1 9 8 8

Circo Craft

Annual
Report

Table of Contents

Annual Meeting

Circo Craft invites its shareholders to the Annual Meeting, to be held Wednesday, April 26, 1989 at 11:30 a.m. (EST), at the Four Seasons Hotel, 1050 Sherbrooke Street West, Montréal, Québec.

Fifteen Years of Achievement

After 15 years of exceptional growth in our industry, Circo Craft today upholds its credo of quality with three Canadian manufacturing facilities totaling over 340,000 square feet, and over 1,000 employees. The Company is now one of North America's largest independent manufacturers of sophisticated printed circuits and microelectronic products for telecommunications, computers and other electronic systems. Consistent growth, performance and continuous profitability since 1973 are the results of Circo Craft's unwavering commitment to the excellence of its products, dedication of its employees and outstanding customer relationships.

Focus of the Report

To promote Circo Craft's quest for leadership in its niche markets, the Company is dedicating a significantly larger portion of its financial resources to place greater emphasis on continuous internal and external technical training programs for its most important resource – the Circo Craft team.

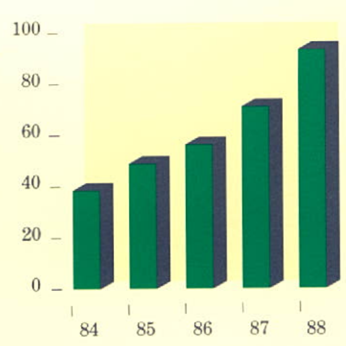
In 1988, Circo Craft invested 9,000 hours in employee training, and intends to increase this investment to a total of 18,450 hours of intensive training programs in 1989.

Training is not new at Circo Craft – it accompanies the operational requirements of one of the world's most impressive installations of state-of-the-art manufacturing facilities for printed circuit board and microelectronic products.

Simply, no school provides the requisite instruction for the typical position at Circo Craft, which tends to evolve as rapidly as customer requirements.

This report therefore highlights Circo Craft employees in their stimulating working environment where employee attitude to total quality, extensive ongoing training and the sophistication of equipment determine the level of performance.

Sales
(millions of dollars)



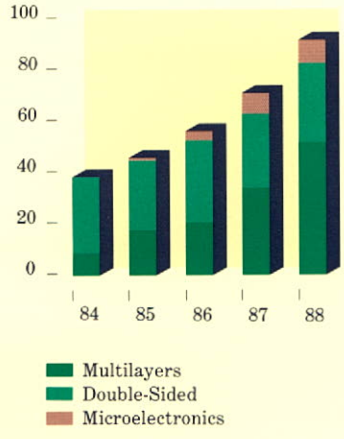
Operating Highlights

- Net earnings amount to $4,289,000 or 36 cents per common share, compared with $2,582,000 or 21 cents per share for the previous year.
- Sales to the United States rise to 36.8 percent of the Company's record level sales of $91.4 million.
- Capital investments totaling $6.2 million target "zero-defect" quality, operating efficiencies and advanced technologies.
- Strong management team further broadened with executives of long standing experience in the industry.
- Substantial investments made in employee training programs.
- Strategic partnership agreements reached with Northern Telecom Inc., Motorola Inc., and Digital Equipment Ltd.
- Customer base expands, notwithstanding a major $40 million supply agreement for 1989 reached with our largest customer.
- Investment in total computer integrated manufacturing programs emphasizes commitment to optimizing operating efficiency.

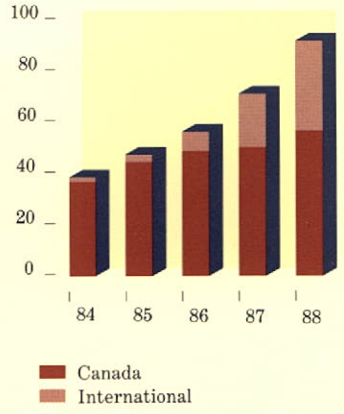
Business Highlights

(millions of dollars)	1988	% Change	1987	1986
Operations				
Sales	$ 91.4	30.4	$ 70.1	$ 55.3
Operating margin	22.3	26.7	17.6	15.9
Depreciation	6.4	25.5	5.1	3.5
Pre-tax earnings	6.7	63.4	4.1	5.9
Net earnings	4.3	66.1	2.6	3.8
(millions of dollars)				
Financial Position				
Working capital	$ 13.8	(6.8)	$ 14.8	$ 12.1
Shareholders' equity	45.4	10.5	41.1	38.5
Total assets	71.9	(1.4)	72.9	65.5
(in dollars)				
Per share				
Net earnings	$ 0.36	66.1	$ 0.21	$ 0.31
Closing shareholders' equity	3.76	10.5	3.40	3.19
Key Ratios				
Sales/fixed assets	2.11	32.7	1.59	1.39
Sales/total assets	1.27	32.3	0.96	0.84
Current ratio	1.9	(9.5)	2.1	1.9
(millions of dollars)				
Other Statistics				
Capital expenditures	$ 6.2	(36.1)	$ 9.7	$ 12.6
Cash flow from operations	11.4	25.3	9.1	9.4

Sales by Product
(millions of dollars)



Sales by Market
(millions of dollars)



Our Corporate Commitments

Circo Craft's objective is to provide its customers with products of consistent quality, engineering and manufacturing excellence, and technological innovation.

