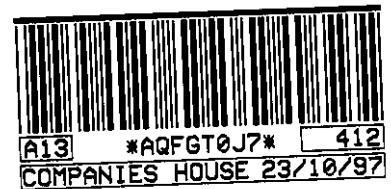


Onan International Limited

Directors' Report and
Statement of Accounts
for the year ended
31st December 1996

Registered No. 2058784

Thomas May & Co
Chartered Accountants



Onan International Limited

Directors

M A Holtham
G L Brisbin
G Sinclair

DIRECTORS' REPORT

The directors present their report and the audited accounts for the year ended 31st December 1996.

PRINCIPAL ACTIVITY

The company's principal activity during the year was the sale of AC generating sets.

BUSINESS REVIEW

Market conditions were once again highly competitive and sales of our Onan 'Sterling' range, manufactured in the UK, were slower than anticipated, especially during the first half of the year. Sales of our Mobile range of products were strong and matched the previous high in 1995. As part of a cost reduction exercise, our Peterborough office was closed and headcount was also reduced.

RESULTS AND DIVIDENDS

The results for the year are set out in the attached profit and loss account.

The directors recommend that no dividend be paid in respect of the year ended 31st December 1996.

FIXED ASSETS

The movement in fixed assets is shown in the notes to the accounts.

DIRECTORS

The directors during the year under review were as shown above, except for G Sinclair who was appointed on 9th April 1997.

DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Onan International Limited

DIRECTORS' REPORT (Continued)

DIRECTORS' INTERESTS

No director has any interest in the issued share capital of the company.-

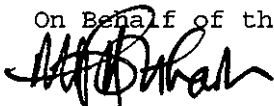
The shares of the company are held by Onan Corporation, which is incorporated in the United States.

AUDITORS

A resolution to re-appoint the auditors, Messrs. Thomas May & Co will be proposed at the Annual General Meeting.

The directors' report was approved by the Board of Directors on 21/10/57.....

On Behalf of the Board



M A Holtham
Director

Unit 4, Guash Way,
Stamford,
Lincolnshire

Onan International Limited

PROFIT AND LOSS ACCOUNT

Year Ended 31st December 1996

	<u>Notes</u>	<u>1996</u> £	<u>1995</u> (As restated) £
<u>TURNOVER (continuing activities)</u>	1 & 2	1,897,832	2,352,046
Other operating income - commission		299,594	580,003
		<hr/> 2,197,426	<hr/> 2,932,049
Operating costs	3	2,408,330	3,142,198
Depreciation of tangible fixed assets-owned assets	1 & 7	17,848	18,828
Loss on disposal of tangible fixed assets		993	-
		<hr/> 2,427,171	<hr/> 3,161,026
<u>OPERATING LOSS (continuing activities)</u>		(229,745)	(228,977)
Interest receivable		8,939	9,095
<u>LOSS ON ORDINARY ACTIVITIES BEFORE EXCEPTIONAL ITEMS AND TAXATION</u>		(220,806)	(219,882)
Exceptional items - Redundancy and relocation costs		228,875	-
		<hr/> (449,681)	<hr/> (219,882)
Tax on result from ordinary activities	6	-	(49,265)
<u>NET LOSS FOR THE FINANCIAL YEAR</u>		(449,681)	(170,617)
Retained profit brought forward		151,921	322,538
<u>ACCUMULATED LOSSES CARRIED FORWARD</u>		<hr/> £ (297,760) <hr/>	<hr/> £ 151,921 <hr/>

STATEMENT OF RECOGNISED GAINS AND LOSSES

There were no recognised gains or losses other than as shown above.

