Hawker Siddeley Canada LTD.

1974 Annual Report

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Notice of Annual and Special General Meeting

The Annual and Special General Meeting of Shareholders will be held in the Ontario Room of the Royal York Hotel, Toronto, Ontario, on Friday, May 30th, 1975 at 11:00 a.m., E.D.T. A notice of the meeting, an information circular, and a proxy form for the convenience of those shareholders holding common shares, are enclosed with this report.

Head Office
7 King Street East
Toronto, Ontario
M5C 1A3

Directors
A. A. Bailie, Toronto, Ontario – *Canadian*
J. H. Coleman, Toronto, Ontario – *Canadian*
R. S. Faulkner, Toronto, Ontario – *Canadian*
Sir Arnold Hall, London, England – *British*
J. F. Howard, Q.C., Toronto, Ontario – *Canadian*
R. R. Kenderdine, London, England – *British*
A. J. Laurence, London, England – *British*
A. W. McKenzie, Montreal, Quebec – *Canadian*
K. L. Phillips, London, England – *British*
K. N. Slade, Aylesbury, England – *British*
R. G. Smith, Halifax, Nova Scotia – *Canadian*
Colin W. Webster, Montreal, Quebec – *Canadian*

Executive Management
Sir Arnold Hall, Chairman
R. R. Kenderdine, Vice-Chairman
Colin W. Webster, Vice-Chairman
R. S. Faulkner, President and
Chief Executive Officer
A. A. Bailie, Vice-President,
Finance, and Treasurer
I. E. Bull, Vice-President and Comptroller
L. T. Corey, Vice-President
(Halifax Shipyards and Trenton Works Divisions)
A. W. McKenzie (Chairman and President,
Canadian General Transit Company, Limited)
L. A. Mitten, Vice-President
(Canadian Car (Pacific) Division)
J. H. Ready, Vice-President and Secretary
E. J. White, Vice-President
(Canadian Steel Foundries and
Canadian Steel Wheel Divisions)

Auditors
Price Waterhouse & Co.,
Toronto, Ontario

Registrar and Transfer Agent
National Trust Company, Limited
Toronto, Montreal, Winnipeg and Vancouver

FINANCIAL DATA

	1974	1973	1972	1971	1970
Summary of operations (thousands of dollars)					
Revenue:					
Sales	$325,015	253,628	209,398	158,238	182,484
Income from investments	682	489	937	680	706
	325,697	254,117	210,335	158,918	183,190
Costs and expenses:					
Cost of sales, selling, general and administrative expenses exclusive of the following	290,265	225,870	189,306	142,541	166,051
Interest	6,386	4,269	4,055	3,985	4,114
Depreciation and amortization	8,933	8,907	7,923	7,469	6,848
	305,584	239,046	201,284	153,995	177,013
Income from operations before taxes	20,113	15,071	9,051	4,923	6,177
Income taxes	9,889	7,282	4,896	2,116	3,454
Interest of minority shareholders	963	1,585	882	666	856
Income before extraordinary items	9,261	6,204	3,273	2,141	1,867
Extraordinary items	545	1,721	348	312	(104)
Net income for the year	9,806	7,925	3,621	2,453	1,763
Per common share					
Income before extraordinary items	$ 1.04	.66	.30	.16	.13
Net income	1.11	.88	.35	.20	.12
Dividends declared	.32	.20	.07	—	—
Equity	10.12	9.33	8.67	8.39	8.10
Other statistics (thousands of dollars)					
Dividends—preferred shares	$ 805	805	805	2,013	1,006
—common shares	2,601	1,625	568	—	—
Working capital	37,916	37,169	31,390	32,536	30,944
Capital expenditures	23,586	12,305	7,544	7,901	14,360
Shareholders' equity—preferred shares	14,000	14,000	14,000	14,000	14,000
—common shares	82,252	75,852	70,317	68,069	65,734
Other share data					
Shares issued and outstanding—preferred	140,000	140,000	140,000	140,000	140,000
—common	8,129,341	8,129,341	8,117,341	8,117,341	8,117,341
Number of shareholders—preferred	1,583	1,636	1,675	1,748	1,859
—common	8,683	8,729	9,119	9,627	10,099
Principal Shareholder—Hawker Siddeley Group Limited					
percentage holdings—preferred	41.79%	41.79%	41.79%	41.79%	41.79%
—common	59.25%	59.25%	59.34%	59.34%	59.34%

Note—Financial data for the years 1970 to 1972 have been restated for prior years' adjustments recorded in the years 1971 and 1973 and for goodwill on acquisition of a subsidiary charged to retained earnings in 1970.

TO THE SHAREHOLDERS:

Your Directors submit herewith the audited accounts of Hawker Siddeley Canada Ltd. and its consolidated subsidiaries for the year ended December 31, 1974.

Sales

Consolidated sales for the year were $325 million (1973 : $253 million).

Income

Income from operations before income taxes was $20.1 million (1973 : $15.1 million).

Income before extraordinary items amounted to $9.3 million (1973 : $6.2 million) equivalent to $1.04 per common share (1973 : 66 cents).

Net income was $9.8 million (1973 : $7.9 million) equivalent to $1.11 per common share (1973 : 88 cents).

Extraordinary Items

A further distribution received on the liquidation of the assets of Dominion Coal Company, Limited, resulted in a gain of $288,740 (1973 : $224,987). The investment in that company was written off against distributions received in 1973.

