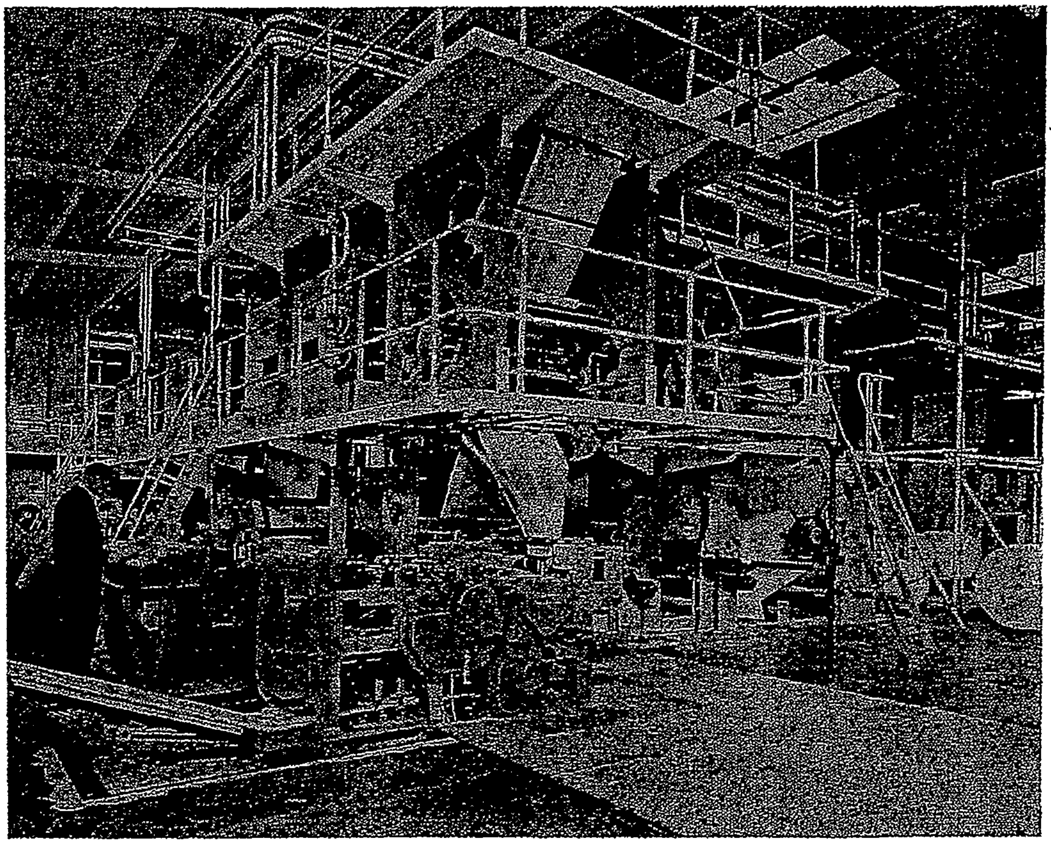
BAKER PERKINS HOLDINGS LIMITED

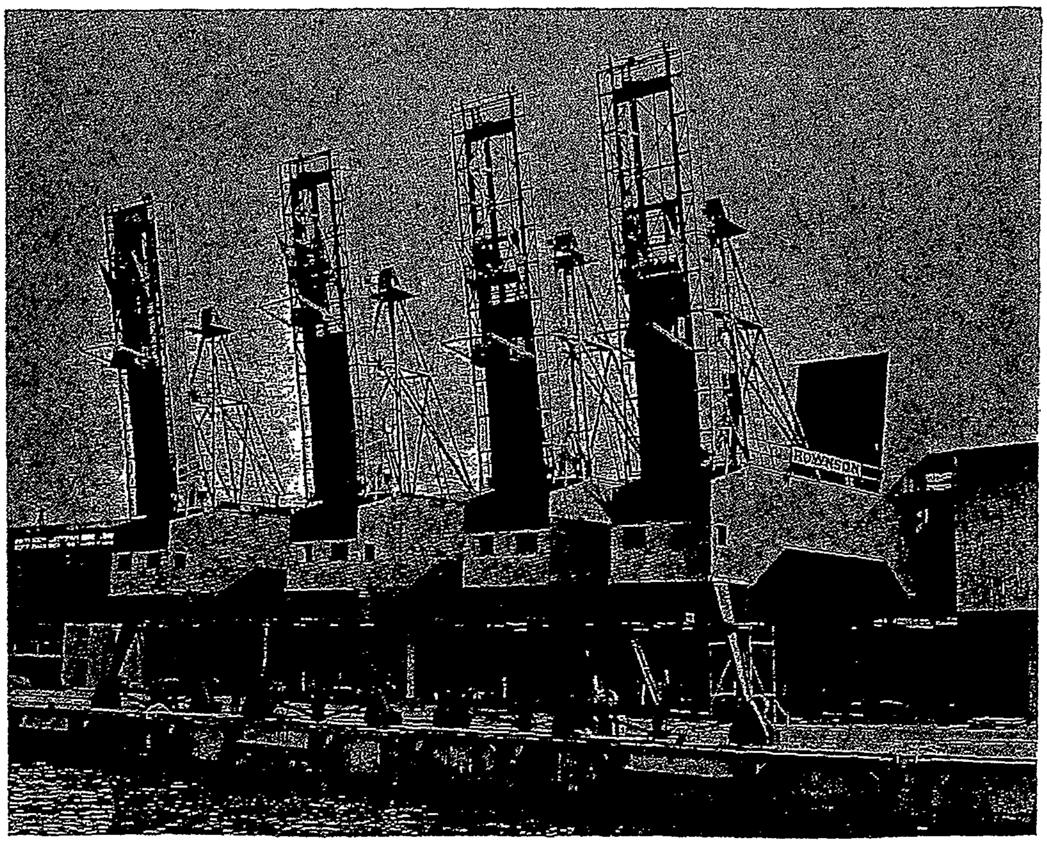
PLAINTIFF'S EXHIBIT

APV-16

Annual report 1965



A Halley-Aller web offset printing press built by Baker Perkins Ltd. for East Midland Litho Printers Ltd., Peterborough. It is used for printing newspapers and magazines in full colour at speeds of up to 30,000 copies an hour.



