1989 Annual Report

Circo Craft

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Shareholders' Meeting

Circo Craft invites its shareholders to the Annual Meeting to be held Thursday, April 26, 1990 at 11:30 a.m. (EST) at the Four Seasons Hotel, 1050 Sherbrooke Street West, Montréal, Québec, Canada.

Mission Statement

Our mission is to be a recognized world-class industry and technology leader.

We shall achieve this leadership by providing our international client base total customer service through technical support and responsiveness, from design to the manufacture of complex printed circuit structures of superior quality, engineering and manufacturing excellence in concert with the continuous development of our human resource and technological innovation.

Our mission is supported and pursued by every member of our group in an environment which fosters openness, highest ethical standards, competence and participative involvement, to achieve everyone's full potential and share in our quest for excellence in all we do.

Hans-Karl Muhlegg
President and Chief Executive Officer

Focus of the Report

1989 placed a high premium on adaptability, an indispensable quality as we head into the new decade. Our industry is undergoing sweeping changes. The swift pace of technological development and the rapidly expanding uses of electronic equipment require more complex circuitry and higher density products, all with superior quality and reliability. It is precisely Circo Craft's response to this evolution that has propelled the Company to the industry's upper ranks and which supports its progress.

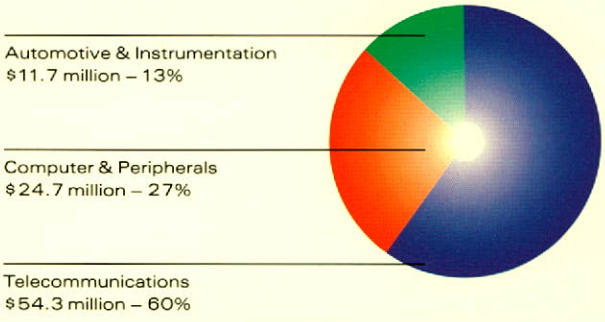
Over the years our premium quality and our commitment to zero-defect manufacturing and just-in-time manufacturing methods have earned us coveted preferential supplier status and strategic business partnerships with major customers. This level of excellence requires constant improvement. That's what 1989 was all about.

The year's challenges required, first and foremost, that we intensify our commitment to satisfying our customers' very high expectations. Leading Original Equipment Manufacturers (OEMs) have raised quality standards to near perfection, imposed extremely narrow defect tolerances and implemented just-in-time delivery policies, all the while demanding increased services and price competitiveness. We recognized early on that these requirements presented new challenges for our manufacturing facilities and our skilled personnel.

Circo Craft's responses to the technological and business challenges are reviewed in this report. Company-wide operational adjustments have been implemented so we can remain flexible in our response to changing market conditions, and major decisions have been made in the pursuit of our long-term goals.

We're ready and we're setting our sights for the 1990s...

Sales by Market Sector



Operating Highlights

- Earnings, before extraordinary item, rose 22 percent to $5,219,000 or 43 cents per common share, from $4,289,000 or 36 cents per share, the year before. Net earnings were $1,709,000 or 14 cents per common share.

- Sales for 1989 totalled $90,673,000, down marginally from $91,374,000 in 1988. Printed circuit sales totalled $86,113,000 up 5.3 percent over last year's figure.

- Microelectronic operations discontinued, eliminating four-year losses. A one-time after-tax charge of $3,510,000 or 29 cents per share was incurred to reflect the costs associated with the closing.

- Set-up underway for a Quick Turnaround Prototype facility to support customers with fast service on small volume and pre-production runs and advanced technology development.

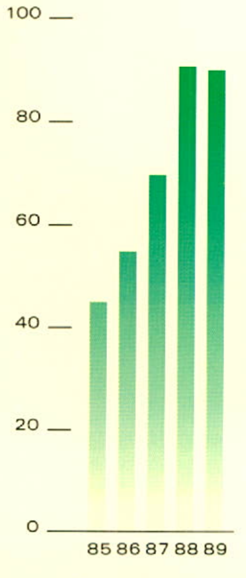
- Major marketing effort initiated to support field sales and further expand coverage of the U.S. market place.

- Added technological expertise provides higher levels of quality service to customers.

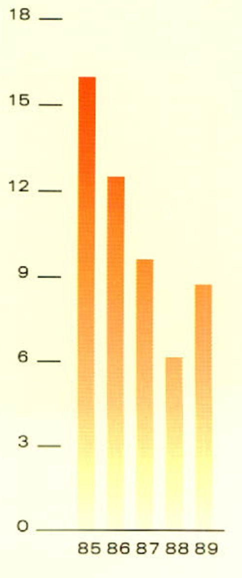
- Aggressive cost-reduction program implemented in all areas of the company.

- Increased commitment to international customer base with investments in the latest processing technology and continuous quality improvement programs.

Sales
(millions of dollars)



Capital Expenditures
(millions of dollars)



Financial Highlights

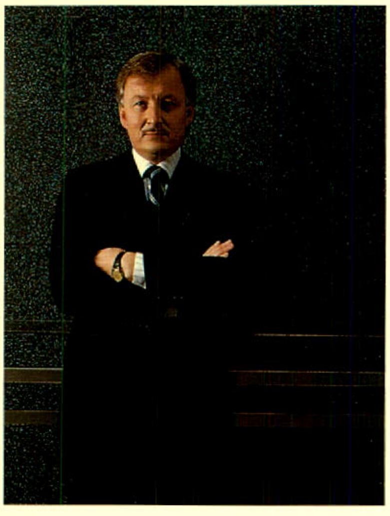
(millions of dollars)	**1989**	% Change	1988	1987
Operations				
Sales	$90.7	(0.8)	$91.4	$70.1
Operating margin	22.4	0.4	22.3	17.6
Depreciation	6.4	–	6.4	5.1
Earnings before income taxes				
& extraordinary item	8.4	25.4	6.7	4.1
Net earnings	1.7	(60.1)	4.3	2.6

(millions of dollars)				
Financial Position				
Working capital	$12.7	(8.0)	$13.8	$14.8
Shareholders' equity	47.1	3.7	45.4	41.1
Total assets	64.1	(10.9)	71.9	72.9

(in dollars)				
Per Share				
Earnings before				
extraordinary item	$0.43	19.4	$0.36	$0.21
Net earnings	0.14	(60.1)	0.36	0.21
Book value	3.90	3.70	3.76	3.40

Key Ratios				
Sales/Fixed assets	2.21	4.7	2.11	1.59
Sales/Total assets	1.41	11.0	1.27	0.96
Current ratio	2.24	16.1	1.93	2.10

(millions of dollars)				
Other Statistics				
Capital expenditures	$ 8.8	41.9	$ 6.2	$ 9.7
Cash flow from operations	10.9	(4.4)	11.4	9.1



Since its founding, Circo Craft's progress has been reflected in its notable sales growth and continuous profitability. Although 1989 was by no means the record breaking year it started out to be, a look behind the final numbers confirms the Company's continued progress.