During the year, land and buildings no longer required by Canadian Car (Pacific) and Canadian Bridge Divisions were sold and a settlement was reached in respect to certain portions of property of Canadian Steel Foundries Division in Montreal, P.Q., which were expropriated by the Province of Quebec for the construction of a major expressway. It was also considered desirable to dispose of the Dominion Industrial Properties in Montreal, notwithstanding that the market price was less than book value. Negotiations were in progress at the year end and a sale has since been concluded. The net effect of these property transactions, after providing for the loss on the Dominion Industrial Properties, was a gain after taxes of $256,222.

Dividends

In 1974 the Company declared and paid the four quarterly preferred share dividends as they became due. For the common shares, quarterly dividends of 8 cents were declared in March, May, September and December, making a total of 32 cents for the year. (1973 : 20 cents).

Comments

The strong economic conditions prevailing in domestic and export markets created an increased demand for the diverse range of products manufactured by the Company.

Some difficulties were encountered with shortages of materials and components, and scarcity of skilled labour. Inflation produced rapid changes in the prices of supplies.

Consolidated sales increased by 28% over the previous year; exports from Canadian operations accounted for 25% of their turnover, an increase of 22% over the previous year.

Improved profitability was recorded in most of the operations and income before taxes and extraordinary items increased by 33%. Net income increased by 24%.

Capital expenditure during 1974 was particularly directed to expansion and to the introduction of new machinery which should assist cost reduction. The new 250,000 sq. ft. factory for Canadian Car (Pacific) Division and additions to Canadian General Transit's rail tank car fleet were the major items.

New labour agreements, each of two years' duration, were concluded at Halifax Shipyards, Orenda and Canadian Bridge Divisions. In the case of Canadian Bridge Division, the Company suffered a 13-week strike before reaching a settlement. Two unofficial strikes at Trenton Works disrupted operations for two weeks. Several Divisions will be negotiating new labour agreements in 1975.

With inflation likely to maintain current high levels, and other uncertainties as to the course of economic events, both in Canada and abroad, we move into 1975 with an attitude of some caution. However, orders on hand are substantial and many of the products manufactured by the Company are involved in essential sectors of the economy.

After serving 18 years as a Director and for the past year as Vice-Chairman of the Board, Mr. C. W. Webster having attained the age limit prescribed by the By-laws will not be standing for re-election as a Director of the Company at the forthcoming Annual and Special General Meeting of Shareholders. The Directors wish to express their sincere appreciation for his wise counsel and for his keen interest in the welfare of the Company.

The Directors wish to acknowledge all those whose efforts contributed to the advances made by the Company in the past year.

Submitted on behalf of the Board,

A. A. Hall,
R. S. Faulkner.

Toronto, Ontario, March 20, 1975.

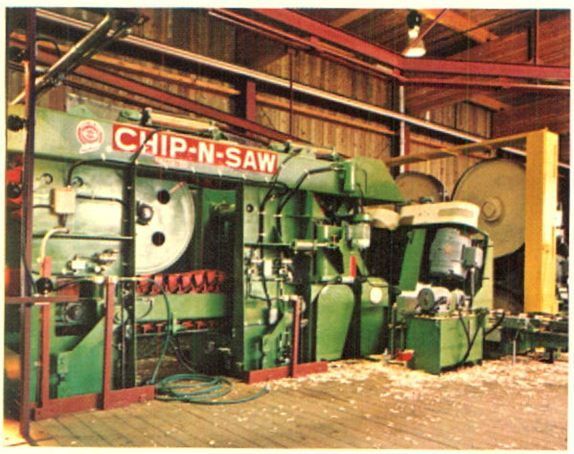
HAWKER SIDDELEY CANADA LTD.

Canadian Car (Pacific) Division

The Division had a good year of trading and sales reached new levels. Although the sharp fall-off in new housing starts, particularly in the U.S.A., seriously affected the lumber industry, the Division's highly developed "Chip-N-Saw" family of machines remained in good demand through the year though some softening of the market may well occur in 1975.

The Division pursued the policy of further penetration of potential offshore markets and new sales were made in Central European countries, South Africa and New Zealand.

The latest type of subway car for the T.T.C.



A Chip-N-Saw band mill installation

The research and development program resulted in important improvements to the existing machines as well as some encouraging progress in the development of new products which will offer significant benefits to the sawmill industry.

The new 250,000 sq. ft. factory, located in Surrey, B.C., specifically designed and built to produce sawmill equipment, was virtually completed by year end. Manufacturing and support services were transferred to the new location without serious disruption.

Canadian Car Division

This Division carries on three manufacturing businesses namely, Woodlands Equipment, Railway Passenger Equipment and Highway Trailers.

The Woodlands business, which relates mainly to the manufacture and marketing of the "Tree Farmer" range of skidders, attained marked improvement in sales and earnings, particularly in exports. The lumber industry however, is now in a state of depressed demand and this is expected to significantly affect the "Tree Farmer" market in 1975. A continuing program of product improvement is in hand on the "Tree Farmer" and encouraging progress has been made in research and development activity on new applications and equipment – in particular, the prototype of a new clipper head employing the sound dynamics principle successfully completed extended field trials during the year and is expected to be ready for production later in 1975.

The Railway Passenger Equipment business had one of its most active years for some time. The remaining twenty-two commuter cars out of an order of thirty for GO Transit were completed and delivered as well as twenty-eight new subway cars out of an order of eighty-eight for Toronto Transit Commission. A new modular component and assembly procedure was successfully introduced on the T.T.C. subway car production line during the year and is expected to make an important contribution to the maintenance of a competitive position in rail car production. The market outlook for passenger equipment is good and the Division is in the process of developing proposals to meet substantial new requirements for both domestic and export customers.

