



ANNUAL
REPORT

1988



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Financial retrospective

Consolidated Statement of Income

(IN THOUSANDS OF DOLLARS,
EXCEPT FOR PER SHARE AMOUNTS)

	MARCH 26 1988	MARCH 28 1987	MARCH 29 1986	MARCH 31 1985	MARCH 31 1984
	\$	\$	\$	\$	\$
Revenue					
Sales	12,655	11,874	9,539	8,253	7,947
Royalties	842	599	441	239	88
Franchise entry fees	188	204	211	84	94
	13,685	12,677	10,191	8,576	8,129
Income before income taxes and other items	2,129	1,196	809	624	427
Income before extraordinary item	1,281	739	550	409	358
Net Income	1,235	739	541	375	471
Earnings per share	0.33	0.23	0.16	0.10	0.14

Consolidated Balance Sheet

(IN THOUSANDS OF DOLLARS)

	MARCH 26 1988	MARCH 28 1987
	\$	\$
Assets	10,703	3,689
Long-term debt	—	197
Working capital	4,235	1,119
Shareholders' equity	8,533	2,544

Sales by café-bistros and coffee-bars⁽²⁾

(UNAUDITED)

(IN THOUSANDS OF DOLLARS, EXCEPT FOR
NUMBER OF ESTABLISHMENTS)

	MARCH 26 1988	MARCH 28 1987	MARCH 29 1986	MARCH 31 1985	MARCH 31 1984
Sales	\$19,279	\$14,458	\$9,018	\$6,877	\$4,353
Total number of establishments	53	43	36	24	18
Franchises	49	41	33	21	13

(2) This schedule summarizes the sales of the network of cafés-bistros and coffee-bars operated by the Corporation and under franchise. The Corporation receives royalties from franchises only.

Report to Shareholders

We are very proud to present our new shareholders with our first annual report, which contains our financial statements for the fiscal year ended March 26, 1988. The year's results demonstrate the success of the expansion plan implemented by the Company in 1980.

A.L. Van Houtte posted revenue of \$13.7 million this year, compared to \$12.7 million last year.

Earnings before taxes and extraordinary items rose 78%, from \$1.2 million in 1987 to \$2.1 million this year. Net earnings were \$1.2 million

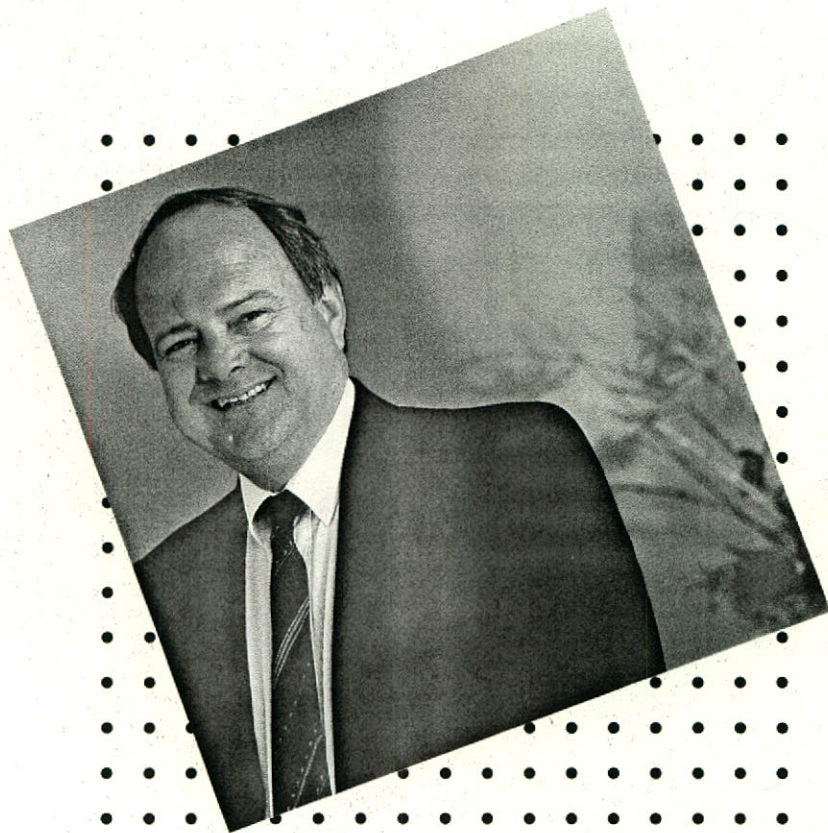
compared to \$739,000 last year, an increase of 67%.

