

HAWKER **SIDDELEY**

Hawker Siddeley Canada Inc. 1993 Annual Report

Howard Ross
Manager
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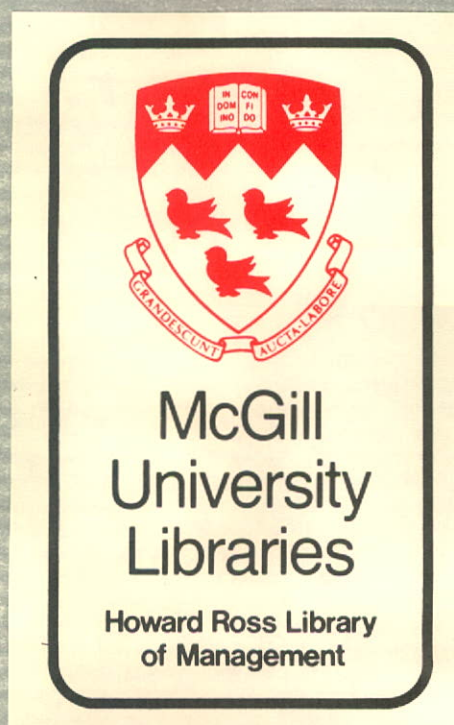
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Hawker Siddeley Canada Inc. is a diversified Canadian industrial company with six subsidiaries and three divisions in Canada, the United States and the United Kingdom.

The Company's preferred and common shares are listed on the Toronto, Montreal and Vancouver stock exchanges.

Hawker Siddeley Canada, through its subsidiaries and divisions,

- repairs and overhauls jet engines and manufactures components for jet engines and industrial gas turbines
- leases and repairs railcars
- produces high-integrity, heat-resisting steel castings for energy and other high-technology industries
- manufactures sawmill and softwood lumber processing equipment
- manufactures mining and tunnelling equipment for the coal and other soft-rock mining industries and for civil engineering tunnelling and
- supplies other products and services for mining, civil engineering and bulk materials handling.



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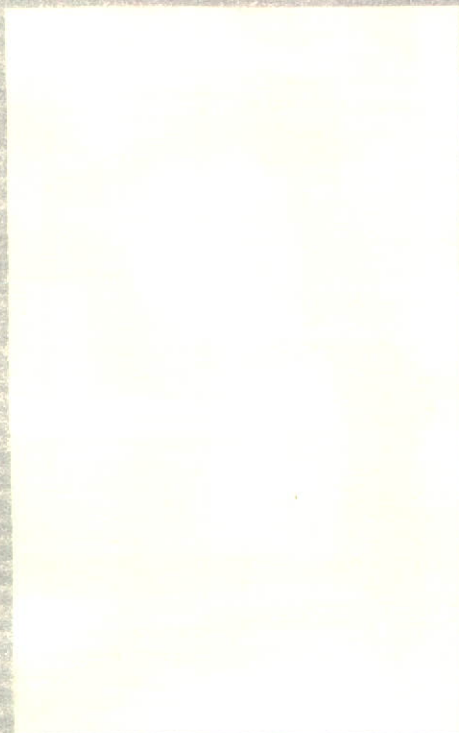
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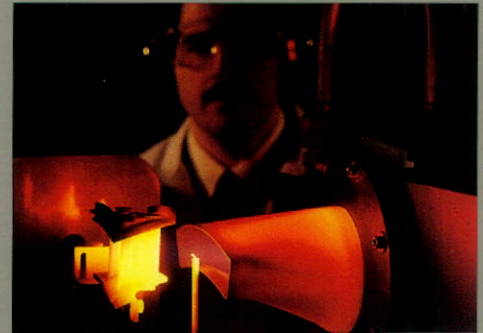


Hawker Siddeley 1993 Annual Report



*Foundry
operations*

Railcar leasing



*Jet engine components
and repair and overhaul*



*Sawmill
equipment*



*Mining and tunnelling
equipment and services*

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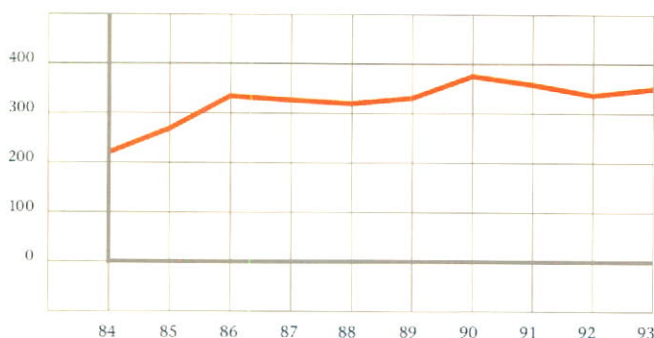
Operating highlights

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- Orenda and Middleton Aerospace are prioritizing cost reduction and looking for new opportunities in the currently reduced market for aerospace products.
- CGTX continues to grow profitably and add railcars to its leasing fleet.
- Canadian Steel Foundries is restructuring and investing in technology to concentrate on high-integrity castings for energy and other markets.
- CSMI is concentrating on restoring profitability after the disruption caused by the relocation of its Canadian manufacturing operations to the United States.
- Dosco Overseas and Hollybank are looking to increase sales to the civil tunnelling market as the coal industry in the United Kingdom declines.
- The operations of Canadian Steel Wheel and Windsor Aerospace are being discontinued as they no longer have the potential to contribute to profitability.

■ Sales

\$ millions



■ Earnings from continuing operations ■ Net earnings

\$ millions



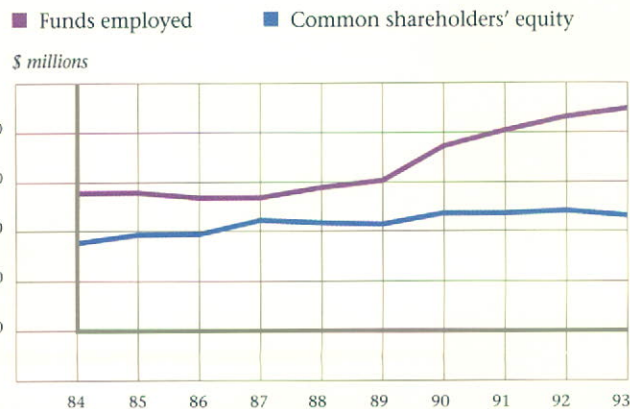
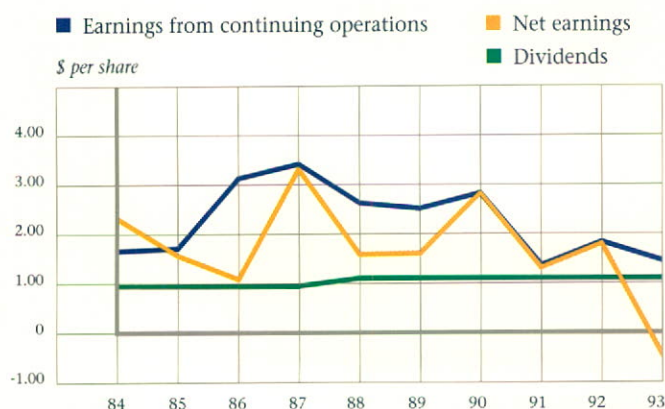
Financial results

of the years ended December 31, 1993 and 1992

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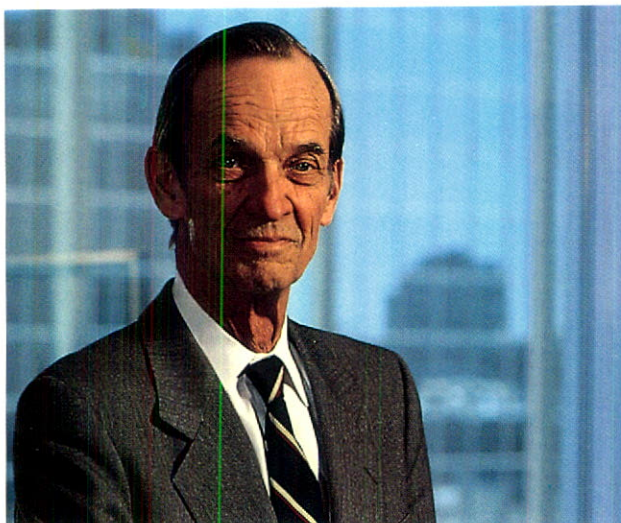
\$ millions except where indicated

	1993	1992	% change
Operating results			
Sales	\$ 351.7	\$ 338.9	+ 3.8%
Operating profit	40.4	43.7	- 7.6%
Percentage operating profit	11.5%	12.9%	
Earnings from continuing operations	12.3	15.6	- 21.2%
Loss from discontinued operations	(15.5)	(0.2)	
Net earnings/(loss)	(3.2)	15.4	
Financial position			
Common shareholders' equity	229.6	240.0	- 4.3%
Preferred shares	14.0	14.0	
Net borrowings	103.1	79.6	+ 29.5%
Deferred income taxes and minority shareholder's interest	98.6	96.3	+ 2.4%
Funds employed	\$ 445.3	\$ 429.9	+ 3.6%
Operating profit as a percentage of sales	11.5%	12.9%	
Operating profit as a percentage of average funds employed	8.4%	10.4%	
Average working capital as a percentage of sales	15.4%	17.9%	
Net borrowings as a percentage of funds employed	23.2%	18.5%	
Net earnings as a percentage of average common shareholders' equity	(1.7)%	6.2%	
Results and financial position per common share (\$ per share)			
Earnings/(loss) per share			
Continuing operations	\$ 1.40	\$ 1.81	- 22.7%
Discontinued operations	(1.89)	(0.03)	
	(0.49)	1.78	
Dividends per share	1.08	1.08	
Book value per share	28.00	29.27	- 4.3%



Report to the shareholders

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John F. Howard, Q.C., Chairman

1993 results

In 1993 your Company took action to position the business for the future. The year's activities included the assimilation of a 1992 acquisition, resizing of several business units in response to changing markets, closure of an under-performing division, and the decision to dispose of a non-core operation. Specifically, results in 1993 reflected provision for the costs of restructuring Canadian Steel Foundries Division (\$4.4 million) and of disposing of low-level radioactive machining waste which had been held at Orenda Division for many years (\$1.1 million), and the operating losses and provision for the discontinuance costs of Canadian Steel Wheel Division and Windsor Aerospace Division (\$15.5 million, net of tax relief).

After the special CSF and Orenda costs totalling \$5.5 million, operating profit was \$40.4 million on sales of \$351.7 million compared with \$43.7 million on sales of \$338.9 million in 1992, and earnings from continuing operations were \$12.3 million (\$1.40 per share) compared with \$15.6 million (\$1.81 per share) in 1992.

After the provision of the \$15.5 million (\$1.89 per share) for discontinued operations, the result for the year was a net loss of \$3.2 million (\$0.49 per share) compared with net earnings of \$15.4 million (\$1.78 per share) in 1992.

Markets and operations

The Company's operations performed broadly as anticipated in 1993, except for CSW and Windsor Aerospace, which both failed to achieve the progress expected of them. In November it was decided to discontinue or dispose of both of these divisions, neither of which appeared any longer to have the potential to contribute to future profitability.

The future of CSF was also closely evaluated. Although its results in 1993 were disappointing, it was decided that by narrowing its focus so as to concentrate on energy-related and other high-technology large steel castings, and by downsizing its operations and investing in equipment to improve the quality of the steel being produced, CSF should become more competitive and re-establish profitability.

Orenda and Middleton Aerospace Corporation, as expected, had a difficult year, with the declining trend in demand from both military and commercial customers and a particularly low demand for industrial turbine repair and overhaul. Both operations suffered some erosion in profits.

CGTX Inc. continued to perform strongly with increased sales and profits, this operation by its nature being less affected than the Company's other operations by short-term fluctuations in demand.

Consolidated Sawmill Machinery International Inc., which encompasses the businesses of the Company's former Kockums CanCar sawmill equipment manufacturing operations and of the Harvey operations acquired in December 1992, made an improved contribution to operating profit, before amortization of goodwill and intangible assets, compared with the previous year. CSMI's program of consolidating and relocating its operations was continued in 1993, including the relocation of its Canadian manufacturing operations from Surrey, British Columbia to Portland, Oregon and to Hot Springs, Arkansas. Recovery from the disruption of a major factory relocation and the new plant start-up in Portland has been much more difficult than anticipated. CSMI has sustained a loss in the first quarter of 1994 and significant work remains to be done in the current year to re-establish profitability.

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Management changes have been made at CSMI and priority is being given to satisfying customer expectations as needed to secure future orders while improving operations to eliminate inefficiencies and delivery delays.

The mining operations had improved results in 1993 notwithstanding the downsizing of British Coal operations. A major portion of the improvement was attributable to the contribution to Dosco Overseas Engineering Limited's profits from one-time sales and lease transactions with British Coal, and improved results from The Dosco Corporation as a result of lower product development costs in 1993 compared with 1992.

Capital expenditure

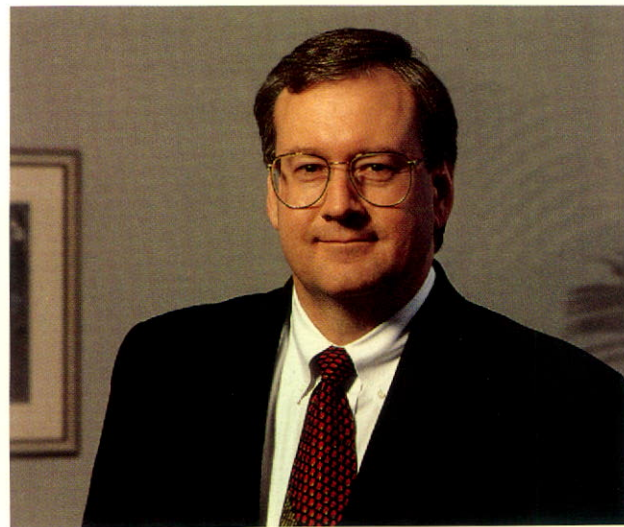
Capital expenditure on property, plant and equipment was \$40.2 million in 1993 compared with \$25.7 million in 1992. CGTX accounted for the major portion of the capital spending in both years, with \$28.3 million invested in new rolling stock in 1993 compared with \$19.3 million in 1992. During the year the Company sold the land and buildings comprising the manufacturing site of its former Kockums CanCar operations in Surrey, B.C. for \$7.5 million.

Acquisitions and disposals

There were no acquisitions in 1993. As mentioned above, a decision to discontinue the operations of CSW and Windsor Aerospace was taken in November 1993. The CSW business was wound down during the first quarter of the current year and disposal of the assets remains to be completed. The sale of the business of Windsor Aerospace is currently the subject of negotiations with a potential purchaser.

Financial position

The Company's financial position is strong, with substantial shareholders' equity and no indebtedness for borrowed money other than that of CGTX, the Company's railcar leasing subsidiary. After paying unchanged dividends of \$0.8 million and \$8.8 million (\$1.08 per share) on the Company's preferred and common shares respectively, shareholders' equity at December 31, 1993 was \$243.6 million, cash and short-term investments amounted to \$19.4 million and the long-term debt and bank advances of CGTX amounted to \$122.5 million.



Keith F. Moore, President and Chief Executive Officer

Sale by BTR plc of its common share interest in the Company

On February 7, 1994 BTR plc announced that it had agreed with a syndicate of underwriters to sell its 58.7% indirect interest in the Company's common shares for \$121.6 million (\$25.25 per share). The sale would be by way of a private placement of special warrants exchangeable into the common shares of HSC Hawker Canada Ltd., the company through which BTR held its common share interest in the Company, and of which the only asset was the shareholding itself. Following the special warrant offering, and the qualification of HSC Hawker Canada's shares for sale to the public, HSC Hawker Canada Ltd. and the Company would amalgamate and the amalgamated company would continue as Hawker Siddeley Canada Inc.