The Highway Trailer business traded favourably although the strong demand in the earlier part of the year softened in the second half and demand is expected to be somewhat depressed in 1975. However, it is expected that the lessening in demand for standard-type trailers may be, to some extent, offset by increased sales of special-purpose units and by the new fibreglass-reinforced plywood (FRP) trailer introduced by this Division over a year ago which is meeting with encouraging user acceptance. A new trailer service branch was opened in Vancouver during the year which together with branches in Toronto, Montreal, and Quebec City, enables the Division to offer country-wide sales and service to its customers.

Canadian Steel Foundries Division

Whilst activity in the large custom castings for applications in mining, electrical generation, gas compression, and steel processing fields commenced slowly, the pace picked up during the year. When added to castings for railway rolling stock, which accounted for the larger portion of production, the total output was one of the highest recorded by the Division.

Good progress was made in development of export sales, particularly to the United States, and the outlook for an increasing demand for high integrity-type castings for nuclear and specialty applications should enhance the Division's trading prospects in this sector.

Capital expenditures during the year were aimed at cost reduction and modernization with particular emphasis being given to upgrading of anti-pollution systems in the plant.

A large industrial casting ready for shipment

Canadian Steel Wheel Division

The plant operated at full capacity throughout the year to meet the strong demand for railway and industrial wheels and for basic steel ingots. Results were the highest recorded by this Division.

Railway wheel requirements were dominated by domestic customers but a good export position was maintained in the supply of specialized wheels for urban transit systems. Industrial wheels, while remaining a relatively small proportion of total wheel production, again showed increased sales over the previous year. The plant's steel making facilities were also utilized to near capacity to meet the demand for steel ingots.

A quality control check on railway wheels at C.S.W.

A fully-automated wheel machining line, designed to give a significant increase in wheel output, will commence operations in 1975.

Orenda Division

A good level of activity was maintained during the year though there was a falling demand for aero engines. Engine repair and overhaul work was steady whilst industrial turbine production activity was moderately higher than in previous years. Two gas compressor units were installed for the British Gas Council and two railcar-mounted, mobile generating units of 9600 kW each for the People's Republic of China, and a trailer-mounted, mobile generating unit for a Newfoundland utility company were completed and shipped. There was a useful volume of aerospace, nuclear and other categories of sub-contract work.

This Division has traditionally relied heavily on defence and aerospace work as the mainstay of its operations, with major support coming from production of industrial gas turbines for both gas

Part of the mobile generator set shipment bound for China

compression and electrical generation. In recent years defence and aerospace work has been on a steady decline and there has been a fall-off in demand for industrial units produced by the Division, accelerated by the effects of the rapid rise in the price of fuel which makes these units less attractive than hitherto. The consolidation of operations in response to these market changes has continued during 1974.

HAWKER INDUSTRIES LIMITED
(Approx. 99% owned)

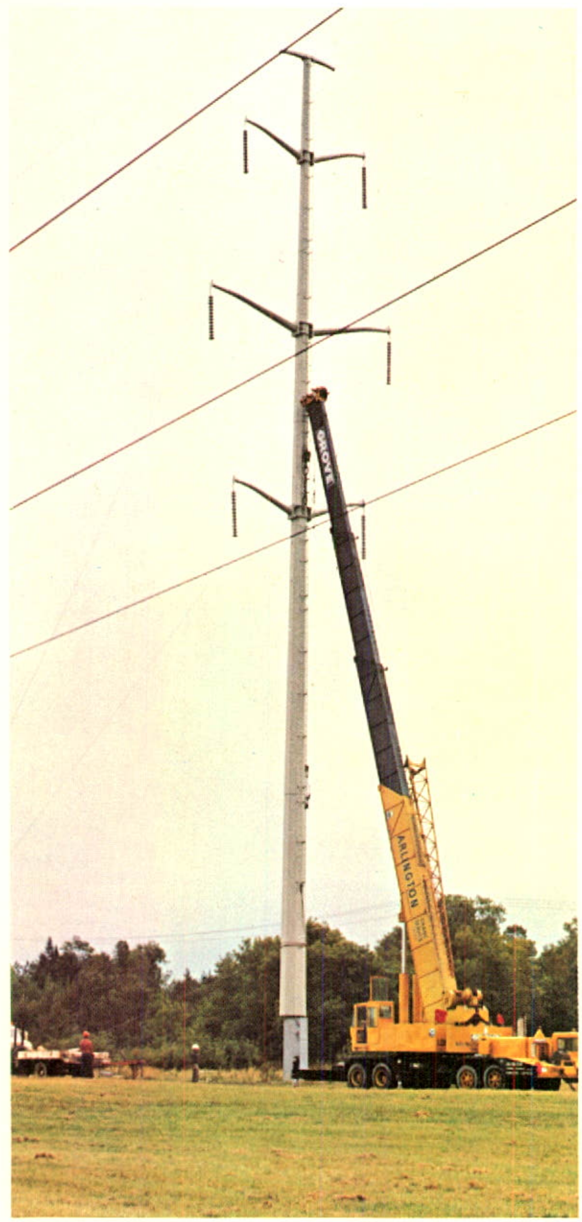
Canadian Bridge Division

The volume of steel tower work processed during the year by this Division showed an increase despite a carry-over of the steel supply difficulties which caused production problems in the previous year.

Several important steps were taken aimed at placing this operation on a more competitive and profitable footing. The management organization was extensively overhauled. Production lines were re-aligned and a major re-equipment program started to facilitate production of towers with improved efficiency. Whilst some benefits from these changes were obtained in 1974, we expect the major contribution will not be realized until the re-equipment program is completed late in 1975.