1989 in review

The promising start and financial results realized in the first six months of 1989 faltered during the second half, as a number of factors – some market-driven, others more directly within our control – combined to restrain earnings. A number of major users of printed circuits, notably computer manufacturers, entered a period of soft demand in early 1989. The ensuing decline in customer orders, which resulted in significant unused capacity in the industry and intensified competitive pressures, began to impact Circo Craft in mid-1989. The foregoing was accompanied by new manufacturing challenges created by increased design complexity in printed circuits, demands for near-perfect products and price competitiveness.

Despite these factors, Circo Craft turned in a respectable performance. Sales totalling $90.7 million comprised $86.1 million from our printed circuit operations, reflecting real growth of 5.3 percent, and approximately $4.6 million from our discontinued microelectronic group.

Earnings of $5,219,000, or 43 cents per common share before the extraordinary item, improved over last year's net earnings of $4,289,000 or 36 cents per share.

Circo Craft's status as a supplier of choice, to major diversified enterprises, helped reduce the impact of the industry's cyclical downturn. Our responsiveness to evolving market needs, emphasis on strategic partnerships with OEMs and a determination to invest in the latest manufacturing systems and processes, again enabled us to strengthen our customer base.

In line with the reduced business activity in 1989, early action was taken to lower expenses without compromising on quality or services. We also devised innovative ways to reduce overhead costs while preserving the ability to gear up for high volume production as opportunities arise. Staff levels throughout the Company were reduced through a creative temporary leave of absence program. These measures, and others recently implemented, will result in further economies and additional manufacturing efficiencies.

We made significant decisions to ensure the Company's future growth and profitability by expanding our printed circuit capability and focusing on our core business. The microelectronic group was facing unacceptable odds against finding a niche in the negative environment for this segment of the interconnection market. After four years of losses for this division, the Company decided to discontinue microelectronic operations. This action to eliminate losses should have a positive effect on profits in 1990. The closing completed at the end of September, after respecting all related outstanding obligations, is explained in the Financial Review.

The $10 million Quick Turnaround Prototype Centre, announced last April, is projected to begin operating by the end of the second quarter of 1990. In addition to satisfying our customers' needs for quick response on prototype and small volume products, this project will also raise overall production efficiency by freeing capacity at our existing plants which had previously provided this service.

Capital expenditures totalling $8.8 million were financed entirely by funds generated from operations. We have deferred our $15 million project for a high-volume production line until market conditions can sustain the operating and financial yields we seek. We will however, continue to enhance our manufacturing capabilities to ensure they meet our customers' increasingly sophisticated product requirements.

Poised for continued growth

During the year, the challenge to maintain the highest quality standards was heightened by ever advancing technology. More densely packaged circuitry, such as multilayer circuits, requires that a greater number of manufacturing variables be controlled with utmost precision. We responded to this challenge with ongoing refinement of our processing technology for more complex multilayer circuits and continued emphasis in every facet of our business, on maintaining the same quality standards of excellence for which Circo Craft is known.

A number of key managers with extensive experience in the areas of quality assurance, manufacturing, technical development, engineering and materials procurement, have joined Circo Craft in the past year. These important additions to our senior management team will be instrumental in Circo Craft's ability to achieve its goals and pursue higher levels of technology.

We've come out of the past year stronger and more determined than ever to attain leadership in the markets we serve. We are intent on sharpening our customer focus with enhanced manufacturing methods and quality controls, and increasing sales of higher margin products.

In 1989, we reduced the outstanding balance of our long-term debt to $241,000. Our financial position continues to be strong with working capital at year-end totalling $12.7 million. Cash equivalents and unused lines of credit are judged sufficient to support all foreseeable requirements for controlled business growth.

The most important element of Circo Craft's long term success is undoubtedly the understanding and resolve of employees that participative involvement in the total quality process is the key to a flourishing enterprise in an increasingly demanding industry. The result will be evident in the superior quality performance of all aspects of our organization.

I wish to thank the dedicated women and men of the Circo Craft team for their vital contribution during 1989 and acknowledge the support and understanding of customers and suppliers in achieving our mutual objectives.

The soft market conditions, which had an impact on our 1989 performance, will persist until the latter half of 1990. We enter the new decade in a leaner and more efficient posture and look forward to a resurgence of growth in the future.

Hans-Karl Muhlegg
President and Chief Executive Officer
February 23, 1990

Performance in an Increasingly Demanding Industry

Printed circuits play a crucial, yet not readily visible role in many aspects of our daily lives. They are at the heart of electronic equipment, delivering impulses which govern a whole spectrum of apparatus ranging from aircraft, computers and telecommunications systems, to basic home, office and leisure products.

The highly competitive, capital intensive $6 billion North American industry – about a third of the world market and growing at about 11% annually – encompasses over 1,000 captive and independent producers and a strong import presence from Pacific Rim sources.

Significant growth and dramatic technical progress for mid-range multilayer circuits over the last three years have made them the dominant interconnection medium and generated a transformation of the industry. To produce these complex and powerful circuits, more reliable, more efficient and more flexible ways have had to be found. Relationships with customers, notably the OEMs, also had to be redefined.

To obtain the unprecedented quality and service they now seek, OEMs have gradually reduced the significance of their in-house operations and rely increasingly on independent manufacturers who now account for about 66% of the market, compared to 40% only five years ago. To foster security of supply, OEMs have consolidated their base of suppliers, directing purchases to strategic partners who meet their stringent technological requirements and performance standards.

Manufacturability enhancement of today's complex circuits demands some of the industry's most sophisticated Computer Aided Design (CAD) systems in the early stages of product engineering.

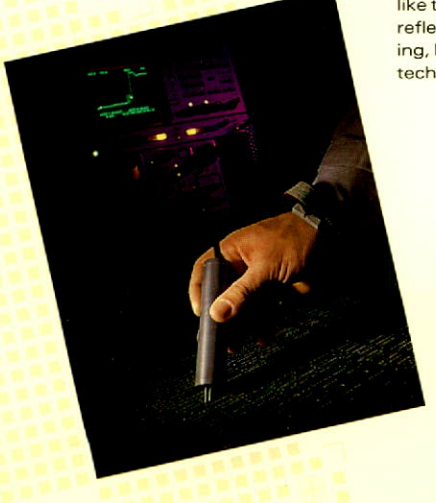
At the forefront of process technology

Circo Craft's growth and evolution confirm our successful response to these challenges and our commitment to remain in the forefront with the most advanced process technology. Since 1984 we have invested $53.4 million in the latest manufacturing systems. Notable purchases in the past year that will sustain Circo Craft's technological superiority were: HITACHI drilling systems, the latest in micro-drilling technology for high density boards; a second CIBA GEIGY high-volume soldermask system, to produce the finer lines necessary for advanced surface mount boards; additional ORBOT automated optical inspection systems, to perform humanly impossible tasks at the most crucial steps in the manufacturing process, for additional quality gains; and HALCO automatic horizontal solder coaters to produce superior finishes in large volume surface mount applications.