Per share earnings increased 43% to \$0.33 from \$0.23 a year earlier, even though the weighted average number of shares outstanding was higher in 1988 than in 1987.

At year-end, A.L. Van Houtte's liquid assets were about \$3.2 million and total assets had reached \$10.7 million.

1987, was a banner year for our Company. Last August, we went ahead with a public offering of 1,100,000 units consisting of one subordinate share and half a warrant. The Company took in more than \$5 million from the offering.

The proceeds were used to install machinery and computer hardware at our head office. In addition, we acquired ultra-modern, Italian-made coffee packaging equipment. This new machine packages coffee beans in metallic bags equipped with "freshness valves" that allow the product to retain its fresh-roasted aroma until the bag is opened by the retailer. We are planning to install a second machine of this type next fall; this will enable us to expand the range and variety of prepackaged coffees we offer to the



food industry and specialty food stores. This "stay-fresh" packaging will also make it easier for us to market our products outside Quebec.

In 1987, A.L. Van Houtte also acquired 90% of Les Cafés Orient Express Ltée. There were three main reasons for this acquisition: the Orient Express brand offered another vehicle to expand the coffee market, both inside and outside Quebec; as well, since Orient Express is essentially a distribution and marketing firm, A.L. Van Houtte was able to integrate production in its plant without any additional capital investments; finally, Orient Express had a team of seasoned managers and a dynamic sales force that will continue to develop the Company.

We would like to take this occasion to welcome Pierre De Ruelle, Nicole Brouillette and all the new employees to our team.

On March 29, 1988, A.L. Van Houtte acquired the Café Christophe Van Houtte Inc. corporate café-bistros and franchise network. The Company is planning to improve this network and promote its development.

The balance of proceeds from the public offering went into the Company's working capital. A.L. Van Houtte is in excellent financial health and we expect fiscal 1988-89 to be characterized by continued expansion of our Quebec operations and a breakthrough into a new market – Toronto.

Thus, in the coming year, A.L. Van Houtte will carry on with the expansion plan it adopted in 1980. In Quebec, we are planning to open

twelve coffee-bars or café-bistros, mainly through franchise agreements. In addition, we will be adding six (6) distributors to our current network in order to increase our penetration of the gourmet coffee market.

In Toronto, A.L. Van Houtte will open and operate three (3) coffee-bars or café-bistros, with a capital investment of some \$750,000. Subsequent expansion will be carried out through franchising and we expect to open 8 to 10 establishments during the fiscal year 1989-1990.



A.L. Van Houtte operates in two different industrial sectors which are not affected by the same business cycles. During a recession, consumers are less likely to go to restaurants, but consume more gourmet coffee at home. On the other hand, during periods of expansion, the restaurant business booms and our Company benefits.

A.L. Van Houtte has a conservative development philosophy: start with what you know and go beyond it; invest in state-of-the-art technology; work with franchisees and distributors to develop efficient systems; and encourage employee proficiency.

To achieve higher productivity, directors, officers and employees must put a great deal of thought and effort into their work.

I would like to thank the directors who have supported us during the past fiscal year. I would also like to thank Rémi Marcoux, a member of our Board of Directors, who had to leave us during the year because of his many professional activities.

Sincere thanks also go out to our franchisees and their employees, our distributors and personnel of A.L. Van Houtte and Orient Express for their excellent work.

To the shareholders who have given us their support, I would like to emphasize our determination to continue our growth and increase our profitability.