We uphold five basic commitments resulting from our view of Circo Craft's goals and responsibilities. These commitments guide our daily conduct and Circo Craft's course in pursuit of its long-term objectives. Our strength as a company arises from our determination to fulfill our commitments, each of equal importance, in everything we do.

Commitment to Quality

To share our customers' highest standards with built-in quality. To provide product performance excellence that will ensure our competitive position in the expanding markets we serve. To continually strive for the ultimate goal of zero-defect quality in all our operations.

Commitment to Customers

To provide total customer service through technical support and responsiveness, from design to manufacturing. As business partners, to align Circo Craft's operations with our customers' to maximize their leadership position.

Commitment to Employees

To foster an environment of openness, competence, involvement and teamwork in which all employees participate, achieve their full potential and share in the continuous growth and prosperity of the company.

Commitment to Technological Innovation

To possess state-of-the-art technology for the manufacture of complex products and ensure quality throughout the process. To seek opportunities to broaden our technological base and to encourage innovation in all aspects of our operations.

Commitment to Shareholders

To manage and direct the Company and its business to maintain steady growth and profitability in its markets and to provide shareholders with the best possible return on capital investment.

From left to right:
Hans-K. Muhlegg, President and Chief Executive Officer
Jean-Guy Fontaine, Vice President, Finance and Secretary
Marcel Charlebois, Vice President, Operations and General Manager

Circo Craft has maintained a strong balance sheet throughout its 15-year history by carefully controlling growth.

To Our Shareholders

Fifteen years of growth, profitability and performance in the electronics industry is a milestone. Circo Craft is thereby proud to present a statement of its business philosophy in this year's annual report. Its consistent application is responsible for Circo Craft's desired long-term relationships with customers, and will ensure its future prosperity.

The strength of the Company's 1988 results lends credibility to our corporate commitments: sales increased 30.4 percent to reach a record level of $91.4 million. Net earnings of $4.3 million, or 36 cents per common share, were considerably stronger than net earnings of $2.6 million, or 21 cents per share, in 1987.

Circo Craft has maintained a strong balance sheet throughout its 15-year history by carefully controlling growth. Cash liquidity is a major strength aimed at increasing our manufacturing and technological capabilities. Our strategic capital investment program is beginning to generate substantial cash flow. Our additional production capacity continued to provide us with the opportunity for improved results and a further broadening of our customer base, while maintaining or increasing sales to our long-standing customers.

1988 was an especially gratifying year as the Company realized wider recognition for the quality of its work and technological strengths as it pursued the goal of becoming the leading manufacturer of sophisticated printed circuit boards.

This recognition is due to the tendency for the Company's customers to focus on their core businesses. Given the large capital investments required for state-of-the-art manufacturing of multilayer printed circuit boards, customers are turning increasingly to independent manufacturers such as Circo Craft. Concurrently, the electronics industry is consolidating and favouring only those manufacturers able to respond to customers with the appropriate technological qualities and capital resources.

Further to our strategic capital investment program of the 1980s, Circo Craft's broad technological base and extensive training program for employees place the Company in an enviable position in tune with these industry trends.

Markets

Circo Craft's printed circuit and microelectronic groups are driven by their respective market niches. In 1988, industry market surveys confirmed that the Company should continue honing the fine edge of its manufacturing operations. In summary, customers want optimum quality products and greater performance in smaller component size. Following the trend to products of greater complexity, multilayer printed circuits continue to be the high growth segment of the market. Circo Craft's sales of these products accounted for 63 percent of total printed circuit sales.

This year, Circo Craft met the challenge of supplying increasingly complex multilayer circuits and satisfied the demand for short delivery schedules. Capital investments concentrated on processing systems ensuring the highest product quality; high internal manufacturing yields providing extended product runs for customers with large volume requirements; and, as required, custom products in limited volumes.

In the last half of 1988, the Company began studying the possibility of establishing a quick turnaround centre. Its purpose would be to produce highly specialized prototypes and multilayer circuits for surface mount technology. It would also reduce lead-times from early prototype development to high volume production. And, most importantly, it could provide an even more comprehensive degree of quality assurance from design inception to delivery.

Circo Craft is positioned to prosper in today's demanding market. In geographic terms, we are rapidly penetrating the United States market by working closely with customers to develop shared objectives and partake in their quest for manufacturing excellence. In fact, sales to the U.S. accounted for 36.8 percent of our total revenues for 1988.

Starting in January 1989, the progressive elimination of tariffs over the next five years, on certain finished electronic products for export to the United States, will further improve the Company's overall prospects.

