Four Seasons
Hotels • Resorts

1989 Annual Report

COMPANY PROFILE

The goal of Four Seasons Hotels is to operate the finest hotel or resort in each destination where it locates. The company has established a reputation for luxury accommodation, superior personal service and attention to detail, and it seeks to attract business travellers and others who appreciate the special quality and care which characterize Four Seasons hotels.

The company operates 22 hotels and resorts with 7,000 rooms and 10,300 employees. Four Seasons is represented in those cities in the United States and Canada which are currently capable of supporting a hotel of the Four Seasons standard. The Four Seasons Inn on the Park in London, England, the company's first overseas hotel, was established in 1970. Ten new Four Seasons hotels and resorts are planned or under construction in France, Japan, Singapore, Hawaii, Mexico, the Caribbean, California and Arizona.

The company is committed to deliberate, carefully planned growth, in response to opportunities in the luxury market and in collaboration with strong financial partners. Growth in facilities and operations is closely co-ordinated with the recruitment and development of people. Because of its emphasis on staff excellence, the company is confident it can maintain the Four Seasons standard of hospitality and superior service in all of its hotels and resorts, whether long established or newly opened.

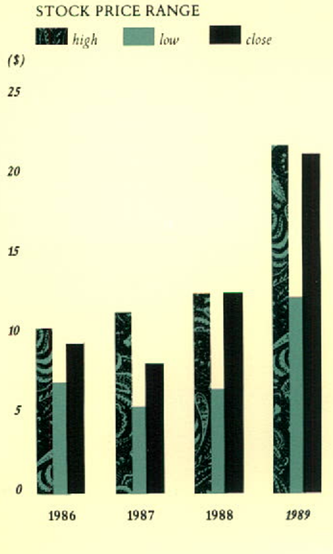
CONTENTS

FINANCIAL HIGHLIGHTS

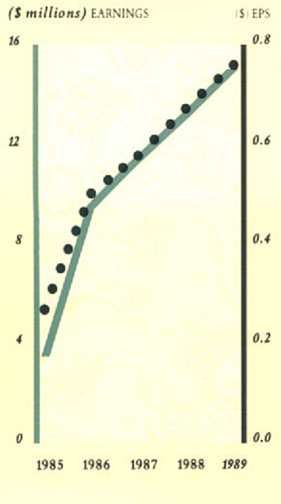
($ millions except for per share amounts)	***1989***	1988	1987
Total revenues of all managed hotels	***$634.3***	603.4	584.3
Net earnings before extraordinary items*	***$ 15.0***	13.1	11.3
Earnings per share before extraordinary items* (after stock split of January 8, 1990)	***$ .76***	.67	.58
Funds generated from operations	***$ 26.7***	25.4	23.9
Debt-to-equity ratio, net of cash	***.70***	.45	1.60

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

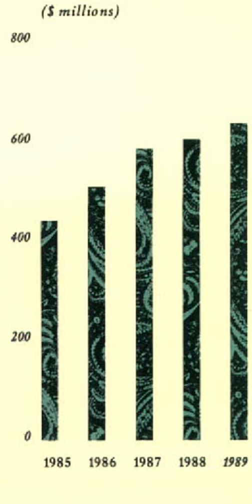
STOCK PRICE RANGE



NET EARNINGS,
EARNINGS PER SHARE



REVENUES UNDER
MANAGEMENT



CHAIRMAN'S LETTER

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

In its fourth year as a public company, Four Seasons Hotels in 1989 exceeded its earnings objective, broadened its international activities and continued, within its well-defined customer and investor base, to build awareness of Four Seasons as the leading international operator of medium-sized luxury hotels and resorts.

It was a year in which the shape and direction of the Four Seasons organization of the 1990s and beyond became more clear. There was remarkable progress in the construction and planning of new resorts and hotels. The company's own vision of its potential and its opportunities was enlarged. It is a world vision, focusing first on areas which are or soon will be appropriate locations for Four Seasons developments, but also taking into account the economic, political and social changes which will make it possible to consider many other areas in the future.

While the North American and world economies were less than buoyant as the 1990s began, the company anticipates that the momentum Four Seasons achieved in 1989 will carry forward. For 1990, the Board of Directors and management are confident that the objective of increasing earnings by between 10 and 15 percent will again be met.

Pursuing growth while maintaining and improving existing standards places exceptional burdens on any company. The people of Four Seasons, capable and committed, have worked effectively together in 1989 and are ready for the challenges of the 1990s.

Financial

Net earnings before extraordinary items for 1989 were $15.0 million, an increase of 15 per cent over those for the previous year. As in 1988, there were substantial improvements in cash flow and interest coverage ratio. The debt-to-equity ratio was well within the company's target of 1:1.

While the company faces no immediate large capital requirements, it is important that access to the financial resources which may be required to meet future opportunities be readily available. With this in mind, a favourable rating for debt securities was obtained in 1989, enhancing the company's already significant financing ability. A special meeting of shareholders held in December, 1989, approved changes in the company's equity structure, including a two-for-one stock split. Provision was also made for expanded incentives and stock options for executives and management personnel.

Continuing to Grow

The Four Seasons Chicago opened in 1989. Work was nearing completion at Four Seasons resorts on Maui, Hawaii, opening in March, 1990, and on the Caribbean island of Nevis, scheduled to open at the end of the year. Hotels in Singapore, Mexico City, Tokyo and Paris; and resorts in Carlsbad, California; in Scottsdale, Arizona; at Kona on the island of Hawaii; and at Costa Isabela, Puerto Rico, were in planning or construction stages.

Four Seasons has a reputation unmatched

in the luxury segment of the hospitality industry. It has developed effective and successful operating systems and has ample financial resources. Even more fundamental to success is the ability to staff all hotels and resorts with employees of the highest calibre and commitment. This challenge is being met through intensive recruiting efforts; through programs designed to attract and train employees who will meet the standards established by the present employees; and through constant training and orientation programs directed to maintaining these standards among all employees, new or long-term.

Looking Ahead

Expansion plans already announced will increase the number of Four Seasons hotels and resorts from 22 to 32 by 1994. With its sound financial situation, proven ability to manage and staff for growth, and the opportunities it has to work with outstanding investment partners, Four Seasons and its shareholders have every reason to face the future with confidence.

Building on a strong, stable North American base, Four Seasons has concentrated on opportunities on this continent, Western Europe and Asia. In the 1990s, the company will be looking seriously at a great many possible locations for hotels and resorts, some in cities and countries not previously considered.

Europe, both Western and Eastern; South America; Asia; cities like Seoul, Taipei, Hong Kong, Bangkok, Madrid, Zurich, Milan, Frankfurt; these are some of the locations under active consideration for Four Seasons hotels and resorts of the future.

With its special expertise, its increased financial resources and — most important of all — its able, dedicated people, Four Seasons anticipates sharing fully in a decade of exceptional promise.

