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1987

Annual

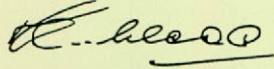
Report

# Circo Craft



### **Commitment to Excellence**

Circo Craft's dedication to quality and to engineering excellence is an ongoing commitment. Continuous process development programs and reliability testing ensure the best engineering solutions. Value analysis is applied to processes and designs to ensure that cost effective products are manufactured for our customers. The Quality Program is designed to meet and often exceed the many and varied external standards and specifications in use in the industry today. Shipped quality levels are such that certain of our clients dispense with incoming inspection and accept Circo Craft products directly into stock or assembly. It is our commitment to excellence that characterizes Circo Craft's promising prospects for the future.



Hans-Karl Muhlegg  
President and Chief Executive Officer

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## Corporate Profile and Strategy

Circo Craft Co. Inc. is a dynamic company in a growth industry that designs and manufactures sophisticated microelectronic products and printed circuits. These products are the vital elements of telecommunication, computer and other electronic systems. Today, Circo Craft is one of North America's largest independent manufacturers of these products.

This leading position has been achieved in a relatively short period with growth accelerating over the latest four years. With the investment of over \$60 million in the last six years in three modern facilities equipped with state-of-the-art manufacturing systems, Circo Craft has built a new expanded production base for continued growth.

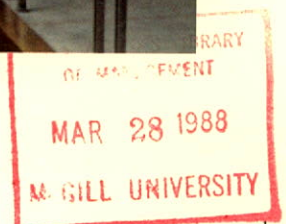
The corporate strategy has several key features:

- Circo Craft is pursuing international growth.
- Circo Craft works very closely with large multinational manufacturers of electronic systems to meet or surpass their most stringent specifications and quality standards, as well as provide "just-in-time" delivery.
- Circo Craft is emphasizing design and manufacture of increasingly complex value-added products.

Circo Craft's success in meeting its objectives is demonstrated by continuously profitable operations since it was founded in 1973.

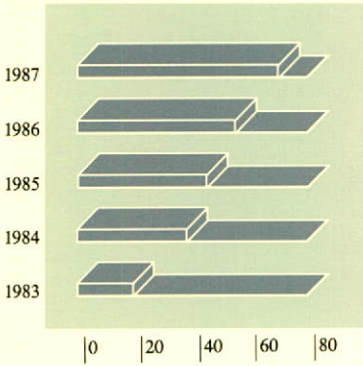
Circo Craft common shares are listed on the Montreal and Toronto Stock Exchanges. The trading symbol is CCC.

Hans-Karl Muhlegg  
President and  
Chief Executive Officer

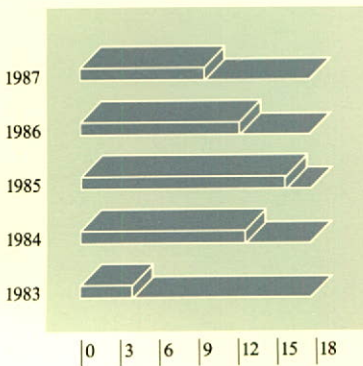


**1987 In Brief**

**Sales**  
(millions of dollars)

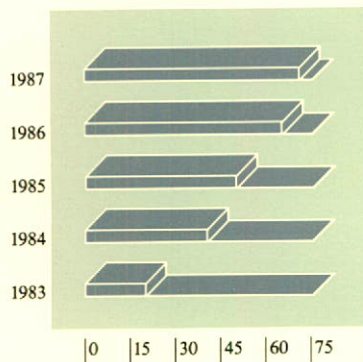


**Capital Expenditures**  
(millions of dollars)



- Circo Craft maintained its record of an unbroken string of annual profits for a 14th consecutive year in a climate of difficult market conditions. Net earnings amounted to \$2,582,000 or 21 cents per common share, compared with \$3,751,000 or 31 cents per share for the previous year.
- A high growth rate continued with sales again establishing a new record level, at \$70.1 million, up 27 percent.
- An important trend is the increasing demand for more complex multilayer printed circuit boards. Circo Craft has introduced an advanced generation of printed circuit board technology to manufacture large volumes of more complex multilayer products in answer to the more sophisticated electronic systems required today. The advanced multilayer product line represented approximately 54 percent of total printed circuit output value for 1987. By the end of 1988, multilayer products are expected to account for 75 percent of total printed circuit output, compared with 38 percent of printed circuit sales in 1986.
- Entry into the United States, initiated in 1985, is proving successful with U.S. sales representing 29 percent of total revenues, compared to 13 percent for the previous year.
- Although the major five-year \$50 million expansion was completed in 1986, capital expenditures in 1987 were \$9.7 million, of which 29 percent was invested in the Surface Mount Technology project.
- The outlook for the electronics industry brightened late in 1987. With improving market conditions reflecting a modest recovery in selling prices, Circo Craft is in an excellent position to benefit from its enlarged capacity to manufacture more complex value-added products.
- The strong financial position was maintained. Capital expenditures were financed primarily from internally-generated resources.
- The use of on-board computers and complex electronic control systems in medium to luxury-class model automobiles is increasing dramatically. The Printed Circuit Group has made a potentially-important sales breakthrough into the automotive market.