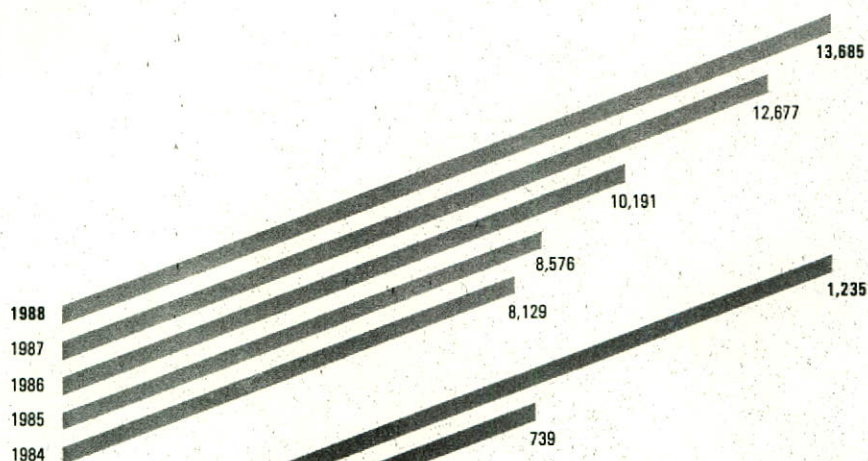


Paul-André Guillothe

President and General Manager

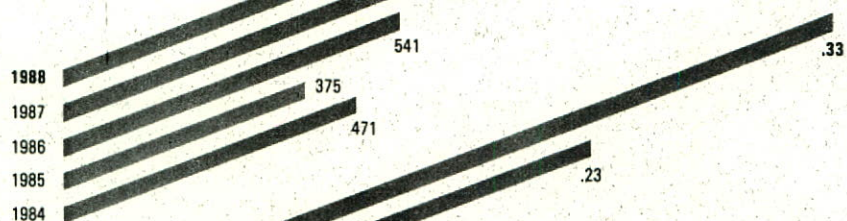
Revenue

(IN THOUSANDS OF DOLLARS)

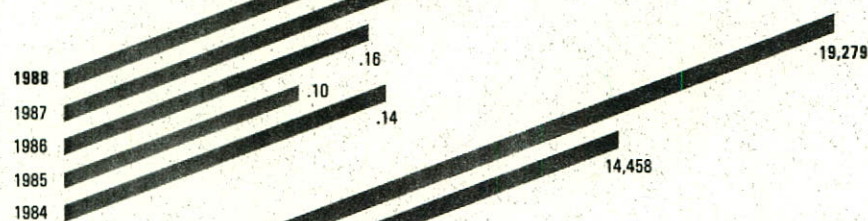


Net income

(IN THOUSANDS OF DOLLARS)

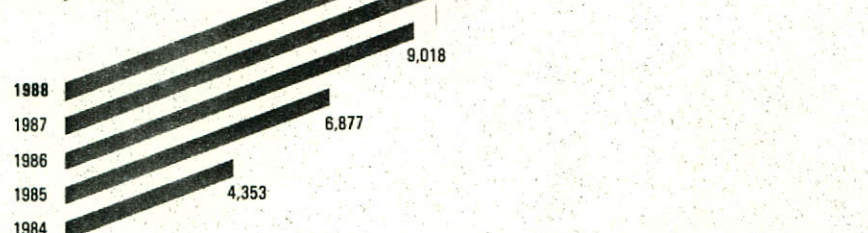


Earnings per share



Sales by cafés-bistros and coffee-bars

(IN THOUSANDS OF DOLLARS)



CAFÉ-BISTROS	MARCH 26 1988	MARCH 28 1987	MARCH 29 1986	MARCH 31 1985	MARCH 31 1984	MARCH 27 1983	MARCH 27 1982
Regions:							
Montréal	34	28	22	14	11	6	4
Laval	4	4	3	2	2	1	1
South Shore	5	2	2	2	1	1	1
Québec	4	4	4	3	2	2	2
Other regions (province of Québec)	3	2	2	1	—	—	—
Ottawa	2	2	2	1	1	1	—
Toronto	1	1	1	1	1	—	—
Total number of establishments	53	43	36	24	18	11	8
Corporate establishments	4	2	3	3	5	8	7
Franchises	49	41	33	21	13	3	1

Company Profile

A.L. Van Houtte: A Tradition

In 1919, Albert Louis Van Houtte, who was born in France, established a small specialty food store in Montreal, with a coffee roasting operation at the back. He was well-versed in the art of blending green coffee beans and developed original recipes that have pleased customers for close to seventy years.