Four Rownson quay-mounted traversing pocket apron ship unloaders with luffing boom, automatic apron adjustment and weather protection supplied to Wm. Muller & Co., N.V., at Beatrixhaven, Rotterdam, to discharge stems and cartons of bananas simultaneously from four holds at 3,500 units or one million bananas an hour.

Baker Perkins Holdings Limited

Board of directors

Chairman	**A. I. Baker,** C.B.E., J.P., M.A., M.I.Mech.E., M.I.Prod.E. Chairman of group management.
Vice chairman	**J. F. M. Braithwaite,** M.A. Member of group management. Chairman, Baker Perkins Ltd.
Directors	**K. C. P. Barrington,** F.C.A. Non-executive director. A managing director of Morgan Grenfell & Co. Ltd.
	C. N. Brown. Member of board of management and vice chairman, Baker Perkins Ltd.
	W. A. B. Brown, M.A., M.I.Mech.E. Managing director, The Forgrove Machinery Co. Ltd.
	H. Crowther, J.P., A.M.I.Mech.E. Member of group management. Chairman, Baker Perkins (Exports) Ltd.
	T. E. M. Douglas, B.A., A.M.I.Mech.E., A.M.Inst.R. Managing director, Douglas-Rownson Ltd.
	S. C. Hargreaves, M.A., A.M.I.Mech.E. Director, Baker Perkins Ltd.
	P. B. Harley, B.Com. (U.S.A.). President, Baker Perkins Inc.
	N. Mountain. Chairman of board of management, Baker Perkins Ltd.
	J. M. Peake, M.A., A.M.I.Mech.E. Vice chairman of board of management, Baker Perkins Ltd.
	W. S. B. Sampson, F.C.A., F.C.I.S. Member of group management. Finance director.
	L. P. Simpson, B.Sc. (Tech.)., M.I.Prod.E. Member of board of management, Baker Perkins Ltd.
	R. H. Wilkins, O.B.E., F.C.I.S. Member of group management. Chairman of wrapping and packaging companies.

Secretary	**J. S. Hardy,** M.A., F.C.I.S.
Auditors	**Price Waterhouse & Co.**
Bankers	**Lloyds Bank Limited** **Morgan Grenfell & Co. Limited**
Solicitors	**Clifford-Turner & Co.**
Head office and registered transfer office	**Westwood, Peterborough**
London Office	**13, Stanhope Gate, Park Lane, London W.1.**

Group financial highlights

Sales to customers	1965 £	1965 %	1964 £	1964 %
United Kingdom — Home	11,774,006	41.8	11,546,688	45·8
— Export	5,890,702	20·9	5,311,626	21·1
Overseas manufacture	10,503,011	37·3	8,322,153	33·1
	£28,167,719	100·0	£25,180,467	100·0

Capital employed (Capital, reserves and minority interests in subsidiaries)	1965	1964
United Kingdom companies	6,578,095	6,328,747
Overseas companies	6,529,225	5,995,591
	£13,107,320	£12,324,338

Profit before taxation	1965	% on capital employed	1964	% on capital employed
United Kingdom companies	391,711	6·0	657,197	10·4
Overseas companies	1,714,631	26·3	1,002,284	16·7
	£2,106,342	16·1	£1,659,481	13·4

	1965	1964
Profit after taxation attributable to stockholders of Baker Perkins Holdings Limited	£1,026,897	£674,444
Earnings after tax per £1 unit of ordinary stock	5/-d.	3/3d
Dividends payable to ordinary stockholders — net	£271,046	£275,564
Cash flow (retained profits plus depreciation)	£1,390,057	£983,826
Capital expenditure on property, plant and machinery	£1,252,408	£775,594

Chairman's review

A. I. Baker

Results

For your convenience, the year's results have been summarised on the opposite page under the heading "Group Financial Highlights". I am pleased to report that sales and profits for the group have reached a new high level. This was entirely due to a further substantial increase in overseas earnings, which increased from £1,002,000 to £1,715,000. Sales to customers totalled £28,168,000, an increase of 11·9% over the previous year's figure of £25,180,000. Profit before taxation of £2,106,000 represents an increase in the ratio of profit to capital employed from 13·4% to 16·1%, which is a welcome improvement.

Dividend

When considering dividend policy, the board decided that it would be unwise to recommend an increase in the total distribution for the year 1965 in view of the poor results of the United Kingdom group of companies as a whole. In addition, the demand upon the group's cash resources is expected to increase in view of the capital expenditure programme that we have undertaken.

For the taxation reasons given below, the directors declared a second interim ordinary dividend, which was paid on 15th March 1966, in lieu of the final dividend which would normally be paid in June. This made a total distribution of 2/3d. per £1 unit of ordinary stock (11·25%) for 1965, the same as 1964.

Taxation

In view of its importance I am dealing at some length with the taxation position this year. Due to certain provisions of the 1965 Finance Act, the company took advantage of the savings in taxation which could accrue by anticipating payment of the final dividend by declaring a second interim dividend. In the past, dividends paid by the company have been paid net of income tax, but from 6th April 1966 income tax at the standard rate will be deducted from dividends and paid to the Inland Revenue in addition to the corporation tax levied on the company's profits. By paying a second interim dividend before 5th April 1966 the company was able to retain the income tax deducted from it in the same way as in the past.

The group charge for taxation for 1965 was £881,000 compared with £848,000 for 1964, representing approximately 42% and 51% respectively of the profit before taxation.

Corporation tax at the rate established in the 1966 Budget of 40% commenced to apply to the United Kingdom trading profits of the group from 1st January 1965. The charge for taxation in the group profit and loss account is some £55,000 less than it would have been under the old system, and there has also been a release of £54,000 from tax deferred due to accelerated capital allowances, as shown in note 4 on the accounts.

In future, the whole of the group's trading profits earned in the United Kingdom and dividends received from overseas will (subject to double taxation relief) be charged with corporation tax instead of income tax and profits tax of 56·25% and this should reduce the United Kingdom taxation charged in the group profit and loss account. However, as stated above, income tax deducted from dividends paid will require to be handed over to the Inland Revenue. Overseas taxes will be available for relief against corporation tax only. This will result in part of the United States tax incurred on dividends from Baker Perkins Inc. being unavailable for relief against United Kingdom taxes.