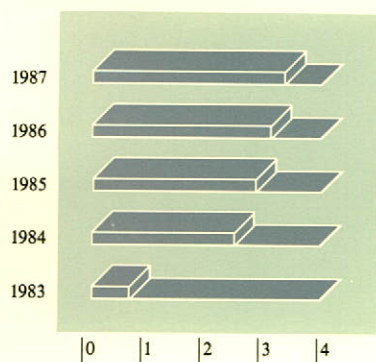
**Total Assets**  
(millions of dollars)



## Financial Highlights

	1987	% change	1986	1985
<b>Operations</b> (millions of dollars)				
Sales	\$ 70.1	26.8	\$ 55.3	\$ 45.3
Operating margin	18.0	13.2	15.9	16.8
Depreciation	5.1	45.7	3.5	2.4
Pre-tax earnings	4.1	(30.5)	5.9	8.5
Net earnings	2.6	(31.6)	3.8	5.3
<b>Financial Position</b> (millions of dollars)				
Working capital	\$ 14.8	22.3	\$ 12.1	\$ 10.2
Shareholders' equity	41.1	6.8	38.5	34.7
Total assets	72.9	11.3	65.5	50.4
<b>Per share</b> (in dollars)				
Net earnings	\$ 0.21	(32.3)	\$ 0.31	\$ 0.44
Closing shareholders' equity	3.40	6.6	3.19	2.88
<b>Key Ratios</b>				
Sales/Fixed Assets	1.59	14.4	1.39	1.34
Sales/Total Assets	0.96	14.3	0.84	0.90
Current ratio	2.1	10.5	1.9	2.6
<b>Other Statistics</b> (millions of dollars)				
Capital expenditures	\$ 9.7	(23.0)	\$ 12.6	\$ 16.1
Cash flow from operations	9.1	(3.2)	9.4	9.4
<b>Trading Statistics</b> (in dollars)				
High	\$ 9.50	—	\$ 11.75	\$ 9.88
Low	2.75	—	7.00	6.50
Close	3.40	—	7.00	8.50
Shares traded (in thousands)	2,308	—	3,128	2,002
Outstanding at year end (in millions)	12.0	—	12.0	12.0

**Book Value per Share**  
(dollars)



## Directors' Report to Shareholders

Circo Craft successfully achieved strong sales throughout the year, particularly in the last quarter with an increasing trend towards higher margin multilayer boards, against the background of a very competitive market environment.

More than \$60 million has been invested in new plant and advanced equipment over the past six years. As a result, Circo Craft has the capacity to assume new additional business as well as the capabilities to successfully undertake the more complex technologies required by customers in Canada and abroad.

### In 1987

- Sales increased 27 percent to reach a record level of \$70.1 million. The Company has averaged 23.4 percent compounded growth rate since 1984.
- Net earnings of \$2.6 million were equal to 21 cents per common share, compared with \$3.8 million or 31 cents per share in 1986. Although earnings were down from the prior year, both our operating margin and net earnings showed significant improvements in the fourth fiscal quarter. Earnings per share for the fourth quarter of 1987 were 29 percent higher than the fourth quarter of 1986 as a result of improved margins.
- Circo Craft's high-technology market niche focus continued, emphasizing the sale of value-added services, sophisticated multilayer boards, hybrid microcircuits and surface mount component assemblies. These products, usually associated with improved margins and higher selling prices, allow for better protection against market fluctuations.
- Circo Craft continued to gain new major clients, increasing its base which consists of some of the strongest and most advanced multinational manufacturers of electronic products. Close relationships were developed with these clients as a result of our high product quality, advanced technology and ability to provide such services as "just-in-time" delivery.
- The strong financial position was maintained. Working capital at year-end was \$14.8 million, sufficient to support future growth.

### Advanced Technology Demand Surges

Two trends are of special interest – strong growth in more sophisticated products and an increase in international business.

The first important trend is a change in printed circuit board technology to more complex products. In 1986, double-sided boards accounted for about 62 percent of printed circuit board production, multilayer printed circuits the remaining 38 percent. In mid-1987, this pattern reversed and for the full year multilayer boards represented 54 percent of output. Multilayer boards are expected to make up 75 percent of our total printed circuit sales in 1988.

Surface mount assembly is another illustration of growth in higher value-added products and services. The assembly of electronic components on printed circuit boards was introduced in 1986.

The second significant development is Circo Craft's increasing international sales. From our initial entry only two years ago, the U.S. market now accounts for 29 percent of total sales. The network of representatives was expanded in the United States to further its penetration in conjunction with increased marketing and sales efforts focused on the European market. A potentially-important sales breakthrough was made in the U.S. automotive industry. In 1987 Circo Craft obtained its initial major contract and is providing high-density multilayer products for computer-controlled systems in new model luxury cars. The use of electronic and computer systems in automobiles, while only in the embryonic stage of development, promises to become a fast-growing and large volume market.

Circo Craft is firmly established as a One-Stop supplier, offering the fullest possible range of products and services, including – total capability in printed circuit boards, hybrid microelectronics and surface mount assembly, supported by complete design facilities and continuously improving quality control systems to assure reliable product performance.

As a result, Circo Craft is in an excellent position to benefit from the indications of accelerating growth in the industries which require its products and services.

#### **Opportunities Ahead**

Circo Craft has pursued a policy of reinvesting earnings in building a sound base to support long-term international growth objectives. Since 1984, total assets have increased by 79 percent. Shareholders' equity at \$3.40 per share increased 39 percent over the \$2.44 per share recorded at the end of 1984.

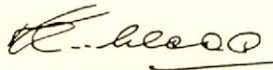
Circo Craft has consistently outperformed the annual rate of growth forecasted for our industry which serves telecommunication, computer and electronic system manufacturers. With many positive developments, such as the use of computers in vehicles and other technological innovations, the outlook is very positive for continued growth.

As a Canadian-based company looking to international markets, the new Canada-U.S. Free Trade Agreement is another positive long-term development. The eventual elimination of tariff barriers will allow Circo Craft to be even more competitive in the U.S. market.

More immediately, Circo Craft is working to maintain healthy growth in sales, optimize existing production capacities and establish the ultimate quality goal of "Zero Defects" in all products shipped to customers. These objectives are being achieved through continued improvement of manufacturing efficiencies and closer integration with the technology of our clients.

To a major degree, Circo Craft's prospects rest with our team of dedicated employees who take pride in their accomplishments. Commitment to quality and excellence will continue to strengthen and build Circo Craft as a successful international technology organization. We are grateful for our employees' efforts and for the continued support of shareholders, customers and suppliers.

