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Four Seasons · Regent
Hotels and Resorts

BUILDING A GLOBAL ENTERPRISE

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ANNUAL REPORT

Corporate Profile

Four Seasons Hotels Inc. operates the world's largest network of five-star hotels and resorts: 39 medium-sized urban hotels and resorts within major business centres and key leisure destinations in 16 countries, and eleven other properties under construction or development in nine countries. It also holds a number of minority equity investments in properties under its management. Generally identified by the brand names Four Seasons or Regent, most of these properties occupy locations that would be virtually impossible to duplicate, in many of the world's key business centres.

Both brands are also widely recognized for the exceptional quality of their guest facilities, service and atmosphere. For reasons such as these, Four Seasons ◆ Regent hotels were named more frequently than any other competitor among the world's best hotels and travel experiences by *Institutional Investor*, *Condé Nast Traveler* and others.

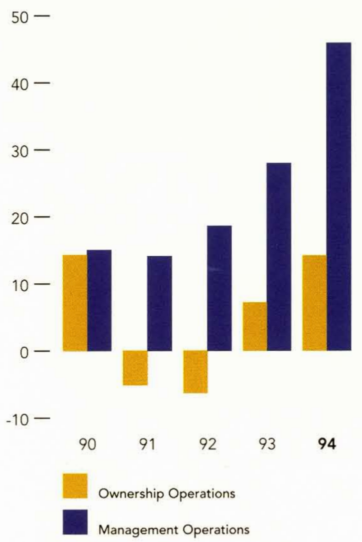
The Company's operations are supported by the efforts of a fully integrated sales and marketing organization, including 13 worldwide sales offices and a global reservation system, that permits international coverage and considerable cross-selling of both brands.

With a strategy to offer business and leisure travellers the finest hotel and resort accommodation in each destination it serves, Four Seasons ◆ Regent will pursue growth opportunities in major international centres and resort destinations to complement its market leadership in North America and Asia, its high profile in Australasia and its growing presence in Europe.

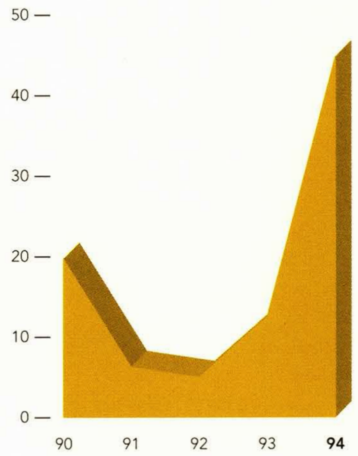
FINANCIAL HIGHLIGHTS

($ in millions except for per share amounts)	**1994**	1993	1992
Total revenues of all managed hotels	**$ 1,698.2**	1,351.9	878.7
Earnings before other operating items	**$ 60.0**	35.1	12.3
Net earnings (loss)	**$ 8.0**	(119.2)	7.7
Earnings (loss) per share	**$ 0.29**	(4.30)	0.32
Cash provided by operations	**$ 44.8**	12.5	5.0
Debt borrowed (repaid)	**$ (66.1)**	47.2	153.6
Debt-to-equity ratio, net of cash	**2.1**	2.7	1.2

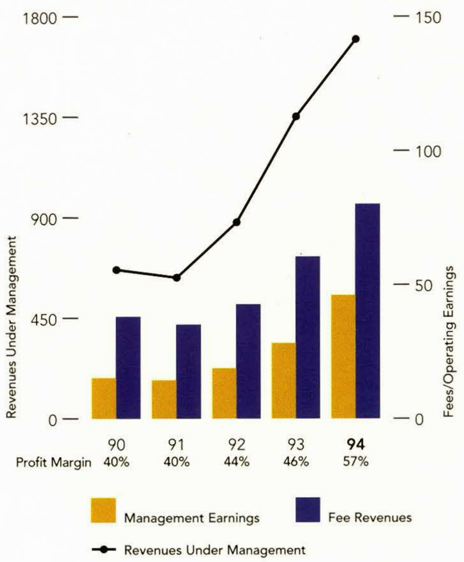
Earnings Before Other Operating Items
($ millions)



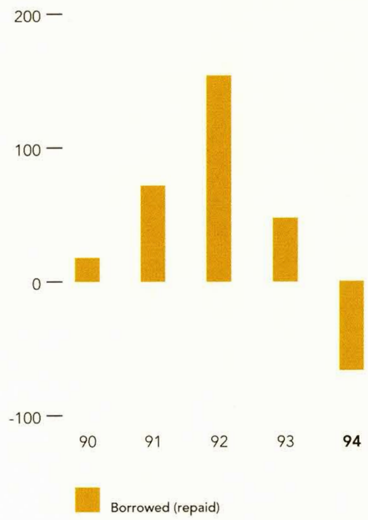
Cash Provided by Operations
($ millions)



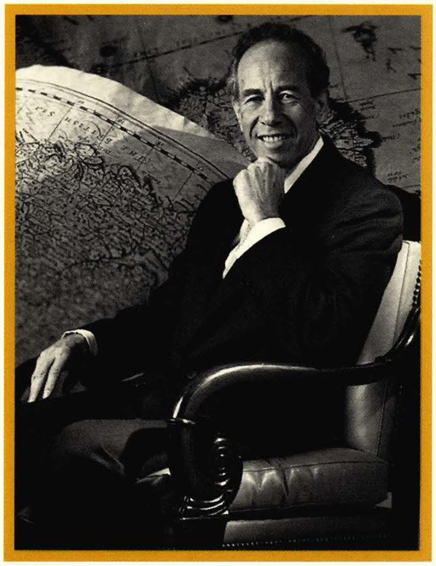
Hotel Management Operations
($ millions)



Debt Borrowed/Repaid
($ millions)



Chairman's Message



ISADORE SHARP
Chairman and President

For Four Seasons ◆ Regent Hotels and Resorts, 1994 was a year of financial restructuring and growth. It was also a year when we created an important strategic alliance to ensure that the Company's long-term objectives are achieved in the years ahead.

We began 1994 with a plan to reduce debt, to capitalize on the strengths inherent in our core management business and to solidify our leadership in the luxury hotel sector. We were also beginning the search for a strategic investor for the Company to assist with certain of my estate planning objectives and to provide stability and continuity for the Company in the years to come. On all fronts we have succeeded.

Operating earnings from the hotel management business increased 64% to almost $46 million, resulting in an operating profit margin of 57%, well in excess of our objective last year. Moreover, our earnings from hotel ownership operations improved even more dramatically, increasing approximately 98% from 1993 levels, reflecting the strong recovery in the major markets of London, Hong Kong and Chicago. In addition, cash flow from operations increased by $32 million to almost $45 million in 1994. Overall, net earnings were $8 million, or $14.9 million before a one-time adjustment for transaction costs associated with the search for a strategic investor. While this compares favourably with our 1993 net loss of $119.2 million (net earnings of $7.8 million before the real estate provision), we believe there are more significant improvements ahead as our debt position reduces and operating earnings continue to strengthen.

To that end, we took a major step forward in achieving our debt reduction target of $120 million from asset sales by the end of 1995. The sale of our real estate interests in Austin, Boston, San Francisco and Minaki in 1994 and early 1995 generated approximately $65 million, all of which was used to repay corporate debt. Consistent with our long-term goal to focus on the management of five-star properties, Four Seasons◆Regent has retained management of the Four Seasons Hotel in Boston and Austin under long-term contracts. We will aggressively continue our efforts to sell other real estate assets in 1995 which, together with cash generated by operations, are expected to generate between $65 million and $75 million for further reduction of corporate debt in 1995.

In early 1994, we began the search for a strategic investor for the Company. At that time, our stated objective was to identify a partner who shared the Company's values and who could provide the resources necessary to capitalize on growth opportunities. In September of last year the search ended, and other shareholders and I sold approximately 25% of our interests in the Company to

MANAGEMENT COMMITTEE

Standing, From Left to Right:
JOHN B. RICHARDS, *Senior Vice President Marketing;* CHRISTOPHER WALLIS, *Senior Vice President Design and Construction;*
DOUGLAS L. LUDWIG, *Chief Financial Officer, Senior Vice President Finance;*
JAMES F. BROWN, *Senior Vice President Operations;* JOHN L. SHARPE, *Executive Vice President Operations;*
H. ROGER GARLAND, *Executive Vice President Development, Finance and Administration;*
JOHN W. YOUNG, *Senior Vice President Human Resources.*

Seated, From Left to Right:
WOLF H. HENGST, *President, Regent International Hotels Limited;*
KATHLEEN TAYLOR, *Senior Vice President and General Counsel.*

His Royal Highness Prince Alwaleed Bin Talal Bin Abdulaziz Al Saud of Saudi Arabia. This transaction fully satisfies my estate planning needs and ensures continuity of leadership and the future stability of Four Seasons◆Regent. In His Royal Highness Prince Alwaleed we have gained an ideal partner whose access to capital and worldwide business relationships should provide a catalyst for the Company's international growth.

At the same time, our global expansion plans continued on track. New hotels opened in Mexico City and Singapore and management was assumed at the luxurious Four Seasons Resort in Palm Beach, Florida. In addition, hotels in Jakarta, Indonesia and

Chiang Mai, Thailand are opening in 1995. All of these properties are expected to contribute to substantial management fee growth over the next few years as their operations stabilize. Plans are also continuing for up to eight new hotels and resorts by the end of 1997, including hotels and resorts in Berlin, Cairo, Hualalai (Hawaii), Istanbul and Royal Sentul Highlands, near Jakarta. Also under active development are resorts in Punta Mita, near Puerto Vallarta, Mexico, and Goa and Bombay, India.

Notwithstanding these accomplishments, we have only just begun. With the luxury hotel industry's most powerful sales organization, the most highly motivated and well trained employees, and the strength of partners such as His Royal Highness Prince Alwaleed and others, the Company looks eagerly to the future. Development opportunities in the Middle East, Europe, China, other parts of Asia and Central and South America are just beginning to be explored. At the same time we will focus more of our resources on acquiring management of existing hotels, as we did in Palm Beach, which would add immediate and substantial management fee revenue to the Company, particularly in Europe and North America, where construction of new luxury hotels is now rare. As our management fee revenues increase and our corporate debt levels are further reduced, the future profitability of Four Seasons◆Regent and the continued creation of long-term shareholder value are promising.

In closing, I would like to extend a special thanks and congratulations to all of the loyal and talented employees of Four Seasons◆Regent who through their dedication and hard work have helped to make 1994 an especially satisfying and successful year.

ISADORE SHARP

Chairman and President

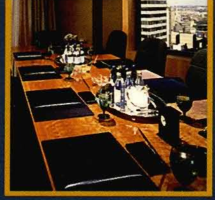
the Regent
SINGAPORE

A FOUR SEASONS • REGENT HOTEL

THE REGENT SINGAPORE Four Seasons◆Regent assumed management of this hotel as part of the Regent acquisition in August 1992. At that time, The Regent Singapore was experiencing very low occupancy levels. Today, as part of the Four Seasons◆Regent family, the hotel enjoys high occupancy and significantly improved profit performance, resulting from the operating strength and marketing expertise of Four Seasons◆Regent.

FOUR SEASONS HOTEL
Mexico City
A FOUR SEASONS • REGENT HOTEL

FOUR SEASONS HOTEL MEXICO CITY This hotel is strategically located on the historic Paseo de la Reforma between the Zona Rosa and Chapultepec Park, where the corporate, entertainment, retail, and historic districts of the city converge. Despite opening in low season in March 1994 due to construction delays, the hotel has already emerged as the rate leader in Mexico City, surpassing its budgeted yield targets by almost 30% in its first year of operation.



ACHIEVING

The occupancy levels and room rates of hotels managed by Four Seasons ◆ Regent rebounded strongly in 1994. In addition, virtually all hotels enjoyed a healthy increase in profitability as cost management programmes were combined with a broadly-based increase in demand and pricing levels in most markets. These factors, together with the strong occupancy and rate performance of recently opened hotels, provided substantial growth in the Company's hotel management operating earnings. At the same time, we instituted an aggressive program to reduce debt levels by selling real estate assets, helping to improve overall profitability.

FINANCIAL

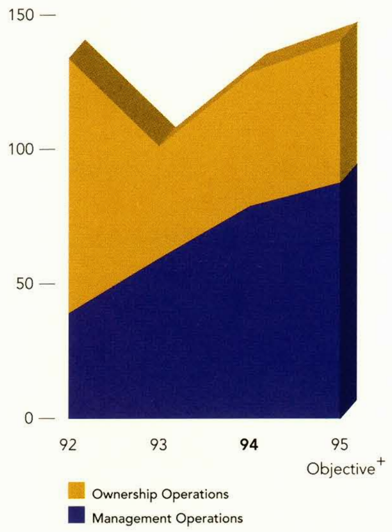
Over the next few years, earnings will be driven primarily by three factors: (1) anticipated growth in volume and profitability of the 39 hotels we currently manage; (2) fees from additional management contracts for existing and newly-developed hotels; and (3) lower interest expense, as debt levels are further reduced.

The implementation of the strategy of expanding the Company's hotel management business was accelerated by the acquisition of Regent International Hotels in 1992. The Company's income is now composed primarily of hotel management fees derived from a geographically diverse portfolio of international luxury hotels managed under the prestigious Four Seasons and Regent brand names.

STRENGTH

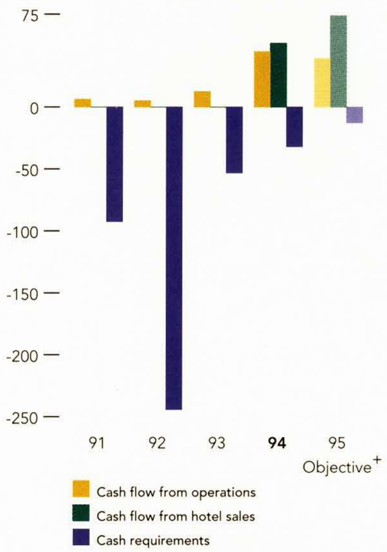
As our real estate asset sale strategy is completed, the Company will increasingly become a pure management services business which should benefit from the continued growth of hotels under its two premiere brand names.

Revenue Sources
($ millions)



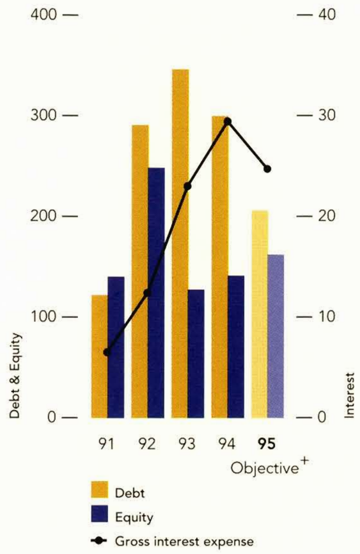
Interest expense peaked in 1994 and is expected to decrease as asset sales continue in 1995. In addition, a greater proportion of cash flow generated by operations is expected to be available to reduce debt in 1995 and 1996. Our goal is to reach the Company's long-term debt to equity ratio target of 1:1 during 1996.+

Cash Flow Generated & Total Cash Requirements
($ millions)



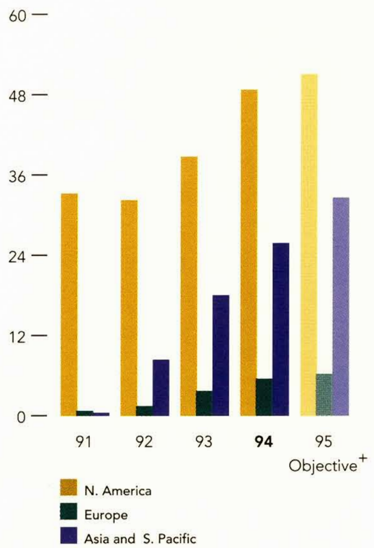
FOUR SEASONS · REGENT
Hotels and Resorts

Debt, Equity & Interest Expense
($ millions)



The Company's shift away from the capital-intensive real estate business and anticipated cash flow from its hotel management business, should alter its cash requirements significantly.

Fees by Region
($ millions)



Strong growth in the Company's management operations, combined with the increased geographic diversity of its fee income, should continue to provide a stable financial base, which is expected to minimize the effects of future real estate business cycles on the Company.

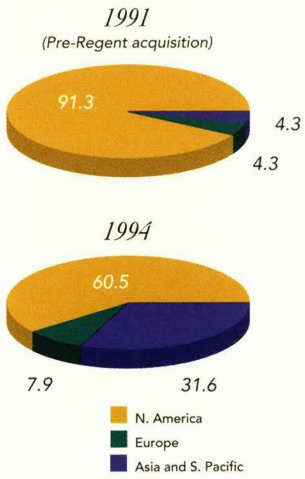
+These are the Company's objectives only and, although believed to be reasonable, there is no assurance that they can be achieved. For further information, reference should be made to Management's Discussion and Analysis commencing on page 42.

The acquisition of Regent was strategically important and has provided substantial financial benefits to the Company, including a return on the Regent investment in 1994 of over 29% after related interest expense. Initially, the transaction allowed the Company to develop a strong presence in Asia, the world's most rapidly growing economic region. As well as instantly adding the fee revenues from ten hotels, the Company acquired five new hotels under construction, three of which opened as Four Seasons hotels and two as Regents. It might have taken as many as 15 years for Four Seasons to develop the same kind of network independently. The acquisition also underscores the Company's ability to undertake substantial growth without adding significant overhead. Since the inclusion of Regent, operating margins in the Company's management business have increased to more than 57% in 1994, from approximately 46% in 1993 and 40% prior to the acquisition. The result is a much more diverse company with an important revenue stream in a rapidly growing part of the world, one that is expected to yield many new growth opportunities in the years to come.

The Regent acquisition added substantial geographic diversity and balance to the Company.

Geographic Trends

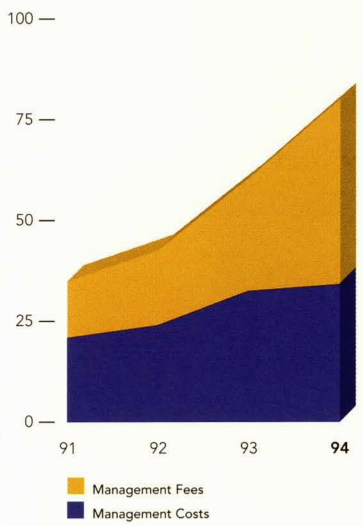
(Number of hotels by region)



In a relatively short period, the return on investment from Regent has significantly exceeded our cost of capital and represents an important contribution to hotel management fee growth.

Fees & Associated Costs

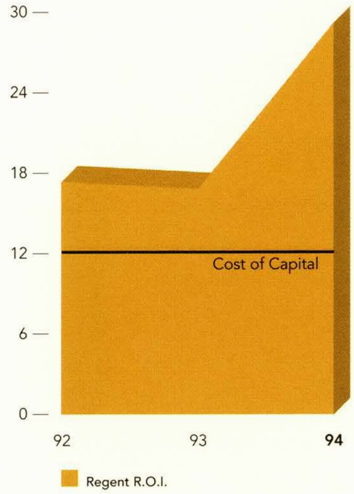
($ millions)



FOUR SEASONS · REGENT
Hotels and Resorts

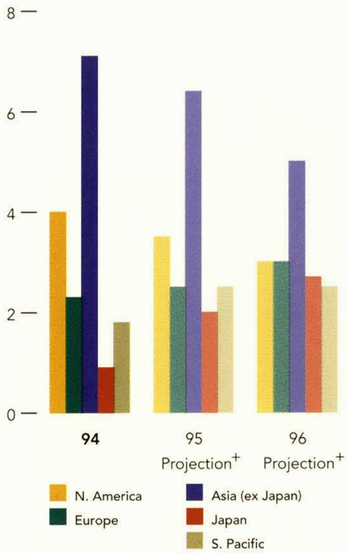
Regent Return on Investment

(percentage)



Projected GDP Growth: + *1994 - 1996*

(percentage)



The acquisition of Regent in 1992 added an important incremental fee stream to the management operations of the Company, without substantially increasing costs.

