



## C O M P A N Y P R O F I L E

**A.L. Van Houtte** operations involve the roasting, packaging and marketing of gourmet coffees. In addition, the Company operates a number of café-bistros and coffee-bars, either directly or through franchises.

## T A B L E O F C O N T E N T S

|   |    |
|---|----|
| Message from the<br>Chairman of the Board | 1  |
| Financial Highlights                      | 2  |
| Report to Shareholders                    | 4  |
| Corporate Information                     | 8  |
| Auditors' Report                          | 9  |
| Consolidated Financial Statements         | 10 |

### **Annual Meeting of Shareholders**

The Annual General Meeting of the Shareholders will take place on August 22, 1989, at 11:30 a.m. at the Sheraton Centre, 1201 René-Lévesque Blvd. West, Montréal.





When my father, Albert Louis Van Houtte, established a coffee and imported-products business in Montréal in 1919, his overriding concern was to provide customers with high quality goods and first rate service. I am proud that this tradition of excellence is still alive in our organization.

The Company buys green coffees selected from the best crops of the producing countries; we use original and proven recipes. Each coffee product is roasted at a specific temperature, and our packaging methods are at the cutting edge of technology. Thus, the coffee loses none of its qualities and retains its freshly roasted and freshly ground flavour until the consumer opens the bag. That is the secret of A.L. Van Houtte's fine coffee.

In every A.L. Van Houtte café-bistro and coffee-bar, our goal is to give customers friendly, satisfying service... with a smile.

1989-1990 will mark the 70th anniversary of the establishment of our business and, as in the past, we will make every effort to ensure its growth and profitability.

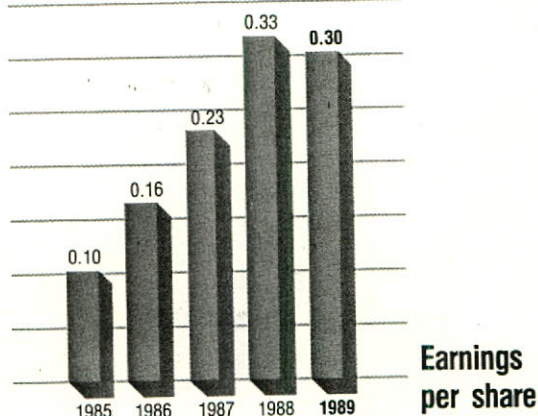
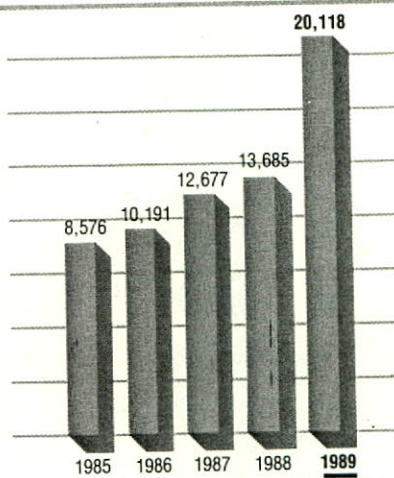
The Chairman of the Board,

A stylized handwritten signature in dark ink, appearing to read 'P. Van Houtte'.

Pierre Van Houtte  
Montréal, July 4, 1989

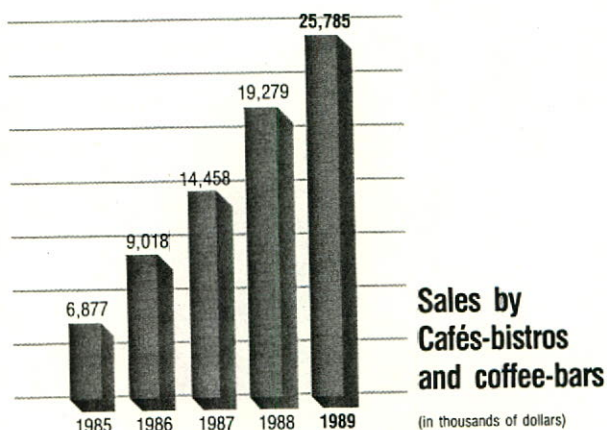
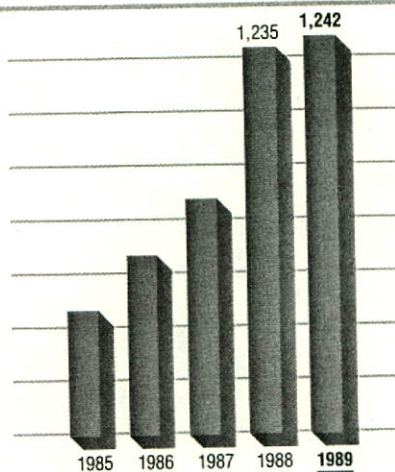
## Revenue