On behalf of the Board of Directors,



Hans-Karl Muhlegg  
President and Chief Executive Officer

February 16, 1988

## Review of Operations

Successful continuing implementation of cost-effective quality improvement is reflected by additional certifications as “Certified” and/or “Qualified” supplier to the multinational companies served by Circo Craft.

In 1987, Northern Telecom Inc. and Digital Equipment Corporation were among the companies that awarded Circo Craft such important status. The continuing efforts to build long-term relationships are reflected in increased communication and integration with customer requirements.

Circo Craft strives for “Zero Defect” quality in all its products delivered in accordance with “Just-in-Time” principles. Through continuing substantial capital investment in the most advanced automated equipment and manufacturing systems, Circo Craft is providing its customers with a full-range of products, in-house design, engineering and high-volume manufacturing capabilities.

### Printed Circuit Group

The Printed Circuit Group had record production with sales of \$61.7 million, an increase of 20 percent. This group accounted for 88 percent of Circo Craft’s total sales.

Printed Circuit Group products and services include – complete design and engineering capabilities for printed circuit boards, multilayer boards, high-density double-sided boards of 0.15 millimetre tracks and spacing in mass production, controlled impedance boards, surface resistor technology, fine-line circuitry, and our latest addition, in-house glass master facilities.

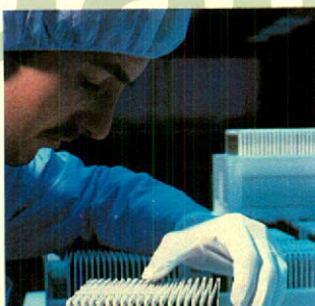
In 1987, major developments were focused in the areas of increasingly sophisticated multilayer products and closer coordination with customer operations. Changing technology and customer requirements resulted in increased production of multilayer boards employing more fine-line processing for surface mount assembly. Conventional double-sided boards are rapidly being supplanted by complex multilayer printed circuits. These circuits are becoming more complex with higher layer counts of increased density and stringent tolerances for line width, height and spacing requirements for controlled impedance boards.

At all three manufacturing facilities, the most advanced manufacturing systems and methods were put in place to maintain technological superiority with enhanced quality control techniques and increased production efficiency. These investments are part of our continuing technological improvement to meet and surpass the challenge of

“Zero Defects”

is the

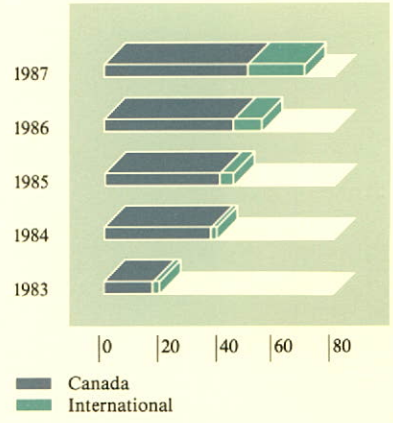
ultimate goal



# Quality



Sales by Market  
(millions of dollars)



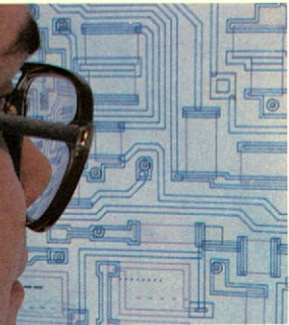
providing outstanding advanced state-of-the-art circuitry systems to serve the ever more powerful electronic systems being introduced.

Manufacturing Resource Planning (MRP II), an integrated computerized business control system, is being implemented throughout our organization. This is a large undertaking that requires eighteen months to fully prepare all departments and employees. The MRP II system, will support key departments such as Marketing and Sales, Material Planning, Inventory Control, Procurement, Master Scheduling, Production Control, Cost Accounting, as well as Statistical Process and Quality controls, and allow Circo Craft to optimize its resources and produce in the most efficient, cost-effective manner.

A complete in-house glass master department has been established to meet new customer requirements for advanced fine-line technology products. This newly-added capability provides a valuable competitive advantage over most manufacturers of printed circuit boards. The facility also advances Circo Craft's printed circuit board micron spacing technology and dramatically improves response time to its customers, from design to a completed glass master, to only a few days as compared to the usual six to eight weeks previously required.

An additional Automatic Optical Inspection system was installed as part of the Quality Control enhancement program. A second automated in-line production system for inner-layer fine-line products increased capacity to produce more technically advanced products and assist in maintaining high-yield rates and cost effectiveness for commercial volumes.

Refinements in production processes were also emphasized in research and development programs to assure greater process control for large volume production of the latest technology multilayer boards.



# Commitment



To quality

and engineering

excellence

nt



# Leadership

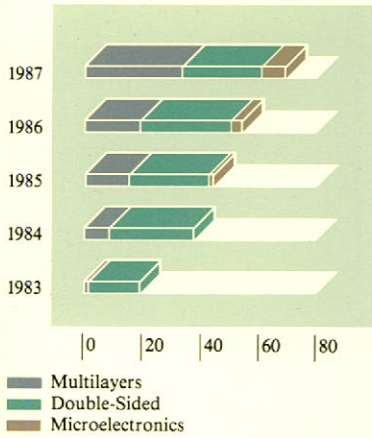


Technology equals

or exceeds customer

requirements

**Sales by Product**  
(millions of dollars)



### Microelectronics Group

Sales for the Microelectronics Group amounted to \$8.4 million in 1987, compared to \$3.8 million in 1986, a 121 percent increase. Thick-film hybrids accounted for \$6.8 million, almost double 1986 levels. Sales of surface mount assemblies totaled \$1.6 million. These are relatively new businesses for Circo Craft. Thick-film hybrids were introduced in 1985, the surface mount assembly operations in 1986.

Microelectronic products and services include – surface mount hybrids, chip carrier assemblies, thick-film multilayer substrates, chip and wire hybrid microcircuits, back panel assemblies and surface mount assemblies.