Quality

Our corporate commitment to quality is of primary importance to Circo Craft. Consequently, the Company strives to bring the entire manufacturing process up to the ultimate level of achieving zero-defect quality.

In 1988, Circo Craft concentrated on a cost-effective quality enhancement program, emphasizing prevention rather than correction. Coordinated with customer requirements, the Manufacturing Resource Planning System (MRP II), Just-in-Time (JIT) and Total Quality Control (TQC) programs are all centered on quality. From a human resources perspective, essential to achieving quality are ongoing intensified training programs and a philosophy that the entire Circo Craft team must perform its function correctly the first time. With the measurements provided by these quality programs, management tracks the cost of quality, from marketing to sales, from the technician to engineering, from procurement to accounting, all the way back to management itself.

A Look to the Future

As president, I thank each of our 1,043 employees for their respective contributions to Circo Craft's accomplishments. Senior management recognizes that the outstanding level of competence of the Circo Craft team is pivotal to the continuing success of the Company.

The controlled growth and careful positioning of Circo Craft over the last 15 years bode well for the future. The Company is now one of few independent printed circuit and microelectronics manufacturers with the human, technological and financial resources necessary to compete and flourish in an increasingly demanding industry.

With these known strengths as our tools, management has established controlled-growth performance targets for 1989 and beyond. This will ensure maximum optimization of existing production capacity and provide for substantial additional sales to the international market. Given continuing growth in sales, coupled with higher yields and lower direct manufacturing costs, Circo Craft intends to maintain a high rate of profitability.

To achieve our corporate goals, we will continue to encourage autonomy, "intrapreneurship" and innovation in all aspects of our operations. Major emphasis will be placed on ongoing training programs for the entire Circo Craft team. We will pursue manufacturing efficiencies, streamlined operations and continue to assure strength in quality and engineering excellence.

We are, above all, committed to our 15-year tradition of profitable growth, now enshrined in Circo Craft's statement of corporate commitments.

Hans-Karl Muhlegg
President and Chief Executive Officer

Printed Circuit Group

At present and in the foreseeable future, Circo Craft will continue to focus on providing more complex, high-density products to its customers. This year, Circo Craft continued to respond to new manufacturing challenges and kept pace with latest customer requirements for denser track-to-track and layer-to-layer geometry, greater track width consistency for fine-line circuitry, and substrates of superior dielectric quality. This attention to leading-edge technology, along with more conventional printed circuit products and services, resulted in record sales of $81.8 million, an increase of 32 percent over 1987, accounting for 90 percent of Circo Craft's total sales.

Capital investments in printed circuit manufacturing included the addition of higher resolution surface mount technology, the most advanced automatic optical inspection and test systems for surface mount boards, a second lamination vacuum press for increased multilayer board manufacturing capacity, and a new Ciba-Geigy Probimer installation. As a part of the total quality effort, yields were substantially increased, permitting greater manufacturing capacity from within existing production facilities.

Circo Craft is in a favourable position as the certified supplier to major multinational customers. The granting of this preferred status is the recognition by customers of: the Company's special attention to ongoing quality improvement; continuous reduction in order/delivery cycle time; "just-in-time" deliveries; broad product range; and comprehensive services.

Special added recognition of Circo Craft's efforts in 1988 are:

- The first manufacturer of printed circuits to be awarded company-wide "Certified Supplier" status by Northern Telecom Inc. under its latest supplier integration program;

- Circo Craft was selected by Motorola Inc.'s Communications Sector to become a key supply partner under an agreement titled "Partnership for Growth";

- The first North American company to become a certified supplier to Mitel Corporation.

From left to right:
Mark Tinkler, Materials Planner (MRP)
Suzanne Gauvin, Administrative Assistant
Jason Ho, Junior Manufacturing Engineer
Alfred Butz, Maintenance Manager

The high level of competence of the Circo Craft team is pivotal to the continuing success of the Company.

