest Four Seasons resort located on the island of Nevis in the West Indies. Carefully crafted to blend with the island's natural surroundings, the resort stands as a testament to mindful planning and regard for the environment. Since its opening in early 1991, The Four Seasons Resort, Nevis has joined the Four Seasons Resort, Maui in ranking among the finest resorts in the world.

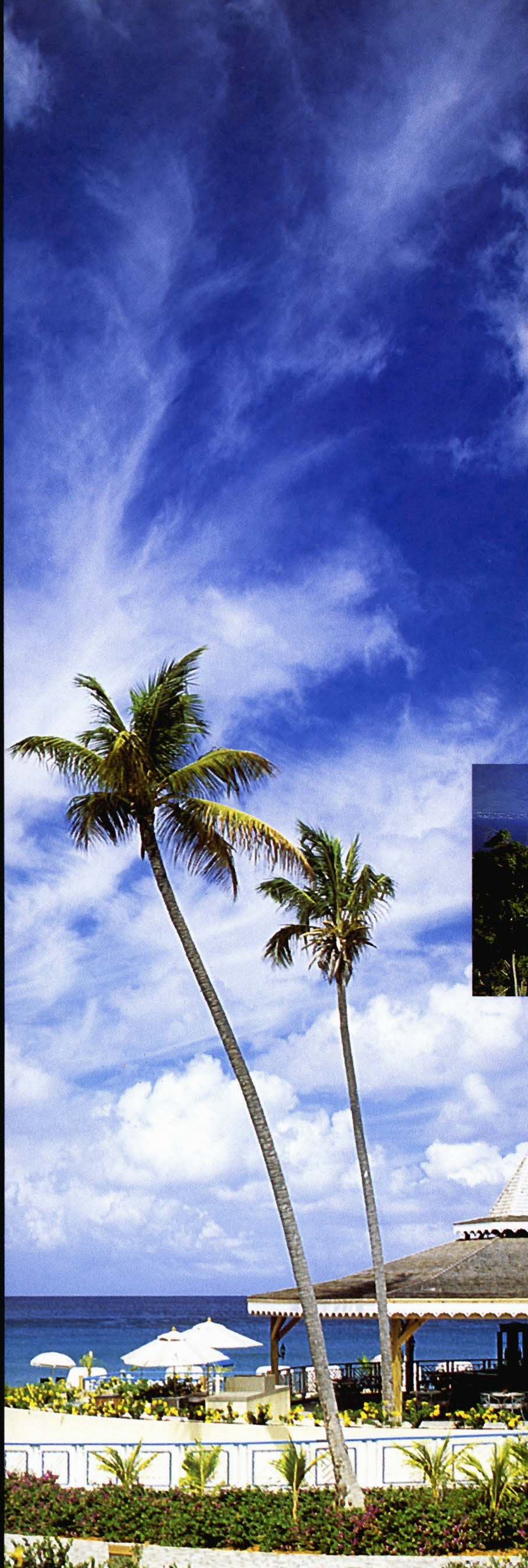
Development of five previously announced resort properties has been affected by disruptions in the capital markets and difficulties in concluding the financing of these projects. The ownership of the North Kona, Hawaii project has now been restructured and construction is about to resume. Completion of the Four Seasons Aviara at Carlsbad, California has been temporarily delayed pending arrangement of financing. Four Seasons resorts in Puerto Rico, Scottsdale, and Ko Olina have been delayed indefinitely due to restrictive capital markets.

Ultimately, these difficulties will be resolved and Four Seasons will emerge with a solid network of resort properties in desirable destinations.

As always, Four Seasons' global expansion will be guided by an overriding philosophy of planned, responsible growth. The Company will continue to seek out opportunities, embracing only those which build upon the long-term strength and success of Four Seasons Hotels and Resorts.

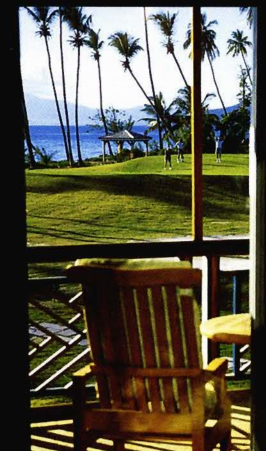


The Four Seasons Hotel Tokyo marries the best of North American and Japanese influences in perfect harmony. Opened in January 1992, this strategic hotel promises to cultivate a new customer base and introduce international travellers to Four Seasons' inimitable style.



# *Four Seasons Resort Nevis*

February 1991 marked the successful opening of the Four Seasons Resort Nevis. It soon earned the distinction as the pre-eminent luxury resort in the Caribbean, and has garnered a wealth of publicity, including praise for Four Seasons' sensitive entry to the island.





Urban sophistication meets old-world gentility in the Ritz-Carlton Chicago. An extensive two-year renovation of the hotel was completed in 1991. Together with the Four Seasons Hotel Chicago, the Ritz-Carlton dominates the top of the market in this vibrant metropolis.

A favourite of international business travellers, The Pierre carries a name and reputation in its own right.

A careful and exacting restoration continues on this charming cosmopolitan landmark, bringing Four Seasons standards to life in a traditional European-style hotel.

# Financial Review

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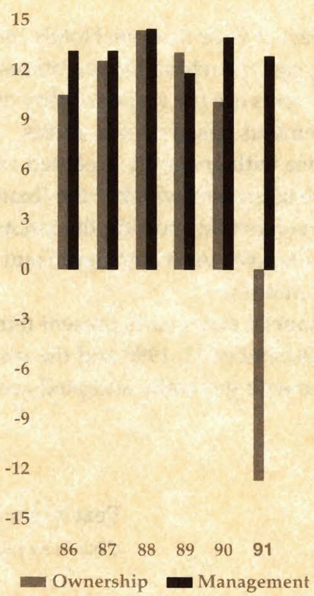
**Earnings before interest and taxes**

*($ millions)*



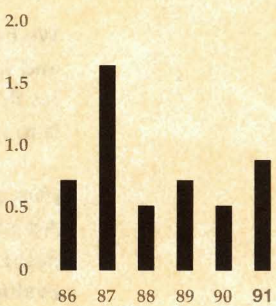

**Quarterly net earnings**

*($ millions)*


**Debt-to-equity ratio**

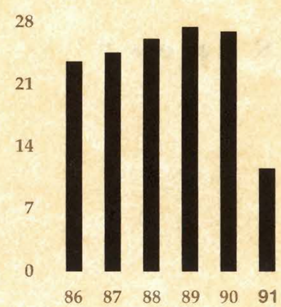
*Long-term target:*

*1:1 or better*




**Funds generated from operations**

*($ millions)*



## 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 auditors appointed by the shareholders of the Corporation, has examined the financial statements in accordance with generally accepted auditing standards.

Isadore Sharp
*Chairman and President*

H. Roger Garland
*Executive Vice-President*

## Auditors' 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, 1991 and December 31, 1990 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, 1991 and December 31, 1990 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, 1992
(except for note 14, for which
the date is March 31, 1992)

Peat Marwick Thorne
*Chartered Accountants*

# Consolidated Statements of Operations

| Years ended December 31, 1991 and 1990 (*$000's except for per share amounts*) | 1991 | 1990 |
|---|---|---|
| **Consolidated revenues (note 1(f))** | $ 166,675 | 188,156 |
| **HOTEL MANAGEMENT OPERATIONS** | | |
| **Total revenues of all managed hotels (note 1(a))** | $ 631,023 | 666,092 |
| **Fee revenues** (note 1(f)) | $ 34,849 | 37,820 |
| **Expenses** | | |
| General and administrative | 20,763 | 22,820 |
| Depreciation and amortization | 1,561 | 1,399 |
| Earnings before interest and taxes | 12,525 | 13,601 |
| **HOTEL OWNERSHIP OPERATIONS** | | |
| **Revenues** | 137,365 | 157,214 |
| **Expenses** | | |
| Cost of sales and expenses | 134,924 | 136,069 |
| Fees to Hotel Management Operations (note 1(f)) | 5,539 | 6,878 |
| Depreciation and amortization | 9,269 | 6,739 |
| Gain on sale of hotel (note 12) | — | 2,240 |
| Earnings (loss) before interest and taxes | (12,367) | 9,768 |
| **Earnings before interest and taxes** | 158 | 23,369 |
| Interest, net (note 8(e)) | (40) | 1,208 |
| Earnings before taxes | 198 | 22,161 |
| **Income taxes** (note 10) | | |
| Current (recovery) | (125) | 1,225 |
| Deferred (recovery) | (2,514) | 3,614 |
| | (2,639) | 4,839 |
| **Net earnings** | $ 2,837 | 17,322 |
| **Earnings per share** | $ 0.13 | 0.86 |

*See accompanying notes to consolidated financial statements.*

# Consolidated Balance Sheets

| December 31, 1991 and 1990 *($000's)* | 1991 | 1990 |
|---|---|---|
| **ASSETS** | | |
| **Current assets:** | | |
| Cash and short-term investments | $ 27,689 | 8,087 |
| Receivables (note 2) | 34,123 | 34,131 |
| Inventory | 2,238 | 2,514 |
| Prepaid expenses | 2,972 | 3,517 |
| Total current assets | 67,022 | 48,249 |
| **Notes and mortgages receivable** (note 3) | 54,083 | 27,426 |
| **Investments in hotel partnerships and managed hotels** (note 4(a)) | 26,377 | 22,103 |
| **Assets held for sale** (note 5) | 63,222 | 32,565 |
| **Fixed assets** (note 6) | 107,188 | 96,021 |
| **Other assets** (note 7) | 19,686 | 15,501 |
| | $ 337,578 | 241,865 |
| **LIABILITIES & SHAREHOLDERS' EQUITY** | | |
| **Current liabilities:** | | |
| Bank indebtedness (note 8(b)) | $ 35,859 | 28,702 |
| Accounts payable and accrued liabilities | 35,547 | 40,905 |
| Long-term debt due within one year | 604 | 913 |
| Total current liabilities | 72,010 | 70,520 |
| **Long-term debt** (note 8) | 111,317 | 39,215 |
| **Deferred income taxes** | 14,704 | 19,772 |
| **Shareholders' equity** (note 9): | | |
| Capital stock | 66,913 | 38,328 |
| Contributed surplus | 4,784 | 4,784 |
| Retained earnings | 74,280 | 73,884 |
| Equity adjustment from foreign currency translation | (6,430) | (4,638) |
| Total shareholders' equity | 139,547 | 112,358 |
| **Commitments and contingencies** (note 11) | | |
| Subsequent event (note 14) | | |
| | $ 337,578 | 241,865 |

*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, 1991 and 1990 *($000's)* | 1991 | 1990 |
|---|---|---|
| **CASH PROVIDED BY (USED IN):** | | |
| **HOTEL MANAGEMENT OPERATIONS** | | |
| **Earnings before interest and taxes** | $ 12,525 | 13,601 |
| **Add items not requiring an outlay of funds:** | | |
| Depreciation and amortization | 1,561 | 1,399 |
| Other | 876 | 438 |
| Working capital provided by Hotel Management Operations | 14,962 | 15,438 |
| **HOTEL OWNERSHIP OPERATIONS** | | |
| **Earnings (loss) before interest and taxes** | (12,367) | 9,768 |
| **Add (deduct) items not requiring (providing) an outlay (inflow) of funds:** | | |
| Depreciation and amortization | 9,269 | 6,739 |
| Gain on sale | — | (2,240) |
| Other | (862) | (1,097) |
| Working capital provided by (used in) Hotel Ownership Operations | (3,960) | 13,170 |
| **Interest** | 40 | (1,208) |
| **Current taxes** | 125 | (1,225) |
| Working capital from operations | 11,167 | 26,175 |
| **Change in non-cash working capital applicable to operations excluding current portion of long-term debt** | (4,905) | (6,485) |
| **Cash provided by operations** | $ 6,262 | 19,690 |

