

ARTHUR ANDERSEN

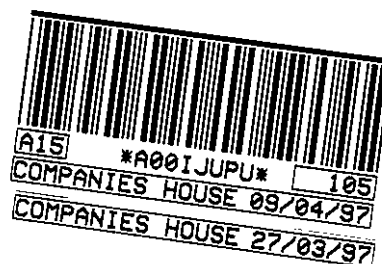
Teddington Bellows (Holdings) Limited

Accounts - 31 December 1995

together with directors' and auditors' report

Registered number: 830610

AMENDING COPY



Directors' report

For the year ended 31 December 1995

The directors present their annual report on the affairs of the company, together with the accounts and auditors' report, for the year ended 31 December 1995.

Principal activity and business review

The company has not traded during the two years ended 31 December 1995.

During the year the authorised share capital was increased by 500,000 to 600,000 ordinary £1 shares. In addition, 493,212 ordinary £1 shares were allotted and issued in order to finance the acquisition of further shares in the company's subsidiary undertaking, Teddington Bellows Limited (see note 2).

Directors and their interests

The directors who served during the year are as shown below:

C S Beal

J E Lee (appointed 1 August 1996)

J R Francis

D H Fernihough

M J Lowell (resigned 3 March 1995)

H N Huta (resigned 4 June 1996)

P M Gill (resigned 6 August 1996)

No director had any beneficial interests in either year which are required to be disclosed under the Companies Act 1985.

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 then 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

Directors' report (continued)

Directors' responsibilities (continued)

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

During the year Arthur Andersen were appointed as auditors. Prior to this the company had been dormant for a number of years and a special resolution under S250 of the Companies Act 1985 not to appoint auditors had been in force. The directors will place a resolution before the annual general meeting to reappoint Arthur Andersen as auditors for the ensuing year.

Broombank Park
Sheepbridge Industrial Estate
Chesterfield
S41 9RT

By order of the Board,

A handwritten signature in black ink, appearing to be 'J E Lee', with a large, sweeping loop on the left side.

J E Lee

Secretary

31 January 1997

Auditors' report

Nottingham

To the Shareholders of Teddington Bellows (Holdings) Limited:

We have audited the accounts on pages 5 to 8 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 directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts 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 accounts 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 accounts.

Fundamental uncertainty : Going Concern

Wahlco Environmental Systems Inc. ("WES"), the company's ultimate parent, and its subsidiary undertakings (together "the WES Group") have incurred significant recurring losses in recent years and have been dependent on advances from shareholders as well as proceeds from the sale of marketable securities and fixed assets to fund their cash flow requirements. Wahlco Engineered Products Group Limited and its subsidiaries (together "the UK Group") also incurred significant losses in 1995 and have been dependent upon advances from WES in order to fund their cash flow requirements.

In forming our opinion, we have considered the adequacy of disclosures made in the accounts concerning the WES Group management's plans for ensuring the WES Group has adequate funds for its future operations. Further details of these plans are given in note 1a) to the accounts.

The conditions described above raise substantial doubt about the ability of the company and the UK Group to continue in operational existence for the foreseeable future. In the event that they were unable to continue as going concerns, adjustments would have to be made in these accounts to the balance sheet value of assets, additional provisions for liabilities might be required, and changes to the balance sheet classifications of assets and liabilities would be needed. Our opinion is not qualified in this respect.

Auditors' report (continued)

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company at 31 December 1995 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen

Chartered Accountants and Registered Auditors

Fothergill House
16 King Street
Nottingham
NG1 2AS

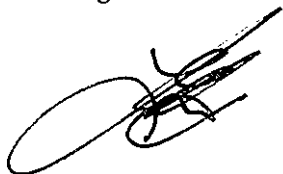
31 January 1997

Balance sheet

31 December 1995

	Notes	1995 £	1994 £
Fixed assets			
Investments	2	493,312	100
Current assets			
Debtors	3	109,242	109,242
Net assets		602,554	109,342
Capital and reserves			
Called-up share capital	4	593,212	100,000
Profit and loss account		9,342	9,342
Shareholders fund's - all equity	5	602,554	109,342

Signed on behalf of the Board



J E Lee

Director

31 January 1997

The accompanying notes are an integral part of this balance sheet.

Notes to accounts

For the year ended 31 December 1995

1 Statement of accounting policies

a) Basis of preparation of the accounts

The accounts have been prepared in accordance with applicable accounting standards applied on a basis consistent with the prior year, and on a going concern basis.

