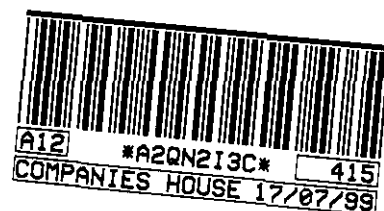


Onan International Limited
FINANCIAL STATEMENTS
31st December 1998

Registered number: 2058784

Thomas May & Co
Chartered Accountants
Peterborough



Onan International Limited**COMPANY INFORMATION****31st December 1998**

NUMBER	2058784
DIRECTORS	M A Holtham G L Brisbin R Eyres
REGISTERED OFFICE	46-50 Coombe Road New Malden Surrey KT3 4QL
AUDITORS	Thomas May & Co Chartered Accountants The Lawns 33 Thorpe Road Peterborough PE3 6AD

Onan International Limited**DIRECTORS' REPORT****31st December 1998**

The directors present their report and the audited financial statements for the year ended 31st December 1998.

Principal activity

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

Business review

Market conditions remained highly competitive although significant gains were made in a number of strategically important countries. The company gained positive publicity from the selection of its marine generator sets by the Cable and Wireless 'Adventurer', which broke the speed record for a round-the-world journey by sea.

Results and dividends

The results for the year are shown in the profit and loss account on page 5. The directors do not propose payment of an ordinary dividend.

Directors

The directors of the company during the year were as follows:-

M A Holtham	Served throughout the year.
G L Brisbin	Served throughout the year.
G Sinclair	Resigned on 17th July 1998.
R Eyres	Appointed on 17th July 1998.

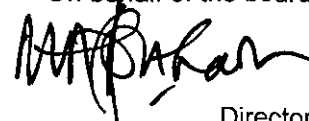
No director has any interest in the issued share capital of the company.

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

Auditors

Thomas May & Co have agreed to offer themselves for re-appointment as auditors of the company.

On behalf of the board



Director

10th May 1999

46-50 Coombe Road
New Malden
Surrey
KT3 4QL

Onan International Limited**STATEMENT OF 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 suitable accounting policies and apply them consistently;
- make judgements 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.

On behalf of the board



M A Holtham
Director

10th May 1999

Onan International Limited**AUDITORS' REPORT****Auditors' report to the members of****Onan International Limited**

We have audited the financial statements on pages 5 to 15 which have been prepared under the historical cost convention and the accounting policies set out on page 8.

Respective responsibilities of directors and auditors

As described on page 3, 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

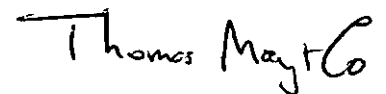
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements 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 error or other irregularity. 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 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

The Lawns,
33 Thorpe Road,
Peterborough,
PE3 6AD



Thomas May & Co
Registered Auditors
Chartered Accountants

13th May 1999

Onan International Limited

PROFIT AND LOSS ACCOUNT

for the year ended 31st December 1998

	Note	1998 £	1997 £
Turnover	2	2,090,085	2,105,418
Other operating income		52,407	77,719
		<hr/>	<hr/>
		2,142,492	2,183,137
Raw materials and consumables		(1,564,575)	(1,509,380)
Other external charges		(260,668)	(299,539)
Staff costs	4	(122,020)	(132,664)
Depreciation	3	(4,951)	(9,455)
Other operating charges		(128,947)	(111,953)
		<hr/>	<hr/>
Operating profit	3	61,331	120,146
Re-organisation costs of continuing operation	6	-	(2,099)
		<hr/>	<hr/>
Profit on ordinary activities before interest		61,331	118,047
Investment income	5	30	23
		<hr/>	<hr/>
Profit on ordinary activities before taxation		61,361	118,070
Taxation	7	(18)	66,737
		<hr/>	<hr/>
Profit on ordinary activities after taxation		61,343	184,807
retained for the year	16	<hr/>	<hr/>

Movements in reserves are shown in the notes to the financial statements.

None of the company's activities were acquired or discontinued during the above two financial years.

There are no recognised gains and losses in 1998 or 1997 other than the profit for the year.