*See accompanying notes to consolidated financial statements.*

## Consolidated Statements of Changes in Financial Position

| Years ended December 31, 1991 and 1990 *($000's)* | 1991 | 1990 |
|---|---|---|
| **CASH PROVIDED BY (USED IN):** | | |
| **Operations** | $ 6,262 | 19,690 |
| **Financing** | | |
| Long-term debt, including current portion, issued | 100,000 | 28,551 |
| Long-term debt, including current portion, repaid | (28,721) | (11,074) |
| Issuance of shares (note 9) | 28,585 | 261 |
| Other | (1,118) | (1,007) |
| Cash provided by financing | 98,746 | 16,731 |
| **Capital Investments** | | |
| Notes and mortgages receivable, increase | (29,585) | (14,241) |
| Notes and mortgages receivable, decrease | 1,515 | 15,974 |
| Hotel investments | (3,785) | (5,401) |
| Assets held for sale | (30,766) | (20,076) |
| Proceeds on sale of hotel investment | — | 10,775 |
| Purchase of fixed assets | (21,500) | (19,123) |
| Other assets | (5,838) | (5,465) |
| Cash used in capital investments | (89,959) | (37,557) |
| **Dividends** | (2,441) | (2,207) |
| **Increase (decrease) in cash** | 12,608 | (3,343) |
| **Increase (decrease) in cash due to unrealized foreign exchange gain (loss)** | (163) | 74 |
| Cash and short-term investments less bank indebtedness, beginning of year | (20,615) | (17,346) |
| Cash and short-term investments less bank indebtedness, end of year | $ (8,170) | (20,615) |

## Consolidated Statements of Retained Earnings

| Years ended December 31, 1991 and 1990 *($000's)* | 1991 | 1990 |
|---|---|---|
| **Retained earnings, beginning of year** | $ 73,884 | 58,769 |
| **Net earnings for the year** | 2,837 | 17,322 |
| **Dividends** | (2,441) | (2,207) |
| **Retained earnings, end of year** | $ 74,280 | 73,884 |

*See accompanying notes to consolidated financial statements.*

# Notes to Consolidated Financial Statements

December 31, 1991 and 1990

*(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, 1991 the Corporation managed 22 hotels, had an equity interest in 14 hotels and had 9 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 Corporation consolidates the following wholly-owned hotels:

Four Seasons Hotel, Toronto
Four Seasons Hotel, Vancouver
Four Seasons Minaki Lodge
The Pierre Hotel, New York

The Corporation proportionately consolidates the following hotel joint ventures:

| | |
|---|---|
| Ritz-Carlton Hotel, Chicago | 25% |
| Four Seasons Inn on the Park, London | 50% |

The Corporation accounts for its investment in the following joint ventures and subsidiary at the lower of cost and net realizable value, as these investments were acquired with the intention that they would be disposed of in the foreseeable future:

| | |
|---|---|
| Four Seasons Biltmore Resort, Santa Barbara | 50% |
| Water Tower Associates | 25% |
| Four Seasons Hotel, Austin | 100% |

Investments in six 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 are translated into domestic currencies at the rates of exchange on the balance sheet date for monetary items, and at the rates of exchange on the date of transaction for non-monetary items. Revenues and expenses are translated at the rates in effect during the year, except for 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 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 fees included in the expenses of Hotel Ownership Operations.

**(g) Deferred charges:**
The Corporation defers expenditures directly relating to the negotiation, structuring and execution of new hotel development agreements and management agreements, which typically have an average term of 80 years.

The Corporation also defers expenditures, including salaries and benefits, directly relating to the pre-operating phase of developing its hotel management operations in new geographic areas.

Amortization of deferred development costs is recorded on a straight-line basis over ten years beginning when the related hotel is opened.

## 2. Receivables:

| | 1991 | 1990 |
|---|---|---|
| Trade accounts | **$ 9,822** | 10,165 |
| Receivable from hotel partnerships, affiliates and managed hotels | **14,638** | 14,719 |
| Other | **9,663** | 9,247 |
| | **$ 34,123** | 34,131 |

## 3. Notes and mortgages receivable:

| | 1991 | 1990 |
|---|---|---|
| **Secured loans:** | | |
| Due from directors, officers and employees, non-interest-bearing mortgages | **$ 3,686** | 2,933 |
| To managed hotels, secured by the related hotel property, at rates varying between LIBOR + 1% and 12%, including US $13,750 (1990 - US $9,975) | **15,938** | 11,612 |
| **Unsecured loans:** | | |
| To a hotel under development, interest at US prime + 1%, US $7,428 | **8,594** | — |
| To a company owned by certain shareholders of the Corporation (note 11(b)(ii)), interest at prime + 1/2%, including US$208 | **5,281** | — |
| To managed hotels at rates varying between prime + 1/2% and prime + 2%, including US$11,950 (1990 - US $8,298) | **20,584** | 12,881 |
| | **$ 54,083** | 27,426 |

Notes and mortgages in the amount of $8,747 mature in 1993. The majority of the remaining notes and mortgages receivable have no fixed terms of repayment.

During 1991, the Corporation made loans and advances of approximately $13,341 (1990 - $10,315) to various managed hotels pursuant to its contractual obligations to fund certain hotel renovation programs and operating cash flow requirements. During the year, the Corporation received repayment of $595 (1990 - $9,656) on loans to managed hotels. Loans to managed hotels earn market interest rates and are generally payable out of operating cash flow from the hotel or on the sale or refinancing of the hotel or upon termination of the relevant management agreement. In addition, the Corporation loaned $8,594 (US $7,428) to a hotel under development, to be repaid when construction financing is finalized.

Due to the impact of current economic conditions on the hotel industry, there is some uncertainty regarding the timing and form of realization of these loans. The Corporation believes that these loans can be realized upon a return to more normal market conditions and that a material loss should not occur.

**4. Hotel investments:**

**(a)** The Corporation's investment in hotel partnerships and managed hotels of $26,377 (1990 - $22,103) represents capital investments, advances and unamortized development costs for hotels which are carried on a cost basis.

**(b)** Included in the consolidated financial statements is the Corporation's proportionate share of hotel joint venture assets of $20,965 (1990 - $19,768), liabilities of $8,716 (1990 - $7,134), revenues of $33,387 (1990 - $35,184) and net earnings before taxes of $3,374 (1990 - $7,517).

**5. Assets held for sale:**

The Corporation has the following assets held for sale:

| | 1991 | 1990 |
|---|---|---|
| Investment in the Four Seasons Biltmore, Santa Barbara (i) | $ 23,446 | 21,529 |
| Investment in Water Tower Associates | 12,062 | 11,036 |
| Investment in the Four Seasons Hotel, Austin (ii) | 27,714 | — |
| | $ 63,222 | 32,565 |

**(i) Four Seasons Biltmore, Santa Barbara**
In 1987, the Corporation acquired a 50% interest in the Four Seasons Biltmore, Santa Barbara, with the intention that this investment be sold at an opportune time.

On July 31, 1991, a restructuring of the partnership which owns the hotel and revisions to the management agreement were completed. A new partner assumed the 50% interest held by the previous partner and the Corporation agreed to fund the operating and capital requirements for the hotel in return for a limitation on the new partner's participation in the proceeds on sale of the hotel. The Corporation is authorized to make all decisions on behalf of the partnership and is entitled to earn an incentive fee in connection with the management of the hotel. In connection with this restructuring, the Corporation also received an asset management fee of US$1,105.

Included in the carrying cost of the investment are notes receivable totalling US$9,137 (1990 - US$7,349) which are recoverable in priority upon sale of the property.

The long-term debt of the partnership in the amount of US$49,250 is due on December 31, 1992, and is secured by fixed charges on the hotel property, with interest payable semi-annually at LIBOR + 1 - 5/8%. The Corporation has guaranteed US$6,250 of this debt plus interest costs up to US$8,750.

**(ii) Austin**
On September 27, 1991, the Corporation acquired a 100% freehold interest in the Four Seasons Hotel, Austin, Texas with the intention to sell all or part of its equity position while retaining a long-term management agreement.

Due to the impact of current economic conditions on the real estate and hotel industries, there is some uncertainty regarding the timing of a sale of any of the above assets. The Corporation believes that a sale of any of these assets can be realized upon a return to more normal market conditions and that a material loss should not occur.

**6. Fixed assets:**

| | Gross Book Value 1991 | Accumulated Depreciation/ Amortization 1991 | Net Book Value 1991 | Net Book Value 1990 |
|---|---|---|---|---|
| Land | $ 1,000 | — | $ 1,000 | 1,000 |
| Buildings | 6,984 | 1,032 | 5,952 | 6,146 |
| Furniture, fixtures and equipment | 72,711 | 33,188 | 39,523 | 34,722 |
| Leasehold interests and improvements | 69,312 | 16,553 | 52,759 | 46,390 |
| | $ 150,007 | 50,773 | 99,234 | 88,258 |
| Operating equipment | | | 7,954 | 7,763 |
| | | | $ 107,188 | 96,021 |

**7. Other assets:**

| | 1991 | 1990 |
|---|---|---|
| Deferred development costs (note 1(g)) | **$ 6,348** | 4,590 |
| Goodwill | **3,000** | 3,000 |
| Prepaid hotel rent | **2,019** | 2,118 |
| Cash surrender value of life insurance policies | **4,178** | 3,055 |
| Deferred software development | **1,825** | 1,455 |
| Other deferred costs | **2,316** | 1,283 |
| | **$ 19,686** | 15,501 |

**8. Long-term debt:**

| | 1991 | 1990 |
|---|---|---|
| Unsecured debentures (a) | **$100,652** | — |
| Demand loans (b) | **—** | 28,000 |
| Mortgage (c) | **3,000** | 3,000 |
| Other long-term liabilities, including capital leases | **8,269** | 9,128 |
| | **111,921** | 40,128 |
| Due within one year | **604** | 913 |
| | **$111,317** | 39,215 |

**(a)** The unsecured debentures, due in 1996, were issued for $100,000 at 11.05% on March 25, 1991 and were converted through cross currency interest rate exchange agreements into US$86,994 of which US$43,497 bears interest at 9.37% and US$43,497 bears interest at LIBOR + 0.986%. Interest is payable semi-annually. The Corporation has designated this exchanged debt as a hedge of its net investments in U.S. hotel partnerships and assets held for sale.

**(b)** The Corporation's bank debt is secured by a first floating charge debenture over virtually all of the Corporation's Canadian assets, and US$8 million is secured by a mortgage on the Corporation's head office building. A portion of the demand bank loans have been classified as long-term in 1990 because these loans were repaid in 1991 from the proceeds of an issue of special warrants (see note 9).

**(c)** Secured by fixed charges on a specific property, due in 1993, interest at the lesser of 15% of principal and 25% of defined profits.

**(d)** The annual principal repayments of long-term debt are as follows:

| | |
|---|---|
| 1992 | $ 604 |
| 1993 | 3,626 |
| 1994 | 552 |
| 1995 | 536 |
| 1996 | 101,194 |
| Subsequent to 1996 | 5,409 |
| | $ 111,921 |

**(e)** Interest (income) expense, net is comprised as follows:

| | 1991 | 1990 |
|---|---|---|
| Interest on long-term debt | **$ 7,397** | 841 |
| Other interest expense | **1,305** | 4,276 |
| Interest income | **(6,536)** | (3,494) |
| Interest capitalized on assets held for sale | **(2,206)** | (415) |
| Interest (income) expense, net | **$ (40)** | 1,208 |

**9. 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.

**9. (a) Capital Stock:** *(Cont'd)*

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.

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, less cost of issue (net of tax benefits) of $1,011. Each Special Warrant entitled the holder to receive one SVS without additional payment. The Special Warrants were fully exercised as at March 26, 1991.

Issued and fully paid:

| | MVS | | SVS | | EPS | | |
|---|---|---|---|---|---|---|---|
| | Shares | Stated Value | Shares | Stated Value | Shares | Stated Value | Total |
| 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 |
| Public issue | — | — | 2,000,000 | 28,289 | — | — | 28,289 |
| Converted | — | — | 72,532 | 508 | (33,850) | (508) | — |
| Options exercised for cash | — | — | 37,500 | 296 | — | — | 296 |
| **December 31, 1991** | **5,562,566** | **$ 61** | **16,635,789** | **$ 65,548** | **86,950** | **$ 1,304** | **$ 66,913** |

**9. (a) Capital Stock:** *(Cont'd)*

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 Special Meeting of Shareholders on December 19, 1989, the 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 payment becomes fully vested on December 31, 1993 provided the sale has not occurred. The amount of the payment is determined with reference to the sales price and the trading price of SVS on the Toronto Stock Exchange in the period preceding the sale. The right to receive the payment may be transferred among members of the officer's family, their holding companies and trusts.

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 Toronto Stock Exchange price 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, 1991, there were options outstanding on 1,479,100 SVS at prices varying between $7.00 and $17.97 per share.