Rising sales volumes reflect increasing acceptance of Circo Craft’s ability to provide high quality, reliable products. As a result of the new facilities and sophisticated equipment installed during the expansion, Circo Craft is one of only a few select companies in North America capable of large volume production of customized products for special applications using multilayer hybrid technology.

Phase I in the continuing development of surface mount assembly was completed in the third quarter of 1987. Phase II of the three-year plan, including the construction of a new separate assembly plant, will be implemented when customer demand for such products and services exceeds our current assembly capacity. A decision on the implementation of Phase II is not anticipated prior to the first quarter of 1989.

Resulting from an aggressive drive for new business and a broadening of our marketing organization in the U.S., the Microelectronics Group has obtained international contracts to supply hybrid microcircuits to the medical services and telecommunication industries in the United States.

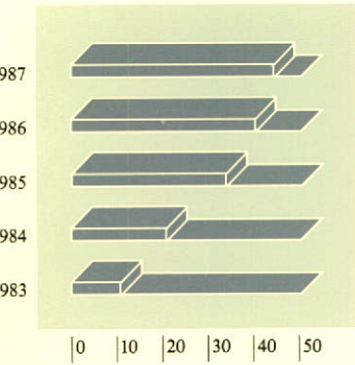
Our hybrid technology continues to advance with the range of materials available extended to include polyimide substrate and copper-on-ceramic substrates.

### Quality Achievements

At Circo Craft, “Zero Defects” and “Just-in-Time” define our standards of quality of products and services.



**Fixed Assets – Net**  
(millions of dollars)



“Zero Defects” means all products meet or surpass customer quality standards. “Just-in-Time” defines “on-time” delivery of all products shipped to customers. “Just-in-Time” also reflects the ultimate quality of service provided by Circo Craft personnel through the closest possible integration into a customer’s production process.

Circo Craft has an integrated quality assurance and control system for all its products which meet military requirements as defined by NATO documents AQAP-1 and AQAP-4 and complies with MIL-Q-9858, MIL-I-45208 and MIL-P-55110-D specifications. A reliability laboratory provides MIL-STD-883 test capability and failure analysis functions. The most advanced automated optical inspection systems are used to control quality of the circuitry’s innerlayers.

Outstanding quality results are achieved from the unrelenting efforts of a skilled and knowledgeable team utilizing the latest available technologies. Circo Craft has provided these advanced technologies through the completion of its major five-year capital investment and expansion program.

Skills are developed through a process of continuing education to ensure Circo Craft personnel understands how to achieve, measure and maintain quality objectives. The many training programs underway demonstrate Circo Craft’s commitment to quality in all its activities.

Circo Craft’s Statistical Process Control System (SPC), established in prior years, is now effectively supporting all key manufacturing processes. The SPC system is enhanced through a continuing formal educational program related to maintaining high quality which requires classroom attendance.

Other training programs include – management skills and techniques, production planning and control, financial management in manufacturing resource planning, customer service programs aimed at enhancing the overall level of service, advanced computer programs, practical implementation of statistical process control, and many others. Circo Craft introduces new employees to the manufacturing processes through formal training programs, often in conjunction with those of its customers. Circo Craft’s commitment to ongoing employee training goes beyond the industry standard.

Through such concerted efforts, Circo Craft has achieved and is continuing to build its reputation for providing outstanding quality in all its products and services.

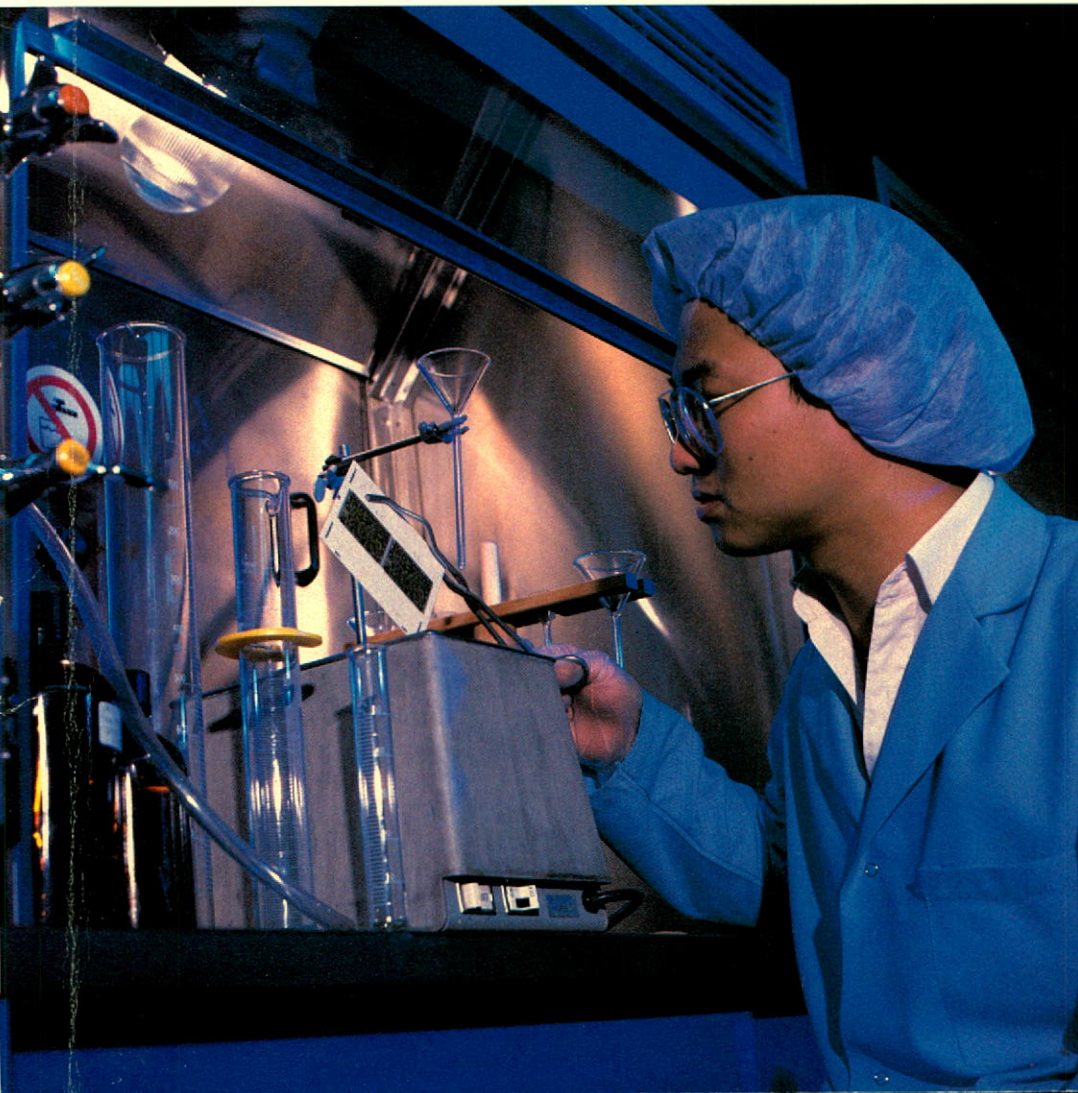
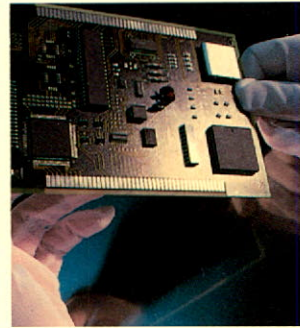
# erformance