The future effect of the new legislation can be illustrated by reference to profits at a level of those earned in 1965 with the same proportion of overseas and United Kingdom profits. On the new taxation basis (under present legislation) as compared with the old basis, the reduction in the retained earnings after paying the preference dividend and an ordinary dividend of 2/3d. in the £ would have been of the order of £145,000, made up as follows:

Income tax at standard rate of 8/3d. deducted from dividends paid ..	£200,000
less reduction in taxation on profits by change to corporation tax at 40%	£55,000
Reduction in retained earnings ..	£145,000

Finance

As announced in my speech at the annual general meeting on 9th June 1965, an issue of £2,050,000 $6\frac{3}{4}\%$ Convertible unsecured loan stock 1982/85 was made on 15th June 1965 and the terms of conversion are set out in note 8 on the accounts. The issue was partly left with the underwriters due to the prevailing market conditions but dealings have been at a premium now for some time.

The cash flow of the group for the year 1965 amounted to £1,390,000 compared with capital expenditure on property, plant and machinery of £1,252,000 as shown in the "Group Financial Highlights".

The amount tied up in stocks and debtors at 31st December 1965 amounted to £19,800,000, which is about £1,800,000 increase compared with the previous year-end. As stated in my review last year, the cost of the new Douglas-Rownson factory at Basingstoke of £350,000 was financed through a long lease which was completed after the end of the year so that this sum was included in debtors at 31st December 1965. Some increase in stocks and debtors arises from the increased turnover and rising costs, but the credit squeeze and the high cost of borrowing money has also had its effect.

I should perhaps point out that the bank balances at 31st December 1965 of approximately £1,500,000 include about £1,000,000 in the United States allocated for expansion in North America. Bank advances in the United Kingdom which include about £1,000,000 for financing exports covered by E.C.G.D. guarantee are well within the present facilities available from our bankers.

The cost of borrowing at the present high interest rates has increased the interest charge in the profit and loss account to £503,000 for 1965, compared with £372,000 in the preceding year.

Summary of operations

The overseas member companies of the group made an even greater contribution to profits last year than in 1964, both in real terms and as a percentage of the whole. The results of the United Kingdom companies, on the other hand, were disappointing and below those of 1964 in total. Comparative statistics are given in "Group Financial Highlights".

United Kingdom

The group's largest investments in the United Kingdom are in Baker Perkins Limited with approximately 3,400 employees at its two factories, and in the three companies comprising the wrapping and packaging machinery group, namely, Forgrove, Rose and Job Day, with just over 3,000 employees in their seven factories. The latter together made a useful contribution to profits and Forgrove in particular continued its noteworthy achievement in exporting 50% of its turnover.

Baker Perkins Limited had a less successful year, partly owing to the considerable costs of development work and of additional staff engaged on new projects, particularly in the printing machinery division now established at Peterborough. The initial development and marketing of a complex range of web fed rotary offset printing presses was always considered to be a long term project and therefore was not expected to show much return in the early years. This is particularly so with the application of this process to newspaper printing, including the facility for colour, which is not only new to this company, but also in some respects to the industry.

Measures of rationalisation and reorganisation continue to be undertaken in Baker Perkins Limited and other companies in the United Kingdom. At the end of the year under review Baker Perkins Granbull Limited was merged into Baker Perkins Chemical Machinery Limited as the plastics division of the latter company. In October William Douglas & Sons (Engineering) Limited of Putney and Rownson Conveyors Limited of King's Cross moved to their fine new leasehold offices and factory at Basingstoke and on 1st January 1966 merged their operations under the name of Douglas-Rownson Limited. The removal of the employees and their families and the equipment from three factories naturally caused a certain amount of disruption to production which resulted in a trading loss for the year.

Research and development of new ideas and machines, particularly for the increased automation of the processes which are handled by our products, continues to demand more and more of the group's resources of men and money. We serve a wide range of industries as well as a variety of processes within them and results depend on economic as well as technical success; those that are successful inevitably require adaptation as almost every order for a line of integrated equipment includes variations in its specification that are unique to that one plant.

Baker Perkins (Exports) Limited handles the overseas sales of bakery, biscuit, chocolate and confectionery and wrapping and packaging machinery and I am pleased to report that last year it achieved a record turnover of exports from this country of £4,000,000. Adding to this the other types of equipment exported from the United Kingdom directly by other subsidiaries, total exports reached £5,891,000 or 33% of the output of the United Kingdom factories.

This figure was over £500,000 higher than last year and the steady increase in export turnover is only achieved by unremitting hard work and self sacrifice on the part of the directors and staff of Baker Perkins (Exports) Limited and the other companies who constantly travel the world in search of orders. Our skilled engineers play an equally important part and have to spend long periods separated from their families while they erect and service our equipment in many countries, often under difficult and trying conditions. Our sincere thanks are due to them all.

In addition, exporting is markedly less profitable than selling in the home market and, while we are grateful for the small increase in the export rebate, it is inadequate to cover the extra costs involved. If exporting is to be made attractive the Government needs to find a way, by differential taxation or some other means, to help industry to meet the extra burden of expense.

Overseas

Once again Baker Perkins Inc. U.S.A. surpassed all previous achievements with total sales of $25,279,000 and profit before tax of $3,470,000, and after tax of $1,826,000. This outstanding performance made a major contribution to the results of the group as a whole.

In his annual report the president of the American company emphasized the growing importance of the chemical machinery division although the food machinery division continues to be the larger of the two. As to the future of Baker Perkins Inc. I cannot do better than to quote from his report—

> "The business of your company historically has tended to fluctuate from year to year in volume of sales, and hence profits, but the general trend is upward. At the present time the backlog is somewhat lower than at the same time last year and it appears that total sales and profits will be lower in 1966 than those realised in 1965. However, your board of directors and management are confident that the operating base of your company is sound and well founded to grow along with the industries we serve. We are enthusiastic and optimistic about the future growth of Baker Perkins Inc."

Canadian Baker Perkins Limited, whose figures are consolidated with Baker Perkins Inc. above, had another unsuccessful year but prospects for 1966 are improved and profitable operations for the year are forecast.