These transactions were completed in February and March and the amalgamated company came into existence on April 1, 1994. Details of the transaction are set out in note 15 to the consolidated financial statements, on page 39 of the Annual Report.

Since acquiring its controlling interest in the Company in November 1991 through the acquisition of Hawker Siddeley Group PLC in the United Kingdom, BTR had from time to time considered the sale of its common share interest, since the businesses of the Company were not mainstream to its own operations.

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As a result of these transactions, BTR's former common share interest is now held by a number of mainly Canadian institutional investors, and Hawker Siddeley Canada Inc. is now a widely-held, non-controlled Canadian public company.

The Board of Directors

Mr. Keith F. Moore was appointed President and Chief Executive Officer and a Director of the Company on August 5, 1993. Mrs. Beth M. Bandler, the Company's Secretary and General Counsel, who was elected a Director at the Company's annual meeting on May 7, 1993, served as a Director until Mr. Moore's appointment, and was reappointed a Director as of March 31, 1994 following the resignations as of that date of Mr. Robert F. Faircloth, Ms. Kathleen A. O'Donovan and Mr. John S. Thompson Jr., BTR plc's representatives on the Board. Mr. John F. Howard was appointed Chairman of the Company on April 20, 1994 in succession to Mr. Faircloth.

Outlook

With the sale by BTR of its common share interest and the emergence of Hawker Siddeley Canada Inc. as a widely-held public company, 1994 marks a point of transition in the development of the Company. With a strong financial position, but at the same time with operations in industry sectors undergoing major change, the Company is presented with opportunities and faces challenges in all of its businesses.

By discontinuing the operations of CSW in 1993 the Company has narrowed its focus to five business areas. CGTX is expected to continue to be the principal contributor to earnings in the period ahead. As the shape of the North American economy changes, CGTX will have to adapt as required. The restructuring of CSF, now in progress, points the Company's foundry business in a direction of potential growth. Orenda and Middleton Aerospace have to become more cost effective, but also have to seek out new opportunities, since they will continue to face considerable pricing pressures and reduced demand in their traditional businesses until such time as the market for aerospace products recovers. Dosco Overseas and Hollybank Engineering Company Limited, likewise, have to develop

their involvement in new products and new markets, as the size and ownership of British Coal's operations, their mainstay to date, changes. CSMI, with considerable potential to become the leading North American manufacturer of sawmill equipment, has the task of restoring profitability to its operations.

With these immediate priorities, your Company's overall objectives remain the same: to improve the profitability of existing operations through cost reduction and productivity improvements; to take advantage of opportunities for profitable growth at these operations and, by acquisition, in related or niche markets; to maintain a strong financial position; and to achieve for shareholders an acceptable rate of growth in earnings and dividends per share.

While 1994 will be a difficult year, your Board looks forward to the challenge of significantly improving your Company's performance over time.

On your behalf, we wish to acknowledge the dedication and contribution of employees throughout the Company in 1993.

On behalf of the Board:



John F. Howard
Chairman



Keith F. Moore
President and Chief Executive Officer

April 20, 1994

Review of operations

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Transportation and industrial products segment

■ Jet engine and industrial gas turbine components and repair and overhaul



*Richard A. Neill
Vice-President,
Orenda Division*

The operating profits of Orenda and Middleton Aerospace totalled \$5.1 million in 1993 on sales of \$75.3 million compared with \$11.3 million in 1992 on sales of \$89.5 million. The 1993 profits are after providing \$1.1 million for the cost of disposing of a quantity of radioactive (low-level) magnesium thorium machining swarf. This material, stored on the Orenda site,

containerized and monitored in accordance with regulatory requirements, did not pose a hazard, but it was decided that the cost of disposal was more likely to increase than decrease in the foreseeable future.

The largest factor in the 1993 reduction in sales was a major contraction in the volume of industrial turbine repair and overhaul business at Orenda. With the lower level of activity in the oil industry and the lower world price of oil, the requirement and cash resources available for repair and overhaul of these turbines, which are primarily used in North America and Venezuela in pumping and in pipeline applications, also declined. This repair and overhaul business has historically been a very profitable element of Orenda's business. The industrial repair and overhaul business is not expected to recover in 1994.

Orenda has signed an exclusive agreement with Mashproekt in Ukraine to sell and service its world class industrial gas turbines in North and Central America and Venezuela. Orenda plans to integrate the technology of the Mashproekt turbine with North American peripherals, so as to meet customer needs in Orenda's

established markets. The alliance with Mashproekt alleviates the need for extensive and costly product development and should allow Orenda to expand its base of industrial turbines for repair and overhaul. The potential benefits of the Mashproekt contract will materialize beyond the current year.

Component manufacturing and jet engine repair and overhaul sales in 1993 were close to previous year levels. The market for jet engine components and repair and overhaul continues to tighten, however, as a result of major cuts in military spending and continuing under-utilization of existing commercial aircraft fleets. The sales and profits of Orenda and Middleton Aerospace will remain under pressure until market conditions improve.



*J. Stephen Tosi
General Manager,
Middleton Aerospace Corporation*

As a result of the current reductions in military spending and the current downturn in commercial markets, engine manufacturers are requiring suppliers to reduce prices. Suppliers who are unable to lower prices, while at the same time improving component quality and delivery time, are being replaced. There is a trend towards long-term agreements with engine manufacturers, and both

Orenda and Middleton Aerospace have entered into a number of such long-term agreements. Investments are being made to reduce product costs. Orenda has developed the capability to repair military jet engine components as an alternative to part replacement, and is also attempting to penetrate commercial component repair markets. With continuing technological development, and as a result of industry cost pressures, component repair represents a potential area for business expansion.

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■ Railcar leasing



*Jacques C. Léger
President and Chief
Executive Officer,
CGTX Inc.*

CGTX's contribution to sales and operating profit continued to grow in 1993. The contribution to operating profit in 1993 was \$33.8 million on sales revenues of \$71.6 million compared with \$32.6 million on sales revenues of \$66.6 million in 1992. CGTX is not significantly affected by short-term changes in economic conditions, as railcar leases tend to be for multi-year periods. Capital additions to

CGTX's fleet were \$28.3 million in 1993 compared with \$19.3 million in 1992. Over the past six years, CGTX has invested \$220 million in railcar fleet additions.

Comprehensive customer support, including administrative services and repair and maintenance services, and expertise specific to the railway industry, are major factors in CGTX's strong operating performance. Results in the current year are again expected to be strong. Pricing of new leases and renewal-lease pricing are governed primarily by the price of new railcars. Demand for new railcars in the last few years has been weak and pricing has been very competitive. Prices for new railcars are currently trending up, with railcar manufacturers quoting longer lead times for delivery.

With the maturing of the Free Trade Agreement between Canada and the United States there is a trend towards greater North/South traffic. This change, and the prospect of further rationalization by the Canadian railways, will require careful monitoring and adaptation by CGTX.

■ Foundry operations

In 1993 the division made an operating loss of \$1.6 million, before restructuring costs of \$4.4 million, on sales of \$19.3 million, compared with a profit of \$2.3 million on sales of \$26.5 million in 1992. In the previous year, CSF benefited from an order book of profitable work for the Canadian hydro electric power generation equipment industry. Orders from this source did not materialize as they had in the previous two years. To use available capacity in 1993 CSF accepted orders for production of low-value commodity castings, which adversely affected profitability.

In the fourth quarter of the year, it was decided that CSF would restructure and narrow its product focus, by concentrating on high-integrity, carbon, stainless and heat-resisting castings for the worldwide energy and other high-technology markets. CSF plans to secure a competitive advantage in the industry by limiting its



*Robert Bergeron
Vice-President and
General Manager,
Canadian Steel Foundries Division*

product range in this way, by developing focused customer relationships and by reducing production cycle times. CSF's advantages include its large melting capacity and significant flexibility with respect to heat sizes, grades of material and production scheduling.

The restructuring of CSF entails a downsizing of foundry operations. A more focused marketing and production plan should result in substantially improved productivity. In 1994 the operation anticipates achieving approximately 80% of the 1993 sales volume with between 50% and 60%

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fewer people. About 130,000 square feet of unused manufacturing space will be demolished in order to reduce tax and maintenance costs.

As a result of the recent successful introduction of the new automated sand and binder system and other improvements, and the installation of argon oxygen decarburization (AOD) refining equipment, currently in progress, CSF is expected to be among the best-equipped foundry facilities in the world for large high-integrity and specialized steel castings. 1994 will be a transition year, in which improved results are expected. It is anticipated that the full benefits of the strategic reorientation of the foundry will only be realized over a longer time frame.

Resource industry equipment segment

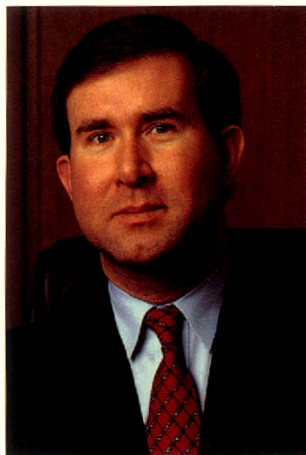
■ **Sawmill equipment**

The results from the Company's sawmill equipment operations improved in 1993. Sales increased from \$31.0 million in 1992 to \$77.4 million in 1993, largely reflecting the Harvey acquisition in the United States in December 1992. There was an operating profit of \$5.7 million in 1993 before Harvey goodwill and intangible asset amortization costs of \$6.0 million, compared with an operating loss of \$0.9 million in 1992.

A major preoccupation of the Company's sawmill equipment operations in 1993 was the relocation of manufacturing operations. Following the relocation of the Harvey operations in California and Washington to a new location in Portland, Oregon in December 1992, several further relocation and consolidation steps were taken in 1993: the former Kockums CanCar distribution activities in Atlanta, Georgia were transferred to the Harvey manufacturing location in Hot Springs, Arkansas; new service parts distribution facilities were opened in Langley, British Columbia and Savannah, Georgia; the activities of the small Kockums CanCar distribution company in Australia were discontinued and replaced by a distribution arrangement with a distributor operating in Australia and New Zealand; and the former Kockums CanCar manufacturing operations in Surrey, British

Columbia were transferred in part to the new location in Portland, and in part to the Hot Springs facility.

This relocation of the Surrey operations, completed in mid-1993, was a major undertaking and has proved to be a prime cause of the significant operating inefficiencies



*Thomas J. Riordan
President,
Consolidated Sawmill
Machinery International Inc.*

and missed customer delivery dates which have plagued performance and caused operating losses in 1994 to date. The task of recruiting and training new employees in the new plant in Portland is taking much longer than anticipated. The processes of negotiating favourable supply arrangements with new vendors, generating acceptable levels of plant efficiency and eliminating expensive rework attributable to a range of relocation

problems are all proving more difficult and protracted than expected. In Hot Springs, the increase in the volume of production and the changes in plant layout and operation necessitated by the transfer of business from Canada has also adversely affected levels of plant efficiency.

A new president for CSMI was recruited and appointed in March 1994 and the immediate task he and his management team have, in close association with the Company's corporate management, is to bring customer delivery commitments, product quality and operating efficiencies in the Portland and Hot Springs plants to acceptable standards of performance as quickly as possible. CSMI's results will be adversely impacted during the period required to achieve these improvements. It is not yet possible to predict how long such improvements will take to achieve.

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Notwithstanding the integration problems currently being experienced, the fundamentals for the sawmill equipment business remain sound due to continuing favourable market conditions and the product line breadth and technology provided through the Harvey acquisition. The Company's sawmill equipment manufacturing business has the potential to become the leading manufacturer of sawmill equipment in North America and a major contributor to the Company's sales and profits.

Demand for softwood lumber in North America is projected to exceed available supply in the foreseeable future and markets are expected to be strong in consequence. Lower costs and improved log yields achievable by sawmill operators through investing in state-of-the-art equipment and optimization technology are likely to cause the demand for CSMI's products to remain strong.

■ **Mining and tunnelling equipment and services**

The Dosco and Hollybank companies contributed \$8.0 million to operating profit in 1993 compared with \$0.6 million in 1992; sales were lower in 1993, at \$108.1 million, compared with \$125.3 million in 1992, with \$9.8 million of the decline reflecting the effect of the lower value of sterling in 1993 in terms of the Canadian dollar. The 1993 profit of \$8.0 million included a one-time contribution of \$4.5 million in respect of equipment lease income and machine spare part sales to British Coal relating to British Coal's downsizing and restructuring program ahead of privatization.

British Coal accounts for approximately 75% of Dosco Overseas' sales and almost all of Hollybank's sales and accordingly the status of the coal industry in the United Kingdom has a particularly significant bearing on the results of both companies. At the end of 1993, there

were only 22 British Coal collieries still in production and during 1994 the number is expected to decline further. The reduction in the number of operating mines is in anticipation of privatization of British Coal's operations, currently expected to take place in the early



*Michael C. Burt
Managing Director,
Dosco Overseas Engineering
Limited*

part of 1995. As part of its preparation for privatization, British Coal has recently closed its own repair and overhaul facilities for equipment manufactured by Dosco Overseas, and such services are now contracted out to Dosco Overseas.

Increased export sales to offset the decline in sales to British Coal have not materialized to the levels anticipated due to the lack of hard currencies in

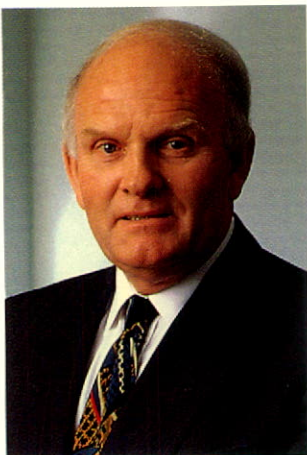
Eastern Europe, difficulties in penetrating Korean and Chinese markets, and reduced demand for roadheader mining equipment in traditional export markets. Progress in increasing export sales remains unpredictable for the coming year.

Dosco Overseas is increasingly looking to equipment for civil tunnelling to part-replace the reduction in its general level of sales to British Coal. Equipment manufactured by Dosco Overseas is suitable for use in a range of tunnelling projects including projects for subway systems, road and rail tunnels, utility distribution and sewage collection. In 1993 the company manufactured and sold its first full-face tunnel boring machine, for use by a major civil engineering firm in driving a sewage tunnel out to sea off the east coast of

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England. Dosco Overseas believes that its delivery of this machine ahead of schedule, and the machine's successful performance, will lead to opportunities to sell further such machines. Dosco Overseas has recently received orders for four of its boom-in-shield machines, to be delivered in 1994, for use in the construction of the Heathrow light rail link with Central London and for other projects.

Hollybank's contribution to operating profit was also stronger in 1993. The company is one of two suppliers of roof support arches to British Coal and one of five major firms approved to supply contract mining services to British Coal. Due to the decline in the level of mining in the United Kingdom, sales of roof support arches have decreased in recent years and continued to decline in



*Ralph H. Knight
Managing Director,
Hollybank Engineering Company
Limited*

1993. Contract sales, on the other hand, increased in 1993 and Hollybank expects that the closure of many of British Coal's collieries will present it with new contract mining service opportunities in the period ahead.