The Regent hotels are concentrated in an economic region of the world projected to grow significantly and provide new relationships that should assist in the expansion of the Four Seasons◆Regent hotel portfolio.

+ Source: Compiled from various independent publications.

FOUR SEASONS HOTEL
New York
A FOUR SEASONS · REGENT HOTEL

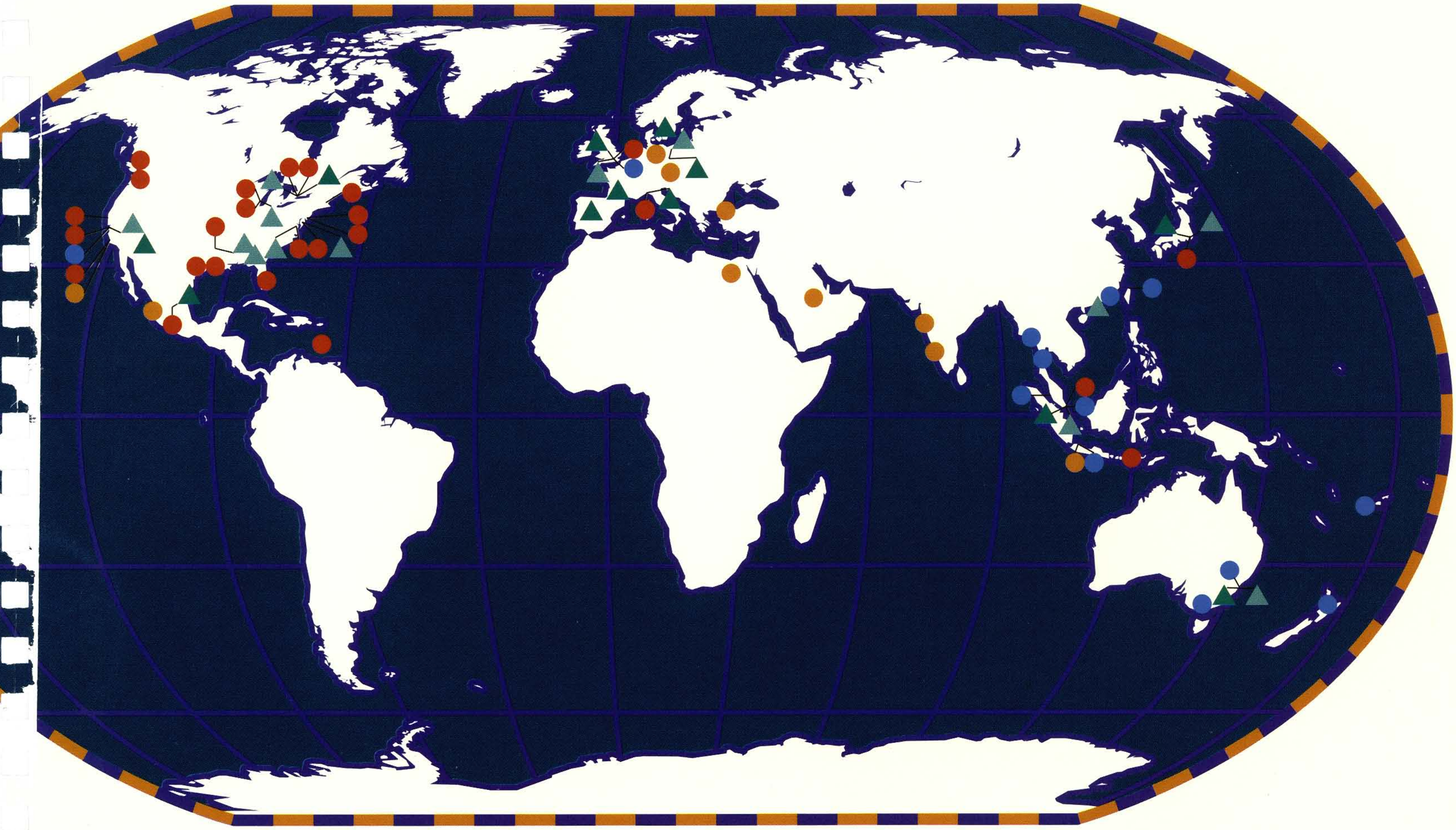
FOUR SEASONS HOTEL NEW YORK The management contract for this hotel was acquired as part of the Regent acquisition just 10 months before its opening, at a time when the New York hotel market was suffering severely from the recession. Notwithstanding this inauspicious timing, the Four Seasons Hotel in New York opened to rave reviews and today is widely recognized as the market leader.

THE REGENT HONG KONG The Regent Hong Kong was the centerpiece of the Regent chain when it was acquired by Four Seasons in August 1992. It was a popular and world renowned hotel, but ready for capital investment and an updating of its food and beverage concepts. Over the past two years, the hotel has undergone a major renovation programme, upgrading bedrooms, suites, public areas and restaurants. Combined with stronger global marketing and reservation support, the hotel has experienced dramatic growth in revenue and finished 1994 significantly ahead of its profit targets and previous bottom-line performance.

Leveraging Our Capabilities Globally

The combination of Four Seasons and Regent created the largest network of luxury hotels in the world. This merger has been accompanied by the continued growth and development of marketing, reservation and operational management capabilities to support highly profitable international expansion. The growing global presence of Four Seasons◆Regent has improved its visibility and broadened access to new development opportunities. The successful consolidation of Regent has provided direct evidence of the capabilities of this network. For example, in the first full year of operation after the integration of Regent into the Four Seasons reservation system, Regent's individual reservation volume grew by 20%, while its group sales volume grew by 15%. This early demonstration of the ability of the global network to support a new group of hotels in diverse locations provides strong evidence to new investors of the power of the Four Seasons◆Regent combination.

Four Seasons ◆ Regent is now established in most key business centres and leisure destinations in the world and supported by an integrated network of 13 sales offices and 12 reservation centres.



FOUR SEASONS HOTELS AND RESORTS

REGENT INTERNATIONAL HOTEL OR RESORT

HOTELS UNDER CONSTRUCTION OR DEVELOPMENT

WORLDWIDE SALES OFFICES

RESERVATION CENTRES

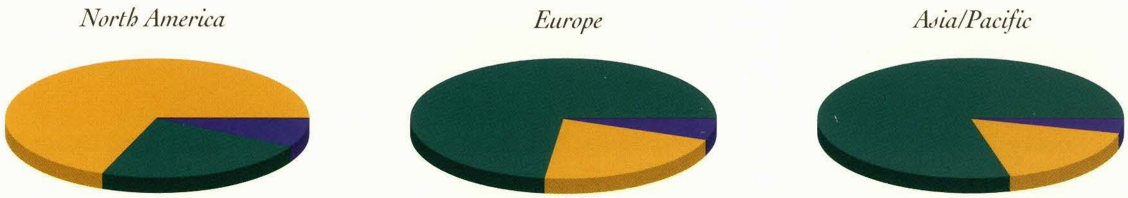
Four Seasons◆Regent, with its impressive global marketing and management expertise, has proven to be an attractive choice for owners and developers of luxury hotels. In 1994, Four Seasons added the Ocean Grand in Palm Beach, Florida to its resort portfolio and opened two new city-centre Four Seasons hotels in Mexico City and Singapore. In 1995, Regent added The Regent Hotel in Jakarta to its urban hotel group and The Regent Resort in Chiang Mai, Thailand to its resort portfolio.

Looking to the future, we have several projects scheduled to open between 1996 and the end of 1998. Among these are Four Seasons◆Regent hotels and resorts under construction or development in Aviara (California), Berlin, Bombay, Cairo, Goa (India), Hualalai (Hawaii), Istanbul, Punta Mita near Puerto Vallarta, Mexico, Prague, Riyadh and Royal Sentul Highlands near Jakarta.

In addition to these development projects, Four Seasons◆Regent is actively pursuing new opportunities in such rapidly growing areas as China, Asia and the Middle East.

WORLDWIDE GROUP SALES AND RESERVATIONS

Room nights from Sales Offices and Reservation Centres in:



To Four Seasons ◆ Regent hotels and resorts in:

The combined Four Seasons◆Regent sales and reservation system moves business around the world, effectively leveraging a strong customer base in North America and Asia on behalf of all its managed hotels.

TOP-OF-MIND AWARENESS RANKING+

	Four Seasons	Regent
North America	1	2
United Kingdom	1	4
Germany	2	1
Japan	1	2
Hong Kong	3	2
Singapore	3	1
Australia	3	1

Source: Goldfarb Consultants
+Among top six luxury hotel companies worldwide

The fact that the Regent and Four Seasons brands typically rank within the top three luxury brand names in primary markets throughout the world is strong incentive for owners and developers of luxury hotels to affiliate with the group.

ESTABLISHING

Historically, Four Seasons has aligned itself with strong partners who have a commitment to luxury hotels and an understanding of the benefits that a strong brand name can bring to their developments.

Initially, virtually all of the Company's North American hotels were developed with the support of such partners. More recently, Four Seasons allied itself with major Japanese banking interests to acquire Regent. New projects in Singapore, Indonesia and Thailand are the result of both ongoing and new relationships with significant Asian business interests.

STRATEGIC

At the end of last year, the Company continued this strategy by establishing an important strategic alliance with His Royal Highness Prince Alwaleed Bin Talal Bin Abdulaziz Al Saud of Saudi Arabia. This relationship is expected to fuel new growth through the development of additional hotel projects around the world. His Royal Highness Prince Alwaleed's commitment to the Company, through his 26.63% stock ownership, access to significant capital and his international relationships, create a strong partnership for the further development of Four Seasons◆Regent. His Royal Highness Prince Alwaleed will own a Four Seasons hotel now under development in Riyadh, demonstrating the long-term potential of this relationship.

ALLIANCES

New Openings

ISTANBUL, TURKEY
(1996)

An intimate hotel of just 65 rooms and suites, the Four Seasons Hotel is set in Istanbul's historic heart, neighbouring the Blue Mosque, Topkapi Palace and Haga Sophia.

CHIANG MAI, THAILAND
(1995)

Located in the Mae Rim Valley of northern Thailand, The Regent Chiang Mai combines exotic Lanna Kingdom architecture (circa 1296 AD) with every contemporary convenience.

ROYAL SENTUL HIGHLANDS, INDONESIA (1996)

Just an hour south of Jakarta in the peaceful hills at Pasir Maung, The Regent Resort and Club will offer championship calibre golf on a Gary Player designed 18-hole course.

JAKARTA, INDONESIA
(1995)

The Regent Jakarta, situated in the city's "Golden Triangle", offers international business travellers exceptional services and facilities.

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 and the selection of accounting principles appropriate to the Corporation's circumstances. 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, for items such as the useful lives of capital assets and provisions for impairment in the value of assets. 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 is also responsible for maintaining a system of internal controls and budgeting procedures which are designed to provide reasonable assurance that assets are safeguarded, transactions are executed and recorded in accordance with management's authorization, and relevant and reliable financial information is produced. To augment the internal control system, the Corporation maintains a programme of internal audits covering significant aspects of the 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, the independent auditors' report and other financial information appearing in the Corporation's Annual 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.

KPMG Peat Marwick Thorne, the independent auditors appointed by the shareholders of the Corporation, have examined the financial statements in accordance with generally accepted auditing standards.

Isadore Sharp
Chairman and President
March 8, 1995

Douglas L. Ludwig
Chief Financial Officer,
Senior Vice President and Treasurer

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Four Seasons Hotels Inc. as at December 31, 1994 and 1993 and the consolidated statements of operations, cash provided by operations, changes in financial position and deficit 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, 1994 and 1993 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
March 8, 1995

KPMG Peat Marwick Thorne
Chartered Accountants

Consolidated Statements of Operations

Years ended December 31, 1994 and 1993 *(In thousands of dollars except for per share amounts)*	1994	1993
HOTEL MANAGEMENT OPERATIONS		
Total revenues of all managed hotels	**$ 1,698,155**	$ 1,351,926
Fee revenues	**$ 79,884**	$ 60,279
General and administrative expenses	**(34,000)**	(32,359)
	45,884	27,920
HOTEL OWNERSHIP OPERATIONS		
Revenues	**43,093**	38,019
Distributions from hotel investments	**6,795**	3,839
Expenses:		
Cost of sales and expenses	**(34,464)**	(33,675)
Fees to Hotel Management Operations	**(1,271)**	(1,021)
	14,153	7,162
Earnings before other operating items	**60,037**	35,082
Other operating items:		
Investment income	**510**	4,770
Depreciation and amortization	**(15,702)**	(13,216)
Provision for loss on mortgages receivable *(note 4)*	**–**	(17,000)
Provision for loss on investments in hotel partnerships *(note 2)*	**–**	(110,000)
Earnings (loss) from operations	**44,845**	(100,364)
Interest expense, net *(note 10(f))*	**(27,239)**	(17,855)
Earnings (loss) before undernoted item and taxes	**17,606**	(118,219)
Costs associated with sale of shares *(note 11)*	**(6,828)**	–
Earnings (loss) before taxes	**10,778**	(118,219)
Income tax (expense) recovery *(note 12)*:		
Current	**(2,297)**	(1,482)
Deferred	**(459)**	468
	(2,756)	(1,014)
Net earnings (loss)	**$ 8,022**	$ (119,233)
Earnings (loss) per share	**$ 0.29**	$ (4.30)

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

December 31, 1994 and 1993 *(In thousands of dollars)*	1994	1993
ASSETS		
Current assets:		
Cash and short-term investments	$ 9,436	$ 11,926
Receivables *(note 3)*	39,182	25,975
Inventory	814	750
Prepaid expenses	1,440	1,795
	50,872	40,446
Notes and mortgages receivable *(note 4)*	25,098	37,475
Investments in hotel partnerships *(notes 2 and 5)*	151,256	171,873
Fixed assets *(note 6)*	68,052	72,606
Investment in management contracts *(note 7)*	116,486	114,323
Investment in trademarks and trade names *(note 8)*	64,238	65,889
Other assets *(note 9)*	21,534	20,288
	$ 497,536	$ 522,900

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board of Directors:

Isadore Sharp
Director

Benjamin Swirsky
Director

December 31, 1994 and 1993

(In thousands of dollars)	1994	1993
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Bank indebtedness	**$ –**	$ 825
Accounts payable and accrued liabilities	**44,904**	36,253
Long-term debt due within one year	**876**	3,821
	45,780	40,899
Long-term debt *(note 10)*	**307,721**	352,898
Deferred income taxes	**3,530**	2,316
Shareholders' equity *(note 11)*:		
Capital stock	**175,729**	169,810
Contributed surplus	**4,784**	4,784
Deficit	**(38,076)**	(43,007)
Equity adjustment from foreign currency translation	**(1,932)**	(4,800)
	140,505	126,787
Commitments and contingencies *(notes 5(a), 10 and 13)*		
	$ 497,536	$ 522,900

Consolidated Statements of Cash Provided by Operations

Years ended December 31, 1994 and 1993 *(In thousands of dollars)*	1994	1993
CASH PROVIDED BY (USED IN) OPERATIONS:		
HOTEL MANAGEMENT OPERATIONS		
Earnings before other operating items	**$ 45,884**	$ 27,920
Items not requiring an outlay of funds	**1,000**	189
Working capital provided by Hotel Management Operations	**46,884**	28,109
HOTEL OWNERSHIP OPERATIONS		
Earnings before other operating items	**14,153**	7,162
Items not providing an inflow of funds	**(915)**	(2,297)
Working capital provided by Hotel Ownership Operations	**13,238**	4,865
	60,122	32,974
Investment income	**510**	1,794
Interest paid, net	**(18,829)**	(17,534)
Current income tax expense	**(2,297)**	(1,482)
Change in non-cash working capital	**5,270**	(3,273)
Cash provided by operations	**$ 44,776**	$ 12,479

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Financial Position

Years ended December 31, 1994 and 1993
(In thousands of dollars)

	1994	1993
CASH PROVIDED BY (USED IN)		
Operations	**$ 44,776**	$ 12,479
Financing:		
Long-term debt, including current portion:		
Issued	**5,537**	195,711
Repaid	**(71,676)**	(148,553)
Issuance of shares *(note 11)*	**5,919**	271
Costs associated with sale of shares *(note 11)*	**(6,828)**	–
Other	**234**	(1,408)
Cash provided by (used in) financing	**(66,814)**	46,021
Capital investments:		
Increase in notes and mortgages receivable	**(8,213)**	(9,663)
Decrease in notes and mortgages receivable	**905**	1,605
Hotel investments	**(16,648)**	(37,375)
Reduction of Regent purchase price	**2,500**	6,625
Investment in trademarks, trade names and management contracts	**(701)**	(662)
Disposal of hotel investments *(note 2)*	**51,680**	–
Purchase of fixed assets	**(1,576)**	(1,519)
Other assets	**(5,052)**	(9,091)
Cash provided by (used in) capital investments	**22,895**	(50,080)
Dividends	**(3,091)**	(3,054)
Increase (decrease) in cash	**(2,234)**	5,366
Increase in cash due to unrealized foreign exchange gain	**569**	229
Cash and short-term investments less bank indebtedness, beginning of year	**11,101**	5,506
Cash and short-term investments less bank indebtedness, end of year	**$ 9,436**	$ 11,101

See accompanying notes to consolidated financial statements.

Consolidated Statements of Deficit

Years ended December 31, 1994 and 1993
(In thousands of dollars)

	1994	1993
Retained earnings (deficit), beginning of year	**$ (43,007)**	$ 79,280
Net earnings (loss) for the year	**8,022**	(119,233)
Dividends	**(3,091)**	(3,054)
Deficit, end of year	**$ (38,076)**	$ (43,007)

See accompanying notes to consolidated financial statements.

Years ended December 31, 1994 and 1993
(In thousands of dollars, except per share amounts)

Four Seasons Hotels Inc. is incorporated under The Business Corporations Act of the Province of Ontario and, through its subsidiaries, is engaged in the management of, and the investment in, hotel and resort properties throughout the world. (Four Seasons Hotels Inc. and its subsidiaries are collectively referred to as the "Corporation".)

On August 14, 1992, the Corporation acquired all of the outstanding shares of Regent International Hotels Limited ("Regent") from Hotel Investment Corporation ("HIC"), a Japanese corporation, thereby acquiring the "Regent" trademark and trade names, 15 management contracts and a 25% leasehold interest in The Regent Hotel, Hong Kong. Contemporaneously, the Corporation formed a group of partnerships (referred to collectively as "FRA Properties") with HIC to which each partner has contributed its ownership interest in certain hotels.

At December 31, 1994, and taking into account the transactions referred to above, the Corporation managed 38 hotels and had 12 hotels under construction or development, of which the Corporation had an equity interest in 16 hotels under management and 4 hotels under construction or 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 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. In addition, certain management contracts are terminable by the hotel owner on a change of control of the Corporation.

1. SIGNIFICANT ACCOUNTING POLICIES:

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.

(a) Principles of consolidation:

The Corporation consolidates all of its wholly-owned subsidiaries, including its primary operating subsidiaries – Four Seasons Hotels Limited and Regent.

The Corporation proportionately consolidates its hotel joint ventures – The Ritz-Carlton Hotel, Chicago (25%) and the Four Seasons Hotel, London (50%).

Until its disposition on December 30, 1994, the Corporation also consolidated its wholly-owned hotel – Four Seasons Resort, Minaki Lodge.

(b) Accounting for investments in hotel partnerships:

The Corporation accounts for its investment in notes and mortgages receivable and capital of FRA Properties on the cost basis (FRA Properties owns controlling interests in eight hotels). The Corporation's ownership interest in these eight hotels, through its investment in FRA Properties, are as follows:

Corporation contributed hotels:	
The Pierre Hotel, New York	19.9%
Four Seasons Hotel, Toronto	19.9%
Inn on the Park, Toronto	19.9%
Four Seasons Hotel, Vancouver	19.9%
Four Seasons Biltmore Resort, Santa Barbara	10%
HIC contributed hotels:	
Four Seasons Hotel, Milan	19.9%
The Regent Resort, Nadi Bay, Fiji	18%
Four Seasons Hotel, New York	14.9%

The Corporation recognizes revenue on its investment in the capital of FRA Properties when distributions are received from the partnership. Interest revenue is recognized on notes and mortgages receivable from FRA Properties in accordance with the terms of the related debt instruments and the terms of the FRA Properties partnership agreements, provided there is reasonable assurance as to collectibility.