Onan International Limited

BALANCE SHEET

31st December 1996

	<u>Notes</u>	<u>1996</u> £	<u>1995</u> £
<u>FIXED ASSETS</u>			
Tangible assets	7	22,424	50,410
<u>CURRENT ASSETS</u>			
Stocks	8	397,166	450,952
Debtors	9	606,052	1,971,600
Cash at bank		31,970	86,405
		<u>1,035,188</u>	<u>2,508,957</u>
<u>CREDITORS: Amounts falling due within one year</u>			
	10		
Bank overdraft		2,104	6,269
Other		1,097,795	2,145,704
		<u>1,099,899</u>	<u>2,151,973</u>
NET CURRENT (LIABILITIES)/ASSETS		(64,711)	356,984
(DEFICIENCY OF ASSETS)/NET ASSETS		<u>£ (42,287)</u>	<u>£ 407,394</u>
<u>CAPITAL AND RESERVES</u>			
Called up share capital	11	260,516	260,516
Reserves	13	(302,803)	146,878
CAPITAL DEFICIENCY	12	<u>£ (42,287)</u>	<u>£ 407,394</u>

The accounts were approved by the Board of Directors on 21/10/97

On behalf of the Board



M A Holtham
Director

Onan International Limited

CASH FLOW STATEMENT
For The Year Ended 31st December 1996

	<u>1996</u> £	<u>1995</u> £
<u>NET CASH OUTFLOW</u>		
<u>FROM OPERATING ACTIVITIES</u>	(68,354)	(70,364)
<u>RETURNS ON INVESTMENTS AND SERVICING</u> <u>OF FINANCE</u>		
Interest received	8,939	9,095
<u>TAXATION</u>		
Tax paid	-	(36,533)
<u>INVESTMENT ACTIVITIES</u>		
Purchase of fixed assets	(6,598)	(10,106)
Proceeds on disposal of fixed assets	(15,743)	-
Net cash outflow from investment activities	9,145	(10,106)
<u>DECREASE IN CASH AND CASH EQUIVALENTS</u>	<u>(50,270)</u>	<u>(107,908)</u>

Onan International Limited
Notes to the Accounts

1 ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Accounting Convention

The accounts are prepared under the historical cost convention.

Basis of Accounts

The turnover and operating cost figures for the year both exclude £ 3,485,244 (1995 £ 3,146,186 after restatement) to ensure that the accounts reflect the actual trading of this company.

In the opinion of the directors the amounts have been excluded on the basis of substance over form as they related to contracts in which this company took no part, but which, for commercial and legal reasons, were recorded in this company's records.

Depreciation

Depreciation is calculated so as to write down to estimated residual value the cost of tangible fixed assets over their estimated useful lives as follows:-

Computer equipment	20% per annum on cost
Office equipment	15% per annum on cost
Trailer and show units	20% per annum on cost

Stocks

Stock of materials is valued at the lower of cost and net realisable value.

Deferred Taxation

Provision is made for deferred taxation using the liability method for all timing differences other than those which are expected with reasonable probability to continue in the foreseeable future (Note 6).

Foreign Currency

The company primarily conducts its trade in US Dollars. Transactions are translated into Sterling at the average rate of exchange for the month. Any gain or loss arising from the movement in exchange rates is included as an exchange gain or loss in the Profit and Loss Account.

Pension Scheme

Pension scheme contributions payable by the company are charged to the profit and loss account as incurred (Note 14).

Accounting for Leases

Operating leases - Payments under operating leases are charged to the profit and loss account as incurred.

Turnover

Turnover represents amounts invoiced by the company in respect of goods and services provided during the year, excluding value added tax.

Onan International Limited
Notes to the Accounts

2 TURNOVER

	<u>1996</u>	<u>1995</u> (Restated)
	£	£
By Geographical area:-		
United Kingdom	728,510	780,768
Europe	844,563	870,601
Middle East	313,790	504,139
Rest Of World	10,966	196,538
Total	£ 1,897,829	£ 2,352,046

3 OPERATING COSTS

	<u>1996</u>	<u>1995</u> (Restated)
	£	£
Goods for resale	1,334,637	1,595,484
Other external charges	253,037	434,067
Employee costs:		
Wages and salaries	272,795	440,370
Social security costs	55,784	25,579
Other pension costs	20,598	32,610
	349,177	498,559
Other operating charges	471,479	614,088
	£ 2,408,330	£ 3,142,198

Included in operating costs are:

	<u>1996</u>	<u>1995</u>
	£	£
Hire of plant and machinery	37,047	72,000
Auditors remuneration	8,450	12,850
Directors emoluments:-		
Remuneration for management	44,759	56,730
Pension contributions	5,577	8,169