Our companies in Australia and New Zealand formerly had an accounting year which ended in September. This has now been changed to December, so that the figures in the accounts include fifteen months' trading for the period from October 1964 to December 1965, although this has no significant effect on the comparison of trading results of 1965 and 1964. Both companies had higher turnover and profits. Of the total turnover of the two companies of £1,800,000 sterling, nearly 50% was manufactured in Australasia, either by our associate company, Gordon Brothers Proprietary Limited in Melbourne, or at our own factory in Auckland.

Baker Perkins South Africa Pty. Limited is a sales and manufacturing company employing about 200 people. Last year it enjoyed considerably improved trading conditions and, relative to its size, made a very good contribution to group profits.

The branch of Baker Perkins (Exports) Limited in Bombay, India, continued to be hampered by Indian import regulations but showed a profit on its operations. Forgrove G.m.b.H., our subsidiary in Germany, which sells the group's wrapping and packaging, chocolate and confectionery and certain other types of machinery in Germany, Switzerland and Austria, achieved the feat of increasing its turnover for the ninth successive year and made a good profit. This is a fitting tribute to a young and able team who have built up the company from very small beginnings in 1956 to being the group's largest single overseas sales outlet for wrapping and packaging machinery.

Steps were taken towards the end of last year to set up our own sales organisation in France to handle the sales of equipment formerly handled by our sales agents or by direct visits from the United Kingdom. Early in 1966 a branch of our Swiss company was formally registered in Paris.

All the companies in the group, including those overseas, are actively engaged in selling their products outside their own country, either directly or through agents. Some of these agents have been acting for group member companies for very many years and have built up considerable expertise in our products and provided a continuing flow of orders for our factories. I should like to take this opportunity of thanking them for their loyalty and support.

Management and staff

The results for the year testify to the determined efforts of staff at all levels of responsibility. To them all, I express the thanks and appreciation of the directors and stockholders.

The largest operating subsidiary, Baker Perkins Limited of Peterborough, continues to pioneer developments in the personnel and industrial training fields, for which the company has justly earned renown over a long period of time. With the full co-operation of the Amalgamated Engineering Union at national and local level, we have introduced at Peterborough a four-year period of training for certain categories of craft apprentice to replace the traditional five year period. The standard of knowledge and skill which the apprentice acquires has not only been maintained but improved and is confirmed by tests which must be passed at intervals during the training programme before he can proceed to the next stage.

This development, which represents a major breakthrough in the speedier provision of young men with the necessary skills for the complicated technological and engineering problems of today, has been aided by the introduction of a revolutionary teaching process. Our group training officer and his staff, in collaboration with the Department of Psychology of Sheffield University, have evolved a system of programmed instruction in various basic craft practices. From the specially prepared booklets, which are now being published by Heinemann and International Tutor Machines, and are available to the public, apprentices are able to acquire knowledge relating to their craft at their own pace. This has speeded up the process of learning, retention is better and the apprentice has the benefit of completely integrated theoretical and practical training. These two important developments in training procedures, which are likely to be adopted widely throughout the engineering industry of this country in due course, recently formed the subject of a debate in the House of Commons which received considerable publicity.

The future

I find it more difficult than usual to forecast the outcome of the present year. The impact of the Government's prices and incomes policy on the bread baking industry last autumn resulted in a not unexpected hesitation to proceed with planned capital expenditure upon major new plants. It is expected that this situation will prove to be of a temporary nature but, until resolved, it will have its effect upon the profits of Baker Perkins Limited. In other areas orders have been reasonably well sustained so far, but general economic uncertainties beset this country. Inflation, if it is allowed to continue at a greater rate here than abroad, will eventually make us uncompetitive in our export markets.

In our overseas companies, results generally are unlikely to be as good as in 1965, when they were at record levels. Earlier in this report I have quoted the views of the president of Baker Perkins Inc. about the prospects for his company.

Present forecasts show that a reasonable overall profit should result, but it is already apparent that it will be significantly less than the record level achieved in 1965.

We have again attempted to make the contents of this annual report as informative as possible to give stockholders a full picture of the group's activities. As an expression of the directors' desire to foster interest by members in the company's affairs, may I warmly welcome all ordinary stockholders to meet members of the board at the annual general meeting on 15th June 1966.

Report of the directors

The directors submit their report and the audited statement of accounts for the year ended 31st December 1965. The group results are shown in the profit and loss account and are summarised below—

	1965 £	1964 £
Profit attributable to stockholders of the company	1,026,897	674,444
Dividends—		
Preference stock — 7% less income tax at 8/3d. (7/9d.) in the £	17,456	18,008
Ordinary stock — 11¼%		
First interim 1/- (6d.) per £1 stock less income tax at 8/3d. (7/9d.) in the £ paid 30th November 1965	120,429	62,657
Second interim 1/3d. (6d.) per £1 stock less income tax at 8/3d. (7/9d.) in the £ paid 15th March 1966	150,617	62,657
Final recommended nil (1/3d. per £1 stock less income tax at 8/3d. in the £)	—	150,250
Addition to reserves	738,395	380,872

During 1965 the company increased its interest in Baker Perkins Inc. U.S.A. from 66·5% to 67·2% by the acquisition of a further 8,116 shares for £41,010 in cash.

William Douglas & Sons (Engineering) Limited and Rownson Conveyors Limited have merged their trading operations under the new name of Douglas-Rownson Limited.

On 1st January 1966 the trading activities of Baker Perkins Granbull Limited were transferred to become a division of Baker Perkins Chemical Machinery Limited.

On 1st February 1966 a branch of the Swiss subsidiary was registered in Paris under the name of Baker Perkins S.A. for the importation and sale of group products in France.

The directors retiring by rotation are W. A. B. Brown, H. Crowther, T. E. M. Douglas and R. H. Wilkins and, being eligible, they offer themselves for re-election.

Price Waterhouse & Co. have signified their consent to continue in office as auditors.

By order of the board of directors,
J. S. HARDY,
Secretary.

19th May 1966.