Hollybank has recently been awarded three such contracts, to maintain mines during interim periods while their closure or sale to private parties is under consideration. Once the decision to close a

colliery is taken, considerable work is required to dismantle equipment, demolish buildings and fill in mine shafts. Hollybank has been approved as a qualified contractor to carry out such work, expected to arise over the next few years. In addition, Hollybank is also



*James E. Marianski
President,
The Dosco Corporation*

increasingly targeting civil markets and is actively promoting in the United Kingdom a system of lattice-work for reinforcing the lining of civil tunnels for road, rail and other purposes.

Dosco Corporation, in the United States, sells and services Dosco machines in North America and, until 1993, manufactured roof supports for coal and other mine and civil tunnelling applications in

its market area. The roof support arch manufacturing activity was discontinued in the first half of 1993, and the assets sold to a purchaser on a going-concern basis. Dosco Corporation is currently developing a patented underground haulage machine (Bendicar™) which, if successful, could improve mine productivity by greatly increasing the rate at which material can be transported away from the mine face. Underground tests of the prototype are scheduled to take place during 1994. If the machine achieves anticipated levels of productivity and reliability, it could represent a major opportunity for the Company's mining-related businesses.

The mining companies all face major challenges and their future will depend on the success with which they pursue markets which will utilize current capacity and capabilities. If these strategies are not successful, it may become necessary to further downsize and restructure their operations.

Management's discussion and analysis

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Overview

Over the past two years the Company has taken the following important steps:

- In December 1992 the Company acquired the sawmill equipment manufacturing assets of Harvey, Inc. and Harvey Industries, Inc., which it has combined with its Kockums CanCar sawmill equipment manufacturing operations under the name Consolidated Sawmill Machinery International Inc. The infusion of state-of-the-art process-optimization technology from the Harvey acquisition has created an opportunity for growth for the Company's previously unprofitable sawmill equipment manufacturing operations.
- In November 1993 the Company resolved to spend \$4.4 million in restructuring costs and \$2.8 million in capital equipment for Canadian Steel Foundries Division, which plans to concentrate in the future on the production of castings for the hydro and other high-technology markets.
- In November 1993 the Company resolved to close Canadian Steel Wheel Division and dispose of or close Windsor Aerospace Division, its small gear manufacturing operation, and thereby to eliminate two loss-making operations which did not appear to have the potential to contribute to future profitability.

The Company's continuing operations are classified within two industry segments: "Transportation and industrial products segment" and "Resource industry equipment segment." The business components of each segment are highlighted below.

Transportation and industrial products segment

Orenda Division and Middleton Aerospace Corporation

Orenda is engaged in the repair and overhaul of jet engines and industrial gas turbines and in the manufacture of jet engine and industrial gas turbine components. Middleton Aerospace is engaged in the manufacture of engine components.

The market for jet engine components and the repair and overhaul of jet engines is intensely competitive, with lower military expenditures and cutbacks in demand from commercial carriers. Reduced demand is expected to lead industry participants to further rationalize their operations. In the medium term, demand levels are expected to improve as a function

of recovery and renewed growth in the commercial airline sector. The Company is extending Orenda's interests to include the marketing of an industrial gas turbine in North America, Central America and Venezuela.

CGTX Inc.

The Company's 55%-owned railcar leasing subsidiary, CGTX Inc., is and has consistently been a significant contributor to the Company's total sales and operating profits. CGTX has invested \$220 million in additions to its leasing fleet over the past six years and this has contributed substantially to growth in its revenues and earnings over that period.

Canadian Steel Foundries Division

CSF manufactures high-integrity, carbon, stainless and heat-resisting steel castings. Following the closure of a number of competitors in North America and elsewhere in recent years, this small division is restructuring and investing so as to concentrate on manufacturing castings for the energy and other high-technology markets.

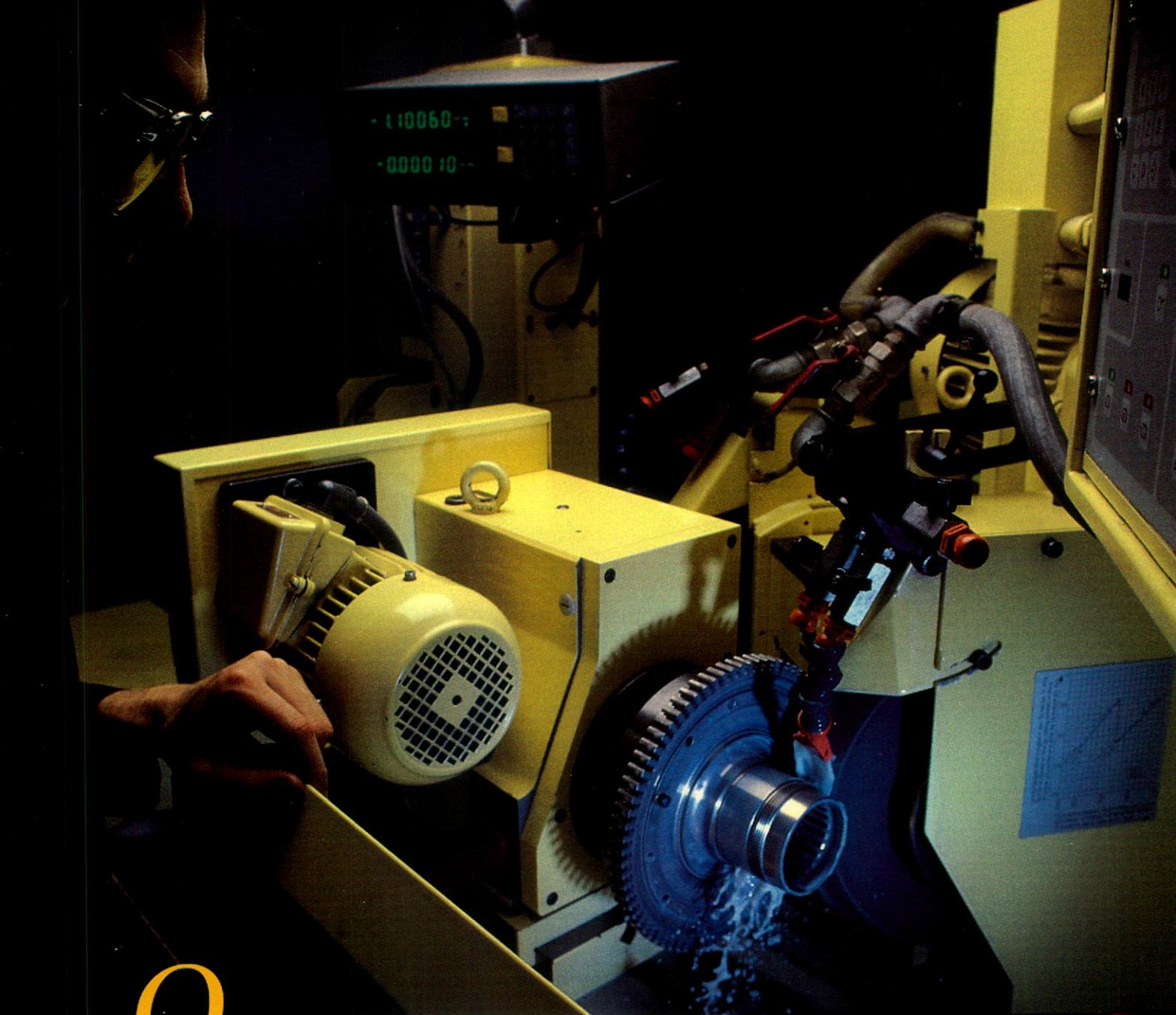
Resource industry equipment segment

Consolidated Sawmill Machinery International Inc.

The demand for sawmill equipment that is designed to maximize the yield of sawn lumber from logs is increasing as a result of decreased availability of logs in North America due to conservation initiatives, governmental intervention and the consequences of large-scale logging in recent years. The optimization technology acquired as a result of the Harvey asset acquisition is helping the Company to meet this demand. CSMI is continuing to rationalize and consolidate its operations with the objective of becoming an important contributor to the Company's sales and earnings.

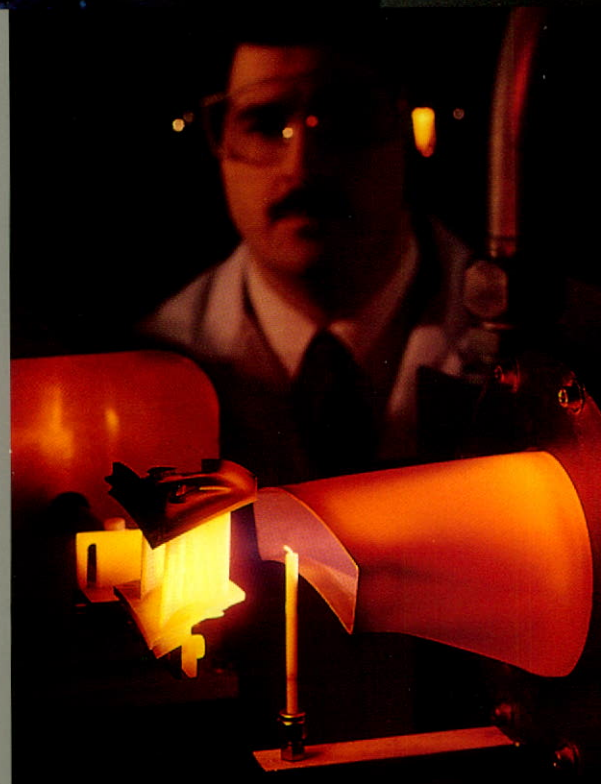
Dosco Overseas Engineering Limited, Hollybank Engineering Company Limited and The Dosco Corporation

Dosco Overseas manufactures mining and tunnelling machines for coal and soft-rock mining and civil engineering tunnelling, and equipment for materials handling. Hollybank is engaged in the production of roof support systems for underground roadways and in the provision of contract tunnelling and mine services. Dosco Corporation sells and services Dosco machines in North America.



Orenda is engaged in the repair and overhaul of jet engines and industrial gas turbines and in the manufacture of jet engine and industrial gas turbine components. Recent introduction of cell-manufacturing is contributing towards cost reduction of manufactured components. Above: a J85 first stage turbine wheel being machined on a Studer Grinder, part of the rotating parts manufacturing cell at the Orenda plant.

Orenda maintains a small Advanced Materials and Energy Systems department in Ottawa. Opposite: a research engineer working for Orenda at the National Research Council of Canada in Ottawa calibrates a thin thermocouple sensor being tested under simulated high-temperature engine operating conditions. The system being tested is more accurate than conventional measurement systems and has potential use in the design and operation of gas turbines for aero, marine and industrial applications.



HAWKER SIDDELEY

These operations are facing a number of major challenges. Dosco Overseas is in the process of making the transition from being dependent on British Coal by expanding in export markets for coal and other soft-rock mining equipment and in the civil engineering market in the United Kingdom; Hollybank is adapting to the market environment arising from the downsizing of British Coal, offering services including contract mine care and maintenance and mine closure; Dosco Corporation is concentrating on developing the Bendicar™ underground haulage vehicle, which is currently in the prototype stage.

Year ended December 31, 1993 compared with year ended December 31, 1992

After segregating and stating separately the 1993 operating losses and discontinuance provisions relating to CSW and Windsor Aerospace, the operating results of 1993 compared with 1992 as follows:

\$ millions	1993	1992
Sales		
Transportation and industrial products segment.....	\$ 166.2	\$ 182.6
Resource industry equipment segment.....	185.5	156.3
	<u>351.7</u>	<u>338.9</u>
Segment operating profit/(loss)		
Transportation and industrial products segment.....	32.8	46.1
Resource industry equipment segment.....	7.7	(0.3)
	<u>40.5</u>	<u>45.8</u>
Other net income	3.2	3.8
Corporate expenses	(3.3)	(5.9)
Operating profit.....	<u>40.4</u>	<u>43.7</u>
Interest expense.....	9.8	8.0
Earnings before income taxes.....	<u>30.6</u>	<u>35.7</u>
Income taxes	<u>12.5</u>	<u>14.5</u>
Earnings before minority shareholder's interest.....	18.1	21.2
Minority shareholder's interest.....	<u>5.8</u>	<u>5.6</u>
Earnings from continuing operations	<u>12.3</u>	<u>15.6</u>
Discontinued operations.....	<u>(15.5)</u>	<u>(0.2)</u>
Net earnings/(loss)	<u>\$ (3.2)</u>	<u>\$ 15.4</u>

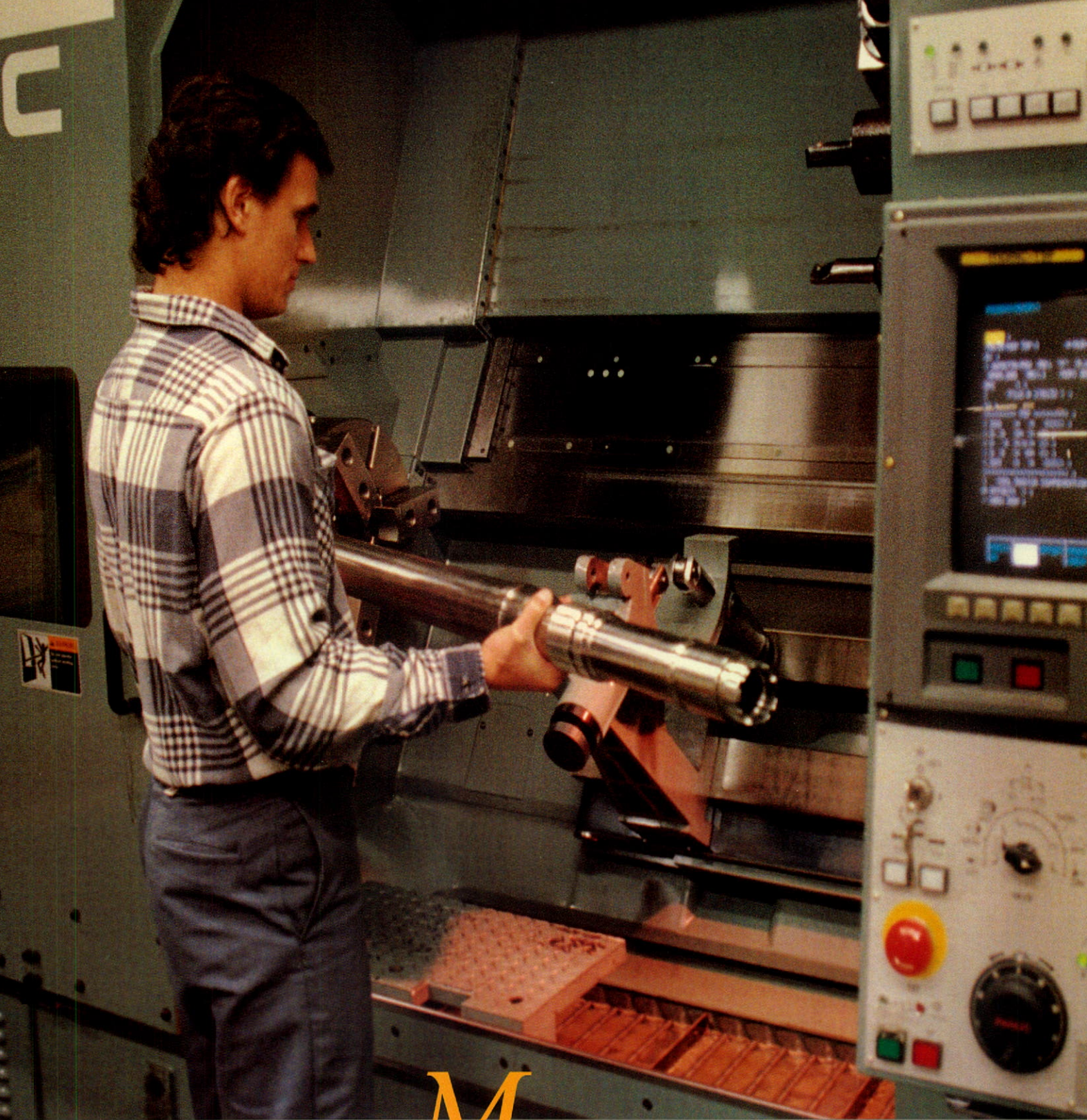
Provision for the CSF restructuring cost (\$4.4 million) is reflected in the 1993 costs of the transportation and industrial products segment.