**(b) 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.

**10. Income taxes:**

Income tax expense (recovery) shown in the consolidated statements of operations varies from the amount computed by applying the combined Canadian federal and provincial tax rates as follows:

| | **1991** | 1990 |
|---|---|---|
| Earnings before income taxes | **$ 198** | 22,161 |
| Earnings not subject to tax | **(1,383)** | (3,789) |
| Earnings (loss) subject to tax | **$ (1,185)** | 18,372 |
| Expected Canadian federal and provincial statutory tax rate | **41.5%** | 41.5% |
| Expected income tax expense (recovery) | **$ (492)** | 7,624 |
| Reduction in income tax expense due to lower foreign tax rates | **(2,888)** | (2,632) |
| Other | **741** | (153) |
| Income tax expense (recovery) | **$ (2,639)** | 4,839 |

**11. Commitments and contingencies:**

**(a) Lease commitments:**
The Corporation has entered into lease agreements for certain hotel properties for periods up to the year 2025. The lease terms may be extended under renewal options for periods up to the year 2077.

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

| | |
|---|---|
| 1992 | $ 12,288 |
| 1993 | 12,324 |
| 1994 | 12,375 |
| 1995 | 12,375 |
| 1996 | 12,328 |
| Subsequent to 1996 | 82,352 |
| | $ 144,042 |

**(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 the following obligations in connection with the transfer in February, 1986 of certain assets and liabilities to a company (the "company") which is owned by certain shareholders of the Corporation:

(a) notes and mortgages payable in the aggregate amount of $26,265 as at December 31, 1991;

(b) guarantees and undertakings given by the Corporation related to certain of the transferred assets aggregating $2,680 as at December 31, 1991;

(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.

During 1991, the Corporation advanced $5,281 to this company to enable it to meet principal and interest payment obligations on mortgages guaranteed by the Corporation, and to meet the company's operating cash needs. The Corporation also advanced $2,920 to a hotel managed by the Corporation on which the company holds mortgages (which are in default). The company is in the process of foreclosing on these mortgages. These advances to the company and the hotel are not secured and bear interest at prime plus one-half percent. In order to repay these amounts to the Corporation and liquidate the other obligations guaranteed by the Corporation, the company will be required to sell or refinance the majority of its assets. Due to the impact of current economic conditions on the real estate and hotel industries, there is some uncertainty that the company will be able to sell or refinance its assets for amounts sufficient to liquidate all of its obligations; however, the Corporation believes that a sale or refinancing of the company's assets can be realized upon a return to more normal market conditions and that a material loss on its advances to and guarantees on behalf of the company should not occur.

(iii) In the ordinary course of its business, the Corporation 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.

(iv) The Corporation has guaranteed certain obligations of various directors, officers, and employees in the amount of $2,159.

**12. Disposal of investment in hotel joint venture:**

On March 8, 1990, the Corporation sold its interest in the Ottawa hotel and recognized a gain on this disposal of $2,240. In 1990, the Corporation collected incentive fees of $2,932 which had not previously been included in income. Effective February 28, 1991, the Corporation ceased to manage the hotel.

**13. Segmented information:**

| | 1991 | 1990 |
|---|---|---|
| Revenues: | | |
| United States | $ 81,287 | 89,191 |
| Canada | 61,704 | 74,135 |
| United Kingdom | 23,684 | 24,830 |
| Total consolidated revenues (note 1(f)) | $ 166,675 | 188,156 |
| Operating profit: | | |
| United States | $ 681 | 6,770 |
| Canada | (5,473) | 8,643 |
| United Kingdom | 4,950 | 7,956 |
| Total operating profit | $ 158 | 23,369 |
| Identifiable assets: | | |
| United States | $ 203,317 | 124,685 |
| Canada | 113,937 | 98,493 |
| United Kingdom | 20,324 | 18,687 |
| Total assets | $ 337,578 | 241,865 |

**14. Subsequent event:**

On March 31, 1992, the Corporation entered into a non-binding letter of intent with E.I.E. International Corporation ("EIE"), a Japanese corporation, regarding a hotel management and hotel property transaction. The transaction will involve the contribution of certain hotel ownership positions of EIE, and its shareholdings in its wholly-owned subsidiary, Regent International Hotels Limited ("Regent"), to a group of partnerships initially controlled by the Corporation and ultimately to be held approximately 80% by EIE and 20% by the Corporation. The Corporation will also contribute US$102 million to the partnerships. The transaction will also involve the Corporation taking over management of certain hotels controlled by EIE and currently operated by Regent. The Corporation will also acquire all of Regent's intellectual property, including its trade names and trademarks and will provide advisory services to Regent in respect of the portfolio of hotels that Regent continues to manage. In a related transaction, the Corporation will acquire certain assets of Regent in consideration for US$20 million payable, at the election of EIE, either in cash or unsecured debt of the Corporation. The election must be made by EIE on or before May 1, 1992. This debt will be convertible into Subordinate Voting Shares of the Corporation at $24 per share in certain circumstances.

Definitive agreements regarding the transaction are scheduled to be entered into by the end of May 1992. The transaction is scheduled to close by the end of June 1992.

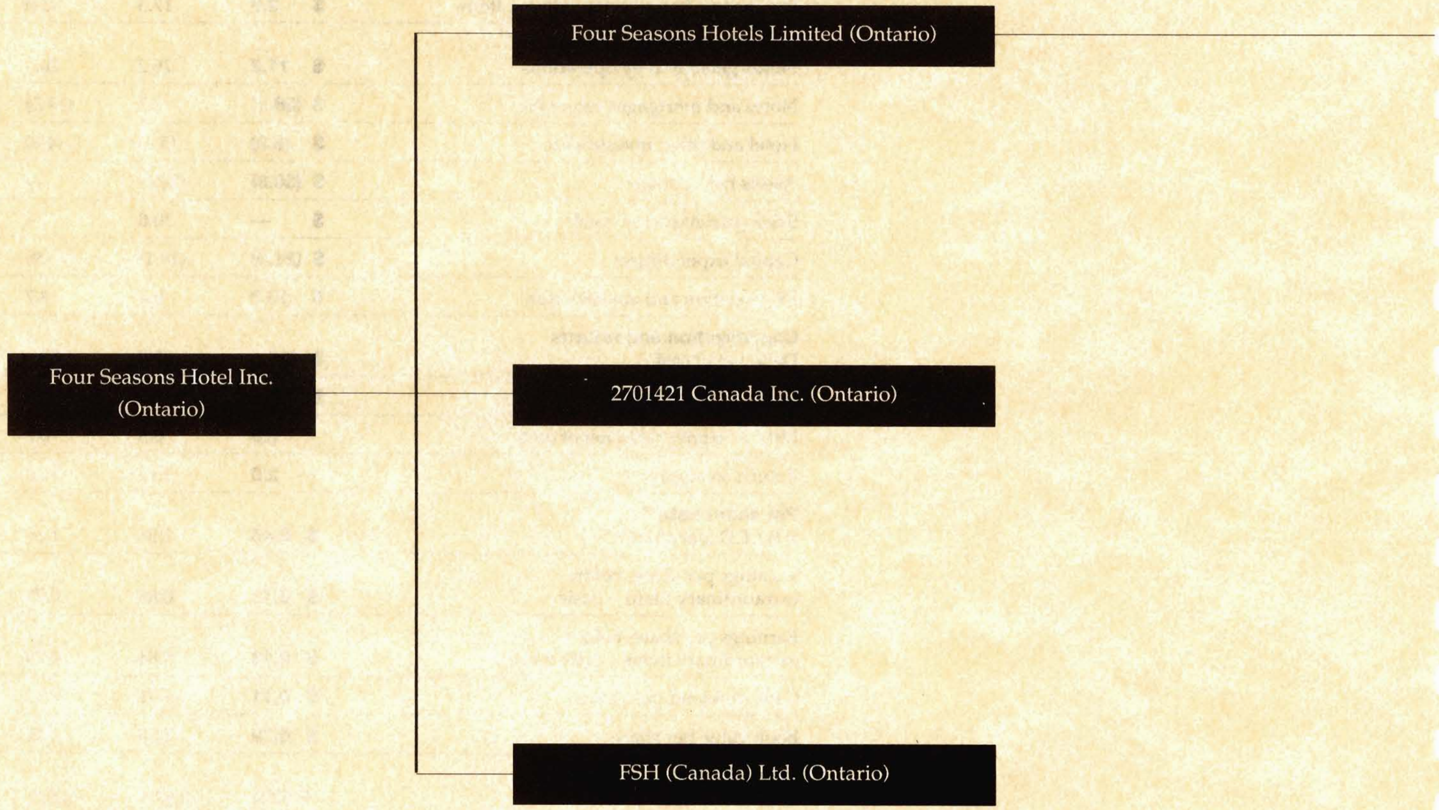
# Seven Year Review

| for the years ended December 31 (Dollar amounts are in millions except per share amounts) | 1991 | 1990 | 1989 | 1988 | 1987 | 1986 | 1985 | 6-Year Annual Compound Growth Rate |
|---|---|---|---|---|---|---|---|---|
| **Summary of Operations** | | | | | | | | |
| Revenues under management | **$ 631.0** | 666.1 | 634.3 | 603.4 | 584.3 | 509.3 | 441.0 | 6.3% |
| Consolidated revenues | **$ 166.7** | 188.2 | 207.8 | 228.4 | 216.7 | 194.7 | 164.9 | — |
| Management operations E.B.I.T.* | **$ 12.5** | 13.6 | 11.5 | 14.1 | 12.8 | 12.8 | 10.6 | 3% |
| Ownership operations E.B.I.T.* | **$ (12.4)** | 9.8 | 12.7 | 14.0 | 12.2 | 10.2 | 3.2 | — |
| Total E.B.I.T.* | **$ 0.2** | 23.4 | 24.2 | 28.1 | 25.0 | 23.0 | 13.8 | — |
| Net interest expense | **$ —** | 1.2 | 4.6 | 7.4 | 5.7 | 4.8 | 6.4 | |
| Tax rate | **n.a.** | 21.8% | 23.5% | 36.7% | 41.5% | 47.5% | 51.4% | |
| Net income before extraordinary items | **$ 2.8** | 17.3 | 15.0 | 13.1 | 11.3 | 9.5 | 3.5 | — |
| **Changes in Financial Position** | | | | | | | | |
| Funds generated by operations | **$ 11.2** | 26.2 | 26.7 | 25.4 | 23.9 | 22.9 | 14.5 | |
| Notes and mortgages receivable | **$ (28.1)** | 1.7 | (11.5) | (4.7) | (3.0) | (4.5) | (6.1) | |
| Hotel and other investments | **$ (3.8)** | (5.4) | (4.9) | (1.2) | (0.2) | (1.1) | (2.3) | |
| Assets held for sale | **$ (30.8)** | (20.1) | — | — | — | — | — | |
| Sales (purchases) of hotels | **$ —** | 10.8 | — | 39.8 | (40.1) | 0.8 | 6.5 | |
| Capital expenditures | **$ (21.5)** | (19.1) | (15.9) | (26.2) | (11.4) | (8.7) | (13.8) | |
| Depreciation and amortization | **$ 10.8** | 8.1 | 8.7 | 8.4 | 7.5 | 7.2 | 8.1 | |
| **Capitalization and returns** | | | | | | | | |
| Debt, net of cash | **$ 120.1** | 60.7 | 66.0 | 38.6 | 72.4 | 28.5 | 66.1 | |
| Shareholders' equity | **$ 139.6** | 112.4 | 93.8 | 85.1 | 45.3 | 44.0 | 41.9 | 22.2% |
| Debt-to-equity ratio, net of cash | **0.9** | 0.5 | 0.7 | 0.5 | 1.6 | 0.7 | 1.6 | |
| Return on equity | **2.0** | 15.4 | 16.0 | 23.3 | 24.9 | 21.7 | 11.1 | |
| **Per share data**** | | | | | | | | |
| E.B.I.T.D. per share*** | **$ 0.45** | 1.56 | 1.66 | 1.85 | 1.65 | 1.56 | n.a. | |
| Earnings per share, before extraordinary items – basic | **$ 0.13** | 0.86 | 0.76 | 0.67 | 0.58 | 0.50 | 0.27 | |
| Earnings per share, before extraordinary items – fully diluted | **$ 0.13** | 0.84 | 0.74 | 0.63 | 0.55 | 0.47 | 0.27 | |
| Cash dividend per share | **$ 0.11** | 0.11 | 0.11 | 0.10 | 0.08 | 0.08 | n.a. | 6.7% |
| Book value per share | **$ 6.29** | 5.56 | 4.72 | 4.32 | 2.30 | 2.27 | n.a. | 22.6% |
| **Other Data**** | | | | | | | | |
| Dividend yield | **0.63%** | 0.69% | 0.52% | 0.78% | 0.52% | 0.40% | n.a. | |
| Market price at year-end | **$ 17.50** | 16.00 | 21.13 | 12.50 | 8.00 | 9.44 | n.a. | 13.1% |
| Common stock outstanding (millions) | **22.2** | 20.1 | 19.9 | 19.7 | 19.7 | 19.4 | n.a. | |
| Market capitalization (millions) | **$ 388.5** | 323.2 | 419.8 | 246.0 | 157.6 | 182.9 | n.a. | 16.3% |
| Interest coverage | **n.a.** | 19.4 | 5.3 | 3.8 | 4.4 | 4.7 | 2.1 | |
| Available rooms | **7,300** | 7,400 | 7,050 | 6,705 | 7,270 | 6,995 | 6,143 | |
| Employees | **11,300** | 10,700 | 10,300 | 9,900 | 10,000 | 9,000 | 7,000 | |