4 EMPLOYEE NUMBERS

The average number of persons employed by the company including directors and part-time employees was as follows:-

	<u>1996</u>	<u>1995</u>
	No.	No.
Directors	2	4
Management and administration	2	4
Sales	9	10
	13	18

Onan International Limited
Notes to the Accounts

5 DIRECTORS' REMUNERATION

	<u>1996</u> £	<u>1995</u> £
Highest paid director	£ 44,759	£ 56,729
Number of directors receiving :		
Nil	1	3
£ 40,001 - £ 45,000	1	-
£ 55,001 - £ 60,000	-	1

6 TAXATION

(a) Tax on Result from Ordinary Activities

Based on the loss for the year is as follows:

	<u>1996</u> £	<u>1995</u> £
Deferred Taxation	-	(1,400)
Under/(over) provision in prior years	-	(47,865)
	£ -	£ (49,265)

The tax charge for the year has been reduced/(increased) by :-

	<u>1996</u> £	<u>1995</u> £
Accelerated capital allowances	-	515
Tax losses	144,525	(845)

(b) Deferred Taxation

The potential amount of deferred taxation for all timing differences at 31st December 1996 calculated on the liability method at 33% is as follows:-

Not Provided in these Accounts

	<u>1996</u> £	<u>1995</u> £
Accelerated capital allowances	-	(1,400)

The company has trading losses amounting to approximately £ 440,000 to carry forward against future trading profits.

Onan International Limited
Notes to the Accounts

7 TANGIBLE FIXED ASSETS

	Computer Equipment £	Fixtures and Fittings £	Show Units £	Total £
COST:				
At 1st January 1996	119,665	22,444	24,017	166,126
Additions	6,598	-	-	6,598
Disposals	(110,957)	(6,925)	-	(117,882)
At 31st December 1996	<u>£ 15,306</u>	<u>£ 15,519</u>	<u>£ 24,017</u>	<u>£ 54,842</u>

DEPRECIATION:

At 1st January 1996	93,562	9,836	12,318	115,716
Charge for year	10,438	2,606	4,804	17,848
Disposals	(97,910)	(3,236)	-	(101,146)
At 31st December 1996	<u>£ 6,090</u>	<u>£ 9,206</u>	<u>£ 17,122</u>	<u>£ 32,418</u>

NET BOOK VALUE:

At 31st December 1996	£ 9,216	£ 6,313	£ 6,895	£ 22,424
At 31st December 1995	<u>£ 26,103</u>	<u>£ 12,608</u>	<u>£ 11,699</u>	<u>£ 50,410</u>

8 STOCKS

	<u>1996</u> £	<u>1995</u> £
Warehouse inventory	397,166	449,939
Assembly inventory	-	1,013
	<u>£ 397,166</u>	<u>£ 450,952</u>

9 DEBTORS

	<u>1996</u> £	<u>1995</u> £
Amounts falling due within one year:-		
Trade debtors	356,209	1,834,176
Amounts owed by group undertakings	156,188	-
Other debtors	20,542	37,935
Prepayments	2,714	29,090
Recoverable corporation tax	70,399	70,399
	<u>£ 606,052</u>	<u>£1,971,600</u>

Onan International Limited
Notes to the Accounts

10 CREDITORS

Amounts falling due within one year:-

	<u>1996</u> £	<u>1995</u> £
Trade creditors	20,501	-
Amounts owed to group undertakings	936,650	1,939,783
Social security and other taxation	1,421	11,469
Accruals	40,207	57,977
Other creditors	99,016	136,475
	<u>£1,097,795</u>	<u>£2,145,704</u>

11 SHARE CAPITAL

	<u>1996</u> £	<u>1995</u> £
Authorised:		
260,516 ordinary shares of £1 each	£ 260,516	£ 260,516
	<u>£ 260,516</u>	<u>£ 260,516</u>
Allotted, called up and fully paid:		
260,516 ordinary shares of £1 each	£ 260,516	£ 260,516
	<u>£ 260,516</u>	<u>£ 260,516</u>