Following a thirteen week strike a new labour contract was negotiated with the plant production employees, the term of which carries through to June 1976.

There continues to be a strong demand for electrical power and microwave transmission structures in both the domestic and export sectors. The Division has been successful in recent months in obtaining a number of contracts which will ensure a steady level of activity through 1975.



Erecting electric power steel transmission poles

Halifax Shipyards Division

Operations in this Division were hampered by shortages of materials and a scarcity of skilled labour. Construction continued on semi-submersible offshore drilling vessels. Sedco 704, the fifth unit to be built by the Yard was delivered in September and the sixth unit Sedco 705 is scheduled for completion in September, 1975. Follow-on orders are in hand for a seventh semi-submersible rig and for a drill ship.

Apart from Sedco 704, no new ships were constructed in 1974 but a steady volume of ship repair work was maintained at both the Halifax and the Dartmouth Yards. The plan for developing Trenton Works as a supplier of large completed assemblies for transportation by barge through the Strait of Canso to Halifax was successfully realized during the year. The combining of the resources of both Divisions in this activity is proving to be mutually beneficial.

An offshore drill rig undergoing sea trials at Halifax

The capital improvement and modernization program continued during the year. A major item was the specially refitted barge used to transport assemblies from Trenton Works to Halifax. A new 60-ton gantry crane for the main construction slipways is scheduled for delivery early in 1975.

Orders on hand will provide a satisfactory work load through 1975 and 1976 though onward demand for new drilling units may well show some decline. We think that, in the longer term, the need to continue the search for new energy resources will maintain demand for offshore drilling vessels, particularly of the dynamically positioned drill ship type. Halifax Shipyards should be well placed to participate in this particular requirement.

Trenton Works Division

Sales volume at the Trenton, Nova Scotia, plant reached a new high level in the year. The increased activity was due mainly to continued requirements for new freight cars and equipment by the major Canadian railways and a high demand for tank cars.

Total railway car production rose from 2,276 units in 1973 to 2,844 units in 1974. Export markets took a greater number of cars in 1974, with deliveries going to Mexico and Zambia. Production of railway axles and other forgings were both substantially increased.

One of the many types of freight cars built at Trenton Works

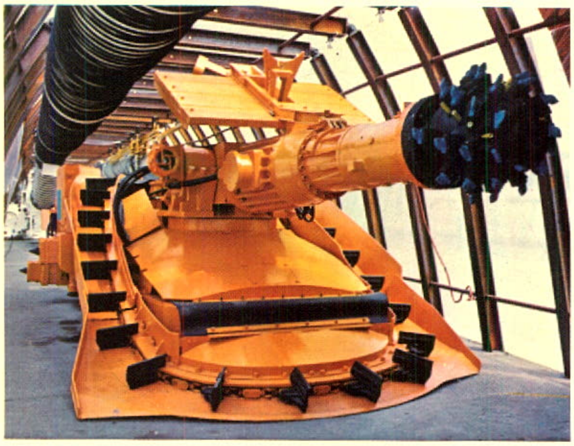
The Division commenced fabrication of large assemblies for offshore drilling vessels under construction at Halifax Shipyards Division. New erection facilities were installed and additional volumes of this work were undertaken. These large assemblies are now being shipped by barge direct from the Trenton Works plant to Halifax Shipyards.

During the year, two unofficial strikes by plant workers caused some loss of production.

Some easing in the demand for new cars is now showing though it is expected that there will be sufficient demand to ensure that the plant is well utilized in 1975.

Dosco Overseas Engineering Limited

This United Kingdom-based subsidiary had a very successful year, with both production and sales reaching new high levels. The energy crisis resulted



A Dosco Roadheader Mk2A mining machine

in very strong demand for the company's machines for coal mines. Progress is being made in sales for other types of mining operations and for civil engineering uses.

Shipments of machines to countries outside the United Kingdom increased and went to six different countries. Sales to the U.S. are growing satisfactorily and are being handled by company sales offices in the U.S.

New types of machines have been introduced and the company now offers five main types for underground operations. The latest is a new shield-type tunnelling machine, introduced into civil engineering work last year. It was proved successful in 1974 operations and orders for additional machines have been received. A marked increase in sales activity was also recorded by Hollybank Engineering Company Limited, a subsidiary company of Dosco Overseas Engineering Limited.

Continuing demands throughout the world for machinery to increase coal production and to serve other underground operations should enable both companies to maintain their growth patterns in 1975.

CANADIAN GENERAL TRANSIT COMPANY, LIMITED (55% owned)

The demand for the company's railway tank car leasing service continued at an unusually high level throughout 1974 and produced one of the largest order books in the company's history. The tank car fleet and storage terminal facilities operated at full capacity.

Substantial additions of large new tank cars were made to the fleet, while the retirement of old smaller cars was at a normal level. The carrying capacity of the fleet and revenues were consequently increased.

The company will take delivery of a large number of new cars during 1975 to meet its leasing commitments.

