ARTHUR ANDERSEN

Lennox Industries

Accounts 31 December 1996
together with directors' and auditors' reports

Registered number: 671868

Directors' report

For the year ended 31 December 1996

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 1996.

Principal activity and business review

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

Turnover increased by £1,227,458 (10%) during the year. The company made an operating profit of £2,389,902 (1995 - loss £2,737,004) in the year, an increase of 187%. This was after the write off of intercompany loans by the ultimate parent company, Lennox International Inc., of £6,863,200.

Future developments

The company is committed to growth by focusing on core products, key customers and major markets in the UK and Europe.

Results and dividends

The results for the year are as follows:

	£
Retained loss at 31 December 1995	(6,276,690)
Retained profit for the financial year	1,957,535
Retained loss at 31 December 1996	(4,319,155)

No dividend is proposed for either the ordinary or preference shares for the year (1995 - £nil).

Share capital

During the year the company increased its authorised share capital by the creation of an additional 1,000 ordinary shares of £1 each ranking pari passu with the existing ordinary shares. This was to allow the allotment of 140 ordinary shares with a nominal value of £140 to HCF S.A. The monetary consideration received for these shares was £21,000.

Directors' report (continued)

Directors and their interests
The directors who served during the year and subsequently were as follows:

J W Norris Jnr (USA) (Chairman)
P Jolie (USA) (Managing Director) (appointed 15 February 1996)
P R J Lamb (Managing Director) (resigned 14 February 1996)
C W Wyant Jnr (USA)
R L Jenkins (USA)

The directors who held office at 31 December 1996 had no interests in the shares of the company which require disclosure under Schedule 7 of the Companies Act 1985.

Transactions in which one of the directors had a material interest during the year are detailed in note 7 to the accounts.

Directors' responsibilities
Company law requires the directors to prepare accounts 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 accounts, 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 accounts; and
- prepare the accounts 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 enable them to ensure that the accounts 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.

Company status
On 5 January 1996 the company became an unlimited company and accordingly changed its name from Lennox Industries Limited to Lennox Industries.

Directors' report (continued)

Auditors

The directors will place a resolution before the annual general meeting to reappoint Arthur Andersen as auditors for the ensuing year.

PO Box 174
Westgate Interchange
Northampton
NN5 5AG

28 October 1997

By order of the Board

W Burbidge

Secretary

Auditors' report

Birmingham

To the Shareholders of Lennox Industries:

We have audited the accounts on pages 5 to 22 which have been prepared under the historical cost convention and the accounting policies set out on pages 8 and 9.

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.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company at 31 December 1996 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Arthur Andersen
Chartered Accountants and Registered Auditors

1 Victoria Square
Birmingham
B1 1BD

28 October 1997

Profit and loss account

For the year ended 31 December 1996

	Notes	1996 £	1995 £
Turnover	2	13,389,451	12,161,993
Changes in stocks of finished goods and work in progress		(1,044,888)	1,232,117
Other operating expenses (net)	3	(9,846,041)	(16,115,304)
Loss on sale of property and other fixed assets		(108,620)	(15,810)
Operating profit (loss)		2,389,902	(2,737,004)
Interest receivable and similar income	4	25,983	16,384
Interest payable and similar charges	5	(458,350)	(220,391)
Profit (loss) on ordinary activities before taxation	6	1,957,535	(2,941,011)
Tax on profit (loss) on ordinary activities	8	-	293,815
Retained profit (loss) for the financial year	19	1,957,535	(2,647,196)
Retained loss, beginning of year		(6,276,690)	(3,629,494)
Retained loss, end of year		(4,319,155)	(6,276,690)

All operations of the company continued throughout both years and no operations were acquired or discontinued in either year.

There were no recognised gains or losses in either year other than the profit (loss) for the financial year.

A statement of movements on reserves is given in note 18 to the accounts.

The accompanying notes are an integral part of this profit and loss account.

Balance sheet

31 December 1996

	Notes	1996 £	1995 £
Fixed assets			
Tangible assets	9	1,258,140	1,544,178
Investment	10	32,765	32,765
		1,290,905	1,576,943
Current assets			
Stocks	11	3,315,595	4,963,157
Debtors	12	4,799,408	4,934,780
Cash at bank and in hand		1,419,342	459,213
		9,534,345	10,357,150
Creditors: Amounts falling due within one year	13	(5,574,112)	(7,005,241)
Net current assets		3,960,233	3,351,909
Total assets less current liabilities		5,251,138	4,928,852
Creditors: Amounts falling due after more than one year	14	(19,208)	(2,493,008)
Provisions for liabilities and charges	15	(817,551)	-
Net assets		4,414,379	2,435,844
Capital and reserves			
Called-up share capital	17	314,040	313,900
Capital contribution account	18	5,898,734	5,898,734
Share premium account	18	2,520,760	2,499,900
Profit and loss account	18	(4,319,155)	(6,276,690)
Total shareholders' funds	19	4,414,379	2,435,844
Shareholders' funds may be analysed as:			
Equity interests		4,114,379	2,135,844
Non-equity interests	17	300,000	300,000
		4,414,379	2,435,844