Investments in other partnerships and corporations that own or lease the following hotels are accounted for by the cost method because the percentage ownership and structure does not give the Corporation significant influence:

Operating hotels:	
The Regent Hotel, Hong Kong	25%
Four Seasons Hotel, Washington D.C.	15%
Four Seasons Resort, Nevis	15%
Four Seasons Hotel, Chicago	7.7%
Four Seasons Hotel, Philadelphia	5%
Four Seasons Olympic Hotel, Seattle	3.35%
Under construction or development:	
Four Seasons Hotel, Berlin (under construction)	23%
The Regent Hotel, Jakarta (under construction)	5%
Four Seasons Resort, Aviara, Carlsbad, California (under development)	5%
Four Seasons Hotel, Prague (under development)	*

**Equity interest not yet finalized.*

The Corporation recognizes revenue on its investment in these partnerships and corporations when profit distributions are received from the partnerships or corporations.

In the event of a decline in the value of an investment in the equity or debt of a hotel partnership or corporation which is other than temporary, the investment is written down to the estimated recoverable amount.

(c) Translation of foreign currencies:

Foreign currency balances of the Corporation and of foreign operations designated as integrated 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 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, and gains or losses related to monetary items that are designated as hedges of investments in self-sustaining foreign operations which are deferred and included in a separate component of shareholders' equity.

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.

The resulting exchange gains and losses are deferred and included in a separate component of shareholders' equity.

(d) Capital assets:

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

Hotel 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.

Trademarks, trade names and management contracts are recorded at cost less accumulated amortization. Cost includes amounts paid to third parties to acquire the trademarks, trade names and management contracts, and out-of-pocket expenditures directly related to the acquisition of these intangible capital assets.

(e) Depreciation and amortization of capital assets:

Depreciation of buildings is recorded on a straight-line basis over forty years.

Depreciation of 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 5 to 10 years.

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

The costs allocated to trademarks and trade names are being amortized on a straight-line basis over a forty-year period.

The costs allocated to management contracts acquired as part of the acquisition of Regent are being amortized over the remaining terms of the contracts (assuming the exercise of all renewal options), using an increasing charge method of amortization which matches amortization expense with projected fees from the management contracts. The deferred charges associated with new management contracts developed by the Corporation are amortized on a straight-line basis over a ten-year period commencing when the hotel is opened.

(f) Deferred charges:

The Corporation defers expenditures directly relating to the negotiation, structuring and execution of new hotel contracts. When the hotel is opened, these deferred charges are reclassified to "Investment in management contracts". If the project is abandoned, any deferred charges are written off.

(g) Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

2. DISPOSITION OF INVESTMENTS IN HOTEL PARTNERSHIPS AND JOINT VENTURE:

In November 1993, the Corporation and FRA Properties implemented a programme to dispose of seven hotel properties, including four hotels that had been transferred by the Corporation to FRA Properties in 1992 (note 5(a)), a hotel owned by a joint venture in which the Corporation is a partner (which is proportionately consolidated), a wholly-owned consolidated hotel and a hotel on which the Corporation holds a mortgage (note 4). During 1994, the Corporation added its investment in another hotel partnership to this disposition programme. This programme is expected to be completed by December 31, 1995 and is intended to reduce the Corporation's real estate exposure, reduce the Corporation's exposure to the funding requirements of FRA Properties (note 5(a)(iii)), and significantly reduce the Corporation's debt position.

(a) 1994 Disposals of hotel investments:

During 1994, the Corporation completed the sale of three of the hotels included in the disposition programme for cash proceeds (net of commissions and other costs of disposition) of $51,680. This cash was applied to reduce bank loans (note 10(c)).

The Corporation also sold its investment in the mortgages on one of the hotels in the disposition programme for US$11 million. This transaction closed in February 1995.

(b) Accounting for disposition programme:

The disposition programme for these eight hotels represents the sale of a substantial portion of the Corporation's Hotel Ownership segment. Accordingly, in 1993, the Corporation was required to estimate whether it would realize a net gain or loss on the entire disposition programme (including results of operations of consolidated hotels and cash shortfall funding commitments on non-consolidated hotel investments, through to the estimated disposal dates). An anticipated net loss on the disposition programme is required to be recorded at the date of implementation of the programme; whereas an anticipated net gain is recorded when it is realized.

Accordingly, during 1993, based on the expressions of interest received on the hotel properties for sale held by FRA Properties and analyses of the recoverable value of the other contributed hotels which are not included in the disposition programme, the Corporation concluded that it was unlikely that it would recover all of its investment in FRA Properties. In addition, the Corporation believed that it would realize a gain on the sale of the joint venture hotel; however, the sale programme for this hotel had not reached the point where a reliable estimate of this gain could be made. The Corporation therefore recorded a provision of $110 million for possible loss on its real estate exposures, primarily the investment in FRA Properties and a provision of $17 million for possible loss on its loan portfolio.

During 1994, the Corporation further refined its estimate of the net gain or loss on the remaining assets in the disposition programme, including the effect of the transactions completed in 1994 (see (a) above), and concluded that it is likely that a net gain will be realized. This gain will be recorded as it is realized through positive earnings of the joint venture hotel, and through actual disposal transactions.

3. RECEIVABLES:

	1994	1993
Trade accounts	**$ 2,404**	$ 1,766
Receivable from hotel partnerships, affiliates and managed hotels	**18,107**	18,086
Receivable from sale of mortgages *(note 4)*	**13,229**	–
Other	**5,442**	6,123
	$ 39,182	$ 25,975

4. NOTES AND MORTGAGES RECEIVABLE:

	1994	1993
Secured loans:		
Due from directors, officers and employees, non-interest-bearing notes and mortgages	**$ 3,806**	$ 3,332
Secured by hotel properties, at rates varying between LIBOR plus 1% and 8%, including US$13,125 (1993 – US$34,435)	**20,947**	45,607
To Tengis *(note 13(b)(ii))*, interest at prime plus 1/2%, including US$2,968 (1993 – US$2,007)	**9,606**	8,311
Unsecured loans:		
To a hotel under development, interest at US prime plus 1%, including US$10,409 (1993 – US$10,346)	**14,624**	13,709
To managed hotels at rates varying between prime plus 1/2% and prime plus 1%, including US$5,048 (1993 – US$3,560)	**7,093**	4,716
	56,076	75,675
Provisions for doubtful notes and mortgages	**(30,978)**	(38,200)
	$ 25,098	$ 37,475

During the year ended December 31, 1994, the Corporation made loans and advances of approximately US$4.0 million (1993 – US$4.0 million) to various managed hotels (excluding FRA Mortgages, which are included in "Investments in hotel partnerships" – note 5) pursuant to its contractual obligations to fund certain hotel renovation programmes and operating cash flow requirements. Loans to managed hotels are interest bearing 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 contract.

As at December 31, 1994, the Corporation has outstanding advances of approximately US$10.4 million (1993 – US$10.3 million) to a hotel under development, where construction has been suspended pending the arrangement of permanent financing for the project. Interest is not being recognized by the Corporation on these advances.

In addition, as at December 31, 1994, the Corporation has outstanding advances totalling approximately $20.2 million (1993 – $44.2 million), on which interest is not being received by the Corporation and/or where there is significant doubt about the ability of the borrower to fully repay the amounts due to the Corporation. The Corporation concluded in previous years that there was increasing risk that it could suffer a loss on these loans; accordingly, the Corporation recorded a provision in 1993 of $8.7 million for the possible loss. Interest is not being recognized by the Corporation on these loans.

During 1993, the Corporation also recorded a provision of $8.3 million for possible loss on the loan to Tengis (note 13(b)(ii)).

During 1994, the Corporation sold certain notes, secured by a hotel for sale (note 2(a)).

5. INVESTMENTS IN HOTEL PARTNERSHIPS:

	1994	1993
FRA Properties (a):		
FRA Mortgages and Stabilization Loans Receivable	**$ 116,105**	$ 134,952
Preferred capital	**78,550**	76,346
	194,655	211,298
The Regent Hotel, Hong Kong (b)	**22,957**	22,870
Other hotel partnerships	**40,314**	47,705
	257,926	281,873
Provision for loss *(note 2)*	**(106,670)**	(110,000)
	$ 151,256	$ 171,873

(a) Investment in FRA Properties:

The Corporation and HIC contributed their ownership interest and their leasehold interest in certain hotels to FRA Properties. As consideration for these transfers, the Corporation and HIC received or have the right to receive notes and mortgages receivable from FRA Properties ("FRA Mortgages"), the majority of which are secured by certain of the properties transferred by the Corporation and HIC to FRA Properties, and received preferred capital in FRA Properties. In addition, the Corporation owns an indirect 19.9% (HIC – 80.1%) limited partnership interest in FRA Properties and 19.9% (HIC – 80.1%) of the outstanding shares in the General Partner of FRA Properties.

The Corporation and HIC have entered into a unanimous shareholders' agreement in respect of the General Partner of FRA Properties with the effect that HIC has the ability to exercise control over FRA Properties, subject to certain minority safeguards in favour of the Corporation. As a result, the Corporation accounts for its investment in FRA Properties on the cost basis.

(i) FRA Mortgages and Stabilization Loans Receivable:

FRA Mortgages and Stabilization Loans Receivable (the majority of which are secured by certain of the hotel properties contributed by the Corporation to FRA Properties) are paid out in priority to any distribution to the partners on their preferred or subordinated capital in the partnership.

Until December 31, 1996, FRA Mortgages and Stabilization Loans Receivable on the properties contributed by the partners to FRA Properties are non-recourse to the non-contributing partner and interest and scheduled principal amortization payments may not exceed a weighted average rate of 4.5% per annum. During 1994, interest was recognized only on a cash basis on FRA Mortgages and Stabilization Loans Receivable.

With effect from January 1, 1997, provided FRA Properties is not terminated (see (iv) below), interest and scheduled principal amortization payments on the FRA Mortgages and Stabilization Loans Receivable relating to a partner's contributed properties may not exceed a weighted average rate of 7% per annum. In addition, the maximum principal amount of FRA Mortgages in respect of the properties contributed by the Corporation will be reduced (assuming no intervening property dispositions). The reduction in the maximum amounts of FRA Mortgages will be reclassified to each partners' preferred capital in FRA Properties (see (ii) below).

(ii) Preferred capital:

Until December 31, 1996, the amount of preferred capital of FRA Properties held by the Corporation is US$47.4 million (assuming no further hotel dispositions or acquisitions). With effect from January 1, 1997, the amount of preferred capital of FRA Properties held by the Corporation will, in connection with the restructuring of the FRA Mortgages and Stabilization Loans Receivable, be increased to US$147.4 million (assuming no further hotel dispositions or acquisitions). These amounts represent approximately 40.3% and 46.3% of the aggregate amounts of preferred capital of FRA Properties outstanding in the respective period.

The preferred capital allocated to a hotel is redeemable from the proceeds of any capital transaction (sale or refinancing) relating to that hotel, after repayment of any FRA Mortgages and Stabilization Loans.

(iii) The Corporation's and HIC's funding commitments to FRA Properties:

Until December 31, 1996, each partner will be responsible for the operating cash deficiencies, normal capital refurbishing and major renovation programmes of the hotel properties contributed to FRA Properties. The Corporation committed to complete normal capital refurbishing and major renovation programmes at its contributed hotels by December 31, 1996. As at December 31, 1994, approximately US$11 million remains to be contributed for these programmes by the Corporation to FRA Properties as FRA Mortgages and preferred capital. This commitment may be reduced upon the disposition prior to December 31, 1996 of the hotel properties held for sale by FRA Properties. Failure to complete any such capital programmes could result in the particular property being removed from FRA Properties. In the case of operating cash deficiencies, funds will be advanced as "Stabilization Loans Receivable".

With effect from January 1, 1997, provided FRA Properties is not terminated (as discussed below), the funding commitments of the Corporation and HIC to FRA Properties in respect of the contributed hotels terminate, and FRA Properties will assume substantially all cash costs of the hotel properties, including debt service and lease payments, on a non-recourse basis to the partners.

(iv) Key terms of the Partnership Agreements:

FRA Properties is governed by partnership agreements dated August 14, 1992, which 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 include the right by either partner to cause the termination of FRA Properties in certain limited circumstances. The first such right is exercisable in 1997 and is based upon performance of the contributed properties of the other partner in the financial year ending December 31, 1996. The partner whose contributed properties are not achieving the requisite level of performance based on net operating profit can, in certain instances, avoid the termination of FRA Properties by restructuring the debt in respect of its contributed properties or withdrawing certain properties from FRA Properties.

If FRA Properties is not terminated in 1997, the Corporation is required to make a capital contribution to FRA Properties of a prescribed amount not to exceed US$5.6 million, subject to reduction upon the prior disposition of any HIC-contributed hotels.

Commencing in 1997 and ending in 2002, HIC has the unilateral right, upon payment to the Corporation of a prescribed amount – US$10 million in 1997 and declining to US$5 million in 2002 – to cause FRA Properties to be terminated if the Corporation's contributed properties do not, as a group, contribute net operating profit to FRA Properties (determined on the basis of a two-year average). The Corporation has the right to avoid termination of FRA Properties during the period from 1997 to 2002 on the same basis that is applicable for the 1997 termination right discussed above.

In the event of the termination of FRA Properties, ownership of the properties that it contributed (and that have not been disposed of by such date) will revert to the Corporation, and the Corporation will retain its role as manager of the hotels then owned by FRA Properties.

The transfer or sale by HIC and the Corporation of their interests in FRA Properties is restricted during the period ending December 31, 1996.

(b) Investment in The Regent Hotel, Hong Kong:

The Corporation's 25% leasehold interest in The Regent Hotel, Hong Kong is being accounted for using the cost method, as management does not believe it has the ability to exercise significant influence over this investment. The hotel has a history of paying out its earnings as dividends; therefore, the Corporation recognizes revenues on this investment as such dividends are declared.

The initial term of the leasehold terminates in December 2000; accordingly, the Corporation amortizes the investment in The Regent Hotel, Hong Kong on a straight line basis over the remaining term of the leasehold. Amortization expense during the year was $2,880 (1993 – $2,290).

In December 1994, the Corporation received a US$1.8 million payment as an adjustment to the purchase price of Regent. This purchase price adjustment was accounted for as a reduction of the price allocated to the 25% interest in The Regent Hotel, Hong Kong.

6. FIXED ASSETS:

			1994	1993
	Cost	Accumulated depreciation/ amortization	Net book value	Net book value
Land	$ 4,339	$ –	$ 4,339	$ 4,160
Buildings	23,395	(2,706)	20,689	20,527
Furniture, fixtures and equipment	29,159	(18,114)	11,045	11,856
Leasehold interests and improvements	48,676	(18,072)	30,604	34,851
	$ 105,569	$ (38,892)	66,677	71,394
Operating equipment			1,375	1,212
			$ 68,052	$ 72,606

Depreciation and amortization expense for fixed assets was $5,134 (1993 – $4,854).

7. INVESTMENT IN MANAGEMENT CONTRACTS:

	1994	1993
Management contracts, at cost	$ 131,461	$ 123,163
Less accumulated amortization	(14,975)	(8,840)
	$ 116,486	$ 114,323

Amortization expense for management contracts was $5,638 (1993 – $4,775).

8. INVESTMENT IN TRADEMARKS AND TRADE NAMES:

	1994	1993
Trademarks and trade names, at cost	$ 68,992	$ 68,711
Less accumulated amortization	(4,754)	(2,822)
	$ 64,238	$ 65,889

Amortization expense for trademarks and trade names was $1,735 (1993 – $1,974).

In July 1993, the Corporation was advised that The Regent Beverly Wilshire Hotel would not be contributed by HIC to FRA Properties. As a result, in August 1993, the Corporation received a US$5 million payment as an adjustment to the purchase price of Regent. This purchase price adjustment was accounted for in 1993 as a reduction of the price allocated to trademarks and trade names.

9. OTHER ASSETS:

	1994	1993
Bonds and debentures	$ 2,871	$ 1,714
Cash surrender value of life insurance policies (a)	9,272	7,757
Deferred development costs	3,936	3,703
Deferred financing costs	4,368	4,738
Other deferred costs	1,087	2,376
	$ 21,534	$ 20,288

(a) These policies insure the lives of senior executives to finance pension benefit obligations for these individuals (note 13(b)(vii)). These policies are held directly and indirectly by the Corporation.

10. LONG-TERM DEBT:

	1994	1993
Unsecured debentures (a)	$ 122,227	$ 115,267
Unsecured notes (b)	161,575	152,375
Bank loans (c)	2,810	68,768
Mortgages (d)	10,538	9,625
Other long-term liabilities	11,447	10,684
	308,597	356,719
Less amounts due within one year	(876)	(3,821)
	$ 307,721	$ 352,898

(a) Unsecured debentures:

The unsecured debentures, due on March 25, 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 plus 0.986%. Interest is payable semi-annually.

As at December 31, 1994, the cost to unwind the cross currency interest rate exchange agreements would have been $19,919 and is included in the balance of unsecured debentures.

(b) Unsecured notes:

The unsecured notes, with a face value of US$115,000, were issued on June 30, 1993 at a discount for US$114,270, and are due on July 1, 2000. The notes bear interest at 9 1/8%, payable semi-annually, and are redeemable at the option of the Corporation, in whole or in part, at any time on or after July 1, 1998, at redemption prices provided for in the indenture.

(c) Bank loans:

The Corporation's long-term bank debt includes US$2,000 (1993 – US$10,000) which bears interest at LIBOR plus 1/2%, and also included in 1993 $49,500 which bore interest at Canadian bankers' acceptance rate plus 5/8% and $6,018 which bore interest at Canadian prime. During 1994, bank loans were repaid primarily from the cash proceeds from the disposition of hotel investments (note 2(a)). The US$100 million committed bank credit facility under which these loans have been advanced matures in March 1997. This bank debt is secured by a charge over virtually all of the Corporation's Canadian assets.

(d) Mortgages:

Mortgages are secured by fixed charges on specific hotel properties. US$7,500 (1993 – US$5,000) is due in 1997, and bears interest at the lower of LIBOR plus 2% and US prime plus 1%. The Corporation has jointly and severally guaranteed US$3,000 of this proportionately consolidated debt, which is held by a partnership. A $3,000 mortgage, which bore interest at the lesser of 15% of principal and 25% of defined profits, was repaid in 1994.

(e) Scheduled long-term debt repayments:

1995	$ 876
1996	123,109
1997	12,831
1998	896
1999	2,309
Subsequent to 1999	168,576
	$ 308,597

(f) Interest expense, net:

	1994	1993
Interest on long-term debt	**$ (28,759)**	$ (21,569)
Other interest expense	**(671)**	(1,421)
Interest income	**2,191**	5,135
Interest expense, net	**$ (27,239)**	$ (17,855)

(g) Restrictive debt covenants:

The bank loan agreement contains certain covenants which require the Corporation to maintain certain financial ratios, and together with the trust indentures relating to the unsecured debentures and the unsecured notes, contains additional covenants which, in certain circumstances, restrict the Corporation's ability to borrow funds ranking superior to these obligations and undertake certain types of major transactions. The Corporation was in compliance with these covenants during 1994. In addition, the unsecured notes and bank loans are callable by the creditors on a change of control of the Corporation.

11. SHAREHOLDERS' EQUITY:

(a) Capital stock:

Authorized:

4,171,924	Multiple Voting Shares ("MVS"), voting (12 votes per share) and ranking equally with Subordinate Voting Shares ("SVS") as to dividends and distributions on liquidation or winding-up of the Corporation. MVS are convertible into SVS on a one-for-one basis at the option of the holder. The shares automatically convert into SVS upon any transfer outside of the family of Isadore Sharp, except a transfer of a majority of the shares to a purchaser who also makes an equivalent offer to purchase all outstanding MVS and SVS.
Unlimited	Subordinate Voting Shares, voting (one vote per share) and ranking equally with MVS as to dividends and distributions on liquidation or winding-up of the Corporation.