(in thousands of dollars)



## Net Income

(in thousands of dollars)



| CAFÉS-BISTROS                             | FOR THE YEAR ENDED      |                        |                        |                        |                        |                        |                        |
|---|-------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
|   | April 1st<br>1989<br>\$ | March 26<br>1988<br>\$ | March 28<br>1987<br>\$ | March 29<br>1986<br>\$ | March 31<br>1985<br>\$ | March 31<br>1984<br>\$ | March 27<br>1983<br>\$ |
| <b>Regions:</b>                           |                         |                        |                        |                        |                        |                        |                        |
| Montréal                                  | 48                      | 34                     | 28                     | 22                     | 14                     | 11                     | 6                      |
| Laval                                     | 4                       | 4                      | 4                      | 3                      | 2                      | 2                      | 1                      |
| South Shore                               | 6                       | 5                      | 2                      | 2                      | 2                      | 1                      | 1                      |
| Québec                                    | 4                       | 4                      | 4                      | 4                      | 3                      | 2                      | 2                      |
| Other regions<br>(Province of Québec)     | 12                      | 3                      | 2                      | 2                      | 1                      | —                      | —                      |
| Ottawa                                    | 2                       | 2                      | 2                      | 2                      | 1                      | 1                      | 1                      |
| Toronto                                   | 1                       | 1                      | 1                      | 1                      | 1                      | 1                      | —                      |
| <b>Total number<br/>of establishments</b> | <b>77</b>               | <b>53</b>              | <b>43</b>              | <b>36</b>              | <b>24</b>              | <b>18</b>              | <b>11</b>              |
| <b>Corporate<br/>establishments</b>       | <b>7</b>                | <b>4</b>               | <b>2</b>               | <b>3</b>               | <b>3</b>               | <b>5</b>               | <b>8</b>               |
| <b>Franchises</b>                         | <b>70</b>               | <b>49</b>              | <b>41</b>              | <b>33</b>              | <b>21</b>              | <b>13</b>              | <b>3</b>               |



## Consolidated Statement of Income

(in thousands of dollars,  
except for per share amounts)

|   | FOR THE YEAR ENDED |                  |                  |                  |                  |
|---|--------------------|------------------|------------------|------------------|------------------|
|   | April 1st<br>1989  | March 26<br>1988 | March 28<br>1987 | March 29<br>1986 | March 31<br>1985 |
|   | \$                 | \$               | \$               | \$               | \$               |
| <b>Revenue</b>                                |                    |                  |                  |                  |                  |
| Sales   | 18,710             | 12,655           | 11,874           | 9,539            | 8,253            |
| Royalties                                     | 1,030              | 842              | 599              | 441              | 239              |
| Franchise entry fees                          | 378                | 188              | 204              | 211              | 84               |
|   | 20,118             | 13,685           | 12,677           | 10,191           | 8,576            |
| Income before income taxes<br>and other items | 2,405              | 2,129            | 1,196            | 809              | 624              |
| Income before extraordinary item              | 1,455              | 1,281            | 739              | 550              | 409              |
| Net income                                    | 1,242              | 1,235            | 739              | 541              | 375              |
| Earnings per share:                           |                    |                  |                  |                  |                  |
| — Before extraordinary item                   | 0.35               | 0.34             |                  |                  |                  |
| — Net   | 0.30               | 0.33             | 0.23             | 0.16             | 0.10             |

## Consolidated Balance Sheet

(in thousands of dollars)

|                      | April 1st<br>1989 | March 26<br>1988 |
|----------------------|-------------------|------------------|
|                      | \$                | \$               |
| <b>Assets</b>        | 13,581            | 10,703           |
| Long-term debt       | 1,428             | —                |
| Working capital      | 5,588             | 4,235            |
| Shareholders' equity | 9,789             | 8,533            |