Transportation and industrial products segment

Sales from the Orenda and Middleton Aerospace operations, at \$75.3 million in 1993, were 16% lower than the sales of \$89.5 million in 1992 and operating profits were \$5.1 million, compared with \$11.3 million. The 1993 profit is after providing \$1.1 million for disposal of a quantity of radioactive machining swarf which has been stored at Orenda since 1979. Although the reduction in sales and profits reflected some tightening of the markets for jet engine components and for repair and overhaul, the major cause of the reduction in sales and profits was a significant decline in industrial gas turbine repair and overhaul. The gas turbines overhauled are principally used in oil extraction and transmission, and the activity of engine users in that sector was adversely affected in 1993 by low oil prices in world markets.

Revenues of CGTX from its railcar leasing and repair and maintenance operations grew by 8% from \$66.6 million to \$71.6 million and operating profits before interest increased from \$32.6 million to \$33.8 million. CGTX is not significantly affected by short-term changes in economic conditions, as railcar leases tend to be for multi-year periods. CGTX's contribution to the Company's profitability is very significant, being the largest element in the Company's operating profit.

After two years of profitability in 1991 and 1992, CSF made a trading loss of \$1.6 million in 1993 on sales of \$19.3 million, compared with a profit of \$2.3 million in 1992 on sales of \$26.5 million. After providing for the \$4.4 million cost of restructuring mentioned previously, and which will be carried out in 1994, the 1993 operating loss was \$6.0 million. The reduction in sales from \$26.5 million in 1992 to \$19.3 million in 1993 was not anticipated, and the division had expected to make a profit. Orders for hydro castings for delivery in 1993 fell well short of expectations, and the margins at which it was possible to book alternative business were not attractive.



Middleton Aerospace in Middleton, Massachusetts manufactures and sells components for aero and industrial gas turbine engines and other products. Components manufactured by Middleton Aerospace must be machined to very close tolerances on equipment capable of maintaining the highest operating standards. Above: Joe Micozzi is using a CNC Mori-Seike turning and mill/drill machine to perform the turning and drilling of a CF34 turbofan drive shaft.

HAWKER SIDDELEY**Resource industry equipment segment**

The increase in sales of the resource industry equipment segment was attributable to the Company's sawmill equipment manufacturing operations, of which sales increased from \$31.0 million in 1992 to \$77.4 million in 1993. Sales of the mining operations decreased from \$125.3 million to \$108.1 million.

The increase in sawmill equipment sales in 1993 principally reflected the incremental contribution to sales resulting from the Harvey, Inc. and Harvey Industries, Inc. asset acquisition in December 1992. The decline in mining sales principally reflected lower demand by British Coal in 1993 for roof support systems and contract work from Hollybank, as British Coal closed its less efficient operations in anticipation of privatization.

The sawmill equipment manufacturing operations made a loss of \$0.3 million in 1993, after amortizing \$6.0 million of the goodwill and intangible asset values attributable to the Harvey acquisition, compared with a loss of \$0.9 million in 1992, in which year there were no goodwill and intangible asset amortization costs. \$2.6 million of the 1993 amortization charge reflects full amortization of the fair value attributed to sales contracts, acquired with the Harvey assets, for the supply of sawmill equipment to be produced and shipped after the date of acquisition. Such equipment was sold in 1993 and there will be a corresponding reduction in Harvey intangible asset amortization in 1994. While the Company has benefited from its acquisition in the sawmill equipment business, start-up of the new facility in Portland, Oregon and assimilation of new products into the Hot Springs, Arkansas operations represent a continuing challenge. Near-term performance is being affected and longer-term customer commitment could be affected by delays currently being experienced in reducing manufacturing cycle times and in meeting customer delivery requirements. Management of the Company is taking steps to address these problems, and a new president has been appointed at CSMI, effective March 21, 1994.

Since the date of acquisition in 1992, the actual amounts of the purchase price installments due in 1993 have been determined, through arbitration and by agreement with Harvey, as a result of which the total purchase price, including related costs, has increased by \$2.1 million, bringing the total consideration, including provision for acquisition and integration costs, to \$38.2 million. The \$2.1 million increase in 1993 in the cost of acquisition has been allocated to goodwill.

Notwithstanding the lower Hollybank sales, the contribution to segment operating profit from the mining operations was \$8.0 million compared with \$0.6 million in 1992. Dosco Overseas' operating profit in 1993 included \$4.5 million from equipment lease income and machine spare part sales to British Coal relating to British Coal's downsizing and restructuring programs. It is not anticipated that there will be an equivalent element of profit in 1994. Dosco Corporation's results in 1993 benefited from lower product development costs relating to its prototype Bendicar™ underground haulage machine. These costs were mostly expensed in 1992.

Consolidated operating profits

After other net income and corporate expenses, consolidated operating profits in 1993 were \$40.4 million (11.5% of sales) compared with \$43.7 million (12.9% of sales) in 1992.

Interest, income taxes and earnings from continuing operations

Interest expenses increased from \$8.0 million to \$9.8 million. CGTX's borrowing costs increased in July 1993 as a result of its placing \$60 million of its borrowing requirement in the long-term debt market for five and ten year periods (\$30 million for five years at 7.60% and \$30 million for ten years at 8.35%), in anticipation of higher interest rates over these time frames. Additionally, the Company's interest income was lower than in 1992, as a result of the financing of the Harvey acquisition in December 1992 from cash resources, and also as a result of the effect of lower interest rates on remaining cash balances.

The effective rate of income taxes was 40.8% in 1993 and 40.6% in 1992.



*C*GTX railcar repair and maintenance facilities are located in Montreal, Quebec; Moose Jaw, Saskatchewan; and Red Deer, Alberta. These facilities, at which CGTX repairs and maintains its own railcars and those owned by its customers, play an important part in the company's service to customers. Above: a tank car undergoes repairs at CGTX's Red Deer facility.

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After minority interest, earnings from continuing operations were \$12.3 million (\$1.40 per share) in 1993 compared with \$15.6 million (\$1.81 per share) in 1992.

Discontinued operations

In November 1993 the Company resolved to close CSW and to close or dispose of Windsor Aerospace.

CSW manufactured wrought steel wheels, principally for passenger and freight railcars and locomotives. Its sales were primarily to domestic customers in Canada since there are significant non-tariff barriers affecting the export of railway wheels from Canada to the United States. Due to reduced demand for railway wheels from the Canadian railroads and to competition from railway wheels manufactured by the cast process, the market for wrought railway wheels in Canada has been shrinking. The volume of available business and the profit margins obtainable on that business had become too low to sustain the CSW operation or to justify the investment of further capital in the business. CSW has been unprofitable in each of the last four years and in 1993 made an operating loss of \$3.2 million on sales of \$24.1 million. In 1992 the operating loss was \$0.3 million on sales of \$26.7 million. Provision for closure costs of \$9.0 million, after tax relief, is included in the cost of discontinued operations in the 1993 financial statements of the Company. These closure costs relate principally to employee severance costs, operating costs in the closure period to March 31, 1994 and the anticipated loss on disposal of assets.

Windsor Aerospace manufactures precision gears for jet engines and other applications. The business has been severely affected by the current reduction in demand from the aerospace industry. Sales in 1993 reached only \$2.7 million and the division made a small loss. The Company resolved in 1993 to close or dispose of the business and a provision of \$4.2 million, net of tax relief, for the cost of disposal is included in the cost of discontinued operations in the 1993 financial statements. It is expected that disposal or discontinuance of the business will be completed by the end of the current year.

Net earnings

After the operating losses and discontinuance costs of CSW and Windsor Aerospace (\$15.5 million, net of tax relief), there was a net loss for the year of \$3.2 million (\$0.49 per share) compared with net earnings of \$15.4 million (\$1.78 per share) in 1992.

Year ended December 31, 1992 compared with year ended December 31, 1991

<i>\$ millions</i>	1992	1991
Sales		
Transportation and industrial products segment	\$ 182.6	\$ 179.9
Resource industry equipment segment	156.3	181.2
	<u>338.9</u>	<u>361.1</u>
Segment operating profit/(loss)		
Transportation and industrial products segment	46.1	42.6
Resource industry equipment segment	(0.3)	(8.6)
	<u>45.8</u>	<u>34.0</u>
Other net income	3.8	3.8
Corporate expenses	(5.9)	(4.7)
Operating profit	<u>43.7</u>	<u>33.1</u>
Interest expense	8.0	5.7
Earnings before income taxes	<u>35.7</u>	<u>27.4</u>
Income taxes	<u>14.5</u>	<u>10.6</u>
Earnings before minority shareholder's interest	21.2	16.8
Minority shareholder's interest	<u>5.6</u>	<u>5.1</u>
Earnings from continuing operations	15.6	11.7
Discontinued operations	<u>(0.2)</u>	<u>(0.4)</u>
Net earnings	<u>\$ 15.4</u>	<u>\$ 11.3</u>

The principal step taken in 1992 to enhance earnings was the acquisition in December 1992 of the sawmill equipment manufacturing assets of Harvey, Inc. and Harvey Industries, Inc.



Canadian Steel Foundries is restructuring to concentrate on large high-integrity, carbon, stainless and heat-resisting castings for the energy and other high-technology markets. Above: the 50 ton furnace at CSF's foundry in Montreal.

HAWKER SIDDELEY**Transportation and industrial products segment**

Sales from the Orenda and Middleton Aerospace operations in 1992, at \$89.5 million, were 4% lower than the \$93.5 million in 1991 and operating profits were \$11.3 million in 1992 compared with \$11.8 million in 1991. Military jet engine repair and overhaul revenues declined as a result of smaller defence budgets and cutbacks in military spending. The demand for engine components for commercial usage was also affected by operating cutbacks and new equipment cancellations and deferrals by commercial airlines and other carriers. The volume of industrial business, however, was higher in 1992 than in 1991.

CGTX had another good year, with revenues of \$66.6 million compared with \$59.9 million in 1991 and operating profits of \$32.5 million compared with \$29.3 million in 1991. Fleet utilization remained high despite the general weakness of the Canadian economy and CGTX continued to add special-purpose tank and freight cars to its fleet, for specific customers. The overall level of fleet additions, however, was lower than in the previous year.

Sales of CSF, at \$26.5 million, were the same as in 1991, but operating profits improved from \$1.5 million to \$2.3 million in 1992, reflecting improved plant efficiencies resulting from better material utilization and improved labour productivity from a smaller workforce. During the year the division pursued its policy of developing international markets. The technology transfer agreement with the Georg Fischer foundry in Switzerland, signed in 1991, resulted in the sale in 1992 of the division's first Pelton Runner hydro-electric turbine wheel. The new chemical binder, sand mixing and distribution system, installed in 1991, contributed to the improvement in material utilization.

Resource industry equipment segment

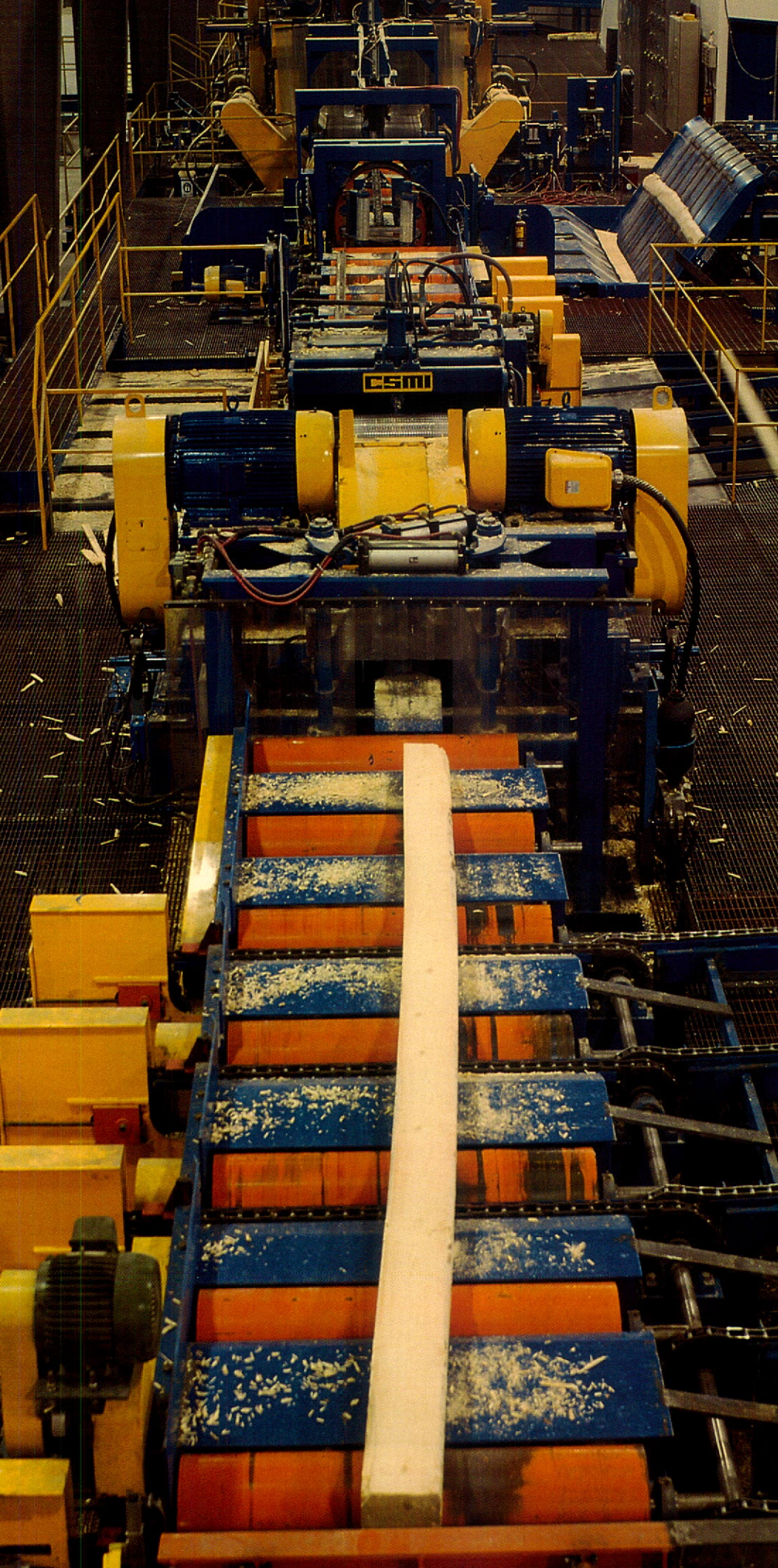
The major improvement in the Company's operating results in 1992 took place in the resource industry equipment segment. Sales were lower, at \$156.3 million compared with \$181.2 million in 1991, but the 1991 loss of \$8.6 million was reduced to a loss of only \$0.3 million in 1992.