290,000 — Employee Preference Shares ("EPS"), non-voting and ranking equally (to the extent of issue price plus declared and unpaid dividends) with MVS and SVS as to distributions on liquidation or winding-up of the Corporation. Dividends will be as determined by the Board of Directors. The shares are convertible at the option of the holder (20% exercisable on the anniversaries of the first through fifth years from the date of issue) into 2.14286 SVS per EPS. The shares must be redeemed by the Corporation within 35 days after the holder ceases to be an employee of the Corporation, or after ten years from issuance.

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

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

Issued and fully paid:

	MVS		SVS		EPS		
	Shares	Stated Value	Shares	Stated Value	Shares	Stated Value	Total
December 31, 1992	5,562,566	$ 61	22,176,546	$ 168,580	82,723	$ 1,241	$ 169,882
Additional costs	–	–	–	(343)	–	–	(343)
Converted	–	–	2,142	15	(1,000)	(15)	–
Options exercised for cash	–	–	34,000	271	–	–	271
December 31, 1993	5,562,566	61	22,212,688	168,523	81,723	1,226	169,810
Converted	(1,390,642)	(15)	1,434,420	322	(20,430)	(307)	–
Options exercised for cash	–	–	603,935	5,919	–	–	5,919
December 31, 1994	**4,171,924**	**$ 46**	**24,251,043**	**$ 174,764**	**61,293**	**$ 919**	**$ 175,729**

At the Special Meeting of Shareholders on December 19, 1989, the shareholders approved a Long-term Incentive Plan whereby the chief executive officer of the Corporation was granted the right to receive a special payment on an arm's length sale of control of the Corporation ("the sale"). 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 the weighted average price of board lots traded on the Toronto Stock Exchange in the five trading days preceding the date of grant. The options are not transferable, have a term of 10 years, and generally become exercisable in varying proportions on the first, second, third, fourth and fifth anniversaries of the date of grant. All such options become exercisable within specified periods in the event of retirement, termination other than for cause (including as a result of a change of control of the Corporation), incapacity or death of the director, executive or employee. As at December 31, 1994, there were options outstanding on 2,158,465 SVS at prices varying between $7.00 and $14.93 per share. During 1994, 800,000 (1993 – 32,000) options were granted to officers and employees at prices ranging from $11.30 to $14.93 per share (1993 – ranging from $15.08 to $15.45 per share).

In January 1994, the Corporation's Board of Directors approved the cancellation of options outstanding at December 31, 1993 on 1,324,100 SVS which were originally granted at prices ranging between $15.07 and $19.55 and granted new options on 1,324,100 SVS at a price of $12.63.

On November 10, 1994, Kingdom Investments Inc. acquired approximately 25% of the outstanding shares of the Corporation by purchasing 1,390,642 MVS, 5,531,784 SVS, 20,430 EPS and options to purchase 602,300 SVS. On the sale to Kingdom Investments Inc., the MVS, EPS and options were converted to SVS.

In connection with the purchase by Kingdom Investments Inc., the Corporation incurred expenses of approximately $6,828, primarily for investment banking costs associated with the search for a strategic investor. These costs have been expensed in the consolidated statements of operations. These costs were funded primarily from the proceeds received by the Corporation of $5,919 on the exercise of employee options acquired by Kingdom Investments Inc.

(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.

12. 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:

	1994	1993
Earnings (loss) before income taxes	**$ 10,778**	$ (118,219)
Items not subject to tax	**2,183**	3,908
Earnings (loss) subject to tax	**$ 12,961**	$ (114,311)
Expected Canadian federal and provincial statutory tax rate	**41.5%**	41.5%
Expected income tax (expense) recovery	**$ (5,379)**	$ 47,439
Reduction in income tax due to lower foreign tax rates	**5,387**	4,545
Losses not tax effected	**(2,652)**	–
Provision not tax effected	**–**	(52,705)
Other	**(112)**	(293)
Income tax expense	**$ (2,756)**	$ (1,014)

The tax benefits of the provisions of $127,000 recorded in 1993 and losses of approximately $6,000 incurred by certain subsidiaries of the Corporation in 1994 were not recognized in these financial statements. Approximately $45,000 of the provisions, when realized for income tax purposes, will constitute capital losses, which can be applied only against future taxable capital gains, if any. The remainder of the provisions and the 1994 losses will be available to be applied against future taxable income. The tax benefits of the provisions and losses not tax effected will be recorded in the year(s) in which the benefits are realized.

13. COMMITMENTS AND CONTINGENCIES:

(a) Lease commitments:

The Corporation has entered into lease agreements for certain hotel properties for periods up to the year 2054 (including head lease obligations relating to three properties contributed to FRA Properties). 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:

1995	$ 13,885
1996	13,122
1997	17,446
1998	18,731
1999	20,210
Subsequent to 1999	356,265
	$ 439,659

The total lease commitments include approximately $116 million relating to the Corporation's hotels in London and Vancouver which are included in the asset disposition programme (note 2). It also includes the lease commitments relating to one of the Corporation's hotels which is expected to open in 1996.

In connection with the transfer of the operations and operating assets of the Corporation's hotels in Toronto, Vancouver and The Pierre Hotel, New York to FRA Properties, the Corporation entered into sub-lease agreements with FRA Properties that provide for the payment by FRA Properties of all rental payments due by the Corporation to the landlords. The minimum rental payments relating to these hotels are included in the above lease commitments. In addition, with respect to the sub-leases for the hotels in Toronto and The Pierre Hotel, New York, FRA Properties is required to pay to the Corporation, as additional rent, an amount equal to the depreciation expense on the unamortized cost of the Corporation's investment in leasehold improvements in these hotels, and an amount equal to 4.5% (7% from January 1, 1997) of approximately US$36 million and Cdn. $38 million for the two hotels (which represents the Corporation's preferential payment from the proceeds on disposition of FRA Properties' leasehold interest in these two hotels). During 1994, income from the sub-leases was not recognized by the Corporation.

The Corporation has provided a US$5 million letter of credit to support its obligations under the leasehold at The Pierre Hotel.

(b) Contingencies:

(i) The Corporation is contingently liable for some or all of the obligations of certain of the managed hotels and/or partnerships and joint ventures in which it has a direct interest (note 5). The Corporation has outstanding guarantees and letters of credit totalling US$2.5 million to secure certain of these obligations. However, against this contingent liability the Corporation would have a claim upon the assets of the partnerships and joint ventures and, in certain limited cases, 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 Tengis:

(a) notes payable in the aggregate amount of US$5,761 as at December 31, 1994;

(b) guarantees and undertakings given by the Corporation related to certain of the transferred assets aggregating $1,064 as at December 31, 1994; and

(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.

During 1994, the Corporation advanced $1,092 (1993 – $1,932) to Tengis to enable it to meet principal and interest payment obligations on notes payable guaranteed by the Corporation, and to meet the company's operating cash needs. All advances to December 31, 1994 and the anticipated funding for 1995 were provided for in 1993. In addition, in connection with the transfer to FRA Properties of the Inn on the Park, Toronto in 1992 (note 5(a)), FRA Properties assumed debt of $16.9 million (of which $15.1 million remained outstanding at December 31, 1994) owed by Tengis to a Canadian chartered bank. This debt matured on December 31, 1994 but the maturity date has been extended to June 30, 1995. A guarantee has been provided by the Corporation on this amount. The Inn on the Park, Toronto is included in the asset disposition programme (note 2).

As at December 31, 1994, $9,606 is owed by Tengis to the Corporation. This amount is secured by certain assets of Tengis. In order to repay these amounts to the Corporation and liquidate the other obligations guaranteed by the Corporation, Tengis will be required to sell or refinance the majority of its assets. Due to the impact of current economic conditions on the real estate industry, Tengis may be unable to sell or refinance its assets for amounts sufficient to liquidate all of its obligations. Accordingly, in 1993, the Corporation reviewed the net realizable value of Tengis' assets and determined that a provision for the full amount of the Corporation's advances was required. Commencing in 1993, the Corporation also discontinued recognizing interest income on these advances.

(iii) The Corporation has guaranteed US$6,250 of the principal amount of the mortgage debt which matures in March 1996, up to US$15,000 as to interest and operating expenses, and compliance with environmental and disability laws, in connection with the Four Seasons Biltmore Resort, Santa Barbara.

(iv) In September 1992, the Corporation received notice that the owner of a managed hotel considers that the Corporation's acquisition of Regent, which manages a hotel in the same city, has breached the radius restriction in their management contract. Discussions with the owner with a view to resolving this issue are still pending. No further action has been taken by the owner.

(v) 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.

(vi) The Corporation has guaranteed certain obligations of various directors, officers, and employees in the amount of $1,743.

(vii) The Corporation maintains a multi-employer non-contributory defined benefit pension plan (the "Plan") on behalf of the Corporation and the owners of certain managed hotels. The Plan provides pension benefits for certain senior executives of the Corporation and hotel general managers, based on years and level of service and annual earnings.

Extrapolation of the actuarial valuation of the Plan dated January 1, 1994, based on projections of employees' compensation levels to the date of retirement, indicate an actuarial value of accumulated Plan benefits as at December 31, 1994 of $11,583 for 49 participants, of which the Corporation's share was approximately $7,066 for 27 participants. These benefits are financed by life insurance policies on the lives of each of the participants in the Plan. The Corporation's share of the cash surrender value of the policies as at December 31, 1994 was $9,272 (note 9).

In addition, the Corporation maintains an unfunded, non-contributory deferred compensation plan for the purpose of providing retirement benefits for certain other senior executives and hotel general managers.

14. SEGMENTED INFORMATION:

(a) Total consolidated revenues:

	1994			1993		
	Hotel Management revenues	**Hotel Ownership revenues**	**Total consolidated revenues**	Hotel Management revenues	Hotel Ownership revenues	Total consolidated revenues
United States	**$ 43,882**	**$ 14,924**	**$ 58,806**	$ 33,816	$ 13,016	$ 46,832
Canada	**5,042**	**2,998**	**8,040**	4,846	2,446	7,292
United Kingdom and Europe	**5,069**	**25,171**	**30,240**	3,656	22,557	26,213
Asia	**20,578**	**6,795**	**27,373**	14,758	3,839	18,597
South Pacific	**5,313**	**–**	**5,313**	3,203	–	3,203
	79,884	**49,888**	**129,772**	60,279	41,858	102,137
Less inter-segment revenues	**(1,271)**	**–**	**(1,271)**	(1,021)	–	(1,021)
	$ 78,613	**$ 49,888**	**$ 128,501**	$ 59,258	$ 41,858	$ 101,116

(b) Earnings (loss) from operations:

General and administrative expenses of the Hotel Management Operations have been allocated to specific geographic segments based on the percentage of revenues earned by the Hotel Management Operations in those geographic segments.

	1994			1993		
	Earnings before other operating items	**Other operating items**	**Earnings (loss) from operations**	Earnings before other operating items	Other operating items	Earnings (loss) from operations
United States	**$ 26,640**	**$ (4,880)**	**$ 21,760**	$ 14,526	$ (62,648)	$ (48,122)
Canada	**(29)**	**(1,123)**	**(1,152)**	1,599	(61,660)	(60,061)
United Kingdom and Europe	**9,750**	**(2,385)**	**7,365**	7,201	(5,355)	1,846
Asia	**19,948**	**(6,223)**	**13,725**	9,438	(5,285)	4,153
South Pacific	**3,728**	**(581)**	**3,147**	2,318	(498)	1,820
	$ 60,037	**$ (15,192)**	**$ 44,845**	$ 35,082	$ (135,446)	$ (100,364)

(c) Total assets:

	1994	1993
United States	**$ 223,000**	$ 261,185
Canada	**94,942**	90,220
United Kingdom and Europe	**37,525**	35,667
Asia	**123,915**	121,187
South Pacific	**18,154**	14,641
	$ 497,536	$ 522,900

Five-Year Review

Years ended December 31

(Dollar amounts are in millions except per share amounts)

	1994	1993	1992	1991	1990
Summary of Operations					
Revenues under management	**$ 1,698.2**	1,351.9	878.7	631.0	666.1
Consolidated revenues	**$ 128.5**	101.1	133.9	166.7	188.2
Hotel Management fee revenues	**$ 79.9**	60.3	42.5	34.9	37.8
Hotel Management operations*	**$ 45.9**	27.9	18.6	14.1	15.0
Hotel Ownership revenues	**$ 49.9**	41.9	94.9	137.4	157.2
Hotel Ownership operations*	**$ 14.2**	7.2	(6.3)	(5.1)	12.6
Total operations*	**$ 60.0**	35.1	12.3	9.0	27.6
Net interest expense	**$ 27.2**	17.9	8.6	—	1.2
Depreciation and amortization	**$ 15.7**	13.2	12.8	10.8	8.1
Net earnings (loss)	**$ 8.0**	(119.2)	7.7	2.8	17.3
Changes in Financial Position					
Cash provided by operations	**$ 44.8**	12.5	5.0	6.3	19.7
Notes and mortgages receivable	**$ (7.3)**	(8.1)	(12.3)	(28.1)	1.7
Investments	**$ (14.8)**	(31.4)	(323.8)	(7.9)	(5.4)
Disposals (purchases) of hotels	**$ 51.7**	—	110.5	(26.6)	(9.3)
Capital expenditures	**$ (1.6)**	(1.5)	(14.0)	(21.5)	(19.1)
Dividends	**$ (3.1)**	(3.1)	(2.7)	(2.4)	(2.2)
Capitalization and returns					
Debt, net of cash	**$ 299.2**	345.6	290.2	121.3	60.7
Shareholders' equity	**$ 140.5**	126.8	247.8	139.6	112.4
Debt-to-equity ratio, net of cash	**2.1**	2.7	1.2	0.9	0.5
Per share data**					
Earnings (loss) per share, basic and fully diluted	**$ 0.29**	(4.30)	0.32	0.13	0.84
Cash dividend per share	**$ 0.11**	0.11	0.11	0.11	0.11
Other Data**					
Market price at year-end	**$ 16.25**	13.00	19.38	17.50	16.00
Common stock outstanding (millions)	**28.4**	27.8	27.7	22.2	20.1
Market capitalization	**$ 461.9**	361.1	537.6	388.5	321.4
Available rooms	**12,972**	12,556	12,138	7,300	7,400
Employees	**21,500**	20,050	19,500	11,300	10,700

* Earnings (loss) before other operating items.

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

THE YEAR IN REVIEW

In 1994, Four Seasons Hotels Inc. ("Four Seasons♦Regent" or the "Corporation") achieved a number of key objectives, the highlights of which are as follows:

- The Corporation repaid more than $66 million of long-term debt during the year using the cash generated by the sale of three real estate assets (see discussion under "Asset Disposition Programme") and excess cash generated from operations.
- As a result of the asset sales in 1994, and the completion of the sale of the notes and mortgages receivable relating to the Four Seasons Clift Hotel in San Francisco in early 1995, the Corporation passed the half-way mark in meeting its objective of reducing total corporate debt by approximately $120 million from the sale of real estate assets (see discussion under "Asset Disposition Programme"). This reduction in corporate debt levels will have a positive effect on net earnings in 1995 as interest costs are reduced. The Corporation continues to manage two of the hotels sold (Austin and Boston) under long-term management contracts.
- The acquisition of Regent in August 1992, combined with improving economic conditions, has allowed the Corporation to achieve earnings from Hotel Management Operations of $45.9 million in 1994, an increase of 64% over 1993 and 226% over 1991, the year prior to the Regent acquisition.
- In 1994, the profit margin on Hotel Management Operations increased to 57%, as compared to 46% in 1993 and 40% in the year prior to the Regent acquisition.
- Cash flow generated from operations during the year increased to $44.8 million from $12.5 million in 1993. Total capital spending, dividends paid and FRA funding for 1994 was $34.4 million, a reduction of $25.4 million from the 1993 amount of $59.8 million.
- Four Seasons and Regent hotels under management showed an average increase of more than 20% in yield (yield is defined as occupancy multiplied by the achieved room rate) in 1994, reflecting the results of the strong economic recovery which has positively affected virtually all of the Corporation's geographic segments. The strong recovery in occupancies and room rates, combined with effective cost control measures implemented over the past few recessionary years, resulted in an increase of approximately 57% in the average gross operating profit of managed hotels in 1994, which in turn contributed to a strong increase in the Corporation's incentive fee revenues.
- With the assimilation of the Regent and Four Seasons organizational structures completed in late 1993, it is anticipated that the Corporation's infrastructure of international sales and reservations offices will be able to handle Four Seasons♦Regent's growth in the coming years.

OPERATIONS OVERVIEW

Four Seasons♦Regent has two distinct operating segments: Hotel Management Operations and Hotel Ownership Operations. Hotel Management Operations contributed 76% of the Corporation's operating earnings before other operating items in 1994. The growth strategy of the Corporation is to increase the percentage of its operating earnings that are generated by Hotel Management Operations by disposing of its major real estate interests over the short term, thereby substantially eliminating its Hotel Ownership Operations segment, and to continue to acquire management contracts of international luxury hotels and resorts over the long term. Four Seasons♦Regent will, however, consider on a selected basis, acquiring minority equity interests in hotels or resorts, or making loans of a limited amount, in order to secure long-term management contracts.

Hotel Management Operations

Four Seasons♦Regent currently manages 39[1] luxury hotels and resorts under the Four Seasons and Regent brand names in 16 countries on behalf of various owners. An additional 11 properties which Four Seasons♦Regent will manage are under construction or development in nine countries.

Generally the Hotel Management segment has the following characteristics:

- stable earnings and cash flow, as approximately 72% of revenues from Hotel Management Operations were derived in 1994 from fees based upon a percentage of total gross revenues generated by the managed hotels and resorts;
- management contracts are generally long-term, with average remaining terms, including all renewal options exercisable by Four Seasons♦Regent, of approximately 49 years;
- hotel owners fund substantially all capital expenditures and working capital requirements of the hotel, including all employment and operating costs; and
- reputation and marketing expertise are essential to success in the luxury segment and represent a significant barrier to entry. Four Seasons has developed its reputation and brand name over the past 35 years, while Regent was established in Asia more than 25 years ago.

Since 1991, the Corporation has increased the number of rooms under management by approximately 6,100[1], which represent approximately 46% of the total rooms currently under management. The acquisition of Regent in August 1992 resulted in additional management fee revenues from 15 hotels (either opened or under construction at the time of the acquisition, including The Regent Hotel Jakarta which will open in 1995). The Corporation has commenced management of five other hotels in this period (Tokyo (1992), Palm Beach, Florida (1994), Mexico (1994), Singapore (1994) and Chiang Mai, Thailand (1995). The Corporation expects to open two hotels and two resorts in 1996.

Hotel Ownership Operations

Four Seasons♦Regent holds an equity interest in 17 of the 39[1] hotels and resorts under management and will hold such an interest in four of the 11 hotels under construction or development. The Corporation's material investments relate to its 50% interest in the Four Seasons Hotel London and 25% interest in The Ritz-Carlton Hotel Chicago, both of which are proportionately consolidated, as well as the 25% interest in The Regent Hong Kong which is accounted for on a cost basis. The majority of the Corporation's investments in non-consolidated hotel interests relate to the eight hotels owned by FRA Properties, which in turn is owned 19.9% by the Corporation (see note 5 to the consolidated financial statements).

1 Includes The Regent Resort Chiang Mai and The Regent Hotel Jakarta which are opening in April and May of 1995, respectively.

The Corporation is in the process of selling a number of its real estate interests which, when completed, will result in the elimination of a substantial portion of the Hotel Ownership Operations segment (see discussion under "Asset Disposition Programme").

Generally, the Hotel Ownership Operations segment is capital and labour intensive and is subject to greater economic fluctuations than the Hotel Management Operations segment. The disruption in the real estate capital markets which began in 1991 caused severe financing constraints for hotel real estate, which in turn has caused a significant decline in hotel real estate values and a lack of normal market liquidity (see discussion under "Asset Realization Risk"). At the same time however, these factors have created significant barriers to entry of competitive hotels in most of the Corporation's key markets.