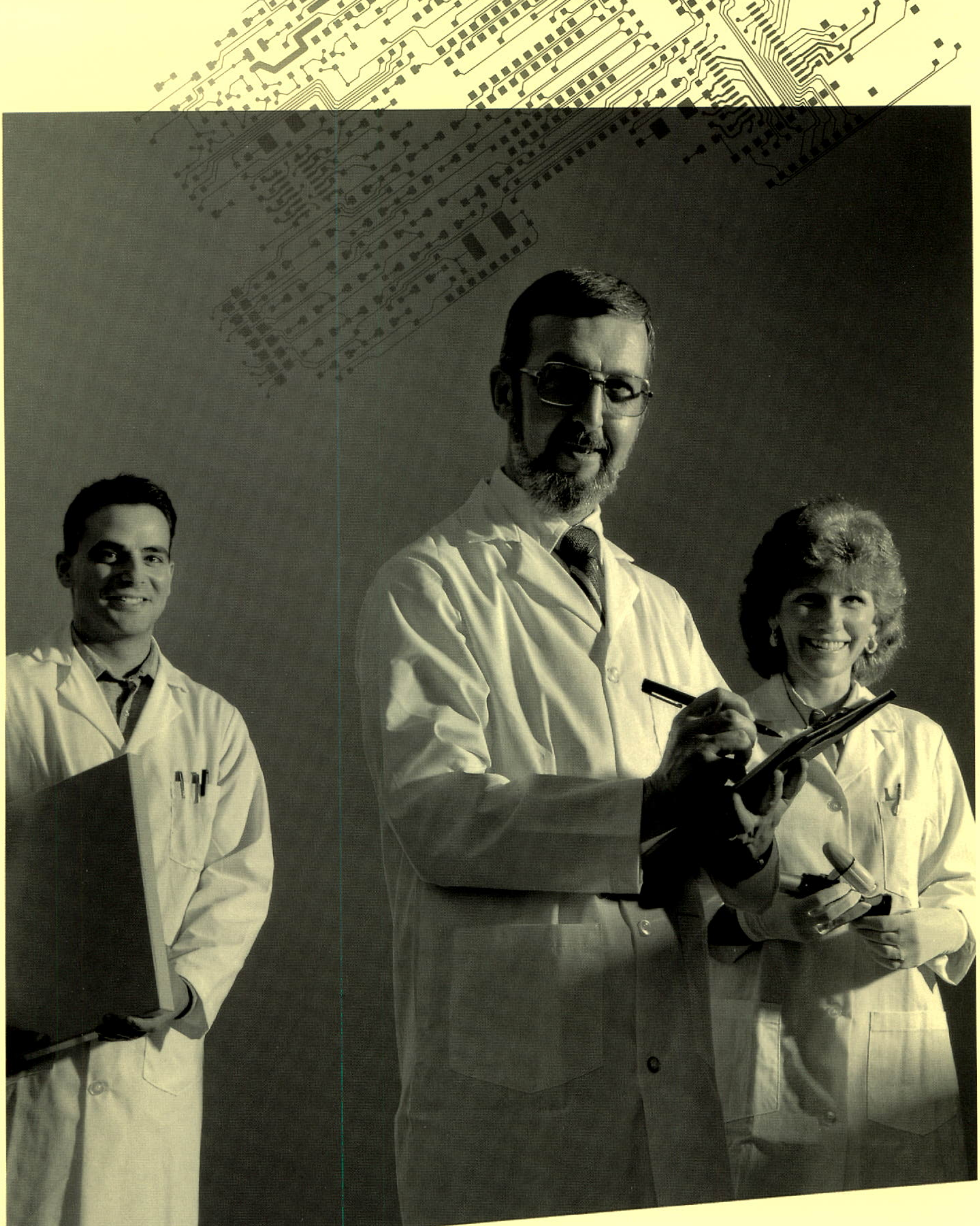
Microelectronics Group

Microelectronic products and services included surface mount hybrid microcircuits, chip and wire microcircuits, thick-film multilayer substrates, backpanel and surface mount assemblies. The 1988 mandate was to identify an appropriate market niche in keeping with our manufacturing capabilities, technical expertise and customer service programs.

Sales of microelectronic products amounted to $9.6 million, up 14 percent compared to $8.4 million in 1987. Sales of surface mount assemblies totaled $2.4 million and accounted for 25 percent of total microelectronic sales.

The underlying demand for thick-film hybrid products and services remains strong with the international market for such products expected to reach U.S. $9 billion in 1989. The Company's efforts to increase U.S. sales of these products were backed in the third quarter by additional representation firms, promoting Circo Craft's hybrid and board surface mount assembly capabilities.

However, due to intense international competition, sales of the microelectronics group have not met our original forecasts. As a result, greater effort is being applied to reduce manufacturing and operating expenses to bring them into line with the present sales trend.



From left to right:
Michel Généreux, Lead Hand, Dry Film
Jacques Bisson, Supervisor, Drilling
Pierrette Turcotte, Manufacturing Engineer

Our corporate commitment to quality is of primary importance to Circo Craft.

Computer Integrated Manufacturing (CIM) –

Tools for Ongoing Improvement

Circo Craft's total manufacturing output increased by 30 percent in 1988, and a similar growth rate is expected in 1989.

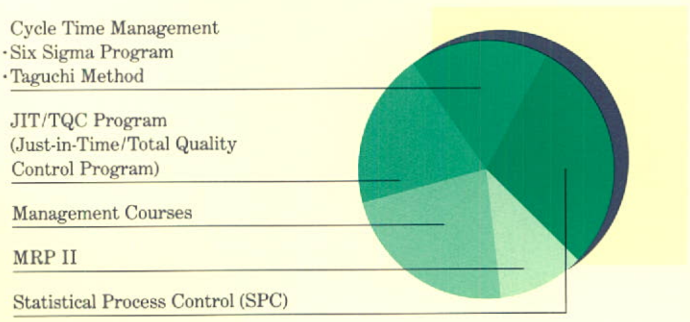
A key reason for this impressive performance has been Circo Craft's commitment to Computer Integrated Manufacturing (CIM). In keeping with its strategy of controlled profitable growth, Circo Craft has remained steadfast in establishing those programs which are pivotal to long-term success. Implementation of CIM combines the strengths of manufacturing resource planning (MRP II), statistical process controls (SPC), computer-aided design (CAD), computer-aided manufacturing (CAM) and the just-in-time (JIT) scheduling objective. These systems make it possible to calibrate production capacity, to maximize overall output and maintain our standards of excellence.