ISADORE SHARP
Chairman and President

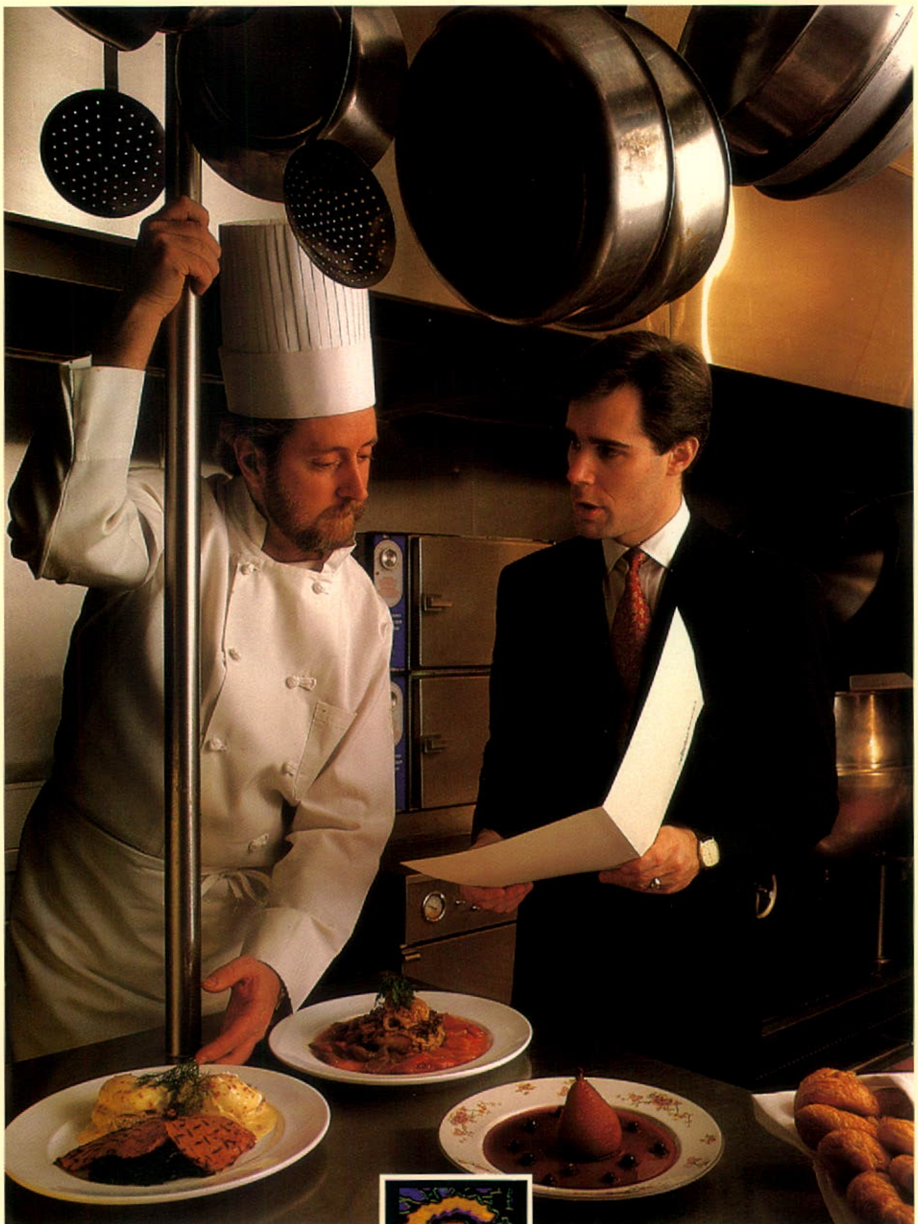
KEEPING THE PROMISE

First impressions: Charles Nillen, with his greeting, his grin, and his phenomenal memory, is a one-man Washington welcoming committee

When the American Automobile Association announced its prestigious Five Diamond Awards for excellence in 1989, Four Seasons, with 10 awards, had more than twice as many as any other hotel group. It was the ninth year in a row that Four Seasons had the largest number. Institutional Investor Magazine listed five Four Seasons hotels in its ranking of North America's 15 best hotels.

Service, perhaps more than any other single factor, accounts for this recognition. Service can involve major matters, but frequently small things, like overnight dry cleaning or remembering which kind of pillow a guest prefers, are the marks of true hospitality. Often a service is offered before the guest thinks about it. A truly service-oriented employee anticipates a need or an opportunity to do something to make a guest more comfortable — a humidifier provided to a guest suffering from a cold, a plaything for a child guest — or countless other human touches that make guests feel more at home and make them want to come back. While a corporation can organize procedures and establish guidelines and rules, service essentially is provided by one person to another person. The provider, at the moment of service, is not supervised, but is driven only by his or her own commitment.

Four Seasons, in its advertising and marketing, gives to guests an implicit guarantee of satisfaction and value. The men and women of Four Seasons, housekeepers and cooks, concierges and cashiers and others at all levels of responsibility, are the ones who must keep the promise. The winning of awards — the most important award being the repeat patronage of thousands of satisfied guests — indicates how well they are doing.



Perfection begins behind the scenes, and perfection is what Executive Sous Chef Tom Hayes and Executive Assistant Manager Chris Hart are pursuing as they develop new dishes for Sunday Brunch at Aux Beaux Champs, in the Four Seasons Washington. Recipes are developed, adapted and painstakingly tested by chefs of superior skill and creativity. The finest ingredients are obtained from around the world. And the story is repeated in all Four Seasons hotels and resorts — the same high standards, along with the special local characteristics and touches that reflect the city, the region, the hotel itself. The same emphasis on excellence applies to Four Seasons service and facilities, reflecting the way the organization and the individual staff members care about their guests.

PROUD TO SERVE

When a Four Seasons hotel opens, a nucleus of experienced people, from senior managers to front-line service personnel, brings to the new location the standards, practices and attitudes that make Four Seasons a superior place to stay. Growth depends on the ability of the company to move such core employees from existing hotels, offering them the opportunity to help build the company. A great deal of effort and investment is directed towards expanding the capabilities of employees, and to recruiting and training new people.

During 1989, the company provided training and development courses to 1,800 employees. In addition, many attended training programs organized by educational institutions and industry groups. The company's own courses cover a variety of management and supervisory matters as well as such specific skills as labour-management relations, communications and financial systems.

Equally important is on-the-job training designed to assure consistency and excellence in service and in the day-to-day operation of the company's hotels and resorts. At all levels, Four Seasons places maximum emphasis on the hiring of personnel, with the candidate's attitude being the greatest criterion. Four Seasons employees are expected to view hospitality and service as a satisfying calling, one in which they can take pride and in which they can develop their talents. Employees are kept informed of company affairs and their views are sought through both formal and informal channels.

The success of Four Seasons has been based on the exceptional loyalty and commitment of its people. They earn competitive salaries and participate in special recognition and incentive programs, but the extra efforts they make, and their motivation to excellence, are reflections of their special qualities as people and of their sense of being a team. They respect and care for each other as well as for their guests.

Rité Philippe of Le Quatre Saisons Montreal says that even a lampshade askew is unthinkable for a person who's proud of her work

When Suzanne Shannon graduated from college with a degree in Hotel Management her education continued with Four Seasons in Corporate Sales Management at Le Quatre Saisons, Montreal. The company recruits from campuses around the world and hired 65 graduates in 1989. The company attracts applications from a large number of top students who appreciate the standards of excellence the Four Seasons name has come to represent. Rapid growth brings plentiful opportunities, and the future holds great promise. Or as Suzanne put it, "I'm getting a chance to put into practice the things I studied in school and I'm learning from the best people in the hospitality industry".

Accelerating growth and emerging opportunities challenge organizations. Four Seasons in 1989 made a number of changes to improve co-ordination of hotel operations and to expand marketing and sales activities.

Area Management

Three new positions of Area Vice-President, Operations, were established. Wolf Hengst is responsible for overseeing hotel operations in Eastern North America and Europe; Antoine Corinthios for hotels in Western North America and the Pacific; and Charles Ferraro for resort operations. They were selected for their collective experience as long-term Four Seasons managers and for special abilities in such matters as new hotel openings and people development. All have responsibility for staff recruitment and training.

Marketing and Sales

New regional sales offices were opened in Tokyo and Dallas, bringing to seven the number of such offices. Directors of Incentive Sales and of Corporate Sales — specialists in dealing with these critical markets — were also appointed. Other new management positions will focus on the tour and travel segment and on the insurance industry's business conference and meeting programs.

The company's growth will be built on the established reputation of its hotels. The 10 new hotels and resorts under way will carry the Four Seasons name. The few existing hotels with different names (such as the Inn on the Park in London) will have their identification with the group emphasized. A North American advertising program designed to strengthen awareness of the Four Seasons brand name and stress the special qualities of Four Seasons service and people was developed for early 1990 introduction.

To the President's taste — Wilfred Johnson has cooked for both President Bush and former President Reagan and for thousands of others at the Four Seasons Los Angeles

A company planning the first major resort on an island where tourism has not been a significant industry has some important decisions to make about staff. When Four Seasons began building in Nevis, the answer was obvious. Working with government, hotel training programs are being established in the island's high schools. Good jobs that previously didn't exist will be available for future graduates. In the meantime, a number of young people have been hired and are working in Four Seasons hotels acquiring the skills and expertise they will put to use when the Four Seasons Nevis resort opens late in 1990. Pictured here are Gary Powell of Nevis and William Pallett, Director of Management Development.

Martha Arizmendy, responsible for emergency measuring, strategic stitches and rapid repairs, helps guests at The Pierre shine in New York City

George Lagusis reviews drawings for the Four Seasons Hotel, Mexico City

Four Seasons in the 1990s will in some respects be very different from what it was at the end of the 1980s. It will be a major resort operator, and it will have moved far beyond its North American base. Among projects announced before the new decade began were those in Singapore, Tokyo, Mexico City, Paris and the Caribbean. Under investigation were possible new developments in various European, Asian and South American countries as well as in the United States.

While Four Seasons began as an owner of the properties it managed, development of new properties is increasingly being financed by the company's international partners. Four Seasons frequently takes a minority position in new hotels and resorts, but increasingly will derive the major portion of its revenue from management fees. This will be the pattern for foreseeable future development.

A Decade of Opportunity

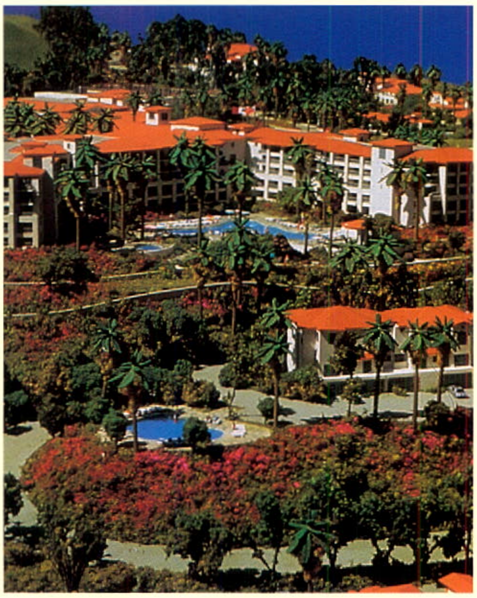
The company's evolution into a truly international operator and its move into the resort field were natural developments. The timing of these changes was influenced by the realization that the most attractive future opportunities for Four Seasons would be found outside the North American urban hotel field.