A new tank car for addition to the CGT fleet

Hawker Siddeley Canada Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

for the year ended December 31, 1974

	1974	1973
Revenue:		
Net sales (Note 2)	$325,014,643	$253,627,573
Income from investments	682,587	489,215
	325,697,230	254,116,788
Costs and expenses:		
Cost of sales, selling, general and administrative expenses exclusive of the following	290,265,417	225,869,827
Interest on bank advances	2,828,437	1,440,956
Interest and amortization of costs of long term debt	3,557,404	2,828,292
Provision for depreciation	8,632,663	8,508,912
Amortization of patents (Note 5)	300,000	398,317
	305,583,921	239,046,304
Income from operations before income taxes	20,113,309	15,070,484
Provision for income taxes (Note 12)	9,889,000	7,282,000
	10,224,309	7,788,484
Interest of minority shareholders in income of subsidiaries	963,138	1,584,416
Income before extraordinary items	9,261,171	6,204,068
Gain on properties (Note 13)	256,222	—
Income tax provision not required (Note 14)	—	1,496,000
Gain on investment in Dominion Coal Company, Limited (Note 15)	288,740	224,987
Net income for the year	9,806,133	7,925,055
Retained earnings, beginning of year	21,531,995	11,205,406
Reserve for contingencies appropriated from retained earnings in 1968	—	4,831,939
	31,338,128	23,962,400
Dividends—preferred shares	805,016	805,017
—common shares	2,601,389	1,625,388
	3,406,405	2,430,405
Retained earnings, end of year	$ 27,931,723	$ 21,531,995
Income per common share after preferred dividends (Note 9):		
Before extraordinary items	$ 1.04	66¢
After extraordinary items	$ 1.11	88¢

Hawker Siddeley Canada Ltd. and Consolidated Subsidiaries

CONSOLIDATED BALANCE SHEET

December 31, 1974

ASSETS	1974	1973
Current Assets:		
Cash	$ 885,567	$ 3,200,446
Accounts receivable	54,939,438	52,076,171
Inventories, less progress payments	88,928,824	53,828,196
Prepaid expenses	1,042,797	923,297
	145,796,626	110,028,110
Investments, at cost:		
Debentures (Note 3)	3,351,762	3,394,700
Mortgage and other investments	367,004	368,055
	3,718,766	3,762,755
Fixed Assets, at cost less accumulated depreciation (Note 4)	122,806,914	110,623,159
Other Assets, at cost less amortization:		
Patents (Note 5)	900,000	1,200,000
Issue costs of long term debt	294,866	260,444
	1,194,866	1,460,444
	$273,517,172	$225,874,468

Approved on behalf of the Board:
A. A. Hall, Director
R. S. Faulkner, Director

LIABILITIES AND SHAREHOLDERS' EQUITY	1974	1973
Current Liabilities:		
Bank advances	$ 31,942,619	$ 14,790,477
Accounts payable and accrued liabilities	49,536,926	40,790,826
Dividends payable	851,601	689,014
Income and other taxes payable	8,987,906	6,090,290
Advances on sales contracts	10,419,823	4,434,484
Long term debt due within one year (Note 7)	3,975,328	3,688,039
Due to affiliated companies (Note 6)	2,166,396	2,375,579
	107,880,599	72,858,709
Long Term Debt (Note 7)	40,375,609	36,280,937
Provision for Unfunded Pensions (Note 8)	5,259,003	5,695,136
Deferred Income Taxes	13,317,857	11,081,038
Minority Interest	10,432,433	10,106,705
Shareholders' Equity:		
Preferred and common shares (Note 9)	68,319,948	68,319,948
Retained earnings	27,931,723	21,531,995
	96,251,671	89,851,943
	$273,517,172	$225,874,468

Hawker Siddeley Canada Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

for the year ended December 31, 1974

	1974	1973*
Source of working capital:		
Income before extraordinary items	$ 9,261,171	$ 6,204,068
Charges to income not affecting working capital—(Mainly depreciation, amortization of patents, deferred income taxes and interest of minority shareholders in income of subsidiaries)	12,867,638	13,759,937
Working capital provided from operations	22,128,809	19,964,005
Issue of long term debt	8,012,500	6,960,000
Proceeds on disposal of properties	2,318,073	—
Proceeds on partial realization of investment in Dominion Coal Company, Limited (Note 15)	289,294	556,941
Notes reclassified	—	5,000,000
Common shares issued	—	40,200
Miscellaneous	40,049	39,586
	32,788,725	32,560,732
Application of working capital:		
Fixed assets	23,586,047	12,304,637
Patents	—	1,598,317
Investments in subsidiaries	160	4,851,197
Reduction of—		
Long term debt	3,975,328	4,501,039
Provision for unfunded pensions (Note 8)	436,133	457,268
Dividends declared payable to—		
Shareholders of Hawker Siddeley Canada Ltd.	3,406,405	2,430,405
Minority shareholders of subsidiaries	638,026	638,074
	32,042,099	26,780,937
Working capital:		
Increase for the year	746,626	5,779,795
At beginning of year	37,169,401	31,389,606
At end of year	$ 37,916,027	$ 37,169,401

Changes in Elements of Working Capital

	1974	1973*
Current assets—Increase (decrease):		
Cash	$ (2,314,879)	$ 866,001
Accounts receivable	2,863,267	6,028,284
Inventories	35,100,628	11,676,594
Prepaid expenses	119,500	(38,738)
	35,768,516	18,532,141
Current liabilities—Increase (decrease):		
Bank advances	17,152,142	(4,406,411)
Accounts payable and accrued liabilities	8,746,100	11,107,743
Dividends payable	162,587	487,760
Income and other taxes payable	2,897,616	907,145
Advances on sale contracts	5,985,339	3,118,749
Long term debt due within one year	287,289	1,202,492
Due to affiliated companies	(209,183)	334,868
	35,021,890	12,752,346
Increase in working capital for the year	$ 746,626	$ 5,779,795

The 1973 figures have been restated to conform with the presentation adopted in 1974.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 1974

1. Summary of Principal Accounting Policies:
The consolidated financial statements present the financial position, results of operations and changes in financial position of the Company and its consolidated subsidiaries in accordance with generally accepted accounting principles, applied on a consistent basis. The more important accounting policies are summarized as follows:

Principles of consolidation—
The consolidated financial statements include the accounts of Hawker Siddeley Canada Ltd. and of all subsidiary companies except Dominion Coal Company, Limited (Domco), a partly-owned subsidiary of Hawker Industries Limited (Industries). The accounts of Domco are not consolidated because that company has appointed a liquidator who is in the process of winding up its affairs and distributing its assets.

