ARTHUR ANDERSEN

Lennox Industries

Accounts 31 December 1999

together with directors' and auditors' reports

Registered number: 671868

Directors' report

For the year ended 31 December 1999

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 1999.

Principal activity and business review

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

Dividend

No dividend is proposed for either the ordinary or preference shares for the year (1998 - £nil).

Directors and their interests

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

J W Norris Jnr (USA) (Chairman)
C W Wyant Jnr (USA)
S Boxer (USA)
A M Turbard (appointed 24 May 1999)

The directors who held office at 31 December 1999 had no interests in the shares of the company which require disclosure under Schedule 7 of the Companies Act 1985.

Year 2000

No significant problems were experienced by the company, its customers or suppliers through the transition into the Year 2000.

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

By order of the Board,

W Burbidge

Secretary

19 October 2000

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.

ARTHUR ANDERSEN

To the Shareholders of Lennox Industries:

We have audited the accounts on pages 5 to 17 which have been prepared under the historical cost convention and the accounting policies set out on pages 7 to 8.

Respective responsibilities of directors and auditors

As described on page 3, the company's directors are responsible for the preparation of the accounts 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.

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 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 1999 and of its loss 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

Fothergill House
16 King Street
Nottingham
NG1 2AS

19 October 2000

Profit and loss account

For the year ended 31 December 1999

	Notes	1999 £	1998 £
Turnover	2	11,109,959	11,763,823
Changes in stocks of finished goods and goods for resale		411,248	(1,075,237)
Other operating expenses (net)	3	(11,926,219)	(13,193,930)
Loss on sale of property and other fixed assets		(2,411)	(24,071)
Operating loss		(407,423)	(2,529,415)
Finance charges (net)	4	(151,665)	(11,962)
Loss on ordinary activities before taxation	5	(559,088)	(2,541,377)
Tax on loss on ordinary activities	7	-	-
Retained loss for the financial year	17	(559,088)	(2,541,377)
Accumulated deficit, beginning of year		(7,649,091)	(5,107,714)
Accumulated deficit, end of year		(8,208,179)	(7,649,091)

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 retained loss for the year.

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

Balance sheet

31 December 1999

	Notes	1999 £	1998 £
Fixed assets			
Tangible assets	8	1,034,503	1,136,485
Investments	9	32,765	32,765
		1,067,268	1,169,250
Current assets			
Stocks	10	2,308,751	1,614,988
Debtors	11	3,332,802	2,622,289
Cash at bank and in hand		714,273	1,038,041
		6,355,826	5,275,318
Creditors: Amounts falling due within one year	12	(6,833,395)	(5,291,281)
Net current liabilities		(477,569)	(15,963)
Total assets less current liabilities		589,699	1,153,287
Provisions for liabilities and charges	13	(64,344)	(68,844)
Net assets		525,355	1,084,443
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	(8,208,179)	(7,649,091)
Total shareholders' funds	17	525,355	1,084,443
Shareholders' funds may be analysed as:			
Equity interests		225,355	784,443
Non-equity interests	15	300,000	300,000
		525,355	1,084,443

Signed on behalf of the Board

A M Turbard Director

A. Turbard

19 October 2000

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

1 Accounting policies

The principal accounting policies are summarised below. They have been applied consistently throughout the year and the preceding year.

a) Basis of accounting

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

The company has taken advantage of the exemption in Financial Reporting Standard Number 1 (Revised) not to prepare a cashflow statement as it is a wholly owned subsidiary of a company, whose accounts in which the company is included, are publicly available.

b) 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 undertakings (which did not trade during the year) would have no material impact on the accounts.

c) 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
Motor vehicles	-	4 years

d) 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	-	standard 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.

1 Accounting policies (continued)

e) Taxation

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

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 using 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.

f) 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.

g) Foreign currency

Transactions in foreign currencies are recorded in the local currency at actual exchange rates as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end. 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.

h) 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.

i) 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.

j) Investments

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

2 Turnover

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

The analysis of turnover by geographical destination is as follows:

	1999 £	1998 £
United Kingdom	10,087,230	8,247,936
Rest of Europe	991,043	1,762,229
Other	31,686	1,753,658
	11,109,959	11,763,823

3 Other operating expenses (net)

	1999 £	1998 £
Raw materials and consumables	8,069,635	8,024,967
Staff costs	3,357,975	3,152,014
Depreciation on owned assets	299,755	294,384
Other operating charges	198,854	1,722,565
	11,926,219	13,193,930

4 Finance charges (net)

Investment income

	1999 £	1998 £
Other interest receivable and similar income	15,809	54,405

Interest payable and similar charges

	1999 £	1998 £
Loans from group undertakings	167,474	66,367

4 Finance charges (net) (continued)

Finance charges (net)

	1999 £	1998 £
Interest payable and similar charges	167,474	66,367
Less: investment income	(15,809)	(54,405)
	151,665	11,962

5 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging (crediting):

	1999 £	1998 £
Hire of plant and machinery under operating leases	181,383	171,931
Depreciation - owned assets	299,755	294,384
Other operating lease rentals	317,500	317,500
Other exchange (gain)/loss	(70,919)	72,108
Auditors' remuneration	11,574	13,250

Amounts payable to Arthur Andersen by the company in respect of non-audit services to the company was £23,682 (1998 - £8,000).