As indicated earlier in this report, the Company's commitment to performance through state-of-the-art manufacturing facilities and processes necessitates a strong commitment on the part of all employees to ongoing training. To support overall quality objectives, senior management has carefully evaluated organizational effectiveness and determined that training our employees to manage change is a top priority. Circo Craft will double its training program budget in 1989.

Manufacturing systems, combined with the ongoing training of all Circo Craft employees, continue to support our focused objectives of optimum quality, cycle time reduction and the introduction of higher value-added processes. In recognition of customer needs, the Company continues to invest in advanced manufacturing technology, including automatic optical inspection units, electron microscopes and advanced laboratory systems.

These are the tools Circo Craft utilizes to achieve total, measurable performance and the flexibility to adapt to the ever-changing needs of our customers.

Computer Integrated Manufacturing (CIM)



From left to right:
Gerhard Kastner, Plant Manager
Wolfgang Erat, Quality Assurance Manager
Carole Leduc, Technician, Photolab
Elaine Giard, Human Resources Coordinator
Denis Robichaud, Technician, Quality Assurance

Circo Craft has remained steadfast in establishing those programs which are pivotal to long-term success.

Management's Discussion of Results of Operations

Sales in 1988 increased by $21.3 million or 30.4 percent, to reach a new high of $91.4 million. The record performance is a direct result of the additional manufacturing capacity provided by capital investment programs of the past six years, a shift in product mix to higher density products and increased sales to the international market.

Net earnings amounted to $4,289,000 or 36 cents per common share, compared to $2,582,000 or 21 cents per share in 1987. The considerable improvement in net earnings represents a 66.1 percent increase over 1987 results, despite the net loss contribution of 25 cents per share incurred by the microelectronics group.

Operating margins decreased from 25.1 percent to 24.4 percent in 1988. Through improved operating efficiencies, the challenge to sustain profit levels was met by our printed circuit board group, despite market resistance to increased selling prices and the negative impact of the microelectronics group.

Selling, general and administrative expenses as a percentage of sales decreased to 8.7 percent from 10.1 percent in 1987 as a result of improved cost controls.

Depreciation expense increased by $1.2 million, due to the expansion of production facilities. Most of this increase was attributable to the depreciation of printed circuit manufacturing systems for all of fiscal 1988.

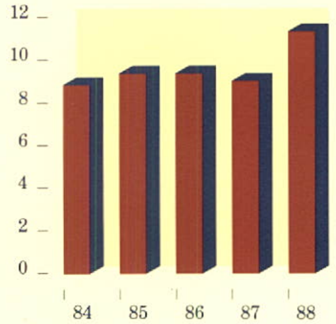
Capital expenditures amounted to $6.2 million in 1988, of which $6.1 million was financed by funds generated by operations.

Capitalization

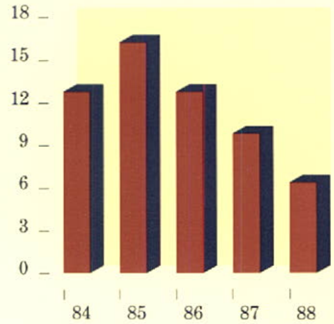
Circo Craft remains in a strong financial position with long-term debt accounting for only 9 percent of total capitalization. Shareholders' equity increased during the year by 10.4 percent to reach $45.4 million, equal to 63 percent of total capitalization as at December 31, 1988.

With its current strong cash position, borrowing capacity and funds generated from operations, the Company has sufficient resources to fund its continued growth in 1989.

Cash Flow from Operations
(millions of dollars)



Capital Expenditures
(millions of dollars)



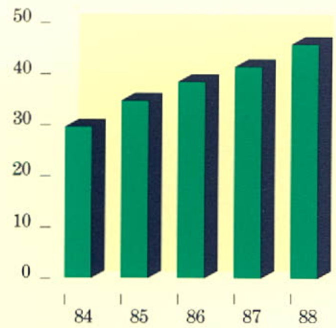
Capitalization
at December 31

	1988		1987		1986	
	millions	%	millions	%	millions	%
Long-term debt, including current portion	$ 5.3	9.0	$ 11.7	19.4	$ 7.4	14.2
Deferred income taxes	8.2	14.0	7.6	12.6	6.2	11.9
Common shareholders' equity	45.3	77.0	41.1	68.0	38.5	73.9
	$ 58.8	100.0	$ 60.4	100.0	$ 52.1	100.0

Quarterly Financial Data
(unaudited)

