Lennox Industries

Directors' report and financial statements

Registered number 671868

31 December 2005

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2005.

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 *(2004: £nil)*

Directors and directors' interests

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

RJ McDonough	
CE Edwards Jnr	(resigned 7 July 2005)
AM Turbard	(resigned 7 July 2005)
BD Houghton	
WF Stoll	(appointed 7 July 2005)
D Birtles	(appointed 7 July 2005)

The directors who held office at 31 December 2005 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

BD Houghton
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

Independent auditors' report to the members of Lennox Industries

We have audited the financial statements of Lennox Industries for the year ended 31 December 2005 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

As described in the Statement of Directors' Responsibilities on page 2, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 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

21 December, 2006

Profit and loss account
for the year ended 31 December 2005

	Note	2005 £	2004 £ (restated)
Turnover	2	**8,130,442**	11,574,725
Cost of sales		**(7,262,475)**	(10,009,567)
Gross profit		**867,967**	1,565,158
Operating expenses		**(2,042,560)**	(3,302,301)
Operating loss		**(1,174,593)**	(1,737,143)
Costs of a fundamental restructuring	4	-	(63,737)
Finance charges (net)	3	**(360,271)**	(266,470)
Loss on ordinary activities before taxation	4	**(1,534,864)**	(2,067,350)
Tax on loss on ordinary activities	7	-	-
Loss for the year		**(1,534,864)**	(2,067,350)

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 2005

	Note	2005 £	2004 £ (restated)
Fixed assets			
Tangible assets	*8*	**88,472**	110,961
Investments	*9*	**32,765**	32,765
		121,237	143,726
Current assets			
Stocks	*10*	**450,290**	728,834
Debtors	*11*	**2,422,092**	4,051,538
Cash at bank and in hand		**333,547**	607,536
		3,205,929	5,387,908
Creditors: amounts falling due within one year	*12*	**(5,663,900)**	(6,161,319)
Net current (liabilities)		**(2,457,971)**	(773,411)
Total assets less current liabilities		**(2,336,734)**	(629,685)
Provisions for liabilities and charges	*13*	**(130,815)**	(30,000)
Net (liabilities) excluding pension liabilities		**(2,467,549)**	(659,685)
Pension Liabilities	*18*	**(2,721,000)**	(2,416,000)
Net (liabilities)		**(5,188,549)**	(3,075,685)
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*	**(13,922,083)**	(11,809,219)
Total shareholders' funds	*17*	**(5,188,549)**	(3,075,685)
Shareholders' funds may be analysed as:			
Equity interests		**(5,488,549)**	(3,375,685)
Non-equity interests		**300,000**	300,000
		(5,188,549)	(3,075,685)

These financial statements were approved by the board of directors on 17th October 2006 and were signed on its behalf by:

BD Houghton
Director

Statement of total recognised gains and losses
for the year ended 31 December 2005

	2005	2004
	£	£
		(restated)
Loss for the financial year	**(1,534,864)**	(2,067,350)
Movement on actuarial deficit in the pension scheme	**(578,000)**	(195,000)
Total gains relating to the financial year	**(2,112,864)**	(2,262,350)
Prior year adjustment	**(1,978,000)**	
Total recognised gains and losses since the last annual report	**(4,090,864)**	

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 group's financial statements. In these financial statements the following new standards have been adopted for the first time:

- FRS 21 'Events after the balance sheet date'
- FRS 28 'Corresponding amounts'

The recognition and measurement requirements of FRS 17 'Retirement benefits' have also been adopted, previously the transitional disclosures of that standard had been followed.

The accounting policies under these new standards are set out below together with an indication of the effects of their adoption. FRS 28 'Corresponding amounts' has had no material affect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985.

The corresponding amounts in these financial statements are restated in accordance with the new policies.

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.

Going concern

These financial statements have been prepared on a going concern basis as LGL Netherlands BV has agreed to continue to support the company to ensure the company meets its liabilities as and when they fall due, for a period of 12 months from the date of signing these financial statements.

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.

Notes *(continued)*

1 Accounting policies *(continued)*

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.