* *Earnings (losses) 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*

## *Corporate Chart*

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



Moretime Limited (United Kingdom)

Loadrare Limited (United Kingdom)

Four Seasons Hotels and Resorts B.V. (Netherlands)

Four Seasons Hotels (U.S.) Inc. (Delaware)

Four Seasons (Austin) Inc. (Texas)

Two East 61st Street Corporation (New York)

FS Aviara Resort Inc. (California)

Santa Barbara Hotel Inc. (California)

Four Seasons of Massachusetts, Inc. (Massachusetts)

FS Water Tower Investments Inc. (Delaware)

Four Seasons Hotels (Barbados) Investment Limited (Barbados)

Four Seasons France Holdings SA (France)

Yorkville Hotel Properties Limited (Ontario)

Four Seasons Hotels (Barbados) Ltd. (Barbados)

# Hotel Information

| 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 |
| **Canada** | | | | | | | | |
| Minaki | Four Seasons 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]; 1992[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]; 1992[2] | 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 | 196 | 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 | 234 | 2012 | 2072 | 50%◆ | freehold |
| Seattle | Four Seasons Olympic Hotel | 1924[1]; 1982[2]; 1992[2] | 1980 | 450 | 2040 | 2040 | 3.35% | leasehold |
| Carlsbad | Four Seasons Resort Aviara | ◆◆◆; 1994[1] | 1989 | 443 | 2023 | 2083 | 5%◆◆ | freehold |

◆ Four Seasons has entered into a non-binding letter of intent with EIE International Corporation which contemplates, among other things, Four Seasons contributing its interests in these hotels to a hotel property joint venture which will be held 80% by EIE and 20% by Four Seasons. Reference is made to "Future Hotel Opportunities" in the Annual Information Form.

◆◆ 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.

## Hotel Information (Cont'd)

| 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 |
|---|---|---|---|---|---|---|---|---|
| **United States** ***(cont'd)*** | | | | | | | | |
| *Southwest* | | | | | | | | |
| Austin | Four Seasons Hotel | 1986[1] | 1985 | 292 | 2016 | 2076 | 100%♦ | freehold |
| Dallas | Four Seasons Resort and Club | 1979[1]; 1986[1]; 1991[2] | 1979 | 315 | 2002 | 2042 | — | — |
| Houston | Four Seasons Hotel | 1982[1]; 1992[2] | 1979 | 399 | 2016 | 2046 | — | — |
| Scottsdale | Four Seasons Resort | ♦♦♦♦ | 1989 | 250 | 2020 | 2065 | — | — |
| *Hawaii* | | | | | | | | |
| Wailea, Maui | Four Seasons Resort | 1990[1] | 1987 | 380 | 2010 | 2055 | — | — |
| Ko Olina, Oahu | Four Seasons Resort | ♦♦♦♦ | 1989 | 335 | 2015 | 2070 | — | — |
| North Kona, Hawaii | Four Seasons Resort | ♦♦♦; 1994[1] | 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 | ♦♦♦; 1995[1] | 1989 | 204 | 2023 | 2083 | 15% | freehold |
| **Asia** | | | | | | | | |
| Singapore | Four Seasons Hotel | ♦♦♦; 1993[1] | 1990 | 260 | 2023 | 2043 | — | — |
| Tokyo | Four Seasons Hotel | 1992[1] | 1988 | 286 | 2002 | 2032 | — | — |
| **Mexico and the Caribbean** | | | | | | | | |
| Nevis | Four Seasons Resort | 1991[1] | 1989 | 196 | 2021 | 2066 | 15% | freehold |
| Mexico City | Four Seasons Hotel | ♦♦♦; 1994[1] | 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.

♦♦♦♦ Projects are delayed indefinitely.

# Corporate Information

### Directors

Edmond M. Creed*
*Retired Executive*

Frederick Eisen
*Senior Operating Officer*
*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*

Shuichiro Tamaki
*Managing Director*
*Industrial Bank of Japan Limited*

Christopher Wallis

* *Member of Executive Committee*

\+ *Member of Audit Committee*

### 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*

Craig O. Reith
*Assistant Treasurer*

Kathleen Taylor
*General 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*

Barbara M. Talbott
*Vice-President Marketing Planning*

Kathleen Taylor
*Vice-President and General Counsel*

### Regional Vice-Presidents

Stan Bromley
*Boston, Mexico City, Montreal, 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*

Ruy Paes-Braga
*Vancouver*

Ramon Pajares
*London, Paris*

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### Corporate Office

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

### 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 call
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

### Annual Meeting

The Annual Meeting of Shareholders will be held at 4:30 p.m. on Monday, June 22, 1992 in the Regency Ballroom, Four Seasons Hotel, 21 Avenue Road, Toronto, Ontario, Canada.

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## The Year in Review

Four Seasons' 1991 operating results were significantly affected by unique market conditions. The negative effect of the Gulf War on first quarter occupancies was compounded by the global threat of terrorism. The severe economic recession in North America and the overcapacity which still exists in certain markets, continue to have a significant negative impact on Four Seasons' operating results. The most severe capital crisis that the real estate industry has experienced in over 50 years caused an indefinite delay in the completion of three of Four Seasons' projects under development and slowed the pace of Four Seasons' diversification into the resort market. Depressed real estate values have reduced the likelihood of any of Four Seasons' planned property dispositions being effected in the near term at acceptable values.

- Net earnings of $2.8 million were down 84% as compared to 1990. As a result, 1991 was the first year since becoming a public company in 1986 that Four Seasons' long-term target of 10-15% earnings growth per annum was not achieved or exceeded. Net earnings before extraordinary items grew at a compound rate of 16% per annum during the period 1986 to 1990.
- In 1991, the Corporation successfully completed debt and equity offerings for gross proceeds of $129.3 million. These financings enhanced Four Seasons' liquidity, while the equity issue helped Four Seasons maintain a stable and conservative debt-to-equity ratio.
- The debt-to-equity ratio, net of cash, is 0.86:1, which is better than management's target of 1:1 and provides Four Seasons with considerable financial flexibility in the current recessionary period.
- Four Seasons acquired the Four Seasons Austin at a favourable price during the third quarter, allowing Four Seasons to maintain control of the long-term management of the hotel.
- Major capital renovations were accelerated at Four Seasons' hotels in New York, London and Toronto in order to enhance the values of these significant and strategic assets. Four Seasons' share of capital expenditures in consolidated hotels was $21.5 million in 1991.
- The 196-room Four Seasons Resort and Golf Club on the island of Nevis in the West Indies opened February 15, 1991. Four Seasons has a 15% equity interest in this resort.
- On January 16, 1992, the 286-room Four Seasons Tokyo opened in the Chinzan-so Gardens. It is Four Seasons' first hotel in Asia. Four Seasons does not have an equity interest in this property.

## The Economy

### The Recession

The recession negatively affected the travel and tourism industry world-wide and had a significant impact on Four Seasons' 1991 operating results. It is anticipated that the operating environment in 1992 will also be difficult. Management anticipates that economic recovery in Four Seasons' key markets will be slow. A large number of jobs have been lost in the financial services industry, which has historically comprised a significant component of Four Seasons' customer base. In contrast to previous recessionary periods where blue-collar workers have been the primary sector of the work force to be affected, white-collar workers have been seriously affected during the current recession. The resulting shrinkage in the executive ranks and the renewed focus on corporate cost reduction have caused a substantial decrease in corporate travel. During 1991, the International Civil Aviation Organization reported a 4.1% decline in world airline passenger travel, the first annual drop since the agency started collecting the statistics in the 1940s.

Over the longer term, management of Four Seasons believes that the recent rapid decline in interest rates will lead to business expansion and increased travel. However, the next twelve to eighteen months will continue to present a challenging operating environment, due to slow economic recovery in North America.

**Capital Markets**

The North American real estate market has been paralysed by the worst world-wide capital shortage since the 1930s. In the United States, there has been a severe curtailing of bank lending to the real estate industry due to the significant loss experience of banks on real estate loans. Lenders outside North America are also cutting back on the amount of credit available — in Germany due to the costs of reunification and in Japan due to domestic economic conditions, the collapse of the stock market and the poor performance of real estate investments in the United States. In a recent survey by Arthur Andersen, 85% of real estate investors viewed financing constraints as the main problem facing the industry. The capital shortage is anticipated to last a further 12 to 24 months.

These conditions have affected Four Seasons in two ways. First, Four Seasons has been unable to sell assets, such as the Four Seasons Biltmore, at reasonable values. Four Seasons believes that a sale of any of its assets held for sale can be realized upon the return to more normal market conditions and that a material loss should not occur. The two financings completed in the first quarter of 1991 have given Four Seasons the liquidity to await the improvement in market conditions and the future realization of acceptable values for the hotels it intends to sell.

Second, three of Four Seasons' resorts under development are indefinitely delayed due to insufficient financing: Ko Olina, Oahu, Hawaii; Scottsdale, Arizona; and Costa Isabela, Puerto Rico. Financing constraints are also causing short-term interruptions in construction at Carlsbad, California and North Kona, Hawaii; however construction is expected to resume in 1992. While these delays are not expected to have a material impact on earnings, they will slow Four Seasons' diversification into the resort market.

On the positive side, poor market conditions allowed Four Seasons to acquire the Four Seasons Austin at a favourable price.

Despite the unfavourable market conditions, Four Seasons and its owners have been successful in recent months in refinancing three of the hotels under management. There may also be profitable opportunities for hotel management companies such as Four Seasons to assume new management responsibilities, as lenders and owners seek to protect the value of their assets by retaining the best hotel management available.

It is anticipated that the current disruptions in the capital markets will not affect Four Seasons' existing management agreements because Four Seasons typically obtains a non-disturbance agreement from third-party hotel owners and hotel mortgagees. In the event of a sale or foreclosure, Four Seasons would be able to continue to manage the hotel on the same terms and conditions.

**Industry Overcapacity**

Overcapacity exists in some of the hotel markets in which Four Seasons competes, primarily Philadelphia and San Francisco. The hotel industry in North America experienced a construction boom in the early 1980s when financing was easily obtained and there was considerable foreign interest in real estate in the United States. However, the tight credit conditions in the current marketplace have dramatically slowed hotel construction in North America. As a result, demand should catch up with supply over the next few years. Four Seasons expects that during this period, industry consolidation will continue, and only the best hotel companies with the strongest financial positions will survive. Four Seasons' market position as a dominant player in the upscale niche of the lodging industry should be further strengthened.

**Currency Fluctuations**

***U.S. Dollar***

The continued decline in the U.S. dollar against the Canadian dollar negatively affected revenues of U.S. hotels under management by approximately $8.8 million in 1991. However, exchange fluctuations have little short-term economic significance to Four Seasons as it continues to use its U.S. dollar cash flow for re-investment in U.S. assets and to service its U.S. dollar debt. 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.

During 1991, the Canadian government maintained its fiscal policy of high interest rates to try to achieve its objective of minimizing inflation. However, recent declines in interest rates and other key indicators point to a decline in the Canadian dollar in 1992. Four Seasons expects the Canadian dollar to trade in the range of US$0.82 to US$0.85 in 1992. Consistent with its conservative financial strategy, management has not factored this projected decline in the Canadian dollar into its 1992 business plan.

***Pound Sterling***

Fluctuations in the pound sterling are significant to Four Seasons. Under normal operating conditions, approximately 80% of the Corporation's hotel ownership operations profits are attributable to the Four Seasons Inn on the Park, London. A sterling forward contract was in place to hedge 1991 earnings fully at $2.32. Anticipated 1992 earnings have been hedged at a rate of $2.03.

## The Corporation

### Operations Overview

Four Seasons operates in two distinct segments: Hotel Management Operations and Hotel Ownership Operations.

### Hotel Management Operations: *1991 Management Results and 1992 Outlook*

Generally, Hotel Management Operations has the following characteristics:

- stable earnings and cash flow, as approximately 73% of revenues from Hotel Management Operations 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 60 years;
- hotel owners fund substantially all capital expenditures and working capital needed for the hotel, including funding of all employment and operating costs, although periodically Four Seasons funds loans to managed hotels; and
- 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 rather than hotel ownership has enabled Four Seasons to expand steadily in recent years without assuming significant capital risks.