By the mid-1980s the company was already operating successfully in those U.S. and Canadian cities which had a market for a hotel of the Four Seasons standard. As a result of this success there were a large number of frequent and affluent travellers who chose to stay at Four Seasons establishments wherever they were available. Experience had shown, for example, that about 50 per cent of the guests at the Four Seasons Inn On The Park London were from North America, and that most of these had previously stayed in the company's North American hotels. The standards of Four

Chicago has a special corner with two Four Seasons hotels diagonally across from each other. One is the Ritz-Carlton Chicago which has been under Four Seasons management since 1977. The other is the Four Seasons Chicago, which opened in 1989 and is already a favourite of discriminating visitors to the Windy City. For luxury, elegance and comfort they dominate the city's hotel scene. Taken together, they offer superb facilities for conferences and meetings, with participants finding access to the two fine hotels a special bonus feature. Their high profile also strengthens the Four Seasons appeal to Chicagoans visiting other cities — and Chicago is, after New York and Los Angeles, the third most important source of Four Seasons corporate business.

Seasons hotels, and their appeal to travellers, clearly transcended national or continental boundaries. International growth would be built in large part on an existing strong, loyal customer base. At the same time new establishments around the world would acquaint business people in other countries with Four Seasons quality and attract many of them to the company's North American hotels and to new ones in other countries.

It also became clear that guests who stayed at Four Seasons hotels would be interested in comparable facilities and services in a resort setting. Most were business travellers, regular users of Four Seasons urban hotels. Research showed that when they vacationed with spouses and families they were prepared to pay a premium for a high level of facilities and services and for the special conveniences and comforts they appreciated on their business travels. As well, businesses had a growing interest in luxury resort facilities for conferences and meetings and particularly as incentive destinations.



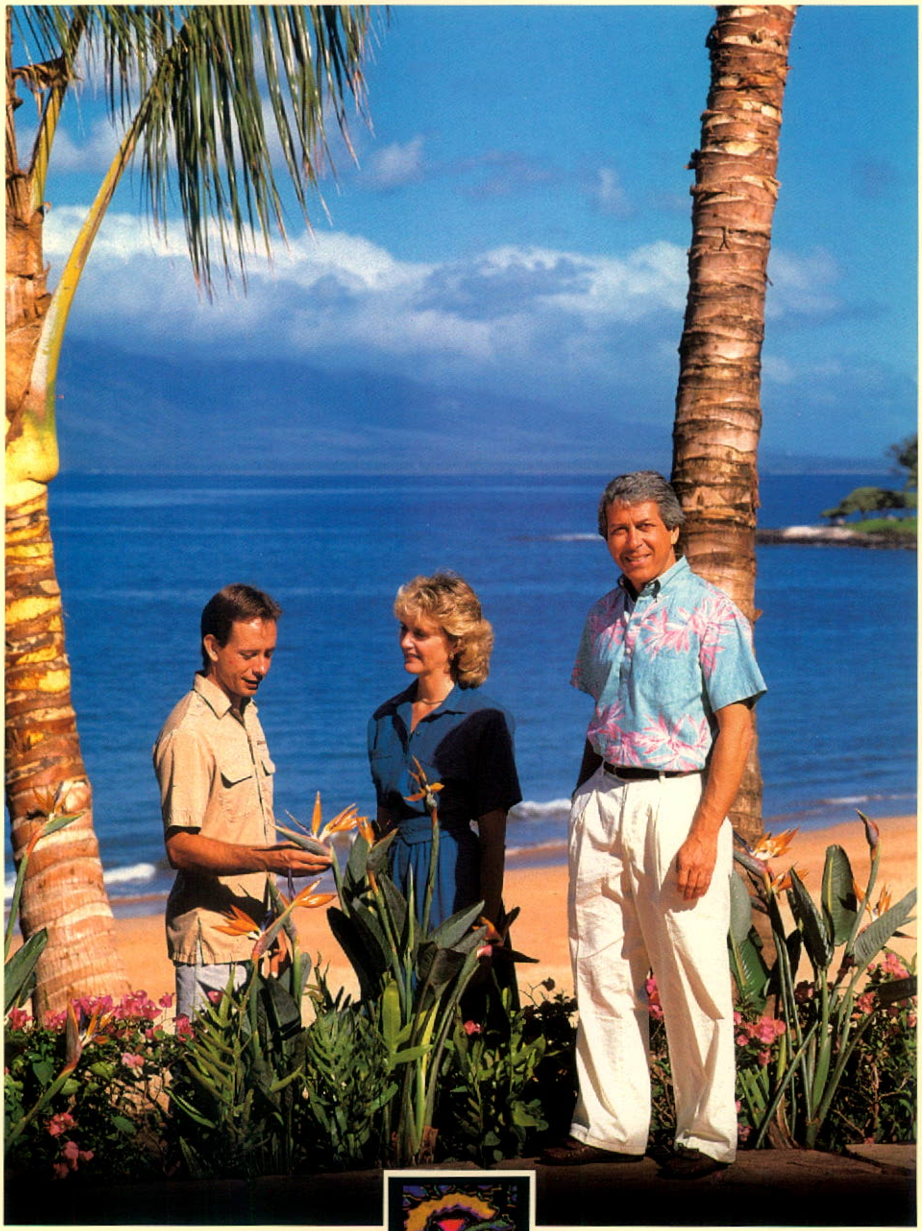
Model of future Four Seasons Resort Aviara.

Standards of Quality

Four Seasons standards had, by the end of the 1980s, become the benchmark by which the luxury hotel industry was judged. The company was known for quality, service and innovation. Its reputation was the company's most priceless asset, and it clearly was essential to strengthen the identification of each hotel or resort with Four Seasons as a whole.

In a competitive industry, innovation distinguishes one company from another, so exhaustive planning has gone into resort development. People stay longer at resorts than at hotels, so resort rooms and bathrooms will on average be much larger than in urban hotels. At resorts, even meeting rooms will have the full resort atmosphere. They will feature outdoor

Hot things hot, cold things cold, great meals swiftly delivered. That is the perfectionist credo of Christian Penafiel, Room Service Manager at the Four Seasons Vancouver



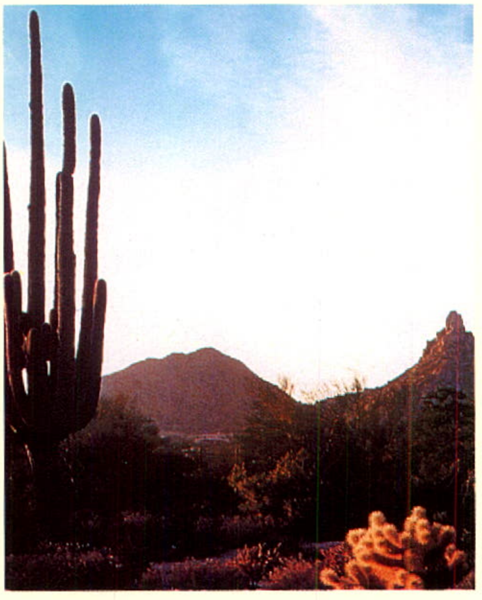
When a company thinks about building a resort in Maui, the first question that arises is, "When a place has such natural beauty, why would anyone want to spend any time indoors?" The answer is to bring the outdoors in, to make the natural setting the theme and the star attraction of the resort. The Four Seasons Maui's guest rooms and public spaces, including the lobby and restaurant, have fabulous views. The building is sumptuous but still has a relaxed and casual atmosphere. And then there are the ocean, the sky, the hills — beyond description, part of the experience. Pictured here are Robert Dill, Landscape Manager and Kathy Van Vechten, Director of Marketing, of the Four Seasons Resort Wailea, and Charles Ferraro, Area Vice-President.

Toronto's ultimate insider, Concierge Liloo Alim taps her special sources for tickets to sold-out shows and for reservations for fully booked flights and bistros

views and access to the open air. In its resorts the company will provide comfortable and practical amenities for guests who have checked out but whose flight reservations are several hours away. These will include change rooms, lockers and showers, baggage storage and rest areas. Overnight laundry and dry cleaning are being introduced across the company, and concierges will have airline ticket issuing capability.

New Projects

Ten new projects are under way or planned, including the new Four Seasons Resort Wailea on Maui, Hawaii, which will open in March, 1990, and the Four Seasons Nevis, opening in December, 1990. The others, with openings scheduled between 1992 and 1993, are the following:



Site of the future Four Seasons Resort in Scottsdale, Arizona.