12 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	<u>1996</u> £	<u>1995</u> £
Loss for the financial year	(449,681)	(170,617)
Opening shareholders' funds	407,394	578,011
Closing shareholders' funds	<u>£ (42,287)</u>	<u>£ 407,394</u>

13 RESERVES

	Profit and Loss Account	Foreign Exchange Translation	Total
Balance brought forward	151,921	(5,043)	146,878
Movement in year	(449,681)	-	(449,681)
Balance carried forward	<u>£ (297,760)</u>	<u>£ (5,043)</u>	<u>£ (302,803)</u>

Notes to the Accounts

14 FINANCIAL COMMITMENTS

Capital expenditure contracted and authorised but not contracted at 31st December 1996 for which no provision has been made in these accounts was as follows:

	<u>1996</u>	<u>1995</u>
	£	£
Contracted	Nil	Nil
Authorised but not contracted	Nil	Nil

At 31st December 1996 the company had annual commitments under non-cancellable operating leases as follows:-

		<u>1996</u>		<u>1995</u>
		£		£
	<u>Land and</u>		<u>Land and</u>	
	<u>Buildings</u>	<u>Other</u>	<u>Buildings</u>	<u>Other</u>
Operating leases which expire within:				
One year	-	-	-	270
Two to five years	4,032	10,958	31,200	19,405
Over five years	-	-	-	-
	£ 4,032	£ 10,958	£ 31,200	£ 19,675

The leases of land and buildings are subject to rent reviews.

15 PENSION SCHEME

The company operates a defined contribution pension scheme. The assets are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to £ 20,598 (1995 £ 32,610).

16 ULTIMATE HOLDING COMPANY

The company is a wholly-owned subsidiary of Onan Corporation, whose ultimate parent is Cummins Engine Company Inc. Both companies are incorporated in the United States.

Onan Corporation has indicated its intention to continue to provide the company with continued financial support sufficient to continue its trade as a going concern.

Onan International Limited
Notes to the Cash Flow Statement

1 RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	<u>1996</u> £	<u>1995</u> £
Net loss for the year	(449,681)	(219,882)
Net interest paid	(8,939)	(9,095)
Operating loss	(458,620)	(228,977)
Depreciation charges	17,848	18,828
Profit on sale of fixed assets	993	-
Increase in stocks	53,786	111,889
Decrease/(increase) in debtors	1,365,548	(1,342,671)
Decrease/increase in creditors	(1,047,909)	1,370,567
Net cash outflow from operating activities	<u>(68,354)</u>	<u>(70,364)</u>

2 ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENTS DURING THE YEAR

	<u>1996</u> £	<u>1995</u> £
Balance at 1st January 1996	80,136	188,044
Net cash outflow	(50,270)	(107,908)
Balance at 31st December 1996	<u>29,866</u>	<u>80,136</u>

3 ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS AS SHOWN IN THE BALANCE SHEET

	<u>1996</u> £	<u>1995</u> £	<u>Change</u> <u>in year</u> £
Cash at bank and in hand	31,970	86,405	(54,435)
Bank overdrafts	(2,104)	(6,269)	4,165
	<u>29,866</u>	<u>80,136</u>	<u>(50,270)</u>

4 ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	<u>Finance</u> <u>Leasing</u> £	<u>Share</u> <u>Capital</u> £
Balance as 1st January 1996	-	260,516
Balance at 31st December 1996	<u>£ -</u>	<u>£ 260,516</u>

AUDITORS' REPORT TO THE SHAREHOLDERS OF

Onan International Limited

We have audited the financial statements on pages 3 to 12 which have been prepared under the historical cost convention and the accounting policies set out on page 6.

Respective Responsibilities of Directors and Auditors

As described in the Directors' Report, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

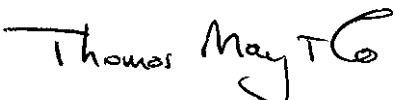
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31st December 1996 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Dated this 22nd day of October 1997

The Lawns
33 Thorpe Road
Peterborough PE3 6AD


Thomas May & Co
Chartered Accountants
and Registered Auditors