Continuous improvement and education is a way of life at Circo Craft. Our manufacturing strategy for controlled profitable growth includes inter-related programs such as Statistical Process Control (SPC), Just-In-Time (JIT) methods and Manufacturing Resources Planning (MRP II). To be fully effective, these programs are applied gradually to all aspects of manufacturing and must be fully understood by virtually all employees within the enterprise.

Statistical Process Control continues to be methodically phased into all stages of the manufacturing process. SPC, a central element to achieving zero-defect manufacturing, provides highly reliable means of controlling each of the more than 100 processes used in multilayer production. The technique's success is measured in standard deviations from the mean (or ideal curve). This quality driven approach to manufacturing strives to achieve Six Sigma standards throughout the process; in essence approaching perfection.

We are progressing similarly with JIT manufacturing. The philosophy of this advanced manufacturing method is based on the principle of constantly seeking to reduce non value-added factors, and continuously improving quality and efficiency. It presupposes not only that quality products are made or received just when needed, but also that manufacturing capacities are flexible to support changes in demand levels.



Our investment in the most advanced analysis tools available, like this computerized time domain reflectometer for impedance testing, keeps us at the forefront of technology.

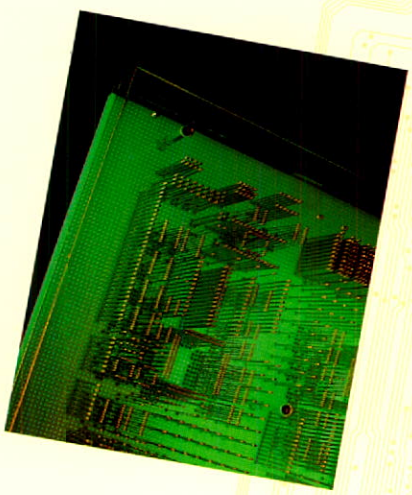
Our unwavering commitment to constantly upgrade the skills and enhance the roles of all our personnel is reflected in the 18,450 hours devoted to employee development in 1989, twice the previous year's investment. Our work environment fosters cooperation, participation, effective communication and increased mastery of technical skills among employees to always achieve our goal of manufacturing superior quality products.

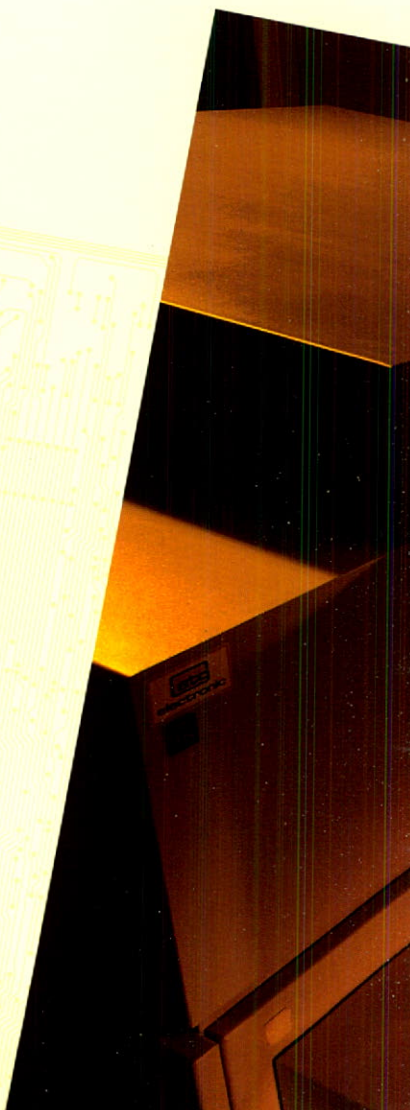
Developing our markets

Circo Craft's product mix, which historically had a greater proportion of high density double-sided circuits, began a strategic re-alignment to more multilayer production. Further effort and resources are being allocated to expand this segment to the 6-8- and 10-layer product spectrum which is an inherently more attractive niche offering improved margins, and to the area of fine line technology required for surface mount applications.

Circo Craft's select base of multinational customers and controlled product range has been another company strength, an outgrowth of our commitment to premium quality and Circo Craft's total service. Quite simply, we cannot be all things to all people and do it well. In today's environment doing it well and doing it better the first time is the only recipe for success. Contrary to limiting Circo Craft's progress, this policy guarantees that we will be able to pursue the constant objective of premium quality and service for the benefit of our customers and, therefore, for the benefit of Circo Craft's business development.

Circo Craft's custom test fixtures are used to confirm the electrical reliability of complex circuit structures.





We are providing excellent value and service to some of North America's most recognized manufacturers of telecommunications and computer systems including Northern Telecom, Motorola and Digital Equipment. Many of these multinational customers maintain several divisions which have independent decisional power for their respective procurement requirements. Each awards contracts to Circo Craft based on technological capability, quality, responsiveness, and price competitiveness.

Managing for quality and success

To meet the many challenges we faced, we took bold steps to improve our customer focus and operating efficiency with an overall goal of increasing sales and profits when the market recovers. The target of our total commitment to raising efficiency and productivity in printed circuit manufacturing is to upgrade our process technology, refine manufacturing methods and improve various facets of our operations, particularly cost controls. Other subjects under regular scrutiny are optimizing plant yields, manufacturing planning and administrative efficiency. Plant yields are key ratios in measuring operations; Circo Craft's are among the best in the industry due to our constant efforts at maintaining a high level of efficiency.

Through careful management of working capital, Circo Craft has successfully limited short-term borrowings and minimized the impact of prevailing high interest rates.

Circo Craft's performance and long-term success are more than delivering quality product and service. It is our dedication to continuous improvement.

The latest generation of computerized circuit testers is used to accurately and simultaneously confirm the electrical integrity of both sides of finished multilayer circuits allowing for both high production speeds and product yields.

Circo Craft's strategies, its traditional strengths and proven fundamental criteria that served to achieve its present stature are aptly suited to set our sights on the picture that is emerging for the new decade. Meeting the demand for ever more sophisticated printed circuits, produced to finer tolerances thought impossible only a few years ago, defect rates so low – measured in parts per billion – that they approach perfection and reduced manufacturing cycle times – measured in hours – will result in closer relationships with selected OEM customers.

Industry demand for middle-of-the-spectrum printed circuits will fluctuate, but growth over time in the markets we serve is expected to expand at 12% for multilayer products and average 11% overall. Our progress will require that we keep pace with the newest advanced manufacturing processes. The key to success will be increased process control, further development of technical skills and a total devotion to quality in everything we do.