Signed on behalf of the Board

P Jolie Director

28 October 1997

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

Cash flow statement

For the year ended 31 December 1996

	Notes	1996 £	1995 £
Net cash inflow (outflow) from operating activities	20a	619,414	(4,726,078)
Returns on investments and servicing of finance			
Interest received		25,983	16,384
Interest element of finance lease rentals		-	(371)
Net cash inflow from returns on investments and servicing of finance		25,983	16,013
Taxation			
Corporation tax refund		-	352,643
Taxation refunded		-	352,643
Investing activities			
Purchase of tangible fixed assets		(137,129)	(212,175)
Sale of tangible fixed assets		5,700	3,865
Net cash outflow from investing activities		(131,429)	(208,310)
Net cash inflow (outflow) before financing		513,968	(4,565,732)
Financing			
Capital element of finance lease payments	20c	(26,923)	(37,727)
Short-term group loans	20c	479,903	4,482,901
Issue of ordinary share capital		21,000	-
Net cash inflow from financing		473,980	4,445,174
Increase (decrease) in cash and cash equivalents	20b	987,948	(120,558)

The accompanying notes are an integral part of this cash flow statement.

Notes to accounts

31 December 1996

1 Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, is set out below.

a) Basis of accounting

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards.

b) 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	-	shorter of length of lease and useful economic life
Plant and machinery	-	5 - 10 years (10% - 20% per annum)
Motor vehicles	-	4 years (25% per annum)

c) 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	-	purchase cost on a first-in first-out basis, including transport
Work-in-progress and finished goods	-	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.

d) Taxation

Corporation tax payable is provided on taxable profits at the current rate.

Advance corporation tax payable on dividends paid or provided for in the year is written off, except when recoverability against corporation tax payable is considered to be reasonably assured. Credit is taken for advance corporation tax written off in previous years when it is recovered against corporation tax liabilities.

Deferred taxation (which arises from differences in the timing of the recognition of items, principally depreciation, in the accounts and by the tax authorities) has been calculated on the liability method. Deferred tax is provided on timing differences which will probably reverse, at the rates of tax likely to be in force at the time of reversal. Deferred tax is not provided on timing differences which, in the opinion of the directors, will probably not reverse.

Notes to accounts (continued)

1 Accounting policies (continued)

e) 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.

f) Foreign currency

Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as of the date of the transaction (or, where appropriate, at the rate of exchange in a related forward exchange contract). Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end (or, where appropriate, at the rate of exchange in a related forward exchange contract). Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

g) 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.

h) Leases

Assets held under finance leases are initially reported at the fair value of the asset with an equivalent liability categorised as appropriate under creditors due within or after one year. The asset is depreciated over the shorter of the lease term and its useful economic life. Finance charges are allocated to accounting periods over the period of the lease to produce a constant rate of return on the outstanding balance. Rentals are apportioned between finance charges and reduction of the liability, and allocated to cost of sales and other operating expenses as appropriate. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives. 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.

i) Basis of consolidation

These accounts present information about Lennox Industries as a single undertaking, and not about its group. Consolidated accounts have not been prepared, as permitted by the exemptions given under Section 229 (2) of the Companies Act 1985, because the directors consider that consolidation of the company's subsidiary (which did not trade during the year) would have no material impact on the accounts.

Notes to accounts (continued)

2 Turnover

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

The analysis of turnover by geographical destination is as follows:

	1996	1995
	£	£
United Kingdom	6,698,663	7,671,092
Europe	2,198,515	4,626,059
Other	4,492,273	(135,158)
	13,389,451	12,161,993

3 Other operating expenses (net)

		1996	1995
		£	£
Raw materials and consumables		9,985,708	9,475,467
Staff costs		3,358,476	3,853,967
Depreciation	– on owned assets	279,950	234,138
	– on assets held under finance leases	28,897	28,897
Other operating (income) charges		(3,806,990)	2,522,835
		9,846,041	16,115,304

Included within other operating income in 1996 is the exceptional write off of loans totalling £6,863,200 by the ultimate parent company, Lennox International Inc..