(in thousands of dollars)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
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
1986					
Sales	$ 12,607	$ 13,923	$ 12,115	$ 16,690	$ 55,335
Operating Margin	4,009	4,297	3,795	3,799	15,900
Net Earnings	1,026	1,092	734	899	3,751
Net Earnings per common share (in dollars)	0.09	0.09	0.06	0.07	0.31

Shareholders' Equity
(millions of dollars)



Statement of Earnings

for the year ended
December 31, 1988

(thousands of dollars except per share amounts)	1988	1987
Sales	$ 91,374	$ 70,127
Cost of Sales	69,036	52,492
Operating Margin	22,338	17,635
Selling, General and Administrative Expenses	7,942	7,086
Other Expenses		
Depreciation	6,376	5,104
Research and development costs	237	316
Interest on long-term debt	782	819
Result on investment operations (note 2)	300	187
	7,695	6,426
Earnings before Income Taxes	6,701	4,123
Provision for Income Taxes (note 7)	2,412	1,541
Net Earnings for the Year	$ 4,289	$ 2,582
Earnings per Share	$ 0.36	$ 0.21

Balance Sheet

as at December 31, 1988

(thousands of dollars)	1988	1987
Assets		
Current Assets		
Short-term investments	$ 1,779	$ 2,318
Accounts receivable	14,096	12,152
Income taxes	—	1,318
Inventories (note 3)	12,561	12,552
Prepaid expenses	133	536
	28,569	28,876
Fixed Assets (note 4)	43,313	44,065
	$ 71,882	$ 72,941
Liabilities		
Current Liabilities		
Bank indebtedness	$ 1,104	$ 3,014
Accounts payable and accrued liabilities	11,204	9,522
Income taxes	775	—
Current portion of long-term debt	1,722	1,519
	14,805	14,055
Long-Term Debt (note 5)	3,553	10,190
Deferred Income Taxes	8,156	7,617
	26,514	31,862
Shareholders' Equity		
Share Capital (note 6)	17,100	17,100
Retained Earnings	28,268	23,979
	45,368	41,079
	$ 71,882	$ 72,941

On behalf of the Board

Hans-Karl Muhlegg
Director

Norman Thorne Currie
Director

Auditors' Report to the Shareholders

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

Chartered Accountants

Mahew Noiseux

Granby, Québec
January 31, 1989

Chartered Accountants

Coopers & Lybrand

Montréal, Québec
January 31, 1989

Statement of Retained Earnings

for the year ended
December 31, 1988

(thousands of dollars)	1988	1987
Balance – Beginning of Year	$ 23,979	$ 21,397
Net Earnings for the Year	4,289	2,582
Balance – End of Year	$ 28,268	$ 23,979

Statement of Changes in Financial Position

for the year ended
December 31, 1988

(thousands of dollars)	1988	1987
Operating Activities		
Net earnings for the year	$ 4,289	$ 2,582
Non-cash items–		
Depreciation	6,376	5,104
Deferred income taxes	539	1,450
Loss on disposal of fixed assets	200	6
	11,404	9,142
Cash provided by (used for) working capital	2,225	(6,278)
	13,629	2,864
Financing Activities		
Increase (decrease) in long-term debt	(6,434)	4,267
Investing Activities		
Acquisition of fixed assets	(6,190)	(9,656)
Proceeds from sale of fixed assets	288	60
Government capital grants for the funding of fixed assets acquired	78	387
	(5,824)	(9,209)
Increase (decrease) in Funds	1,371	(2,078)
Funds – Beginning of Year	(696)	1,382
Funds – End of Year	$ 675	$ (696)
Funds are made up as follows:		
Short-term investments	1,779	2,318
Bank indebtedness	(1,104)	(3,014)
	$ 675	$ (696)

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 reported 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 December 31 exchange rates 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.

Investment tax credits
Investment tax credits are accounted for using the cost reduction method. Under this method, credits arising from the acquisition of fixed assets are deducted from the cost of the related assets and credits relating to research and development are included in the determination of net earnings for the current year.

2. Government Assistance

During the year, the company obtained a government grant from Société de développement industriel du Québec.

The result on investment operations includes an amount of $190,000 (1987-$190,000) representing a rebate of interest paid on long-term debt and bank indebtedness in prior years. As at December 31, 1988 the unrealized interest rebate relating to future years amounted to $190,000.