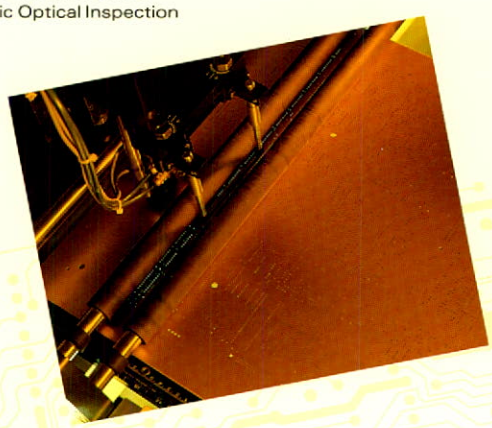
Foundation for growth

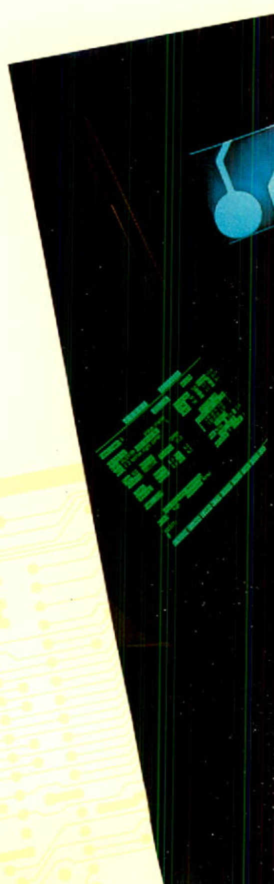
Circo Craft has firmly established its reputation and its business base in the high technology/high volume segment which values competitive pricing, quality and delivery of both product and services. Our building blocks will remain careful planning, long-term objectives, market responsiveness, adaptability to rapid changes in design and manufacturing, and meticulous attention to manufacturing yields.

Several years of remarkable progress have brought Circo Craft to a new level of maturity. The foundation is being laid to build solid long-term growth greater than the industry average, by being able to more accurately assess the evolution of the market and customer needs, and by responding effectively to business opportunities.

Our strategy is four-fold: provide tangible quality backed by Circo Craft's total service to ensure customer satisfaction; shift to the higher value-added products demanded by OEMs; concen-

Critical processing stages such as the drilling operation are verified by an Automatic Optical Inspection system.





trate on sectors that offer growth potential for large volume production; and reduce operating cost ratios by improving manufacturing yields. These objectives will be met by Circo Craft's broadening application of advanced manufacturing and quality controls.

SPC and JIT manufacturing are establishing the solid base necessary to implement a fully effective MRP II program, a computer integrated system for manufacturing, purchasing, customer service and financial planning.

A company with total commitment

In an industry where high technological capability is a prerequisite, the greatest challenge will be the total involvement of our human resource. Success means enhancing our employees' technical skills and versatility, and involving them as knowledgeable partners in implementing positive change.

To meet this multi-dimensional challenge, Circo Craft's continuing employee development and education program will expand from 18,450 hours in 1989 to 34,000 hours in 1990. Virtually every employee will participate in the program's three facets: heightened technical expertise; the application of higher quality methods and standards; and greater awareness and realization of the very high expectations we set for ourselves as individuals and as a team.

Strategically placed Automatic Optical Inspection systems complete precise circuitry inspections in seconds and ensure conformance of critical parameters to design criteria throughout the manufacturing process.

Now that our JIT scheduling is progressing with delivery and manufacturing, Circo Craft will begin applying this concept to its suppliers in 1990. We will seek closer involvement from our suppliers as to production cycles. We will also establish more mutually beneficial annual supplier agreements, moving to consolidate our own supplier base.

Meeting our customers' growing needs

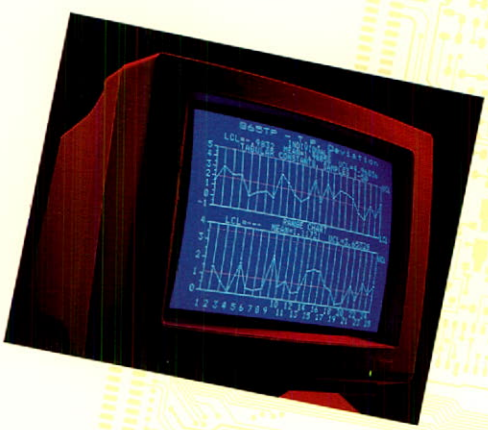
Meeting customer requirements will take precedence over all other considerations. Our formal quality improvement process will continue to raise the level of service that customers have come to expect – direct communication concerning their expectations and needs and total responsiveness from Circo Craft. Reducing the "total cycle time" – from the time a customer places an order until it is delivered – is another vital part of our Company's quality initiatives.

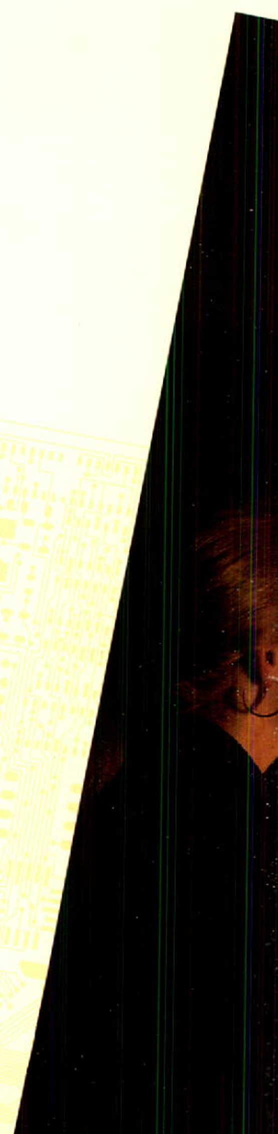
Launching our Quick Turnaround Centre will enable us to better meet the growing demand for value-added up front support and strengthen our links with customers. The QTA will incorporate a prototype, small volume and pre-production manufacturing facility, and a process research centre for advanced development of printed circuit technology.

Operationally, we will improve our ability to reduce lead and manufacturing cycle times at each stage, from design to early prototype development to high volume production. This ability to react promptly to design changes will assist our customers to shorten the time-to-market for new product introduction, and place us in an excellent position to secure preferred vendor status and large volume orders.

An advanced technology group will focus on processes to build extremely dense circuits and develop experimental technologies, new testing and quality control methods. The group will be

Statistical Process Control, a central element to achieving zero-defect manufacturing, continues to be methodically phased into all stages of the manufacturing process.