The sawmill equipment manufacturing operations' sales increased, ahead of the December 1992 Harvey acquisition, from \$27.5 million in 1991 to \$31.0 million in 1992. The operating result was still an operating loss of \$0.9 million in 1992 compared with a loss of \$6.7 million in 1991.

The sawmill sector began to recover slowly from recession in 1992, recouping some of the volume decline which had occurred in 1991. Lumber prices started to improve towards the end of the year and the number of sawmill closures and partial closures fell considerably. Spending on new capital equipment by the forest products industry was, however, still severely limited.

In December 1992, as already mentioned, the Company acquired the sawmill manufacturing assets of the Harvey companies, with manufacturing operations in Arkansas, California and Washington. The Harvey acquisition brought the Company proven, state-of-the-art optimization technology which addressed the needs of the forest products industry to maximize lumber output from logs, given the trend towards lower availability of softwood lumber in North America.

The Harvey assets were acquired through CSMI, a new U.S. subsidiary with headquarters in Portland, Oregon. The assets acquired in California and Washington were relocated to the Portland site. The Atlanta, Georgia sales and service operations of the Company's Kockums CanCar operations were subsequently transferred to and integrated with the Harvey operations in Hot Springs, Arkansas in early 1993 and the Surrey, British Columbia manufacturing operations of the Kockums CanCar division were also subsequently transferred to the Oregon and Arkansas facilities, leaving a small sales and service facility in place in Langley, British Columbia. A sales and distribution office for CSMI has been opened in Savannah, Georgia.



*C*urve sawing recognizes that trees seldom grow straight and at a constant thickness, and enables sawmill operators to achieve higher lumber yields and longer, stronger and straighter dried lumber. Opposite: the curve sawing portion of the cutting line supplied by CSMI for the Manning Diversified Forest Products sawmill in Manning, Alberta in 1993 and (inset) cut lumber emerging from the curve sawing gang edger on the curve sawing line supplied by CSMI for the Weyerhaeuser sawmill in Bruce, Mississippi.

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Results from the mining operations improved in 1992. Although sales at \$125.3 million in 1992 were lower than the \$153.7 million of 1991, there was a contribution of \$0.6 million in 1992 to segment operating profit compared with a loss of \$1.9 million in 1991. The 1991 result reflected staff reduction costs of \$2.2 million for downsizing Dosco Overseas, and \$3.0 million in respect of contract driveage losses by Hollybank due mainly to a particular driveage contract in the United Kingdom.

Events were dominated by British Coal's announcement in October 1992 that it would close 31 of its remaining 50 collieries. The British Government commissioned a comprehensive review of the coal industry and the wider energy industry in the United Kingdom. Pending the outcome of the review, all collieries remained open, but subsequent events have proved that the effect of the review was merely to slow down somewhat the process of colliery closures. The U.K. coal industry appears likely to be reduced to between 10 and 15 working collieries, excluding any collieries that are owned and operated privately.

In export markets, progress was made by Dosco Overseas in enhancing the effectiveness of its sales force and network of representatives. The first Dosco roadheader machine manufactured in Poland under a collaboration agreement was delivered in 1992, and export sales were made during the year to France, Spain, Chile, Korea and the United States.

Consolidated operating profits

After other net income and corporate expenses, consolidated operating profits in 1992 were \$43.7 million (12.9% of sales) compared with \$33.1 million (9.2% of sales) in 1991.

Interest, income taxes and net earnings

Interest expense increased from \$5.7 million in 1991 to \$8.0 million in 1992, reflecting a full year's impact of CGTX's June 1991 issue of \$50 million of long-term debt for three and five year periods (\$20 million for three years at 10.3% and \$30 million for five years at 10.55%) and the lower income on cash balances brought about by declining interest rates.

Income taxes as a percentage of pre-tax earnings were 40.6% in 1992 compared with 38.7% in 1991. The 1991 tax computations included a credit of \$0.8 million in respect of tax relief brought forward from earlier years.

After minority interest, net earnings for 1992 were \$15.4 million (\$1.78 per share) compared with \$11.3 million (\$1.29 per share) in 1991.

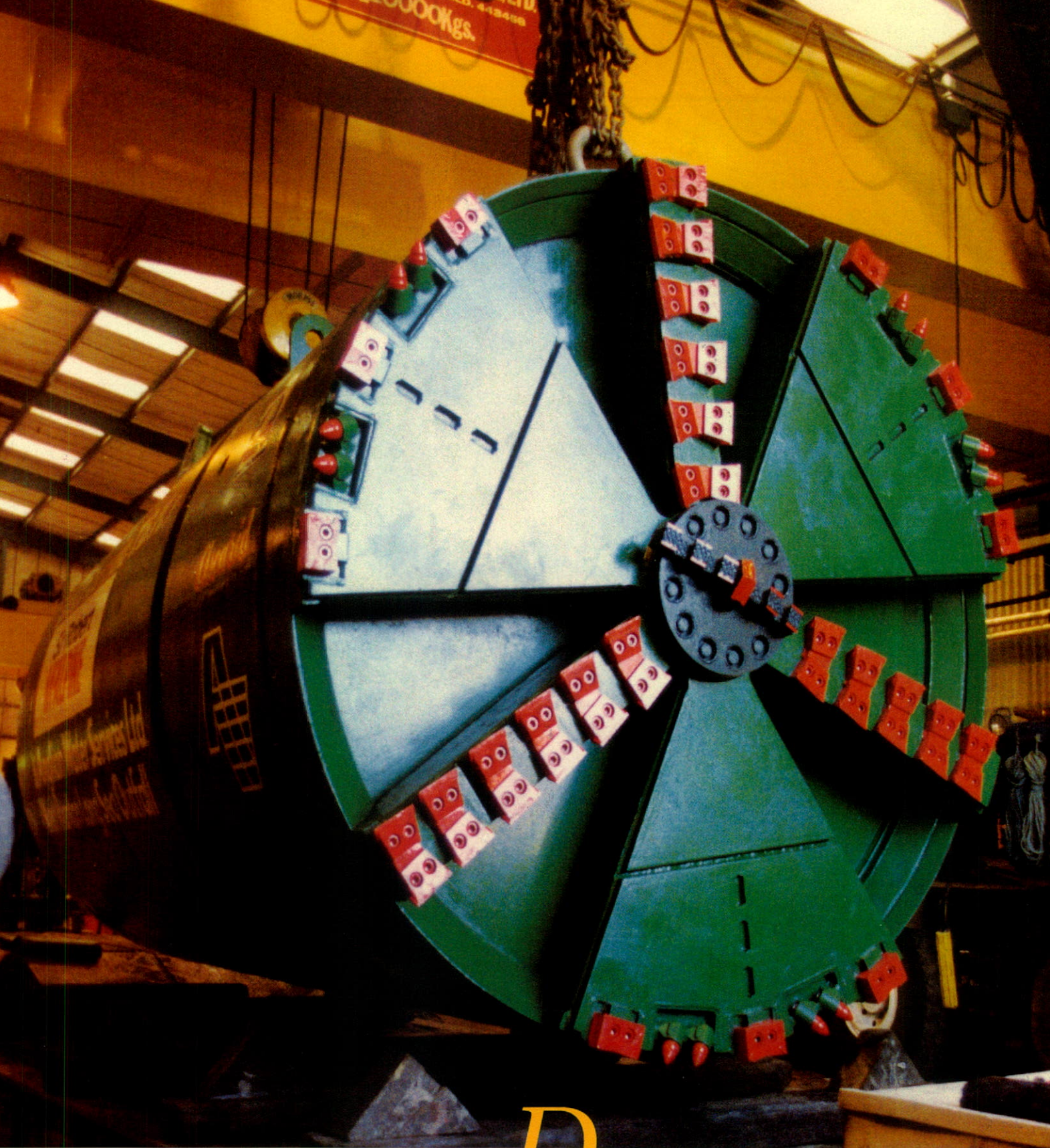
Liquidity and capital resources

The Company's financial position is strong, with substantial shareholders' equity, and no indebtedness for borrowed money, other than that of CGTX Inc., the Company's 55%-owned railcar leasing subsidiary. At December 31, 1993, shareholders' equity amounted to \$243.6 million and the Company had cash balances and short-term investments amounting to \$19.4 million, of which \$1.2 million related to CGTX, and long-term debt and bank advances amounting to \$122.5 million, all of which related to CGTX.

With the exception of \$0.8 million of current borrowings, all of CGTX's indebtedness of \$122.5 million was long-term debt secured on a portion of CGTX's rolling stock fleet. CGTX's indebtedness is without recourse to the Company. The long-term debt of CGTX is comprised of first mortgage equipment notes at fixed interest rates of from 7.6% to 11.125% and maturities from 1994 to 2003, secured on railway rolling stock with a net book value of \$195.4 million at December 31, 1993.

CGTX's most recent issue of first mortgage equipment notes, comprising \$30.0 million five-year notes at 7.6% due in 1998 and \$30.0 million of ten-year notes at 8.35% due in 2003 was issued in July 1993 and was accorded a debt rating of A(Low) by Canadian Bond Rating Service.

The Company's debt to equity ratio at December 31, 1993 was 0.50:1.00; its current ratio was 1.49:1.00 and working capital was \$54.6 million.



*D*osco Overseas is increasingly looking to sell equipment to the civil tunnelling market in the United Kingdom. Above: Dosco Overseas' first full-face tunnel boring machine, manufactured and sold in 1993 for use by Sir Robert McAlpine Ltd. in a civil tunnelling project out to sea off the east coast of England.

HAWKER SIDDELEY

At December 31, 1992 the Company had shareholders' equity of \$254.0 million, cash balances and short-term investments of \$21.8 million, and long-term debt and bank advances of \$101.4 million, of which \$89.9 million related to CGTX. The Company's debt to equity ratio at that date was 0.40:1.00; its current ratio was 1.31:1.00 and working capital was \$37.6 million.

The Company's cash flow from continuing operating activities in 1993 was \$33.8 million, and its total cash flow for the year was \$18.7 million. Cash flow from operating activities has been positive in each of the five years to December 31, 1993, averaging \$43.1 million per annum. Total cash flow over the five years to December 31, 1993 was an outflow of \$51.5 million, of which \$63.9 million was attributable to the acquisitions of Middleton Aerospace and Windsor Aerospace in 1990 and of the Harvey assets in 1992, both of which acquisitions were financed entirely out of cash resources.

Capital expenditure in 1993 amounted to \$40.2 million of which \$28.7 million related to CGTX. Over the five years to December 31, 1993, capital expenditure on property, plant and equipment, excluding acquisitions, has amounted to \$207 million, of which \$168.2 million related to CGTX. Over the same period, depreciation amounted to \$88.7 million, of which \$61.8 million related to CGTX. The Company's capital expenditure, other than CGTX's expenditure on rolling stock, is generally directed towards compliance with regulatory requirements, maintenance of existing manufacturing and other capabilities, and expenditure on facilities, plant and equipment designed to enhance product quality and reduce cost.

Capital commitments at December 31, 1993 amounted to \$8.8 million, of which \$6.9 million related to CGTX.

The Company has unsecured operating lines of credit with Canadian chartered banks amounting to \$80 million. None of these facilities were in use at December 31, 1993. In addition, CGTX has unsecured operating lines of credit with Canadian chartered banks amounting to \$100 million, of which \$0.8 million was in use at December 31, 1993.

Other than CGTX's expenditures on rolling stock fleet additions, which have generally been financed by CGTX's earnings and by related long-term debt, the Company's working capital and other cash requirements have historically been met through internally-generated funds and from cash resources.

Management believes that CGTX's cash requirements for rolling stock fleet additions will continue to be generally financed by CGTX's earnings and by related long-term debt, and that internally-generated funds, cash resources and existing credit facilities will be sufficient to support the Company's other growth and expansion for the foreseeable future.

The Company's financial results are reported in Canadian dollars. 54% of the Company's consolidated sales in 1993 were generated by its subsidiaries in the United States and the United Kingdom and 17% of the sales of its Canadian operations were exported from Canada. Approximately \$142.0 million (26%) of the Company's total assets are located outside Canada, and approximately \$31.6 million (10%) of the Company's total liabilities are denominated in U.S. dollars and pounds sterling. In general, a decline in the value of the Canadian dollar makes the Company more competitive in export markets, and is favourable to its financial results and cash flow.

Consolidated financial statements

HAWKER | SIDDELEY

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30	Consolidated statements of cash flow
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40	Segmented information

Auditors' report to the shareholders

HAWKER SIDDELEY

We have audited the consolidated balance sheets of Hawker Siddeley Canada Inc. as at December 31, 1993 and 1992 and the consolidated statements of earnings and retained earnings and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial positions of the Company as at December 31, 1993 and 1992 and the results of its operations and the changes in its cash flow for the years then ended in accordance with generally accepted accounting principles.



Price Waterhouse
Chartered Accountants
Toronto, Ontario

February 7, 1994

Consolidated statements of earnings and retained earnings

for the years ended December 31, 1993 and 1992

HAWKER SIDDELEY

\$ millions except where indicated

	1993	%	1992	%
Earnings				
Sales.....	\$ 351.7	100.0	\$ 338.9	100.0
Cost of sales, selling and administrative expenses	285.1	81.1	276.2	81.5
Depreciation and amortization.....	26.2	7.4	19.0	5.6
	311.3	88.5	295.2	87.1
Operating profit	40.4	11.5	43.7	12.9
Interest expense (note 3)	9.8	2.8	8.0	2.4
Earnings before income taxes.....	30.6	8.7	35.7	10.5
Income taxes (note 4)	12.5	3.6	14.5	4.3
Earnings before minority shareholder's interest	18.1	5.1	21.2	6.2
Minority shareholder's interest	5.8	1.6	5.6	1.6
Earnings from continuing operations	12.3	3.5	15.6	4.6
Loss from discontinued operations (note 5).....	(15.5)	(4.4)	(0.2)	(0.1)
Net earnings/(loss) of the year.....	\$ (3.2)	(0.9)	\$ 15.4	4.5
Earnings/(loss) per share (\$ per share)				
Continuing operations.....	\$ 1.40		\$ 1.81	
Discontinued operations.....	(1.89)		(0.03)	
	\$ (0.49)		\$ 1.78	
Retained earnings				
Balance – beginning of year	\$ 186.9		\$ 181.1	
Net earnings/(loss) of the year.....	(3.2)		15.4	
	183.7		196.5	
Dividends				
Preferred shares.....	0.8		0.8	
Common shares.....	8.8		8.8	
	9.6		9.6	
Balance – end of year.....	\$ 174.1		\$ 186.9	

Consolidated balance sheets

as at December 31, 1993 and 1992

HAWKER SIDDELEY

\$ millions

1993

1992

Assets

Current assets

Cash	\$ 12.4	\$ 10.3
Short-term investments (note 3)	7.0	11.5
Accounts receivable	72.7	68.5
Income taxes recoverable	6.5	2.1
Inventories	65.1	63.0
Prepaid expenses	2.7	2.9
	<u>166.4</u>	<u>158.3</u>

Property, plant and equipment (note 6)

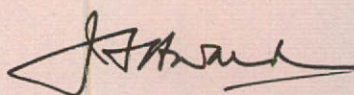
Cost	592.7	569.3
Accumulated depreciation	(247.1)	(236.9)
	<u>345.6</u>	<u>332.4</u>

Other assets

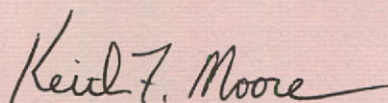
Goodwill (note 7)	12.1	9.9
Other intangible assets (note 8)	13.4	18.6
Deferred pension asset (note 9)	15.6	13.5
	<u>41.1</u>	<u>42.0</u>