4 Interest receivable and similar income

	1996	1995
	£	£
Bank interest income	25,983	16,384

5 Interest payable and similar charges

	1996	1995
	£	£
Loans from group undertakings	458,350	220,020
Finance leases	-	371
	458,350	220,391

Notes to accounts (continued)

6 Profit (loss) on ordinary activities before taxation

Profit (loss) on ordinary activities before taxation is stated after charging/(crediting)

	1996 £	1995 £
Hire of plant and machinery under operating leases	128,102	122,500
Other operating lease rentals	492,500	490,000
Exchange (gains) losses on intercompany loans	(650,661)	10,980
Other exchange (gains)	(211,432)	(129,204)
Auditors' remuneration	12,800	12,800
Exceptional write off of loans by ultimate parent company	(6,863,200)	-

Remuneration of the company's auditors for the provision of non-audit services to the company and its subsidiary undertaking was £6,000 (1995 - £13,600).

7 Staff costs

Particulars of employee costs (including executive directors) are as follows:

	1996 £	1995 £
Wages and salaries	2,980,012	3,385,605
Social security costs	211,954	259,589
Other pension costs	166,510	208,773
	3,358,476	3,853,967

The average monthly number of persons employed by the company during the year was as follows:

	1996 Number	1995 Number
Production	111	145
Selling and distribution	35	40
Administration	22	27
	168	212

7 Staff costs (continued)

Directors' remuneration was as follows:

	1996	1995
	£	£
Emoluments (including pension contributions)	110,020	109,368
Compensation for loss of office	30,000	-
	140,020	109,368

The directors' remuneration shown above (excluding pensions and pension contributions) included:

	1996	1995
	£	£
Chairman	-	-
Managing director and highest paid director	76,049	94,192

Directors, excluding those who discharged their duties wholly or mainly outside the UK, received emoluments (excluding pensions and pension contributions) in the following ranges:

	1996	1995
	Number	Number
Up to £5,000	3	-
£30,001 - £35,000	1	-
£75,001 - £80,000	1	-
£90,001 - £95,000	-	1

P R J Lamb is the majority shareholder of L J Properties Limited, a company which owns premises at Ross Road, Northampton which are leased by Lennox Industries. The lease, dated 26 May 1989, is a 21 year lease subject to a break at 25 May 2003 per the deed of variation dated August 1995. The current annual rental is £175,000. The directors consider that these arrangements have been entered into on an arm's length basis.

Notes to accounts (continued)

8 Tax on profit (loss) on ordinary activities

The tax (charge) credit comprises:

	1996 £	1995 £
Corporation tax at 33%	-	-
Adjustment of current taxation in respect of prior years	-	293,815
	-	293,815

No corporation tax is payable for the year ended 31 December 1996 as the company has accumulated tax losses brought forward from prior periods which are available to carry forward against future trading profits.

The deferred tax asset in respect of the tax losses has not been recognised on the grounds of prudence.

9 Tangible fixed assets

	Improvements to long leasehold £	Plant and machinery £	Motor vehicles £	Total £
Cost				
Beginning of year	508,342	2,230,615	44,618	2,783,575
Additions	41,671	91,073	4,385	137,129
Disposals	(16,349)	(439,861)	-	(456,210)
End of year	533,664	1,881,827	49,003	2,464,494
Depreciation				
Beginning of year	162,548	1,055,145	21,704	1,239,397
Charge in year	42,901	255,257	10,689	308,847
Disposals	(4,556)	(337,334)	-	(341,890)
End of year	200,893	973,068	32,393	1,206,354
Net book value				
Beginning of year	345,794	1,175,470	22,914	1,544,178
End of year	332,771	908,759	16,610	1,258,140

Included within the above are items of plant and machinery held under finance leases with a cost of £244,492 (1995 - £244,492). The accumulated depreciation in respect of these assets was £152,689 (1995 - £123,792).

Notes to accounts (continued)

10 Fixed asset investment

	1996	1995
	£	£
Investment at cost	32,765	32,765

The investment represents 100% of the ordinary share capital of Environheat Limited, a dormant company registered in England and Wales. Consolidated accounts have not been prepared for the group on the basis that there is no material difference between the company and group accounts. The aggregate capital and reserves of Environheat at 31 December 1996 was £32,765 (1995 - £32,765).

11 Stocks

	1996	1995
	£	£
Raw materials and consumables	968,485	1,571,159
Finished goods and goods held for resale	2,347,110	3,391,998
	3,315,595	4,963,157

The directors do not consider that the carrying value of stocks at the end of the year is materially different from replacement cost.