Baker Perkins Holdings Limited

Group profit and loss account

for the year ended 31st December, 1965

	1965 £	1965 £	1964 £	1964 £
Sales to customers		28,167,719		25,180,467
Income from associated companies (note 1)		436,443		287,258
		28,604,162		25,467,725
Costs and expenses (note 2)		25,994,629		23,435,576
		2,609,533		2,032,149
Bank and loan interest payable (note 3)		503,191		372,668
Profit before taxation		2,106,342		1,659,481
Taxation (note 4)		881,138		847,549
Profit after taxation		£1,225,204		£811,932
Attributable to stockholders of Baker Perkins Holdings Limited				
Dividends less income tax—				
Preference stock	17,456		18,008	
Ordinary stock	271,046		275,564	
		288,502		293,572
Retained in the business—				
Baker Perkins Holdings Limited	421,956		8,645	
Subsidiaries	316,439		372,227	
		738,395		380,872
		1,026,897		674,444
Attributable to minority stockholders of subsidiaries				
Dividends	96,606		26,949	
Retained in the business..	101,701		110,539	
		198,307		137,488
		£1,225,204		£811,932

Baker Perkins Holdings Limited

Group balance sheet

31st December, 1965

	1965 £	1965 £	1964 £	1964 £
Fixed assets				
Land, buildings, plant and machinery (note 5)	6,197,617		5,637,854	
Investments in associated companies (note 1)	861,043		774,056	
		7,058,660		6,411,910
Net current assets (note 6)				
Stock and work in progress	9,413,112		8,100,271	
Debtors	10,396,827		9,873,935	
Bank balances and cash	1,590,493		1,225,627	
	21,400,432		19,199,833	
Less—				
Bank advances	2,953,351		4,079,181	
Creditors	4,712,724		3,512,082	
Progress payments	1,341,379		1,505,011	
Taxation	710,284		218,138	
Ordinary dividend (net)	150,617		212,907	
	9,868,355		9,527,319	
		11,532,077		9,672,514
		£18,590,737		£16,084,424
Financed as follows:				
Capital and reserves				
Issued ordinary capital	4,102,009		4,091,915	
Capital reserves (note 7)	1,815,910		1,758,854	
Revenue reserves (note 7)	5,137,429		4,503,574	
Ordinary stockholders' interest		11,055,348		10,354,343
Issued preference capital		420,000		420,000
		11,475,348		10,774,343
Minority interests in subsidiaries		1,631,972		1,549,995
Deferred taxation				
Income tax 1965/1966	—		280,500	
Deferred liability due to accelerated capital allowances	509,592		511,586	
		509,592		792,086
Loans (note 8)		4,973,825		2,968,000
		£18,590,737		£16,084,424

Baker Perkins Holdings Limited

Company balance sheet

31st December, 1965

		1965		1964	
		£	£	£	£
Fixed assets					
Land, buildings, plant and machinery (note 5) ..		1,625,552		1,474,084	
Investments in associated companies (note 1) ..		624,004		537,017	
			2,249,556		2,011,101
Subsidiaries					
Shares at cost		7,844,296		7,476,848	
Amounts receivable		4,840,093		4,042,051	
		12,684,389		11,518,899	
Amounts payable		156,352		896,699	
			12,528,037		10,622,200
Current assets					
Debtors		6,778		8,319	
Taxation recoverable		215,611		334,461	
			222,389		342,780
			14,999,982		12,976,081
Current liabilities					
Bank advances		1,480,683		2,450,446	
Creditors		477,452		69,439	
Ordinary dividend (net)		150,617		212,907	
			2,108,752		2,732,792
			£12,891,230		£10,243,289
Financed as follows:					
Capital and reserves	Authorised in shares of £1 each	Issued and converted into stock			
Capital: 7% cumulative preference	420,000	420,000		420,000	
Ordinary	6,000,000	4,102,009		4,091,915	
	£6,420,000		4,522,009		4,511,915
Capital reserves (note 7)		1,216,812		1,168,435	
Revenue reserves (note 7)		2,096,584		1,484,439	
			3,313,396		2,652,874
			7,835,405		7,164,789
Deferred taxation					
Deferred liability due to accelerated capital allowances			82,000		110,500
Loans (note 8)			4,973,825		2,968,000
			£12,891,230		£10,243,289

A. I. Baker
W. S. B. Samnson } Directors

Notes on the accounts

1. Associated companies

(a) Income

	1965	1964
	£	£
European limited partnership —		
Profit for year before taxation attributable to the company's interest ..	401,493	267,084
Other companies —		
Dividends received	34,950	20,174
	£436,443	£287,258

(b) Investments

	Company		Group	
	1965	1964	1965	1964
European limited partnership —	£	£	£	£
Investment at cost	205,215	205,215	205,215	205,215
Net unremitted profit from 1st January 1962	391,261	304,274	391,261	304,274
	596,476	509,489	596,476	509,489

The capital and unremitted profit attributable to this investment at 31st December 1965 amounted to approximately £1,109,000 (£1,025,000). Prior to 1st January 1962, income was taken into profit only to the extent of remittances received.

	Company		Group	
	1965	1964	1965	1964
Other companies —				
Shares, at cost	27,528	27,528	264,567	264,567
	£624,004	£537,017	£861,043	£774,056

2. Costs and expenses

	1965	1964
Costs and expenses include —	£	£
Depreciation (note 5)	549,961	492,415
Directors' emoluments: Fees	3,500	3,437
Management services	165,221	146,175
Pensions to past directors or their dependants	5,123	5,124
Audit fees and expenses	21,091	19,313

3. Bank and loan interest

	1965	1964
	£	£
Debenture stocks	179,887	182,831
Convertible unsecured loan stock	58,855	—
Bank and other loans	264,449	189,837
	£503,191	£372,668

4. Taxation

	1965	1964
Based on the profit for the year —	£	£
United Kingdom (after relief of £85,000 (£51,000) for investment allowances)		
Corporation tax at 40%	147,710	—
Income tax	135,917	282,782
Profits tax	—	140,225
Overseas (including £119,101 (£99,842) on unremitted profit of European limited partnership)	678,095	456,364
	961,722	879,371
Less adjustments in respect of previous years (including a release of £54,500 (nil), from tax deferred due to accelerated capital allowances arising from a change in the rate of taxation)	80,584	31,822
	£881,138	£847,549

8. Loans

	1965	1964
	£	£
$5\frac{3}{4}$% Debenture stock 1979/84	1,424,875	1,468,000
$6\frac{1}{2}$% Debenture stock 1981/86	1,498,950	1,500,000
$6\frac{3}{4}$% Convertible unsecured loan stock 1982/85	2,050,000	—
	£4,973,825	£2,968,000

The debenture stocks are secured by a first floating charge on the assets of the company. The company is required to apply the sum of £30,000 annually in redemption of its $5\frac{3}{4}$ per cent debenture stock 1979/84 at par by drawings or by purchase in the open market at a price not exceeding £105; as from November 1966 it must apply annually a further sum of £30,000 in respect of its $6\frac{1}{2}$ per cent debenture stock 1981/86 on the same terms.