Albert Louis Van Houtte's children became interested in the family business and Albert's youngest son, Pierre eventually assumed the management of the Company. In 1980, Benoît Beauregard and Paul-André Guillotte joined Pierre Van Houtte to pursue very well-defined objectives: become the Quebec leader in the gourmet coffee market and establish A.L. Van Houtte sales outlets, thereby making freshly roasted coffees available to a greater number of consumers.

A.L. Van Houtte: A Modern Company

Over the past few years, A.L. Van Houtte has experienced rapid growth. The Company has invested in sophisticated equipment for roasting and packaging coffee. Through a large network of independent, exclusive distributors, products are now sold to grocery chains, specialty stores and



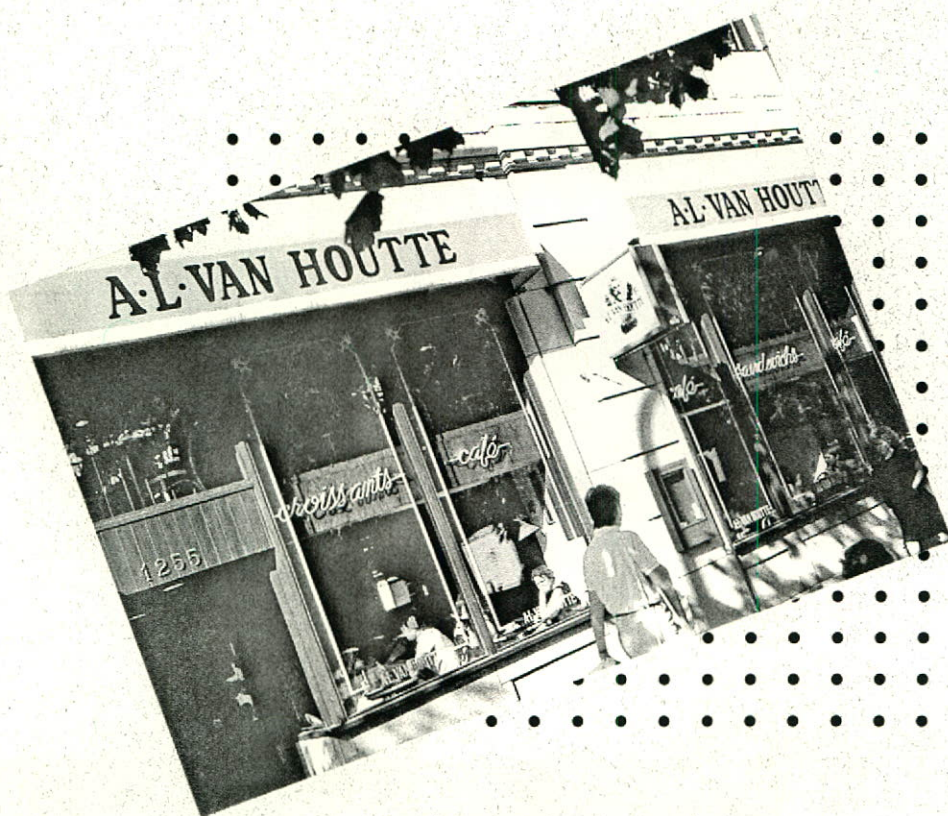
restaurants. The Company also developed the concept of coffee-bars and café-bistros, and, following the success of this formula, in 1982 began franchising.

A.L. Van Houtte has thus become the leader in the Quebec gourmet-coffee retail market. The Company's network of coffee-bars and café-bistros is the largest in the province and serves more than 200,000 customers on a weekly basis.