***Yield***

In the hotel business the term *yield* is defined to be occupancy multiplied by achieved room rate. The 1991 average yield of all hotels under Four Seasons' management declined 4.7% as compared to the 1990 average yield. Although Four Seasons' 1991 average achieved room rate exceeded 1990 levels by 1.2%, the 1991 occupancy levels decreased by four occupancy points from levels achieved in 1990. While yields increased in Texas, Chicago, Washington, D.C. and Maui, there were declines in the United Kingdom, Canada and the northeastern United States, the areas most seriously affected by the Gulf War and the economic recession.

The average yield of all hotels under Four Seasons' management in 1992 is expected to exceed the 1990 level. Yield increases are forecast in Maui, Texas, Chicago, Washington D.C. and the west coast of the United States, excluding San Francisco. While London's yield is expected to reach the 1990 pre-war levels in the fourth quarter of 1992, yields at hotels in eastern Canada, Philadelphia and San Francisco for 1992 are expected to remain substantially below 1990 levels. The weaker yields anticipated at the three eastern Canadian hotels are a result of the economic recession, the strong Canadian dollar and the January 1, 1991 introduction of the federal Goods and Services Tax. In both Philadelphia and San Francisco the supply of hotel rooms exceeds demand.

***Revenues***

Fee revenues from Hotel Management Operations decreased 7.9% in 1991 to $34.9 million from $37.8 million in 1990. Included in the fee revenues from Hotel Management Operations for 1990 was $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 and was reversed on the sale of the hotel in March 1990.

Included in 1991 fee revenues was $1.6 million of incentive fees earned in 1991 and prior years at the Four Seasons Biltmore, Santa Barbara, California. These fees arose as a result of an amendment to Four Seasons' management contract for the hotel. The amendment to the management contract was effected as part of the partnership reorganization finalized during the third quarter of 1991. During the fourth quarter of 1991, fees were received from the owner of the Inn on the Park, Houston, as compensation for the loss of Four Seasons' management contract in December, 1991 upon the sale of that hotel.

Fees in 1991 also increased as a result of the operation of the Four Seasons Resort, Wailea, Maui (which opened on March 20, 1990) and the operation of the Four Seasons Resort, Nevis (which opened on February 15, 1991).

However, the fee increases outlined above were offset by the lower business volumes at other hotels managed by Four Seasons as a result of the Gulf War, the stronger Canadian dollar, the economic recession and an oversupply of hotel rooms in certain markets, as well as by a decline in development fees earned in 1991 due to the slowdown in Four Seasons' resort construction and development activities.

Revenues from Hotel Management Operations are expected to increase at the rate of inflation in 1992. The increase in fees arising from the January 1992 opening of the Four Seasons Hotel, Tokyo, the full year of fee revenues earned at the new Four Seasons Resort, Nevis, the anticipated increase in fees in Maui due to higher business activity and the percentage fee increase from the management of the Four Seasons Hotel, Los Angeles should more than offset the reduction of incentive fees earned from the Four Seasons Biltmore, Santa Barbara, relative to 1991 as described above, and the loss of the hotel management fees attributable to the cancellation of the Inn on the Park, Houston management contract.

The opening of the Four Seasons Resort in Nevis and Four Seasons' first Asian hotel in Tokyo have enhanced the geographic diversification of Four Seasons' management business and revenue sources. During the year, Four Seasons invested $1.7 million in deferred costs. These expenditures related to an expansion of marketing and operational activities in new geographic areas. The resort in Nevis, together with the other Four Seasons' resorts, will help to reduce the seasonality of Four Seasons' management operations as the high season for resorts is the first quarter, which is typically the low season for urban hotels.

Four Seasons will earn management fees from the Four Seasons Hotel, Tokyo in Yen, further diversifying the currencies in which Four Seasons' management revenues are earned.

***Earnings before Interest and Taxes***

In 1991, earnings before interest and taxes from Hotel Management Operations decreased by 7.9% to $12.5 million, as compared to the prior year. Four Seasons' profit margin remained at the 1990 level of 36%. The profit margin is expected to return to historic levels (averaging more than 40% from 1985 to 1988) as the four hotels currently under construction are opened over the next few years and begin to generate additional fees.

***Cost Reduction Program***

During 1991, Four Seasons continued to pursue the objectives of reducing overhead costs and maximizing operating efficiencies, without compromising Four Seasons' objective of providing the highest quality of customer service. Greater decision-making was placed in the hands of the management staff closest to Four Seasons' customers. The costs associated with Four Seasons' corporate office were reduced by 9% through an 8% reduction in the number of employees and a comprehensive cost control program. The positive impact of the overhead reduction program will be even more apparent in 1992, as many "one-time costs", such as severance payments, were incurred in 1991.

**Hotel Ownership Operations:** ***1991 Hotel Ownership Results and 1992 Outlook***

Four Seasons holds an equity interest in 14 of the 23 hotels and resorts under management. Hotel Ownership Operations have the following characteristics:

- they are capital and labour intensive and are subject to greater economic fluctuations than Hotel Management Operations;
- generally, Four Seasons' large equity positions are in premium locations in markets which are, over the long-term, traditionally stable, such as Toronto, London, New York and Chicago; and
- 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' strategy is to acquire an equity position of up to 20%, where offered, in new hotels and resorts which present attractive opportunities for long-term capital appreciation. Four Seasons has acquired equity positions in the following properties under construction and development: Paris (15%) and Aviara (5%). Four Seasons has the right to acquire an additional 4.9% of the equity in the Four Seasons Resort, Aviara.

***Revenues***

Revenue from Hotel Ownership Operations declined 12.6% to $137.4 million in 1991 as compared to 1990. While occupancy levels decreased in 1991 by 7.5 occupancy points, the 1991 average achieved room rate remained at 1990 levels, resulting in a 10% decline in the 1991 average yield of ownership hotels.

***Loss before interest and taxes***

The loss before interest and taxes from Hotel Ownership Operations was $12.4 million as compared to earnings of $9.8 million in 1990. Included in the 1990 earnings was a non-recurring pre-tax gain of $2.2 million relating to the sale of Four Seasons' 67% ownership position in the Four Seasons Hotel, Ottawa. The remaining decline of $20 million in earnings from Hotel Ownership Operations is primarily attributable to Four Seasons' ownership positions in hotels in London, Toronto and New York, the international markets most severely affected by the economic recession, and the travel disruption caused by the Gulf War.

The 1991 earnings of the Four Seasons Inn on the Park, London decreased 47% as compared to 1990 earnings. While occupancy has been improving in London, it remains below pre-Gulf War levels. The earnings of the London hotel are expected to improve in 1992 as normal travel patterns resume and as economic growth returns. The operations of the London hotel are expected to return to pre-recessionary levels in the fourth quarter of 1992.

The Four Seasons Toronto incurred its first loss in several years as demand for hotel restaurants, bars, banqueting facilities and rooms declined due to the recession, the strong Canadian dollar and the January, 1991 introduction of the Goods and Services Tax. Room rates marginally declined. Occupancy levels were also affected by the substantial decline in the hotel's U.S.-based business. For 1992, Four Seasons is anticipating moderate increases in occupancy levels, achieved room rates and banqueting, although 1990 operating levels are not expected to be matched or exceeded until 1993.

Despite room occupancies and rates, which almost matched 1990 levels, earnings at The Pierre declined significantly as a result of a 21% decline in social catering and business entertaining revenues as compared to the prior year. Recovery to 1990 levels is not anticipated until 1993.

**Equity Purchases and Restructuring**

**Four Seasons Austin**

On September 27, 1991, Four Seasons acquired the Four Seasons Hotel, Austin, Texas. The Austin hotel has been managed by Four Seasons since it opened in December 1986. Four Seasons used a portion of the proceeds of the public financings completed in the first quarter of 1991 to purchase this hotel at a favourable price. When the real estate capital markets improve, it is Four Seasons' intention to sell all or part of its equity position while retaining a long-term management agreement. As a result, this investment has been accounted for as an "*Asset held for sale*" on the Corporation's balance sheet.

**Four Seasons Biltmore, Santa Barbara**
During the third quarter of 1991, a restructuring of the partnership which owns the Santa Barbara hotel was completed resulting in a new investor acquiring the equity interest of VMS Realty Partners of Chicago ("VMS"), Four Seasons' former partner. Four Seasons agreed to assume the operating and capital requirements for the hotel in return for a limitation on the new partner's participation in the ultimate sale proceeds of the property. In addition, Four Seasons is authorized to make all decisions on behalf of the partnership and is entitled to earn an incentive fee in connection with the management of the hotel.

As a result of the refinancing of the hotel during the third quarter, a substantial portion of principal and interest was repaid to Four Seasons relating to the capital and operating loans advanced in 1990 and 1991 by the Corporation to the hotel.

Four Seasons intends to dispose of this hotel subject to the continuation of its long-term management contract.

**Inn on the Park, Toronto**
In 1985, prior to becoming a public company, the Corporation identified certain of its assets as being ancillary to its principal business of managing and owning hotel properties. These assets and certain related liabilities were transferred to a private company, Tengis Limited, which is owned by certain shareholders and former shareholders of the Corporation. One of the transferred assets was a vendor take-back mortgage receivable relating to the 1983 sale of the Inn on the Park, Toronto. Four Seasons is contingently liable for certain liabilities assumed by Tengis, including a third-party mortgage with respect to the Inn on the Park, Toronto in the aggregate principal amount of $18.7 million as at December 31, 1991.

Four Seasons has made advances to the Inn on the Park, Toronto under its management agreement and to Tengis relating to Four Seasons' guarantees of certain of Tengis' liabilities resulting from the 1985 reorganization. The total amount advanced to December 31, 1991 equalled $8.2 million. Four Seasons has an indemnity from Tengis for $5.3 million of these advances which are also secured by a floating charge debenture on Tengis' assets.

In a related matter, VMS Realty Partners of Chicago, the owner of the hotel, has ceased supporting the Inn on the Park, Toronto in servicing the vendor take-back mortgage held by Tengis. VMS has agreed to a consensual transfer of the property to Tengis. Due to the impact of current economic conditions on the real estate and hotel industries, there is some uncertainty that Tengis will be able to sell or refinance its assets for amounts sufficient to liquidate all of its obligations; however, Four Seasons believes that a sale or refinancing of Tengis' assets can be realized upon a return to more normal market conditions and that a material loss on Four Seasons' advances to and guarantees on behalf of Tengis should not occur.

## Liquidity and Risk Management

**Financings**
Although working capital generated from operations decreased from $26.2 million to $11.2 million in 1991, Four Seasons improved the liquidity of its capital base and reduced its exposure to short-term floating-rate debt by successfully placing debt and equity financings during the year.

On February 14, 1991, Four Seasons completed the private placement of 2,000,000 special warrants at a price of $14.65 per warrant, resulting in gross proceeds to the Corporation of $29.3 million. Each special warrant entitled the holder to acquire one Subordinate Voting Share of the Corporation for no additional consideration. Two million Subordinate Voting Shares were issued on exercise of the special warrants. On March 25, 1991 $100 million principal amount of 11.05% unsecured debentures maturing in March 1996 were issued pursuant to a prospectus dated March 6, 1991. Fifty percent of this debt issue was exchanged through cross currency interest rate exchange agreements into U.S. dollar fixed interest rate obligations to take advantage of lower U.S. interest rates and to hedge Four Seasons' significant U.S. income stream and exposure to U.S. dollar investments. The effective interest rate of this part of Four Seasons' debt is 9.37%. The other 50% of the debt issue was exchanged for U.S.-based floating rate debt which had an average cost of 7.3% during 1991.

The majority of Four Seasons' debt is at medium-term maturities, ensuring that principal debt repayments do not have an adverse effect on Four Seasons' liquidity during the current economic recession. No major repayments on long-term debt are due for the next four years.

**Use of Proceeds**

Part of the proceeds from the debt and equity financings were used to repay $57 million of Four Seasons' short-term indebtedness. Four Seasons now has $47.3 million in available credit facilities, in addition to the $37.2 million in credit lines currently being used. These facilities will provide Four Seasons with the liquidity to meet its operational, capital and development needs through 1992 and ensure that the funds necessary to take advantage of expansion opportunities are available.

By issuing equity as well as debt, Four Seasons has maintained a conservative debt-to-equity ratio which, net of cash and after giving effect to both financings, was .86:1 at December 31, 1991.

**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 1991, approximately $48 million was invested in capital projects by hotel owners.