1994 OPERATING RESULTS AND 1995 OUTLOOK

Hotel Management Operations

Yield

The term "yield" is defined as hotel occupancy multiplied by achieved room rate. The product of these factors determines a significant portion of total hotel revenues, the base upon which a significant portion of Four Seasons♦Regent's management fees are earned. In 1994, 72% of total management fee revenue (75% in 1993) was calculated as a percentage of total hotel revenues. Because of the importance of these revenue-based fees, the Corporation discloses the "Total revenues of all managed hotels" in its consolidated statements of operations.

The 1994 average yield of all hotels under Four Seasons♦Regent management increased over 20% compared to the 1993 average yield. This improvement reflects an increase of 17% in average achieved room rates over 1993 levels and an increase in excess of three occupancy points from occupancy levels achieved in 1993. Strong economic growth in North America and Asia allowed most hotels to achieve yield increases in excess of inflation. Moreover, higher than average yield increases were realized in 1994 from hotels which have opened within the past 24 months. In 1994, these hotels realized occupancies and room rate levels equal to or in excess of levels that are being achieved by competitive hotels in their respective markets.

The average yield of all hotels under management in 1995 is expected to exceed the 1994 level by approximately 10% as a result of both increased occupancies and room rates, based upon current worldwide reservations and group bookings.

Fee Revenues

Fee revenues from Hotel Management Operations increased 33% in 1994 to $79.9 million from $60.3 million in 1993. Of the $19.6 million increase in fee revenues, $7.6 million relates to a full year of fee revenues earned from the Four Seasons♦Regent properties in New York, Milan, Bali and London, which opened over a five-month period between December 1992 and mid-1993, and the addition of three hotels and resorts during 1994 (Palm Beach, Florida, Mexico City and Singapore). Fees also increased during 1994 due to the improvement in yields (see discussion under "Yield") and an average increase of approximately 57% over 1993 in gross operating profit of managed hotels, upon which incentive fees are based (see discussion under "Hotel Management Contracts – Fees and Terms" in the Annual Information Form). Incentive fees now contribute 15% of total fee revenues compared to 10% in 1993.

Four Seasons♦Regent's consolidated fee revenues are expected to increase in 1995 by over 10% compared to 1994 due to (i) the opening of a hotel and a resort in 1995 (Jakarta and Chiang Mai, respectively), (ii) a full year of fee revenues earned from recently added hotels and resorts in Mexico City, Singapore and Palm Beach, Florida and (iii) the effects of the anticipated increases in occupancies and room rates in the other Four Seasons♦Regent hotels.

The Corporation's management fee revenue sources are geographically diversified. During 1994, 39% of fee revenues were derived from properties outside North America, as compared to 36% in 1993. This percentage is expected to increase in 1995 to over 40% due to the openings of hotels in Jakarta and Chiang Mai and the stabilization of hotels in Mexico City and Singapore. (See discussion under "Currency Risks").

Earnings Before Other Operating Items
In 1994, earnings before other operating items from Hotel Management Operations increased to $45.9 million, 64% higher than the prior year. General and administrative expenses were $34 million, an increase of 5% over 1993.

Four Seasons♦Regent's profit margin before other operating items increased to 57% from the 1993 level of 46%. This significant improvement reflected overall retention of 93% of the increased fee revenues earned during the year. The profit margin in Hotel Management Operations should exceed 57% in future years. The cost base is expected to increase at general inflationary rates while fees are anticipated to increase at a greater pace, as the 11 hotels and resorts under construction or development are opened and begin to generate additional fees, and the newly-opened properties in Mexico City, Singapore, Palm Beach, Chiang Mai and Jakarta complete their first full year of operations and begin to generate higher levels of fees.

Hotel Ownership Operations

Virtually all of the revenues and earnings from Hotel Ownership Operations are generated from the Corporation's equity interests in the Four Seasons Hotel London, The Regent Hong Kong and The Ritz-Carlton Hotel Chicago. Earnings before other operating items from Hotel Ownership Operations were $14.2 million for the year ended December 31, 1994, as compared to $7.2 million in 1993. This improvement relates to increased dividend income from The Regent Hong Kong in 1994 (following major renovation expenditures in 1993 and early 1994) and improved gross operating profits in the Four Seasons Hotel London and The Ritz-Carlton Hotel Chicago. Average yield and average gross operating profit for these three hotels increased 12% and 39%, respectively in 1994 compared to 1993.

The operating results from these three hotels are expected to improve in 1995 compared to 1994, by approximately 5% based upon current reservations and group bookings.

The Four Seasons Hotel London is included in the asset disposition programme (see discussion under "Asset Disposition Programme") which is expected to be completed by the end of 1995, although it is possible that this timing may be delayed beyond that currently estimated by management. It is expected that earnings from Hotel Ownership Operations will be substantially reduced following the sale of the hotel. However, it is expected that this reduction in earnings from Hotel Ownership Operations would be substantially offset by reduced interest and income tax expense.

Asset Disposition Programme

In November 1993, the Corporation announced its intention to sell several of its significant real estate interests with the dual objective of substantially reducing its Hotel Ownership Operations segment and reducing debt levels by approximately one-third ($120 million). These asset dispositions will allow the Corporation to reduce its exposure to future real estate cycles and to reduce the ongoing capital and operational funding requirements to these real estate investments.

The disposition programme included the Four Seasons Hotel London, Four Seasons Resort Minaki Lodge, FRA Properties' investments in the Four Seasons hotels in Austin, Santa Barbara, Vancouver and the Inn on the Park Toronto and the notes and mortgages receivable relating to the Four Seasons Clift Hotel in San Francisco. The Four Seasons Hotel Boston was added to the programme during 1994.

The sale of three of the assets was completed in 1994 (Austin, Minaki Lodge and Boston), with the completion of the sale of the notes and mortgages receivable relating to the Clift hotel occurring in early 1995.

During 1994 total debt was reduced $51.7 million resulting from the asset sales. A further $12.7 million was raised from the sale of the notes and mortgages receivable, which will be applied to total debt during 1995. It is anticipated that additional asset sales in 1995 could generate between $49 million and $59 million of proceeds to be applied against corporate debt, and at the same time would eliminate between $15 million and $45 million of non-consolidated debt related to the Inn on the Park Toronto and the Four Seasons Biltmore Resort Santa Barbara which is guaranteed by the Corporation (see note 13 to the consolidated financial statements). It is not expected that any of these sales will result in any further material cash commitment requirements relating to the assets sold.

Management's Discussion and Analysis

(continued)

Depreciation and Amortization

Depreciation and amortization expense was $15.7 million in 1994, as compared to $13.2 million in 1993. The increase related primarily to amortization of the assets involved in connection with the Regent acquisition and formation of FRA Properties, including the cost of management contracts which are amortized on an increasing charge basis to match the increasing fee revenues earned from the management contracts (see note 1 to the consolidated financial statements). Depreciation and amortization expense is expected to increase by approximately 3% in 1995.

Interest Costs

Net interest costs increased to $27.2 million in 1994 as compared to $17.9 million in 1993, due to a combination of lower interest income and higher interest expense.

Interest income fell from $5.1 million in 1993 to $2.2 million in 1994, reflecting reduced earnings on the mortgages relating to the hotels contributed to FRA Properties (see note 5 to the consolidated financial statements). Interest income from these mortgages will be reduced further in 1995 due to the sale of the Four Seasons Hotel Austin in 1994. The amount of interest income recorded from the Four Seasons Hotel Austin mortgage in 1994 was $1.5 million.

At the same time, interest expense increased due to a full year of interest expense relating to the seven-year US$115 million Notes issued on June 30, 1993, which replaced lower cost short-term debt. In addition, since the majority of the Corporation's debt is US dollar denominated, the weaker Canadian dollar during 1994 compared to 1993 resulted in higher Canadian dollar reported interest expense.

As at December 31, 1994, 76% (63% at December 31, 1993) of Four Seasons♦Regent's long-term debt is at fixed interest rates (see note 10 to the consolidated financial statements). The remaining floating rate debt as at December 31, 1994 is based on US LIBOR plus a spread averaging approximately 1%. The weighted average cost of debt during 1994 was 8% (as compared to 6.7% in 1993) and is expected to be 9% in 1995 reflecting the higher proportion of fixed rate debt and an expectation that US floating rates will be approximately 1% higher than the 1994 rates. However, interest expense is expected to decline in 1995 due to the reduction in debt in 1994 and 1995 from the proceeds of the asset disposition programme and from excess cash flow generated from operations (see discussion under "Financings and Use of Proceeds").

Taxes

The difference between the expected income tax expense and actual income tax expense for the year is primarily due to lower foreign tax rates and certain operating losses which were not tax effected (see note 12 to the consolidated financial statements).

The income tax expense in the next few years is not expected to be material due to the utilization of the benefits of the unrecorded tax losses created by the write-down in real estate values in 1993 (see discussion under "Asset Realization Risk").

LIQUIDITY AND RISK MANAGEMENT

Financings and Use of Proceeds

In November and December 1994 proceeds of $51.7 million were realized from the disposition of three hotels (Austin, Boston and Minaki Lodge), which were applied against the balance drawn under the Corporation's bank credit facility.

In addition, cash flow from operations increased from $12.5 million in 1993 to $44.8 million in 1994. This increase arose primarily as a result of improved earnings from both Hotel Management and Hotel Ownership Operations, together with changes in non-cash working capital. After all capital and other spending requirements, $14.5 million of excess cash flow from operations was used to repay the remaining balance of the bank credit facility.

The Corporation's bank credit facility, a US$100 million (approximately $140 million) committed revolving line, was extended in March 1995 to mature in March 1997. The Corporation had full availability under this facility as at March 31, 1995. Additional sources of liquidity available to the Corporation in 1995 include (i) $12.7 million raised upon the completion of the sale of the notes and mortgages receivable associated with the sale of the Four Seasons Clift Hotel in San Francisco in February 1995, (ii) anticipated proceeds of between $49 million and $59 million are expected to be raised by the end of 1995 upon the successful completion of the asset disposition programme, net of between $15 million and $45 million of non-consolidated debt related to specific hotels which is guaranteed by the Corporation, and (iii) operating cash flow of the Corporation of approximately $40 million. These various sources of liquidity are available to fund the following capital and debt service requirements: (i) to the extent not funded by hotel cash flow from operations, commitments to fund hotel operational shortfalls, capital, debt repayment and development projects in 1995, which, together with the Corporation's dividend payments, could amount to approximately $24 million (see discussion under "Capital Expenditures" and "Advances to Managed and Owned Hotels"), and (ii) 1996 long-term debt maturities of $123,109, primarily the unsecured debentures which mature in March 1996 (see note 10 to the consolidated financial statements).

At December 31, 1994, Four Seasons♦Regent's debt-to-equity position, net of cash, was 2.1:1, reduced from 2.7:1 as at December 31, 1993 as a result of the debt reduction arising from the asset dispositions discussed above. This ratio is in excess of Four Seasons♦Regent's target of 1:1. It is expected that Four Seasons♦Regent's debt-to-equity position will achieve targeted levels within the next two years.

On June 30, 1993, Four Seasons♦Regent completed the issuance of US$115 million of unsecured notes which bear interest at an annual rate of 9.125% (priced to yield 9.25%) and mature on July 1, 2000. The proceeds of the issue were used primarily to repay bank indebtedness incurred to fund the acquisition of Regent.

CAPITAL EXPENDITURES

The owners of Four Seasons and Regent hotels spend on average 3% to 5% of gross revenues of the hotels per annum on capital expenditures (other than in newly constructed or recently renovated properties, where the annual amounts generally range from 1% to 2% in the early years of operation). Additional funds are made available for special capital projects as required to maintain the luxury standards specified in the Corporation's hotel management agreements.

In 1994, approximately $50 million was invested in these capital projects, compared to $57 million in 1993. These capital expenditures are funded by working capital generated from operations of the hotels and through advances from the hotel owners. Four Seasons♦Regent's share of the funding of these capital expenditures in 1994 was $1.6 million in its consolidated hotels, $3.8 million in the hotels contributed to FRA Properties, plus immaterial amounts in those hotels in which it has a minority equity interest or pursuant to management contract obligations (see description under "Advances to Managed and Owned Hotels" below). Four Seasons♦Regent's share of 1993 capital expenditures was $1.5 million in its consolidated hotels plus approximately $10.3 million in the hotels it contributed to FRA Properties.

In 1995, Four Seasons♦Regent anticipates capital expenditures of approximately $2 million in its consolidated hotels, approximately $7 million in the hotels contributed to FRA Properties, and immaterial amounts in those hotels in which it has a minority equity interest or pursuant to management contract obligations. These capital expenditures reflect the requirement that Four Seasons♦Regent complete major renovation programmes in the FRA hotels of approximately US$11 million prior to December 31, 1996 (see discussion under "Advances to Managed and Owned Hotels – Advances to Hotels Contributed to FRA Properties").

ADVANCES TO MANAGED AND OWNED HOTELS

Advances to Hotels Contributed to FRA Properties

Four Seasons♦Regent advanced $12 million in 1994 ($34.1 million in 1993) to two hotels in Toronto, and to hotels in Vancouver, Santa Barbara and New York. Of this amount, approximately $3.8 million ($10.3 million in 1993) was advanced for capital expenditures (included above under the heading "Capital Expenditures") and $8.8 million ($14.3 million in 1993) was advanced for principal repayments and interest on property specific debt. During 1994, positive cash flow of approximately $600,000 was generated from these hotel operations (an improvement of over $10.1 million compared to 1993 cash flow from operations). The aggregate of these advances is included in the investment in FRA Mortgages and Stabilization Loans Receivable on Four Seasons♦Regent's balance sheet.

It is estimated that an additional $7 million for capital expenditures and $9 million for principal repayments and interest on property specific debt will be required in 1995 by the Four Seasons♦Regent contributed hotels. However, it is expected that these hotels will generate cash flow from operations of approximately $7 million during the year to fund these requirements. The shortfall will be advanced as FRA Mortgages and preferred capital (see description under "Capital Expenditures" above and note 5 to the consolidated financial statements). In addition, $15.1 million of debt relating to the Inn on the Park Toronto matures in June 1995 (subject to extension discussions which are now underway). Ultimately the debt is expected to be repaid primarily from proceeds to be realized once the sale of the hotel is completed (see discussion under "Asset Disposition Programme"). In addition, approximately US$40.5 million of debt relating to the Four Seasons Santa Barbara Biltmore matures in 1996, which is also expected to be repaid primarily from proceeds upon the sale of the hotel. Both of these mortgages are guaranteed in whole or in part by the Corporation (see discussion under "Third Party Guarantees").

Equity Investments (Other than FRA Properties)

In those hotels in which Four Seasons♦Regent has less than a 20% interest, it invested $4.1 million in 1994 ($3.3 million in 1993) to fund operating and capital requirements, primarily in recently opened hotels or hotels under construction or development. It is estimated that approximately $6 million will be invested in 1995 primarily for minority investments in Prague, Jakarta and Punta Mita.

Loans to Hotels in which Four Seasons♦Regent has an Equity Interest (Other than FRA Properties)

In addition to the above, Four Seasons♦Regent advanced less than $100,000 in 1994 ($445,000 in 1993) to fund its share of certain construction costs of the Aviara project in Carlsbad, California. Although the construction of this project has been suspended pending the arrangement of permanent financing and certain rezoning matters, it is estimated that $300,000 will be invested by Four Seasons♦Regent in 1995 to fund ongoing costs. These advances accrue interest at market rates, although interest income is not being recorded on a total of US$10.4 million of advances by Four Seasons♦Regent to this project. This project is being redesigned to include a smaller hotel (443 rooms to 337 rooms) and an interval ownership component of approximately 230 units. With the redesign and rezoning work required for the project it is unlikely that construction will recommence before the end of 1995.

Loans Made to Hotels Pursuant to Management Contract Obligations (Other than FRA Properties)

During 1994, $6 million ($5 million in 1993) was advanced by the Corporation as capital and operating deficit loans to three hotel properties. The majority of the 1994 advances were to the Four Seasons Hotel Los Angeles, which completed the Corporation's funding obligations pursuant to the management contract. Four Seasons♦Regent expects to advance a further $300,000 of capital and operating loans to managed hotels in 1995.

These loans accrue 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 the termination of the relevant management contract. The Corporation does not expect to receive any material repayments of these loans in 1995 other than the $12.7 million from the sale of the notes and mortgages receivable relating to the Four Seasons Clift Hotel in San Francisco (see discussion under "Asset Disposition Programme").

Other Loans

At December 31, 1993, $8.3 million was owed by Tengis Limited ("Tengis") to Four Seasons♦Regent pursuant to Four Seasons♦Regent's guarantee of certain of Tengis' liabilities arising out of a reorganization in 1986 (see note 13 to the consolidated financial statements). During 1994, an additional $1.1 million was advanced to Tengis in respect of the guaranteed liabilities. It is anticipated that $1.2 million will be advanced to Tengis in 1995.

Due to the impact of current economic conditions on the real estate industry, it is anticipated that Tengis will not be able to sell or refinance its assets for amounts sufficient to repay all of its existing obligations. However, based upon an analysis of the values of Tengis' remaining assets, it is estimated that these assets will be sufficient to repay the remaining obligations that are guaranteed by Four Seasons♦Regent. It is anticipated that these assets will require four to five years to be fully realized. In the intervening period Four Seasons♦Regent will be required to continue to fund these guaranteed obligations. Accordingly, in 1993 Four Seasons♦Regent determined that a provision for the full amount of the advances as at December 31, 1993, plus the amount of anticipated 1994 and 1995 funding, was required based upon the estimated net realizable value of Tengis' assets. In 1996 it is expected that Tengis will have sufficient cash available from the liquidation of certain of its remaining assets to service its obligations.

Provision for Loss on Notes and Mortgages Receivable

Due to the negative effect of the recent recession on the hotel industry, there continues to be some uncertainty regarding the timing and form of realization of certain notes and mortgages receivable. Accordingly, Four Seasons♦Regent has a total provision of $31 million as at December 31, 1994 against its notes and mortgages receivable portfolio (including the provision in connection with a possible loss on the loan to Tengis as described above), which represents 100% of that portion of the notes and mortgages receivable portfolio where there is significant doubt concerning the ability of the borrower to fully repay the amounts due to Four Seasons♦Regent.

OPERATING RISKS

The major risks associated with Four Seasons♦Regent's operations relate to foreign currency fluctuations, the ability of Four Seasons♦Regent to maximize its investment in its underlying real estate assets over the longer term, the risks associated with certain foreign operations, the risk of unwinding FRA Properties, interest rate risk (see discussion under "Interest Costs") and the risk of management contract termination.

Currency Risk

Four Seasons♦Regent reports its results in Canadian dollars; however, its relevant currency exposure is in US dollars, as more than half of its revenues, assets and debt are US dollar denominated or pegged to the US dollar. In 1994, 57% (56% in 1993) of Four Seasons♦Regent's consolidated revenues were US dollar denominated or pegged to the US dollar, and it is expected to be a similar amount in 1995.

Exchange fluctuations against the US dollar generally have little economic significance to Four Seasons♦Regent as it continues to use its US dollar cash inflow for reinvestment in US dollar assets and to service it US dollar debt and other obligations. The Corporation converted its $100 million unsecured debentures through cross currency interest rate exchange agreements into US$87 million in 1991, in order to service this debt from the US dollar cash flow as well. This swap agreement matures in March 1996 when the related debt matures (see note 10 (a) to the consolidated financial statements). As a result of the repayment of this US dollar based debt in 1996 and the sale of certain US dollar assets in 1994 and 1995 (see discussion under "Asset Disposition Programme"), the Corporation could have excess US dollar cash inflow in 1996. The Corporation will monitor its cash position and hedging instruments to protect its currency exposures. The average rate of exchange for the US dollar to the Canadian dollar was $1.37 in 1994 ($1.29 in 1993) and the Corporation expects this rate of exchange to remain at $1.37 for 1995.