## Sales by Cafés-bistros and coffee-bars<sup>(2)</sup>

(non audited)  
(in thousands of dollars,  
except for number of establishments)

|                                | FOR THE YEAR ENDED |                  |                  |                  |                  |
|--------------------------------|--------------------|------------------|------------------|------------------|------------------|
|                                | April 1st<br>1989  | March 26<br>1988 | March 28<br>1987 | March 29<br>1986 | March 31<br>1985 |
| Sales                          | \$ 25,785          | \$ 19,279        | \$ 14,458        | \$ 9,018         | \$ 6,877         |
| Total number of establishments | 77                 | 53               | 43               | 36               | 24               |
| Franchises                     | 70                 | 49               | 41               | 33               | 21               |

(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.





coffee. Our goal: to provide the consumer with a selection of differentiated products. With this in mind, the Company spent almost \$1 million to import from Europe the latest equipment used in the packaging of these products. The freshly roasted, freshly ground coffee is vacuum-packed while still hot; the special packaging retains the distinctive aromas of the coffees for an extended period of time. These coffees are meant for retail grocers and specialty food stores. Furthermore, Orient Express continued its advance and began to make inroads into the institutional market with original marketing tools specifically targeted towards this sector.

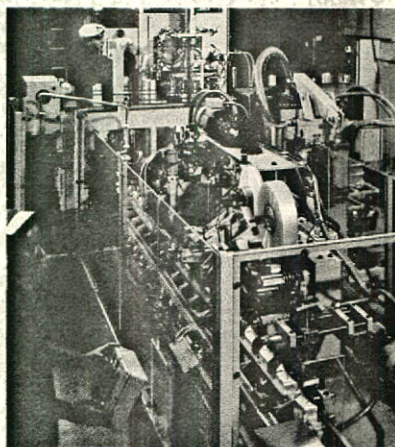
Over the past fiscal year, the Company pursued its expansion program in the Montréal area and elsewhere in Québec, opening 17 café-bistros, thus raising to 77 the total number of establishments in operation as of April 1, 1989.

A.L. Van Houtte café-bistros and coffee-bars are based on a unique concept in that they are geared first and foremost to serving the very best cup of coffee blended and prepared in various ways to satisfy the most discriminating consumers. They can also order sandwiches, croissants, muffins, soups, salads and desserts; it is thus possible for them, at any time of the day and according to the occasions, to enjoy breakfast, lunch or simply a snack. The flexibility of our suggested menus enables us to meet the demands of consumers without, however, modifying our fundamental concept which is the coffee-bar and the "no-fry food".

Last year, the Company concentrated its efforts on:

- systematizing its franchisee training program;
- renegotiating supply contracts;
- setting construction standards for new establishments;
- improving existing products and introducing new ones such as the "croques", which are becoming increasingly popular;
- increasing the visibility of A.L. Van Houtte products; and
- strengthening the technical support offered to franchisees.

All this was carried out with a view to improving the productivity and profitability of our franchisees.





During the past fiscal year, A.L. Van Houtte pursued its expansion plan. The Company increased the penetration of its coffee products in the Quebec market and enlarged its network of café-bistros and coffee-bars.

During the 1988-1989 fiscal year, A.L. Van Houtte's revenue totalled \$20.1 million, as compared to \$13.7 million in the previous year. This 47% rise is due in particular to:

- increased sales of A.L. Van Houtte coffee, and the sales of Orient Express brand coffee over a period of 12 months rather than the three-month period of the previous year;
- revenue from royalties that rose to \$1,030,000 this year compared to \$842,000 last year.

Sales in the 77 café-bistros and coffee-bars increased by 34% to a total of \$25,785,000. This increase is the result of:

- the opening of 17 new A.L. Van Houtte café-bistros and coffee-bars , and
- higher sales in the already existing establishments.

Income before taxes and other items climbed from \$2,129,000 to \$2,405,000, up 13%.

At the end of the year, A.L. Van Houtte had liquid assets amounting to \$2,483,543 and total assets of \$13,580,803. Shareholders' equity totalled \$9,788,135, or approximately \$2.39 per share.

However, it was necessary this past year to take an extraordinary loss of \$213,363 resulting from the acquisition of Café Christophe Van Houtte Inc. as well as the subsequent reorganization which was required in order to streamline the operations of this franchise network. Hence, A.L. Van Houtte's net income this year amounted to \$1,242,000, or \$0.30 per share, as compared to \$1,235,000, or \$0.33 per share, the previous year.

A.L. Van Houtte is the largest gourmet coffee roasting company in Québec. Our coffees are marketed mainly under the "A.L. Van Houtte" and "Orient Express" brands. The Company's strategy is to find and fill new niches in the market place, while expanding the geographic distribution of its traditional coffees.