Four Seasons' share of capital expenditures in consolidated hotels was $21.5 million in 1991 and is estimated to be $25 million in 1992. The capital expenditures will be funded by working capital generated from operations and through the $47.3 million in available credit facilities.

Renovations were scheduled to minimize the loss of revenue, inconvenience to guests and construction and labour costs.

**Equity Investment and Loans Related to Managed and Owned Hotels**

**Equity Investment**

During 1991, Four Seasons invested approximately $3.8 million in the following hotels in which it has an ownership interest: the Four Seasons Hotels in Chicago, Philadelphia and Boston and in the resorts in Nevis and Carlsbad. It is estimated that US$1.2 million will be invested in 1992 in the Four Seasons Chicago and Washington, D.C, in which Four Seasons has an ownership interest.

In addition to its equity investment, the Corporation advanced $8.6 million in 1991 to fund certain construction costs of the Aviara project in Carlsbad, California. These amounts will be repaid from the construction financing for the project when it is arranged. The advances are unsecured but the project is unencumbered by liens or mortgages.

**Loans relating to Managed Hotels**

During 1991 $10.4 million was advanced as capital and operating deficit loans to four hotel properties, including one under development and one newly opened resort.

In 1991, Four Seasons also advanced $2.9 million to the Inn on the Park, Toronto and $5.3 million to Tengis relating to Four Seasons' guarantees of certain of Tengis' liabilities resulting from the reorganization in 1985. The advances allowed Tengis to service its debts resulting from the default of VMS. While the advances to the Inn on the Park, Toronto are unsecured, Four Seasons' advances to Tengis are secured by a floating charge on Tengis' assets.

These loans were funded by a portion of the proceeds from the debt and equity offerings completed in the first quarter of 1991. They earn interest at market rates 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. Approximately 36.3% of all the loans outstanding are secured. In addition, approximately 16.2% of all loans outstanding as at December, 1991 are due for repayment to Four Seasons in 1993. Four Seasons expects to advance a further US$6 million of capital and operating loans to managed hotels in 1992.

Due to the impact of the economic recession on the hotel industry, there is some uncertainty regarding the timing and manner of repayment of these loans. Four Seasons believes that these loans can be realized upon a return to more normal market conditions, and that a material loss should not occur.

### Net Interest

During the year, Four Seasons recognized net interest income of approximately $40,000 as compared to net interest expense of $1.2 million in 1990. The variance results from investment income earned during the year on the unused proceeds from the first quarter financings and from the interest capitalized on assets held for sale.

### Taxes

The total income tax recovered differs from the amount computed by applying the combined Canadian federal and provincial tax rate to the earnings before taxes. This is due to $1.4 million of earnings not being subject to tax and a $2.9 million reduction arising as a result of the difference between Canadian federal and provincial income tax rates and the lower tax rates of foreign jurisdictions.

### 1991 Summary

Management's overriding objective in 1991 was to become a financially and operationally stronger company. Although Four Seasons' 1991 operating results declined significantly from 1990 levels, Four Seasons' balance sheet remained strong. During 1991, reductions in corporate overhead were achieved without affecting the quality of guest services. Financings were successfully completed to strengthen the Corporation's cash position. Expenditures on marketing activities were increased to sustain Four Seasons' brand name recognition. The Four Seasons Hotel, Austin was acquired at a favourable price. Renovation programs were accelerated at certain of the key hotels owned by Four Seasons, to ensure that the quality of the guest facilities is maintained or improved.

Four Seasons anticipates that economic conditions in 1992 will continue to be difficult. However, Four Seasons' cost reduction and revenue diversification efforts should allow Four Seasons to achieve positive returns in 1992. As the economy improves, Four Seasons will be in an excellent position to capitalize on the market rebound and to strengthen its dominance of the luxury segment of the hotel industry.

### Subsequent Event

On March 31, 1992, the Corporation entered into a non-binding letter of intent with E.I.E. International Corporation ("EIE"), a Japanese corporation, regarding a hotel management and hotel property transaction. Reference is made to "Future Hotel Opportunities – Regent International Hotels Transaction" in the Annual Information Form.

Four Seasons Hotels Inc. was incorporated under the laws of Ontario on January 6, 1978. The registered and principal office of the Corporation 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. (A chart depicting all of the significant subsidiaries of Four Seasons is set out on page 28). In North America and the United Kingdom, the business of hotel management is carried out by the Corporation's wholly-owned subsidiary, Four Seasons Hotels Limited ("FSHL"), an Ontario corporation. Four Seasons' equity interests in North American hotels are generally held through partnerships or directly by FSHL, and its affiliates. The Corporation's 50% ownership interest in the Four Seasons Inn on the Park, London is held through its U.K. subsidiaries. Four Seasons' 15% ownership interest in the Four Seasons Resort, Nevis is indirectly held through Four Seasons Hotels (Barbados) Limited.

The management of international hotels (other than the London hotel) is generally carried out by Four Seasons Hotels and Resorts 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 7,300 guest rooms located in principal cities and resort destinations in Canada, the United States, England, Japan, and the Caribbean. Four Seasons owns a freehold or leasehold interest in 14 of these hotels. Eight additional urban hotels and resort hotels, containing approximately 2,400 guest rooms, are under construction and development in Europe, Asia, the United States and Mexico. Four Seasons will own a minority equity interest in two of these new properties.

Four Seasons earns revenue from hotel management and hotel ownership. Four Seasons' hotel management revenue is 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 approximately 60 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 four wholly-owned operations (the Four Seasons, Toronto; the Four Seasons, Vancouver; The Pierre, New York; and the Four Seasons Austin, Texas), 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. Reference is made to "Future Hotel Opportunities". The remaining ownership positions are non-material or minority positions (less than 20%) which do not contribute materially to Four Seasons' current earnings.

## 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 also offer modern health and fitness facilities.

New resort hotels have been designed to be sensitive to the natural environment. Meeting rooms feature outdoor views and access to the open air and rooms and bathrooms are more spacious than those in urban hotels. The early arrival/late departure service provides 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, Tokyo, Japan and London, England, Four Seasons is now focusing on expanding its presence in other major international cities and luxury resort destinations. 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.

Four Seasons has gained a reputation for quality, service and innovation in the luxury segment of the business and leisure travel market. Ten Four Seasons hotels were ranked among the world's top 75 hotels in a survey of international financiers published in the October 1991 issue of *Institutional Investor*. Nine Four Seasons hotels were ranked in the top 25 hotels in the "*Americas*" regional rankings. The Four Seasons Chicago appeared in the "*Americas*" regional ranking for the first time, while the hotels in Chicago (Ritz-Carlton), Washington, D.C., Vancouver, Montreal, Toronto, Boston, Houston 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 ten of the past 11 years. In 1992, (and for the eleventh 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 12 of the 49 awards. The Four Seasons, Vancouver has received the American Automobile Association Five Diamond Award every year since the awards began in 1977. The Four Seasons Resort Wailea is the newest Four Seasons to be honoured with a Five Diamond Award. In addition, three Four Seasons hotels, including the first-time winner – the Four Seasons Chicago, were among the 21 hotels and resorts to receive 1992 Mobil Five-Star Awards. Seven Four Seasons properties ranked in the *Condé Nast Traveller's* 1991 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 represent approximately 63% and 37%, respectively, of Four Seasons' overall occupancy. Fifty-three percent of the sales are derived from the sale of guest rooms; thirty-eight percent from the sale of food and beverages, with the balance being attributable to the sale of other services to hotel guests, including telephone, laundry and valet, and health club services.

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 three urban hotels under construction and 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 construction and 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. At present 37% of occupied rooms at Four Seasons resorts are sold to vacationers. Other major markets for Four Seasons resorts are corporate groups and incentive groups, representing 26% and 20% respectively of all occupied rooms. Incentive travel is purchased by companies to reward employees for excellence on-the-job and to increase employee productivity through motivation.

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. The importance of travel agents to Four Seasons will increase as the five resorts under construction and development open. To acknowledge its commitment to servicing, and the importance of, the travel agent community, Four Seasons introduced Lasting Impressions℠. This program provides 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 1980's, 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 ("Kuo"); 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 approximately 73% 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 participations are generally structured 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. This objective was not met in 1991, with hotel ownership operations experiencing a loss before interest and taxes. The decline in hotel ownership earnings as compared to 1990 is primarily attributable to Four Seasons' operations in London, Toronto and New York City, the international markets most severely affected by the recession and the travel disruption during the first half of 1991 caused by the Gulf War.

Both the hotel management and hotel 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. In contrast, resorts typically enjoy strong first quarter occupancies. Earnings from Four Seasons' resorts in the first quarter of 1991 were limited by numerous cancellations at the Four Seasons Resort Wailea, Maui as a result of the Gulf War and by the opening of the Four Seasons Resort, Nevis partway through the resort high season. Four Seasons anticipates that the opening in 1994 of the Four Seasons Resort Aviara, Carlsbad, California and the Four Seasons Resort, North Kona, Hawaii will assist in reducing the seasonality of its future earnings. While it has indefinitely delayed the completion of three other resorts under development, Four Seasons remains committed to its long-term strategy of reducing the seasonal variations of its cash flow.

Although its partners are 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 they meet 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; Lyonnaise des Eaux – Dumez 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 from operations 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 eight hotels and resorts under construction and 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<br>Austin, Texas | 1986 | 1985 | 292 | — | 2016 | 2076 |
| Four Seasons Hotel<br>Boston, Massachusetts | 1985/1992 | 1982 | 288 | 100 condominium apartments(3) | 2010 | 2085 |
| Ritz-Carlton Hotel<br>Chicago, Illinois | 1975/1991 | 1977 | 431 | Carlton Club(3),(4)<br>20 residential apartments(3),(4) | 2025 | 2075 |
| Four Seasons Hotel<br>Chicago, Illinois | 1989 | 1987 | 343 | 15 residential apartments(3),(4) | 2024 | 2104 |
| Four Seasons Resort and Club<br>Dallas, Texas | 1979/1986/<br>1991 | 1979 | 315 | 25,000 sq.ft. conference space(3)<br>176,000 sq.ft. sports club(3)<br>Racquet and fitness facilities(3)<br>Two 18-hole golf courses(3)<br>12,000 sq.ft. spa(3) | 2002 | 2042 |
| Four Seasons Hotel<br>Houston, Texas | 1982/1992 | 1979 | 399 | 120 residential apartments(3) | 2016(5) | 2046(5) |
| Four Seasons Inn on the Park<br>London, England | 1970/1991 | 1984 | 228 | — | 2054 | 2054 |
| Four Seasons Hotel<br>Los Angeles, California | 1987 | 1985 | 285 | — | 2042 | 2062 |
| Four Seasons Minaki Lodge<br>Minaki, Ontario | 1925/1986 | 1990 | 144 | 2,800 foot airstrip(4)<br>9-hole golf course(4) | 2012 | 2072 |
| Le Quatre Saisons<br>Montreal, Quebec | 1976 | 1976/1983 | 300 | — | 2003 | 2043 |
| Four Seasons Resort<br>Nevis, West Indies | 1991 | 1989 | 196 | 2,100 feet of ocean frontage<br>18-hole Robert Trent Jones II-designed golf course(4)<br>5,000 sq. ft. of meeting and banquet facilities(4) | 2021 | 2066 |
| Four Seasons Hotel<br>Newport Beach, California | 1986 | 1984 | 285 | — | 2016 | 2046 |

*See accompanying notes on page 47.*

## Description of Hotels and Resorts

| 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) |
|---|---|---|---|---|---|---|
| The Pierre<br>New York, New York | 1929/1981/<br>1991 | 1981 | 206(6) | 99 cooperative apartments(3) | 2001 | 2011 |
| Four Seasons Hotel<br>Philadelphia, Pennsylvania | 1983 | 1980 | 371 | 600,000 sq.ft. of leasable office space(4)<br>Garage(3),(4) | 2013 | 2053 |
| Four Seasons Clift Hotel<br>San Francisco, California | 1915/1976/<br>1983/1990 | 1976/1983 | 329 | — | 2006 | 2066 |
| Four Seasons Biltmore<br>Santa Barbara, California | 1929/1988 | 1987 | 234 | Coral Casino Beach & Cabana Club(4) | 2012 | 2072 |
| Four Seasons Olympic Hotel<br>Seattle, Washington | 1924/1982/<br>1992 | 1980 | 450 | 6,931 sq.ft. of leasable office space(3),(4)<br>31,143 sq.ft. of leasable retail space(3),(4)<br>Garage(4) | 2040 | 2040 |
| Four Seasons Hotel<br>Tokyo, Japan | 1992 | 1988 | 286 | 14,000 sq.ft. fitness facility<br>26,050 sq.ft. of conference and banquet facilities | 2002(8) | 2032(8) |
| Four Seasons Hotel<br>Toronto, Ontario | 1974/1978/<br>1984/1992 | 1978 | 381 | 7,400 sq.ft. of leasable retail space(4) | 2003 | 2077 |
| Inn on the Park<br>Toronto, Ontario | 1963/1971/<br>1985 | 1963/1984 | 568 | 11 shops and boutiques<br>Health club<br>10,936 sq.ft. of leasable office space | 1994 | 2014 |
| Four Seasons Hotel<br>Vancouver, British Columbia | 1976/1990 | 1974 | 385 | — | 2000 | 2035 |
| Four Seasons Resort<br>Wailea, Maui, Hawaii | 1990 | 1987 | 380 | — | 2010 | 2055 |
| Four Seasons Hotel<br>Washington, D.C. | 1979 | 1977 | 196 | 75,325 sq.ft. of leasable office space(4)<br>9,690 sq.ft. of leasable retail space(4)<br>6,000 sq.ft. health club(4) | 2007 | 2022 |