The company issued £2,050,000, $6\frac{3}{4}$ per cent convertible unsecured loan stock 1982/85 at par during the year. The stock may, at the option of the stockholders, be converted into £1 ordinary stock units of the company on 31st July in each of the years 1968 to 1971 inclusive; the number of ordinary £1 stock units issued for each £100 of the stock converted will be 44 (45/5d. per unit) in 1968, 42 (47/7d. per unit) in 1969, 40 (50/-d. per unit) in 1970 and 38 (52/8d. per unit) in 1971. The company may redeem the whole or any part of the issue, on or after 31st March 1982, by drawings at par and, at any time, may purchase any of the stock in the open market or by private treaty at a price not exceeding £105.

9. Contingent liabilities

There were contingent liabilities in subsidiaries of £314,000 (£237,000) in respect of trade bills discounted. The company had guaranteed bank overdrafts of subsidiaries amounting to £540,000 (£820,000).

10. Rates of exchange

Overseas assets and liabilities have been expressed in sterling at the exchange rates ruling at 31st December 1965.

11. Stock options by a subsidiary

Baker Perkins Inc. has granted options to certain of its senior executives to subscribe for 17,668 of its common shares (including 5,334 shares to one executive who is a director of Baker Perkins Holdings Limited) at prices ranging from \$ 6.65 to \$ 8.00 per share, being the market value of the shares at the respective option dates.

Report of the auditors

to the members of Baker Perkins Holdings Limited

In our opinion the foregoing accounts and notes give, so far as concerns members of the company, a true and fair view of the state of affairs as at 31st December 1965 and the profit for the year ended on that date of the company and of the group consisting of the company and its subsidiaries.

The accounts of the European limited partnership referred to in note 1 have been audited by a European firm.

We have obtained all the information and explanations which we considered necessary. In our opinion the company has kept proper books and the balance sheet of the company, which is in agreement with them and with the said information and explanations, gives with the group accounts and notes in the prescribed manner the information required by the Companies Act, 1948.

3 Frederick's Place,
Old Jewry,
London, E.C.2.
10th May, 1966.

Price Waterhouse & Co.
Chartered Accountants.

Group financial statistics for past ten years

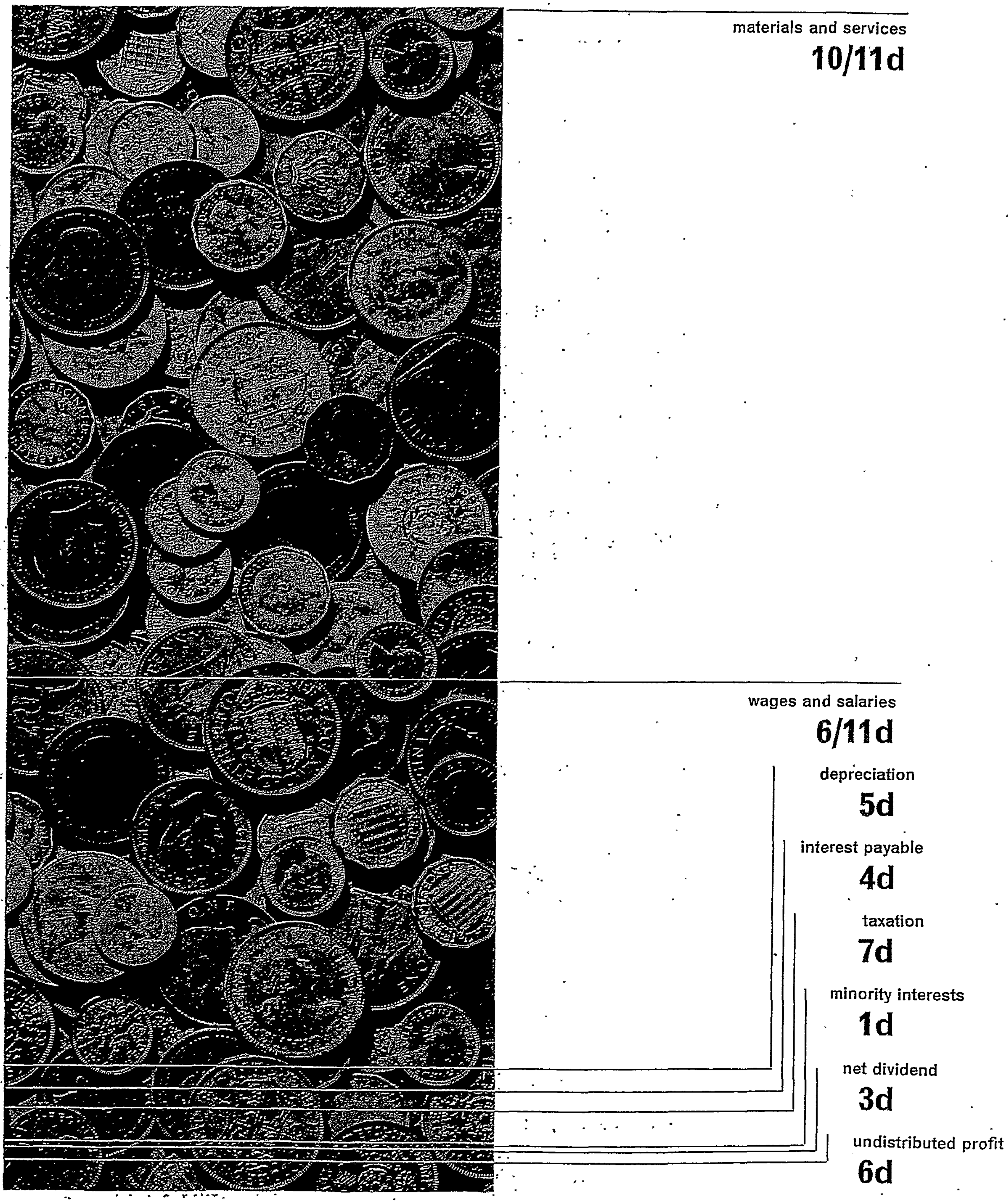
(Amounts are expressed in thousands of pounds)