In the consolidated accounts of the ultimate parent company, Wahlco Environmental Systems Inc. ("WES"), and its subsidiaries (together "the WES Group") for the year ended 31 December 1995, dated 22 March 1996, WES Group management identified that the WES Group has incurred significant losses in recent years and has been dependent on advances from its shareholders as well as proceeds from the sale of marketable securities and fixed assets to fund its cash flow requirements. The smallest group of undertakings of which the company is a member, Wahlco Engineered Products Group Limited and subsidiary undertakings ("the UK Group") also incurred significant losses in 1995 and has been dependent on advances from WES in order to fund its cash flow requirements.

Subsequent to the year end the WES Group announced a capital restructuring plan intended to reduce the WES Group's debt and provide additional working capital primarily through the conversion of \$5 million of debt into convertible preferred stock, the provision of a new \$2.3 million standby line of credit and the extension of existing loan facilities. This restructuring has not yet been completed.

Management have also taken other actions, including substantial cost reductions, and developed plans to maximise operating cash flows, although there can be no assurance however that these efforts will be successful.

In view of these significant losses, the directors recognise that there remains substantial doubt as to the ability of the WES Group and, accordingly of the UK Group to continue as going concerns. Notwithstanding this, in view of the refinancing actions described above, and management actions taken to maximise operating cash flows, the directors consider that the working capital facilities available are adequate for the UK Group's present requirements and that it is appropriate for the accounts to be prepared on the going concern basis.

Other than the issue of the shares during the year and the resultant increase in fixed asset investments, set out in notes 2 and 4, the company entered into no transactions during the year or the preceding year. Accordingly, no profit and loss account for either year is presented.

No cash flow statement is prepared as the company's parent company prepares a consolidated cash flow statement.

Group accounts are not prepared due to the exemptions given by S.228 (1) of the Companies Act 1985.

Notes to accounts (continued)

2 Fixed asset investments

The following are included in the net book value of fixed asset investments:

	1995 £	1994 £
Subsidiary undertakings	<u>493,312</u>	<u>100</u>
Cost		
Beginning of year	100	100
Additions at cost	<u>493,212</u>	<u>-</u>
End of year	<u>493,312</u>	<u>100</u>

The investment is in respect of Teddington Bellows Limited, a wholly owned subsidiary registered in England and Wales, which carries out the manufacture of expansion joints.

3 Debtors

The following are included in debtors:

	1995 £	1994 £
Amounts falling due after more than one year:		
Amounts owed by a subsidiary undertaking	<u>109,242</u>	<u>109,242</u>

4 Called-up share capital

	1995 £	1994 £
<i>Authorised</i>		
Ordinary shares of £1 each	<u>600,000</u>	<u>100,000</u>
<i>Allotted, called-up and fully paid</i>		
Allotted issued and fully paid up at the beginning of the year	100,000	100,000
Allotment of ordinary share capital of £1 each	<u>493,212</u>	<u>-</u>
Allotted, issued and fully paid at end of year	<u>593,212</u>	<u>100,000</u>

During the year the authorised share capital was increased by 500,000 to 600,000 ordinary £1 shares. In addition, 493,212 ordinary £1 shares were allotted and issued in order to finance the acquisition of further shares in the company's subsidiary undertaking, Teddington Bellows Limited.

Notes to accounts (continued)

5 Reconciliation of movements in shareholders' funds

	1995 £	1994 £
Issue of ordinary share capital	493,212	-
Opening shareholders' funds	109,342	109,342
Closing shareholders' funds	<u>602,554</u>	<u>109,342</u>

6 Guarantees and other financial commitments

a) Capital commitments

There were no capital commitments at 31 December 1995 (1994 - £nil).

b) Guarantees

The company has entered into an unlimited multilateral guarantee of the bank overdraft of its immediate parent undertaking Wahlco Engineered Products Limited and its United Kingdom subsidiary undertakings. The contingent liability under this arrangement at 31 December 1995 is £nil (1994 - £nil).

7 Ultimate parent company

The ultimate parent company is Wahlco Environmental Systems Inc., which is incorporated in the state of Delaware USA. A copy of the accounts of the ultimate parent company may be obtained from 600 West Segerstrom Avenue, Santa Ana, California 92704-6495, USA.

The parent undertaking of the smallest group of undertakings, of which the company is a member, and which prepared group accounts to 31 December 1995 is Wahlco Engineered Products Group Limited which is registered in England and Wales. Copies of its accounts are available to the public from Broombank Park, Sheepbridge Industrial Estate, Chesterfield, S41 9RT.

8 Prior year comparatives

The prior year figures were not audited as the company was dormant and are shown for comparative purposes only.