\$ 553.1\$ 532.7

Approved by the Board:



John F. Howard
Director



Keith F. Moore
Director

HAWKER SIDDELEY

	1993	1992
Liabilities		
Current liabilities		
Bank advances	\$ 0.8	\$ 21.9
Accounts payable and accrued liabilities	76.9	70.7
Dividends payable	2.4	2.4
Income taxes and other taxes payable	5.7	5.7
Advances on sales contracts	3.4	2.2
Current portion of long-term debt (note 10)	22.6	17.8
	<u>111.8</u>	<u>120.7</u>
Long-term debt less current portion (note 10)	99.1	61.7
Deferred income taxes	50.9	52.4
Minority shareholder's interest in subsidiary company	47.7	43.9
	<u>309.5</u>	<u>278.7</u>
Shareholders' equity		
Capital stock (note 11)		
Issued and fully-paid:		
Preferred shares	14.0	14.0
Common shares	55.3	55.3
Retained earnings	174.1	186.9
Currency translation account (note 12)	0.2	(2.2)
	<u>243.6</u>	<u>254.0</u>
	<u>\$ 553.1</u>	<u>\$ 532.7</u>

Consolidated statements of cash flow

for the years ended December 31, 1993 and 1992

HAWKER SIDDELEY

<i>\$ millions</i>	1993	1992
Operating activities		
Earnings before income taxes	\$ 30.6	\$ 35.7
Taxation payments	(9.0)	(6.7)
Proceeds on sale of property, plant and equipment	9.3	1.3
Depreciation of property, plant and equipment	19.7	18.5
Amortization of goodwill and other intangible assets	6.5	0.5
Increase in deferred pension asset	(2.1)	(2.6)
Other	0.1	(0.5)
	<u>55.1</u>	<u>46.2</u>
Working capital		
Accounts receivable and prepaid expenses	(4.8)	5.9
Inventories	(3.8)	10.1
Accounts payable and accrued charges, and other taxes	(12.7)	0.4
	<u>(21.3)</u>	<u>16.4</u>
Cash flow from operating activities	<u>33.8</u>	<u>62.6</u>
Financing activities		
Common shares issued (note 11)	-	0.3
Increase/(decrease) in long-term debt	41.8	(7.8)
Dividends to minority shareholder in subsidiary company	(2.1)	(2.1)
Cash flow from financing activities	<u>39.7</u>	<u>(9.6)</u>
Investment activities		
Acquisition of businesses (note 1)	(2.1)	(36.1)
Purchase of property, plant and equipment	(40.2)	(25.7)
Cash flow from investment activities	<u>(42.3)</u>	<u>(61.8)</u>
Unrealized foreign currency translation gain/(loss)		
on net current assets of foreign subsidiaries	0.8	(0.7)
Cash flow before dividends	<u>32.0</u>	<u>(9.5)</u>
Dividends paid on preferred and common shares	(9.6)	(9.6)
Cash flow attributable to continuing operations	<u>22.4</u>	<u>(19.1)</u>
Cash flow attributable to discontinued operations	(3.7)	(1.9)
Cash flow of the year	<u>18.7</u>	<u>(21.0)</u>
Funds (cash and short-term investments less bank advances)		
Beginning of year	(0.1)	20.9
End of year	<u>\$ 18.6</u>	<u>\$ (0.1)</u>

Significant accounting policies

HAWKER SIDDELEY

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada and reflect the policies set out below.

Basis of consolidation

The consolidated financial statements of the Company include the financial statements of all subsidiaries. The operating results of operations disposed of or discontinued and gains and losses on disposal or discontinuance are segregated and stated separately in the consolidated statement of earnings.

Foreign currency translation

The financial statements of the Company's foreign subsidiaries, all of which are considered self-sustaining, are translated into Canadian dollars as follows:

- assets and liabilities – at the rates of exchange in effect at the balance sheet date.
- revenue and expense items – at the average rates of exchange for the year.

Unrealized exchange gains and losses arising on the translation of the financial statements of foreign subsidiaries are deferred and taken to the currency translation account in the shareholders' equity section of the consolidated balance sheet.

Transactions of the Company and its Canadian subsidiary, denominated in foreign currencies, are recorded in Canadian dollars at exchange rates in effect at the related transaction dates. Monetary assets and liabilities denominated in foreign currencies are adjusted to reflect exchange rates at the balance sheet date. Exchange gains and losses arising on the translation of monetary assets and liabilities are included in the determination of earnings of the year except for unrealized exchange gains and losses on long-term debt which are deferred and amortized over the remaining terms of related obligations. Other exchange gains and losses, including amortization of such amounts relating to long-term debt, are included in the consolidated statement of earnings of the year.

Short-term investments

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

Inventories

Inventories are valued at the lower of cost and net realizable value less progress payments.

Property, plant and equipment

Property, plant and equipment, including expenditures which improve or prolong the useful lives of such assets, is stated at cost. Property, plant and equipment obtained through acquisitions is stated at its fair value at the date of acquisition.

Depreciation is computed on a straight-line basis at rates based on the estimated useful lives of the assets. Estimated useful lives generally are forty years for buildings, twenty to thirty years for railway rolling stock and thirteen years for machinery and equipment. Leasehold improvements are amortized over the terms of the leases.

Maintenance and repair costs of a routine nature are expensed as incurred.

Goodwill

Goodwill is amortized on a straight-line basis over its estimated life or forty years, whichever is less. Any goodwill remaining at the time of disposal or discontinuance of the operation to which it relates is written off in the year of disposal or discontinuance.

Other intangible assets

Other intangible assets are amortized on a straight-line basis over their estimated lives or twenty years, whichever is less. Intangible assets remaining at the time of disposal or discontinuance of the operation to which they relate are written off in the year of disposal or discontinuance.

Revenue recognition

Sales are recorded at the time the product is shipped or the service performed. On major contracts, sales and earnings are recognized on a percentage of completion basis. Provision is made for losses in the year in which they are first foreseen.

Pension costs and obligations

Pension costs are calculated, prorated on service, using the accrued benefit method of actuarial valuation with projected earnings where appropriate.

Pension plans are actuarially valued at least every three years. Adjustments arising on valuation are taken to earnings over the expected average remaining service life of the relevant employee group.

Income taxes

The deferral method is used in accounting for income taxes. Timing differences giving rise to deferred income taxes relate primarily to:

- depreciation and amortization – where the amounts claimed for income tax purposes differ from the amounts written off for accounting purposes.
- other items – where amounts included in the earnings statement differ from amounts recognized for income tax purposes.

Earnings per share

Earnings per share are calculated using the weighted average number of shares outstanding during the year.

Notes to the consolidated financial statements

for the years ended December 31, 1993 and 1992

HAWKER SIDDELEY

1. Acquisition

On December 1, 1992 the Company, through a new wholly-owned U.S. subsidiary, Consolidated Sawmill Machinery International Inc. ("CSMI"), acquired certain of the assets and assumed certain of the liabilities of the sawmill equipment manufacturing businesses of Harvey, Inc. and Harvey Industries, Inc. with their principal place of business in Hot Springs, Arkansas. The consideration, payable in cash at various dates in 1992 and 1993, was estimated to be \$30.3 million (U.S. \$23.8 million).

The acquisition was accounted for by the purchase method. The estimated total consideration of \$36.1 million, including provision of \$5.8 million for acquisition costs and the costs of integrating CSMI and the Company's Kockums CanCar sawmill equipment manufacturing businesses in Canada and the United States, was allocated at December 31, 1992, based on the estimated fair values of the assets acquired and the liabilities assumed at the date of acquisition, as follows:

\$ millions

Accounts receivable	\$ 4.8
Inventories	3.2
Land and buildings	2.2
Plant and equipment	3.6
Intellectual property and other intangible assets	17.9
	31.7
Goodwill	9.3
Accounts payable and accrued liabilities, and advances on sales contracts	(4.9)
	<u>\$ 36.1</u>

Since December 31, 1992 the actual amounts of the purchase price installments due in 1993 have been determined, through arbitration and by agreement with Harvey, Inc. and Harvey Industries, Inc., and the total purchase price has been increased by an amount of \$2.1 million, including related costs. This amount has been reflected in 1993 as an additional element in the cost of the acquisition, and allocated to goodwill.

2. Research and development costs

Research and development costs incurred and expensed in 1993 amounted to \$3.8 million (1992 - \$4.4 million).

HAWKER SIDDELEY**3. Interest expense**

<i>\$ millions</i>	1993	1992
Interest on long-term debt.....	\$ 10.2	\$ 9.1
Other net interest income.....	(0.4)	(1.1)
	<u>\$ 9.8</u>	<u>\$ 8.0</u>

Other net interest income in 1992 included interest on advances to an affiliated company, at commercial rates of interest, of \$0.4 million. These advances were repayable on demand.

4. Income taxes

<i>\$ millions</i>	1993	1992
Current income taxes.....	\$ 6.6	\$ 9.1
Deferred income taxes	5.9	5.4
	<u>\$ 12.5</u>	<u>\$ 14.5</u>

The provision for income taxes was made up as follows:

<i>\$ millions</i>	1993	1992
Provision at statutory rates of income tax.....	\$ 13.0	\$ 15.1
Effect of manufacturing and processing tax credits.....	(0.3)	(0.6)
Other adjustments.....	(0.2)	-
	<u>\$ 12.5</u>	<u>\$ 14.5</u>

Accumulated income tax losses of U.S. subsidiary companies as at December 31, 1993 amounted to U.S. \$24.9 million (December 31, 1992 – U.S. \$26.6 million). These income tax losses are available to reduce future taxable income of U.S. subsidiary companies. The income tax losses expire at various dates during the period from 1997 to 2008. The amount of loss relief which may be applied against taxable income in any one year, for losses incurred prior to 1992, is subject to restriction as a result of the change in the ultimate control of the Company which took place during 1991.

Accumulated expenses of U.S. subsidiary companies charged against income but which had not yet become deductible for income tax purposes at December 31, 1993 amounted to approximately U.S. \$4.6 million (December 31, 1992 – U.S. \$2.8 million).

The potential tax benefits of approximately U.S. \$10.0 million, at 1993 income tax rates, relating to the above income tax losses and expenses have not been recognized in the consolidated financial statements.

HAWKER SIDDELEY

5. Discontinued operations

During 1993 the Company decided to discontinue the operations of two business segments, as follows:

- On November 19, 1993 it was decided to discontinue the operations of Canadian Steel Wheel Division, which manufactured wrought steel wheels for railway passenger and freight cars and locomotives, and industrial wheels, by winding down operations during the first quarter of 1994 and by liquidating the net assets of the division.
- On November 19, 1993 it was also decided to discontinue the operations of Windsor Aerospace Division, which manufactured precision gears and other components for the aerospace and other industries, by selling the business and assets of the division, or by winding down operations during the first half of 1994 and by liquidating the net assets of the division.

The operating results and discontinuance costs of these business segments were as follows:

<i>\$ millions</i>	1993	1992
Sales	\$ 26.8	\$ 31.1
Operating loss	(3.7)	(0.3)
Discontinuance costs	(20.9)	—
	(24.6)	(0.3)
Income tax relief	9.1	0.1
	\$ (15.5)	\$ (0.2)

The remaining net assets of these discontinued operations at December 31, 1993 amounted to \$3.8 million (December 31, 1992 – \$24.9 million), and were as follows:

<i>\$ millions</i>	1993	1992
Current assets	\$ 15.1	\$ 17.7
Property, plant and equipment	10.7	11.1
Current liabilities	(22.0)	(3.9)
	\$ 3.8	\$ 24.9

The current liabilities of \$22.0 million at December 31, 1993 include \$20.1 million in respect of the remaining balance of the provision for discontinuance costs.

HAWKER SIDDELEY**6. Property, plant and equipment**

<i>\$ millions</i>	1993		1992	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Land and land improvements	\$ 6.7	\$ 1.5	\$ 7.4	\$ 1.6
Buildings	39.9	27.9	49.1	30.8
Railway rolling stock leasing fleet	419.2	140.8	393.8	128.8
Other plant and equipment	126.9	76.9	119.0	75.7
	\$ 592.7	\$ 247.1	\$ 569.3	\$ 236.9

7. Goodwill

<i>\$ millions</i>	1993	1992
Balance – beginning of year	\$ 9.9	\$ 0.6
Additions during year (note 1)	2.1	9.3
Write-off on discontinuance	(0.2)	–
Amortization	(0.7)	(0.1)
Exchange and other adjustments	1.0	0.1
Balance – end of year	\$ 12.1	\$ 9.9

The estimated useful life over which goodwill is being amortized is generally twenty years.

8. Other intangible assets

Other intangible assets principally comprise the values of intellectual property and covenants not to compete arising from acquisitions.

<i>\$ millions</i>	1993	1992
Balance – beginning of year	\$ 18.6	\$ 1.0
Additions during year (note 1)	–	17.9
Amortization	(5.8)	(0.4)
Exchange adjustment	0.6	0.1
Balance – end of year	\$ 13.4	\$ 18.6

The estimated useful lives over which other intangible assets are being amortized range from one to ten years. The total cost and accumulated amortization to date of other intangible assets are \$20.6 million and \$7.2 million (1992 – \$19.8 million and \$1.2 million) respectively.

HAWKER SIDDELEY

9. Deferred pension asset

The Company maintains defined benefit plans which provide retirement benefits for essentially all employees, based upon the length of service and, in certain cases, the final average earnings of the employee.

The estimated actuarial present value of accrued pension benefits at December 31, 1993 was \$106 million (December 31, 1992 – \$96 million) and the average market value of pension fund assets was \$178 million (December 31, 1992 – \$159 million).

The deferred pension asset of \$15.6 million at December 31, 1993 (December 31, 1992 – \$13.5 million) represents the amount by which the actuarial value of pension plan surpluses recognized by the Company in income and payments by the Company to pension funds exceed cumulative pension costs.

10. Long-term debt

<i>\$ millions</i>	1993	1992
First mortgage sinking fund equipment notes		
Notes due from 1994 to 2000 at 10.25% (U.S. \$1.75 million; 1992 – U.S. \$2.0 million).....	\$ 2.1	\$ 2.3
Notes due from 1994 to 1999 at from 9.125% to 11.125%.....	9.6	12.2
First mortgage equipment notes		
Notes due in 1993 at 11.0%.....	–	15.0
Notes due in 1994 at 10.3%.....	20.0	20.0
Notes due in 1996 at 10.55%.....	30.0	30.0
Notes due in 1998 at 7.6%.....	30.0	–
Notes due in 2003 at 8.35%.....	30.0	–
Total long-term debt.....	121.7	79.5
less:		
Portion due within one year.....	22.6	17.8
	<u>\$ 99.1</u>	<u>\$ 61.7</u>

Repayment of long-term debt over the next five years is as follows: 1994 – \$22.6 million; 1995 – \$2.3 million; 1996 – \$31.8 million; 1997 – \$1.8 million and 1998 – \$31.8 million.

All the long-term debt relates to CGTX Inc., the Company's 55%-owned railway rolling stock leasing subsidiary, and is secured on railway rolling stock of CGTX Inc. with a net book value at December 31, 1993 of \$195.4 million (December 31, 1992 – \$128.7 million).

HAWKER SIDDELEY**11. Capital stock**

The authorized share capital of the Company is as follows:

140,000 5¾% cumulative redeemable preferred shares of \$100 each.