- The Four Seasons Tokyo, opening in 1992, is a 299-room hotel on a 13-acre garden site. In its design and operation it will blend and balance Eastern and Western traditions.
- The second Hawaiian Four Seasons Resort will open in late 1992 at Kona, on the island of Hawaii. With 350 rooms on 32 acres, it will have a golf course designed by Jack Nicklaus and championship tennis facilities.
- The Four Seasons Singapore, opening in 1992, is located in the colourful heart of this shopping and financial mecca. It has 272 rooms and incorporates a private business centre, extensive meeting and banquet space, specialty shops, a fitness centre and indoor tennis courts.
- Scheduled for 1992, the new Four Seasons Resort, Aviara at Carlsbad, California, will have 450 rooms and the finest meeting facilities of any resort in the continental U.S. Its golf course is designed by Arnold Palmer.
- In Paris, the new Four Seasons Hotel will have 204 rooms, extensive conference and banquet facilities and a fitness club. Centrally located, it will overlook the Bois de Boulogne.

It was Christopher Columbus, 497 years ago, who first found Nevis, a small jewel of an island hidden away in the Caribbean. It has remained off the beaten path, but accessible to those who knew of its beauty, in the centuries since. Planning for the Four Seasons Nevis resort revolved around ensuring that the environment would be preserved and protected and that nothing would detract from Nevis's unspoiled charm. Buildings, amenities, recreational facilities are designed to harmonize with the natural setting. American statesman Alexander Hamilton was born here. Lord Nelson, hero of Trafalgar, lived here. Both found fame in the great world. Nevis kept its serenity and peace. It still does.

BREAKING NEW GROUND *(cont'd)*

It opens in 1993, the first five-star hotel to be built in Paris in this century.

- Mexico City's new Four Seasons Hotel is located on the impressive Paseo de la Reforma near the entrance to Chapultapec Park. It is scheduled to open in 1993 and will have 233 rooms.
- Near Scottsdale, Arizona, a new Four Seasons Resort is planned for a 1993 opening at Pinnacle Peak. On a secluded, 1,800-acre desert site there will be a 250-room hotel, guest cottages, clay and grass tennis courts and a championship-calibre golf course designed by Tom Weiskopf and Jay Morrish.
- Costa Isabela, Puerto Rico, one of the world's most spectacular resort sites, is the future home of the new 350-room Four Seasons Resort, to be opened in 1993.

Growing With Partners

What next? And where? The greater economic integration of the European Community, which will take place in 1992, will create opportunities for Four Seasons hotel developments in a number of business centres in western Europe. With two hotels under way in Asia, the attractions and prospects of the Pacific Rim countries are clear. Around the world there are many desirable destinations that are potential sites for Four Seasons resorts.

The rapid growth of Four Seasons in the past decade was accompanied by a partial shift away from equity ownership to the provision of management services. This has meant greater stability in revenues and earnings even when the general economy is weak. This shift in strategy has been made possible by the unique management and operating expertise of Four Seasons. Matched with the economic resources and land holdings of major international financial partners, the company has exceptional opportunities to choose from and this is expected to continue.

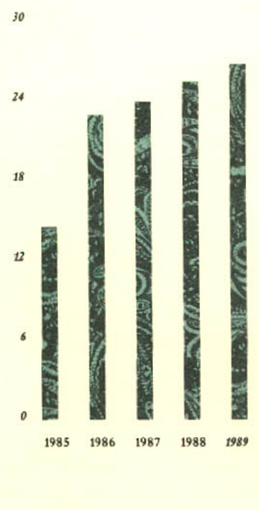
People The Key

The fundamental importance of service and attention to detail remain. As tastes and the needs of guests change, the people of Four Seasons will be trained and, more importantly, will be self-motivated to adapt. Technology will play its part in ways foreseeable and unforeseeable. Even in 1990, computer links are making it possible to have a central guest registry so that individual hotels can access a record of a guest's preferences and special interests, whether or not he or she has stayed in that particular hotel before. Technology, better building materials, constant upgrading and refurbishing, all will play their part in adding to the physical comfort, convenience and satisfaction of the Four Seasons experience.

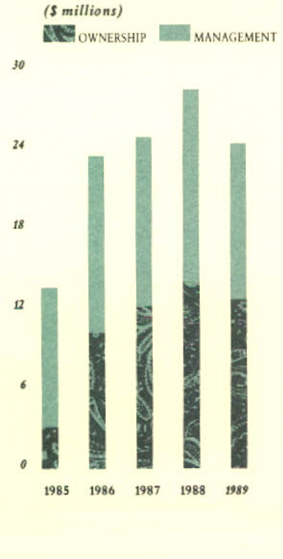
And as always, the people of Four Seasons will be at the heart of all its endeavours. Pride in their work, eagerness to serve, mutual trust and confidence, open communications, fair compensation, incentives to achieve excellence — all are fundamental to the strength and unique character of Four Seasons hotels and resorts. The greatest challenge of the 1990s, and one Four Seasons is confident it will meet, will be to transmit to a growing number of employees in a variety of international settings and cultures the core values and the special skills that have brought the company success in its first three decades.

CONTENTS

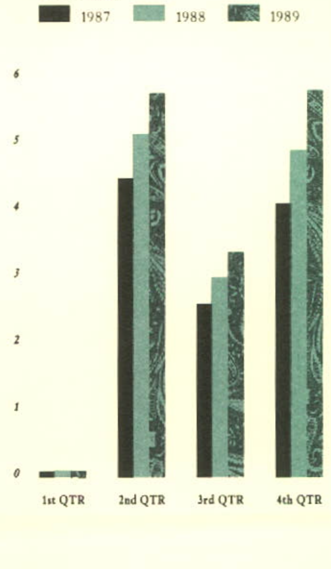
FUNDS GENERATED
FROM OPERATIONS
($ millions)



EARNINGS BEFORE
INTEREST AND TAXES
($ millions)



QUARTERLY NET EARNINGS
($ millions)



MANAGEMENT DISCUSSION AND ANALYSIS

THE YEAR IN REVIEW

Four Seasons Hotels Inc. completed 1989 with its fourth consecutive year of growth since becoming a public company in February 1986. Management is satisfied with this year's results, which are in line with expectations.

- Net earnings before extraordinary items, were up 15% over 1988 to $15.0 million. Management's long-term target of 10% to 15% growth per annum has been met or exceeded every year since 1985.
- Return on equity was 16%. The average return on equity during the last four years was 21%, exceeding management's long-term target of a 20% return on equity.
- During the year dividends were increased 13% to 11¢ a share per annum. The dividend rate has increased by over 10% on a compound annual growth basis since Four Seasons went public.
- The debt-to-equity ratio, net of cash, was .7:1, which is better than management's long-term target of 1:1.
- Net interest coverage in 1989 was 5.3 times, which is well in excess of management's long-term target of 2:1.

THE ECONOMY

The modest weakening in the economy which began in the third quarter of 1989, is expected to continue through 1990. Accordingly, Four Seasons does not anticipate rapid growth in earnings in the next fiscal period. Nonetheless, management feels that Four Seasons stable customer base, coupled with what it believes are premier hotel locations in generally stable markets, should enable the company to maintain its historic growth levels in 1990.

Interest Rates

It is expected that interest rates may drop during the latter part of 1990. If so, management will consider converting a portion of its floating rate borrowings to fixed rate debt. Four Seasons long-term target is that 50% of the company's debt be at fixed rates to reduce the risk associated with rate fluctuations. The majority of Four Seasons debt position is in U.S. dollars to take advantage of lower U.S. interest rates and to hedge the company's significant U.S. income stream.

Currency

The U.S. Dollar — Management expects the U.S. dollar to strengthen against the Canadian dollar over the coming year. By reinvesting all U.S. cash flow in U.S. capital expenditures and in U.S. hotels and resorts in 1989, Four Seasons was able to reduce the negative impact on earnings arising from the decline in the U.S. dollar in 1989. The company expects to continue this internal hedge in 1990. In the longer term, it is expected that the U.S. dollar will outperform the Canadian dollar and that the company will benefit from its significant investment in long-term U.S. assets.

The Pound Sterling — Earnings from the Four Seasons Inn on the Park, London were fully hedged in 1989 through the purchase of a forward contract at $2.37 to £1. As the average rate of exchange in 1989 was $1.94 to £1, the forward contract added $1.6 million to earnings. The company has hedged its 1990 sterling income stream through sterling debt.

THE COMPANY

Strategic Challenges

The primary industry challenges facing Four Seasons in the next decade are increased competition and a continuation of its ability to attract and maintain qualified personnel to ensure that its standards of excellence are maintained. Four Seasons will also face the challenges associated with its expansion into the resort and international urban hotel markets.