In the final quarter of the year, the Company began marketing a new line of 10 varieties of ground





The Company also intends to:

- add new products to its menu in order to respond to the needs of customers who have lunch or dinner at its café-bistros; and
- step up its promotional and advertising campaigns in order to reach an even larger clientele.

Thus, A.L. Van Houtte will be pursuing its development plan very aggressively in the coming year.

I would like to thank our directors and our employees for the excellent work they performed over the course of the fiscal year. A special mention goes to our franchisees and distributors for their outstanding contribution to the success of A.L. Van Houtte.

To all our shareholders, I would like to reiterate our determination to maintain our growth and maximize the value of their investment in our Company.

Paul-André Guilloffe  
President, General Manager  
Montréal, July 4, 1989





The success of A.L. Van Houtte and Orient Express in the marketing of gourmet coffee is based on three solid principles:

- provide consumers with a selection of top-quality coffees;
- ensure the widest possible distribution and maintain an excellent level of customer service;
- promote the direct sale of our coffees at points of sale.



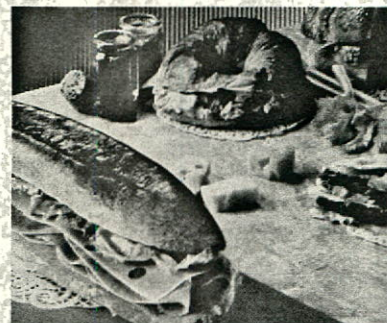
Our priority for 1989 is to excel in each area of this formula. We anticipate a significant increase in coffee sales and even greater profitability. The Company is pursuing the marketing of its new line of ground coffees (10 varieties) to large food stores, and we are continuing our efforts to achieve a greater penetration of the institutional market. In addition, A.L. Van Houtte will soon begin marketing its coffees in the greater Toronto area.

The Company is planning to open 12 to 15 new café-bistros and coffee-bars in fiscal 1989, including 5 in Toronto.

The mainstay of our establishments is coffee sold by the cup: filter coffee, espresso, cappuccino, café au lait, Viennese coffee and moka. Moreover, A.L. Van Houtte café-bistros offer products that meet the demands of our clients at any time of day: croissants and muffins baked on premises, sandwiches and salads, soups and desserts. The guiding principle behind all our decisions regarding A.L. Van Houtte products is summed up in one word: "FRESHNESS".

We will also work closely with our franchisees to:

- improve the hiring and stability rate of personnel in our establishments; and
- obtain greater productivity from our employees through ongoing training and incentive programs.





## BOARD OF DIRECTORS

- Pierre Van Houtte <sup>1</sup>  
Chairman of the Board  
A.L. Van Houtte Ltée
- Benoît Beauregard <sup>1</sup>  
Deputy Chairman of the Board  
A.L. Van Houtte Ltée
- Paul-André Guillothe <sup>1 2</sup>  
President and General Manager  
A.L. Van Houtte Ltée
- Pierre-Luc Van Houtte <sup>1</sup>  
Vice-President and Purchasing  
Director  
A.L. Van Houtte Ltée
- Paul-Émile Légaré <sup>2</sup>  
President and Chief Executive Officer  
Maison Alfred Dallaire Inc.
- Gilles Bertrand <sup>2</sup>  
Partner  
Guy & Gilbert

<sup>1</sup> member of the Executive Committee

<sup>2</sup> member of the Audit Committee

## 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



## SENIOR EXECUTIVES

- Pierre Van Houtte  
Chairman of the Board
- Benoît Beauregard  
Deputy Chairman of the Board
- Paul-André Guillothe  
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

## SUBSIDIARIES

Les Cafés Orient Express Ltée  
295 Benjamin-Hudon Street  
St-Laurent, Québec  
H4N 1J1

Café Christophe Van Houtte Inc.  
6045 des Grandes Prairies Blvd.  
Montréal, Québec  
H1P 1A5

## STOCK EXCHANGE LISTING

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





**Auditors' Report**

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To the Shareholders of A.L. Van Houtte Ltée

We have examined the consolidated balance sheet of A.L. Van Houtte Ltée as at April 1st, 1989 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 April 1st, 1989 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.