12 Debtors

	1996	1995
	£	£
Amounts falling due within one year:		
Trade debtors	4,242,986	4,736,673
Amounts owed by other group undertaking	130,865	-
VAT	-	16,113
Prepayments and accrued income	425,557	181,994
	4,799,408	4,934,780

Notes to accounts (continued)

13 Creditors: Amounts falling due within one year

	1996 £	1995 £
Trade creditors	1,032,524	592,437
Amounts owed to subsidiary undertaking	32,765	32,765
Amounts owed to other group undertakings	3,327,841	5,890,365
Obligations under finance leases	27,553	27,553
VAT	178,281	-
Social security and PAYE	82,887	88,248
Accruals and deferred income	892,261	373,873
	5,574,112	7,005,241

14 Creditors: Amounts falling due after more than one year

	1996 £	1995 £
Amounts owed to other group undertakings	-	2,446,877
Obligations under finance leases	19,208	46,131
	19,208	2,493,008

Obligations under finance leases are analysed as follows:

	1996 £	1995 £
Amounts payable		
- within one year	27,553	27,553
- within two to five years	19,208	46,131
	46,761	73,684

15 Provisions for liabilities and charges

	Warranty provision £
At 1 January 1996	-
Transfers from accruals	108,000
Charged to profit and loss account in year	709,551
At 31 December 1996	817,551

Notes to accounts (continued)

16 Deferred taxation

	Unprovided	
	1996	1995
	£	£
Accelerated capital allowances	105,522	157,362
Effect of tax losses carried forward	(105,522)	(157,362)
	-	-

The company has accumulated tax losses brought forward from prior periods which are available to carry forward against future trading profits. The deferred tax asset in respect of the tax losses has not been recognised on the grounds of prudence.

17 Called-up share capital

	1996	1995
	£	£
Authorised		
15,000 (1995 – 14,000) ordinary shares of £1 each	15,000	14,000
470,000 redeemable non-cumulative preference shares of £1 each	470,000	470,000
	485,000	484,000
Allotted, called-up and fully-paid		
14,040 (1995 – 13,900) ordinary shares of £1 each	14,040	13,900
300,000 redeemable non-cumulative preference shares of £1 each	300,000	300,000
	314,040	313,900

During the year the company increased its authorised share capital by the creation of an additional 1,000 ordinary shares of £1 each ranking pari passu with the existing ordinary shares. This was to allow the allotment of 140 ordinary shares with a nominal value of £140 to HCF S.A. The monetary consideration received for these shares was £21,000.

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.

No preference dividend has been paid or proposed during the year (1995 - £nil).

Notes to accounts (continued)

18 Reserves

	Capital contribution account £	Share premium account £	Profit and loss account £	Total £
At 1 January 1995	5,898,734	2,499,900	(3,629,494)	4,769,140
Retained loss for the year	-	-	(2,647,196)	(2,647,196)
At 1 January 1996	5,898,734	2,499,900	(6,276,690)	2,121,944
Retained profit for the year	-	-	1,957,535	1,957,535
Issue of shares in year	-	20,860	-	20,860
At 31 December 1996	5,898,734	2,520,760	(4,319,155)	4,100,339

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

19 Reconciliation of movements in shareholders' funds

	1996 £	1995 £
Shareholders' funds, beginning of year	2,435,844	5,083,040
Issue of shares in year	21,000	-
Profit (loss) for the year	1,957,535	(2,647,196)
Shareholders' funds, end of year	4,414,379	2,435,844

Notes to accounts (continued)

20 Cash flow information

a) *Reconciliation of operating profit (loss) to net cash inflow (outflow) from operating activities*

	1996 £	1995 £
Operating profit (loss)	2,389,902	(2,737,004)
Depreciation	308,847	263,035
Loss on sale of tangible fixed assets	108,620	15,810
Write off of loans by parent company	(6,863,200)	-
Increase in warranty provision	709,551	-
Foreign exchange losses on working capital transactions	(211,432)	-
Foreign exchange (losses) gains on intercompany loans	(650,661)	10,980
Decrease (increase) in stocks	1,647,562	(158,892)
Decrease (increase) in debtors	13,210	(2,335,248)
Increase in creditors	3,167,015	215,241
Net cash inflow (outflow) from operating activities	619,414	(4,726,078)

b) *Analysis of cash and cash equivalents*

	1996 £	1995 £
Changes during the year		
Beginning of year	459,213	579,771
Net cash inflow (outflow) before adjustments for the effect of foreign exchange rate changes	987,948	(120,558)
Effect of foreign exchange rate changes	(27,819)	-
End of year	1,419,342	459,213
Analysis of balances		
Cash at bank and in hand	1,419,342	459,213

