Lennox Industries

Directors' report and financial statements

Registered number 671868

31 December 2006

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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2006

Parent company

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 ultimate group of which Lennox Industries is a member and for which group financial statements are prepared is headed by Lennox International Inc , the ultimate parent undertaking, a company registered in Iowa, USA

Principal activity and business review

The principal activities of the Company continue to be the manufacture and sale of commercial heating and air conditioning equipment, service, spares and maintenance

Business review

The directors see progress with the results for the year ended 31 December 2006, which shows a loss for the year of £760,899 This compares to a loss for the previous year of £1,534,864

Turnover for the year ended 31 December 2006 is £6,781,452, compared to £8,130,442 in the previous year, a decrease of 16 59% This is due to a re-alignment of the product range towards higher margin, market leading in-house products

Gross profit as a percentage of sales is 29% in 2006, compared to 11% in 2005 Margins have improved across most product ranges during the year and there has been a favourable product mix in 2006 Margins have also been positively impacted in 2006 due to reduced stock obsolescence compared to the previous year Raw material costs for copper, aluminium, steel and electricity have increased substantially during 2006

The balance sheet show that the company's financial position at the year-end has declined as result of the loss in the year, although the cash position has improved

Future prospects

To increase sales in 2007 Lennox Industries are looking to employ additional UK sales agents and raise market profile by an increase in marketing activity The impact of launching new energy efficient product ranges will have a positive impact on sales and margin in 2007

Principal risks and uncertainties

The company operates in a competitive market place where continuing growth is dependent on maintaining existing customer relationships and by developing new income streams through offering new product ranges and by winning new customers The company is confident that it can achieve these objectives by providing sector leading product and service quality to its customers at competitive prices

Due to the nature of the Company's assets and liabilities contained within the balance sheet the only financial risk that the directors consider relevant is credit risk This risk is mitigated by rigorous credit control policies to minimise the risk of customer debt default

Dividend

No dividend is proposed for either the ordinary or preference shares for the year *(2005 £nil)*

Directors' report *(continued)*

Directors

The directors who held office during the year were as follows

RJ McDonough	(resigned 5 December 2006)
BD Houghton	
WF Stoll	
DMA Birtles	
HJ Bizios	(appointed 5 December 2006)

Political and charitable contributions

The Company made no disclosable political or charitable donations or incurred any disclosable political expenditure during the year *(2005 £nil)*

Disclosure of information to auditors

The directors who held office at the date of approval of this directors report confirm that, so far as they are each aware, there is no relevant audit information of which the Company s auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

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

DMA Birtles
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 2006 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

The directors responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors Responsibilities on page 3

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 whether in our opinion the information given in the Directors Report is consistent with the financial statements

In addition we report to you if in our opinion 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 2006 and of its loss for the year then ended
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and
- the information given in the Directors Report is consistent with the financial statements

KPMG LLP

Chartered Accountants
Registered Auditor

21 December, 2007.

Profit and loss account
for the year ended 31 December 2006

	Note	**2006**	2005
		£	£
Turnover	*2*	**6,781,452**	8,130,442
Cost of sales		**(4,806,407)**	(7,262,475)
Gross profit		**1,975,045**	867,967
Operating expenses		**(2,325,970)**	(2,042 560)
Operating loss		**(350,925)**	(1 174,593)
Interest payable and similar charges	*6*	**(409,974)**	(360 271)
Loss on ordinary activities before taxation	*3*	**(760,899)**	(1,534,864)
Tax on loss on ordinary activities	*7*	-	-
Loss for the year	*16*	**(760,899)**	(1 534,864)

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 2006

	Note	2006	2005
		£	£
Fixed assets			
Tangible assets	8	52,473	88 472
Investments	9	32,765	32 765
		85,238	121 237
Current assets			
Stocks	10	509,400	450 290
Debtors	11	1,396,899	2 422 092
Cash at bank and in hand		406,321	333 547
		2,312,620	3,205,929
Creditors: amounts falling due within one year	12	(5,243,610)	(5 663,900)
Net current liabilities		(2,930,990)	(2 457 971)
Total assets less current liabilities		(2,845,752)	(2 336 734)
Provisions for liabilities and charges	13	(152,696)	(130 815)
Net liabilities excluding pension liabilities		(2,998,448)	(2 467 549)
Pension Liabilities	18	(2,905,000)	(2 721 000)
Net liabilities		(5,903,448)	(5 188,549)
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	(14 636,982)	(13 922 083)
Total shareholders' deficit	17	(5,903,448)	(5 188 549)

These financial statements were approved by the board of directors on 15 December 2007 and were signed on its behalf by

DMA Birtles
Director

Statement of total recognised gains and losses
for the year ended 31 December 2006