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:

	2005	2004
	£	£
United Kingdom	**8,098,692**	11,443,172
Rest of Europe	**31,750**	131,553
	8,130,442	11,574,725

3 Finance charges (net)

	2005	2004
	£	£ (restated)
Investment income		
Other interest receivable and similar income	-	-
Interest payable and similar charges		
Other interest payable	**98**	847
Loans from group undertakings	**110,173**	29,623
Finance costs of pension deficit	**250,000**	236,000
Finance charges (net)		
Interest payable and similar charges	**360,271**	266,470
Less: investment income	-	-
	360,271	266,470

4 Loss on ordinary activities before taxation

	2005	2004
	£	£
Loss on ordinary activities before taxation is stated after charging:		
Depreciation on owned tangible fixed assets	**34,631**	42,019
Hire of plant and machinery under operating leases	**65,791**	62,440
Other operating lease rentals	**84,347**	67,748
Other exchange (gains)/ losses	**(92,241)**	467,612
Auditors' remuneration for audit services	**15,500**	16,000
Costs of a fundamental restructuring	-	63,737

Notes *(continued)*

5 Remuneration of directors

Directors' remuneration was as follows:

	2005	2004
	£	£
Emoluments	**464,651**	261,030
Company contributions to money purchase pension schemes	**107,554**	86,958
	572,205	347,988

The aggregate emoluments of the highest paid director was £367,226 (*2004: £163,794*) and company pension contributions of £68,287 (*2004: £53,478*) were made on his behalf.

Two directors *(2004: two)* 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	
	2005	2004
Sales and distribution	**31**	43
Administration	**5**	5
	36	48

The aggregate payroll costs of these persons were as follows:

	2005	2004
	£	£
Wages and salaries	**2,013,438**	1,831,400
Social security costs	**140,892**	145,274
Other pension costs	**350,943**	120,494
	2,505,273	2,097,168

Notes *(continued)*

7 Tax on profit/(loss) on ordinary activities

Analysis of charge in period

	2005 £	2004 £
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 *(2004: higher)* than the standard rate of corporation tax in the UK (30%, *2004: 30%*). The differences are explained below:

	2005 £	2004 £ (restated)
Loss on ordinary activities before tax	**(1,534,864)**	(2,067,350)
Tax on loss on ordinary activities at 30% *(2004: 30%)*	**(460,459)**	(620,205)
Effects of:		
Expenses not deductible for tax purposes	**120,843**	28,244
Difference between capital allowances and depreciation	**(35,354)**	(29,995)
Other short term timing differences	**(168,322)**	37,700
Timing differences on pension deficit	**(81,900)**	72,900
Movement in tax losses	**625,192**	511,356
Total current tax charge (see above)	-	-

Notes *(continued)*

8 Tangible fixed assets

	Improvements to long leasehold £	Plant and machinery £	Total £
Cost			
At beginning of year	91,919	266,589	358,508
Additions	12,142	-	12,142
At end of year	104,061	266,589	370,650
Depreciation			
At beginning of year	22,892	224,655	247,547
Charge for year	19,335	15,296	34,631
At end of year	42,227	239,951	282,178
Net book value			
At 31 December 2005	**61,834**	**26,638**	**88,472**
At 31 December 2004	69,027	41,934	110,961

9 Fixed asset investments

	2005 **£**	2004 £
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 2005 were £ 32,765 *(2004: £32,765).*

10 Stocks

	2005 **£**	2004 £
Raw materials and consumables	**-**	-
Finished goods and goods for resale	**450,290**	728,834
	450,290	728,834

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

Notes *(continued)*

11 Debtors

	2005 £	2004 £
Amounts falling due within one year:		
Trade debtors	**1,300,193**	3,596,007
Amounts owed by group undertakings	**1,052,706**	315,850
Prepayments and accrued income	**69,193**	139,681
	2,422,092	4,051,538

12 Creditors: amounts falling due within one year

	2005 £	2004 £
Trade creditors	**537,085**	433,383
Amounts owed to group undertakings	**4,340,054**	4,938,222
Other creditors including taxation and social security	**359,981**	541,197
Accruals and deferred income	**426,780**	248,517
	5,663,900	6,161,319

13 Provisions for liabilities and charges

	Warranty provision £
At beginning of year	30,000
Added in the year	100,815
At end of year	**130,815**

14 Deferred taxation

The elements of deferred taxation are as follows:

	Unprovided 2005 £	2004 £
Accelerated capital allowances	**115,859**	151,214
Other short term timing differences	**28,595**	196,918
Tax losses carried forward	**6,468,334**	5,483,141
	6,612,788	5,831,273

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

	2005 £	2004 £
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 – as previously stated	5,898,734	2,520,760	(9,393,219)	(973,725)
Prior year adjustment	-	-	(2,416,000)	(2,416,000)
At beginning of year – as restated	5,898,734	2,520,760	(11,809,219)	(3,389,725)
Loss for the year	-	-	(1,534,864)	(1,534,864)
Other recognised losses in the year	-	-	(578,000)	(578,000)
At end of year	5,898,734	2,520,760	(13,922,083)	(5,502,589)

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

	2005 £	2004 £
Opening shareholders' funds – as previously stated	**(659,685)**	1,164,665
Prior year adjustment	**(2,416,000)**	(1,978,000)
Opening shareholders' funds – as restated	**(3,075,685)**	(813,335)
Loss for the financial year	**(1,534,864)**	(2,067,350)
Other recognised losses in the year	**(578,000)**	(195,000)
Closing shareholders' funds	**(5,188,549)**	(3,075,685)

Notes *(continued)*

18 Commitments

(a) *Capital commitments*

The company had no capital commitments at either year end.