Onan International Limited

BALANCE SHEET

at 31st December 1998

	Note	£	1998 £	£	1997 £	£
Fixed assets						
Tangible assets	8		11,528		12,969	
Current assets						
Stocks	9	640,411		547,774		
Debtors	10	479,332		425,177		
Cash at bank and in hand		4,701		3,419		
			<u>1,124,444</u>	<u>976,370</u>		
Creditors: amounts falling due within one year	11	(932,109)		(846,819)		
Net current assets			<u>192,335</u>	<u>129,551</u>		
Total assets less current liabilities			<u>203,863</u>	<u>142,520</u>		
Capital and reserves						
Called up share capital	14	260,516		260,516		
Other reserves	15	(5,043)		(5,043)		
Profit and loss account	16	(51,610)		(112,953)		
Total shareholders' funds	13		<u>203,863</u>	<u>142,520</u>		

The financial statements on pages 5 to 15 were approved by the board of directors on 10th May 1999 and signed on its behalf by:



M A Holtham
Director

Onan International Limited

CASH FLOW STATEMENT

for the year ended 31st December 1998

	Note	£	1998	£	£	1997	£
Net cash outflow from operating activities	19			(61,824)		(94,913)	
Returns on investments and servicing of finance							
Interest received			30		23		
				30		23	
Taxation							
Corporation tax received				66,737		70,399	
Corporation tax paid				(8)		-	
Capital expenditure and financial investment							
Purchase of tangible fixed assets			(5,201)		-		
Sale of tangible fixed assets			1,691		-		
				(3,510)		-	
Increase/(decrease) in cash				1,425		(24,491)	

Onan International Limited

NOTES ON FINANCIAL STATEMENTS

31st December 1998

1 Accounting policies**Basis of accounting**

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Turnover

Turnover represents the amount derived from the provision of goods and services falling within the company's activities after deduction of trade discounts and value added tax.

Tangible fixed assets

Depreciation of fixed assets is calculated to write off their cost or valuation less any residual value over their estimated useful lives as follows:

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

Leases and hire purchase contracts

Rentals paid under operating leases are charged to income as incurred.

Stocks and work in progress

Stocks are valued at the lower of cost and net realisable value. Cost is computed on a first in first out basis.

Net realisable value is based on estimated selling price less the estimated cost of disposal.

Deferred taxation

Deferred taxation is provided on the liability method in respect of the taxation effect of all timing differences to the extent that tax liabilities are likely to crystallise in the foreseeable future.

Foreign currencies

The company primarily conducts its trade in US Dollars. Transactions expressed in foreign currencies are translated into sterling and recorded at the average rate of exchange for the month of transaction. Monetary assets and liabilities are translated at rates ruling at the balance sheet date.

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.

Pensions**Defined contribution scheme**

Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

NOTES ON FINANCIAL STATEMENTS

31st December 1998

2 Turnover

The turnover for the year was derived from the company's principal activity.

The analysis of turnover by geographical area is as follows:

	1998 £	1997 £
Geographically		
United Kingdom	678,144	772,192
Other EC countries	1,078,067	874,723
Middle East	300,727	433,059
Rest of the World	33,147	25,444
	<u>2,090,085</u>	<u>2,105,418</u>

3 Operating profit

	1998 £	1997 £
Operating profit is stated after crediting		
Gain on foreign exchange	-	16,964
and after charging		
Staff costs (note 4)	122,020	132,664
Auditors' remuneration	6,000	5,850
Auditors' remuneration - non-audit work	1,575	1,500
Operating leases		
Hire of plant and machinery	13,138	13,955
Office lease	4,032	4,032
Loss on foreign exchange	1,742	-
Depreciation of tangible fixed assets (note 8)		
Owned assets	<u>4,951</u>	<u>9,455</u>

Onan International Limited

NOTES ON FINANCIAL STATEMENTS

31st December 1998

4 Directors and employees

	1998 £	1997 £
Staff costs including directors' emoluments		
Wages and salaries	107,419	114,382
Social security costs	7,426	10,759
Pension costs	7,175	7,523
	<u>122,020</u>	<u>132,664</u>
 Average monthly number employed	 Number	 Number
including executive directors:		
Production staff	3	4
Management	3	3
Administration staff	2	2
	<u>8</u>	<u>9</u>

Directors

No director received remuneration from the company during the year.

Defined contribution pension scheme

The company operates a defined contribution scheme. The assets of the scheme 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 £7,175 (1997: £ 7,523) including contributions in respect of employees. Contributions totalling £ Nil (1997: £ Nil) were payable to the fund at 31st December 1998 and are included in creditors.

5 Investment income

	1998 £	1997 £
Interest receivable	<u>30</u>	<u>23</u>

6 Exceptional items

	1998 £	1997 £
Included in re-organisation costs of continuing organisation:		
Re-organisation costs (continuing)	<u>-</u>	<u>2,099</u>

Onan International Limited

NOTES ON FINANCIAL STATEMENTS

31st December 1998

7 Taxation

	1998 £	1997 £
Corporation tax on profit on ordinary activities at 31% (1997: 31%)	10	-
Under/(over) provision in earlier years	8	(66,737)
	<u>18</u>	<u>(66,737)</u>