High Quality



Broad Capability

Responsive Service



**Financial Review**

**Results of Operations**

Sales in 1987 increased by \$14.8 million or 26.8 percent, to reach a new record level of \$70.1 million, notwithstanding a very competitive environment. The growth in sales is attributable to increased shipments to our expanding U.S. customer base and a notable increase in sales by our Microelectronics Group.

Operating margin decreased from 28.7 percent to 25.7 percent in 1987, due primarily to lower than expected results in the second and third quarters. Lower margins, due to intense price competition, continued to affect certain large-volume contracts. Additional manufacturing costs experienced with the introduction of new production technologies in our Printed Circuit Group also affected results for the second and third quarters. However, new customer sales contracts and a return to higher operating levels by our Printed Circuit Group resulted in improved financial results in the last quarter of 1987. This reflects the successful shift to a greater value-added product mix in Circo Craft's continuous endeavour to stay at the leading edge of printed circuit board technology.

Depreciation expense increased by \$1.6 million, due to the expansion of production facilities. Most of this increase reflects depreciation of hybrid microelectronic equipment for a full year of operation.

Interest on long-term debt increased from \$613,000 to \$819,000 in 1987 as a result of increased long-term debt, borrowed to partially finance capital expenditures totalling \$9.7 million, of which \$2.8 million was invested in Phase I of the Surface Mount Assembly project.

Net earnings per share were 21 cents, compared to 31 cents per common share in 1986. Earnings were affected by the net loss contribution of 21 cents per share incurred by our Microelectronics Group. It equalled the 21 cents per share loss incurred in 1986. The former loss, however, reflects \$1.2 million in depreciation expense for a full year of operation, compared to \$465,000 of depreciation expense incurred in 1986.

Capital expenditures, net of proceeds on the disposal of fixed assets, amounted to \$9.7 million in 1987 and were financed as follows:

• Use of funds generated by operations	\$ 5.3 million
• Increase in long-term debt	4.0 million
• Government capital grants received in 1987 for the funding of fixed assets acquired in prior years.	<u>0.4 million</u>
	<u>\$ 9.7 million</u>

**Capitalization**

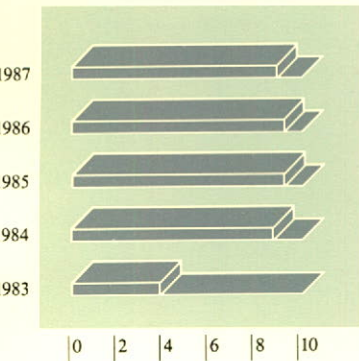
Circo Craft remains in a strong financial position with long-term debt accounting for only 19.4 percent of total capitalization. Shareholders' equity increased during the year by 6.8 percent to \$41.1 million, equal to 56.3 percent of total assets as at December 31, 1987.

**Cash Flow from Operations**

Cash flow from operations, net of cash used in working capital, generated \$2.9 million in 1987, compared to \$7.5 million in 1986.

Working capital increased by \$2.7 million to \$14.8 million, compared to \$12.1 million as at year end 1986, and is deemed sufficient to fund anticipated working capital requirements. With its current strong cash position, unused borrowing capacity and funds generated from operations, Circo Craft has capital resources adequate to fund its planned growth.

**Cash Flow from Operations**  
(millions of dollars)

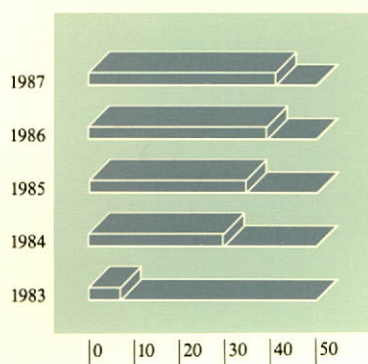




Capitalization (at December 31)	1987		1986		1985	
	million	%	million	%	million	%
Long-term debt, including current portion	\$ 11.7	19.4	\$ 7.4	14.2	\$ 5.2	11.8
Deferred income taxes	7.6	12.6	6.2	11.9	4.0	9.1
Common shareholders' equity	41.1	68.0	38.5	73.9	34.7	79.1
	<u>\$ 60.4</u>	<u>100.0</u>	<u>\$ 52.1</u>	<u>100.0</u>	<u>\$ 43.9</u>	<u>100.0</u>