(b) *Pension commitments*

FRS 17

The group operates two defined benefit scheme in the UK.Full actuarial valuations were carried out at 1 January 2004 and 1 January 2002 and updated to 31 December 2005 by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms):

	2005	2004	2003
Rate of increase in salaries	**4.00%**	4.50%	4.50%
Rate of increase in pensions in payment	**3.00%**	3.00%	3.00%
Discount rate	**4.75%**	5.50%	5.50%
Inflation assumption	**2,50%**	3.00%	3.00%

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.

(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 expected at 31 December 2005	**Value at 31 December 2005 £000**	Long term rate of return expected at 31 December 2004	Value at 31 December 2004 £000	Long term rate of return expected at 31 December 2003	Value at 31 December 2003 £000
Equities	**6.50%**		6.50%		6.50%	
Bonds	**4.50%**		4.50%		4.50%	
Other	**3.00%**	**5,975**	3.00%	4,966	3.00%	5,038
		5,975		4,966		5,038
Present value of scheme liabilities		**(8,696)**		(7,382)		(7,016)
Deficit in the scheme – **Pension liability**		**(2,721)**		(2,416)		(1,978)
Unprovided deferred tax asset		**816**		725		593

Notes *(continued)*

18 Pension scheme *(continued)*

(c) *Scheme assets*

Movement in deficit during the year

	2005 £000	2004 £000	2003 £000
Deficit in the Scheme at the beginning of the year	**(2,416)**	(1,978)	(1,622)
Current service cost	**(146)**	(165)	(65)
Contributions paid	**669**	158	128
Other finance cost	**(250)**	(236)	(214)
Actuarial loss	**(578)**	(195)	(205)
Deficit in the Scheme at the end of the year	**(2,721)**	(2,416)	(1,978)

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

	2005 £000	2004 £000	2003 £000
Current service cost	**(146)**	(165)	(65)

Analysis of amounts included in other finance income/costs

	2005 £000	2004 £000	2003 £000
Expected return on pension scheme assets	**158**	152	152
Interest on pension scheme liabilities	**(408)**	(388)	(366)
Net return	**(250)**	(236)	(214)

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

	2005 £000	2004 £000	2003 £000
Actual return less expected return on scheme assets	**251**	(289)	(222)
Experience gains and losses arising on scheme liabilities	**17**	94	1,042
Changes in assumptions underlying the present value of scheme liabilities	**(846)**	-	(1,025)
Actuarial loss recognised in statement of total recognised gains and losses	**(578)**	(195)	(205)

Notes *(continued)*

18 Commitments *(continued)*

(d) *Lease commitments*

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

	2005		2004	
	Land and buildings	**Other**	Land and buildings	Other
	£	**£**	£	£
Operating leases which expire:				
Within one year	**2,740**	**14,551**	7,800	12,530
In the second to fifth years inclusive	**33,785**	**33,785**	33,784	47,755
	36,525	**48,336**	41,584	60,285

(e) *Other*

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

19 Contingent liabilities

There were no contingent liabilities at 31 December 2005 *(2004: £nil)*.

20 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.

Notes *(continued)*

21 Prior period adjustment

During the year the company has fully adopted the requirements of FRS17 ('Retirement Benefits'). This change in accounting policy has resulted in a prior period adjustment and comparatives have been restated.

Full details as to the make up of the movement on the pension scheme deficit in the year and amounts charged / credited to the profit and loss account and the statement of total recognised gains and losses are contained in note 18.

	SSAP 24 Basis	Prior year adjustment for FRS17	FRS 17 Basis
	£000	£000	£000
Profit and loss account			
Operating loss	(1,730,143)	(7,000)	(1,737,143)
Loss before tax	(1,824,350)	(243,000)	(2,067,350)
Retained loss	(1,824,350)	(243,000)	(2,067,350)
Statement of total recognised gains and losses			
Actuarial loss net of deferred tax	-	(195,000)	(195,000)
Balance Sheet			
Net assets	(659,685)	(2,416,000)	(3,075,685)

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.