

Reg

Onan International Limited

Directors' Report and
Statement of Accounts
for the year ended
31st December 1997

Registered No. 2058784

Thomas May & Co
Chartered Accountants



Onan International Limited

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Onan International Limited

Directors

M A Holtham
G L Brisbin
R Eyres

DIRECTORS' REPORT

The directors present their report and the audited accounts for the year ended 31st December 1997.

PRINCIPAL ACTIVITY

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

BUSINESS REVIEW

Market conditions remained highly competitive. Sales of the Mobile range suffered a setback in the early part of the year as a result of the closure of the Huntsville plant and the subsequent transfer of production to Fridley and parts distribution to Memphis. Despite this, record sales were achieved in a number of key territories and considerable growth was witnessed in new markets beyond Western Europe.

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 1997.

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 resigned on 17th July 1998 and R Eyres who was appointed on 17th July 1998.

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.

Onan International Limited

DIRECTORS' REPORT (Continued)

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.

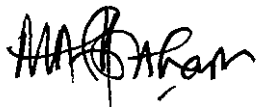
The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets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

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 9.10.98

On Behalf of the Board



M A Holtham

Director

Unit 44,
Guash Way,
Stamford,
Lincolnshire.

Onan International Limited

PROFIT AND LOSS ACCOUNT

Year Ended 31st December 1997

	<u>Notes</u>	<u>1997</u> £	<u>1996</u> £
<u>TURNOVER (continuing activities)</u>	1	2,105,419	1,897,832
Other operating income		60,755	299,594
		<hr/> 2,166,174	<hr/> 2,197,426
Operating costs	3	2,036,572	2,408,330
Depreciation of tangible fixed assets-owned assets	1 & 7	9,455	17,848
Loss on disposal of tangible fixed assets		<hr/> -	<hr/> 993
		2,046,027	2,427,171
<u>OPERATING PROFIT/(LOSS) (continuing activities)</u>		<hr/> 120,147	<hr/> (229,745)
Interest receivable		23	8,939
<u>PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE EXCEPTIONAL ITEMS AND TAXATION</u>		<hr/> 120,170	<hr/> (220,806)
Exceptional items - Redundancy and relocation costs		2,099	228,875
		<hr/> 118,071	<hr/> (449,681)
Tax on result from ordinary activities	6	(66,737)	-
<u>RETAINED PROFIT/(NET LOSS) FOR THE FINANCIAL YEAR</u>		<hr/> 184,808	<hr/> (449,681)
Retained profit brought forward		(297,760)	151,921
<u>ACCUMULATED LOSSES CARRIED FORWARD</u>		<hr/> <hr/> £ (112,952)	<hr/> <hr/> £ (297,760)

STATEMENT OF RECOGNISED GAINS AND LOSSES

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

Onan International Limited

BALANCE SHEET

31st December 1997

	<u>Notes</u>	<u>1997</u> £	<u>1996</u> £
<u>FIXED ASSETS</u>			
Tangible assets	7	12,969	22,424
<u>CURRENT ASSETS</u>			
Stocks	8	547,774	397,166
Debtors	9	425,178	606,052
Cash at bank		3,419	31,970
		<u>976,371</u>	<u>1,035,188</u>
<u>CREDITORS: Amounts falling due within one year</u>			
Bank overdraft		143	2,104
Other		846,676	1,097,795
		<u>846,819</u>	<u>1,099,899</u>
NET CURRENT ASSETS/ (LIABILITIES)		129,552	(64,711)
NET ASSETS/ (DEFICIENCY OF ASSETS)		<u>£ 142,521</u>	<u>£ (42,287)</u>
<u>CAPITAL AND RESERVES</u>			
Called up share capital	11	260,516	260,516
Reserves	13	(117,995)	(302,803)
SHAREHOLDERS' FUNDS	12	<u>£ 142,521</u>	<u>£ (42,287)</u>

The accounts were approved by the Board of Directors on 9.10.98

On behalf of the Board



M A Holtham

Director

Onan International Limited

CASH FLOW STATEMENT
For The Year Ended 31st December 1997

	<u>1997</u> £	<u>1996</u> £
<u>NET CASH OUTFLOW</u>		
<u>FROM OPERATING ACTIVITIES</u>	(97,012)	(68,354)
<u>RETURNS ON INVESTMENTS AND SERVICING</u> <u>OF FINANCE</u>		
Interest received	23	8,939
<u>TAXATION</u>		
Tax recovered	70,399	-
<u>INVESTMENT ACTIVITIES</u>		
Purchase of fixed assets	-	(6,598)
Proceeds on disposal of fixed assets	-	15,743
Net cash outflow from investment activities	-	9,145
<u>DECREASE IN CASH AND CASH EQUIVALENTS</u>	<u>£ (26,590)</u>	<u>£ (50,270)</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 £ 13,161,718 (1996 £ 3,485,244) 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 15).