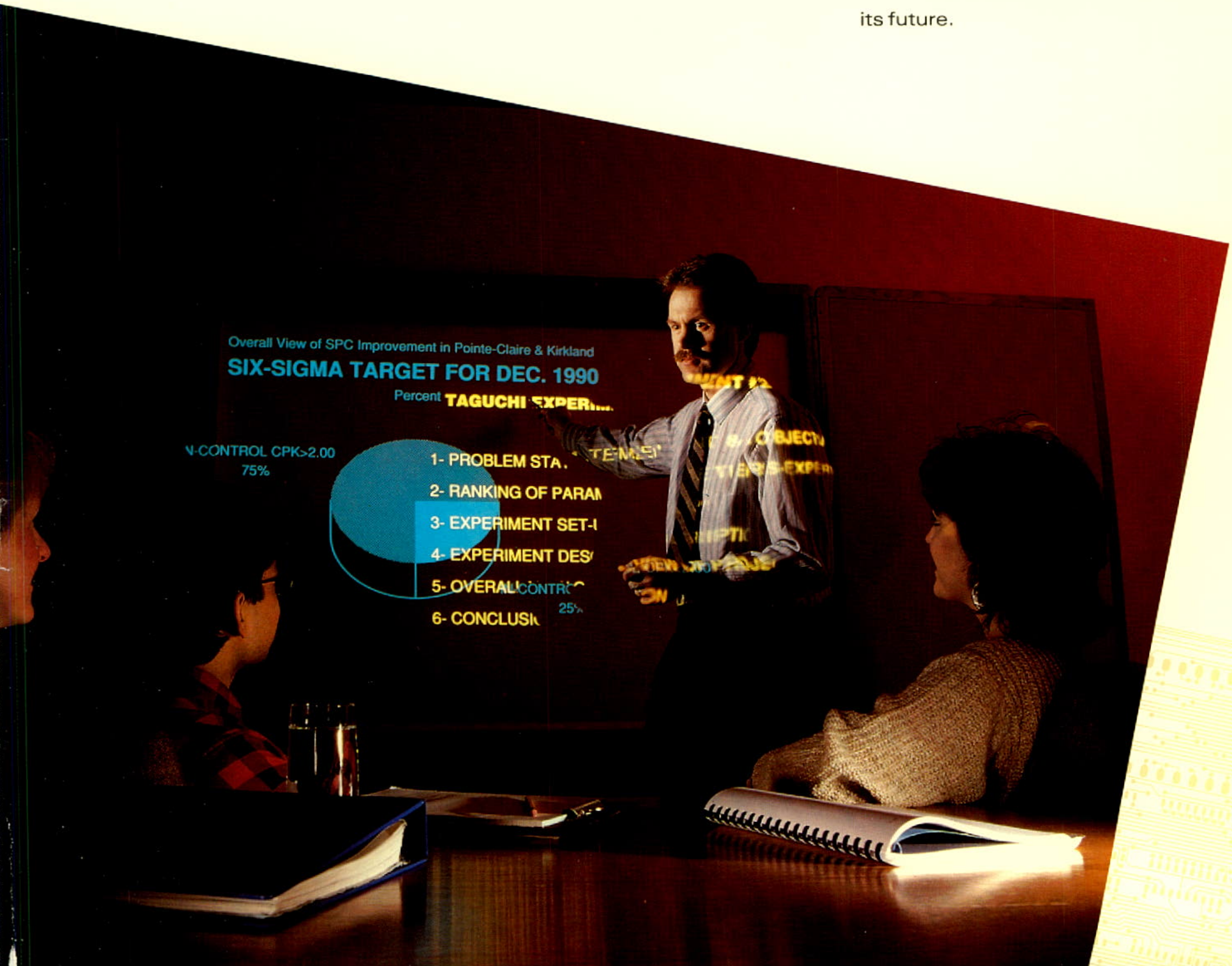


particularly useful in meeting the challenge of building complex multilayer circuits in large volume commercial quantities with high yields.

Our preparedness to fulfill customer expectations for premium quality and superior service have led to several ''strategic partnerships''. These agreements, which OEMs undertake only with suppliers who have achieved a record of superior performance and confidence, establish mutual responsibilities in diverse areas from design to delivery and successfully form a partnership for a growth relationship. Our collaborative energies focus on specific goals, such as harmonising circuit design, specifications and tolerances with ''manufacturability'', achieving zero defects and just-in-time manufacturing, all at a competitive value for price.

The United States market, where we will continue to increase our market share, is of growing importance. Significant potential exists with new and existing customers who value our quality, overall capability and increased level of service. This year we intend to solidify our relationships with existing customers and attract new business to increase our international customer base in several market segments. The recently announced government decision to eliminate tariffs on printed circuit exports under the Canada-U.S. free trade agreement will assist us in realizing that potential.

By improving our operations and managing costs, by implementing better business methods, and by long-term commitment to quality excellence, Circo Craft is dynamically building its future.



Circo Craft's unwavering commitment to the quality improvement process is reflected in the 18,450 hours devoted to employee development and training.

Results of operations

Total sales in 1989 decreased by 0.8 percent from the prior year level to $90,673,000, due primarily to the closing of the microelectronic group. Other factors were the slow business environment that resulted in reduced market demand, extremely competitive pricing and an order mix which contained a relatively smaller proportion of higher priced multilayer circuits.

Circo Craft closed its microelectronic division in fiscal 1989 due to continuing losses incurred. This division generated $4.6 million in sales for the six months of operation in 1989, compared with $9.6 million in full fiscal 1988, whereas sales of printed circuits increased an appreciable 5.3 percent to reach $86,113,000, even though considerable excess capacity was available within the industry.

Earnings, before the extraordinary item, amounted to $5,219,000 or 43 cents per common share, compared with $4,289,000 or 36 cents per common share in 1988. Net earnings amounted to $1,709,000 or 14 cents per share, the result of a one-time charge of $3,510,000 net of income tax, relating to the closure of the microelectronic division.

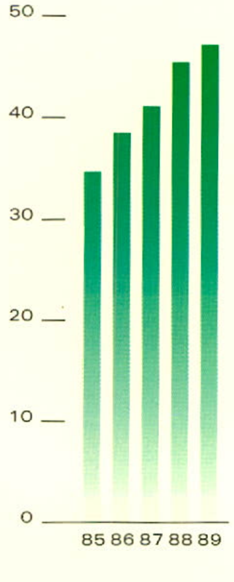
Operating margins of 24.7 percent remained at about the same level as the 24.4 percent in 1988. Improvements in operating efficiencies were offset by lower selling prices due to increased price competitiveness.

Selling, general and administrative expenses as a proportion of sales were 8.5 percent, slightly lower than the 9.0 percent in 1988. Lower selling expenses as a result of the discontinued microelectronic operations were offset by additional expenses related to our expanded U.S. marketing program.

Interest expense on long-term debt decreased significantly from $782,000 in 1988 to $210,000, as cash flow from operations was used to pay outstanding long-term debt.

Capital expenditures in 1989, totalling $8,818,000, were principally

Shareholders' Equity
(millions of dollars)



invested to enhance process technology and quality control. Capital spending in 1990 is expected to reach approximately $16 million, including the QTA project. We expect to finance such expenditures with existing cash resources and bank financing.

Management believes that any general inflationary pressures affecting the Company's expenditures were offset through cost-containment programs and productivity gains, and have not had a significant impact on the prices of the Company's products, the cost of its materials or its operating results.

