Lennox Industries

Directors' report and financial statements

Registered number 671868

31 December 2003

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Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2003.

Principal activity and business review

The principal activity of the company continues to be the sale of commercial heating and air conditioning equipment.

Dividend

No dividend is proposed for either the ordinary or preference shares for the year *(2002: £nil)*

Directors and directors' interests

The directors who held office during the year were as follows:

RJ McDonough
CE Edwards Jnr
AM Turbard

The directors who held office at 31 December 2003 had no interests in the shares of the company which require disclosure under Schedule 7 of the Companies Act 1985.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

A. Turbard

AM Turbard
Director

Cornwell Business Park
Salthouse Road
Brackmills
Northampton
NN4 7EX

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 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;
- 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

KPMG

Altius House
One North Fourth Street
Milton Keynes
MK9 1NE
United Kingdom

Report of the independent auditors to the members of Lennox Industries

We have audited the financial statements on pages 4 to 17.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of audit 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 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 31 December 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

Chartered Accountants
Registered Auditor

12 April, 2005.

Profit and loss account
for the year ended 31 December 2003

	Note	2003 £	2002 £
Turnover	2	**11,953,067**	13,519,240
Cost of sales		**(10,317,956)**	(12,806,882)
Gross profit		**1,635,111**	712,358
Operating expenses		**(3,189,241)**	(3,295,080)
Operating loss		**(1,554,130)**	(2,582,722)
Costs of a fundamental restructuring	4	**(1,904,000)**	-
Finance charges (net)	3	**(54,153)**	(1,792)
Loss on ordinary activities before taxation	4	**(3,512,283)**	(2,584,514)
Tax on loss on ordinary activities	7	-	-
Loss for the year		**(3,512,283)**	(2,584,514)

All of the company's activities derived from continuing operations.

There are no recognised gains or losses in either year other than the profit or loss for that year.

Balance sheet
at 31 December 2003

	Note	2003 £	2002 £
Fixed assets			
Tangible assets	*8*	**136,722**	409,326
Investments	*9*	**32,765**	32,765
		169,487	442,091
Current assets			
Stocks	*10*	**632,930**	2,165,503
Debtors	*11*	**6,849,546**	6,366,707
Cash at bank and in hand		**1,208,502**	-
		8,690,978	8,532,210
Creditors: amounts falling due within one year	*12*	**(7,588,328)**	(4,220,509)
Net current assets		**1,102,650**	4,311,701
Total assets less current liabilities		**1,272,137**	4,753,792
Provisions for liabilities and charges	*13*	**(107,472)**	(76,844)
Net assets		**1,164,665**	4,676,948
Capital and reserves			
Called up share capital	*15*	**314,040**	314,040
Capital contribution account	*16*	**5,898,734**	5,898,734
Share premium account	*16*	**2,520,760**	2,520,760
Profit and loss account	*16*	**(7,568,869)**	(4,056,586)
Total shareholders' funds	*17*	**1,164,665**	4,676,948
Shareholders' funds may be analysed as:			
Equity interests		**864,665**	4,376,948
Non-equity interests		**300,000**	300,000
		1,164,665	4,676,948

These financial statements were approved by the board of directors on 04 mar 2005 and were signed on its behalf by:

A. Turbard

AM Turbard
Director

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements except as noted below.

Basis of preparation

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

The company has taken advantage of the exemption from preparing consolidated financial statements afforded by s228 of the Companies Act 1985 because it is a wholly owned subsidiary of HCF-Lennox Limited which in turn is a wholly owned subsidiary of LGL Netherlands BV, incorporated in the Netherlands, which prepares consolidated financial statements which are publicly available. The company is also, on this basis, exempt from the requirement of FRS 1 to present a cash flow statement.

Tangible fixed assets

Tangible fixed assets are shown at cost less accumulated depreciation. Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset on a straight line basis over its expected useful life as follows:

Improvements to long leasehold property	-	shorter of length of lease and useful economic life
Plant and machinery	-	5-10 years
Motor vehicles	-	4 years

Residual value is calculated on prices prevailing at the date of acquisition.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost incurred in bringing each product to its present location and condition is based on:

Raw materials	-	cost
Work in progress and finished goods	-	standard cost of direct materials and labour, plus a reasonable proportion of manufacturing overheads based on normal levels of activity.

Net realisable value is based on normal selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

Notes *(continued)*

1 Accounting policies *(continued)*

Taxation

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Pension costs

The company operates pension schemes providing benefits based on final pensionable pay.