Four Seasons♦Regent earned 21% of its consolidated revenues in pounds sterling in 1994 (23% in 1993). Until December 31, 1993, Four Seasons♦Regent managed its pounds sterling currency exposure through the use of forward contracts. The Corporation projected that the Canadian dollar would remain weak against the pound sterling during 1994 and therefore did not hedge its 1994 sterling revenues. Management will continue to monitor the currency markets to determine if forward contracts are required in the future. It is expected that approximately 22% of the consolidated revenues earned in 1995 will be in pounds sterling, subject to the timing of the sale of the Four Seasons Hotel London (see discussion under "Asset Disposition Programme").

In addition, in 1995 Four Seasons♦Regent will earn fee revenues in twelve other foreign currencies (other than those pegged to the US dollar) in countries throughout the world. None of these currencies individually exceeds 3% of Four Seasons♦Regent's consolidated revenues. Certain currencies are subject to exchange controls which, in practice, have never resulted in a restriction of the payment of management fees to the Corporation. In addition, certain of these currencies are not freely traded and have relatively low liquidity. To date, Four Seasons♦Regent has not incurred any material losses resulting from an inability to convert these foreign currencies at favourable exchange rates.

Management attempts to minimize this foreign currency risk by keeping fee receivables current, by monitoring the political and economic climate in each country, and may utilize financial hedging instruments when necessary. In certain hotels, the foreign currency risks are further mitigated by pricing room rates in US dollars.

Asset Realization Risk

As discussed under "Asset Disposition Programme", the Corporation is in the process of selling certain of its remaining real estate investments with the objective of substantially reducing its Hotel Ownership Operations segment and reducing the Corporation's overall debt position. The proceeds from the sale of these assets, if successful, will be applied first to reduce property debt (see discussion under "Advances to Hotels Contributed to FRA Properties") and second to reduce corporate debt.

During the fourth quarter of 1993, as a result of a decline in values caused by the continuing downturn in the economy and the hotel real estate industry in particular, a $110 million provision was established against Four Seasons♦Regent's real estate exposures (primarily the investment in and advances to FRA Properties). In addition, a provision of $17 million was taken against the Corporation's mortgage portfolio (see discussion under "Provision for Loss on Notes and Mortgages Receivable"). These provisions were determined based on expressions of interest received by brokers engaged by the Corporation to sell certain of the hotels included in the asset disposition programme, and other analyses prepared by the Corporation relating to other investments not included in the disposition programme (see note 2 to the consolidated financial statements).

It is expected that the asset disposition programme will be completed by the end of 1995, although it is possible that the Corporation may not realize the amounts and timing estimated by management.

Third Party Guarantees

Four Seasons♦Regent has guaranteed third party debt for two hotels: (i) approximately $15.1 million in connection with the Inn on the Park Toronto and (ii) US$6.25 million in respect of principal, and up to US$15 million in respect of interest and other guaranteed indebtedness, relating to the Four Seasons Biltmore Resort Santa Barbara. Although these guarantees evidence a contingency to Four Seasons♦Regent, they represent historical commitments that predated the Regent acquisition. The guarantee in respect of the Four Seasons Biltmore Resort Santa Barbara has been in place since July 1991. The guarantee in respect of the Inn on the Park Toronto replaces a guarantee that Four Seasons♦Regent originally gave to a Canadian chartered bank in 1986 in respect of certain liabilities of Tengis relating to this hotel (see note 13 to the consolidated financial statements). Both of these hotels are currently being marketed for sale (see discussion under "Asset Disposition Programme") and it is expected that the related debt will be repaid primarily from sale proceeds within 12 months.

Political Risks

The Corporation currently manages and/or has an equity interest in hotels and resorts in 16 countries, certain of which may from time to time expose the related assets and revenues to political risk.

At present, the only significant identifiable risk that exists relates to the situation in Hong Kong. The Chinese government takes control of Hong Kong in 1997. Management does not believe that this event will significantly affect Regent's ability to operate in Hong Kong. However, should the situation deteriorate, management does not believe that the impact on Four Seasons♦Regent would be material. With the exception of The Regent Hong Kong, all of the management fees from Regent hotels relate to hotels outside Hong Kong.

As well, Four Seasons♦Regent's valuation of the management contract and dividend income from The Regent Hong Kong was based on a forecast to the year 2000 (the end of the initial expiry of both the leasehold interest and management contract). The net present value of the fees and dividends relating to the years after 1996 to the expiry date are not material to Four Seasons♦Regent.

Dissolution of FRA Properties

In the event that FRA Properties is unwound after 1996, in accordance with the provisions described in note 5 to the consolidated financial statements, the ownership of the hotels contributed to FRA Properties by Four Seasons (and that have not been disposed of by such date) would revert to Four Seasons. In this event Four Seasons would retain its role as manager of the hotels then owned by FRA Properties. For further information relating to FRA Properties reference should be made to the notes to the consolidated financial statements.

Management Contract Risks

Management contracts may be terminated by the non-defaulting party upon default in payment, unremedied failure to comply with the terms of the management contract or financial bankruptcy. In addition, management contracts in respect of 30 operating hotels and six of the hotels under construction or development are subject to certain performance tests which if not met, could allow a contract to be terminated prior to its maturity. Typically, Four Seasons♦Regent has various rights to cure any such default to avoid termination.

One hotel management contract may be terminated for no consideration on the sale of the hotel. (See note 20 on page 61 of the Annual Information Form).

In addition, management contracts in respect of certain hotels are also terminable by the hotel owner upon the occurrence of defined "change of control" events affecting Four Seasons♦Regent.

ECONOMIC OUTLOOK

World Travel

The World Travel and Tourism Council ("WTTC") recently reported that travel and tourism is the world's largest industry and largest generator of jobs, producing economic growth, investment and foreign trade. In 1995 it is expected that the travel and tourism industry will provide one in every nine jobs and will contribute 10.9% directly and indirectly to world Gross Domestic Product and, furthermore, will grow 54.6% in real terms over the next decade.

The travel industry should experience continued growth in 1995 due to continued economic growth expected in the United States, United Kingdom and Europe. It is expected that the economic growth in Southeast Asia will continue at a strong rate. Boeing's Current Market Outlook forecasts world air travel to increase by 5% per year through the year 2000.

The Hotel Industry

According to a study done by a major accounting firm, average daily room rates at U.S. hotels are increasing faster than the inflation rate for the first time in five years. The 1994 average occupancy rate was the highest since 1984. Smith Travel Research separately reported that the average of U.S. hotels' occupancy rates increased 3.3% to 65.2% in 1994 as compared to 1993.

In 1995, the hotel industry should experience improved occupancies and room rates due to the economic growth occurring worldwide and the low level of new construction. Although new hotel construction in 1994 increased 51% over 1993 it is still only one-third of the industry's peak building rate in 1985. Most hotel construction in 1994 has been connected with the casino industry.

SUMMARY

As forecast in the 1993 Management's Discussion and Analysis, there were significant improvements in occupancies, rates and hotel profitability in 1994, which resulted in substantial improvements in the Corporation's Hotel Management business and core Hotel Ownership positions.

In addition, these positive trends in hotel operating results reduced FRA Properties' cash requirements to less than half the 1993 level. These funding requirements should be reduced further in 1995 upon the successful completion of the asset disposition programme and continued improvements in hotel profitability.

Furthermore, the Corporation reduced its debt levels during 1994, and expects to reduce debt further in 1995 as the asset disposition programme is completed. The successful completion of this programme will help bring debt levels back in line with historical levels.

As a result, 1994 was a critical year for Four Seasons♦Regent when the Corporation took advantage of the improvement in the economy to position itself for a return to historical levels of corporate profitability.

Annual Information Form

Four Seasons Hotels Inc. was incorporated under the Business Corporations Act of Ontario on January 6, 1978[a]. Four Seasons Hotels Inc.'s registered and principal office is located at 1165 Leslie Street, Toronto, Ontario M3C 2K8. The Subordinate Voting Shares of Four Seasons Hotels Inc. are listed on The Toronto Stock Exchange and The Montreal Exchange.

BUSINESS OF FOUR SEASONS♦REGENT[b]

Four Seasons♦Regent's principal business is the management of luxury urban hotels and resort hotels in major urban centres and resort destinations throughout the world. Four Seasons♦Regent also holds an ownership interest in certain hotels it manages. These equity interests are generally held through partnerships or by wholly-owned subsidiaries.

Four Seasons♦Regent currently manages 39[c] urban and resort hotels located in 16 countries containing approximately13,000 guest rooms. Four Seasons♦Regent owns an equity interest in 17 of the hotels and resorts currently under management. Eleven additional urban hotels and resort hotels are under construction or development in nine countries around the world. (A chart depicting all of the urban and resort hotels of Four Seasons♦Regent is set out on pages 57 through 61).

Four Seasons♦Regent earns revenue from Hotel Management and Hotel Ownership Operations.

Hotel management fee revenue is derived from basic, incentive and other fees earned in respect of the management of hotels, generally under long-term management contracts (having an average remaining term of approximately 49 years). Hotel management operations tend to generate relatively stable earnings and cash flow. In 1994, Four Seasons♦Regent earned hotel management fee revenues of approximately $80 million, approximately 72% of which were calculated as a percentage of total hotel revenues. Reference is made to "Hotel Management Operations" on page 62.

Hotel ownership earnings are generally derived from cash flow from operations and realization of capital appreciation upon sale of Four Seasons♦Regent's ownership interest. Four Seasons♦Regent's significant ownership interests are a 50% interest in the Four Seasons Hotel London, a 25% interest in The Ritz-Carlton Hotel Chicago, and a 25% interest in The Regent Hong Kong. The majority of Four Seasons♦Regent's hotel ownership investments are minority interests of less than 20%, including the investment of Four Seasons♦Regent in FRA Properties[d]. Reference is made to "Hotel Ownership Operations" on page 64.

a The articles of Four Seasons Hotels Inc. were restated in 1986 to consolidate prior amendments and were amended in 1989 to subdivide each Subordinate Voting Share and each Multiple Voting Share on a 2:1 basis and to create an unlimited number of special shares to be designated as First Preference Shares and Second Preference Shares.

b Unless the context otherwise requires, in this Annual Information Form, the terms "Four Seasons♦Regent" or the "Corporation" means Four Seasons Hotels Inc. and all of its subsidiaries. The term "Four Seasons" means Four Seasons Hotels Limited ("FSHL") and all of its subsidiaries other than Regent, and the term "Regent" means Regent International Hotels Limited and all of its subsidiaries.

c Includes The Regent Resort Chiang Mai and The Regent Hotel Jakarta which are opening in April and May of 1995, respectively.

d FRA Properties is a group of partnerships formed by Four Seasons and Hotel Investment Corporation ("HIC"), at the time of Four Seasons' acquisition of Regent, to which each of Four Seasons and HIC contributed wholly-owned or controlling ownership interests in certain of their respective hotel properties.

RECENT DEVELOPMENTS

Investment by His Royal Highness Prince Alwaleed Bin Talal Bin Abdulaziz Al Saud

In April 1994, Four Seasons♦Regent engaged Goldman Sachs to seek a strategic investor for the Corporation. In November 1994, as a result of this search, Kingdom Investments Inc., a company controlled by His Royal Highness Prince Alwaleed Bin Talal Bin Abdulaziz Al Saud ("His Royal Highness"), acquired approximately 25% of the outstanding equity securities of Four Seasons Hotels Inc. in the form of 5,531,784 Subordinate Voting Shares ("SVS"), 20,430 Employee Preference Shares ("EPS"), options ("Options") to purchase 602,300 SVS, and 1,390,642 Multiple Voting Shares ("MVS"). Following such acquisition, and the conversion and exercise of the EPS, MVS and Options, Kingdom Investments held 7,568,504 SVS, representing approximately 26.63% of all outstanding SVS and MVS of Four Seasons Hotels Inc.

In addition to his investment in Four Seasons♦Regent, His Royal Highness is working closely with the Corporation to identify opportunities to acquire and develop luxury hotels for Four Seasons♦Regent to manage. His Royal Highness has allocated $100 million to this program. As a first step, Four Seasons♦Regent will manage a luxury hotel now being developed by His Royal Highness in Riyadh, Saudi Arabia.

Disposition Programme

In November 1993, Four Seasons♦Regent and FRA Properties commenced a programme to dispose of four properties owned by FRA Properties (Inn on the Park Toronto and Four Seasons hotels in Vancouver, Santa Barbara and Austin) and three other hotel investments (Four Seasons Resort Minaki Lodge, Four Seasons Hotel London and the notes and mortgages receivable relating to the Four Seasons Clift Hotel San Francisco) held directly by Four Seasons♦Regent. During 1994, the Corporation added its investment in the partnership which owns the Four Seasons Hotel in Boston to the programme.

In 1994 and the early weeks of 1995, Four Seasons♦Regent disposed of its real estate interests in the Four Seasons Hotel in Austin, Texas (through FRA Properties); Minaki Lodge in Minaki, Ontario; and the notes and mortgages receivable relating to the Four Seasons Clift Hotel in San Francisco. In addition, in 1994, Four Seasons♦Regent sold its 15% interest in the Four Seasons Hotel in Boston to the majority partner. The aggregate net cash proceeds associated with these four dispositions was approximately $64.4 million. Consistent with stated objectives, Four Seasons♦Regent will continue to manage the Four Seasons Hotel in Boston and the Four Seasons Hotel in Austin under long-term management contracts.

Discussions are continuing with respect to the sale of the Inn on the Park Toronto, the Four Seasons Hotel in London, and the Four Seasons Resort in Santa Barbara. As well, discussions relating to a sale or restructuring of the leasehold interest in the Four Seasons Hotel in Vancouver are underway. Four Seasons♦Regent expects to generate cash proceeds of between $64 million and $74 million in 1995 in connection with the sale or restructuring of these assets ($49 million to $59 million after asset related debt repayments).

BUSINESS STRATEGY

The business strategy of Four Seasons♦Regent is to enhance its position as the most successful operator of luxury hotels and resorts in North America and Asia, through a defined and focused expansion programme which leverages the strength of its core brands in major urban and resort destinations throughout the world. Management of Four Seasons♦Regent believes that demand in the luxury segment of the hotel industry will continue to grow as international trade and tourism expands and global business travellers become increasingly demanding.

In order to capitalize on this growth, while concurrently improving the stability and consistency of its earnings and limiting capital investment, Four Seasons♦Regent has focused on hotel management opportunities (rather than hotel ownership), on increasing the proportion of resorts in its product mix, and on geographically diversifying its sources of income.

The acquisition of Regent in 1992, a leading operator of luxury hotels primarily in Asia, represented a significant step by Four Seasons♦Regent in the development of its current business strategy. As a result of the transaction, Four Seasons♦Regent has strengthened its market leadership position in the luxury hotel and resort segment both in North America and in Asia, where management anticipates a great deal of the world's travel growth will occur during the current decade. The Regent acquisition substantially increased Four Seasons♦Regent's stable base of management fee revenues, and has improved profit margins, as the synergies and cost efficiencies associated with combining the two organizations have been achieved.

Approximately 76% of Four Seasons♦Regent's earnings before other operating items were derived from hotel management activities in 1994 (80% in 1993). As the remaining significant ownership interests are sold or restructured (see "Recent Developments" on page 54), the percentage of future earnings of Four Seasons♦Regent derived from Hotel Management Operations is expected to increase.

Having established a network of luxury hotels in most of the world's key financial centres, future growth expansion will occur primarily in locations that satisfy Four Seasons♦Regent's objectives of better servicing the travel needs of its existing customer base and attracting new international business travellers to Four Seasons and Regent hotels worldwide. Management expects that future expansion will focus on China, the Middle East, Southeast Asia and Europe. Over the longer term, Four Seasons♦Regent plans to increase the number of resorts it manages in order to further reduce the seasonality of its cash flows. Four Seasons♦Regent, in selective situations, will continue to consider acquiring minority equity interests in hotels, or making loans to hotels, where such equity interests or loans, as the case may be, are required to secure the management contract.

MARKETING STRATEGY AND MARKET POSITION

The overall marketing strategy of Four Seasons♦Regent is to serve the luxury segment of the market for business (including group and conference business) and leisure or tourist travel worldwide. The integrated Four Seasons and Regent sales and marketing organizations (represented by 13 worldwide sales offices, as well as 275 local salespeople at 39 hotels) provide referrals for all Four Seasons and Regent properties throughout the world. Larger sales forces in Tokyo, London and Sydney, offices in Frankfurt, Singapore and Hong Kong, and wider coverage in France, Switzerland and Scandinavia, are direct benefits of the integrated organization.

Four Seasons♦Regent's 31 existing urban hotels and six urban hotels under construction or development are all located in major business and commercial centres, either in urban cores or in significant suburban developments. The eight existing resorts and five resorts under construction and development are intended, in part, to provide a vacation alternative to business travellers who constitute a substantial part of Four Seasons' and Regent's customer base at their urban hotels.

As a further means of more effectively securing global business, Four Seasons♦Regent continually reviews and, when required, upgrades its international reservations network. This system provides reservation services in the local language in major European and Asian cities, at a total of 22 locations worldwide. Separate toll-free reservations telephone numbers are designed to preserve and enhance the individual Four Seasons and Regent brand identities. At the same time integration enables the reservations network for each hotel group to sell the other hotel group in cities or countries where its hotel group does not operate, or to sell rooms at a second hotel in the same city if one hotel is full.

Airline reservation systems are another key part of Four Seasons♦Regent's global distribution network. An integrated reservations network links Four Seasons♦Regent's worldwide reservation and sales offices with airline booking systems worldwide. This enhances service to travel agents and corporate callers around the world by giving them timely access to Four Seasons♦Regent hotel's electronically updated inventory and room rates.

Competition from other hotels is vigorous in all of Four Seasons♦Regent's markets and arises primarily from individual luxury hotels, small luxury hotel chains and certain specific properties of larger hotel chains. However, Four Seasons and Regent each achieve room rates which are among the highest in each of their market areas.

INDUSTRY AWARDS

Four Seasons and Regent have gained reputations for quality, service and innovation in the luxury segment of the business and leisure travel market. These reputations have been widely acknowledged by the following leading surveys of hotel properties:

Institutional Investor

Twelve Four Seasons hotels and four Regent hotels were ranked among the world's top 100 hotels in a survey of international financiers published in the September 1994 issue of Institutional Investor. The Regent Hotel Bangkok was ranked second among the top 20 hotels in the "Asia-Pacific" regional ranking along with other Regent hotels located in Hong Kong and Sydney. The Regent Beverly Wilshire Hotel and six Four Seasons hotels, located in Chicago (both The Ritz-Carlton and Four Seasons), Washington, San Francisco, Los Angeles and New York, were ranked in the top 10 hotels in the "Americas" regional ranking, while the Four Seasons Hotel London was included in the "Europe" listing, as has been the case in 13 of the past 14 years.

AAA Five Diamond Awards

In 1994 and for the fourteenth 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 14 of the 53 lodgings awards. The Four Seasons Hotel Vancouver has received the American Automobile Association Five Diamond Award every year since the awards began in 1977.

In addition, in 1994 two Four Seasons restaurants received the prestigious Five Diamond Award for Restaurants, including Truffles Restaurant at the Four Seasons Hotel Toronto, the only restaurant in Canada to be so honoured.

Mobil Five-Star Awards

Three Four Seasons hotels were among the 23 hotels and resorts to receive 1995 Mobil Five-Star Awards, surpassing any other hotel company. The former Four Seasons Clift Hotel in San Francisco and the Four Seasons hotels in Chicago and Los Angeles were the recipients of this prestigious award.

Condé Nast Traveler's Readers' Choice Awards

Eleven Four Seasons and two Regent properties ranked among the world's top 100 travel experiences in the Condé Nast Traveler's 1994 Readers' Choice Awards. Additionally, the Four Seasons managed Ritz-Carlton Hotel in Chicago was rated the top hotel in the United States. Eleven of the U.S. based Four Seasons hotels were included in the "Top 25 U.S. Hotels" list.