A.L. Van Houtte: A Company for the Future

While continuing its development in Quebec, A.L. Van Houtte will be moving into the national market. To begin with, the Company is planning to establish coffee-bars and café-bistros in prestigious and popular locations in downtown Toronto.

Later on, the Company will offer A.L. Van Houtte coffees to Ontario consumers in supermarkets and specialty food stores.



Corporate Information

Board of Directors

Pierre Van Houtte ¹

Chairman of the Board

A.L. Van Houtte Ltée

Benoît Beauregard ¹

Deputy Chairman of the Board

A.L. Van Houtte Ltée

Paul-André Guillotte ^{1 2}

President and General Manager

A.L. Van Houtte Ltée

Pierre-Luc Van Houtte ¹

Vice-President and Purchasing

Director

A.L. Van Houtte Ltée

Paul-Émile Légaré ²

President and Chief Executive Officer

Maison Alfred Dallaire Inc.

Senior Executives

Pierre Van Houtte

Chairman of the Board

Benoît Beauregard

Deputy Chairman of the Board

Paul-André Guillotte

President and General Manager

Pierre-Luc Van Houtte

Vice-President, Purchasing

Director and Secretary

Micheline Blais

Controller

Philippe Denault

Vice-President, Sales

Stéphane Breault

Operations Director

Bankers

Royal Bank of Canada

Transfer Agent

Montréal Trust

Auditors

Maheu-Noiseux

Legal Advisor

Guy & Gilbert

Head Office

6045 des Grandes Prairies Blvd.

Montréal (Québec)

H1P 1A5

Subsidiary

Les Cafés Orient Express Ltée

295 Benjamin-Hudon Street

St-Laurent (Québec)

H4N 1J1

Stock Exchange Listing

Shares and warrants are listed on
The Montreal Exchange under the
ticker symbols "VH" and "VH.WT".

Annual General Meeting

The Annual General Meeting of the
Shareholders will be held on Tuesday,
August 16, 1988 at 11:30 a.m., at the
Sheraton Center, Salon I, 1201 René-
Lévesque Blvd. West, Montréal.

¹ member of the Executive Committee

² member of the Audit Committee

To the Shareholders of
A.L. Van Houtte Ltée

Auditors' Report

We have examined the consolidated balance sheet of A.L. Van Houtte Ltée as at March 26, 1988 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at March 26, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Guillaume Noiseux

Chartered Accountants

Laval, May 25, 1988

Consolidated Balance Sheet

MARCH 26, 1988
(IN THOUSANDS OF DOLLARS)

	1988	1987
	\$	\$
ASSETS		
Current assets		
Cash	—	425
Banker's acceptance and accrued interest	3,463	55
Accounts receivable	1,226	670
Inventories (note 5)	1,212	693
Prepaid expenses	133	149
Tax benefit deductible from future income taxes	17	—
Portion of investments receivable within one year	3	11
	6,054	2,003
Investments (note 6)	30	46
Fixed assets (note 7)	2,707	1,464
Assets under capital leases (note 8)	120	—
Other assets (note 9)	1,792	176
	10,703	3,689
LIABILITIES		
Current liabilities		
Bank overdraft (note 10)	217	—
Accounts payable and accrued charges	1,056	628
Note payable on acquisition of a subsidiary company	90	—
Income taxes	132	166
Deferred franchise entry fees	100	35
Current portion of long-term debt	197	55
Current portion of obligations under capital leases	27	—
	1,819	884
Long-term debt (note 11)	—	197
Obligations under capital leases (note 12)	101	—
Deferred income taxes	61	64
	1,981	1,145
Minority interest	189	—
SHAREHOLDERS' EQUITY		
Capital stock (note 13)	5,901	731
Retained earnings	2,632	1,813
	8,533	2,544
	10,703	3,689

On behalf of the Board



Pierre Van Houtte
Director



Paul-André Guillothe
Director

Consolidated Statement of Income

YEAR ENDED MARCH 26, 1988
(IN THOUSANDS OF DOLLARS,
EXCEPT FOR PER SHARE AMOUNTS)