Notes to accounts (continued)

20 Cash flow information (continued)

c) *Analysis of changes in finance*

	Share capital and share premium	Capital contribution account	Short term group loans	Long term group loans	Finance leases
	£	£	£	£	£
Balance at 1 January 1995	2,813,800	5,898,734	-	2,435,897	111,411
Cash inflow (outflow) from financing	-	-	4,482,901	-	(37,727)
Effect of foreign exchange differences	-	-	-	10,980	-
Conversion of accrued interest charges to capital contribution	-	-	220,020	-	-
Balance at 31 December 1995	2,813,800	5,898,734	4,702,921	2,446,877	73,684
Cash inflow (outflow) from financing	21,000	-	479,903	-	(26,923)
Effect of foreign exchange differences	-	-	(528,417)	(226,347)	-
Write back of loans	-	-	(4,642,670)	(2,220,530)	-
Interest account	-	-	458,350	-	-
Balance at 31 December 1996	2,834,800	5,898,734	470,087	-	46,761

d) Major non-cash transactions

During the year, the ultimate parent company, Lennox International Inc., wrote off intercompany loans with Lennox Industries totalling £6,863,200.

21 Financial commitments

a) Capital commitments

The company had no capital commitments at either year end.

b) Pension commitments

The pension cost charge for the year was £166,510 (1995 - £208,773) for the staff scheme and £nil (1995 - £nil) for the hourly paid scheme.

The pension cost is assessed in accordance with the advice of a professionally qualified actuary. The latest actuarial valuation was as at 1 January 1996 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 7.0% p.a., (b) pensions paid would increase by 3% p.a., and (c) the return on scheme investments would be 8.5% 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 £2,796,949 and that the actuarial value of those assets represented 143% 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 6.1% of pensionable payroll consisting of a regular cost of 9.6% and a variation from regular cost of 3.5%.

In respect of the Lennox Industries Retirement Benefits Scheme for Hourly Paid Employees, the most recent actuarial valuation showed that the market value of the scheme's assets was £394,815 and that the actuarial value of those assets represent 225% 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. The remaining members still in the company's employment transferred to the staff scheme. No contributions are paid into the scheme.

c) Lease commitments

The company has entered into non-cancellable operating leases in respect of plant and machinery, the payments for which extend over a period up to 3 years. The total annual rental for 1996 was £128,102 (1995 - £122,500). The company also leases certain land and buildings on long term operating leases. The annual rental on these leases was £492,500 (1995 - £490,000). During the year a director had a material interest in certain of the lease commitments as set out in note 7. The rents payable under these leases are subject to renegotiation at various intervals specified in the leases. The company pays all insurance, maintenance and repairs to the properties.

Notes to accounts (continued)

21 Financial commitments (continued)

c) Leases (continued)

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

	1996		1995	
	£ Land and buildings	£ Other	£ Land and buildings	£ Other
Expiring within one year	-	148,030	-	119,112
Expiring between two and five years	175,000	-	-	3,388
Expiring after five years	317,500	-	490,000	-
	492,500	148,030	490,000	122,500

22 Contingent liabilities

a) The company has guarantees in respect of indemnity losses attributable to third parties of £120,000 (1995-£120,000).

b) The company has unsecured contingent liabilities in respect of discounted bills of exchange (subject to recourse) of £nil (1995 - £24,206).

23 Transactions with related parties

Lennox Industries made purchases of residential heating and air conditioning equipment from fellow group undertakings within the Lennox International Inc. group of £3,368,701 from Lennox Global and £854,907 from Lennox (USA) during the year. At 31 December 1996, Lennox Industries owed £3,327,841 to fellow group undertakings.

Other charges incurred from Lennox Global in the year totalled £684,399 which included costs associated with the annual audit, corporate and operating group fees, data processing fees, recharges to the USA and costs associated with the Jebel Al Warehouse.

Lennox Industries sold residential heating and air conditioning equipment to fellow group undertakings of the Lennox International Inc. group totalling £52,551 in the year, of which £34,528 was with Lennox (USA). At 31 December 1996, Lennox Industries was owed £130,865 by fellow group undertakings.

Other related party transactions are detailed in note 7.

Notes to accounts (continued)

24 Ultimate parent company and controlling party

Lennox Industries is a subsidiary of Lennox Global Inc., a company registered in Iowa, USA, which heads the smallest group into which the results of Lennox Industries are consolidated. The ultimate parent company is Lennox International Inc., a company registered in Iowa, USA, which heads the largest group in which the results are consolidated. The accounts of Lennox International Inc. are not available to the public.

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