- Increased Competition — Four Seasons feels that the company's premier properties located in major North American markets, superior yields within individual markets, and increasingly strong brand name recognition will provide it with an edge in the luxury hotel market. The company also believes that the expansion of its marketing organization will help maintain and improve its leading market position.
- Personnel — Four Seasons is in the process of expanding its international management organization. This will result in a short-term increase in costs which will establish the organizational structure necessary to ensure the success of new Four Seasons hotels and resorts throughout the world. These increased costs will be offset by future revenues.
- Resorts and International Urban Hotels — Four Seasons believes that its new hotels and resorts will serve its existing client base, and will increase the awareness of, and value

associated with, the Four Seasons brand name. As a majority of international and resort travellers originate from North America, Four Seasons strong presence in this market will contribute significantly to its international success.

Operations Overview

Four Seasons operates two distinct segments: management and ownership. The company's objective is to achieve a reasonable balance of earnings and cash flow between these two segments.

The Management Segment — The management segment has the following characteristics:

- It has stable earnings and cash flow, as three-quarters of management revenues are derived from fees based upon total revenues of managed hotels.
- Management agreements are generally long-term. The average remaining life of all existing management agreements is 55 years.
- The segment is not capital intensive. Hotel owners are required to provide substantially all working capital and capital expeditures needed for the hotel, including funding of all employment costs.
- The continued growth in the number of hotels under management will increase the value of the Four Seasons brand name worldwide.

1989 Management Results — One measure of success is yield which is occupancy times average achieved room rate. In 1989, Four Seasons yield increased 5% and management is budgeting a further 6% yield increase in 1990.

Management fee revenues were unchanged year-to-year despite the reduction in the fee structure at the Four Seasons Inn on the Park, London which occurred when a one-half interest in the hotel was sold in December 1988. This reduction was offset by management fees from the Four Seasons Chicago which opened in March 1989.

Earnings from management operations before interest and taxes were down \$2.56 million, or 18.2% as compared to 1988, to \$11.5 million. This was due primarily to the growth of Four Seasons international management organization which will enable Four Seasons to prepare for its expanded international hotel and resort operations. In this regard, Four Seasons opened two new National Sales Offices during the year in Dallas and Tokyo; significantly strengthened the Corporate Marketing department; expanded the Design and Construction and Purchasing departments; and appointed three Area Vice-Presidents to reinforce an already strong senior management team.

1990 Management Segment — Management revenues in 1990 are expected to increase due to the March opening of the Maui resort; a full year of management earnings at the new Four Seasons Chicago; and fees earned from the 10 hotels and resorts under development. Increases in costs will continue, reflecting the full year effect of the staffing changes made in 1989. Four Seasons is projecting that the gross profit margin achieved in 1989 will be maintained in 1990 and a margin of more than 40% is targeted for 1991.

The Ownership Segment — Four Seasons has an equity interest in 12 of the 22 hotels and resorts under management. The ownership segment has the following characteristics:

- It is capital and labour intensive and is subject to greater economic fluctuations than the management segment.
- Generally, the company's large equity positions are in premium locations in stable markets such as Toronto, London, New York and Chicago.
- Equity ownership allows Four Seasons to share in the long-term appreciation in value which the Four Seasons name and operations bring to a property.

Four Seasons ownership strategy is to acquire a 10 to 20% equity interest in properties which present attractive opportunities for capital appreciation. Four Seasons is not necessarily offered an equity position in all new hotels and resorts. The company has acquired equity positions in the following properties under development: Nevis (15%), Paris (15%) and Aviara (5%).

1989 Ownership Results — Earnings from ownership operations before interest and taxes were \$12.7 million, as compared to \$14 million in the previous year. This decrease was due primarily to the disposal of a 50% interest in the Four Seasons Inn on the Park, London in late 1988 which resulted in a \$4 million decline in 1989 ownership earnings. The same transaction contributed to the \$2.8 million decrease in net interest expense as the proceeds from the sale were used to pay down debt.

Approximately \$3 million in additional

pre-tax earnings over 1988 has been recognized at the Four Seasons Toronto. Although this hotel has very good operating results, it has not been a significant contributor to earnings, as all of its income has been absorbed by increased rent payments to the landlord for capital improvements made to the hotel during the early 1980's.

The renovation of the rooms and public areas at the Four Seasons Santa Barbara has been completed and work on the Coral Casino Club is continuing. The hotel has been repositioned in its market and yield increased by 25% in 1989.

1990 Ownership Segment — During 1990 it is expected that Four Seasons Toronto's profitability will be maintained. The Four Seasons Inn on the Park, London will remain as the most important contributor to ownership earnings in 1990; however, any increase in the hotel's 1990 earnings is expected to be offset by a continued weakening in the pound sterling. The Four Seasons Santa Barbara is expected to have a significant positive impact on 1990 ownership earnings. As a result of major capital refurbishing programs planned for New York and the Ritz-Carlton, Chicago, no significant improvement in ownership earnings is expected from either property in 1990.

Equity Sale

During the first quarter of 1990 Four Seasons announced the sale of the Four Seasons Ottawa. The transaction is scheduled to close in the first week of March. Four Seasons will continue to manage the hotel under an interim management agreement pending finalization of long-term management arrangements. Cash generated from this transaction will be applied to reduce debt by approximately $14 million.

LIQUIDITY

Working capital generated from operations increased 5% to $26.7 million in 1989. This internally generated cash flow adequately covers the company's current needs. In addition, significant credit facilities have been arranged with various banking institutions to assist with cash requirements and investment opportunities as required. As a result, Four Seasons has no immediate need to access the capital markets. However, in preparation for all contingencies, the company sought and obtained a favourable debt rating in 1989 (Dominion Bond Rating Service; A (Low)). If market conditions are favourable, the company will consider refinancing a portion of its short-term debt at some time in the future.

Equity Investments and Loans to Managed Hotels

Four Seasons Hotels equity investments in Four Seasons Chicago, Four Seasons Nevis and Four Seasons Paris, among others, amounted to approximately $4.9 million in 1989. These projects are estimated to require an additional $12 million in 1990.

In 1989, Four Seasons and its affiliates made loans of approximately $9.4 million to various managed hotels. It is anticipated that a further $10 million will be advanced in 1990. These loans earn market interest rates, are typically secured on the hotel property, and are repayable out of operating cash flow from the hotels, or upon sale or refinancing of the hotel or termination of the management contract.

Capital Expenditures

The owners of Four Seasons hotels spend on average 3% to 5% of gross revenues per annum, plus funds for special projects as required, on capital expenditures. In 1989, approximately $39 million was invested by the hotel owners. Four Seasons share was $16 million in 1989 and is estimated to be $18 million in 1990.

In 1989 major capital projects were undertaken in Toronto, Vancouver, New York, Santa Barbara and Washington. Major projects for 1990 will focus on Vancouver; the Ritz-Carlton, Chicago; New York; and the Coral Casino Club, Santa Barbara.

Taxes

The company's effective tax rate declined from 36.7% in 1988 to 23.5% in 1989 due to a reduction in its effective Canadian tax rate and an increase in taxable income earned in lower tax rate jurisdictions. This lower tax rate should be sustainable over the next few years. In 1990, Four Seasons expects to continue to defer taxes on its Canadian and U.S. taxable income, primarily through the use of available capital cost allowance deductions.

CHANGE IN CAPITAL BASE

At a special meeting of shareholders on December 19, 1989, a two-for-one stock split was approved. The shares began trading on a split basis on January 2, 1990.

At the meeting shareholders also approved the implementation of a long-term incentive plan which will enable Four Seasons to provide increased incentives to its chief executive officer and stock options to its other senior managers. Four Seasons has always recognized the importance of linking management incentives to shareholder gains, and the implementation of the plan allows the company to continue to reward management for the maximization of shareholder values.

At present, the officers and directors of the company own approximately 2.9 million Subordinate Voting Shares, representing approximately 14% of the outstanding Subordinate Voting Shares.