	1988	1987
	\$	\$
Revenue	13,685	12,677
Cost of goods sold and operating expenses	11,358	11,051
Financial expenses (note 3)	58	83
Depreciation and amortization (note 3)	454	347
	11,870	11,481
Operating income	1,815	1,196
Investment income	314	—
Income before income taxes and extraordinary item	2,129	1,196
Income taxes		
Current	867	466
Deferred	(19)	(9)
	848	457
Income before extraordinary item	1,281	739
Extraordinary item		
Loss on radiation of investment	46	—
Net income	1,235	739
Earnings per share (note 4)		
Before extraordinary item	0.34	0.23
Net	0.33	0.23
<i>Sales by Café-Bistros and Coffee-Bars</i>		
<i>(For reference only – unaudited)</i>	19,279	14,458

Consolidated Statement of Retained Earnings

YEAR ENDED MARCH 26, 1988
(IN THOUSANDS OF DOLLARS)

	1988	1987
	\$	\$
Balance, beginning	1,813	1,142
Net income	1,235	739
	3,048	1,881
Dividends on preferred shares	13	63
Special tax on dividends	—	5
Issuance expenses less income taxes of \$269	403	—
	416	68
Balance, ending	2,632	1,813

Consolidated Statement of Changes in Financial Position

YEAR ENDED MARCH 26, 1988
(IN THOUSANDS OF DOLLARS)

	1988	1987
	\$	\$
OPERATING ACTIVITIES		
Income before extraordinary item	1,281	739
Items not requiring cash:		
Depreciation and amortization	454	347
Loss (gain) on sales of fixed assets	12	(9)
Deferred income taxes	(19)	(9)
Tax benefit deductible from future income taxes	(17)	—
	1,711	1,068
Net change in non-cash working capital items	(448)	506
Cash and equivalents from operations	1,263	1,574
INVESTING ACTIVITIES		
Acquisition of a subsidiary company (note 14)	(2,056)	—
Purchase of investments	(2)	—
Receipt on note receivable	8	88
Purchase of fixed assets	(1,246)	(318)
Sale of fixed assets	32	24
Rental deposits	(17)	—
	(3,281)	(206)
Cash and equivalents applied to investing activities	(3,281)	(206)
FINANCING ACTIVITIES		
Note payable on acquisition of a subsidiary company	90	—
Repayment of long-term debt	(55)	(244)
Repayment of obligations under capital leases	(5)	—
Reduction of shares	(331)	(152)
Issue of shares	5,501	—
Issuance expenses	(403)	—
	4,797	(396)
Cash and equivalents from (applied to) financing activities	4,797	(396)
DISTRIBUTIONS TO SHAREHOLDERS		
Dividends, cash and equivalents applied to distributions	(13)	(68)
	2,766	904
Increase in cash and equivalents	480	(424)
Cash and equivalents (deficiency) beginning		
	3,246	480
Cash and equivalents, ending (note 15)	3,246	480

Notes to Consolidated Financial Statements

MARCH 26, 1988
TABLES EXPRESSED
IN THOUSANDS OF DOLLARS

1. STATUS AND NATURE OF ACTIVITIES

The company, incorporated under the Canada Business Corporations Act, operates a roasting and distribution coffee business.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include the accounts of A.L. Van Houtte Ltée and those of its 90% subsidiary company, Les Cafés Orient Express Ltée.

Consolidated financial statements

The parent company has assumed liability for losses in excess of the subsidiary for the year ended March 26, 1988. Future income of the subsidiary will be accrued entirely to the parent company until it recovers the portion of the accumulated losses which it has assumed on behalf of the minority shareholders. These losses amount to \$4,892 as at March 26, 1988.

Inventories

Raw materials are valued at the lower of cost or replacement cost. Finished goods and work in process are valued at the lower of cost or net realizable value. The cost of raw materials is determined on the first-in, first-out basis. The cost of finished goods and work in process is determined on the basis of the full cost accounting method.