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>1997</u> £	<u>1996</u> £
By Geographical area:-		
United Kingdom	772,193	728,510
Europe	874,723	844,563
Middle East	433,059	313,790
Rest Of World	25,444	10,966
Total	<u>£ 2,105,419</u>	<u>£ 1,897,829</u>

3 OPERATING COSTS

	<u>1997</u> £	<u>1996</u> £
Goods for resale	1,509,380	1,334,637
Other external charges	299,539	253,037
Employee costs:		
Wages and salaries	114,631	272,795
Social security costs	10,759	55,784
Other pension costs	7,523	20,598
	<u>132,913</u>	<u>349,177</u>
Other operating charges	94,740	471,479
	<u>£ 2,036,572</u>	<u>£ 2,408,330</u>

Included in operating costs are:

	<u>1997</u> £	<u>1996</u> £
Hire of plant and machinery	17,987	37,047
Auditors remuneration	7,350	8,450
Directors emoluments:-		
Remuneration for management	-	44,759
Pension contributions	-	-
	<u> </u>	<u> </u>

4 EMPLOYEE NUMBERS

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

	<u>1997</u> <u>No.</u>	<u>1996</u> <u>No.</u>
Directors	3	2
Management and administration	2	2
Sales	4	9
	<u>9</u>	<u>13</u>

Onan International Limited
Notes to the Accounts

5 DIRECTOR'S REMUNERATION

	<u>1997</u> £	<u>1996</u> £
Highest paid director	£ -	£ 44,759
Number of directors receiving:		
Nil	2	1
£ 40,001 - £ 45,000	-	1

6 TAXATION

(a) Tax on Profit on Ordinary Activities

Based on the profit for the year is as follows:

	<u>1997</u> £	<u>1996</u> £
Tax losses carried back	£ (66,737)	£ -

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

	<u>1997</u> £	<u>1996</u> £
Accelerated capital allowances	(125)	-
Tax losses	35,858	144,525

(b) Deferred Taxation

The potential amount of deferred taxation for all timing differences at 31st December 1997 calculated on the liability method at 33% is as follows:-

Not Provided in these Accounts

	<u>1997</u> £	<u>1996</u> £
Accelerated capital allowances	£ -	£ -

The company has trading losses amounting to approximately £ 120,000 to carry forward against future trading profits.

Onan International Limited
Notes to the Accounts

7 TANGIBLE FIXED ASSETS

	Computer Equipment £	Fixtures and Fittings £	Trailer and Show Units £	Total £
COST:				
At 1st January 1997	15,306	15,519	24,017	54,842
Additions	-	-	-	-
Disposals	-	-	-	-
At 31st December 1997	<u>£ 15,306</u>	<u>£ 15,519</u>	<u>£ 24,017</u>	<u>£ 54,842</u>
DEPRECIATION:				
At 1st January 1997	6,090	9,206	17,122	32,418
Charge for year	3,084	1,567	4,804	9,455
Eliminated on disposals	-	-	-	-
At 31st December 1997	<u>£ 9,174</u>	<u>£ 10,773</u>	<u>£ 21,926</u>	<u>£ 41,873</u>
NET BOOK VALUE:				
At 31st December 1997	£ 6,132	£ 4,746	£ 2,091	£ 12,969
At 31st December 1996	<u>£ 9,216</u>	<u>£ 6,313</u>	<u>£ 6,895</u>	<u>£ 22,424</u>

8 STOCKS

	<u>1997</u> £	<u>1996</u> £
Warehouse inventory	545,369	397,166
Supplies	2,405	-
	<u>£ 547,774</u>	<u>£ 397,166</u>