Quarterly Financial Data (unaudited)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
	(in thousands of dollars)				
<b>1987</b>					
Sales	\$ 16,583	\$ 15,698	\$ 17,147	\$ 20,699	\$ 70,127
Operating Margin	4,850	3,486	3,956	5,681	17,973
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
<b>1986</b>					
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
<b>1985</b>					
Sales	\$ 11,363	\$ 11,250	\$ 10,623	\$ 12,081	\$ 45,317
Operating Margin	3,743	4,301	4,014	4,729	16,787
Net Earnings	1,566	1,298	1,190	1,278	5,332
Net Earnings per common share (in dollars)	0.13	0.11	0.10	0.10	0.44

**Shareholders' Equity**  
(millions of dollars)



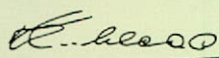
**Statement of Earnings**  
for the year ended December 31, 1987

(thousands of dollars except per share amounts)	1987	1986
Sales	<b>\$ 70,127</b>	\$ 55,335
Cost of Sales	<u>52,154</u>	<u>39,435</u>
Operating Margin	<u>17,973</u>	<u>15,900</u>
Selling, General and Administrative Expenses	<u>7,424</u>	<u>6,011</u>
Other Expenses (Income)		
Depreciation	5,104	3,533
Research and development costs	316	541
Interest on long-term debt	819	613
Result on investment operations (note 2)	<u>187</u>	<u>(735)</u>
	<u>6,426</u>	<u>3,952</u>
Earnings before Income Taxes	4,123	5,937
Provision for Income Taxes (note 7)	<u>1,541</u>	<u>2,186</u>
Net Earnings for the Year	<b><u>\$ 2,582</u></b>	<b><u>\$ 3,751</u></b>
Earnings per Share	<b><u>\$ 0.21</u></b>	<b><u>\$ 0.31</u></b>

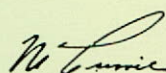
**Balance Sheet**  
as at December 31, 1987

(thousands of dollars)	1987	1986
<b>Assets</b>		
<b>Current Assets</b>		
Short-term investments	\$ 2,318	\$ 4,626
Accounts receivable	12,152	9,659
Income taxes	1,318	1,217
Inventories (note 3)	12,552	9,778
Prepaid expenses	536	269
	<u>28,876</u>	<u>25,549</u>
Fixed Assets (notes 2 and 4)	44,065	39,966
	<u>\$ 72,941</u>	<u>\$ 65,515</u>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Bank indebtedness	\$ 3,014	\$ 3,244
Accounts payable and accrued liabilities	9,522	10,165
Current portion of long-term debt	1,519	18
	<u>14,055</u>	<u>13,427</u>
Long-Term Debt (note 5)	10,190	7,424
Deferred Income Taxes	7,617	6,167
	<u>31,862</u>	<u>27,018</u>
<b>Shareholders' Equity</b>		
Share Capital (note 6)	17,100	17,100
Retained Earnings	23,979	21,397
	<u>41,079</u>	<u>38,497</u>
	<u>\$ 72,941</u>	<u>\$ 65,515</u>

Signed on behalf of the Board



Hans-Karl Muhlegg  
Director



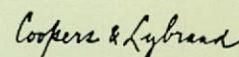
Norman Thorne Currie  
Director

**Auditors' Report  
to the Shareholders**

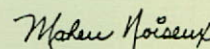
We have examined the balance sheet of Circo Craft Co. Inc. as at December 31, 1987 and the statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such 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, 1987 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  
Montréal, Québec  
February 5, 1988



Chartered Accountants  
Granby, Québec  
February 5, 1988

**Statement of Retained Earnings**  
for the year ended December 31, 1987

(thousands of dollars)	1987	1986
Balance - Beginning of Year	\$ 21,397	\$ 17,646
Net earnings for the year	<u>2,582</u>	<u>3,751</u>
Balance - End of Year	<u>\$ 23,979</u>	<u>\$ 21,397</u>

**Statement of Changes in Financial Position**  
for the year ended December 31, 1987

(thousands of dollars)	1987	1986
<b>Operating Activities</b>		
Net earnings for the year	\$ 2,582	\$ 3,751
Non-cash items -		
Depreciation	5,104	3,533
Deferred income taxes	1,450	2,169
Loss (gain) on disposal of fixed assets	<u>6</u>	<u>(55)</u>
	9,142	9,398
Cash used for working capital	<u>(6,278)</u>	<u>(1,906)</u>
	<u>2,864</u>	<u>7,492</u>
<b>Financing Activities</b>		
Increase in long-term debt	4,285	2,230
Decrease in long-term debt	<u>(18)</u>	<u>(16)</u>
	<u>4,267</u>	<u>2,214</u>
<b>Investing Activities</b>		
Acquisition of fixed assets	(9,656)	(12,648)
Proceeds from sale of fixed assets	60	245
Government capital grants for the funding of fixed assets acquired	<u>387</u>	<u>2,765</u>
	<u>(9,209)</u>	<u>(9,638)</u>
<b>Increase (Decrease) in Funds</b>	<u>(2,078)</u>	<u>68</u>
<b>Funds - Beginning of Year</b>	<u>1,382</u>	<u>1,314</u>
<b>Funds - End of Year</b>	<u>\$ (696)</u>	<u>\$ 1,382</u>
Funds are made up as follows:		
Short-term investments	2,318	4,626
Bank indebtedness	<u>(3,014)</u>	<u>(3,244)</u>
	<u>\$ (696)</u>	<u>\$ 1,382</u>

## 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 accumulated depreciation. Cost is reduced by applicable investment tax credits. 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%.

Government grants relating to the acquisition of fixed assets are credited to the cost of acquisition.