An unlimited number of preferred shares junior to the 5¾% cumulative redeemable preferred shares.

An unlimited number of common shares.

The issued and fully-paid share capital of the Company as at December 31, 1993 and 1992 was as follows:

<i>\$ millions</i>	1993	1992
140,000 5¾% cumulative redeemable preferred shares of \$100 each	\$ 14.0	\$ 14.0
8,199,601 common shares	55.3	55.3
	<u>\$ 69.3</u>	<u>\$ 69.3</u>

58,500 5¾% cumulative redeemable preferred shares (41.8% of the Company's outstanding 5¾% cumulative redeemable preferred shares) and 4,816,646 common shares (58.7% of the Company's outstanding common shares – note 15) are beneficially owned by BTR plc, London, England.

The 5¾% cumulative preferred shares are redeemable at the option of the Company at \$105 per share.

At December 31, 1993, stock options to senior executives and a former senior executive of the Company were outstanding in respect of 69,050 common shares (1992 – 67,050 common shares). These options are exercisable by the holders at from \$22.00 to \$24.00 per share and expire at various dates during the next five years. During the year, no options were exercised (1992 – 15,300 common shares were exercised for a total consideration of \$300,000).

The weighted average number of common shares outstanding during the year was 8,199,601 (1992 – 8,197,608).

12. Currency translation account

<i>\$ millions</i>	1993	1992
Balance – beginning of year	\$ (2.2)	\$ (1.5)
Adjustments of the year	2.4	(0.7)
Balance – end of year	<u>\$ 0.2</u>	<u>\$ (2.2)</u>

13. Related party transactions

There have been no material transactions between the Company and related parties, other than the advances to an affiliated company referred to in note 3.

14. Reclassification of figures

Comparative figures have been reclassified where appropriate to reflect figures relating to discontinued operations in conformity with the presentation of the year ended December 31, 1993.

15. Subsequent event

On February 7, 1994 it was announced that BTR plc had agreed with a syndicate of underwriters to sell for \$121.6 million (\$25.25 per share) the 4,816,646 common shares of the Company (note 11), which are held by HSC Hawker Canada Ltd., a wholly-owned indirect subsidiary of BTR plc. The sale would be by way of a private placement of special warrants exchangeable into the common shares of HSC Hawker Canada Ltd. on a one-for-one basis following receipts being obtained from provincial securities commissions in Canada for a prospectus qualifying the common shares of HSC Hawker Canada Ltd. for sale to the public and following satisfaction of certain other conditions.

Subject to the prior approval of the Company's shareholders and the satisfaction of other conditions, it is anticipated that the Company and HSC Hawker Canada Ltd. would amalgamate and continue as one company under the name "Hawker Siddeley Canada Inc." At the time of the amalgamation, HSC Hawker Canada Ltd. would have no assets other than the 4,816,646 common shares of the Company and, if the amalgamation were to occur before April 15, 1994, a quarterly dividend on these shares, declared on February 7, 1994, and receivable on April 15, 1994. At the time of the amalgamation, HSC Hawker Canada Ltd. would have no liabilities other than, if the amalgamation were to occur before April 15, 1994, a dividend payable in an amount equal to the amount of the dividend to be received on April 15, 1994, which would be paid by HSC Hawker Canada Ltd. on April 15, 1994 to the persons who would become its shareholders immediately following the exercise of the special warrants and prior to the amalgamation. Accordingly the amalgamation would not affect the financial position of the Company.

The amalgamation would require approval by two-thirds of the votes cast by holders of the common shares and of the 5¾% cumulative redeemable preferred shares of the Company, present in person or represented by proxy, voting together, at a special meeting of shareholders to be held on March 28, 1994.

On the amalgamation, holders of common shares of Hawker Siddeley Canada Inc. (other than HSC Hawker Canada Ltd.) would receive common shares of the amalgamated company on a share-for-share basis. Holders of the 4,816,646 common shares of HSC Hawker Canada Ltd. would receive common shares of the amalgamated company on a share-for-share basis and the 4,816,646 common shares of Hawker Siddeley Canada Inc. held by HSC Hawker Canada Ltd. would be cancelled. Holders of 5¾% cumulative redeemable preferred shares of Hawker Siddeley Canada Inc. would receive 5¾% cumulative redeemable preferred shares of the amalgamated company, with the same terms and conditions.

Segmented information

for the years ended December 31, 1993 and 1992

HAWKER SIDDELEY

By industry segment

\$ millions	Total sales		External sales		Operating profit/(loss)	
	1993	1992	1993	1992	1993	1992
Transportation and industrial products.....	\$ 166.2	\$ 182.6	\$ 166.2	\$ 182.6	\$ 32.8	\$ 46.1
Resource industry equipment	185.5	156.3	185.5	156.3	7.7	(0.3)
	<u>\$ 351.7</u>	<u>\$ 338.9</u>	<u>\$ 351.7</u>	<u>\$ 338.9</u>	<u>\$ 40.5</u>	<u>\$ 45.8</u>

\$ millions	Depreciation and amortization		Capital expenditure		Identifiable assets	
	1993	1992	1993	1992	1993	1992
Transportation and industrial products.....	\$ 17.9	\$ 16.9	\$ 34.3	\$ 22.8	\$ 358.3	\$ 344.6
Resource industry equipment	8.2	1.9	6.0	2.7	136.6	129.5
	<u>\$ 26.1</u>	<u>\$ 18.8</u>	<u>\$ 40.3</u>	<u>\$ 25.5</u>	<u>\$ 494.9</u>	<u>\$ 474.1</u>

- The segmented information reflects the following components:

Transportation and industrial products.....	Components and repair and overhaul of jet engines and industrial gas turbines; steel castings for hydro and industrial markets; and leasing and repair of railcars.
Resource industry equipment.....	Sawmill equipment for the forest products industry; mining equipment for the coal and soft-rock mining industries; contract mining services; and other products and services for mining and civil engineering.

- There are no inter-industry segment sales. Inter-geographic segment sales, reflected in total geographic sales, are as follows:

\$ millions	1993	1992
Canada	\$ 5.6	\$ 9.4
United States.....	7.0	0.5
United Kingdom.....	1.6	1.9
	<u>\$ 14.2</u>	<u>\$ 11.8</u>

Inter-segment sales are accounted for at prices comparable to open market prices.

- Canadian export sales, primarily to customers in the United States, were \$28.4 million (1992 – \$41.4 million).

HAWKER SIDDELEY**By geographic segment**

\$ millions	Total sales		External sales		Operating profit/(loss)	
	1993	1992	1993	1992	1993	1992
Canada	\$ 166.8	\$ 188.5	\$ 161.2	\$ 179.1	\$ 33.8	\$ 42.9
United States	97.1	44.4	90.1	43.9	(0.5)	(1.2)
United Kingdom	102.0	117.8	100.4	115.9	7.2	4.1
	\$ 365.9	\$ 350.7	\$ 351.7	\$ 338.9	\$ 40.5	\$ 45.8

\$ millions	Depreciation and amortization		Capital expenditure		Identifiable assets	
	1993	1992	1993	1992	1993	1992
Canada	\$ 17.1	\$ 16.3	\$ 33.5	\$ 23.0	\$ 352.9	\$345.0
United States	7.9	1.5	6.0	0.4	82.1	67.2
United Kingdom	1.1	1.0	0.8	2.1	59.9	61.9
	\$ 26.1	\$ 18.8	\$ 40.3	\$ 25.5	\$ 494.9	\$474.1

- Transportation and industrial product external sales relating to leasing operations were \$71.6 million (1992 – \$66.6 million).

- Segmented operating profit reconciles with net earnings/(loss) as follows:

\$ millions	1993	1992
Segment operating profit	\$ 40.5	\$ 45.8
Other net income	3.2	3.8
Corporate expenses	(3.3)	(5.9)
Operating profit	40.4	43.7
Interest expense	9.8	8.0
Earnings before income taxes	30.6	35.7
Income taxes	12.5	14.5
Earnings before minority shareholder's interest	18.1	21.2
Minority shareholder's interest	5.8	5.6
Earnings from continuing operations	12.3	15.6
Discontinued operations	(15.5)	(0.2)
Net earnings/(loss)	\$ (3.2)	\$ 15.4

- Identifiable assets reconcile with total assets as follows:

\$ millions	1993	1992
Identifiable assets	\$ 494.9	\$474.1
Assets of discontinued operations	25.8	30.1
Corporate assets	32.4	28.5
Total assets	\$ 553.1	\$532.7

Quarterly financial information (unaudited)

for the years ended December 31, 1993 and 1992

HAWKER SIDDELEY

<i>\$ millions except where indicated</i>	First quarter	Second quarter	Third quarter	Fourth quarter	Year
1993					
Sales	\$ 84.9	\$ 88.4	\$ 86.1	\$ 92.3	\$ 351.7
Operating profit	10.3	13.9	11.4	4.8	40.4
Operating profit percentage	12.1%	15.7%	13.2%	5.2%	11.5%
Earnings/(loss) from continuing operations	3.2	5.8	3.7	(0.4)	12.3
Loss from discontinued operations	(0.1)	(0.3)	(1.3)	(13.8)	(15.5)
Net earnings/(loss) of the year	3.1	5.5	2.4	(14.2)	(3.2)
Earnings/(loss) per share (dollars)					
Continuing operations	\$ 0.37	\$ 0.68	\$ 0.43	\$ (0.08)	\$ 1.40
Discontinued operations	(0.02)	(0.03)	(0.16)	(1.68)	(1.89)
	0.35	0.65	0.27	(1.76)	(0.49)
Dividends per share (dollars)	\$ 0.27	\$ 0.27	\$ 0.27	\$ 0.27	\$ 1.08
1992					
Sales	\$ 81.7	\$ 85.2	\$ 83.3	\$ 88.7	\$ 338.9
Operating profit	7.6	10.9	12.9	12.3	43.7
Operating profit percentage	9.3%	12.8%	15.5%	13.9%	12.9%
Earnings from continuing operations	1.8	4.0	5.2	4.6	15.6
Earnings/(loss) from discontinued operations	(0.1)	(0.1)	0.1	(0.1)	(0.2)
Net earnings of the year	1.7	3.9	5.3	4.5	15.4
Earnings/(loss) per share (dollars)					
Continuing operations	\$ 0.19	\$ 0.47	\$ 0.61	\$ 0.54	\$ 1.81
Discontinued operations	(0.01)	(0.02)	0.01	(0.01)	(0.03)
	0.18	0.45	0.62	0.53	1.78
Dividends per share (dollars)	\$ 0.27	\$ 0.27	\$ 0.27	\$ 0.27	\$ 1.08

Notes

■ 1993 fourth quarter operating profit of \$4.8 million is after providing \$4.4 million for the restructuring of Canadian Steel Foundries Division and \$1.1 million for disposal of hazardous waste material at Orenda Division.

■ The operating results and discontinuance costs of businesses discontinued in 1993 were as follows:

<i>\$ millions</i>	First quarter	Second quarter	Third quarter	Fourth quarter	Year
1993					
Sales	\$ 7.2	\$ 7.6	\$ 5.2	\$ 6.8	\$ 26.8
Operating loss	(0.2)	(0.4)	(2.1)	(1.0)	(3.7)
Discontinuance costs	-	-	-	(20.9)	(20.9)
	(0.2)	(0.4)	(2.1)	(21.9)	(24.6)
Income tax relief	0.1	0.1	0.8	8.1	9.1
	\$ (0.1)	\$ (0.3)	\$ (1.3)	\$ (13.8)	\$ (15.5)
1992					
Sales	\$ 8.5	\$ 8.6	\$ 6.2	\$ 7.8	\$ 31.1
Operating earnings/(loss)	(0.2)	(0.2)	0.2	(0.1)	(0.3)
Income tax relief	0.1	0.1	(0.1)	-	0.1
	\$ (0.1)	\$ (0.1)	\$ 0.1	\$ (0.1)	\$ (0.2)

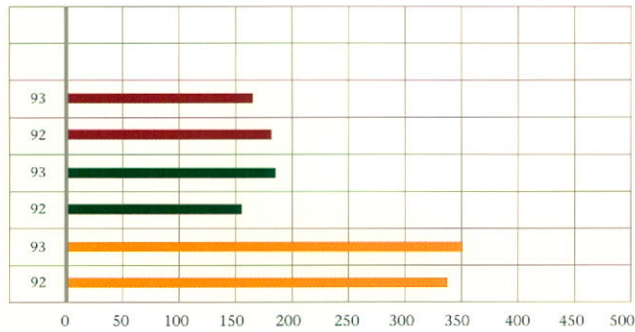
Segmented information

HAWKER SIDDELEY

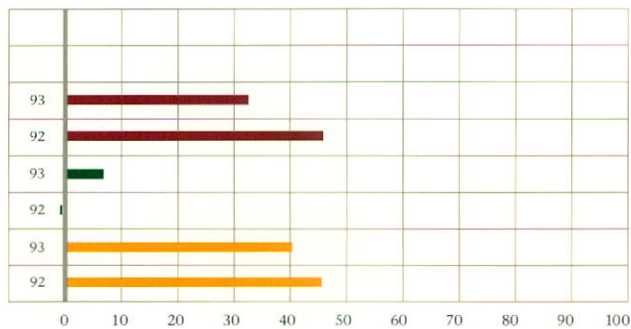
By industry segment

- Transportation and industrial
- Resource industry equipment
- Total

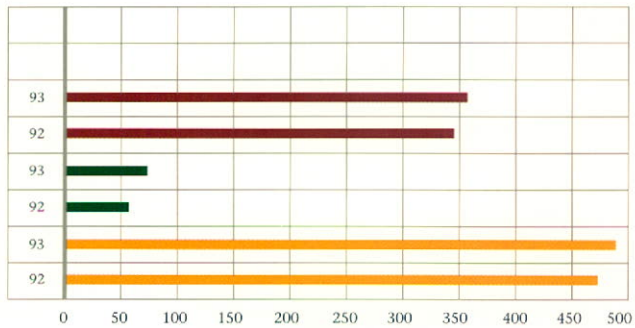
Sales

\$ millions


Segment operating profit/(loss)

\$ millions


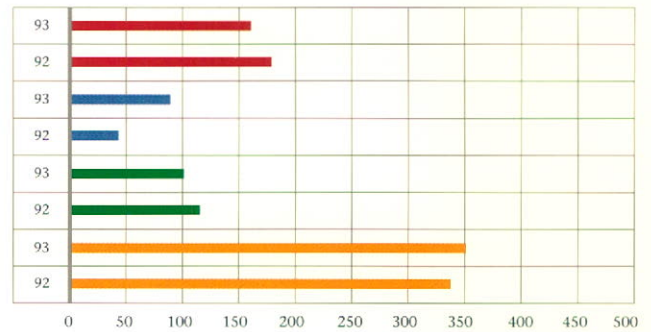
Identifiable assets

\$ millions


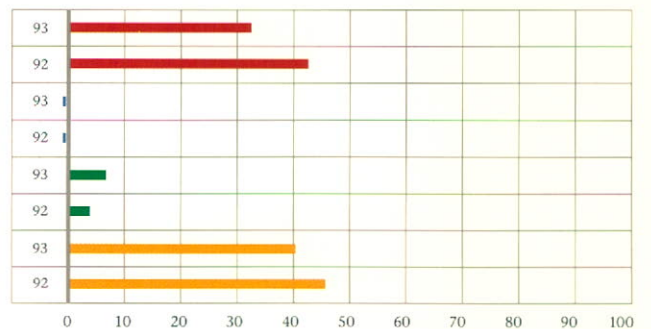
By geographic segment

- Canada
- United States
- United Kingdom
- Total

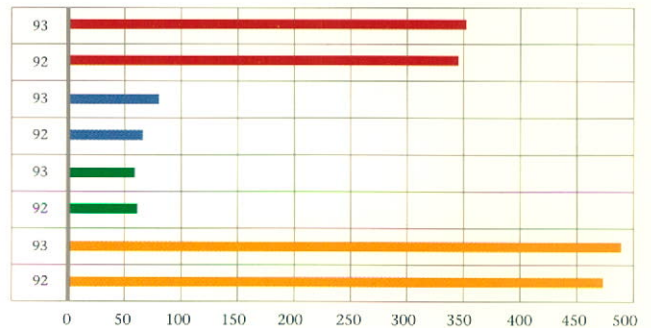
Sales

\$ millions


Segment operating profit/(loss)