Chartered Accountants

Laval, June 2, 1989

# Consolidated Balance Sheet

April 1st, 1989

(In thousands of dollars)

|   | 1989      | 1988      |
|---|-----------|-----------|
| <b>ASSETS</b>                                       |           |           |
| <b>Current assets</b>                               |           |           |
| Banker's acceptance and accrued interest            | \$ 2,833  | \$ 3,463  |
| Accounts receivable                                 | 1,697     | 1,226     |
| Inventories (note 5)                                | 1,997     | 1,212     |
| Prepaid expenses                                    | 805       | 133       |
| Tax benefit deductible from future income taxes     | 215       | 17        |
| Portion of investments receivable within one year   | —         | 3         |
|   | 7,547     | 6,054     |
| Investments (note 6)                                | 23        | 30        |
| Fixed assets (note 7)                               | 3,632     | 2,707     |
| Assets under capital leases (note 8)                | 86        | 120       |
| Other assets (note 9)                               | 2,293     | 1,792     |
|   | \$ 13,581 | \$ 10,703 |
| <b>LIABILITIES</b>                                  |           |           |
| <b>Current liabilities</b>                          |           |           |
| Bank overdraft (note 10)                            | \$ 289    | \$ 217    |
| Bank loan (note 10)                                 | 60        | —         |
| Accounts payable and accrued charges                | 1,244     | 1,056     |
| Note payable on acquisition of a subsidiary company | —         | 90        |
| Income taxes  | 272       | 132       |
| Deferred franchise entry fees                       | 12        | 100       |
| Current portion of long-term debt                   | 50        | 197       |
| Current portion of obligations under capital leases | 32        | 27        |
|   | 1,959     | 1,819     |
| Long-term debt (note 11)                            | 1,428     | —         |
| Obligations under capital leases (note 12)          | 69        | 101       |
| Deferred income taxes                               | 147       | 61        |
|   | 3,603     | 1,981     |
| Minority interest                                   | 189       | 189       |
| <b>SHAREHOLDERS' EQUITY</b>                         |           |           |
| Capital stock (note 13)                             | 5,915     | 5,901     |
| Retained earnings                                   | 3,874     | 2,632     |
|   | 9,789     | 8,533     |
|   | \$ 13,581 | \$ 10,703 |

On behalf of the Board



Pierre Van Houtte  
Director



Paul-André Guillotte  
Director



**Consolidated Statement of Income**  
Year ended April 1st, 1989

(In thousands of dollars, except for per share amounts)

|   | 1989      | 1988      |
|---|-----------|-----------|
| Revenue   | \$ 20,118 | \$ 13,685 |
| Cost of goods sold and operating expenses                                     | 17,134    | 11,358    |
| Financial expenses (note 3)   | 134       | 58        |
| Depreciation and amortization (note 3)  | 747       | 454       |
|   | 18,015    | 11,870    |
| Operating income  | 2,103     | 1,815     |
| Investment income   | 302       | 314       |
| Income before the undernoted items  | 2,405     | 2,129     |
| Income taxes  |           |           |
| Current   | 862       | 867       |
| Deferred  | 92        | (19)      |
|   | 954       | 848       |
| Income before the undernoted items  | 1,451     | 1,281     |
| Share in net income of the company subject to significant influence           | 4         | —         |
| Income before extraordinary item  | 1,455     | 1,281     |
| Extraordinary item  |           |           |
| Loss on write-off of investment   | —         | 46        |
| Loss on write-off and sales of assets less income taxes recovered of \$104    | 213       | —         |
| Net income  | \$ 1,242  | \$ 1,235  |
| Earnings per share (note 4)   |           |           |
| Before extraordinary item   | \$ 0.35   | \$ 0.34   |
| Net   | \$ 0.30   | \$ 0.33   |
| Revenue from cafe-bistros and coffee-bars<br>(For reference only — unaudited) | \$ 25,785 | \$ 19,279 |

**Consolidated Statement of Retained Earnings**  
Year ended April 1st, 1989

(In thousands of dollars)

|                               | 1989     | 1988     |
|-------------------------------|----------|----------|
| Balance, beginning            | \$ 2,632 | \$ 1,813 |
| Net income                    | 1,242    | 1,235    |
|                               | 3,874    | 3,048    |
| Dividends on preferred shares | —        | 13       |
| Issuance expenses             | —        | 403      |
|                               | —        | 416      |
| Balance, ending               | \$ 3,874 | \$ 2,632 |