### 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 the following government grants:

- Minister of Regional Industrial Expansion

An amount of \$387,000 (1986 - \$1,565,000) relating to the acquisition of certain fixed assets has been credited to the cost of acquisition.

- Société de développement industriel du Québec

The result on investment operations includes an amount of \$190,000 (1986 - \$409,000) representing a rebate of interest paid on long-term debt and bank indebtedness in prior years. As at December 31, 1987 the unrealized interest rebate relating to future years amounted to \$380,000.

## 3. Inventories

(thousands of dollars)

	1987	1986
Raw materials	\$ 5,344	\$ 5,384
Work in process	5,455	2,968
Maintenance supplies	1,753	1,426
	<u>\$ 12,552</u>	<u>\$ 9,778</u>

## 4. Fixed Assets

(thousands of dollars)

	1987			1986
	Cost	Accumulated depreciation	Net	Net
Land and non-depreciable assets	\$ 821	\$ —	\$ 821	\$ 857
Buildings	21,825	1,672	20,153	19,339
Machinery and equipment	41,356	14,696	26,660	23,497
Vehicles	235	154	81	146
Deposits on machinery and equipment	344	—	344	357
	<u>\$ 64,581</u>	<u>\$ 16,522</u>	<u>48,059</u>	<u>44,196</u>
Less:				
Government grants - net of accumulated amortization of \$2,123,000 (1986 - \$1,500,000)			3,994	4,230
			<u>\$ 44,065</u>	<u>\$ 39,966</u>

## 5. Long-Term Debt

(thousands of dollars)

	1987	1986
a) Long-term debt is comprised of the following:		
Term bank loan bearing interest at an annual rate of prime plus 1/4% repayable in annual instalments of \$1,500,000 commencing in June 1988 (note 5c)	\$ 4,500	\$ 6,000
Revolving bank loan bearing interest at an annual rate of prime plus 1/8% (note 5c)	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	1,194	1,212
Term loan from the Minister of Regional Industrial Expansion, non-interest bearing, repayable in three yearly equal instalments beginning February 1989	515	230
	<u>11,709</u>	<u>7,442</u>
Less: Current portion	1,519	18
	<u>\$ 10,190</u>	<u>\$ 7,424</u>

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

Year ending	
December 31, 1988	\$1,519,000
December 31, 1989	2,846,000
December 31, 1990	1,672,000
December 31, 1991	172,000
December 31, 1992	nil

b) The term bank loan and the revolving bank loan are guaranteed by a demand debenture in the amount of \$6,800,000. Under the terms of a Trust Deed, specified assets have been pledged by a specific charge of a second rank as security for this debenture.

c) The term bank loan and the revolving bank loan can be converted in term loans bearing interest at the LIBOR rate plus 5/8 or 3/4% or in bankers acceptances bearing interest at the money market rate. As at December 31, 1987, bankers acceptances amounted to \$3,000,000.

## 6. Share Capital

a) As at December 31, 1987 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, 1987 consists of the following:

(thousands of dollars)	1987	1986
• 12,072,700 Common shares	\$ 17,100	\$ 17,100
• 1,200,000 Second Preferred shares, Series A (note 6c)	—	—
	<u>\$ 17,100</u>	<u>\$ 17,100</u>

c) The company issued Second Preferred shares, Series A in connection with the financial assistance amounting to \$1,200,000 received from the Government of Quebec by the company for costs incurred for the installation of the thick film hybrid circuit facility. Such shares were issued in 1986 and 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 this issue were deducted from the cost of certain fixed assets acquired during the year.

## 7. Income Taxes

(thousands of dollars)

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

	1987	1986
Current	\$ 91	\$ 17
Deferred	1,450	2,169
	<u>\$ 1,541</u>	<u>\$ 2,186</u>

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

	1987	1986
	%	%
Combined basic federal and provincial income tax rate	48.50	49.00
Increase (decrease) in income tax rate resulting from:		
Active business income reduction	(7.50)	(7.50)
Manufacturing and processing reduction	(6.50)	(6.00)
Surtax	1.27	1.75
Inventory allowance	—	(0.04)
Other	1.61	(0.39)
	<u>37.38</u>	<u>36.82</u>

## 8. Legal Proceedings

The company has been named defendant, in 1982, in a legal action claiming \$531,878 for unpaid amounts relating to the construction of its Kirkland plant. An amount of \$385,176 has been recorded as accounts payable. Furthermore, the company has initiated a legal action of its own claiming

\$533,000 for damages due to unrespected specifications in the contract. The amount recorded as accounts payable is deemed by management to be sufficient to cover the eventuality of an unfavourable judgement.

## 9. Major Clients

Approximately 44% (1986 - 57%) of the company's sales were to an unrelated multinational corporation which has

several divisions responsible for their own purchasing decisions.

## 10. Related Party Transactions

Raw materials and shop supplies and machinery and equipment purchased from the parent company at fair market value are as follows:

(thousands of dollars)	1987	1986
Raw materials and shop supplies	<u>\$ 818</u>	<u>\$ 1,406</u>
Machinery and equipment	<u>\$ 1,530</u>	<u>\$ 199</u>

The balance sheet as at December 31, 1987 includes accounts payable to the parent company of \$465,000 (1986 - \$843,000).

## 11. Commitments

Capital expenditures committed at December 31, 1987 amount to approximately \$1,565,000.

## 12. Geographic and Activity Segments

Sales to foreign countries amounted to approximately 29% in 1987 (1986 - 13%) of the company's total sales.

The company is concentrated in the designing and manufacturing of micro-electronic products and printed circuits.