\$ millions


Identifiable assets

\$ millions


Ten-year financial information

HAWKER SIDDELEY

\$ millions except where indicated

	1993	1992
Operating results		
Sales	\$ 351.7	\$ 338.9
Operating profit	40.4	43.7
Percentage operating profit	11.5%	12.9%
Earnings from continuing operations	12.3	15.6
Earnings/(loss) from discontinued operations	(15.5)	(0.2)
Net earnings/(loss)	(3.2)	15.4
Dividends on preferred shares	\$ 0.8	\$ 0.8
Dividends on common shares	8.8	8.8
Financial position		
Net assets		
Working capital	\$ 58.6	\$ 55.5
Property, plant and equipment	345.6	332.4
Other assets	41.1	42.0
Total net assets	445.3	429.9
Funds employed		
Common shareholders' equity	\$ 229.6	\$ 240.0
Preferred shares	14.0	14.0
Net (cash)/ borrowings	103.1	79.6
Deferred income taxes and minority interests	98.6	96.3
Total funds employed	445.3	429.9
Current ratio	1.5:1	1.3:1
Net borrowings as a percentage of total funds employed	23.2%	18.5%
Average working capital as a percentage of total sales	15.4%	17.9%
Percentage return of total operating profit on average total funds employed	8.4%	10.4%
Percentage return of net earnings on average common shareholders' equity	(1.7)%	6.2%
Results and financial position per common share (dollars)		
Earnings/(loss) per share		
Continuing operations	\$ 1.40	\$ 1.81
Discontinued operations	(1.89)	(0.03)
	(0.49)	1.78
Dividends per share	1.08	1.08
Book value per share	28.00	29.27
Cash flow		
Purchase of property, plant and equipment	\$ 40.2	\$ 25.7
Depreciation of property, plant and equipment	19.7	18.5
Cash flow before dividends on common shares	27.5	(12.2)
Note: Discontinued operations		
Sales	\$ 26.8	\$ 31.1
Operating profit/(loss)	(3.7)	(0.3)
Discontinuance costs	(20.9)	-
	(24.6)	(0.3)
Income tax relief	9.1	0.1
	\$ (15.5)	\$ (0.2)

HAWKER SIDDELEY

1991	1990	1989	1988	1987	1986	1985	1984
\$ 361.1	\$ 378.1	\$ 332.9	\$ 322.4	\$ 329.0	\$ 336.8	\$ 270.8	\$ 222.6
33.1	44.4	40.2	35.0	47.3	47.5	31.9	28.5
9.2%	11.7%	12.1%	10.9%	14.4%	14.1%	11.8%	12.8%
11.7	23.7	21.2	22.0	28.4	26.1	14.5	14.1
(0.4)	—	(7.5)	(8.5)	(0.8)	(16.6)	(1.1)	5.4
11.3	23.7	13.7	13.5	27.6	9.5	13.4	19.5
\$ 0.8	\$ 0.8	\$ 0.8	\$ 0.8	\$ 0.8	\$ 0.8	\$ 0.8	\$ 0.8
8.8	8.8	8.8	8.8	7.8	7.8	7.8	7.8
\$ 68.9	\$ 86.2	\$ 53.7	\$ 58.4	\$ 87.8	\$ 81.8	\$ 85.5	\$ 78.9
320.9	272.6	241.8	224.5	178.7	184.7	186.3	190.7
12.6	11.6	5.8	3.9	—	—	4.2	5.7
402.4	370.4	301.3	286.8	266.5	266.5	276.0	275.3
\$ 234.6	\$ 234.9	\$ 212.4	\$ 215.6	\$ 220.7	\$ 192.5	\$ 191.5	\$ 175.2
14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0
66.4	40.6	2.5	(11.7)	(41.2)	(6.6)	(0.1)	16.4
87.4	80.9	72.4	68.9	73.0	66.6	70.6	69.7
402.4	370.4	301.3	286.8	266.5	266.5	276.0	275.3
1.7:1	1.8:1	1.9:1	2.1:1	2.6:1	2.2:1	2.3:1	2.5:1
16.5%	11.0%	0.8%	—	—	—	—	6.0%
21.1%	18.7%	17.0%	22.5%	25.7%	23.3%	22.3%	21.8%
8.4%	13.2%	13.8%	12.4%	16.1%	12.6%	11.2%	14.1%
4.5%	10.2%	6.0%	5.8%	13.0%	4.5%	6.9%	10.9%
\$ 1.34	\$ 2.80	\$ 2.49	\$ 2.60	\$ 3.39	\$ 3.10	\$ 1.68	\$ 1.63
(0.05)	—	(0.91)	(1.04)	(0.10)	(2.04)	(0.14)	0.66
1.29	2.80	1.58	1.56	3.29	1.06	1.54	2.29
1.08	1.08	1.08	1.08	0.96	0.96	0.96	0.96
28.67	28.80	26.04	26.46	27.08	23.62	23.49	21.50
\$ 68.6	\$ 37.6	\$ 34.9	\$ 71.4	\$ 9.0	\$ 15.9	\$ 10.1	\$ 21.4
18.2	17.7	14.6	14.1	13.0	14.0	13.2	13.1
25.0	(37.6)	(10.2)	3.5	36.2	7.8	12.1	(13.5)
\$ 30.2	\$ 35.2	\$ 56.1	\$ 66.1	\$ 66.8	\$ 81.9	\$ 151.2	\$ 188.9
(0.7)	—	0.3	(0.8)	(4.5)	(13.2)	(1.0)	9.2
—	—	(9.8)	(6.7)	3.9	(13.8)	—	—
(0.7)	—	(9.5)	(7.5)	(0.6)	(27.0)	(1.0)	9.2
0.3	—	2.0	(1.0)	(0.2)	10.4	(0.1)	(3.8)
\$ (0.4)	\$ —	\$ (7.5)	\$ (8.5)	\$ (0.8)	\$ (16.6)	\$ (1.1)	\$ 5.4

Notes:

- Working capital as stated in the table comprises all current assets other than cash and short-term investments, less all current liabilities other than bank advances and the current portion of long-term debt.
- Average working capital as a percentage of total sales is calculated using the average of opening and closing working capital, and total sales for the year, which include sales from discontinued operations. For the purpose of this calculation, income and other taxes recoverable and payable have been excluded from working capital as stated in the table.
- Percentage return of total operating profit on average total funds employed is calculated using total operating profit, which includes the operating profit/(loss) of discontinued operations, and the average of opening and closing total funds employed.
- Percentage return of net earnings on average common shareholders' equity is calculated using net earnings after preferred dividends and the average of opening and closing common shareholders' equity.

Principal operating subsidiaries and divisions

HAWKER SIDDELEY

Transportation and industrial products



Canadian Steel Foundries Division

Montreal, Quebec

Robert Bergeron

Vice-President and General Manager

High-integrity, heat-resisting steel castings for the energy and other high-technology industries

Orenda Division

Mississauga, Ontario

Richard A. Neill

Vice-President

Components and repair and overhaul of jet engines and industrial gas turbines

CGTX Inc. (55% - owned)

Montreal, Quebec; Mississauga, Ontario;

Moose Jaw, Saskatchewan; and Calgary

and Red Deer, Alberta

Jacques C. Léger

President and Chief Executive Officer

Full-service leasing and repair and maintenance of railcars



Middleton Aerospace Corporation

Middleton, Massachusetts

J. Stephen Tosi

General Manager

Components for aero and industrial gas turbine engines

Resource industry equipment



CSMI Division

Langley, British Columbia

Thomas J. Riordan

General Manager

Sales and service of sawmill and softwood lumber processing equipment



Dosco Overseas Engineering Limited

Tuxford, Nottinghamshire

Michael C. Burt

Managing Director

Mining and tunnelling machines for coal and soft-rock mining; and machinery for civil engineering tunnelling and bulk materials handling

Hollybank Engineering Company Limited

Tuxford, Nottinghamshire

Ralph H. Knight

Managing Director

Roof support systems for mine roadways and civil engineering tunnels; contract drivage of mine roadways; and other mining and civil engineering tunnelling contract services



Consolidated Sawmill Machinery International Inc.

Portland, Oregon; Hot Springs, Arkansas;

and Savannah, Georgia

Thomas J. Riordan

President

Sawmill and softwood lumber processing equipment

The Dosco Corporation

Abingdon, Virginia

James E. Marianski

President

Sales and service of mining and tunnelling machines for coal and soft-rock mining and for civil engineering tunnelling

Hawker Siddeley Canada Inc.

Mississauga, Ontario

CGTX

Mississauga, Ontario

Orenda

Mississauga, Ontario

Orenda

Ottawa, Ontario

Middleton

Aerospace

Middleton,
Massachusetts

Canadian

Steel Foundries

Montreal,
Quebec

CGTX

Montreal,
Quebec

Dosco
Overseas
Engineering

Tuxford,
Nottinghamshire

CSMI
Langley,
British
Columbia

CGTX
Red Deer,
Alberta

CGTX
Moose Jaw,
Saskatchewan

CSMI
Hot Springs,
Arkansas

Dosco
Corporation
Abingdon,
Virginia

CSMI
Savannah,
Georgia

CSMI
Portland,
Oregon

CGTX
Calgary,
Alberta

● Head Office

● Steel castings

● Sawmill and
softwood lumber processing
equipment

● Components and repair
and overhaul of jet engines and
industrial gas turbines

● Railcar leasing and repair
and maintenance

● Mining and tunnelling equipment
and services

Hollybank
Engineering
Tuxford,
Nottinghamshire

Corporate directory

HAWKER SIDDELEY

Directors

Beth M. Bandler
*Vice-President, Secretary and General Counsel,
Hawker Siddeley Canada Inc.*

Arthur H. Crockett
Corporate Director

Robert A. Ferchat ■
*Chairman,
TMI Communications Inc.*

Louis Hollander ●
Corporate Director

John F. Howard, Q.C. ● ■
*Partner,
Blake, Cassels & Graydon,
Barristers & Solicitors*

Keith F. Moore ●
*President and Chief Executive Officer,
Hawker Siddeley Canada Inc.*

Louis Rochette ■
*President,
Gesconav Inc.*

Guyline Saucier ■
Corporate Director

Thomas K. Shoyama ■
*Visiting Professor,
University of Victoria*

A.M. Gordon Turnbull ●
*Senior Vice-President, Finance
and Chief Financial Officer,
Hawker Siddeley Canada Inc.*

● *Member of the Executive Committee*
■ *Member of the Audit Committee*

Officers and senior corporate management

John F. Howard, Q.C.
Chairman

Keith F. Moore
President and Chief Executive Officer

A.M. Gordon Turnbull
*Senior Vice-President, Finance
and Chief Financial Officer*

Beth M. Bandler
*Vice-President, Secretary and
General Counsel*

Robert Bergeron
*Vice-President,
Canadian Steel Foundries Division*

William G. Broley
Comptroller

Richard A. Neill
*Vice-President,
Orenda Division*

Arnold R. Norris
*Vice-President, Human Resources
and Administration*

Frederick J. Sandford
Treasurer

Auditors
Price Waterhouse
*Chartered Accountants,
Toronto*

Corporate office
Suite 700
3 Robert Speck Parkway
Mississauga, Ontario L4Z 2G5
Telephone 905-897-7161
Facsimile 905-897-1466

Shareholder information

HAWKER SIDDELEY

The Company

The Company was incorporated under the laws of Canada on September 1, 1945 as A.V. Roe Canada Limited. The name of the Company was subsequently changed to Hawker Siddeley Canada Inc. The Company was continued under the Canada Business Corporations Act on July 1, 1980 and, most recently, amalgamated with its immediate parent company, HSC Hawker Canada Ltd. on April 1, 1994 under the name Hawker Siddeley Canada Inc.

Capital stock

At December 31, 1993 the issued capital stock of the Company comprised 140,000 fully-paid 5¾% cumulative redeemable preferred shares and 8,199,601 fully-paid common shares.

Listing of stock

The preferred and common shares of the Company are listed on the Toronto, Montreal and Vancouver stock exchanges. The shares are listed under the stock symbol "HSC.PR.C" and "HSC" respectively.

Transfer agent and registrar

The transfer agent and registrar for the preferred and common shares of the Company is The R-M Trust Company at its offices in Toronto, Montreal, Winnipeg and Vancouver.

Annual meeting

The 1994 annual meeting of the shareholders of the Company will be held on June 17, 1994, at 11 a.m. in the Windsor Room of the King Edward Hotel, 37 King Street East, Toronto, Ontario.

Annual and quarterly reports

Additional copies of the 1993 Annual Report and copies of quarterly reports may be obtained from the Secretary, Hawker Siddeley Canada Inc., Suite 700, 3 Robert Speck Parkway, Mississauga, Ontario L4Z 2G5

Financial calendar

Financial year-end	December 31
Quarterly results	April, July, November
Quarterly reports	May, August, November
Annual results	February
Annual report	May
Annual meeting	June
Dividend payments	
Preferred shares	January 2, April 2, July 2 and October 2
Common shares	January 15, April 15, July 15 and October 15

Market price of common shares

\$	High	Low
1993		
First quarter.....	21¾	18¾
Second quarter.....	24¾	20½
Third quarter.....	27	21⅝
Fourth quarter	28	23½
1992		
First quarter.....	26	22½
Second quarter.....	25¾	23
Third quarter.....	24¾	20
Fourth quarter	22¼	20⅞

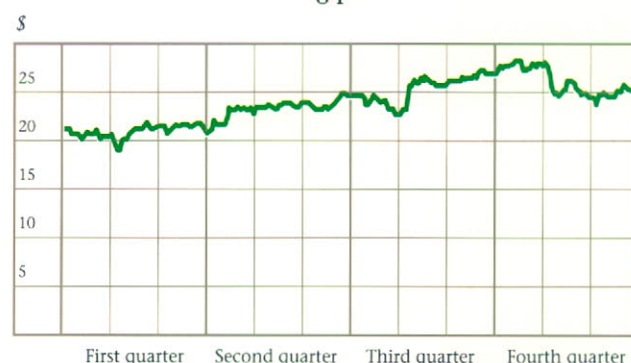
Number of shares traded

Thousands	1993	1992
First quarter.....	158	102
Second quarter.....	230	36
Third quarter.....	131	22
Fourth quarter	96	345
	615	505

Notes:

- High and low market prices reflect prices quoted on The Toronto Stock Exchange
- The number of shares traded reflects the combined volume of shares traded on the Toronto, Montreal and Vancouver stock exchanges.

1993 common share closing price



- The graph reflects the daily closing price of the common shares of the Company on The Toronto Stock Exchange.



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*Designed and produced by
Carpenter & Company Design Inc.
Printed in Canada by
Arthurs-Jones Lithographing Limited*

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