SUMMARY

Despite some economic and industry challenges, Four Seasons management is confident that the company will achieve its long-term financial targets in 1990. In addition, Four Seasons strong balance sheet will ensure its capacity to finance development plans and carry out capital projects in hotels in which it holds an equity interest.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

ISADORE SHARP
Chairman and President

H. ROGER GARLAND
Executive Vice-President

CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended December 31, 1989 and 1988 ($000's except for per share amounts)	***1989***	1988
HOTEL MANAGEMENT OPERATIONS		
Total revenues of all managed hotels (note 1(a))	***$634,336***	603,406
Fee revenues (note 1(f))	***$ 31,524***	31,946
Expenses		
General and administrative	***18,835***	16,851
Depreciation and amortization	***1,173***	1,019
Earnings before interest and taxes	***11,516***	14,076
HOTEL OWNERSHIP OPERATIONS		
Revenues	***184,506***	206,751
Expenses		
Cost of sales and expenses	***156,006***	175,016
Fees to Hotel Management Operations (note 1(f))	***8,243***	10,338
Depreciation and amortization	***7,537***	7,370
Earnings before interest and taxes	***12,720***	14,027
Earnings before interest and taxes	***24,236***	28,103
Interest, net (note 7)	***4,570***	7,367
Earnings before taxes	***19,666***	20,736
Income taxes (note 9)		
Current	***1,304***	3,149
Deferred	***3,326***	4,461
	4,630	7,610
Net earnings before extraordinary items	***15,036***	13,126
Extraordinary items (note 11)	—	21,713
Net earnings	***$ 15,036***	34,839
Earnings per share (note 8):		
Before extraordinary items	***$ 0.76***	0.67
After extraordinary items	***$ 0.76***	1.77

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

December 31, 1989 and 1988 ($000's)	**1989**	1988
ASSETS		
Current assets:		
Cash and short-term investments	***$ 9,561***	8,426
Receivables (note 2)	***33,060***	24,212
Inventory	***2,602***	2,569
Prepaid expenses	***3,731***	3,347
Total current assets	***48,954***	38,554
Notes and mortgages receivable (note 3)	***27,743***	19,806
Investments in hotel partnerships and managed hotels (note 4(a))	***16,877***	11,384
Fixed assets (note 5)	***125,152***	120,651
Other assets	***11,823***	6,295
	$230,549	196,690
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Bank indebtedness	***$ 26,907***	1,192
Accounts payable and accrued liabilities	***42,426***	43,742
Long-term debt due within one year	***10,971***	5,356
Total current liabilities	***80,304***	50,290
Long-term debt (note 6)	***37,725***	42,868
Deferred income taxes	***18,681***	18,476
Shareholders' equity (note 8):		
Capital stock	***38,067***	37,731
Contributed surplus	***4,784***	4,784
Retained earnings	***58,769***	45,776
Equity adjustment from foreign currency translation	***(7,781)***	(3,235)
Total shareholders' equity	***93,839***	85,056
Commitments (note 10)		
	$230,549	196,690

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board of Directors:

ISADORE SHARP
Director

BENJAMIN SWIRSKY
Director

CONSOLIDATED STATEMENTS OF CASH PROVIDED BY OPERATIONS

Years ended December 31, 1989 and 1988 ($000's)	***1989***	1988
CASH PROVIDED BY (USED IN):		
HOTEL MANAGEMENT OPERATIONS		
Earnings before interest and taxes	***$ 11,516***	14,076
Add items not requiring an outlay of funds:		
Depreciation and amortization	***1,173***	1,019
Other	***899***	297
Working capital provided by Hotel Management Operations	***13,588***	15,392
HOTEL OWNERSHIP OPERATIONS		
Earnings before interest and taxes	***12,720***	14,027
Add (deduct) items not requiring (providing) an outlay (inflow) of funds:		
Depreciation and amortization	***7,537***	7,370
Other	***(1,302)***	(870)
Working capital provided by Hotel Ownership Operations	***18,955***	20,527
Interest	***(4,570)***	(7,367)
Current taxes	***(1,304)***	(3,149)
Working capital from operations	***26,669***	25,403
Change in non-cash working capital applicable to operations excluding current portion of long-term debt	***(10,273)***	1,511
Cash provided by operations	***$ 16,396***	26,914

See accompanying notes to consolidated financial statements.

AUDITORS' REPORT

To the Shareholders of Four Seasons Hotels Inc.

We have examined the consolidated balance sheets of Four Seasons Hotels Inc. as at December 31, 1989 and 1988 and the consolidated statements of operations, cash provided by operations, changes in financial position and retained earnings for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1989 and 1988 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 applied on a consistent basis.

Toronto, Canada
February 20, 1990

PEAT MARWICK
Chartered Accountants

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years ended December 31, 1989 and 1988 ($000's)	***1989***	1988
CASH PROVIDED BY (USED IN):		
Operations	***$ 16,396***	26,914
Financing		
Long-term debt, including current portion, issued	***1,326***	19,039
Long-term debt, including current portion, repaid	***(860)***	(52,348)
Other	***(1,426)***	(392)
Cash used in financing	***(960)***	(33,701)
Capital Investments		
Notes and mortgages receivable	***(11,531)***	(4,735)
Hotel investments	***(4,880)***	(1,168)
Proceeds on sale of hotel investments	—	39,815
Purchase of fixed assets	***(15,884)***	(26,163)
Other assets	***(5,459)***	(1,625)
Cash provided by (used in) capital investments	***(37,754)***	6,124
Dividends	***(2,043)***	(1,631)
Decrease in cash	***(24,361)***	(2,294)
Decrease in cash due to unrealized foreign exchange loss	***(219)***	(892)
Cash and short-term investments less bank indebtedness, beginning of year	***7,234***	10,420
Cash and short-term investments less bank indebtedness, end of year	***$(17,346)***	7,234

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Years ended December 31, 1989 and 1988 ($000's)	***1989***	1988
Retained earnings, beginning of year	***$ 45,776***	12,568
Net earnings for the year	***15,036***	34,839
Dividends	***(2,043)***	(1,631)
Retained earnings, end of year	***$ 58,769***	45,776

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1989 and 1988
(Dollar amounts are in thousands except per share amounts)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(a) Basis of presentation:

The Corporation is incorporated under the Business Corporations Act, 1982 of the Province of Ontario and is engaged through its subsidiaries in the management of and the investment in hotel and resort properties. At December 31, 1989 the Corporation managed 22 hotels, had an equity interest in 13 hotels and had 10 hotels under development. The Corporation earns management and other related fees under long-term management contracts based generally on a percentage of total revenues of the managed hotels. A number of the Corporation's management contracts are subject to certain performance tests which if not met could allow a contract to be terminated prior to its maturity. The Corporation generally has various rights to cure any such defaults to avoid termination.

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

(b) Principles of consolidation:

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

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

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

(c) Translation of foreign currencies:

Foreign currency balances and transactions are translated into domestic currencies at the rates of exchange on the balance sheet date for monetary items, on the date of transaction for non-monetary items and at the rates in effect during the year for revenues and expenses, except for those fees which are designated as revenue hedges, which are translated at the exchange rate in effect at the date of designation, and fees hedged by foreign exchange forward contracts, which are translated at the contract rates. The resulting gains or losses are included in the determination of net income, except for gains or losses related to long-term monetary items which are deferred and amortized on a straight-line basis over their ascertainable lives. Foreign currency forward contracts which are not hedges are marked to market values, and the resulting gains or losses are included in the determination of income.

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

(i) Assets and liabilities at rates of exchange on the balance sheet date.
(ii) Revenue and expense items at average rates of exchange in effect during the year, except for hotel net revenues which are hedged by foreign exchange forward contracts, in which case the net revenues are translated at the contract rates.
(iii) The resulting exchange gains and losses are deferred and included as a separate component of shareholders' equity.

(d) Fixed assets:

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

Operating equipment, which includes linen and tableware, is valued at the lower of average cost and replacement cost, and is charged to operations as consumed.

(e) Depreciation and amortization of fixed assets:

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

Depreciation on furniture, fixtures and equipment is recorded on a straight-line basis at rates which will fully depreciate the assets over their estimated useful lives. The estimated composite useful lives for furniture, fixtures and equipment range from 5 to 10 years.

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

(f) Intercompany management fees:

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

2. RECEIVABLES:

	1989	1988
Trade accounts	***$12,086***	10,374
Receivable from hotel partnerships, affiliates and managed hotels	***10,295***	5,910
Other	***10,679***	7,928
	$33,060	24,212

3. NOTES AND MORTGAGES RECEIVABLE:

Included in the notes and mortgages receivable of $27,743 (1988 – $19,806) is an amount of $9,217 (1988 – $6,558) due from directors, officers and employees representing interest-free mortgage loans and share purchase loans. The remaining notes and mortgages bear interest at rates varying from 12% to bank prime plus 1%.

Notes and mortgages in the amount of $5,143 mature in 1990 and $10,646 in 1993. The majority of the remaining notes and mortgages receivable mature after 1993.

4. HOTEL INVESTMENTS:

(a) The Corporation's investment in hotel partnerships and managed hotels of $16,877 (1988 – $11,384) represents capital investments, advances and unamortized development costs for hotels which are carried on a cost basis.

(b) Included in the consolidated financial statements is the Corporation's proportionate share of hotel joint venture assets of $63,306 (1988 – $65,917), liabilities of $44,913 (1988 – $45,716), revenues of $54,035 (1988 – $80,576) and net profit before taxes of $5,001 (1988 – $5,764).

The 1988 comparative figures include the Corporation's proportionate interest in the assets and liabilities of the London hotel as at December 31, 1988 as a result of the disposal of a 50% interest in the hotel on December 30, 1988. Revenues and net profit before taxes include 100% of the results of the London hotel for the year ended December 31, 1988 and 50% for the year ended December 31, 1989.