*See accompanying notes on page 47.*

## Description of Hotels and Resorts

| 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) |
|---|---|---|---|---|---|---|
| **Under Construction(7)** | | | | | | |
| Four Seasons Resort Aviara<br>Carlsbad, California | 1994 | 1989 | 443 | 8-acre fitness facility(4)<br>39,600 sq.ft. of meeting and banquet space(4)<br>18-hole Arnold Palmer-designed golf course(4) | 2024 | 2084 |
| Four Seasons Resort<br>North Kona, Hawaii<br>Hawaii | 1994 | 1989 | 358 | 18-hole Jack Nicklaus-designed TPC golf course<br>20,000 sq.ft. of meeting space | 2018 | 2063 |
| Four Seasons Hotel<br>Mexico City, Mexico | 1994 | 1990 | 233 | 17,000 sq.ft. of meeting and banquet facilities | 2013 | 2038 |
| Four Seasons Hotel<br>Singapore | 1993 | 1990 | 260 | 28,000 sq.ft. sports facility (including indoor tennis and squash courts) | 2023 | 2043 |
| **Under Development(7)** | | | | | | |
| Four Seasons Resort<br>Costa Isabela,<br>Puerto Rico | (9) | 1989 | 350 | 28,000 sq.ft. of meeting and banquet space<br>18-hole golf course<br>ATP world tennis facility<br>8,400 sq.ft. health club | 2020 | 2065 |
| Four Seasons Resort<br>Ko Olina, Oahu<br>Hawaii | (9) | 1989 | 335 | 6,500 sq.ft. spa facility<br>Two 18-hole golf courses<br>23,700 sq.ft. of meeting and banquet facilities | 2015 | 2060 |
| Four Seasons Hotel<br>Paris, France | 1995 | 1989 | 204 | Approximately 30 units of luxury condominiums (or 42,675 sq.ft.) | 2023 | 2083 |
| Four Seasons Resort<br>Scottsdale, Arizona | (9) | 1989 | 250 | 22,900 sq.ft. of meeting space<br>18-hole golf course, designed by Morrish and Weiskopf | 2020 | 2065 |

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 income for such services.
(2) Final expiry is the expiry date if all renewal options are exercised.
(3) Four Seasons receives fee income for the management of these facilities.
(4) Four Seasons has an equity interest in these facilities.
(5) The management agreement may be terminated by the owners in the event of a change of control of Four Seasons.
(6) Includes 30 co-operative suites leased by Four Seasons from individual owners and operated by Four Seasons as hotel rooms.
(7) Information concerning hotels under construction and under development is based upon agreements and letters of intent and may be subject to change. The dates of opening have been estimated. Expiry dates are calculated from the estimated date of opening.
(8) The management agreement may be terminated by the owner if control of the Corporation is transferred to a competitor of the owner.
(9) Projects are delayed indefinitely.

Four Seasons has equity interests in 16 hotels, including two that are under construction or 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 Hotel Austin, Texas | 100%(1)(2) | Wholly-owned | Freehold | — |
| Four Seasons Resort Aviara Carlsbad, California | 5%(3) | Partnership – Limited Partner | Freehold | (4) |
| 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 | (5) |
| Ritz-Carlton Hotel Chicago, Illinois | 25%(1) | Partnership – General Partner | Freehold | First mortgage(6) |
| Four Seasons Inn on the Park London, England | 50% | Corporate joint venture | Leasehold, initial expiry 1998, options to extend 2054 | — |
| Four Seasons Minaki Lodge Minaki, Ontario | 100% | Wholly-owned | Freehold | First mortgage(7) |
| Four Seasons Resort Nevis, West Indies | 15% | Corporate joint venture | Freehold | First and second charge |
| The Pierre New York, New York | 100%(2) | Wholly-owned | Leasehold, expiring 2001, options to extend to 2011, currently being renegotiated | (5) |
| Four Seasons Hotel Paris, France | 15% | Partnership – General Partner | Freehold | (4) |
| Four Seasons Hotel Philadelphia, Pennsylvania | 5% | Partnership – Limited Partner | Freehold | First mortgage |
| Four Seasons Biltmore Santa Barbara, California | 50%(1)(2) | Partnership – General Partner | Freehold | First mortgage(8) |
| Four Seasons Olympic Hotel Seattle, Washington | 3.35% | Partnership – General Partner(9) | Leasehold, expiring 2040 | First and second mortgages |
| Four Seasons Hotel Toronto, Ontario | 100%(2) | Wholly-owned | Leasehold, initial expiry 2003, options to extend to 2077 | (5) |
| Four Seasons Hotel Vancouver, British Columbia | 100%(2) | Wholly-owned | Leasehold, initial expiry 2000, options to extend to 2035 | (5) |
| Four Seasons Hotel Washington, D.C. | 15% | Partnership – General Partner(9) | Freehold | First mortgage |

Notes:

(1) A formal plan was adopted to dispose of Four Seasons' ownership interest in the Four Seasons Biltmore, the Four Seasons Austin, and Water Tower Associates. Reference is made to Management's Discussion and Analysis "Equity Purchases and Restructuring".

(2) Four Seasons has entered into a non-binding letter of intent with E.I.E. International Corporation which contemplates, among other things, Four Seasons contributing its interest in these hotels to a hotel property joint venture which will be owned 20% by Four Seasons and 80% by EIE. Reference is made to "Future Hotel Opportunities – Regent International Hotels Transaction".

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

(4) No financing arrangements have yet been made for these properties.

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

(6) The first mortgage is in the principal amount of US$17.0 million, bears interest at 8.5% per annum and is due June 1, 1992. Four Seasons is currently negotiating the refinancing of this mortgage.

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

(8) The first mortgage is in the principal amount of US$49.2 million, and bears interest at LIBOR plus 1-5/8%, and is due December 31, 1992. Four Seasons is presently negotiating a three-year renewal of the first mortgage.

(9) 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

### Management Responsibilities

Four Seasons provides hotel management services to 18 urban hotels and five resort hotels. Five of these hotels are located in Canada, 15 in the United States; and one in each of the Caribbean, Japan and the United Kingdom. Four hotels are under construction and four additional hotels are under development. Reference is also made to "Future Hotel Opportunities".

Four Seasons assumes 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 relating to the operation of hotels; 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. 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.

### Funding of Managed Hotels

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 generally secured by a charge on the property (or in one case by an assignment of the owner's interest in the property) and are generally repayable out of operating cash flow from the hotel or on the sale or refinancing of the hotel or the termination of the relevant management agreement.

The Corporation advanced $8.6 million to fund certain construction costs of the Aviara project. These amounts will be repaid from the construction financing for the project when it is arranged. The advances are unsecured but the project is unencumbered by liens or mortgages.

During 1991, $10.4 million was advanced as capital and operating deficit loans to four hotel properties, including one under development and one newly opened resort.

These loans were funded by part of the proceeds from the debt and equity offerings completed in the first quarter of 1991. Approximately 36.3% of all the loans outstanding are secured and approximately 16.2% of all loans outstanding as at December, 1991 are due for repayment to Four Seasons in 1993.

Due to the impact of current economic conditions on the hotel industry, there is some uncertainty regarding the timing and form of realization of these loans. The Corporation believes that these loans can be realized upon a return to more normal market conditions, and that a material loss should not occur.

In 1985, prior to becoming a public company, Four Seasons identified certain of its assets as being ancillary to its principal business of managing and owning hotel properties. These assets and certain related liabilities were transferred to a private company, Tengis Limited ("Tengis"), which is owned by certain shareholders and former shareholders of the Corporation. One of the transferred assets was a vendor take-back mortgage receivable relating to the 1983 sale of the Inn on the Park, Toronto. Four Seasons is contingently liable for certain liabilities assumed by Tengis including third-party mortgages with respect to the Inn on the Park, Toronto in the aggregate principal amount of $18.7 million as at December 31, 1991. (Reference is made to Note 11(b)(ii) in the Notes to Consolidated Financial Statements.)

In 1991, Four Seasons also advanced $2.9 million to the Inn on the Park, Toronto and $5.3 million to Tengis relating to Four Seasons' guarantees of certain of Tengis' liabilities resulting from the reorganization in 1985. The advances allowed Tengis to service its debts resulting from the default of the owner of the hotel, VMS Realty Partners of Chicago ("VMS"). While the advances to the Inn on the Park, Toronto are unsecured, Four Seasons' advances to Tengis are secured by a floating charge on Tengis' assets.

In a related matter, VMS has ceased supporting the Inn on the Park, Toronto's service of its mortgage with Tengis. VMS has agreed to a consensual transfer of the property to Tengis. Due to the impact of current economic conditions on the real estate market and the hotel industry, there is some uncertainty that Tengis will be able to sell or refinance its assets for amounts sufficient to liquidate all of its obligations; however, the Corporation believes that a sale or refinancing of Tengis' assets will be able to be realized and that a material loss on its advances to and guarantees on behalf of Tengis should not occur.

**Hotel Employees**

At December 31, 1991, there were approximately 11,300 employees located at the 23 hotels managed by Four Seasons, the nine national sales offices, the central reservations offices and the corporate office. Hotel employees are usually employed by the hotel owner. Of the approximately 2,330 employees directly employed by Four Seasons, approximately 2,100 are employed in wholly-owned hotels, and approximately 230 are employed in the national sales offices, the central reservations offices and the corporate office.

Thirty percent 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. There are no material union contracts subject to renegotiation in 1992.

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 & Development, 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.

**Hotel Marketing**

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, Atlanta, 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 promoting the hotel as a centre of community activity with a view to developing local revenues, particularly from catering.

**Other Hotel Services**

Four Seasons 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 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 and will be incorporated into all of our hotels and resorts under construction and development. 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.

**Hotel Management Agreement Fees and Terms**

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

***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 1991, approximately 73% of total fee revenues were derived from fees calculated as a percentage of the gross operating revenue of all managed hotels. During 1991, Four Seasons also earned pre-opening development, technical services and purchasing fees for six of the nine hotels under construction and development, one of which was the Four Seasons Hotel, Tokyo which opened in January, 1992.

Hotel management agreements have remaining terms, including all renewal options, averaging 60 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 16 of the 23 operating hotels and six of the hotels under construction and 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. 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. See "Hotel Management Operations – Funding of Managed Hotels".

Four Seasons 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 fully 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.

Four Seasons ceased to manage the Inn on the Park, Houston, Texas on December 1, 1991. The end of Four Seasons' management of this property is a direct result of the sale of the hotel by its current owner to an affiliate of Omni Hotels, which has taken over management of the property. Four Seasons had managed the Inn on the Park since its opening in 1981. This change should have no material effect on Four Seasons' long-term financial position.

## Hotel Ownership Operations

Four Seasons has an equity interest in 14 of the 23 existing hotels and in two of the hotels under development and has equity partners in 11 of these investments. Reference is also made to "Future Hotel Opportunities" – page 54.

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.

**Four Seasons Austin**

On September 27, 1991 Four Seasons acquired the Four Seasons Hotel, Austin, Texas. The Four Seasons Hotel Austin opened in December 1986 and has since been managed by Four Seasons. Four Seasons used part of the proceeds of its public financings in the first quarter of 1991 to acquire this hotel at a favourable price. When the real estate capital markets improve, it is Four Seasons' intention to sell all or part of its equity position in the Austin hotel while retaining a long-term management agreement. As a result, this investment has been accounted for as an "*Asset held for sale*" on the Corporation's balance sheet.