**Consolidated Statement of Changes in Financial Position**  
**Year ended April 1st, 1989**

(In thousands of dollars)

|   | 1989            | 1988            |
|---|-----------------|-----------------|
| <b>OPERATING ACTIVITIES</b>   |                 |                 |
| Income before extraordinary item                                    | \$ 1,455        | \$ 1,281        |
| Items not requiring cash:   |                 |                 |
| Share in net income of the company subject to significant influence | (4)             | —               |
| Depreciation and amortization                                       | 747             | 454             |
| Loss on sales of fixed assets                                       | 9               | 12              |
| Deferred income taxes   | 92              | (19)            |
| Income taxes  | (92)            | (17)            |
|   | 2,207           | 1,711           |
| Net change in non-cash working capital items                        | (1,589)         | (448)           |
| Loss on write-off of inventories                                    | (6)             | —               |
| <b>Cash and equivalents from operating activities</b>               | <b>612</b>      | <b>1,263</b>    |
| <b>INVESTING ACTIVITIES</b>   |                 |                 |
| Note receivable   | (28)            | —               |
| Acquisition of a subsidiary company (note 14)                       | (307)           | (2,056)         |
| Purchase of investments   | —               | (2)             |
| Receipt on note receivable  | 25              | 8               |
| Purchase of fixed assets  | (1,739)         | (1,246)         |
| Sale of fixed assets  | 76              | 32              |
| Asset acquired under capital lease                                  | (36)            | —               |
| Sale of asset acquired under capital lease                          | 32              | —               |
| Purchase of goodwill  | (478)           | —               |
| Rental deposits   | 13              | (17)            |
| Deferred costs  | (52)            | —               |
| <b>Cash and equivalents applied to investing activities</b>         | <b>(2,494)</b>  | <b>(3,281)</b>  |
| <b>FINANCING ACTIVITIES</b>   |                 |                 |
| Repayment of notes payable  | (148)           | 90              |
| Notes payable   | 1,509           | —               |
| Note payable on acquisition of a subsidiary company (note 14)       | 98              | —               |
| Repayment of long-term debt   | (326)           | (55)            |
| Obligation under capital lease                                      | 36              | —               |
| Repayment of obligations under capital leases                       | (63)            | (5)             |
| Redemption of shares  | —               | (331)           |
| Issue of shares   | 14              | 5,501           |
| Issuance expenses   | —               | (403)           |
| <b>Cash and equivalents from financing activities</b>               | <b>1,120</b>    | <b>4,797</b>    |
| <b>DISTRIBUTIONS TO SHAREHOLDERS</b>                                |                 |                 |
| Dividends, cash and equivalents applied to distributions            | —               | (13)            |
| <b>Increase (decrease) in cash and equivalents</b>                  | <b>(762)</b>    | <b>2,766</b>    |
| <b>Cash and equivalents, beginning</b>                              | <b>3,246</b>    | <b>480</b>      |
| <b>Cash and equivalents, ending (note 15)</b>                       | <b>\$ 2,484</b> | <b>\$ 3,246</b> |



## Notes to Consolidated Financial Statements

April 1st, 1989

(Tabular amounts 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 and also operates directly or on a franchise basis café-bistros and coffee-bars.

### 2. Significant Accounting Policies

#### Principles of consolidation

The consolidated financial statements include the accounts of the Company and those of its subsidiaries, Les Cafés Orient Express Ltée are 90% held and Café Christophe Van Houtte Inc. is wholly-owned.

#### 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 of work in process is determined on the basis of the full cost accounting method.

#### Fixed Assets

Depreciation is calculated on the following methods, periods and rates:

|                               |                 |
|-------------------------------|-----------------|
| Diminishing balance method    |                 |
| Furniture and fixtures        | 20%             |
| Straight-line method          |                 |
| Furniture and fixtures        | 10 years        |
| Computer hardware             | 5 years         |
| Display and tasting equipment | 2 to 10 years   |
| Machinery                     | 10 and 15 years |
| Leasehold improvements        | 2 to 15 years   |
| Signs                         | 10 years        |

#### Assets under Capital Leases

Amortization of vehicles is calculated on the diminishing balance method at the rate of 30% and amortization of computer hardware is calculated on the straight-line method over 65 months.

#### Other Assets

Amortization is calculated on the straight-line method on the following periods:

|                       |                 |
|-----------------------|-----------------|
| Consolidated goodwill | 30 years        |
| Goodwill              | 15 and 30 years |
| Deferred costs        | 2 and 3 years   |

#### Franchise Entry Fees

Franchise entry fees represent the initial outlay by the franchisee in consideration for the opening of the franchise and are accounted for when the Company has substantially performed all initial services required by the franchise agreement.