Selected Data - 10 years (unaudited)

For the year	1987	1986	1985
<b>Operations</b>			
(thousands of dollars)			
Sales	70,127	55,335	45,317
Cost of Sales	52,154	39,435	28,530
Operating Margin	17,973	15,900	16,787
Depreciation	5,104	3,533	2,407
Interest (Income) Expense - net	1,006	(122)	(563)
Pre-tax Earnings	4,123	5,937	8,511
Income Taxes	1,541	2,186	3,179
Net Earnings	2,582	3,751	5,332
<b>Balance Sheet</b>			
(thousands of dollars)			
Total Assets	72,941	65,515	50,420
Current Assets	28,876	25,549	16,614
Current Liabilities	14,055	13,427	6,464
Working Capital	14,821	12,122	10,150
Shareholders' Equity	41,079	38,497	34,746
Long-Term Debt	10,190	7,424	5,212
<b>Cash Flow</b>			
(thousands of dollars)			
Cash Flow from Operations	9,142	9,398	9,399
Capital Expenditures	9,656	12,648	16,095
<b>Key Financial Ratios</b>			
Current Ratio	2.1	1.9	2.6
Net Earnings as a			
Percentage of Sales	3.7	6.8	11.8
Return on Average			
Shareholders' Equity	6.5	10.2	16.6
Sales/Fixed Assets	1.59	1.39	1.34
Sales/Total Assets	0.96	0.84	0.90
<b>Per Share Data*</b> (in dollars)			
Net Earnings	0.21	0.31	0.44
Shareholders' Equity	3.40	3.19	2.88
<b>Other Information</b>			
Number of Employees			
at Year-End			
Printed Circuit Group	722	550	460
Microelectronics Group	181	190	70
Total	903	740	530
Total Square Footage			
of Plant Facility			
Printed Circuit Group	225,000	185,000	175,000
Microelectronics Group	75,000	40,000	40,000
Available Future Expansion	30,000	105,000	115,000
Total	330,000	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.



1984	1983	1982	1981	1980	1979	1978
37,335	19,593	11,893	12,195	7,196	6,010	2,617
22,003	12,415	8,334	7,282	4,688	3,848	1,859
15,332	7,178	3,559	4,913	2,508	2,162	758
1,529	1,151	610	176	149	114	57
532	776	586	40	63	18	38
9,335	3,113	897	3,689	1,646	1,512	270
2,700	543	389	1,206	645	475	59
6,635	2,570	508	2,483	1,001	1,037	211
40,832	19,888	16,079	17,540	4,982	3,448	1,491
19,964	9,272	7,441	9,618	3,260	2,152	886
7,763	4,409	3,561	5,222	1,394	1,079	573
12,201	4,863	3,880	4,396	1,866	1,073	313
29,414	7,046	4,476	4,594	2,363	1,462	588
1,229	6,607	6,265	6,395	794	560	234
8,797	3,857	1,580	3,559	1,238	1,402	322
12,691	3,832	2,579	6,387	609	852	314
2.6	2.1	2.1	1.8	2.2	1.9	1.6
17.8	13.1	4.3	20.4	13.9	17.3	8.1
36.4	44.6	11.2	71.4	52.3	101.2	43.7
1.82	1.85	1.38	1.54	4.18	4.64	4.33
0.92	0.98	0.74	0.70	1.44	1.74	1.76
0.64	0.26	0.05	0.25	0.10	0.10	0.02
2.44	0.70	0.45	0.46	0.23	0.15	0.06
465	317	156	167	112	135	120
15	—	—	—	—	—	—
480	317	156	167	112	135	120
110,000	100,000	100,000	35,000	35,000	30,000	20,000
—	—	—	—	—	—	—
142,000	—	—	65,000	—	—	—
252,000	100,000	100,000	100,000	35,000	30,000	20,000

## **Board of Directors**

**Hans-Karl Muhlegg**  
President and  
Chief Executive Officer

**Renato Cervini**  
Vice President and  
Chief Operating Officer

**Norman Thorne Currie, F.C.A.\***  
President and  
Chief Executive Officer,  
Corporate Foods 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 Secretary

\*Member of the Audit Committee

## **Officers**

**Hans-Karl Muhlegg**  
President and  
Chief Executive Officer.  
A co-founder of the Company,  
24 years of experience in  
printed circuit manufacturing  
and sales.

**Renato Cervini**  
Vice President and  
Chief Operating Officer.  
A co-founder of the Company,  
20 years of experience in  
printed circuit manufacturing.

**Jean-Guy Fontaine, C.G.A.**  
Vice President, Finance  
and Secretary.  
With the Company since 1980.  
A senior auditor with a  
chartered accounting firm  
for nine years.

## Corporate Information

### General Administration and Head Office

17600 Trans Canada Highway  
Kirkland, Que. H9J 3A3  
514-694-8000  
Telex: 05-823523  
Fax: 514-694-8604

### Sales Office - Printed Circuit Group

17600 Trans Canada Highway  
Kirkland, Que. H9J 3A3  
514-694-8000

### Sales Office - Microelectronics Group

205 Brunswick Blvd.  
Pointe-Claire, Que. H9R 1A5  
514-694-8400  
Telex: 05-823642  
Fax: 514-694-2696

### Manufacturing Facilities

17600 Trans Canada Highway  
Kirkland, Que. H9J 3A3  
514-694-8000

379 Brignon Street  
Granby, Que. J2G 8N5  
514-378-0193

205 Brunswick Blvd.  
Pointe-Claire, Que. H9R 1A5  
514-694-8400

### Bank

The Royal Bank of Canada  
405 de Maisonneuve Blvd. West  
Montréal, Que. H3A 1L7

### Legal Advisors

Clarkson, Tétrault  
Le Windsor - 1170 Peel Street  
Montréal, Que. H3B 4T2

### Auditors

Coopers & Lybrand, C.A.  
Le Windsor - 1170 Peel Street  
Montréal, Que. H3B 4T2  
and  
Maheu Noiseux, C.A.  
74 Court Street  
Granby, Que. J2G 4Y5

### 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:  
The office of the Secretary  
Circo Craft Co. Inc.  
17600 Trans Canada Highway  
Kirkland, Que. 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.  
17600, route Trans-Canada  
Kirkland (Québec)  
H9J 3A3



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