Andrew Harper's Hideaway Report

The Four Seasons Hotel in Chicago was ranked second in the "Top 20 U.S. Hotels" list, while the Four Seasons Resort Nevis was the second highest rated Caribbean property in the report's 13th annual "World's Best Hotels List". Additionally, the newly opened Four Seasons properties in New York, Milan and Bali were all listed in the "Rising Stars" category.

Gallivanter's Guide (U.K.) – "1994 Awards For Excellence"

Four Seasons♦Regent was voted "Best North American Hotel Group" by readers of Gallivanter's Guide Newsletter in England. In the same survey, readers also voted: The Regent Beverly Wilshire Hotel – "Best North American City Hotel"; the Four Seasons Hotel Milan – "Best European City Hotel"; The Regent Hotel London – "Best Business Hotel Worldwide"; and the Four Seasons Hotel New York – "Best New Hotel of 1994".

DESCRIPTION OF HOTELS AND RESORTS

Four Seasons♦Regent presently manages 39[1] hotels and resorts and has equity interests in 17 of these hotels and resorts. The properties and interests are described in the following table:

Four Seasons Hotels and Resorts

Hotel and Location	Date of opening/major renovations	Equity Interest	Facilities: Number of Rooms	Facilities: Other Features	Title
Four Seasons Hotel Austin, Texas	1986	(2)	292	18,423 sq.ft. of function space(3)	—
Four Seasons Resort Bali, Indonesia	1993	(4)	147	2,300 sq.ft. of banquet space(3) 35 acres of gardens(3) Access to three mile beach Tennis club and spa(3)	—
Four Seasons Hotel Boston, Massachusetts	1985/1992	(6)	288	95 condominium apartments(3) 9,865 sq.ft. of function space(3)	—
The Ritz-Carlton Hotel Chicago, Illinois	1975/1991	25%(7)	430	Carlton Club(3)(5) 20 residential apartments(3)(5) 18,321 sq.ft. of function space(3)(5)	Freehold
Four Seasons Hotel Chicago, Illinois	1989	7.7%(8)	343	15 residential apartments(3)(5) 19,476 sq.ft. of function space(3)(5)	Leasehold, initial expiry 2024, options to extend to 2104(9)
Four Seasons Resort and Club Dallas, Texas	1979/1986/1991/1994	—	357(10)	29,000 sq.ft. of function space(3) 176,000 sq.ft. sports club(3) Racquet and fitness facilities(3) Two 18-hole golf courses(3) 12,000 sq.ft. spa(3)	—
Four Seasons Hotel Houston, Texas	1982/1992	—	399	115 residential apartments(3) 15,726 sq.ft. of function space(3)	—
Four Seasons Hotel London, England	1970/1991	50%(11)	227	7,847 sq.ft. of function space(3)(5)	Leasehold, expiring 2054
Four Seasons Hotel Los Angeles, California(12)	1987	—	285	9,885 sq.ft. of function space(3)	—
Four Seasons Hotel Mexico City, Mexico	1994	—	239	17,000 sq.ft. of function space(3)	—
Four Seasons Hotel Milan, Italy	15th century/1993	19.9%(13)	98	6,250 sq.ft. of function space(3)(5)	Freehold
Four Seasons Resort Nevis, West Indies	1991	15%(14)	196	2,100 feet of ocean frontage 18-hole Robert Trent Jones II designed golf course(3)(5) 5,000 sq.ft. of function space(3)(5) Residential development(3)(5)	Freehold
Four Seasons Hotel Newport Beach, California	1986/1994	—	285	14,460 sq.ft. of function space(3)	—

See accompanying notes on page 61.

Four Seasons Hotels and Resorts *(continued)*

Hotel and Location	Date of opening/major renovations	Equity Interest	Facilities: Number of Rooms	Facilities: Other Features	Title
Four Seasons Hotel New York, New York	1993	14.9%(13)(15)	367	5,000 sq.ft. fitness centre(3)(5) 8,058 sq.ft. of function space(3)(5)	Freehold
The Pierre Hotel New York, New York	1929/1981/1991	19.9%(13)	202(16)	99 cooperative apartments(3) 16,840 sq.ft. of function space(3)(5)	Leasehold, expiring 2002, options to extend to 2032
Four Seasons Resort Ocean Grand Palm Beach, Florida	1989	—	210	22,000 sq.ft. of function space(3) 6,000 sq.ft. spa and fitness facility(3) 3 tennis courts(3)	—
Four Seasons Hotel Philadelphia, Pennsylvania	1983/1993	5%(8)	371	600,000 sq.ft. of leasable office space(5) 11,585 sq.ft. of function space(3)(5) Garage(3)(5)	Freehold
Four Seasons Biltmore Resort Santa Barbara, California	1929/1988	10%(13)(17)	234	Coral Casino Beach & Cabana Club(3)(5) 13,927 sq.ft. of function space(3)(5)	Freehold
Four Seasons Olympic Hotel Seattle, Washington	1924/1982/1992	3.4%(18)	450	5,644 sq.ft. of leasable office space(3)(5) 30,403 sq.ft. of leasable retail space(3)(5) 19,896 sq.ft. of function space(3)(5) Garage(5)	Leasehold, expiring 2040
Four Seasons Hotel Singapore	1994		257	13,700 sq.ft. of function space(3) 28,000 sq.ft. sports facility(3) (including 2 indoor and 2 outdoor tennis courts)	—
Four Seasons Hotel Tokyo, Japan	1992	—	283	13,440 sq.ft. fitness facility(3) 29,784 sq.ft. of function space(3)	—
Four Seasons Hotel Toronto, Ontario	1974/1978/1984/1992	19.9%(13)	380	7,400 sq.ft. of leasable retail space(5) 21,790 sq.ft. of function space(3)(5)	Leasehold, initial expiry 2027, options to extend to 2047(9)
Inn on the Park Toronto, Ontario	1963/1971/1985	19.9%(13)(17)	568	6 shops and boutiques Health club 33,183 sq.ft. of function space(3)(5) 10,936 sq.ft. of leasable office space(3)(5)	Freehold
Four Seasons Hotel Vancouver, British Columbia	1976/1990	19.9%(13)(18a)	385	21,733 sq.ft. of function space(3)(5)	Leasehold, initial expiry 2000, options to extend to 2035(9)
Four Seasons Resort Wailea, Maui, Hawaii	1990	—	380	19,020 sq.ft. of function space(3)	—
Four Seasons Hotel Washington, D.C.	1979	15%(18)	196	77,588 sq.ft. of leasable office space(5) 9,690 sq.ft. of leasable retail space(5) 10,689 sq.ft. of function space(3)(5) 6,000 sq.ft. health club(5)	Freehold

See accompanying notes on page 61.

Regent International Hotels

Hotel and Location	Date of opening/major renovations	Equity Interest	Facilities: Number of Rooms	Facilities: Other Features	Title
The Regent Hotel Auckland, New Zealand	1985/ 1993-1995	—	332	4,747 sq.ft. of function space[3] Health club[3]	—
The Regent Hotel Bangkok, Thailand	1983/1994	—	400	16,150 sq.ft. of function space[3] Health club[3]	—
The Regent Beverly Wilshire Hotel, Beverly Hills, California	1927/1990	—	295	25,529 sq.ft. of function space[3]	—
The Regent Resort Chiang Mai, Thailand	1995	—	67	4,534 sq.ft. health club and pool[3] two outdoor tennis courts[3]	—
The Regent Hotel Hong Kong	1980/1989/ 1993	25%[14]	602	21,997 sq.ft. of function space including Hong Kong's largest ballroom of 9,500 sq.ft.[3][5] Health club[3][5]	Leasehold, initial expiry 2000, option to extend to 2010
The Regent Hotel Jakarta, Indonesia	1995	5%[13][19]	384	25,000 sq.ft. of meeting and banquet space[3][5] 8,400 sq.ft. health club including two outdoor lighted tennis courts[3][5]	Freehold
The Regent Hotel Kuala Lumpur, Malaysia	1989	—	469	10,721 sq.ft. of function space[3] Health club[3]	—
The Regent Hotel London, England	1899/1992[20]	—	309	7,204 sq.ft. health club and pool[3] 16,847 sq.ft. of function space[3]	—
The Regent Hotel Melbourne, Australia	1981/1986	—	363	15,060 sq.ft. of function space[3] Health club	—
The Regent Resort Nadi Bay, Fiji	1975/ 1992-1993	18%[13][17]	294	4,190 sq.ft. banquet room[3][5] Private beach front	Freehold
The Regent Hotel Singapore[21]	1982/1991	—	441	14,785 sq.ft. of function space[3] Health club[3]	—
The Regent Hotel Sydney, Australia	1982/1990	—	594	13,057 sq.ft. of function space[3] Health club[3]	—
The Regent Hotel Taipei, Taiwan	1990	—	553	17,400 sq.ft. of function space[3] Health club[3]	—

See accompanying notes on page 61.

Annual Information Form

(continued)

Four Seasons♦Regent presently has eleven hotels and resorts under construction or development and will have equity interests in four of these hotels and resorts. The properties and interests are described in the following table:

Hotel and Location	Date of opening/major renovations	Equity Interest	Number of Rooms	Title
Four Seasons Hotels and Resorts				
Under Construction[22]				
Four Seasons Hotel Berlin, Germany	1996	23%[23]	204	Freehold
Four Seasons Hotel Istanbul, Turkey	1996	—	65	—
Four Seasons Resort Hualalai, Hawaii, Hawaii	1996	—	250	—
Under Development[22]				
Four Seasons Resort Aviara Carlsbad, California	[25]	5%[8][25]	337	Freehold
Four Seasons Hotel Bombay, India	1997	—	300	—
Four Seasons Hotel Cairo, Eygpt	1997	—	105	—
Four Seasons Resort Goa, India	1997	—	295	—
Four Seasons Hotel Prague, The Czech Republic	1998	[26]	174	Leasehold
Four Seasons Resort Punta Mita, Mexico	[27]	[27]	100	—
Four Seasons Hotel Riyadh, Saudi Arabia	1998	—	231	—
Regent International Hotels				
Under Construction[22]				
The Regent Resort and Club, Royal Sentul Highlands, Indonesia	1996	—	171	—

See accompanying notes on page 61.

Notes:

(1) Since December 31, 1994, Four Seasons♦Regent has ceased management of the Four Seasons Hotel in San Francisco and has commenced management of The Regent Hotel Jakarta and The Regent Resort, Chiang Mai, Thailand.

(2) Interest in the Four Seasons Hotel in Austin held by FRA Properties was sold in November 1994.

(3) Four Seasons♦Regent receives or will receive fee income for the management of these facilities.

(4) Interest in the Four Seasons Resort Bali held by FRA Properties was sold in April 1994.

(5) Four Seasons♦Regent has an equity interest in these facilities.

(6) Interest in the Four Seasons Hotel Boston was sold to the majority partner in December 1994.

(7) Structure and form of participation: Partnership – General Partner.

(8) Structure and form of participation: Partnership – Limited Partner.

(9) Leasehold is subject to mortgage financing by the lessor.

(10) The hotel completed an addition in May 1994 which increased the number of rooms by 50.

(11) Structure and form of participation: corporate joint venture. The corporate joint venture is currently marketing the leasehold interest for sale.

(12) In September 1992, Four Seasons♦Regent received notice that the owner of the hotel considers that Four Seasons♦Regent's acquisition of Regent, which manages a hotel in the same city, has breached the radius restriction in their management contract. No further action has been taken by the owner. Discussions with the owner with a view to resolving this issue are pending.

(13) Structure and form of participation: Partnership – Limited Partner and General Partner.

(14) Structure and form of participation: Corporate Joint Venture.

(15) A portion of the equity in this property is held through a participating debt instrument.

(16) Includes 30 co-operative suites leased from individual owners and operated as hotel rooms.

(17) FRA Properties is currently marketing this hotel for sale.

(18) Structure and form of participation: Partnership – General Partner. Four Seasons♦Regent has an indemnity from the other general partner or general partners for the portion of liabilities of the partnership in excess of its equity interest.

(18a) FRA Properties continues to consider the sale or restructuring of the leasehold interest.

(19) All of the equity in this property is presently held through a participating convertible debt instrument.

(20) Reconstruction of the former Grand Central Hotel. This hotel is currently being marketed for sale by the owner. Management of this hotel by Regent may cease on sale.

(21) In 1992, the owner of the hotel alleged that the management of the Four Seasons Hotel Singapore by Four Seasons would constitute a breach of the radius restriction in the Regent management contract. Four Seasons and Regent have advised the owner that they do not agree with the owner's position. Four Seasons, Regent and the owner are working to resolve the issue between them.

(22) Information concerning hotels under construction or under development is based upon agreements and letters of intent and may be subject to change. The dates of opening have been estimated.

(23) Four Seasons♦Regent has entered into an operating lease in connection with the management of this hotel. Under the terms of the lease, Four Seasons♦Regent is responsible for funding the majority of the hotel's operating and capital requirements, including minimum rental payments. (see note 24).

(24) Structure and form of participation: Corporate joint venture. One half of this interest will be pledged to another partner in the project to secure repayment to that partner of amounts it has agreed to fund in connection with the hotel's operation during the first ten years of the lease (see note 23).

(25) This project has been indefinitely delayed pending arrangement of financing and rezoning. Four Seasons♦Regent has the right to acquire an additional 4.9% of the equity in this hotel.

(26) Details of equity interest and management contract terms have not yet been finalized. Completion and timing of the project is subject to obtaining all necessary zoning approvals and finalization of financing.

(27) This project has been indefinitely delayed pending arrangement of financing. Four Seasons♦Regent's investment in the project will be up to 20% of the equity required.

HOTEL MANAGEMENT OPERATIONS

Management Responsibilities

Four Seasons♦Regent provides hotel management services to 31 urban hotels and eight resort hotels. Three of these hotels are located in Canada, 17 in the United States, ten in Asia, three in Australia and New Zealand, three in Europe and one in each of the Caribbean, Mexico and the South Pacific. Eleven hotels and resorts are currently under construction and development throughout the world. Reference is made to "Description of Hotels and Resorts" on pages 57 through 61.

Four Seasons♦Regent assumes responsibility for all aspects of the day-to-day management of each of the hotels[e], 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 the hotels; and providing for the safekeeping, repair and maintenance of the physical assets. Four Seasons and Regent each perform these services within the guidelines contained in annual operating and capital plans that are submitted to the owners of the hotels during the last quarter of the preceding year for their review and approval. The hotel owner is responsible for the funding of the hotel's working capital requirements and capital expenditures. All structural changes, major refurbishing programmes and major repairs require the separate approval of hotel owners prior to implementation by Four Seasons♦Regent. In return for these services, Four Seasons♦Regent earns basic management fees and other related fees and, in certain circumstances, incentive fees.

Hotel Marketing

Four Seasons♦Regent is responsible for the development of overall sales and marketing strategies which include establishing broad international awareness for both the Four Seasons and Regent brands, as well as developing local market potential for specific hotels. Corporate services include: the operation of centralized reservation services which utilize toll-free telephone numbers and are accessible by the major airline and international reservations networks; the development and implementation of promotional programmes; and the operation of 13 integrated worldwide sales offices in Atlanta, Chicago, Dallas, Frankfurt, Hong Kong, London, Los Angeles, New York, Singapore, Sydney, Tokyo, Toronto and Washington D.C. to develop group and corporate business for hotels. Since the acquisition of Regent in 1992, Four Seasons' and Regent's sales operations have been integrated worldwide to provide larger and more diversified sales and marketing coverage for both brands.

Four Seasons also provides an international corporate advertising programme which develops and places advertising for the Four Seasons hotels and oversees the individual hotel's programmes. Regent coordinates the advertising programmes for the individual Regent hotels. In 1994, Four Seasons♦Regent implemented a standard policy of identifying Four Seasons♦Regent Hotels and Resorts with all corporate and hotel advertising programmes.

The corporate marketing staff of Four Seasons♦Regent also oversees the planning and implementation of hotel marketing programmes, and organizes the training and development programmes for local sales and marketing staff. The local marketing strategy concentrates on developing rooms and 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.

Four Seasons♦Regent generally recovers the costs associated with providing all of these services.

Other Management Services

Although the owners are generally responsible for financing and managing the development of hotels, Four Seasons♦Regent also assumes a significant pre-opening role. The Corporation provides advice with respect to the design and construction specifications of hotels during the development stage to ensure that they meet Four Seasons♦Regent's standards. Four Seasons♦Regent earns a variety of fees for these pre-opening services.

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e A different arrangement exists with respect to (1) 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; and (2) The Regent Hotel Taipei where the local owner, a development company, oversees the day-to-day operation of the hotel in consultation with Regent.

Four Seasons♦Regent will also assist owners in connection with the refurbishment of hotels in return for which it earns a refurbishing fee.

Four Seasons♦Regent provides a centralized purchasing system for goods and services at all the Four Seasons hotels and certain Regent hotels in return for a centralized purchasing fee. Management contracts provide that consumables, operating supplies and furniture, fixtures and equipment generally 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 obtained from third-party suppliers.

Hotel Management Contracts – Fees and Terms

The following is a description of fees and charges typically provided for in pre-opening and management contracts:

Basic management fee and other related fees
Percentage of annual gross operating revenue of the hotel or percentage of defined profit, calculated and payable monthly, or in one case, a lump-sum amount payable annually.

Incentive fees
Percentage of defined profit or of annual net cash flow of the hotel after specified deductions, payable monthly, quarterly or semi-annually, subject to adjustment at year-end, or payable annually, or, in one case, a lump sum payable annually.

Pre-opening development and purchasing fees
Negotiated amounts, payable in monthly instalments prior to the opening of the hotel.

Centralized purchasing fees
Percentage of cost of purchases of food and beverage inventories, operating supplies and furniture, fixtures and equipment.

Refurbishing fees
Percentage of total cost of approved refurbishing programmes or negotiated amounts.

Corporate sales and marketing charge and corporate advertising charge
Percentage of annual budgeted gross operating revenue or gross rooms revenue of the hotel, payable monthly and calculated on the basis of the cost of providing the services, or a flat charge.

Centralized reservation service charge
Monthly charge per hotel room, calculated on the basis of the number of hotel rooms or the number of reservations made, or a flat charge.

Fee revenues represent approximately 62% of the total consolidated revenues generated by Four Seasons ♦Regent in 1994 (approximately 60% in 1993). Of the fee revenues generated by Four Seasons♦Regent in 1994, 49% are attributable to hotels in which Four Seasons♦Regent owns an equity interest (other than hotels accounted for on a consolidated basis) and 46% are attributable to unrelated hotels (52% and 43%, respectively, in 1993). Groups of hotels owned or controlled by two owners (one of which is FRA Properties and its affiliates) each represented in excess of 10% of total consolidated revenues, and together the two groups accounted for approximately 37% of total consolidated revenues.

Of consolidated revenue from all sources, only North America as a geographic segment contributed in excess of 40% of all revenue, being 52% in 1994 (53% in 1993).

Hotel management contracts for Four Seasons and Regent hotels have average remaining terms, including all renewal options, exercisable by Four Seasons♦Regent of approximately 49 years. Management contracts may be terminated by the non-defaulting party upon default in payment, unremedied failure to comply with the terms of the management contract or financial bankruptcy. In addition, management contracts in respect of 30 operating hotels and six of the hotels under construction or development are subject to certain performance tests which if not met could allow a contract to be terminated prior to its maturity. Typically, Four Seasons♦Regent has various rights to cure any such default to avoid termination.

Management contracts in respect of certain hotels are also terminable by the hotel owner upon the occurrence of defined "change in control" events affecting Four Seasons♦Regent.

Four Seasons♦Regent generally negotiates non-disturbance arrangements with third-party hotel owners and hotel mortgagees so that, in the event of a sale or foreclosure, Four Seasons♦Regent will be able to continue to manage the hotel under the same terms and conditions. Non-disturbance arrangements are not typical in Asia, however, where the majority of Regent managed hotels are located.