Foreign currency translation—
The accounts of foreign subsidiaries have been translated to Canadian dollars at rates of exchange prevailing at the year-end. In the case of the Company and its Canadian subsidiaries, assets and liabilities in foreign currencies have been translated at the year-end rates of exchange except for investments and long term debt. Investments have been translated at rates of exchange in effect when they were acquired. Long term debt has been translated at rates of exchange in effect when the obligations were incurred or when determined by forward foreign exchange contracts. In 1974 and 1973 translation adjustments were not material and were included in current income.

Revenue recognition—
Revenue is recorded at the time the product is shipped or the services performed except on long term contracts. Revenue on long term contracts involving a series of shipments (for example railway or rapid transit cars) is recorded on the basis of units shipped. Revenue on long term contracts involving a single product (for example an oil drilling rig) is recorded on the percentage of completion method. Losses, if any, are provided for in full as soon as they become evident.

Research and development costs—
These costs are expensed as incurred.

Product warranty costs—
Anticipated costs related to product warranty are provided at the time of the sale of the products.

Costs of long term debt—
Commission costs incurred on issue of long term debt are amortized over the term of the debt issue to which they relate.

Costs of patents and rights for new products—
Significant costs incurred in purchasing patents and rights for products are amortized on the straight-line method over the lesser of the period of anticipated or legal advantage. Other costs relating to patents and rights are expensed as incurred.

Inventories—
Inventories are carried at the lower of cost and net realizable value, less progress payments.

Fixed assets—
Fixed assets are carried at cost. Depreciation on these assets is provided over their estimated useful lives primarily on the straight-line basis. When fixed assets are retired or sold, the related cost and accumulated depreciation are removed from the respective accounts and any profit or loss is reflected in the consolidated statement of income. Expenditures for repairs and maintenance are charged to income as incurred.

Pensions—
The Company and its subsidiaries have pension obligations to unfunded and funded pension plans.

Obligations to unfunded pension plans relate to retired employees and certain current employees for benefits which, for the most part, arose before the establishment of funded pension plans. The principal obligation for unfunded pension plans is in Industries, having originated in 1923. Under these pension plans monthly payments are made to pensioners which are charged, after appropriate income taxes, to the provision established for that purpose.

Obligations to funded pension plans relate to both present and former employees. For present employees, the obligations are for both current and past service; for former employees, the obligations are for service during their period of employment. These current and past service obligations are settled by annual payments to trustees which are charged to operations.

Income taxes—
Certain costs and expenses are recognized for income tax purposes and for financial reporting purposes in different time periods. When costs and

expenses are recognized for tax purposes before being charged in the accounts, the resulting deferrals of taxation are recorded in the deferred income tax account; when costs and expenses are charged in the accounts before they can be applied in reduction of income for tax purposes, the related tax benefit is recorded when the application can be made.

2. Classes of business:

	Net Sales (in thousands) 1974	1973*
Equipment for the transportation industry	$166,470	$115,560
Equipment for the forestry and forest products industries	51,484	45,738
Gas turbine power equipment for the oil, gas and aircraft industry and associated services	30,940	28,360
Other general engineering and services	76,121	63,970
	$325,015	$253,628

*The 1973 figures have been restated to conform with the presentation adopted in 1974.

3. Debentures:

These are sinking fund debentures issued by Sidbec-Dosco Ltd. (formerly Dominion Steel and Coal Corporation, Limited) carried at cost. At December 31, 1974 the market value of these debentures is estimated to be $2,270,000. Particulars of these debentures are:

Series	Amount	Interest rate	Maturity
"A"	$1,395,000	5¾%	June 1, 1984
"B"	1,312,700	6 %	July 15, 1985
"C"	644,062*	5¾%	July 15, 1985
	$3,351,762		

*U.S. $600,000

The Company is holding these debentures as a long term investment.

4. Fixed Assets:

	1974 Cost	Accumulated depreciation	Net book value	1973 Net book value
Land and land improvements	$ 9,391,102	$ 1,967,329	$ 7,423,773	$ 6,988,525
Buildings	55,846,915	35,550,044	20,296,871	16,566,097
Equipment	64,393,642	43,711,795	20,681,847	20,183,427
Railway rolling stock leasing fleet	112,082,467	37,678,044	74,404,423	66,885,110
	$241,714,126	$118,907,212	$122,806,914	$110,623,159

5. Patents:

Patent costs relate to the Chip-N-Saw product line. The Company plans to amortize the remaining patent costs over the ensuing three years.

6. Due to Affiliated Companies:

The liability to affiliated companies at December 31, 1974 includes advances from the parent company of $2,110,636 (1973—$1,972,682).