Fixed assets

Depreciation is calculated on the following methods and rates:

Diminishing balance method		
Furniture and fixtures		10% and 20%
Straight-line method		
Computer hardware, display and tasting equipment		10% and 20%
Machinery		6 2/3% to 20%
Leasehold improvements		9% to 25%
Signs		10%

Assets under capital leases

Amortization of vehicles is calculated on the diminishing balance method and amortization of computer hardware is calculated on the straight-line method at the rate of 20%.

Other assets

Amortization is calculated on the straight-line method at the following rates:

Consolidated goodwill	3 1/3%
Goodwill	6 2/3%
Organization expenses	20%
Deferred costs	33%

Franchise entry fees

Franchise entry fees represent the disbursement required as the initial payment by the franchise in consideration for the opening of the franchise and are accounted for when the corporation has substantially performed all initial services required by the franchise agreement.

3. FINANCIAL EXPENSES AND DEPRECIATION AND AMORTIZATION

The financial expenses include the following:

	1988	1987
	\$	\$
Interest and bank charges	22	30
Interest on long-term debt	31	53
Interest on obligations under capital leases	5	—
	58	83

depreciation and amortization:

	1988	1987
	\$	\$
Depreciation of fixed assets	403	312
Amortization of assets under capital leases	11	—
Amortization of goodwill	20	20
Amortization of consolidated goodwill	14	—
Amortization of organization expenses and deferred costs	6	15
	454	347

4. EARNINGS PER SHARE

Earnings per share are calculated based on the weighted average number of subordinate voting shares and multiple voting shares.

Notes to Consolidated Financial Statements

MARCH 26, 1988

(TABLES EXPRESSED IN THOUSANDS OF DOLLARS)

5. INVENTORIES

	1988	1987
	\$	\$
Raw materials	761	519
Work in process	46	20
Finished goods	405	154
	1,212	693

6. INVESTMENTS

	1988	1987
	\$	\$
Shares, at cost	2	—
Note receivable, no interest	28	—
Note receivable, 12%, maturing in September 1988	3	11
Note receivable		46
	33	57
Portion receivable within one year	3	11
	30	46

7. FIXED ASSETS

	Cost	Accumulated Depreciation	1988 Net	1987 Net
	\$	\$	\$	\$
Furniture and fixtures	649	273	376	202
Machinery	1,071	289	782	467
Display and tasting equipment	1,152	649	503	246
Leasehold improvements	1,240	447	793	547
Signs	16	5	11	2
Computer hardware	65	13	52	—
Deposit on purchase machinery	190	—	190	—
	4,383	1,676	2,707	1,464

8. ASSETS UNDER CAPITAL LEASES

	Cost	Accumulated Depreciation	1988 Net	1987 Net
	\$	\$	\$	\$
Vehicles	110	24	86	—
Computer hardware	42	8	34	—
	152	32	120	—

9. OTHER ASSETS

	1988	1987
	\$	\$
Consolidated goodwill at unamortized cost	1,607	
Goodwill, at unamortized cost	148	169
Organization expenses	—	1
Rental deposits	23	6
Deferred costs, at unamortized cost	14	—
	1,792	176

10. BANK OVERDRAFT AND BANK LOAN

The company's bank overdraft and credit line are secured by a general assignment of book debts under Section 1571(d) of the Civil Code and by inventories under Section 178 of the Bank Act.

Notes to Consolidated Financial Statements

MARCH 26, 1988
(TABLES EXPRESSED
IN THOUSANDS OF DOLLARS)

11. LONG-TERM DEBT

	1988	1987
	\$	\$
Finance contract	—	15
Various bank loans	—	12
Finance contract, reimbursed on March 30, 1988	197	225
	197	252
Portion due within one year	197	55
	—	197

12. OBLIGATIONS UNDER CAPITAL LEASES

	1988	1987
	\$	\$
Obligations related to leased vehicles and computer hardware, payable in monthly instalments up to 1992 including interest at the rates of 12% to 17.5%	128	—
Portion due within one year	27	—
	101	—

Payments due in the next 5 years, including interest of \$30,606 are as follows: 1989, \$42,265; 1990, \$41,172; 1991, \$38,441; 1992, \$32,066 and 1993, \$4,182.