All hotels are insured against property damage, business interruption and liability at the expense of the owner, and Four Seasons♦Regent is entitled to the protection of such insurance. Four Seasons ♦Regent is also insured against loss of fee income in the event of business interruption at its hotels. In addition, Four Seasons♦Regent obtains an indemnity from the owners in respect of damages caused by acts, omissions and liabilities of the employees of the hotel or of Four Seasons or Regent, other than damages resulting from certain actions of Four Seasons or Regent.

Hotel Employees

At April 1, 1995, there were approximately 21,500 employees located at the 39 hotels managed by Four Seasons♦Regent.

All hotel employee costs are the responsibility of the hotel owner. Four Seasons♦Regent directly employs approximately 250 people at the worldwide sales offices, the central reservations offices and the corporate offices.

The selection, training and development of hotel employees is a major focus both for the corporate offices and for local hotel management. In this highly personalized service business, all aspects of employee attitude and job performance are critical to achieving and maintaining a consistently high-quality experience for guests. Programmes developed by the corporate human resources staff and implemented in the field 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♦Regent's philosophies and operating principles.

Eighteen of the 39 hotels under management are subject to labour union contracts. These include: The Pierre Hotel New York, The Ritz-Carlton Hotel Chicago, the Four Seasons Resort Bali, The Regent Beverly Wilshire Hotel Beverly Hills, The Regent hotels in Sydney, Melbourne, Singapore and Auckland, The Regent Resort Fiji, and all Canadian hotels. Union contracts covering approximately 800 employees at the Four Seasons Hotel Vancouver and The Pierre Hotel New York are subject to renegotiation in 1995.

Funding of Managed Hotels

Under the terms of the management contract, the owner is generally responsible for funding the operational and capital requirements for the hotel. In certain circumstances, Four Seasons♦Regent provides loans to the owners. Four Seasons♦Regent's strategy, however, is to provide these loans only where they are limited to a fixed principal amount and where they are required in order to secure new management contracts. Loans have been made to assist owners with major refurbishing programmes either to bring a hotel into conformity with or to maintain a hotel at a luxury standard. Loans are also used to offset short-term operating shortfalls in certain stages of a hotel's operation. These 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 contract. Reference is made to the "Loans Made to Hotels Pursuant to Management Contract Obligations (Other than FRA Properties)" in Management's Discussion and Analysis on page 49.

HOTEL OWNERSHIP OPERATIONS

Four Seasons♦Regent's strategy is to acquire only minority interests in hotels when it is necessary to do so in order to secure new management contracts. When Four Seasons♦Regent acquires a minority interest, the capital commitment to the hotel is generally capped and, once that level is reached, Four Seasons♦Regent generally may allow its interests to be diluted if additional capital is required. Four Seasons♦Regent does not acquire interests in hotels for which it does not have management responsibility and generally seeks to structure its relationships with other investors so that its ownership interest can be sold while its management interest is retained. This approach is designed to enable Four Seasons♦Regent to dispose of ownership interests as sale opportunities arise without affecting its management interests.

Four Seasons♦Regent's ownership interests in hotels are generally held through partnerships or by wholly-owned subsidiaries. Equity interests in hotels are structured having regard to the legal, tax or accounting requirements of the particular jurisdiction and the ownership objectives of Four Seasons♦Regent.

Hotel ownership earnings are generally derived from cash flow from operations and realization of capital appreciation upon a sale of Four Seasons♦Regent's ownership interest. In total, Four Seasons ♦Regent has ownership interests in 17 of the 39 hotels that it manages. Four Seasons♦Regent's significant ownership interests are: The Four Seasons Hotel London (50%); The Ritz-Carlton Hotel Chicago (25%); and The Regent Hong Kong (25%). Four Seasons♦Regent's remaining hotel ownership investments are minority interests of less than 20%, including the investment of Four Seasons♦Regent in FRA Properties. Reference is made to "Advances to Managed and Owned Hotels" and to "Operating Risks" in Management's Discussion and Analysis. It is anticipated that Four Seasons♦Regent will have a minority interest in four of the eleven hotels and resorts under construction or development. Reference is made to "Description of Hotels and Resorts" on pages 57 through 61.

RISKS ASSOCIATED WITH FOREIGN OPERATIONS

Over the next three to five years, Four Seasons♦Regent plans to open at least eleven additional properties, increasing its presence to 22 countries worldwide. Such a global presence involves some operational risk as a result of the different environments (economic, social and political) that are encountered. International expansion, however, will allow Four Seasons♦Regent to access new markets and create greater protection from regional economic fluctuations. Four Seasons♦Regent anticipates that growth and expansion in new markets will also enhance the awareness of, and value inherent in, the Four Seasons and Regent brand names.

Currency Risks

Although Four Seasons♦Regent reports its results in Canadian dollars, its relevant currency exposure is in US dollars, as more than half of its revenues, assets and debt are US dollar denominated or pegged to the US dollar. In 1994, 57% of Four Seasons♦Regent's consolidated revenues were US dollar denominated, or pegged to the US dollar (56% in 1993).

Exchange fluctuations against the US dollar generally have little economic significance to Four Seasons♦Regent as it continues to use its US dollar cash flow for reinvestment in US dollar assets and to service its US dollar debt and other obligations.

Four Seasons♦Regent also earned 21% of its consolidated revenues in pounds sterling in 1994 (23% in 1993).

In addition, in 1995 Four Seasons♦Regent will earn fee revenues in twelve other foreign currencies (other than those pegged to the US dollar) in countries throughout the world. None of these currencies exceeds 3% of Four Seasons♦Regent's consolidated revenues. Management attempts to minimize this foreign currency exposure by keeping fee receivables current, by monitoring the political and economic climate in each country, and may utilize financial hedging instruments when necessary. In certain hotels, the foreign currency risks are further mitigated by pricing room rates in US dollars. Reference is made to "Operating Risks – Currency Risk" in Management's Discussion and Analysis on page 50, for a discussion of the Corporation's foreign currency hedging activities.

THE ENVIRONMENT AND REGULATORY MATTERS

Four Seasons♦Regent attempts to anticipate and respond to relevant environmental concerns. For example, Four Seasons has had a successful energy conservation policy in operation for the past thirteen years, which has resulted in significant environmental and financial savings. It is not anticipated that environmental protection requirements will have a material effect on capital expenditures, earnings or the competitive position of Four Seasons♦Regent in future years.

In addition, Four Seasons♦Regent has made a thorough assessment of its American properties to determine their levels of compliance with the Americans with Disabilities Act. Four Seasons♦Regent is working actively with the owners of the hotels on a programme of upgrading facilities where required. Management believes that there is no exposure which would materially affect Four Seasons♦Regent.

TRADEMARKS AND TRADE NAMES

In the highly competitive service industry in which Four Seasons♦Regent operates, trade names and trademarks are very important in the sale and marketing of such services. Four Seasons♦Regent has a significant number of trade names, trademarks and servicemarks. Much time and effort is spent each year on surveillance, registration and protection of Four Seasons♦Regent's trade names, trademarks and servicemarks which it 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 programme:

- The growth of the reputation of the Four Seasons and Regent brands, evidenced by frequent media exposure and consumer and industry endorsement.
- The frequency and common usage of the words "Four Seasons" and "Regent" in the English language for various fields of endeavour.

The trademark protection and development effort varies each year to adapt to the changing nature of Four Seasons♦Regent's operations and the conflicts that may arise with third parties. Currently, Four Seasons♦Regent is implementing a programme to expand Regent's trademark protection system to make it compatible with Four Seasons' system and to enhance Regent's ability to grow outside Asia.

Ten of the properties under construction or development will carry the Four Seasons name and one property will bear the Regent name.

SELECTED CONSOLIDATED FINANCIAL INFORMATION[f]

Five-Year Summary

(Dollar amounts are in millions, except per share amounts)	**1994**	1993	1992	1991	1990
Consolidated Revenues	$ **128.5**	101.1	133.9	166.7	188.2
Hotel Management Revenues	$ **79.9**	60.3	42.5	34.9	37.8
Hotel Management Earnings Before Other Operating Items	$ **45.9**	27.9	18.6	14.1	15.0
Net Earnings (Loss):					
Total	$ **8.0**	(119.2)	7.7	2.8	17.3
Fully-Diluted and Basic Per Share*	$ **0.29**	(4.30)	0.32	0.13	0.84
Total Assets	$ **497.5**	522.9	603.7	337.6	241.9
Long-Term Debt, excluding current portion	$ **307.7**	352.9	292.0	112.5	39.2
Shareholders' Equity	$ **140.5**	126.8	247.8	139.5	112.4
Cash Dividends Per Share	$ **0.11**	0.11	0.11	0.11	0.11

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

f Reference is made to Management's Discussion and Analysis commencing on page 42 for a discussion of the factors affecting the comparability of the 1994 and 1993 disclosure provided in the Five-Year Summary table.

Two-Year Summary by Quarter

(Dollar amounts are in thousands, except per share amounts)	4th Quarter 1994	4th Quarter 1993	3rd Quarter 1994	3rd Quarter 1993	2nd Quarter 1994	2nd Quarter 1993	1st Quarter 1994	1st Quarter 1993
Consolidated Revenues	**$38,171**	29,204	**32,347**	25,348	**32,381**	24,803	**25,602**	21,761
Earnings (Loss) Before Other Operating Items								
Hotel Management[g]	**$14,948**	8,818	**10,522**	6,753	**11,187**	6,148	**9,227**	6,201
Hotel Ownership[g]	**$ 4,130**	2,411	**3,973**	2,351	**3,442**	1,892	**2,608**	508
Net Earnings (Loss):								
Total	**$ 658**	(124,405)	**3,166**	398	**2,897**	2,524	**1,301**	2,250
Fully-Diluted and Basic Per Share	**$ 0.02**	(4.49)	**0.12**	0.02	**0.10**	0.09	**0.05**	0.08

DIVIDEND POLICY

The Board of Directors of Four Seasons Hotels Inc. has established a policy of paying an annual dividend of $0.11 per share, payable semi-annually. Although there is presently no intention to change the dividend policy, the Board of Directors of Four Seasons Hotels Inc. will continue to review the appropriateness of this policy from time to time. There are no restrictions which prevent Four Seasons Hotels Inc. from paying an annual dividend of $0.11 per share. However, the payment of dividends in excess of this amount would require that Four Seasons Hotels Inc. meets certain tests contained in certain of its debt indentures at the time of the declaration of the dividend.

g Both of the Hotel Management Operations and Hotel Ownership Operations segments are 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. Four Seasons♦Regent anticipates that the January 1993 opening of the Four Seasons Resort Bali, the February 1994 acquisition of the management contract of the Four Seasons Resort Ocean Grand Palm Beach and the expected openings of additional resorts will help to reduce the seasonality of its future earnings. A fundamental element of Four Seasons♦Regent's long-term strategy is to reduce the seasonal variations of its cash flow.

DIRECTORS AND OFFICERS

The names of the directors and officers of Four Seasons Hotels Inc., the offices held by them and their principal occupations are as follows:

Name and municipality of residence	Office	Principal occupation
Edmond M. Creed Schomberg, Ontario	Director	Retired executive
Frederick Eisen Toronto, Ontario	Director	President and Chief Executive Officer, The Eisen Corporation
H. Roger Garland(1) Toronto, Ontario	Executive Vice President and Director	Executive Vice President, Four Seasons Hotels Limited
Mustafa Al-Hejeilan Riyadh, Saudi Arabia	Director	Director and Advisor, United Saudi Commercial Bank
Charles S. Henry(1)(2) New York, New York	Director	President, Hotel Capital Advisers, Inc.
Murray B. Koffler(1)(2) Toronto, Ontario	Director	Partner, The Koffler Group
Lionel H. Schipper(1)(2) Toronto, Ontario	Director	President, Schipper Enterprises Inc.
Isadore Sharp(2) Toronto, Ontario	Chairman, President, Chief Executive Officer and Director	Chairman and President, Four Seasons Hotels Limited
Max Sharp Toronto, Ontario	Director	Retired executive
John L. Sharpe Toronto, Ontario	Executive Vice President and Director	Executive Vice President, Four Seasons Hotels Limited
Benjamin Swirsky(1)(2) Toronto, Ontario	Director	President and Chief Executive Officer, Slater Industries Inc.
Shuichiro Tamaki, Tokyo, Japan	Director	Advisor, Jowa Corporation
Christopher Wallis Toronto, Ontario	Senior Vice President and Director	Senior Vice President, Design and Construction, Four Seasons Hotels Limited
Douglas L. Ludwig Toronto, Ontario	Chief Financial Officer, Senior Vice President and Treasurer	Chief Financial Officer, Senior Vice President, Finance and Treasurer, Four Seasons Hotels Limited
Craig O. Reith Toronto, Ontario	Vice President, Finance and Assistant Treasurer	Vice President Finance and Assistant Treasurer, Four Seasons Hotels Limited
Kathleen Taylor Toronto, Ontario	Senior Vice President, General Counsel and Secretary	Senior Vice President, General Counsel and Secretary, Four Seasons Hotels Limited

Notes: Four Seasons Hotels Inc. is required to have an Audit Committee. Four Seasons Hotels Inc. also has a Compensation and Organization Committee.

(1) Audit Committee

(2) Compensation and Organization Committee.

Terms of Office

Edmond M. Creed, Murray B. Koffler, Isadore Sharp and Max Sharp have served as directors of Four Seasons Hotels Inc.'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 Four Seasons Hotels Inc.'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. Mustafa Al-Hejeilan and Charles S. Henry were appointed to the Board of Directors on November 11, 1994.

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 Four Seasons Hotels Inc. have held their principal occupations for more than five years with the exception of: Frederick Eisen who was Senior Operating Officer of Bramalea Limited from April 1991 through August 1992, 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; Charles Henry who was Director, Real Estate Finance with CS First Boston prior to July 1994 and with Solomon Bros. Inc. prior to October 1990; Benjamin Swirsky who was Vice Chairman of Bramalea Limited prior to April 1993 and Chief Executive Officer of Bramalea Limited prior to August 1990; Shuichiro Tamaki who was Advisor of the Industrial Bank of Japan prior to August 1994 and Managing Director of the Industrial Bank of Japan prior to June 1992; Craig O. Reith who was Director, Corporate Finance and Assistant Treasurer prior to December 1993 and Director, Corporate Finance prior to January 1992; and Kathleen Taylor who was Vice President and General Counsel prior to December 1993 and Corporate Counsel of Four Seasons Hotels Limited prior to January 1992.

As at March 31, 1995, the directors and senior officers of Four Seasons Hotels Inc., as a group, owned beneficially, directly or indirectly, or exercised control or direction over the following number of Subordinate Voting Shares and Multiple Voting Shares:

Designation of Class	No. Of Shares	Percentage Of Class
Subordinate Voting Shares	1,066,851	4.4%
Multiple Voting Shares	4,171,924	100%

MANAGEMENT'S DISCUSSION AND ANALYSIS

Reference is made to Management's Discussion and Analysis, commencing on page 42 of Four Seasons Hotels Inc.'s 1994 Annual Report which is incorporated herein by reference.

ADDITIONAL INFORMATION

Four Seasons♦Regent shall provide to any person, upon request to the office of the Secretary of Four Seasons Hotels Inc. at 1165 Leslie Street, Toronto, Ontario Canada M3C 2K8 (telephone (416) 449-1750):

(a) when the securities of Four Seasons Hotels Inc. are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus has been filed in respect of a distribution of its securities,

(i) one copy of the Annual Information Form, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in the Annual Information Form,
(ii) one copy of the comparative financial statements of Four Seasons♦Regent for its most recently completed financial year together with the accompanying report of the auditors and one copy of any interim financial statements of Four Seasons♦Regent subsequent to the financial statements for its most recently completed financial year,
(iii) one copy of the Management Information Circular of Four Seasons Hotels Inc. prepared for the most recent Annual Meeting of Shareholders, and
(iv) one copy of any other documents that are incorporated by reference in the preliminary short form prospectus or the short form prospectus and are not required to be provided under (i) to (iii) above; or

(b) at any other time, one copy of any of the documents referred to in (a)(i), (ii) and (iii) above, provided that in either case Four Seasons♦Regent may require the payment of a reasonable charge if the request is made by a person who is not a security holder of Four Seasons Hotels Inc.

Additional information relating to Four Seasons♦Regent, including directors' and officers' remuneration and indebtedness, interests of insiders in material transactions, principal holders of securities of Four Seasons Hotels Inc. and options to purchase securities is contained in Four Seasons Hotels Inc.'s Management Information Circular prepared for the most recent Annual Meeting of Shareholders. Additional financial information, including consolidated comparative audited financial statements for the years ended December 31, 1994 and 1993 is provided in Four Seasons♦Regent's 1994 Annual Report. A copy of such documents may be obtained upon request from the Secretary of Four Seasons Hotels Inc.

CORPORATE CHART

The following chart illustrates Four Seasons♦Regent's corporate structure, including all significant subsidiaries of Four Seasons♦Regent or partnerships in which Four Seasons♦Regent has a significant interest, either directly or indirectly, and their jurisdictions of incorporation or organization.

- **FOUR SEASONS HOTELS INC.** *(Ontario Corporation)*
  - **FOUR SEASONS HOTELS LIMITED(A)** *(Ontario Corporation)* — 100%(B)
    - **FRA PROPERTIES L.P.** *(Delaware Limited Partnership)* — 19.9%(C)
    - **RITZ-CARLTON WATER TOWER** *(Illinois General Partnership)* — 25%(C)
    - **FOUR SEASONS HOTELS AND RESORTS B.V.(D)** *(Netherlands Corporation)* — 100%(B)
      - **INN ON THE PARK (LONDON) LIMITED** *(United Kingdom Corporation)* — 50%(C)
    - **FOUR SEASONS HOTELS (BARBADOS) LTD.** *(Barbados Corporation)* — 100%(B)
    - **REGENT INTERNATIONAL HOTELS LIMITED(E)** *(Hong Kong Corporation)* — 100%(C)
      - **EURASIA HOTEL LIMITED** *(Hong Kong Corporation)* — 25%(C)

Notes:

(A) The management of Four Seasons hotels in North America and the Four Seasons Hotel London is generally carried out by Four Seasons Hotels Limited.

(B) Direct

(C) Indirect

(D) The management of Four Seasons hotels outside North America (other than the Four Seasons Hotel London) is generally carried out by Four Seasons Hotels and Resorts B.V.

(E) The management of Regent hotels is generally carried out by Regent International Hotels Limited.

Corporate Information

Corporate Offices

Four Seasons♦Regent
Hotels & Resorts
1165 Leslie Street
Toronto, Ontario
Canada M3C 2K8
Telephone: (416) 449-1750
FAX: (416) 441-4374

Regent International
Hotels Limited
New World Centre, 15th Floor
West Wing
20 Salisbury Road
Kowloon, Hong Kong
Telephone: (852) 2721-1211
FAX: (852) 2721-4400

Annual Meeting

The Annual Meeting of Shareholders will be held at 4:30 p.m. on Wednesday, May 31, 1995 in the Regency Ballroom, Four Seasons Hotel, 21 Avenue Road, Toronto, Ontario, Canada

Stock Listings

The Toronto Stock Exchange
The Montreal Exchange

Stock Ticker Symbol: FSH

Dividend Information

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

Transfer Agent and Registrar

Montreal Trust Company
Halifax, Montreal, Toronto, Winnipeg, Regina, Calgary, Vancouver

Auditors

KPMG Peat Marwick Thorne

Trademarks and Trade Names

The marks FOUR SEASONS, the Tree Design, THE REGENT, and the "R" logo, alone or in combination with other elements are among the most famous and exclusive trade and service marks of the Four Seasons♦Regent group of companies and are registered throughout the world.

Shareholder Information

Please call Barbara Henderson, Director, Investor Relations at (416) 441-4329

Reservations Information

For reservations at Four Seasons Hotels and Resorts, please call toll-free:

(800) 268-6282 in Canada
(800) 332-3442 in the United States

For reservations at Regent International Hotels, please call toll-free:

(800) 545-4000 in Canada and the United States

Printed in Canada on recycled paper.

DESIGN: BRYAN MILLS & ASSOCIATES LTD.

FOUR SEASONS · REGENT

Hotels and Resorts