**Four Seasons Biltmore, Santa Barbara**

During the third quarter of 1991, a restructuring of the partnership which owns the Santa Barbara hotel was completed resulting in a new investor acquiring the equity interest of VMS, Four Seasons' former partner. Four Seasons agreed to assume the operating and capital requirements for the hotel in return for a limitation on the new partner's participation in the ultimate sales proceeds of the property. In addition, Four Seasons is authorized to make all decisions on behalf of the partnership and is entitled to earn an incentive fee in connection with the management of the hotel.

Four Seasons intends to sell this hotel subject to the continuation of its long-term management contract.

## Hotels under Construction and Development

Properties under construction include resorts in North Kona, Hawaii and Carlsbad, California and urban hotels in Singapore and Mexico City. Construction of North Kona and Carlsbad resorts has been temporarily suspended pending the refinancing of these projects. It is anticipated that construction will resume in 1992. Properties under development include resorts in Ko Olina, Oahu, Hawaii; Costa Isabela, Puerto Rico; Scottsdale, Arizona; and an urban hotel in Paris, France. With the exception of the Paris hotel, completion of the other properties under development has been indefinitely delayed pending the recovery in the international climate for real estate financing. The development of Four Seasons' new urban property in Paris has been temporarily delayed due to unexpected changes in zoning and regulatory approvals relating to the entire development area within which the hotel is located. These delays should have no material effect on Four Seasons' long-term financial position.

Four Seasons has an ownership interest in two of the eight hotels currently under construction and development: The Four Seasons Hotel, Paris and the Four Seasons Resort, Aviara, Carlsbad. Four Seasons has an option to acquire an additional 4.9% equity interest in the Aviara hotel. Reference is also made to "Future Hotel Opportunities".

## 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. Four Seasons follows a program of hedging foreign currency exposure in United States dollars and pounds sterling through a combination of forward contracts, internal revenue hedges and asset/liability matching. Reference is made to the discussion of foreign currency in "Management's Discussion and Analysis".

Over the next few years, Four Seasons plans to open four additional properties outside of Canada and the United States as well as pursue the transaction described under "Future Hotel Opportunities".

This 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 Canada and the United States should sustain its growth in these markets and that growth and expansion in new markets will enhance the awareness of, and value inherent in, Four Seasons' name. International expansion will allow Four Seasons to access new markets and create greater protection from regional economic fluctuations.

Four Seasons has arranged foreign investment insurance for the Four Seasons Resort Nevis with the Export Development Corporation of Canada. This insurance covers sovereign risk associated with Four Seasons' equity investment in the resort and manager's loan to the resort owner. This insurance has reduced the financial risks associated with opening this foreign operation.

## The Environment

It is not anticipated that environmental protection requirements will have an effect on capital expenditures, earnings and the competitive position of the company 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 ten years, which has resulted in significant savings.

A waste management system is presently being implemented at all hotels and resorts based upon research and experiences at several hotels under management. Since 1990, progress has been made in the areas of recycling paper, cardboard, glass, cans, plastic, oil and grease. For example, during 1991, the Four Seasons Biltmore in Santa Barbara recycled 2.4 million gallons of water in the laundry, saved 1.2 million gallons of water through the use of low-flow toilets and shower heads, and recycled 78,000 pounds of glass, 75,000 pounds of cardboard, 24,000 pounds of newspaper and 8,150 pounds of paper. The recycling of edible food waste is being studied at two hotels for future implementation in all Four Seasons' hotels and resorts. Another hotel has installed a laundry waste water reclaim system which is expected to result in annual cost savings of US$30,000. This system is being planned for other hotels where applicable. 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 at all hotels and that additional revenues will be earned through the sale of recyclables.

Savings have also been realized in energy consumption costs. The implementation of a co-generation energy production program at one hotel during 1991 is expected to result in cost savings at that hotel of US$500,000 per annum. Another hotel has completed a lighting retrofit program in 1991 which is expected to reduce costs by US$30,000 per annum. The lighting retrofit program is being considered for all other hotels, while the co-generation program is being planned for other hotels where feasible.

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 four 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:

- The growth of the reputation of Four Seasons and its hotels in recent years, evidenced by frequent media exposure and consumer and industry endorsement.
- 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 increases each year in proportion to the changing nature of Four Seasons' operations and the conflicts that may arise with third parties. The eight new hotels and resorts under construction and development will carry the Four Seasons name. The Inn on the Park, London is having its identification with the Four Seasons brand name strengthened.

## Future Hotel Opportunities

The World Travel and Tourism Council reported in 1991 that travel and tourism is growing faster than the world economy in terms of output, value added, capital investment and employment. In 1992, travel and tourism sales are expected to maintain a rate of annual growth of 8.7%, capital investment, a 7% per annum growth rate and a 5.2% rate of employment growth.

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 those 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.

**Japan**

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 capitalize on 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 major travel and hospitality operators.

**Southeast Asia**

In addition, Four Seasons has agreed to form 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 will have 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. The Four Seasons Singapore, which is currently under construction and scheduled to open in 1993, will be the first hotel managed by this joint venture.

**Regent International Hotels Transaction**

On March 31, 1992, Four Seasons signed a letter of intent with E.I.E. International Corporation ("EIE"), a Japanese corporation, regarding a hotel management and hotel property transaction (the "Transaction").

The Transaction will involve EIE contributing certain of its majority-owned properties and other assets to a group of partnerships (the "Partnerships") holding certain of Four Seasons majority-owned properties. The Partnerships will be owned approximately 80% by EIE and 20% by Four Seasons. EIE will contibute its ownership interests in hotels in New York, Milan, Bali, Fiji and Beverly Hills (and Sydney if requisite consent is obtained), as well as its ownership in Regent International Hotels Limited ("Regent"), a wholly-owned subsidiary of EIE. The Partnerships will also hold Four Seasons interests in hotels in Toronto, Vancouver, Santa Barbara, Austin and New York. Four Seasons will also contribute cash in the amount of US$102 million. This cash contribution will be financed through a combination of existing working capital lines and a special acquisition facility that Four Seasons anticipates having in place by closing.

The Transaction will involve Four Seasons entering into new management contracts in respect of certain hotels that are presently controlled by EIE and which are managed or were to be managed by Regent. These hotels include properties in New York, Milan, Bali and Fiji, as well as Sydney and Bangkok if requisite consents are obtained. Four Seasons will provide advisory services to Regent in respect of the portfolio of hotels that Regent continues to manage. Four Seasons will also acquire all of Regent's intellectual property, including its trade names and trademarks.

During the first five years, each partner will be responsible for the development, opening and stabilization costs (including capital refurbishment programs) of the hotel properties it contributes. It is not anticipated that there will be any significant operating cash flow from the properties during this initial term. At the end of the initial term, the Partnerships will assume substantially all cash costs on a non-recourse basis to the partners.

The Partnerships will be governed by partnership agreements containing terms covering the distribution of cash flow and proceeds from the disposition of properties. Subject to certain limits, EIE will have the right to control the timing of property dispositions. The partnership agreements will also contain various remedies available to the partners if the contributed properties do not perform at the levels, or achieve the values, originally anticipated. These remedies will include a right to unwind the Partnerships in certain limited circumstances. In such event, Four Seasons will reacquire ownership of the properties that it contributed to the Partnerships (and that have not been disposed of by such date), will retain its role as manager of the hotels owned by the Partnerships and will acquire 100% ownership of Regent.

In a related transaction, Four Seasons will acquire certain assets of Regent in consideration for US$20 million payable, at the election of EIE, either in cash or unsecured debt of Four Seasons. This debt will be convertible into Subordinate Voting Shares of Four Seasons at $24 per share in certain circumstances. EIE must make its election on or before May 1, 1992.

Closing of the transaction is subject to a number of conditions including the completion of due diligence, negotiation and execution of definitive agreements, obtaining stock exchange, lender and other requisite approvals. Definitive agreements regarding the Transaction are scheduled to be entered into by the end of May 1992. The Transaction is scheduled to close by the end of June 1992.

## Selected Consolidated Financial Information

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

| | 1991 | 1990 | 1989 | 1988 | 1987 |
|---|---|---|---|---|---|
| **Consolidated Revenues** | **$ 166.7** | 188.2 | 207.8 | 228.4 | 216.7 |
| **Net Earnings before Extraordinary Items** | | | | | |
| Total | **$ 2.8** | 17.3 | 15.0 | 13.1 | 11.3 |
| **Per Share | **$ .13** | .86 | .76 | .67 | .58 |
| **Net Earnings after Extraordinary Items** | | | | | |
| Total | **$ 2.8** | 17.3 | 15.0 | 34.8 | 11.3 |
| **Per Share | **$ .13** | .86 | .76 | 1.77 | .58 |
| **Fully-Diluted Earnings Per Share | **$ .13** | .84 | .74 | 1.62 | .55 |
| **Total Assets** | **$ 337.6** | 241.9 | 230.6 | 196.7 | 189.3 |
| **Long-Term Debt** | **$ 111.3** | 39.2 | 37.7 | 42.9 | 81.5 |
| **Cash Dividends Per Share** | **$ .11** | .11 | .11 | .10 | .08 |

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

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

1. The December 1988 sale of a 50% interest in the Four Seasons Inn on the Park, London to 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.
2. The fact 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 the adoption of a formal plan to dispose of the hotel.
3. The completion during the first quarter of 1991 of public offerings of debt and equity which resulted in aggregate proceeds to the Company of almost $130 million. The $100 million unsecured debenture offering resulted in an increase in long-term debt in 1991. The money raised was used to repay short-term indebtedness and to finance the acquisition of the Four Seasons Austin, and capital and operational needs, including loans to various managed hotels pursuant to Four Seasons' management obligations.
4. The unique market conditions which existed in 1991. The Gulf War, the global threat of terrorism, the economic recession and overcapacity in certain markets had a significant negative impact on Four Seasons' 1991 operating results.

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

| (Dollar amounts are in thousands, except per share amounts) | 4th Quarter 1991 | 4th Quarter 1990 | 3rd Quarter 1991 | 3rd Quarter 1990 | 2nd Quarter 1991 | 2nd Quarter 1990 | 1st Quarter 1991 | 1st Quarter 1990 |
|---|---|---|---|---|---|---|---|---|
| a. Consolidated Revenues | **$ 45,812** | 52,091 | **42,493** | 42,947 | **46,461** | 48,768 | **31,909** | 44,350 |
| b. Net Earnings (Loss) Before Extraordinary Items | | | | | | | | |
| Total | **$ 2,395** | 4,631 | **2,386** | 4,020 | **2,123** | 6,947 | **(4,067)** | 1,724 |
| Per Share | **$ .11** | .23 | **.11** | .20 | **.10** | .34 | **(.19)** | .09 |
| c. Net Earnings (Loss) After Extraordinary Items | | | | | | | | |
| Total | **$ 2,395** | 4,631 | **2,386** | 4,020 | **2,123** | 6,947 | **(4,067)** | 1,724 |
| Per Share | **$ .11** | .23 | **.11** | .20 | **.10** | .34 | **(.19)** | .09 |
| Fully-Diluted Earnings (Loss) Per Share | **$ .11** | .22 | **.11** | .20 | **.10** | .33 | **(.19)** | .09 |

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 | Senior Operating Officer, 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 |
| 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) |
| Shuichiro Tamaki, Tokyo, Japan | Director | Managing Director, Industrial Bank of Japan Limited |
| 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 and Treasurer Four Seasons Hotels Limited |
| David C. Mongeau, Richmond Hill, Ontario | Senior Vice-President and Secretary | Senior Vice-President and Secretary Four Seasons Hotels Limited |
| Craig O. Reith, Toronto, Ontario | Assistant Treasurer | Director, Corporate Finance and Assistant Treasurer Four Seasons Hotels Limited |
| Kathleen Taylor, Toronto, Ontario | Vice-President and General Counsel | Vice-President and General 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. Shuichiro Tamaki was appointed to the Board of Directors on April 18, 1991. 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: Frederick Eisen who was Executive Vice-President of Bramalea Limited from September, 1990 through April, 1991, 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, and Corporate Counsel of FSHL prior to July 1987; Craig O. Reith who was Director, Corporate Finance prior to January 1992 and Manager, Taxation and Financial Reporting prior to January 1988; and Kathleen Taylor who was Corporate Counsel of Four Seasons Hotels Limited prior to January 1992 and an associate 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 May 13, 1992, prepared for the June 22, 1992 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, 1992, 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% |
| | Subordinate Voting Shares | beneficially and of record | 110,000 | 0.7% |

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 that beneficially own 50,386 and 50,834 Subordinate Voting Shares, respectively.

As at February 20, 1992, 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 | 2,004,514 | 12.1% |
| Multiple Voting Shares | 5,562,566 | 100% |