Discontinued operations

On April 25, 1989 the Company decided to discontinue the operations of the microelectronic division. This decision, resulting in a one-time provision of $3,840,000 net of income tax of $2,160,000, was made in the second quarter. Subsequent to the complete shutdown of operations, the amount was reduced to $3,510,000 as a result of savings realized during the closing down process.

Capitalization

The Company remains in a strong financial position with shareholders' equity equivalent to 87 percent of total capitalization as at December 31, 1989.

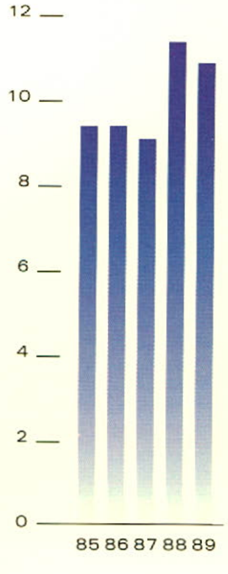
Liquidity and capital resources

As at December 31, 1989, Circo Craft's working capital was $12,735,000 as compared to $13,764,000 the previous year. This decrease in working capital was due primarily to payment of long-term debt.

The Company met its capital requirements through cash generated from operations. The net cash position increased to $4,183,000 from $675,000. Available bank financing totalled $23,500,000 as at December 31, 1989.

The Company further believes that its working capital, borrowing capacity and funds generated from operations, will be sufficient to meet anticipated working capital requirements for fiscal 1990.

Cash Flow from Operations
(millions of dollars)



Stock market trading statistics

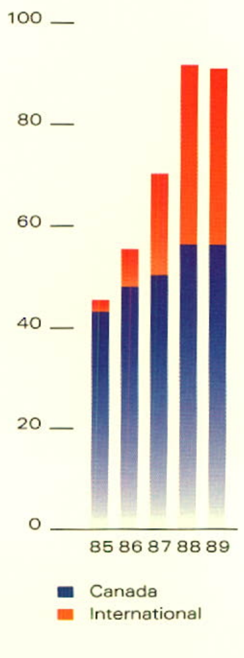
Circo Craft's common shares have been traded on the Montreal Exchange and the Toronto Stock Exchange under the symbol CCC since the initial public offering on October 3, 1984. The table below sets forth the range of closing prices for the quarters indicated.

Trading Statistics Summary

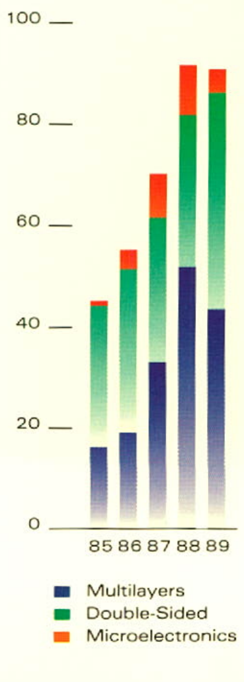
Fiscal 1989	First quarter	Second quarter	Third quarter	Fourth quarter
High	$5.50	$6.75	$7.62	$7.50
Low	4.55	4.55	6.75	3.90
Fiscal 1988				
High	5.30	5.50	4.60	4.75
Low	$3.25	$4.15	$4.10	$4.00

Circo Craft has never declared or paid a dividend on its Common Shares. The Company anticipates that it will continue to retain its earnings for use in its business for the foreseeable future.

Sales by Market
(millions of dollars)



Sales by Product
(millions of dollars)



Capitalization

at December 31	1989		1988		1987	
	millions	%	millions	%	millions	%
Long-term debt, including current portion	$ 0.5	0.9	$ 5.3	9.0	$11.7	19.4
Deferred income taxes	6.5	12.0	8.2	14.0	7.6	12.6
Common shareholders' equity	47.1	87.1	45.3	77.0	41.1	68.0
	$54.1	100.0	$58.8	100.0	$60.4	100.0

Quarterly Financial Data

(unaudited)

(in thousands of dollars)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
1989					
Sales	$24,861	$28,439	$20,194	$17,179	$90,673
Operating Margin	6,491	8,470	4,383	3,080	22,424
Earnings before extraordinary item	1,621	2,904	593	101	5,219
Net Earnings	1,621	(936)	593	431	1,709
Earnings per Common Share before extraordinary item (in dollars)	0.13	0.24	0.05	0.01	0.43
Net Earnings per Common Share (in dollars)	0.13	(0.08)	0.05	0.04	0.14
1988					
Sales	$23,050	$21,759	$22,601	$23,964	$91,374
Operating Margin	6,863	5,100	5,333	5,042	22,338
Net Earnings	1,650	741	911	987	4,289
Net Earnings per Common Share (in dollars)	0.14	0.06	0.08	0.08	0.36
1987					
Sales	$16,583	$15,698	$17,147	$20,699	$70,127
Operating Margin	4,785	3,395	3,869	5,586	17,635
Net Earnings	1,143	50	323	1,066	2,582
Net Earnings per Common Share (in dollars)	0.09	0.004	0.03	0.09	0.21

Auditors' Report to the Shareholders

We have examined the balance sheets of Circo Craft Co. Inc. as at December 31, 1989 and 1988 and the statements of earnings, retained earnings and changes in financial position 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 financial statements present fairly the financial position of the company 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.

Chartered Accountants

Maheu Noiseux

Granby, Quebec
January 31, 1990

Chartered Accountants

Coopers & Lybrand

Montreal, Quebec
January 31, 1990

Statements of Earnings

for the years ended December 31, 1989 and 1988

(thousands of dollars except per share amounts)	**1989**	1988
Sales	$ 90,673	$ 91,374
Cost of Sales	68,249	69,036
Operating Margin	22,424	22,338
Selling, General and Administrative Expenses	7,695	8,179
Other Expenses		
Depreciation	6,401	6,376
Interest on long-term debt	210	782
Results of investment operations (note 2)	(299)	300
	6,312	7,458
Earnings before Income Taxes and Extraordinary Item	8,417	6,701
Provision for Income Taxes (note 7)	3,198	2,412
Earnings before Extraordinary Item	5,219	4,289
Extraordinary Item (note 8)	3,510	—
Net Earnings for the Year	$ 1,709	$ 4,289
Earnings per Share before Extraordinary Item	$ 0.43	$ 0.36
Earnings per Share	$ 0.14	$ 0.36

Balance Sheets

as at December 31, 1989 and 1988

(thousands of dollars)	1989	1988
Assets		
Current Assets		
Short-term investments	$ 4,375	$ 1,779
Accounts receivable	7,752	14,096
Inventories (note 3)	10,664	12,561
Prepaid expenses	234	133
	23,025	28,569
Fixed Assets (note 4)	41,062	43,313
	$ 64,087	$ 71,882
Liabilities		
Current Liabilities		
Bank indebtedness	$ 192	$ 1,104
Accounts payable and accrued liabilities	8,105	11,204
Income taxes	1,693	775
Current portion of long-term debt	300	1,722
	10,290	14,805
Long-Term Debt (note 5)	241	3,553
Deferred Income Taxes	6,479	8,156
	17,010	26,514
Shareholders' Equity		
Capital Stock (note 6)	17,100	17,100
Retained Earnings	29,977	28,268
	47,077	45,368
	$ 64,087	$ 71,882