5. FIXED ASSETS:

	1989	1988
Land	***$ 7,165***	7,354
Buildings	***44,879***	45,375
Furniture, fixtures and equipment	***56,356***	51,962
Leasehold interests and improvements	***49,940***	44,963
	158,340	149,654
Accumulated depreciation and amortization	***(41,169)***	(36,602)
	117,171	113,052
Operating equipment	***7,981***	7,599
	$125,152	120,651

6. LONG TERM DEBT:

	1989	1988
Term loans: Payable in US dollars — $4,500, interest at LIBOR + 1%, due 1990	***$ 5,211***	5,364
Mortgages: Payable in US dollars — $22,500, interest at LIBOR plus 1½%, secured by fixed charges on a specific property, due 1991	***26,055***	26,820
Secured by fixed charges on specific properties, due on varying dates to 1993, interest at prime plus ½%	***7,933***	7,933
Other long-term liabilities, including capital leases	***9,497***	8,107
	48,696	48,224
Due within one year	***10,971***	5,356
	$37,725	42,868

(Dollar amounts are in thousands except per share amounts)

6. LONG TERM DEBT: (continued)

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

1990	$10,971
1991	26,868
1992	488
1993	3,462
1994	466
Subsequent to 1994	6,441
	$48,696

7. INTEREST:

Interest expense, net is comprised as follows:

	1989	1988
Interest on long-term debt	***$4,912***	8,514
Other interest expense	***2,625***	1,142
Interest income	***(2,967)***	(2,289)
Interest expense, net	***$4,570***	7,367

8. SHAREHOLDERS' EQUITY:

(a) Capital Stock:

Authorized:

5,562,566 Multiple Voting Shares ("MVS"), voting (12 votes per share) and ranking equally with Subordinate Voting Shares ("SVS") as to dividends and distributions on liquidation or winding-up of the Corporation. MVS are convertible into SVS on a one-for-one basis at the option of the holder. The shares automatically convert into SVS upon any transfer outside of the family of Isadore Sharp, except a transfer of a majority of the shares to a purchaser who also makes an equivalent offer to purchase all outstanding MVS and SVS.

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

290,000 Employee Preference Shares ("EPS"), non-voting and ranking equally (to the extent of issue price plus declared and unpaid dividends) with MVS and SVS as to distributions on liquidation or winding-up of the Corporation. Dividends will be as determined by the Board of Directors. The shares are convertible at the option of the holder (20% exercisable on the anniversaries of the first through fifth years from the date of issue) into 2.14286 SVS per EPS. The shares must be redeemed by the Corporation within 35 days after the holder ceases to be an employee of the Corporation, or after 10 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:

	1989		1988	
	Shares	***Stated Value***	Shares	Stated Value
MVS	***5,562,566***	***$ 61***	5,562,566	$ 61
SVS	***14,411,976***	***35,735***	14,209,274	34,700
EPS	***151,400***	***2,271***	198,000	2,970
		$38,067		$37,731

The number of MVS and SVS has been adjusted to reflect the two-for-one stock split, which became effective January 8, 1990, as approved at a Special Meeting of Shareholders (the "Meeting") held December 19, 1989.

Options on 20,000 SVS (1988-120,000) have been issued to a senior officer at $3.17 (1988-$3.17) per share which are currently exercisable. During the year options on 100,000 SVS (1988-180,000) which were reserved for issuance to three senior officers (including the individual described above) were exercised for proceeds of $317 (1988-$570).

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

Under executive share option plans, eligible directors, executives and employees may be granted options to acquire SVS at a price which is not less than 90% of the fair market value at the date of grant. The options will not be transferable and will be for a term of 10 years, exercisable in varying proportions on the first, second, third, fourth and fifth anniversaries of the date of grant. All such options become immediately exercisable in the event of retirement, incapacity or death of the director, executive or employee or a change in control of the Corporation. In 1989, options on 110,000 SVS (1988–318,000) were granted at prices varying between $12.73 and $17.97 per share (1988–$8.90 and $10.79 per share). During the year 20,000 options (1988–1,500) were exercised at $7 per share (1988–$7 per share). On February 8, 1990, options on 596,000 SVS were granted to certain officers and employees of the Corporation at a price of $16.45 per share. On February 16, 1990, options on 13,000 SVS were granted to an employee of the Corporation at a price of $16.59 per share. As at February 20, 1990 there were options outstanding on 1,475,500 SVS (December 31, 1988–890,500) exercisable at prices varying between $3.17 and $17.97 per share (1988–$3.17 and $10.79 per share).

In 1989, 8,000 EPS (1988–12,000) were redeemed by the Corporation for cash and 38,600 EPS (1988–13,000) were converted into 82,702 SVS (1988–27,848).

(b) Fully diluted earnings per share:

Fully diluted earnings per share and pro-forma fully diluted earnings per share (after giving effect to the cancellation of the option on the 1,000,000 SVS and the issuance of the options on 609,000 SVS described above) for the year ended December 31, 1989 are $0.74.

(c) Equity adjustment from foreign currency translation:

The change in the equity adjustment from foreign currency translation is primarily caused by changes in the exchange rates used to translate the Corporation's net investment in self-sustaining foreign operations. In 1988, $6,707 of the change was applied against the gain recognized on the disposal of a 50% interest in the self-sustaining subsidiary which owns the London hotel (note 11).

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

	1989	1988
Working capital	***$(1,330)***	(386)
Fixed assets, net	***(9,066)***	(6,194)
Other assets	***(609)***	265
Long-term debt	***3,144***	3,079
Deferred taxes	***80***	1
Total equity adjustment from foreign currency translation	***$(7,781)***	(3,235)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1989 and 1988
(Dollar amounts are in thousands except per share amounts)

9. INCOME TAXES:

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

	1989	1988
	%	%
Combined basic Canadian federal and provincial income tax rate	***41.5***	45.1
Lower foreign income tax rates	***(13.8)***	(4.4)
Earnings not subject to tax	***(3.5)***	(4.0)
Other	***(0.7)***	—
	23.5	36.7

10. LEASES:

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

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

1990	$15,174
1991	13,283
1992	12,790
1993	12,829
1994	12,884
Subsequent to 1994	188,813

11. EXTRAORDINARY ITEMS:

Extraordinary items are as follows:

	1988
Gain realized on disposition of a 50% interest in the subsidiary which owns the London hotel, net of income taxes recoverable of $1,715	$27,794
Disposal of Edmonton hotel assets, net of income taxes recoverable of $1,144	(533)
Settlement of a dispute relating to one of the Corporation's leased hotels, net of income taxes recoverable of $4,558	(5,548)
	$21,713

12. SEGMENTED INFORMATION:

	1989	1988
Revenues:		
United States	***$100,103***	97,874
Canada	***82,675***	82,983
United Kingdom	***29,880***	54,777
Intersegment revenues	***(4,871)***	(7,275)
Total consolidated revenues (note 1(f))	***$207,787***	228,359
Operating profit:		
United States	***$ 9,323***	12,395
Canada	***5,675***	1,305
United Kingdom	***9,238***	14,403
Total operating profit	***$ 24,236***	28,103
Identifiable assets:		
United States	***$ 88,154***	78,201
Canada	***44,732***	42,653
United Kingdom	***10,388***	9,896
	143,274	130,750
Corporate assets	***70,398***	54,556
Investments	***16,877***	11,384
Total identifiable assets	***$230,549***	196,690

13. SUBSEQUENT EVENT:

The Corporation has entered into an agreement to sell its hotel in Ottawa effective on or about March 1, 1990. As a result of this transaction, the Corporation will repay first mortgage financing of $4.9 million and receive approximately $9 million in cash. Four Seasons will continue as manager of the hotel on an interim basis pending the finalization of longer term management arrangements.

FIVE YEAR REVIEW

for the years ended December 31 (Dollar amounts are in thousands except per share amounts)	***1989***	1988	1987	1986	1985	5-year Compound Growth Rate
SUMMARY OF OPERATIONS						
Revenues under management	***$634.3***	603.4	584.3	509.0	441.0	9.4%
Consolidated revenues	***$207.8***	228.4	216.7	194.7	164.9	6.1%
Management operations E.B.I.T.*	***$ 11.5***	14.1	12.8	12.8	10.6	7.1%
Ownership operations E.B.I.T.*	***$ 12.7***	14.0	12.2	10.2	3.2	21.3%
Total E.B.I.T.*	***$ 24.2***	28.1	25.0	23.0	13.8	13.3%
Net interest expense	***$ 4.6***	7.4	5.7	4.8	6.6	
Tax rate	***23.5%***	36.7%	41.5%	47.5%	51.4%	
Net income before extraordinary items	***$ 15.0***	13.1	11.3	9.5	3.1	203.0%
CHANGES IN FINANCIAL POSITION						
Funds generated by operations	***$ 26.7***	25.4	23.9	22.9	14.5	16.6%
Mortgages and long-term receivables	***$ 11.5***	4.7	3.0	4.5	6.1	
Hotel and other investments	***$ 4.9***	1.2	0.21	1.1	2.3	
Sales/(purchases) of hotels	***$ —***	39.8	(40.1)	0.8	6.5	
Capital expenditures	***$ 15.9***	26.2	11.4	8.7	13.8	
Depreciation	***$ 8.7***	8.4	7.5	7.2	8.1	
CAPITALIZATION AND RETURNS						
Debt, net of cash	***$ 66.0***	38.6	72.4	28.5	66.1	
Shareholders' equity	***$ 93.8***	85.1	45.3	43.9	41.9	
Debt-to-equity ratio	***0.7***	0.5	1.6	0.7	1.6	
Return on equity ratio	***16.0***	23.3	24.9	21.7	11.1	
PER SHARE DATA**						
E.B.I.T.D. per share***	***$ 1.66***	1.85	1.65	1.56	n.a.	
Earnings per share — basic	***$ 0.76***	0.67	0.58	0.50	0.34	22.4%
Earnings per share — fully diluted	***$ 0.74***	0.63	0.55	0.47	0.33	22.4%
Cash dividend per share	***$ 0.11***	0.10	0.08	0.08	n.a.	11.0%
Book value per share	***$ 4.72***	4.32	2.30	2.27	n.a.	27.6%
OTHER DATA**						
Dividend yield	***0.52%***	0.78%	0.52%	0.40%	n.a.	
Market price at year end	***$21.13***	12.50	8.00	9.44	n.a.	30.8%
Common stock outstanding (millions)	***19.9***	19.7	19.7	19.4	n.a.	
Market capitalization (millions)	***$419.8***	246.0	157.6	182.9	n.a.	31.9%
Interest coverage	***5.3***	3.8	4.4	4.9	2.1	
Available rooms	***7,050***	6,705	7,270	6,995	6,143	
Employees	***10,300***	9,900	10,000	9,000	7,000	