	1956	1957	1958
Operations			
Sales	14,370	13,780	14,300
Depreciation	453	452	379
Profit before taxation	1,125	1,094	894
Taxation	627	634	464
Profit attributable to stockholders of Baker Perkins Holdings Limited	415	400	416
Financial position			
Fixed assets less depreciation	3,172	3,119	3,770
Net current assets	3,922	4,474	5,854
Loans	—	—	375
Deferred taxation	302	316	274
Minority interests in subsidiaries	904	975	1,522
Preference stock	420	420	420
Ordinary stockholders' equity	5,468	5,882	7,033
Ordinary stockholders			
Issued capital	1,769	1,769	2,201
Gross dividend — amount per unit	1/10d	2/-d	2/-d
rate per unit	9·2%	10%	10%
Net ordinary dividend	93	102	133
Rate of profit after taxation earned for equity	7·3%	6·5%	5·7%
Net book value of £1 stock	61/10d	66/6d	63/11d
Number of employees	5,950	5,730	6,280

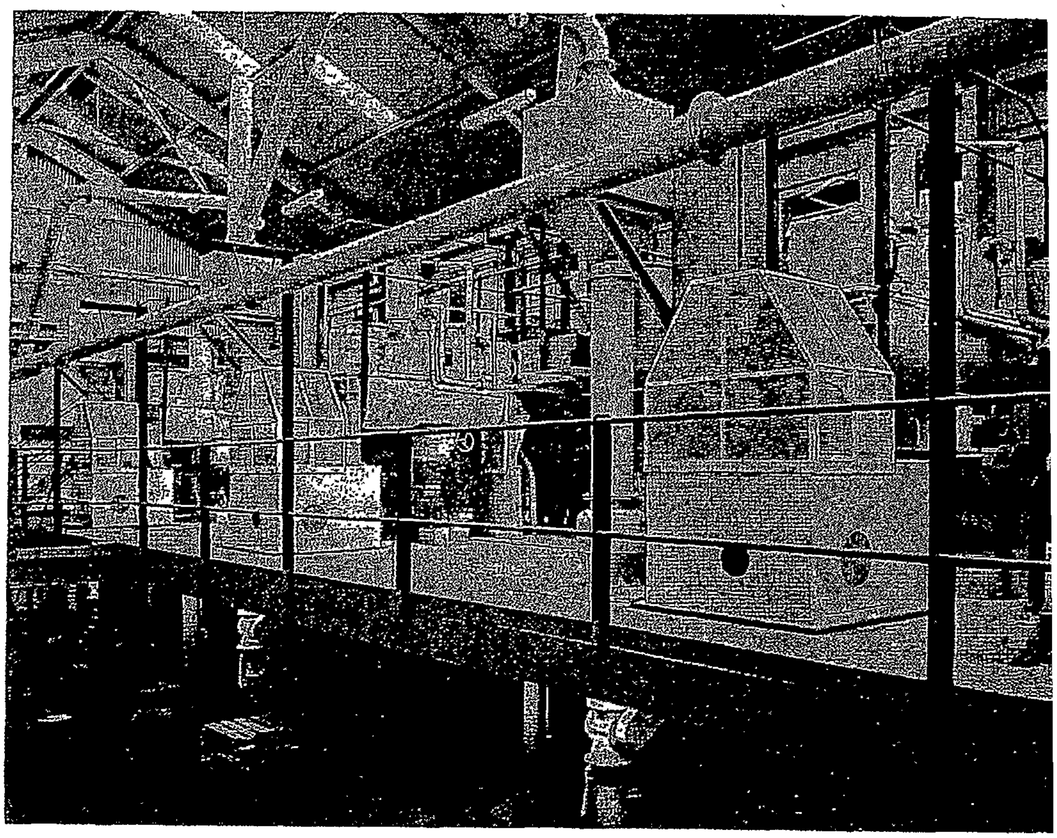
1959	1960	1961	1962	1963	1964	1965
15,450	18,000	23,700	22,750	22,945	25,180	28,168
360	366	474	493	487	492	550
772	1,193	1,294	844	816	1,659	2,106
293	563	598	347	500	848	881
418	530	686	501	226	674	1,027
3,878	4,348	5,652	6,100	6,126	6,412	7,059
7,410	7,407	9,634	9,276	9,143	9,672	11,532
1,500	1,500	3,000	3,000	3,000	2,968	4,974
182	207	482	561	501	792	510*
1,603	1,713	1,642	1,635	1,691	1,550	1,632
420	420	420	420	420	420	420
7,583	7,915	9,742	9,760	9,657	10,354	11,055
2,357	3,072	3,993	4,019	4,027	4,092	4,102
2/–d	2/3d	2/3d	2/3d	2/3d	2/3d	2/3d
10%	11·25%	11·25%	11·25%	11·25%	11·25%	11·25%
143	214	275	277	277	276	271
5·3%	6·5%	6·8%	4·8%	2·2%	6·3%	9·1%
64/4d	51/6d	48/10d	48/7d	47/11d	50/7d	53/11d
	Scrip issue 1 for 4					
6,430	7,020	9,850	9,920	9,080	9,200	9,410

*The United Kingdom corporation tax liability in respect of 1965 profits is included in current liabilities. In previous years the United Kingdom income tax liability on the year's profits is included in deferred taxation.