3. Inventories

(thousands of dollars)	1988	1987
Raw materials	$ 4,656	$ 5,344
Work in process	6,269	5,455
Maintenance supplies	1,636	1,753
	$ 12,561	$ 12,552

4. Fixed Assets

(thousands of dollars)	1988 Cost	1988 Accumulated depreciation	1988 Net	1987 Net
Land and non-depreciable assets	$ 852	$ –	$ 852	$ 821
Buildings	22,147	2,220	19,927	20,153
Machinery and equipment	46,305	20,765	25,540	26,660
Vehicles	243	196	47	81
Deposits on machinery and equipment	369	–	369	344
	$ 69,916	$ 23,181	46,735	48,059
Less: Government grants – net of accumulated amortization of $2,772,554 (1987 – $2,123,000)			3,422	3,994
			$ 43,313	$ 44,065

5. Long-Term Debt

(thousands of dollars)	1988	1987
a) Long-term debt is comprised of the following:		
Term bank loan (note 5b)	$ 3,000	$ 4,500
Revolving bank loan (note 5b)	500	5,500
Balance of purchase price bearing interest at an annual rate of 9%, secured by a first mortgage on a certain property, repayable in monthly instalments of $10,350 including principal and interest commencing in July 1984 and due in June 1989 (note 5c)	1,174	1,194
Term loan from the Minister of Regional Industrial Expansion, non-interest bearing, repayable in three yearly equal instalments beginning February 1989	601	515
	5,275	11,709
Less: Current portion	1,722	1,519
	$ 3,553	$ 10,190

The aggregate amount of payments required in each of the next five years to meet retirement provisions is as follows:

Year ending	
December 31, 1989	$1,722,000
December 31, 1990	1,724,000
December 31, 1991	226,000
December 31, 1992	28,000
December 31, 1993	30,000

b) According to agreements with a chartered bank, the company has available credit facilities up to $23,500,000, including the $3,000,000 term bank loan which is repayable in annual instalments of $1,500,000.

The term bank loan and the revolving bank loan bear interest at an annual rate of prime plus 1/4% and 1/8%. These bank loans may, at the company's request, bear interest at rates varying with the bankers acceptances rates or the U.S. or LIBOR rates. As at December 31, 1988, bankers acceptances amounted to $3,500,000.

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 second rank.

c) At the maturity date, the company expects to refinance the balance of purchase price on a long-term basis with the same amortization period.

6. Share Capital

a) As at December 31, 1988 the authorized share capital 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, 1988 consists of the following:

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 the thick film hybrid circuit facility. 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 acquired during the year.

(thousands of dollars)	1988	1987
12,072,700 Common shares	$ 17,100	$ 17,100
1,200,000 Second Preferred shares, Series A (note 6c)	—	—
78,000 Second Preferred shares, Series B (note 6c)	—	—
	$ 17,100	$ 17,100

7. Income Taxes

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

(thousands of dollars)	1988	1987
Current	$ 1,873	$ 91
Deferred	539	1,450
	$ 2,412	$ 1,541

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

	1988 %	1987 %
Combined basic federal and provincial income tax rate	44.50	48.50
Increase (decrease) in income tax rate resulting from:		
Active business income reduction	(7.50)	(7.50)
Manufacturing and processing reduction	(4.50)	(6.50)
Surtax	1.22	1.27
Other	2.28	1.61
	36.00	37.38

8. Major Clients

Approximately 39% (1987 - 44%) of the company's sales were to an unrelated multinational corporation which has several divisions responsible for their own purchasing decisions.

9. Commitments

Capital expenditures committed at December 31, 1988 amount to approximately $2,790,000.

10. Geographic and Activity Segments

Sales to foreign countries amounted to approximately 39% in 1988 (1987 - 29%) of the company's total sales.

The company is concentrated in the designing and manufacturing of printed circuits and microelectronic products.

10 Year Financial Summary

(unaudited)

For the year	1988	1987	1986
Operations			
(thousands of dollars)			
Sales	91,374	70,127	55,335
Cost of Sales	69,036	52,492	39,435
Operating Margin	22,338	17,635	15,900
Depreciation	6,376	5,104	3,533
Interest (Income) Expense-net	1,082	1,006	(122)
Pre-tax Earnings	6,701	4,123	5,937
Income Taxes	2,412	1,541	2,186
Net Earnings	4,289	2,582	3,751
Balance Sheet			
(thousands of dollars)			
Total Assets	71,882	72,941	65,515
Current Assets	28,569	28,876	25,549
Current Liabilities	14,805	14,055	13,427
Working Capital	13,764	14,821	12,122
Shareholders' Equity	45,368	41,079	38,497
Long-Term Debt	3,553	10,190	7,424
Cash Flow			
(thousands of dollars)			
Cash Flow from Operations	11,404	9,142	9,398
Capital Expenditures	6,190	9,656	12,648
Key Financial Ratios			
Current Ratio	1.9	2.1	1.9
Net Earnings as a Percentage of Sales	4.7	3.7	6.8
Return on Average Shareholders' Equity	9.9	6.5	10.2
Sales/Fixed Assets	2.11	1.59	1.39
Sales/Total Assets	1.27	0.96	0.84
Per Share Data* (in dollars)			
Net Earnings	0.36	0.21	0.31
Shareholders' Equity	3.76	3.40	3.19
Other Information			
Number of Employees at Year-End			
Printed Circuit Group	877	722	550
Microelectronics Group	166	181	190
Total	1,043	903	740
Total Square Footage of Plant Facility			
Printed Circuit Group	230,000	225,000	185,000
Microelectronics Group	85,000	75,000	40,000
Available Future Expansion	25,000	30,000	105,000
Total	340,000	330,000	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.