6 Staff costs

The average monthly number of employees (including executive directors) was:

	1999 Number	1998 Number
Production	86	78
Sales and distribution	40	41
Administration	13	13
	139	132

6 Staff costs (continued)

Their aggregate remuneration comprised:

	1999 £	1998 £
Wages and salaries	3,082,376	2,764,235
Social security costs	251,779	208,948
Other pension costs (see note 18)	23,820	178,831
	3,357,975	3,152,014

Directors' remuneration was as follows:

	1999 £	1998 £
Emoluments	121,005	100,818

Pensions

One director (1998-none) was a member of the company pension scheme during the year.

7 Tax on loss on ordinary activities

No corporation tax is payable for the year ended 31 December 1999 (1998 - £Nil) 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.

8 Tangible fixed assets

	Improvements to long leasehold £	Plant and machinery £	Motor vehicles £	Total £
Cost				
At 1 January 1999	452,418	2,120,480	53,977	2,626,875
Additions	17,371	190,919	-	208,290
Disposals	-	(108,988)	(11,895)	(120,883)
At 31 December 1999	469,789	2,202,411	42,082	2,714,282
Depreciation				
At 1 January 1999	230,118	1,232,279	27,993	1,490,390
Charge for the year	46,894	240,839	12,022	299,755
Disposals	-	(98,471)	(11,895)	(110,366)
At 31 December 1999	277,012	1,374,647	28,120	1,679,779
Net book value				
At 31 December 1999	192,777	827,764	13,962	1,034,503
At 1 January 1999	222,300	888,201	25,984	1,136,485

9 Fixed asset investments

	1999 £	1998 £
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 1999 were £32,765 (1998- £32,765).

Consolidated accounts have not been prepared for the group on the basis that there is no material difference between the company and group accounts.

10 Stocks

	1999 £	1998 £
Raw materials and consumables	1,778,982	862,231
Finished goods and goods for resale	529,769	752,757
	2,308,751	1,614,988

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

11 Debtors

	1999 £	1998 £
Amounts falling due within one year:		
Trade debtors	3,159,406	2,338,139
Amounts owed by group undertakings	146,551	157,620
Prepayments and accrued income	26,845	126,530
	3,332,802	2,622,289

12 Creditors: Amounts falling due within one year

	1999 £	1998 £
Trade creditors	1,141,925	376,351
Amounts owed to group undertakings	4,809,685	4,044,445
Taxation and social security	213,094	173,855
Accruals and deferred income	668,691	696,630
	6,833,395	5,291,281

Included in amounts owed to group undertakings is a loan due to Lennox International. This loan is repayable on demand with interest charged at 6%.

13 Provisions for liabilities and charges

	Warranty provision £
Beginning of year	68,844
Released to profit and loss account in year	(4,500)
End of year	64,344

14 Deferred taxation

	Unprovided 1999 £	1998 £
Accelerated capital allowances	65,000	75,000
Effect of tax losses carried forward	(65,000)	(75,000)
	-	-

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.

15 Called-up share capital

	1999 £	1998 £
Authorised		
15,000 ordinary shares of £1 each	15,000	15,000
470,000 redeemable non-cumulative preference shares of £1 each	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 £1 each	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 1 January 1999	5,898,734	2,520,760	(7,649,091)	770,403
Financial loss for the year	-	-	(559,088)	(559,088)
At 31 December 1999	5,898,734	2,520,760	(8,208,179)	211,315

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.

17 Reconciliation of movements in shareholders' funds

	1999 £	1998 £
Loss for the financial year	(559,088)	(2,541,377)
Opening shareholders' funds	1,084,443	3,625,820
Closing shareholders' funds	525,355	1,084,443

18 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 £23,820 (1998 - £178,831) for the staff scheme and £Nil (1998 - £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 1999 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 £3,554,884 and that the actuarial value of those assets represented 125% 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 6.2% of pensionable payroll consisting of a regular cost of 9.7% and a variation from regular cost of 3.5%.

18 Financial commitments (continued)

b) Pension commitments (continued)

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 £474,684 and that the actuarial value of those assets represent 180% 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 1998 was £181,383 (1998 - £171,931). The company also leases certain land and buildings on long-term operating leases. The annual rental on these leases was £317,500 (1998 - £317,500). The rents payable under these leases are subject to renegotiation at various intervals specified in the leases. The company pays for all insurance, maintenance and repairs to the properties.

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

	Land and buildings		Other	
	1999	1998	1999	1998
	£	£	£	£
Expiring within one year	-	-	153,757	184,552
Expiring between two and five years	317,500	-	-	-
Expiring after five years	-	317,500	-	-
	317,500	317,500	153,757	184,552

19 Contingent liabilities

At 31 December 1999 the company had a bank guarantee of £220,000 (1998 - £220,000) in favour of Her Majesty's Customs & Excise, Deferment Section.

20 Transactions with related parties

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

21 Ultimate parent company and controlling party

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

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

21 Ultimate parent company and controlling party (continued)

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

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