7. Long Term Debt:

	1974	1973
Hawker Siddeley Canada Ltd.—		
Promissory notes due in two equal annual instalments, 1975-1976 with interest at prevailing minimum commercial lending rates of a Canadian chartered bank	$ 2,000,000	$ 3,000,000
Dosco Overseas Engineering Limited (99%-owned)—		
Bank term loan (£1,000,000) due $1,160,000 in 1977 and $1,160,000 in 1978 with interest at 12.75% to 14.625% through May, 1975; thereafter based on cost to the bank of providing the funds plus 1.5%	2,320,000	—
Canadian General Transit Company, Limited (55%-owned)—		
Equipment Trust Certificates 4¼%-6¾% due 1975-1980	1,220,000	1,532,000
First Mortgage Sinking Fund Equipment Notes 5%-9% due 1975-1989 (U.S. $13,325,000)	14,010,937	15,071,976
6¾%-10¼% due 1975-1994	20,950,000	15,850,000
First Mortgage Serial Equipment Notes 6%-10¼% due 1975-1984	1,750,000	2,265,000
9¾% due $150,000 in 1975 and $1,950,000 in 1976*	2,100,000	2,250,000
	44,350,937	39,968,976
Less—Due within one year included in current liabilities	3,975,328	3,688,039
	$40,375,609	$36,280,937

Principal payments on long term debt will be as follows:

Year ending December 31	Amount
1975	$ 3,975,328
1976*	5,742,953
1977	3,955,578
1978	3,819,516
1979	2,603,453
1980-1994	24,254,109
	$44,350,937

*The 9¾% First Mortgage Serial Equipment Note of $1,950,000 maturing September 1, 1976 may be exchanged for others to mature $150,000 on September 1, 1976 and 1977 and $1,650,000 on September 1, 1978 at a rate of interest to be negotiated.

Railway rolling stock with a net book value of $55,150,000 is pledged by Canadian General Transit Company, Limited as security for its long term debt.

8. Pensions:
The provision for unfunded pensions of $5,259,003 at December 31, 1974 together with future tax allowances is considered adequate to provide for the cost, based on actuarial computations, of pensions under these unfunded plans (see Note 1). In accordance with the Company's policy, pension payments, after income taxes, of $436,133 were charged to the provision for unfunded pensions in 1974.

With respect to funded pension plans (see Note 1), the present value of past service obligations to be met, based on actuarial computations, is approximately $7,800,000 at December 31, 1974. These obligations are to be settled by annual payments charged to operations through 1989. During 1974, an amount of $792,342 was charged to operations with respect to these obligations.

9. Preferred and Common Shares:

Preferred shares of the par value of $100 each issuable in series—	
Authorized—250,000 shares	
Issued—240,000 5¾% cumulative redeemable shares	
Outstanding—140,000 shares	$14,000,000
Common shares without nominal or par value—	
Authorized—10,000,000 shares	
Issued and outstanding—8,129,341 shares	54,319,948
	$68,319,948

The outstanding preferred shares are redeemable at the option of the Company at $105 per share.

The Company has a stock option plan for officers and senior employees. During the year ended December 31, 1974, options to subscribe for 1,000 shares expired. As of December 31, 1974 options to subscribe for unissued common shares were outstanding for 1,000 shares at $6.50 per share expiring in 1975 and 13,000 shares at $3.35 per share expiring in 1979.

If these outstanding options are exercised, the effect upon earnings per share would be insignificant.

10. Contingent Liabilities:
The Company and a subsidiary are contingently liable for trade notes discounted in the approximate amount of $9,100,000 (1973—$8,600,000).

11. Commitments:
At December 31, 1974 expenditures of approximately $21,900,000 are required to complete capital programs including approximately $14,900,000 for additions to the railway rolling stock leasing fleet. A further amount of $23,275,000 including $9,750,000 for the railway rolling stock leasing fleet has been authorized by the Board of Directors but not committed.

12. Provision for Income Taxes:
The provision for income taxes in the consolidated statement of income includes deferred income taxes of $2,236,819 (1973—$1,749,857).

13. Gain on Properties:
Lands and buildings no longer required by Canadian Car (Pacific) Division, Vancouver, B.C. and Canadian Bridge Division, Windsor, Ontario were sold and sections of the property of Canadian Steel Foundries Division in Montreal, P.Q., were expropriated by the Province of Quebec for construction of a major roadway. At year-end negotiations were in progress for the sale of the Dominion Industrial lands and buildings in Montreal, P.Q. and provision of $2,206,020 has been made for an anticipated loss.

A net gain of $256,222 was recorded with respect to these properties after income taxes of $226,000 on disposals, a tax recovery of $708,000 with respect to the anticipated loss, and minority interest of $222.

14. Income Tax Provision not Required:
The Company has accumulated costs and expenses which have been charged in the accounts but cannot as yet be applied in reduction of income for tax purposes. The related unrecorded tax benefits amounted to approximately $2,000,000 at December 31, 1974 including $800,000 arising during 1974 on the provision by the Company for an anticipated loss on depreciable properties.

When the accumulated costs and expenses can be applied in reduction of income for tax purposes, the benefit will be recorded as an extraordinary item of income.

15. Gain on Investment in Dominion Coal Company, Limited (Domco):
In 1974 a second distribution of $288,740, after taxes and minority interest, in respect of the liquidation of Domco was received and taken into

income as an extraordinary item. An initial distribution was received in 1973 of which $331,514 was applied to eliminate Industries' investment in Domco (see Note 1) and $224,987 after minority interest taken into income as an extraordinary item.

These distributions relate to Industries' investment in 26,521 preferred shares of Domco. Industries also owns all the common shares of Domco but these shares have no value. The amount of any further distributions cannot be established until Domco's liabilities are settled, the liquidation proceedings completed, and the costs of winding up paid.