### 3. Financial Expenses, Depreciation and Amortization

The financial expenses include the followings:

|  | 1989          | 1988         |
|--|---------------|--------------|
| Interest and bank charges                    | \$ 59         | \$ 22        |
| Interest on long-term debt                   | 57            | 31           |
| Interest on obligations under capital leases | 18            | 5            |
|  | <b>\$ 134</b> | <b>\$ 58</b> |

Depreciation and amortization include:

|  |               |               |
|--|---------------|---------------|
| Depreciation of fixed assets                             | \$ 589        | \$ 403        |
| Amortization of assets under capital leases              | 41            | 11            |
| Amortization of consolidated goodwill                    | 60            | 14            |
| Amortization of goodwill                                 | 39            | 20            |
| Amortization of organization expenses and deferred costs | 18            | 6             |
|  | <b>\$ 747</b> | <b>\$ 454</b> |

### 4. Earnings per Share

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



# Notes to Consolidated Financial Statements

April 1st, 1989

(Tabular amounts expressed in thousands of dollars)

## 5. Inventories

|                 | 1989            | 1988            |
|-----------------|-----------------|-----------------|
| Raw materials   | \$ 1,101        | \$ 761          |
| Work in process | 28              | 46              |
| Finished goods  | 868             | 405             |
|                 | <b>\$ 1,997</b> | <b>\$ 1,212</b> |

## 6. Investments

|  | 1989         | 1988         |
|--|--------------|--------------|
| 100 Class A shares of Les Distributions Christophe Van Houtte Inc., being 50% of the outstanding voting shares, at the equity method       | \$ 14        | \$ —         |
| 900 Class B shares of Les Distributions Christophe Van Houtte Inc., 12% non-cumulative, non-participating, non-voting, redeemable, at cost | 1            | —            |
| Shares, at cost  | 2            | 2            |
| Note receivable, no interest   | 6            | 28           |
| Note receivable  | —            | 3            |
|  | <b>23</b>    | <b>33</b>    |
| Portion receivable within one year   | —            | 3            |
|  | <b>\$ 23</b> | <b>\$ 30</b> |

## 7. Fixed Assets

|                                  | Cost            | Accumulated Depreciation | 1989 Net        | 1988 Net        |
|----------------------------------|-----------------|--------------------------|-----------------|-----------------|
| Furniture and fixtures           | \$ 826          | \$ 319                   | \$ 507          | \$ 376          |
| Machinery                        | 1,834           | 375                      | 1,459           | 782             |
| Display and tasting equipment    | 1,443           | 803                      | 640             | 503             |
| Leasehold improvements           | 1,483           | 619                      | 864             | 793             |
| Signs                            | 22              | 6                        | 16              | 11              |
| Computer hardware                | 185             | 39                       | 146             | 52              |
| Deposit on purchase of machinery | —               | —                        | —               | 190             |
|                                  | <b>\$ 5,793</b> | <b>\$ 2,161</b>          | <b>\$ 3,632</b> | <b>\$ 2,707</b> |

## 8. Assets under Capital Leases

|                   | Cost          | Accumulated Amortization | 1989 Net     | 1988 Net      |
|-------------------|---------------|--------------------------|--------------|---------------|
| Vehicles          | \$ 110        | \$ 51                    | \$ 59        | \$ 86         |
| Computer hardware | 43            | 16                       | 27           | 34            |
|                   | <b>\$ 153</b> | <b>\$ 67</b>             | <b>\$ 86</b> | <b>\$ 120</b> |

## 9. Other Assets

|  | 1989            | 1988            |
|--|-----------------|-----------------|
| Consolidated goodwill, at unamortized cost | \$ 1,711        | \$ 1,607        |
| Goodwill, at unamortized cost              | 530             | 148             |
| Rental deposits                            | 4               | 23              |
| Deferred costs, at unamortized cost        | 48              | 14              |
|  | <b>\$ 2,293</b> | <b>\$ 1,792</b> |

## 10. Bank Overdraft and Bank Loan

The Company's bank overdraft and bank loan 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

April 1st, 1989

(Tabular amounts expressed in thousands of dollars)

## 11. Long-Term Debt

|  | 1989     | 1988   |
|--|----------|--------|
| Finance contract   | \$ —     | \$ 197 |
| Note payable, 6%, payable on demand or on October 25, 1991, secured by a letter of guarantee by a bank             | 790      | —      |
| Notes payable, 5%, payable in annual instalments of \$50,000 until March 29, 1994, and \$314,818 on March 29, 1995 | 590      | —      |
| Note payable on acquisition of a subsidiary company, 5%, payable on May 29, 1995                                   | 98       | —      |
|  | 1 478    | 197    |
| Current portion  | 50       | 197    |
|  | \$ 1,428 | \$ —   |

Instalments required to be paid over the next 5 years are as follows: 1990, \$50,000; 1991, \$50,000; 1992, \$840,000; 1993, \$50,000 and 1994, \$50,000.