The two schemes operating are the Lennox Industries Staff Retirement Benefits Scheme for staff employees and the Lennox Industries Retirement Benefits Scheme for hourly paid employees. The assets of the schemes are held separately from those of the company, being invested with insurance companies. The amount charged to the profit and loss account is the estimated regular cost of providing the benefits accrued in the year, adjusted to reflect variations from that cost. The regular cost is calculated so that it represents a substantially level percentage of current and future pensionable payroll. Variations from regular cost are charged or credited to the profit and loss account over the estimated average remaining working life of scheme members.

Any difference between amounts charged to the profit and loss account and contributions paid to independent pension schemes is shown as a separately identified liability or asset in the balance sheet.

Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate. All exchange differences are included in the profit and loss account.

Turnover

Turnover comprises the amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales-related taxes. This is recognised when goods are despatched or as services are provided.

Leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

Investments

Fixed asset investments are shown at cost less provisions for impairment.

Notes *(continued)*

2 Turnover

All turnover was derived from the company's principal activity.

The analysis of turnover by geographical destination is as follows:

	2003	2002
	£	£
United Kingdom	**11,131,829**	12,260,910
Rest of Europe	**821,238**	1,258,330
	11,953,067	13,519,240

3 Finance charges (net)

	2003	2002
	£	£
Investment income		
Other interest receivable and similar income	**-**	13,993
Interest payable and similar charges		
Loans from group undertakings	**54,153**	15,785
Finance charges (net)		
Interest payable and similar charges	**54,153**	15,785
Less: investment income	**-**	(13,993)
	54,153	1,792

4 Loss on ordinary activities before taxation

	2003	2002
	£	£
Loss on ordinary activities before taxation is stated after charging:		
Depreciation on owned tangible fixed assets	**92,890**	159,622
Hire of plant and machinery under operating leases	**104,223**	116,528
Other operating lease rentals	**353,806**	341,952
Other exchange (gains)/ losses	**(8,692)**	33,639
Auditors' remuneration for audit services	**16,000**	13,000
Costs of a fundamental restructuring	**1,904,000**	-

The restructuring costs of £1,904,000 relate to the discontinuation of the manufacturing activities of the company. This represents provisions for onerous leases, dilapidation costs and redundancy costs.

Notes *(continued)*

5 Remuneration of directors

Directors' remuneration was as follows:

	2003	2002
	£	£
Emoluments	**268,202**	159,267
Company contributions to money purchase pension schemes	**33,233**	21,563
	301,435	180,830

The aggregate emoluments of the highest paid director was £182,398 (*2002: £159,267*) and company pension contributions of £21,563 (*2002: £21,563*) were made on his behalf.

Two directors *(2002: one)* were members of the company pension scheme during the year.

6 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2003	2002
Production	**30**	75
Sales and distribution	**45**	41
Administration	**15**	15
	90	131

The aggregate payroll costs of these persons were as follows:

	2003	2002
	£	£
Wages and salaries	**2,753,251**	3,325,095
Social security costs	**246,293**	297,549
Other pension costs (see note 19b)	**110,000**	144,000
	3,109,544	3,766,644

Notes *(continued)*

7 Tax on profit/(loss) on ordinary activities

Analysis of charge in period

	2003 £	2002 £
Current tax on income for the period	-	-
Deferred tax		
Origination/(reversal) of timing differences in year	-	-
Origination/ (reversal) of timing differences in prior year	-	-
Total deferred tax	-	-
Tax on (loss)/profit on ordinary activities	-	-

Factors affecting the tax charge for the current period

The current tax charge for the period is higher *(2002: higher)* than the standard rate of corporation tax in the UK (30%, *2002: 30%*). The differences are explained below:

	2003 £	2002 £
Loss on ordinary activities before tax	**(3,512,283)**	(2,582,722)
Tax on loss on ordinary activities at 30% *(2002: 30%)*	**(1,053,685)**	(774,817)
Effects of:		
Expenses not deductible for tax purposes	**4,609**	32,702
Difference between capital allowances and depreciation	**(53,738)**	29,398
Other short term timing differences	**40,996**	(25,015)
Movement in tax losses	**1,061,818**	737,729
Total current tax charge (see above)	-	-

Notes *(continued)*

8 Tangible fixed assets

	Improvements to long leasehold	Plant and machinery	Motor vehicles	Total
	£	£	£	£
Cost				
At beginning of year	505,491	1,502,237	42,082	2,049,810
Additions	84,847	-	-	84,847
Disposals	(504,471)	(1,242,139)	(42,082)	(1,788,692)
At end of year	85,867	260,098	-	345,965
Depreciation				
At beginning of year	443,231	1,155,171	42,082	1,640,484
Charge for year	5,281	87,609	-	92,890
On disposals	(443,232)	(1,038,817)	(42,082)	(1,524,131)
At end of year	5,280	203,963	-	209,243
Net book value				
At 31 December 2003	**80,587**	**56,135**	**-**	**136,722**
At 31 December 2002	62,260	347,066	-	409,326

9 Fixed asset investments

	2003	2002
	£	£
Investments at cost	**32,765**	32,765

The company owns 100% of the ordinary share capital of Environheat Limited, a dormant company registered in England and Wales. The aggregate capital and reserves of Environheat Limited at 31 December 2003 were £32,765 *(2002: £32,765)*.