16. Remuneration of Directors and Officers:
For the year 1974 the remuneration of seven directors amounted to $30,000 (1973 – $27,088) and of the eleven officers and one past officer amounted to $544,188 (1973 – $458,710). Six directors received no remuneration as directors. Five officers are also directors.

17. The Companies Act of British Columbia:
These consolidated financial statements comply with the disclosure requirements of the act of incorporation (The Canada Corporation Act) and the securities legislation of certain provinces in Canada, but do not purport to comply with all disclosure requirements of the Companies Act of British Columbia.

Auditors' Report

To the Shareholders of Hawker Siddeley Canada Ltd.:

We have examined the consolidated balance sheet of Hawker Siddeley Canada Ltd. and consolidated subsidiaries as at December 31, 1974 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.
Chartered Accountants

Toronto, Ontario
March 19, 1975

MISCELLANEOUS DATA ON SALES, EMPLOYEES, AND SHARES

	1974	1973
Sales:	$000.	$000.
By Canadian factories—		
To Canadian markets	$212,515	$166,055
To export markets	72,835	59,924
	285,350	225,979
By foreign subsidiaries (excluding sales of products of Canadian factories)	39,665	27,649
	$325,015	$253,628

The average weekly number of employees and their remuneration was as follows:

	1974	1973
In Canada	7,851	7,308
In the United Kingdom	429	378
In the United States of America and other countries	201	152
	8,481	7,838
Aggregate remuneration of employees was ($000.)	$101,154	$84,467

Common share dividends for 1974 have been declared as follows:

Record Date	Payable	1974
December 27, 1974	January 16, 1975	$ .08
September 27, 1974	October 16, 1974	.08
June 28, 1974	July 16, 1974	.08
March 29, 1974	April 16, 1974	.08
		$ .32

Preferred share quarterly dividends of $1.4375 were declared payable on the 2nd day of January, April, July and October, 1974.

The Department of National Revenue has published the following "Valuation Day" share prices (December 22, 1971) for income tax purposes:

Preferred shares	$ 58.50
Common shares	$ 2.40

DIVISIONS AND SUBSIDIARIES

Divisions:

Canadian Car Division, Thunder Bay, Ont.
Canadian Car (Pacific) Division, Vancouver, B.C.
Vancouver Industrial Controls Division, Richmond, B.C.
Canadian Steel Foundries Division, Montreal, Que.
Canadian Steel Wheel Division, Montreal, Que.
Data Processing and Graphics Division, Mississauga, Ont.
Orenda Division, Mississauga, Ont.

Subsidiaries:

Can-Car Inc., Atlanta and Bainbridge, Ga., Alexandria, La., McComb, Miss., New Bern, N.C., U.S.A. (100%)*
Chip-N-Saw, Inc., Atlanta, Ga., Eugene, Or., U.S.A.
The Dosco Corporation, Pittsburgh, Penn., Denver, Col., U.S.A.
Canadian Car Pte. Limited, Singapore (100%)*
Chip-N-Saw A/S, Naestved, Denmark (100%)*
Orenda Engines Inc., Buffalo, N.Y., U.S.A. (100%)*
Orenda (International) Limited, Mississauga, Ont., Aylesbury, England (100%)*
Hawker Industries Limited, Toronto, Ont. (99%)*
Canadian Bridge Division, Windsor, Ont.
Halifax Shipyards Division, Halifax, N.S.
Trenton Works Division, Trenton, N.S.
Dosco Overseas Engineering Limited, Aylesbury, England.
Hollybank Engineering Company Limited, Aylesbury, England
Canadian General Transit Company, Limited, Montreal, Que. Toronto, Ont., Moose Jaw, Sask., Red Deer, Alta. (55%)*

**percentage control by Hawker Siddeley Canada Ltd.*

DIVISIONS AND SUBSIDIARIES ENGAGED MAINLY IN PRODUCING:

Equipment for the transportation industry:

Canadian Car Division
Canadian Steel Foundries Division
Canadian Steel Wheel Division
Trenton Works Division
Canadian General Transit Company, Limited

Highway trailers; containers; container chassis; railway axles; railway and industrial wheels; railway castings; trackwork; railway freight and tank cars; railway passenger cars (subway, commuter, and inter-city); railway tank and special freight car leasing; bulk liquid storage terminals; forgings; storage and pressure tanks; steel fabrications.

Equipment for the forestry and forest products industries:

Canadian Car Division
Canadian Car (Pacific) Division
Vancouver Industrial Controls Division
Canadian Car Pte. Limited
Can-Car Inc.
Chip-N-Saw A/S
Chip-N-Saw, Inc.

Log skidders and other forest harvesting equipment; sawmill and lumber processing equipment; electric-electronic control equipment.

Gas turbine power equipment and associated services for the oil, gas and aircraft industries:

Orenda Division
Orenda Engines Inc.
Orenda (International) Limited

Industrial gas turbines for electrical power generation, liquid and gas pumping, heating and air-conditioning; aircraft gas turbines and components; components for nuclear power applications; engineering, design, and laboratory testing services.

Other general engineering and services:

Canadian Bridge Division
Canadian Steel Foundries Division
Data Processing and Graphics Division
Halifax Shipyards Division
Dosco Overseas Engineering Limited
Hollybank Engineering Company Limited
The Dosco Corporation

Industrial castings; electronic data processing and graphics services; electric power transmission towers and poles; communications structures; sub-stations; naval and merchant shipbuilding and repair; offshore drilling vessel construction; mining equipment.

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