* *Earnings before interest and taxes*
** *All share and per share data reflect a two-for-one stock split in January, 1990.*
*** *Earnings before interest, taxes and depreciation*

Hotel/Resort and Location	*Date of Opening[1] Acquisition by FSH[2] Major Renovations[3]*	*Number of Rooms*	*Management Agreement Initial Expiry*	*Management Agreement Final Expiry*	*Ownership Equity Interest*	*Ownership Title*
FOUR SEASONS HOTEL, Austin, Texas	1986[1]	292	1992	1992	–	–
FOUR SEASONS HOTEL, Boston, Massachusetts	1985[1]	288	2010	2085	15%	Freehold
RITZ-CARLTON HOTEL, Chicago, Illinois	1975[1]/1977[2]	431	2025	2025	25%	Leasehold
FOUR SEASONS HOTEL, Chicago, Illinois	1989[1]	343	2024	2104	8%	Leasehold
FOUR SEASONS RESORT AND CLUB, Dallas, Texas	1986[1]	315	2002	2042	–	–
FOUR SEASONS HOTEL, Houston, Texas	1982[2]	399	2016	2046	–	–
INN ON THE PARK, Houston, Texas	1981[1]	381	2015	2075	–	–
FOUR SEASONS INN ON THE PARK, London, England	1970[1]	228	2054	2054	50%	Leasehold
FOUR SEASONS HOTEL, Los Angeles, California	1987[1]	285	2041	2061	–	–
FOUR SEASONS MINAKI LODGE, Minaki, Ontario	1925[1]/1986[2]	144	1997	1997	100%	Freehold
LE QUATRE SAISONS, Montreal, Quebec	1976[1]/1983[2]	300	2003	2043	–	–
THE PIERRE, New York, New York	1929[1]/1981[2]	206	2001	2011	100%	Leasehold
FOUR SEASONS HOTEL, Newport Beach, California	1986[1]	285	2016	2046	–	–
FOUR SEASONS HOTEL, Ottawa, Ontario	1972[1]/1977[2]	236	1990	1990	–	–
FOUR SEASONS HOTEL, Philadelphia, Pennsylvania	1983[1]	371	2013	2053	5%	Freehold
FOUR SEASONS CLIFT HOTEL, San Francisco, California	1915[1]/1976[2]/1983[3]	329	2006	2066	–	–
FOUR SEASONS BILTMORE HOTEL, Santa Barbara, California	1929[1]/1987[2]/1988[3]	236	2012	2072	50%	Freehold
FOUR SEASONS OLYMPIC HOTEL, Seattle, Washington	1924[1]/1982[2]	450	2040	2040	3%	Leasehold
FOUR SEASONS HOTEL, Toronto, Ontario	1974[1]/1978[2]/1984[3]	381	2003	2077	100%	Leasehold
INN ON THE PARK, Toronto, Ontario	1963+1971[1]/1985[3]	568	1994	2014	–	–
FOUR SEASONS HOTEL, Vancouver, British Columbia	1976[1]	385	2000	2035	100%	Leasehold
FOUR SEASONS HOTEL, Washington, D.C.	1979[1]	197	2007	2024	15%	Freehold

Under Development

FOUR SEASONS RESORT, Wailea, Maui, Hawaii	1990[1]	374	2010	2055	–	–
FOUR SEASONS RESORT, Nevis, West Indies	1990[1]	196	2020	2065	15%	Freehold
FOUR SEASONS HOTEL, Tokyo, Japan	1992[1]	299	2002	2032	–	–
FOUR SEASONS RESORT, North Kona, Hawaii, Hawaii	1992[1]	350	2017	2062	–	–
FOUR SEASONS HOTEL, Singapore	1992[1]	272	2022	2082	–	–
FOUR SEASONS RESORT, Aviara, Carlsbad, California	1992[1]	450	2022	2082	5%	Freehold
FOUR SEASONS HOTEL, Paris, France	1993[1]	204	2022	2082	15%	Freehold
FOUR SEASONS HOTEL, Mexico City, Mexico	1993[1]	233	2012	2037	–	–
FOUR SEASONS RESORT, Scottsdale, Arizona	1993[1]	250	2018	2063	–	–
FOUR SEASONS RESORT, Costa Isabela, Puerto Rico	1993[1]	350	2018	2063	–	–

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

FOUR SEASONS HOTELS INC.

DIRECTORS

Edmond M. Creed*
Chairman
Creeds Limited

Frederick Eisen
Consultant
Bramalea Limited

H. Roger Garland*†

Murray B. Koffler*†
Partner
The Koffler Group

Lionel H. Schipper†
President
Schipper Enterprises Inc.

Isadore Sharp*

Max Sharp
Retired Executive

John L. Sharpe*

Benjamin Swirsky†
President
Bramalea Limited

Christopher Wallis

OFFICERS

Isadore Sharp
Chairman and President

H. Roger Garland
Executive Vice-President

John L. Sharpe
Executive Vice-President

Christopher Wallis
Senior Vice-President

Douglas L. Ludwig
Treasurer

David C. Mongeau
Secretary

Kathleen P. Taylor
Corporate Counsel

Patricia M. Wakelin
Assistant Secretary

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

FOUR SEASONS HOTELS LIMITED

MANAGEMENT COMMITTEE

James F. Brown
Senior Vice-President
Operations

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

Douglas L. Ludwig
Senior Vice-President
Finance

John B. Richards
Senior Vice-President
Marketing

Isadore Sharp
Chairman and President

John L. Sharpe
Executive Vice-President
Operations

Christopher Wallis
Senior Vice-President
Design and Construction

John W. Young
Senior Vice-President
Human Resources

AREA VICE-PRESIDENTS

Antoine Corinthios
Western North America and Asia

Charles J. Ferraro
Resorts

Wolf H. Hengst
Eastern North America and Europe

CORPORATE VICE-PRESIDENTS

J. Peter Buyze
Vice-President, Engineering

James Cardy
Vice-President, Purchasing

Robert M. Cornell
Vice-President,
International Marketing

David B. Crowl
Vice-President, Sales, North America

Mike Duwaji
Vice-President, Controller

Ivan Goh
Vice-President, Operations Support

G. Douglas Hall
Vice-President, Corporate Communications

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

Alfons E. Konrad
Vice-President, Food and Beverage

George S. Lagusis
Vice-President, Design and Construction

David C. Mongeau
Vice-President, General Counsel

Roy A. Paul
Vice-President, Development

REGIONAL VICE-PRESIDENTS

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

James G. Fitzgibbon
Austin, Dallas, Houston

Raymond Jacobi
Ottawa, Toronto

Peter G. Martin
Santa Barbara, Seattle, Singapore, Tokyo

Nicholas Mutton
Chicago, Philadelphia

Ruy Paes-Braga
Newport Beach, San Francisco, Vancouver

Ramon Pajares
London, Montreal, Paris

CORPORATE INFORMATION

CORPORATE OFFICE

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

ANNUAL MEETING

The Annual Meeting of Shareholders will be held on Tuesday, May 15, 1990 in the Regency Ballroom, Four Seasons Hotel, Avenue Road, Toronto, Ontario, Canada at 4:30 p.m.

STOCK LISTINGS

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

TRANSFER AGENT AND REGISTRAR

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

AUDITORS

Peat Marwick Thorne

DIVIDEND INFORMATION

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

SHAREHOLDER INFORMATION

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

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

Printed in Canada
DESIGN: MDC DESIGN GROUP