On behalf of the Board

Hans-Karl Muhlegg
Director

Norman Thorne Currie
Director

Statements of Retained Earnings

for the years ended December 31, 1989 and 1988

(thousands of dollars)	1989	1988
Balance – Beginning of Year	$ 28,268	$ 23,979
Net Earnings for the Year	1,709	4,289
Balance – End of Year	$ 29,977	$ 28,268

Statements of Changes in Financial Position

for the years ended December 31, 1989 and 1988

(thousands of dollars)	1989	1988
Operating Activities		
Earnings before extraordinary item	$ 5,219	$ 4,289
Non-Cash items –		
Depreciation	6,401	6,376
Deferred income taxes	(634)	539
Loss (gain) on disposal of fixed assets	(67)	200
	10,919	11,404
Cash provided by working capital	5,916	2,225
	16,835	13,629
Financing Activities		
Decrease in long-term debt	(4,734)	(6,434)
Investing Activities		
Acquisition of fixed assets	(8,818)	(6,190)
Proceeds from sale of fixed assets	225	288
Government capital grants for the funding of fixed assets acquired	–	78
	(8,593)	(5,824)
Increase in Funds	3,508	1,371
Funds – Beginning of Year	675	(696)
Funds – End of Year	$ 4,183	$ 675
Funds are made up as follows:		
Short-term investments	4,375	1,779
Bank indebtedness	(192)	(1,104)
	$ 4,183	$ 675

for the years ended
December 31, 1989 and 1988

1. Accounting Policies

Short-term investments

Short-term investments are valued at the lower of cost and market.

Inventories

Inventories are valued at the lower of cost and market. Cost is determined on the first-in, first-out basis for raw materials and maintenance supplies. The cost of work-in-process inventories includes the cost of raw materials, direct labour and applicable manufacturing overhead, excluding depreciation. Market is defined as replacement cost for raw materials, and as net realizable value less cost to complete for work-in-process.

Fixed assets and depreciation

Fixed assets are recorded at cost less applicable investment tax credits, government grants and accumulated depreciation. Assets acquired prior to 1982 are depreciated using the diminishing balance method at rates varying between 2 1/2% and 15%. Assets acquired after 1981 are depreciated using the straight-line method at rates varying between 2 1/2% and 20%.

Foreign exchange

Monetary assets and liabilities are translated into Canadian dollars at exchange rates in effect on December 31 and non-monetary assets and liabilities at the exchange rates prevailing when the assets were acquired and liabilities incurred. Sales and expenses, with the exception of depreciation, are translated at average monthly rates. Depreciation is translated at the rates used in the translation of the relevant asset accounts. Translation gains and losses are included in determining net earnings in the year in which the exchange rate changes.

Income taxes

The company follows the tax allocation method of providing for income taxes. Deferred income taxes result primarily from the difference between capital cost allowance claimed for income tax purposes and depreciation recorded for accounting purposes.

2. Government Assistance

The results of investment operations include an amount of $190,000 (1988 – $190,000) representing a rebate of interest paid on long-term debt and bank indebtedness.

3. Inventories

(thousands of dollars)	1989	1988
Raw materials	$ 4,028	$ 4,656
Work-in-process	4,762	6,269
Maintenance supplies	1,874	1,636
	$ 10,664	$ 12,561

4. Fixed Assets

	1989			1988
(thousands of dollars)	Cost	Accumulated depreciation	Net	Net
Land and non-depreciable assets	$ 1,127	$ —	$ 1,127	$ 852
Buildings	22,647	2,775	19,872	19,927
Machinery and equipment	50,497	25,521	24,976	25,909
Vehicles	286	190	96	47
	$ 74,557	$ 28,486	46,071	46,735
Less:				
Government grants – unamortized balance			2,327	3,422
Provision for discontinued operations (note 8)			2,682	—
			$ 41,062	$ 43,313

5. Long-Term Debt

(thousands of dollars)	1989	1988
(a) Long-term debt is comprised of the following:		
Term loan from the Minister of Regional Industrial Expansion, non-interest bearing, repayable in two yearly equal instalments ending February 1991	$ 401	$ 601
Balance of purchase price bearing interest at an annual rate of 10%, repayable up to July 1991	140	—
Term bank loan (note 5(b))	—	3,000
Revolving bank loan (note 5(b))	—	500
Balance of purchase price reimbursed during the year	—	1,174
	541	5,275
Less: Current portion	300	1,722
	$ 241	$ 3,553

(b) According to agreements with a chartered bank, the company has available credit facilities up to $23,500,000. The term bank loan and the revolving bank loan bear interest at annual rates ranging from prime to prime plus 1/4%. These bank loans are guaranteed by a demand debenture in the amount of $6,800,000 for which a specified asset has been pledged as security by a specific charge of a first rank.

6. Capital Stock

(a) As at December 31, 1989 and 1988 the authorized capital stock consists of the following:

- An unlimited number of First Preferred shares, without nominal or par value, issuable in series
- An unlimited number of Second Preferred shares, without nominal or par value, issuable in series
- An unlimited number of Common shares, without nominal or par value

The directors are responsible for defining the rights, privileges, restrictions and the conditions attached to each series of the First and Second Preferred shares upon their issuance.

(b) The issued and paid capital stock as at December 31, 1989 and 1988 consists of the following:

(thousands of dollars)	**1989**	1988
12,072,700 Common shares	$ 17,100	$ 17,100
1,200,000 Second Preferred shares, Series A (note 6(c))	—	—
78,000 Second Preferred shares, Series B (note 6(c))	—	—
	$ 17,100	$ 17,100

(c) The company issued Second Preferred shares, Series A and B in connection with the financial assistance amounting to $1,200,000 in 1986 and $78,000 in 1988 received from the Government of Quebec for costs incurred for the installation of facilities. Such shares are non-voting and are entitled to receive, as and when declared, an aggregate non-cumulative preferential dividend of $1 and, upon liquidation, to receive an aggregate amount of $1. The company issued such shares for the purposes of such financial assistance and will repurchase such shares at their issue price upon request of the holder thereof if the majority of the Common shares or more than half of the assets of the company are transferred, within five years following the granting of such financial assistance, to an enterprise whose head office is not located in the Province of Quebec or to an individual who does not reside therein. The proceeds from these issues were deducted from the cost of certain fixed assets.