8 Tangible fixed assets

Cost	Trailer and gensets £	Computer equipment £	Office equipment £	Total £
At 1st January 1998	24,017	15,306	15,519	54,842
Additions	-	5,201	-	5,201
Disposals	(24,017)	(430)	-	(24,447)
At 31st December 1998	<u>-</u>	<u>20,077</u>	<u>15,519</u>	<u>35,596</u>
Depreciation				
At 1st January 1998	21,926	9,174	10,773	41,873
Charge for year	400	2,984	1,567	4,951
Disposals	(22,326)	(430)	-	(22,756)
At 31st December 1998	<u>-</u>	<u>11,728</u>	<u>12,340</u>	<u>24,068</u>
Net book amount				
At 31st December 1998	<u>-</u>	<u>8,349</u>	<u>3,179</u>	<u>11,528</u>
At 1st January 1998	<u>2,091</u>	<u>6,132</u>	<u>4,746</u>	<u>12,969</u>

9 Stocks

	1998 £	1997 £
Warehouse inventory	638,356	545,369
Supplies stock	2,055	2,405
	<u>640,411</u>	<u>547,774</u>

NOTES ON FINANCIAL STATEMENTS

31st December 1998

10 Debtors

	1998 £	1997 £
Amounts falling due within one year		
Trade debtors	358,120	296,472
Amounts owed by associated undertakings	67,306	38,937
Other debtors	48,966	87,449
Prepayments and accrued income	4,940	2,319
	<u>479,332</u>	<u>425,177</u>

11 Creditors: amounts falling due within one year

	1998 £	1997 £
Bank overdrafts	-	143
Trade creditors	4,314	14,309
Amounts owed to associated undertakings	860,543	780,250
Corporation tax	10	-
Other taxation and social security	1,421	1,421
Other creditors	57,896	42,071
Accruals and deferred income	7,925	8,625
	<u>932,109</u>	<u>846,819</u>

12 Deferred taxation

	1998		1997	
	Amount unprovided £	Amount provided £	Amount unprovided £	Amount provided £
Corporation tax deferred by				
Capital allowances	-	-	-	-
Other timing differences	-	-	-	-
Unrelieved taxation losses	-	-	-	-
Capital gains rolled over	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Advance corporation tax	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Corporation tax on revaluation	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Deferred taxation is based on a corporation tax rate of 31% (1997 31%).

Onan International Limited

NOTES ON FINANCIAL STATEMENTS

31st December 1998

13 Reconciliation of movements in shareholders' funds

	1998 £	1997 £
Trading profit for the financial year	61,343	184,807
Opening shareholders' funds	142,520	(42,287)
Closing shareholders' funds	<u>203,863</u>	<u>142,520</u>

14 Called up share capital

	1998		1997	
	Number of shares	£	Number of shares	£
Authorised				
Ordinary shares of £ 1 each	<u>260,516</u>	<u>260,516</u>	<u>260,516</u>	<u>260,516</u>
Allotted called up and fully paid				
Ordinary shares of £ 1 each	<u>260,516</u>	<u>260,516</u>	<u>260,516</u>	<u>260,516</u>

15 Other reserves

	1998 £
Exchange translation reserve	<u>(5,043)</u>

16 Profit and loss account

	1998 £
At 1st January 1998	(112,953)
Retained profit for the year	61,343
At 31st December 1998	<u>(51,610)</u>

Onan International Limited

NOTES ON FINANCIAL STATEMENTS

31st December 1998

17 Financial Commitments

At 31st December 1998 the company had annual commitments under non-cancellable operating leases as follows:

	1998		1997	
	Land and buildings	Other	Land and buildings	Other
Operating leases which expire within:				
One year	-	-	-	-
Two to five years	4,032	12,820	4,032	10,598
Over five years	-	-	-	-
	<u>260,516</u>	<u>12,820</u>	<u>4,032</u>	<u>260,516</u>

18 Ultimate Holding Company

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

19 Notes to the cash flow statement

Reconciliation of operating profit
to operating cash flows

	1998 £	1997 £
Operating profit	61,331	120,146
Depreciation charges	4,951	9,455
Increase in stocks	(92,637)	(150,608)
(Increase)/decrease in debtors	(120,892)	177,213
Increase/(decrease) in creditors	85,423	(251,119)
Net cash outflow from operating activities	<u>(61,824)</u>	<u>(94,913)</u>

Onan International Limited

NOTES ON FINANCIAL STATEMENTS

31st December 1998

19 Notes to the cash flow statement (continued)

Analysis of changes in net debt

	At start of year £	Cash flows £	At end of year £
Cash at bank and in hand	3,419	1,282	4,701
Bank overdrafts	(143)	143	-
Total	<u>3,276</u>	<u>1,425</u>	<u>4,701</u>

Reconciliation of net cash flow to movement in net debt

	1998 £	1997 £
Increase/(decrease) in cash in the year	1,425	(26,590)
Change in net debt resulting from cash flows	<u>1,425</u>	<u>(26,590)</u>
Net debt at 1st January 1998	3,276	29,866
Net debt at 31st December 1998	<u>4,701</u>	<u>3,276</u>