10 Stocks

	2003	2002
	£	£
Raw materials and consumables	**515,696**	1,794,650
Finished goods and goods for resale	**117,234**	370,853
	632,930	2,165,503

There is no material difference between the balance sheet value of stocks and their replacement cost.

Notes *(continued)*

11 Debtors

	2003	2002
	£	£
Amounts falling due within one year:		
Trade debtors	**2,938,147**	2,503,774
Amounts owed by group undertakings	**3,759,090**	3,585,562
Prepayments and accrued income	**152,309**	277,371
	6,849,546	6,366,707

12 Creditors: amounts falling due within one year

	2003	2002
	£	£
Bank loans and overdrafts	**990,290**	226,026
Trade creditors	**514,248**	1,577,695
Amounts owed to group undertakings	**5,092,586**	1,752,099
Other creditors including taxation and social security	**505,911**	207,782
Accruals and deferred income	**485,293**	456,907
	7,588,328	4,220,509

13 Provisions for liabilities and charges

	Warranty provision
	£
At beginning of year	76,844
Charged during year	30,628
At end of year	107,472

14 Deferred taxation

The elements of deferred taxation are as follows:

	Unprovided	
	2003	2002
	£	£
Accelerated capital allowances	**181,208**	234,947
Other short term timing differences	**159,617**	23,053
Tax losses carried forward	**5,382,092**	4,427,556
	5,722,917	4,685,556

The directors have assessed the likelihood of the deferred tax balances reversing in the near future. In accordance with FRS19 they have not recognised a deferred tax asset which is unlikely to be able to be utilised in the near future.

Notes *(continued)*

15 Called up share capital

	2003 £	2002 £
Authorised		
15,000 ordinary shares of £1 each	**15,000**	15,000
470,000 redeemable non-cumulative preference shares of £1each	**470,000**	470,000
	485,000	485,000
Allotted, called up and fully paid		
14,040 ordinary shares of £1 each	**14,040**	14,040
300,000 redeemable non-cumulative preference shares of £1each	**300,000**	300,000
	314,040	314,040

Non-equity shareholders' funds relate to non-cumulative preference shares which are entitled to 6% of profits available for distribution. These shares may, at the company's option, be redeemed at par either wholly or in part at any time. They also carry the right to priority of capital on winding up, but no voting rights are attached.

16 Reserves

	Capital contribution account £	Share premium account £	Profit and loss account £	Total £
At beginning of year	5,898,734	2,520,760	(4,056,586)	4,362,908
Profit for the year	-	-	(3,512,283)	(3,512,283)
At end of year	5,898,734	2,520,760	(7,568,869)	850,625

The capital contribution account arose from the conversion of certain loans and accrued interest payable to the ultimate parent company and is not considered by the directors to be distributable.

17 Reconciliation of movements in shareholders' funds

	2003 £	2002 £
Loss for the financial year	**(3,512,283)**	(2,584,514)
Opening shareholders' funds	**4,676,948**	7,261,462
Closing shareholders' funds	**1,164,665**	4,676,948

Notes *(continued)*

18 Commitments

(a) *Capital commitments*

The company had no capital commitments at either year end.

(b) *Pension commitments*

SSAP 24

The pension cost charge for the year was £110,000 *(2002: £144,000)* for the staff scheme.

The pension cost is assessed in accordance with the advice of a professionally qualified actuary. The latest actuarial valuation was as at 27 June 2003 and used the projected unit method. The main actuarial assumptions for the Lennox Industries Staff Retirement Benefits Scheme were that (a) salaries would increase by 4.5% p.a., (b) pensions paid would increase by 3% p.a., and (c) the return on scheme investments would be 5.5% p.a.

In respect of the Lennox Industries Staff Retirements Benefits Scheme, the most recent actuarial valuation showed that the market value of the scheme's assets was £4,147,406 and that the actuarial value of those assets represented 71% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The latest actuarial review produced a cost in accordance with SSAP 24 of 37.9 % of pensionable payroll consisting of a regular cost of 15.8% and a variation from regular cost of 22.1%.