9 DEBTORS

	<u>1997</u> £	<u>1996</u> £
Amounts falling due within one year:-		
Trade debtors	296,472	356,209
Amounts owed by group undertakings	38,938	156,188
Other debtors	20,712	20,542
Prepayments	2,319	2,714
Recoverable corporation tax	66,737	70,399
	<u>£ 425,178</u>	<u>£ 606,052</u>

Onan International Limited
Notes to the Accounts

10 CREDITORS

Amounts falling due within one year:-

	<u>1997</u> £	<u>1996</u> £
Trade creditors	14,309	20,501
Amounts owed to group undertakings	780,250	936,650
Social security and other taxation	1,421	1,421
Accruals	8,625	40,207
Other creditors	42,071	99,016
	<u>£ 846,676</u>	<u>£ 1,097,795</u>

11 SHARE CAPITAL

	<u>1997</u> £	<u>1996</u> £
Authorised:		
260,516 ordinary shares of £1 each	<u>£ 260,516</u>	<u>£ 260,516</u>
Allotted, called up and fully paid:		
260,516 ordinary shares of £1 each	<u>£ 260,516</u>	<u>£ 260,516</u>

12 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	<u>1997</u> £	<u>1996</u> £
Profit/(loss) for the financial year	184,808	(449,681)
Opening shareholders' funds	(42,287)	407,394
Closing shareholders' funds	<u>£ 142,521</u>	<u>£ (42,287)</u>

13 RESERVES

	<u>Profit and Loss Account</u>	<u>Foreign Exchange Translation</u>	<u>Total</u>
Balance brought forward	(297,760)	(5,043)	(302,803)
Movement in year	184,808	-	184,808
Balance carried forward	<u>£ (112,952)</u>	<u>£ (5,043)</u>	<u>£ (117,995)</u>

Onan International Limited
Notes to the Accounts

14 FINANCIAL COMMITMENTS

Capital expenditure contracted and authorised but not contracted at 31st December 1997 for which no provision has been made in these accounts was as follows:

	<u>1997</u>	<u>1996</u>
	£	£
Contracted	Nil	Nil
Authorised but not contracted	Nil	Nil

At 31st December 1997 the company had annual commitments under non-cancellable operating leases as follows:-

	<u>1997</u>		<u>1996</u>
	£		£
	<u>Land and</u>	<u>Land and</u>	
	<u>Buildings</u>	<u>Other Buildings</u>	<u>Other</u>
Operating leases which expire within:			
One year	-	-	-
Two to five years	4,032	12,915	4,032
Over five years	-	-	-
	<u>£ 4,032</u>	<u>£ 12,915</u>	<u>£ 4,032</u>
			<u>£ 10,958</u>

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 £ 7,523 (1996 £ 20,598).

16 ULTIMATE PARENT 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 International Limited
Notes to the Cash Flow Statement

1 RECONCILIATION OF OPERATING PROFIT/(LOSS) TO NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

	<u>1997</u> £	<u>1996</u> £
Net profit/(loss) for the year	118,071	(449,681)
Net interest received	(23)	(8,939)
Operating profit/(loss)	118,048	(458,620)
Depreciation charges	9,455	17,848
Profit on sale of fixed assets	-	993
(Increase)/decrease in stocks	(150,608)	53,786
Decrease in debtors	177,212	1,365,548
Decrease in creditors	(251,119)	(1,047,909)
Net cash outflow from operating activities	<u>£ (97,012)</u>	<u>£ (68,354)</u>

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

	<u>1997</u> £	<u>1996</u> £
Balance at 1st January 1997	29,866	80,136
Net cash outflow	(26,590)	(50,270)
Balance at 31st December 1997	<u>£ 3,276</u>	<u>£ 29,866</u>

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

	<u>1997</u> £	<u>1996</u> £	<u>Change</u> <u>in year</u> £
Cash at bank and in hand	3,419	31,970	(28,551)
Bank overdrafts	(143)	(2,104)	1,961
	<u>£ 3,276</u>	<u>£ 29,866</u>	<u>£ (26,590)</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 1997	-	260,516
Balance at 31st December 1997	<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 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Dated this 16th day of October 1998

Thomas May & Co

The Lawns
33 Thorpe Road
Peterborough PE3 6AD

Thomas May & Co
Chartered Accountants
and Registered Auditors