1985	1984	1983	1982	1981	1980	1979
45,317	37,335	19,593	11,893	12,195	7,196	6,010
28,530	22,003	12,415	8,334	7,282	4,688	3,848
16,787	15,332	7,178	3,559	4,913	2,508	2,162
2,407	1,529	1,151	610	176	149	114
(563)	532	776	586	40	63	18
8,511	9,335	3,113	897	3,689	1,646	1,512
3,179	2,700	543	389	1,206	645	475
5,332	6,635	2,570	508	2,483	1,001	1,037
50,420	40,832	19,888	16,079	17,540	4,982	3,448
16,614	19,964	9,272	7,441	9,618	3,260	2,152
6,464	7,763	4,409	3,561	5,222	1,394	1,079
10,150	12,201	4,863	3,880	4,396	1,866	1,073
34,746	29,414	7,046	4,476	4,594	2,363	1,462
5,212	1,229	6,607	6,265	6,395	794	560
9,399	8,797	3,857	1,580	3,559	1,238	1,402
16,095	12,691	3,832	2,579	6,387	609	852
2.6	2.6	2.1	2.1	1.8	2.2	1.9
11.8	17.8	13.1	4.3	20.4	13.9	17.3
16.6	36.4	44.6	11.2	71.4	52.3	101.2
1.34	1.82	1.85	1.38	1.54	4.18	4.64
0.90	0.92	0.98	0.74	0.70	1.44	1.74
0.44	0.64	0.26	0.05	0.25	0.10	0.10
2.88	2.44	0.70	0.45	0.46	0.23	0.15
460	465	317	156	167	112	135
70	15	–	–	–	–	–
530	480	317	156	167	112	135
175,000	110,000	100,000	100,000	35,000	35,000	30,000
40,000	–	–	–	–	–	–
115,000	142,000	–	–	65,000	–	–
330,000	252,000	100,000	100,000	100,000	35,000	30,000

Board of Directors

Hans-Karl Muhlegg
President and Chief Executive Officer

Marcel Charlebois
Vice President, Operations and
General Manager

Renato Cervini
Vice President, Quality Assurance
Printed Circuit Group

Norman Thorne Currie, F.C.A.*
Chairman, Corporate Foods Limited,
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,
Clarkson, Tétrault
(Barristers and Solicitors)

Jean-Guy Fontaine, C.G.A.*
Vice President, Finance
and Administration,
Cerico Investments Inc.
and Secretary of the Company

*Member of the Audit Committee

Officers

Hans-Karl Muhlegg
President and
Chief Executive Officer.

Marcel Charlebois
Vice President, Operations and
General Manager.
With the Company since 1988.
Mr. Charlebois has over 20 years of senior managerial and operational experience with multinational electronic manufacturers.

Renato Cervini
Vice President, Quality Assurance
Printed Circuit Group.

Jean-Guy Fontaine, C.G.A.
Corporate Secretary.
With the Company since 1980.
Mr. Fontaine held the position of Vice President, Finance up until January 1989.

Norman Turnbull, C.A.
Vice President, Finance and Administration and Chief Financial Officer. Joined the Company in January 1989. Mr. Turnbull has over 18 years of senior level financial and administrative experience.

Corporate Information

General Administration and Head Office
17600 Trans Canada Highway
Kirkland, Québec H9J 3A3
Tel. (514) 694-8000
Fax. (514) 694-8604

Sales Office-Printed Circuit Group
17600 Trans Canada Highway
Kirkland, Québec H9J 3A3
Tel. (514) 694-8000

Sales Office-Microelectronics Group
205 Brunswick Blvd.
Pointe-Claire, Québec H9R 1A5
Tel. (514) 694-8400
Telex. 05-823642
Fax. (514) 694-2696

Manufacturing Facilities
17600 Trans Canada Highway
Kirkland, Québec H9J 3A3
Tel. (514) 694-8000

379 Brignon Street
Granby, Québec J2G 8N5
Tel. (514) 378-0193

205 Brunswick Blvd.
Pointe-Claire, Québec H9R 1A5
Tel. (514) 694-8400

Bank
The Royal Bank of Canada
Montréal, Québec

Legal Advisors
Clarkson, 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
Circo Craft shares are traded on the Montréal Exchange and Toronto Stock Exchange 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:
The office of the Secretary
Circo Craft Co. Inc.
17600 Trans Canada Highway
Kirkland, Québec H9J 3A3

Si vous désirez vous procurer la version française du présent rapport, veuillez vous adresser comme suit:

Le Bureau du Secrétaire
Compagnie Circo Craft Inc.
17 600, route Trans Canada
Kirkland (Québec) H9J 3A3

Design: Gottschalk+Ash International Photography: Grégoire

Circo Craft Co. Inc.
17600 Trans Canada Highway
Kirkland, Québec
Canada H9J 3A3

Printed in Canada