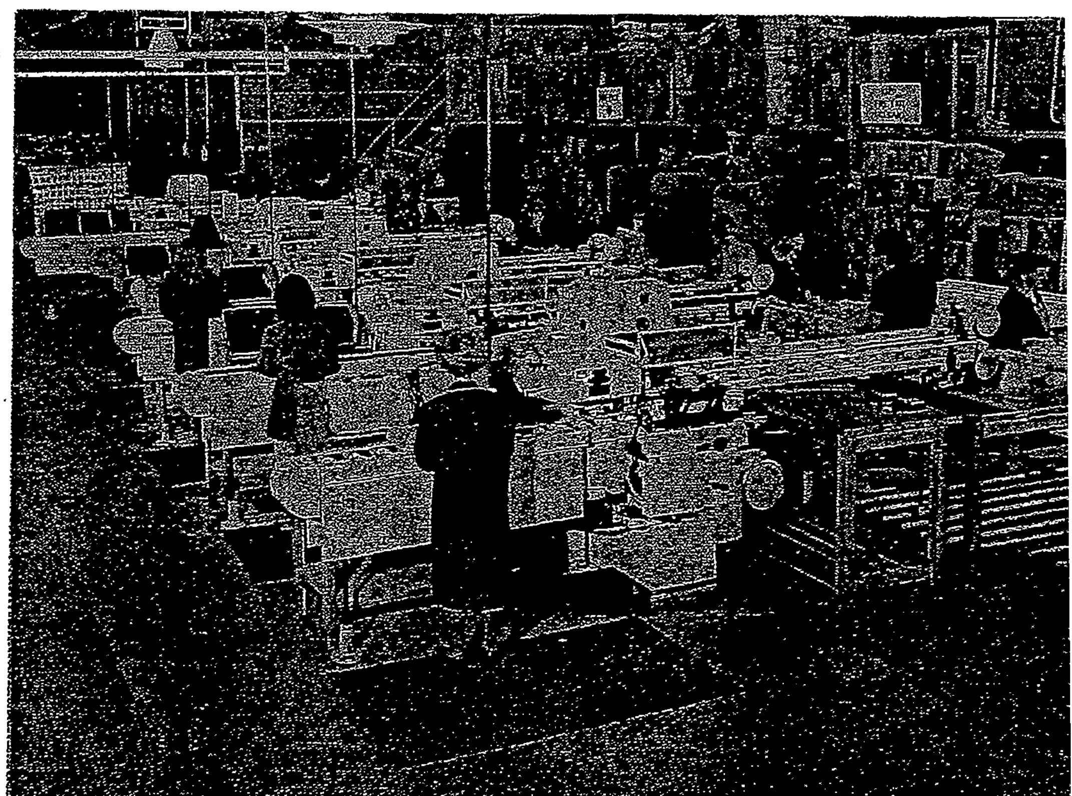
How the group used each £1 of income



Special vacuum dryers of stainless steel jacketed construction for salt processing at International Nickel Co. Ltd., Swansea. These machines are among the many items of individually engineered milling, mixing and drying equipment produced by Steele & Cowlishaw Ltd.



A bank of five Rose ECH wool banding machines at one of Patons and Baldwins' factories. A significant part of the company's output of one ounce balls of wool is automatically banded using these machines.



Baker Perkins Holdings Limited

Subsidiaries, branches and associates

Ordinary capital wholly owned unless otherwise stated

SUBSIDIARIES — UNITED KINGDOM

THE ALLIANCE FOUNDRY CO. LTD., Luton	Castings
BAKER PERKINS LTD., Peterborough and Hebburn-on-Tyne	Bakery, biscuit, chocolate, confectionery, foundry, printing and rubber machinery
BAKER PERKINS CHEMICAL MACHINERY LTD., Peterborough and Twyford, Berks.	Chemical and plastics machinery
BAKER PERKINS DEVELOPMENTS LTD., Twyford, Berks.	Development engineers
BAKER PERKINS (EXPORTS) LTD., London	Machinery exporters
BAKER PERKINS JAXONS LTD., Glasgow	Laundry machinery
JOB DAY & SONS LTD., Leeds	Packaging machinery
DOUGLAS-ROWNSON LTD., Basingstoke	Refrigeration, food processing plant and pumps. Conveyors and mechanical handling plant
THE FORGROVE MACHINERY CO. LTD., Leeds and Gateshead	Wrapping and packaging machinery
FORMMASTER LTD., London (80%)	Printing machinery
JAMES HALLEY & SONS LTD., West Bromwich	Printing machinery
THE NORTHERN MANUFACTURING CO. LTD., Gainsborough	Gears and gear boxes
ROSE BROTHERS (GAINSBOROUGH) LTD., Gainsborough, Saxilby and Skegness	Wrapping and packaging machinery, flexible bearings
STEELE & COWLISHAW LTD., Hanley, Stoke-on-Trent	Paint, ink and chemical machinery

SUBSIDIARIES — OVERSEAS

Australia	BAKER PERKINS PTY. LTD., Melbourne	Import and manufacture of group products
Canada	CANADIAN BAKER PERKINS LTD., Brampton, Ontario. (66⅔% owned by Baker Perkins Inc.)	Food, chemical and laundry machinery
Germany	FORGROVE G.m.b.H., Cologne	Import of packaging, confectionery, printing and plastics machinery
New Zealand	BAKER PERKINS (N.Z.) LTD., Auckland	Import and manufacture of group products
South Africa	BAKER PERKINS SOUTH AFRICA (PTY.) LTD., Johannesburg	Import and manufacture of group products
Switzerland	BAKER PERKINS A.G., Zug	Investment company
	BAKER PERKINS FAR EAST A.G., Zug	Investment company
U.S.A.	BAKER PERKINS INC. Saginaw, Michigan. (67·2%)	Food and chemical machinery

BRANCHES — OVERSEAS

Argentina	BAKER PERKINS (EXPORTS) LTD., Buenos Aires	Import of group products
France	BAKER PERKINS S.A., Paris	Import of group products
India	BAKER PERKINS (EXPORTS) LTD., Bombay	Import of group products
Japan	BAKER PERKINS FAR EAST A.G., Tokyo	Import of group products
Sweden	BAKER PERKINS (EXPORTS) LTD., Stockholm	Import of group products

ASSOCIATED COMPANIES (See note 1 on the accounts)

United Kingdom	GRAHAM ENOCK MANUFACTURING CO. LTD., London. (33·7%)	Dairy machinery
Europe	LIMITED PARTNERSHIP. (26% and 100% of preference capital)	Food and chemical machinery
Australia	GORDON BROTHERS PTY. LTD., West Brunswick, Victoria. (40% and 100% of preference capital)	Food and refrigeration machinery