7. Income Taxes

The company's provision for income taxes includes the following:

(thousands of dollars)	1989	1988
Current	$ 3,832	$ 1,873
Deferred	(634)	539
	$ 3,198	$ 2,412

The company's effective income tax rate is calculated as follows:

	1989	1988
	%	%
Combined basic federal and provincial income tax rate	41.00	44.50
Increase (decrease) in income tax rate resulting from:		
Active business income reduction	(7.50)	(7.50)
Manufacturing and processing reduction	(2.50)	(4.50)
Surtax	1.40	1.22
Other	5.60	2.28
	38.00	36.00

8. Extraordinary Item

During the year ended December 31, 1989, the company discontinued its microelectronic group operations. The costs pertaining to the closing and the disposal of the related assets are shown in the financial statements as an extraordinary item of $3,510,000, net of current and deferred income taxes of $931,000 and $1,043,000 respectively.

As at December 31, 1989, the provision amounted to $2,682,000 and relates to the disposition of machinery and equipment.

9. Major Clients

Approximately 52% (1988 – 39%) of the company's sales were to an unrelated multinational corporation which has several divisions responsible for their own purchasing decisions.

10. Commitments

Capital expenditures committed at December 31, 1989 amount to approximately $3,944,000.

11. Geographic and Activity Segments

Sales to foreign countries amounted to approximately 38% in 1989 (1988 – 39%) of the company's total sales.

The company's operations are concentrated in the designing and manufacturing of printed circuits.

10 Year Financial Summary

(unaudited)

For the year	**1989**	1988	1987
Operations			
(thousands of dollars)			
Sales	90,673	91,374	70,127
Cost of Sales	68,249	69,036	52,492
Operating Margin	22,424	22,338	17,635
Depreciation	6,401	6,376	5,104
Interest (Income) Expense-net	(89)	1,082	1,006
Earnings before income taxes and extraordinary item	8,417	6,701	4,123
Income Taxes	3,198	2,412	1,541
Earnings before extraordinary item	5,219	4,289	2,582
Net Earnings	1,709	4,289	2,582
Balance Sheet			
(thousands of dollars)			
Total Assets	64,087	71,882	72,941
Current Assets	23,025	28,569	28,876
Current Liabilities	10,290	14,805	14,055
Working Capital	12,735	13,764	14,821
Shareholders' Equity	47,077	45,368	41,079
Long-Term Debt	241	3,553	10,190
Cash Flow			
(thousands of dollars)			
Cash Flow from Operations	10,919	11,404	9,142
Capital Expenditures	8,818	6,190	9,656
Key Financial Ratios			
Current Ratio	2.2	1.9	2.1
Earnings before extraordinary item as a percentage of sales	5.8	4.7	3.7
Return on Average Shareholders' Equity	3.7	9.9	6.5
Sales/Fixed Assets	2.21	2.11	1.59
Sales/Total Assets	1.41	1.27	0.96
Per Share Data* (in dollars)			
Net Earnings	0.14	0.36	0.21
Shareholders' Equity	3.90	3.76	3.40
Other Information			
Number of Employees at Year-End			
Printed Circuit Group	845	877	722
Microelectronic Group	–	166	181
Total	845	1,043	903
Total Square Footage of Plant Facility			
Printed Circuit Group	315,000	230,000	225,000
Microelectronic Group	–	85,000	75,000
Available Future Expansion	25,000	25,000	30,000
Total	340,000	340,000	330,000

* By a certificate of amendment dated August 24, 1984, the outstanding common shares of the company were subdivided into 10,000,000 common shares. Per share data for the years 1973 to 1983 have therefore been calculated based on the assumption that 10,000,000 shares were issued and outstanding.

1986	1985	1984	1983	1982	1981	1980
55,335	45,317	37,335	19,593	11,893	12,195	7,196
39,435	28,530	22,003	12,415	8,334	7,282	4,688
15,900	16,787	15,332	7,178	3,559	4,913	2,508
3,533	2,407	1,529	1,151	610	176	149
(122)	(563)	532	776	586	40	63
5,937	8,511	9,335	3,113	897	3,689	1,646
2,186	3,179	2,700	543	389	1,206	645
3,751	5,332	6,635	2,570	508	2,483	1,001
3,751	5,332	6,635	2,570	508	2,483	1,001
65,515	50,420	40,832	19,888	16,079	17,540	4,982
25,549	16,614	19,964	9,272	7,441	9,618	3,260
13,427	6,464	7,763	4,409	3,561	5,222	1,394
12,122	10,150	12,201	4,863	3,880	4,396	1,866
38,497	34,746	29,414	7,046	4,476	4,594	2,363
7,424	5,212	1,229	6,607	6,265	6,395	794
9,398	9,399	8,797	3,857	1,580	3,559	1,238
12,648	16,095	12,691	3,832	2,579	6,387	609
1.9	2.6	2.6	2.1	2.1	1.8	2.2
6.8	11.8	17.8	13.1	4.3	20.4	13.9
10.2	16.6	36.4	44.6	11.2	71.4	52.3
1.39	1.34	1.82	1.85	1.38	1.54	4.18
0.84	0.90	0.92	0.98	0.74	0.70	1.44
0.31	0.44	0.64	0.26	0.05	0.25	0.10
3.19	2.88	2.44	0.70	0.45	0.46	0.23
550	460	465	317	156	167	112
190	70	15	–	–	–	–
740	530	480	317	156	167	112
185,000	175,000	110,000	100,000	100,000	35,000	35,000
40,000	40,000	–	–	–	–	–
105,000	115,000	142,000	–	–	65,000	–
330,000	330,000	252,000	100,000	100,000	100,000	35,000

Board of Directors

Hans-Karl Muhlegg
President and Chief Executive Officer

Renato Cervini
President,
Cernato Holdings Inc.

Norman Thorne Currie, f.c.a. *
President and Chief Executive Officer,
Maple Leaf Mills Limited

Peter David Kyle, c.a. *
Chairman and
Chief Executive Officer,
JM Asbestos Inc.

Hubert T. Lacroix
Partner,
McCarthy Tétrault
(Barristers and Solicitors)

Jean-Guy Fontaine, c.g.a. *
Vice President, Finance
and Administration,
Cerico Investments Inc.
and Secretary of the Company

Officers

Hans-Karl Muhlegg
President and
Chief Executive Officer

Jean-Guy Fontaine, c.g.a.
Corporate Secretary

Robert Tassé, c.g.a.
Vice President, Finance
and Administration

* Member of the Audit Committee

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Montréal (Québec)

Legal Advisors
McCarthy Tétrault
Montréal (Québec)

Auditors
Coopers & Lybrand, c.a.
Montréal (Québec)
and
Maheu Noiseux, c.a.
Granby (Québec)

Transfer Agent and Registrar
Montreal Trust Company,
at its principal offices in Montréal, Toronto, Winnipeg, Regina, Calgary, and Vancouver

Stock Listing
The shares of Circo Craft are traded on the Montréal and Toronto Stock Exchanges under the stock symbol, CCC. Market information can be found in the stock tables of Canadian newspapers under the acronym *CIRCO CRFT.*

Shareholders' Information
Requests for information should be directed to:
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Si vous désirez vous procurer la version française du présent rapport, veuillez vous adresser comme suit:
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