13. CAPITAL STOCKS

	1988	1987
	\$	\$
Authorized		
Unlimited number of subordinate voting shares, one vote per share, participating and with no par value		
Unlimited number of multiple voting shares, five votes per share, participating and with no par value		
Unlimited number of preferred shares, classes A and B, in series only, non voting and with no par value		
Issued and paid		
Preferred shares, class A	—	331
Preferred shares, class B	—	398
Common shares	—	2
3,000,000 multiple voting shares	400	—
1,100,200 subordinate voting shares	5,501	—
	5,901	731

Redemption of shares

On June 1, 1987, the company redeemed 330,720 class A preferred shares for a cash consideration of \$330,720.

Change in authorized capital stock

On June 12, 1987, the Corporation amended its share capital by: (i) the creation of an unlimited number of Subordinate and Multiple Voting Shares; (ii) the conversion of the 2,000 Common Shares into 15,000 Multiple Voting Shares; (iii) the conversion of the 398,000 Class B Preferred Shares into 2,985,000 Multiple Voting Shares; (iv) the cancellation of the authorized but unissued Common Shares; and (v) the amendment of the rights, privileges, conditions and restrictions attached to the Class A Preferred Shares and the Class B Preferred Shares so that the authorized share capital consists of an unlimited number of Subordinate Voting Shares, an unlimited number of Multiple Voting Shares and an unlimited number of Class A Preferred Shares and Class B Preferred Shares.

Reserved shares

As at March 26, 1988, 110,000 outstanding subordinate voting shares were reserved to be issued under a purchase option plan for the benefit of company managers and executives.

Escrowed shares

As at March 26, 1988, 2,591,100 multiple voting shares with transfer limitations were held by the trustee; 10% of these shares were released on April 13, 1988 and 45% will be released on April 13, 1989 and 1990.

Warrants

As at March 26, 1988, 549,800 subordinate voting share warrants were outstanding giving rights to their holder to purchase one subordinate voting share at \$5 at any time up until the close of business on February 1, 1990.

Notes to Consolidated Financial Statements

MARCH 26, 1988
(TABLES EXPRESSED
IN THOUSANDS OF DOLLARS)

14. ACQUISITION OF A SUBSIDIARY COMPANY

Effective December 23, 1987, the company acquired 90% of the outstanding voting shares and 100% of shares non-voting class B of Les Cafés Orient Express Ltée, a company operating a distribution coffee business. This acquisition has been accounted for by the purchase method and the results of operations of Les Cafés Orient Express Ltée have been consolidated from December 23, 1987. This acquisition is summarized as follows:

Net non-cash assets	2,056
Bank overdraft	(255)
	1,801
Financing:	
Cash consideration	1,711
Note payable	90
	1,801

15. CASH AND EQUIVALENTS

	1988	1987
	\$	\$
Cash (bank overdraft)	(217)	425
Banker's acceptance and accrued interest	3,463	55
	3,246	480

16. COMMITMENTS AND GUARANTEES

a) Commitments

The total of minimum commitments after March 26, 1988, is as follows:

	\$
1989	1,016
1990	1,040
1991	1,032
1992	914
1993	864
1994-2003	2,293
	7,159

An amount of \$5,481,000 out of the \$7,159,000 is assumed by franchises of the Corporation.

b) Guarantees

	1988	1987
	\$	\$
The Corporation has guaranteed certain lease contracts up to December 1989 for a maximum amount of	40	72

17. SUBSEQUENT EVENTS

On March 29, 1988, the company signed a purchase offer regarding the acquisition of all Café Christophe Van Houtte Inc.'s outstanding shares. The final transaction amount will be determined following the company review of the audited financial statements as at March 29, 1988 of Café Christophe Van Houtte Inc. which were not available on May 25, 1988.

18. COMPARATIVE FIGURES

The presentation of certain accounts of the previous year has been changed to conform with the presentation adopted for the current year.