	2006 £	2005 £
Loss for the financial year	**(760,899)**	(1 534 864)
Movement on actuarial deficit in the pension scheme	**46,000**	(578 000)
Total gains relating to the financial year	**(714,899)**	(2 112 864)
Prior year adjustment	**-**	(1 978 000)
Total recognised gains and losses since the last annual report	**(714,899)**	(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

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

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

	2006 £	2005 £
United Kingdom	**6,674,458**	8 098 692
Rest of Europe	**106,994**	31 750
	6,781,452	8 130 442

3 Loss on ordinary activities before taxation

	2006 £	2005 £
Loss on ordinary activities before taxation is stated after charging / (crediting).		
Depreciation on owned tangible fixed assets	**31,004**	34 631
Hire of plant and machinery under operating leases	**58,064**	65 791
Other operating lease rentals	**67,623**	84 347
Other exchange gains	**(57,437)**	(92 241)
Auditors remuneration		
Audit of these financial statements	**5,000**	4 000
Other services relating to taxation	**5,000**	4 690

4 Remuneration of directors

Directors' remuneration was as follows

	2006 £	2005 £
Emoluments	**167,728**	464 651
Company contributions to money purchase pension schemes	**15,801**	107 554
	183,529	572 205

The aggregate emoluments of the highest paid director was £97,975 (*2005 £367 226*) and company pension contributions of £6,344 (*2005 £68 287*) were made on his behalf

One director *(2005 two)* was a member of the company pension scheme during the year

Notes *(continued)*

5 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 2006	2005
Sales and distribution	**24**	31
Administration	**5**	5
	29	36

The aggregate payroll costs of these persons were as follows

	2006 £	2005 £
Wages and salaries	**1,277,595**	2 013 438
Social security costs	**77,873**	140 892
Other pension costs	**106,000**	350 943
	1,461 468	2 505 273

6 Interest payable and similar charges

	2006 £	2005 £
Other interest payable	**17,365**	98
Loans from group undertakings	**158,609**	110 173
Finance costs of pension deficit	**234,000**	250 000
	409,974	360 271

Notes *(continued)*

7 Tax on loss on ordinary activities

Analysis of charge in period

	2006 £	2005 £
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 on ordinary activities	-	-

Factors affecting the tax charge for the current period

The current tax charge for the period is higher *(2005 higher)* than the standard rate of corporation tax in the UK (30%, *2005 30%*) The differences are explained below

	2006 £	2005 £
Loss on ordinary activities before tax	**(760,899)**	(1 534 864)
Tax on loss on ordinary activities at 30% *(2005 30%)*	**(228,270)**	(460 459)
Effects of		
Expenses not deductible for tax purposes	**65,340**	120 843
Difference between capital allowances and depreciation	-	(35,354)
Other short term timing differences	**69,430**	(168 322)
Timing differences on pension deficit	**(75,000)**	(81,900)
Movement in tax losses	**168,500**	625 192
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	104 061	266 589	370 650
Additions	496	1 321	1 817
Disposals	-	(8 900)	(8 900)
At end of year	104,557	259 010	363 567
Depreciation			
At beginning of year	42 227	239 951	282 178
Charge for year	20 566	10 438	31 004
Disposals	-	(2 088)	(2 088)
At end of year	62 793	248,301	311 094
Net book value			
At 31 December 2006	**41,764**	**10,709**	**52,473**
At 31 December 2005	61 834	26 638	88 472

9 Fixed asset investments

	2006 £	2005 £
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 2006 were £32,765 *(2005 £32 765)*

10 Stocks

	2006 £	2005 £
Finished goods and goods for resale	**509,400**	450,290
	509,400	450 290

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

Notes *(continued)*

11 Debtors

	2006 £	2005 £
Amounts falling due within one year		
Trade debtors	**1,109,208**	1,300,193
Amounts owed by group undertakings	**247,658**	1 052 706
Prepayments and accrued income	**40,033**	69,193
	1,396,899	2 422 092

12 Creditors: amounts falling due within one year

	2006 £	2005 £
Trade creditors	**157,091**	537 085
Amounts owed to group undertakings	**4,579,236**	4 340 054
Taxation & social security	**189,391**	327 216
Other creditors	**32,765**	32 765
Accruals and deferred income	**285,127**	426 780
	5,243,610	5,663,900

13 Provisions for liabilities and charges

	Warranty provision £
At beginning of year	130,815
Added in the year	21,881
At end of year	**152,696**

14 Deferred taxation

The elements of deferred taxation are as follows

	Unprovided 2006 £	2005 £
Accelerated capital allowances	**172,801**	115,859
Other short term timing differences	**52,320**	28,595
Tax losses carried forward	**6,526,044**	6 468 334
	6,751,165	6 612 788