## 12. Obligations under Capital Leases

|   | 1989   | 1988   |
|---|--------|--------|
| Obligations related to leased vehicles and computer hardware, payable in monthly instalments up to 1992 including interest at rates varying between 12% and 17.5% | \$ 101 | \$ 128 |
| Current portion   | 32     | 27     |
|   | \$ 69  | \$ 101 |

Payments due in the next 4 years, including interest of \$15,131 are as follows: 1990, \$41,172; 1991, \$38,441; 1992, \$32,066 and 1993, \$4,182.

## 13. Capital Stock

|  | 1989     | 1988     |
|--|----------|----------|
| <b>Authorized</b>  |          |          |
| 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 Class A and B preferred shares, can only be issued in series, non voting and with no par value |          |          |
| <b>Issued and paid</b>   |          |          |
| 3,000,000 multiple voting shares   | \$ 400   | \$ 400   |
| 1,102,950 subordinate voting shares  | 5,515    | 5,501    |
|  | \$ 5,915 | \$ 5,901 |

**Issuance**

During the year, the Company issued 2,750 subordinate voting shares for \$13,750 in cash.

**Shares Reserved**

As at April 1st, 1989, 110,000 outstanding subordinate voting shares were reserved to be issued under a purchase option plan for the benefit of the managers and executives of the Company.

**Escrowed Shares**

As at April 1st, 1989, 2,331,990 multiple voting shares with transfer limitations were held by the trustee, 50% of these shares were released on April 13, 1989 and 50% will be released on April 13, 1990.

**Warrants**

As at April 1st, 1989, 547,050 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 1st, 1990.



# Notes to Consolidated Financial Statements

April 1st, 1989

(Tabular amounts expressed in thousands of dollars)

## 14. Acquisition of a Subsidiary Company

Effective March 29, 1988, the company acquired 100% of the outstanding voting shares and 100% of Class B non-voting shares of Café Christophe Van Houtte Inc., a Company operating a business of franchise and sale of coffee. This acquisition has been accounted for by the purchase method and the results of operations of Café Christophe Van Houtte Inc. have been consolidated from March 29, 1988. This acquisition is summarized as follows:

|                     |        |
|---------------------|--------|
| Net non-cash assets | \$ 307 |
| Bank                | 3      |
| Net assets acquired | \$ 310 |
| Financing:          |        |
| Cash consideration  | \$ 212 |
| Note payable        | 98     |
|                     | \$ 310 |

## 15. Cash and Equivalents

|  | 1989     | 1988     |
|--|----------|----------|
| Banker's acceptance and accrued interest | \$ 2,833 | \$ 3,463 |
| Bank overdraft                           | (289)    | (217)    |
| Bank loan                                | (60)     | —        |
|  | \$ 2,484 | \$ 3,246 |

## 16. Commitments and Guarantees

### a) Commitments

The total minimum rental commitments after April 1st, 1989, is as follows:

|           |          |
|-----------|----------|
| 1990      | \$ 1,302 |
| 1991      | 1,246    |
| 1992      | 1,032    |
| 1993      | 961      |
| 1994      | 788      |
| 1995-2003 | 2,668    |
|           | \$ 7,997 |

An amount of \$5,525,027 out of the \$7,996,966 is assumed by franchisees of the Company.

### b) Guarantees

The Company has guaranteed certain lease commitments up to July 1991 for a maximum amount of

| 1989   | 1988  |
|--------|-------|
| \$ 206 | \$ 40 |

## 17. Tax Benefits Available

The financial statements do not reflect potential tax reductions available through the application of losses carried forward against future years' earnings, otherwise subject to income taxes. These losses expire as follows:

| Expiry Date | Federal | Provincial |
|-------------|---------|------------|
| 1990        | \$ 54   | \$ —       |
| 1991        | 19      | —          |
| 1995        | 32      | —          |
| 1997        | 80      | 80         |
|             | \$ 185  | \$ 80      |

## 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.