In respect of the Lennox Industries Retirement Benefits Scheme for Hourly Paid Employees, the most recent actuarial valuation carried out as at 1 January 2002 showed that the market value of the scheme's assets was £534,365 and that the actuarial value of those assets represent 160% of the benefits that had accrued to members, after allowing for expected future increases in earnings. This scheme was closed to new membership in January 1994 and the remaining members still in the company's employment transferred to the staff scheme. No contributions are paid into the scheme.

FRS 17

Whilst the company continues to account for pension costs in accordance with Statement of Standard Accounting Practice 24 'Accounting for Pension costs', under FRS17 'Retirement benefits' the following transitional disclosures are required:

The valuation was updated by the actuary on an FRS17 basis as at 27 June 2003 and further updated to 31 December 2003.

The major assumptions used in this valuation were:

	2003	2002
Rate of increase in salaries	**4.50%**	3.50%
Rate of increase in pensions in payment and deferred pensions	**3.00%**	2.00%
Discount rate applied to scheme liabilities	**5.50%**	5.50%
Inflation assumption	**3.00%**	2.00%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

Notes *(continued)*

19 Pension scheme *(continued)*

(c) *Scheme assets*

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	Long term rate of return 2003	**Value at 2003 £000**	Long term rate of return 2002	Value at 2002 £000
Equities	**6.50%**		6.50%	
Bonds	**4.50%**		4.50%	
Other	**3.00%**	**5,038**	3.00%	5,027
		5,038		5,027
Present value of scheme liabilities		**(7,016)**		(6,649)
Deficit in the scheme – Pension liability		**(1,978)**		(1,622)
Related deferred tax asset		**-**		487
Net pension deficit		**(1,978)**		(1,135)

The amount of this net pension deficit would have a consequential effect on reserves.

Movement in deficit during the year

	2003 £000	2002 £000
(Deficit)/surplus in scheme at beginning of year	**(1,622)**	934
Current service cost	**(65)**	(135)
Contributions paid	**128**	104
Other finance income/(cost)	**(214)**	(93)
Actuarial loss	**(205)**	(2,432)
Deficit in the scheme at end of year	**(1,978)**	(1,622)

Notes *(continued)*

19 Pension scheme *(continued)*

(c) *Scheme assets*

If FRS 17 had been fully adopted in these financial statements the pension costs for defined benefit schemes would have been:

Analysis of other pension costs charged in arriving at operating profit/loss

	2003	2002
	£000	£000
Current service cost	**65**	135

Analysis of amounts included in other finance income/costs

	2003	2002
	£000	£000
Expected return on pension scheme assets	**152**	147
Interest on pension scheme liabilities	**(366)**	(240)
Net return	**(214)**	(93)

Analysis of amount recognised in statement of total recognised gains and losses

	2003	2002
	£000	£000
Actual return less expected return on scheme assets	**(222)**	(74)
Experience gains and losses arising on scheme liabilities	**1,042**	(1,709)
Changes in assumptions underlying the present value of scheme liabilities	**(1,025)**	(649)
Actuarial loss recognised in statement of total recognised gains and losses	**(205)**	(2,432)

Notes *(continued)*

19 Commitments *(continued)*

(d) Lease commitments

The minimal annual rentals under the foregoing leases are as follows:

	2003		2002	
	Land and buildings	**Other**	Land and buildings	Other
	£	**£**	£	£
Operating leases which expire:				
Within one year	**-**	**20,924**	245,000	100,000
In the second to fifth years inclusive	**-**	**38,828**	-	17,000
Greater than five years	**33,784**	**-**	-	-
	33,784	**59,752**	245,000	117,000

(e) Other

A fixed and floating charge is held by the Natwest Bank over all the current and future assets of the company.

20 Contingent liabilities

There were no contingent liabilities at 31 December 2003 *(2002: £nil).*

21 Transactions with related parties

The company has taken advantage of the exemption in FRS 8 not to disclose related party transactions within the group as it is a wholly owned subsidiary of a company whose financial statements, in which the company is included, are available to the public. There were no other related party transactions.

22 Ultimate parent company and controlling party

Lennox Industries is a subsidiary of HCF-Lennox Limited, a company registered in England and Wales.

The results of Lennox Industries are consolidated within the results of LGL Netherlands BV. The financial statements of LGL Netherlands BV are available to the public from LGL Netherlands BV, Watergoorweg 87, PO Box 128, 3860 BA Nisker, The Netherlands.

The ultimate group of which Lennox Industries is a member and for which group financial statements are drawn up is that headed by Lennox International Inc., the ultimate parent undertaking, a company registered in Iowa, USA. The financial statements of Lennox International Inc. are available to the public from 2140 Lake Park Boulevard, Richardson, TX, 75080, USA.

The ultimate controlling parties of the Lennox International Inc. group are the Norris and Booth families.