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

	2006 £	2005 £
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
	314,000	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	(13 922,083)	(5,502 589)
Loss for the year	-	-	(760 899)	(760 899)
Other recognised gains in the year	-	-	46 000	46 000
At end of year	5,898,734	2,520,760	(14,636,982)	(6,217,488)

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

	2006 £	2005 £
Opening shareholders funds	**(5,188,549)**	(3,075,685)
Loss for the financial year	**(760,899)**	(1 534 864)
Other recognised losses in the year	**46,000**	(578 000)
Closing shareholders funds	**(5,903,448)**	(5,188 549)

Notes *(continued)*

18 Commitments

(a) *Capital commitments*

The company had no capital commitments at either year end

(b) *Pension commitments*

The group operates two defined benefit schemes in the UK Full actuarial valuations were carried out at 1 January 2004 and 1 January 2002 and updated for FRS 17 purposes to 31 December 2005 and 31 December 2006 by a qualified independent actuary The major assumptions used by the actuary were (in nominal terms)

	2006	2005	2004
Rate of increase in salaries	**4 00%**	4 00%	4 50%
Rate of increase in pensions in payment	**3 00%**	3 00%	3 00%
Discount rate	**5.00%**	4 75%	5 50%
Inflation assumption	**3 00%**	2 50%	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 2006	**Value at 31 December 2006**	Long term rate of return expected at 31 December 2005	Value at 31 December 2005	Long term rate of return expected at 31 December 2004	Value at 31 December 2004
Equities	**6 50%**	-	6 50%	-	6 50%	-
Bonds	**4 50%**	-	4 50%	-	4 50%	-
Other	**3 00%**	**6,121,000**	3 00%	5 975 000	3 00%	4 966 000
		6,121,000		5 975,000		4 966 000
Present value of scheme liabilities		**(9,026,000)**		(8 696,000)		(7,382 000)
Deficit in the scheme – Pension liability		**(2,905,000)**		(2,721 000)		(2,416 000)
Unprovided deferred tax asset		**871,500**		816,000		725 000

Notes *(continued)*

18 Commitments *(continued)*

(c) *Scheme assets*

Movement in deficit during the year

	2006	2005	2004
	£	£	£
Deficit in the Scheme at the beginning of the year	**(2,721,000)**	(2 416 000)	(1 978 000)
Current service cost	**(106,000)**	(146,000)	(165,000)
Contributions paid	**110,000**	669,000	158,000
Other finance cost	**(234,000)**	(250 000)	(236 000)
Actuarial gain / (loss)	**46,000**	(578 000)	(195 000)
Deficit in the Scheme at the end of the year	**(2,905,000)**	(2 721 000)	(2 416 000)

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

	2006	2005	2004
	£	£	£
Current service cost	**(106,000)**	(146,000)	(165,000)

Analysis of amounts included in other finance income/costs

	2006	2005	2004
	£	£	£
Expected return on pension scheme assets	**179,000**	158,000	152,000
Interest on pension scheme liabilities	**(413,000)**	(408 000)	(388 000)
Net return	**(234,000)**	(250,000)	(236,000)

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

	2006	2005	2004
Actual return less expected return on scheme assets	**(40,000)**	251 000	(289 000)
Experience gains and losses arising on scheme liabilities	-	17 000	94 000
Changes in assumptions underlying the present value of scheme liabilities	**86,000**	(846 000)	-
Actuarial loss recognised in statement of total recognised gains and losses	**46,000**	(578,000)	(195 000)

Notes *(continued)*

18 Commitments *(continued)*

History of experience gains and losses

	2006	2005	2004	2003
Difference between expected and actual return on scheme				
amount (£)	**(40,000)**	251 000	(289,000)	(222 000)
percentage of scheme assets	**(1%)**	4%	(6%)	(4%)
Experience gains and losses on scheme liabilities				
amount (£)	**-**	17,000	94,000	1,042,000
percentage of scheme liabilities	**0%**	0%	1%	15%
Total amount recognised in statement of total recognised gains and losses amount (£)	**46,000**	(578 000)	(195 000)	(205 000)
percentage of scheme liabilities	**(1%)**	7%	(3%)	(3%)

(d) *Lease commitments*

The minimal annual rentals under the foregoing leases are as follows

	2006		2005	
	Land and buildings	**Other**	Land and Buildings	Other
	£	**£**	£	£
Operating leases which expire				
Within one year	**2,740**	**6,262**	2 740	14 551
In the second to fifth years inclusive	**33,785**	**33,234**	33 785	33 785
	36,525	**39,496**	36 525	48 336

(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 2006 *(2005 £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 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 Delaware, USA The financial statements of Lennox International Inc are available to the public from 2140 Lake Park Boulevard Richardson TX 75080, USA

Lennox International Inc is a public company registered with the U S Securities and Exchange Commission and traded on the New York Stock Exchange It is controlled by a diverse group of shareholders