

ARTHUR ANDERSEN

Lennox Industries (formerly Lennox Industries Limited)

Accounts 31 December 1995
together with directors' and auditors' reports

Registered number: 671868



Directors' report

For the year ended 31 December 1995

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 1995.

Principal activity and business review

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

Turnover increased by £3,095,365 (34%) during the year. Operating losses rose by £440,259 (19%).

Future developments

The company remains committed to expansion into Europe, which it will try to achieve through both strategic alliances and organic growth.

Results and dividends

Results are as follows:

	£
Retained loss at 31 December 1994	(3,629,494)
Loss for the financial year	(2,647,196)
Retained loss at 31 December 1995	<u>(6,276,690)</u>

No dividend is proposed for either the ordinary or preference shares for the year (1994 - £Nil).

Directors and their interests

The directors who served during the year and subsequently are as shown below:

J W Norris Jnr (USA) (Chairman)
P R J Lamb (Managing Director) (resigned 14 February 1996)
T J Keefe (USA) (resigned 30 June 1995)
C W Wyant Jnr (USA) (appointed 1 May 1995)
R L Jenkins (USA) (appointed 8 August 1995)

P Jolie was appointed as a director on 15 February 1996.

The directors who held office at 31 December 1995 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 6 to the accounts.

Directors' report (continued)

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 of the company 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; and
- 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 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.

Fixed assets

Information relating to changes in tangible fixed assets is given in note 8 to the accounts.

Company status

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

PO Box 174
Westgate Interchange
Northampton
NN5 5AG

By order of the Board



W Burbidge

29 October 1996

Company Secretary

ARTHUR ANDERSEN

Auditors' report

Birmingham

To the Shareholders of Lennox Industries (formerly Lennox Industries Limited):

We have audited the accounts on pages 4 to 20 which have been prepared under the historical cost convention and the accounting policies set out on pages 7 to 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.

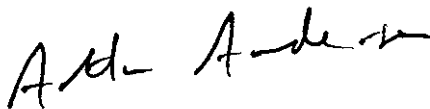
Basis of opinion

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 1995 and of its loss and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen

Chartered Accountants and Registered Auditors

1 Victoria Square
Birmingham
B1 1BD

29 October 1996

Profit and loss account

For the year ended 31 December 1995

	Notes	1995 £	1994 £
Turnover	2	12,161,993	9,066,628
Changes in stocks of finished goods and work in progress		1,232,117	91,961
Other operating expenses	3	(16,115,304)	(11,445,557)
Loss on sale of property and other fixed assets		(15,810)	(9,777)
Operating loss		(2,737,004)	(2,296,745)
Interest receivable and similar income		16,384	5,812
Interest payable and similar charges	4	(220,391)	(224,355)
Loss on ordinary activities before taxation	5	(2,941,011)	(2,515,288)
Taxation	7	293,815	-
Loss for the financial year		(2,647,196)	(2,515,288)
Retained loss, beginning of year		(3,629,494)	(1,114,206)
Retained loss, end of year		(6,276,690)	(3,629,494)

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

A statement of movements in reserves is given in note 16.

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

Balance sheet

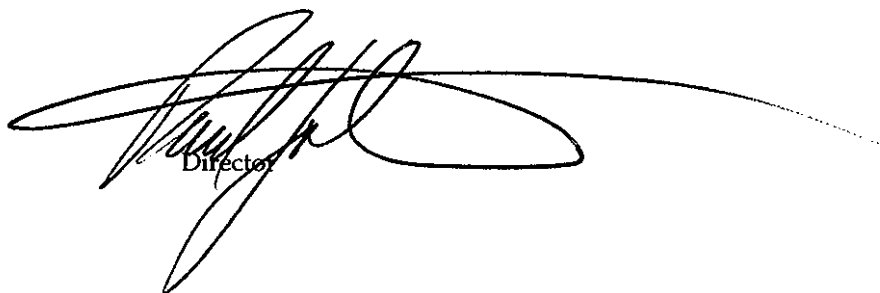
31 December 1995

	Notes	1995 £	1994 £
Fixed assets			
Tangible assets	8	1,544,178	1,614,713
Investment	9	32,765	32,765
		<u>1,576,943</u>	<u>1,647,478</u>
Current assets			
Stocks	10	4,963,157	4,804,265
Debtors	11	4,934,780	2,658,360
Cash at bank and in hand		459,213	579,771
		<u>10,357,150</u>	<u>8,042,396</u>
Creditors: Amounts falling due within one year	12	<u>(7,005,241)</u>	<u>(2,096,624)</u>
Net current assets		<u>3,351,909</u>	<u>5,945,772</u>
Total assets less current liabilities		<u>4,928,852</u>	<u>7,593,250</u>
Creditors: Amounts falling due after more than one year	13	<u>(2,493,008)</u>	<u>(2,510,210)</u>
Net assets		<u>2,435,844</u>	<u>5,083,040</u>
Capital and reserves			
Called up share capital	15	313,900	313,900
Capital contribution account	16	5,898,734	5,898,734
Share premium account	16	2,499,900	2,499,900
Profit and loss account	16	(6,276,690)	(3,629,494)
		<u>2,435,844</u>	<u>5,083,040</u>
Shareholders' funds			
Equity interests		2,135,844	4,783,040
Non-equity interests		300,000	300,000
		<u>2,435,844</u>	<u>5,083,040</u>

Signed on behalf of the Board

Paul Jolie

29 October 1996



Director

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

Cash flow statement

For the year ended 31 December 1995

	Notes	1995 £	1994 £
Net cash outflow from operating activities	18a	(4,726,078)	(3,089,130)
Returns on investments and servicing of finance			
- Interest received		16,384	5,812
- Interest paid		-	(117,873)
- Interest element of finance lease rentals		(371)	(2,833)
Net cash inflow/(outflow) from returns on investments and servicing of finance		16,013	(114,894)
Taxation			
- Corporation tax refund		352,643	-
Investing activities			
Purchase of tangible fixed assets		(212,175)	(647,783)
Sale of tangible fixed assets		3,865	3,851
Net cash outflow from investing activities		(208,310)	(643,932)
Net cash outflow before financing		(4,565,732)	(3,847,956)
Financing			
- Capital element of finance lease payments	18c	(37,727)	(52,955)
- Short term group loans	18c	4,482,901	4,249,969
Net cash inflow from financing		4,445,174	4,197,014
(Decrease)/increase in cash and cash equivalents	18b	(120,558)	349,058

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

Notes to accounts

Year ended 31 December 1995

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

b) Tangible fixed assets

Land and buildings are shown at historical cost. Other fixed assets are shown at cost.

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:

Leasehold improvements	-	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)

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

Profits or losses on the disposal of fixed assets are included in the calculation of operating profit.

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.

Notes to accounts (continued)

1 Accounting policies (continued)

d) *Taxation*

Corporation tax 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. However, the amount of all deferred tax, including that which will probably not reverse, is shown in note 14.

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 value of sales (excluding VAT, similar taxes and trade discounts) of goods and services in the normal course of business.

Notes to accounts (continued)

1 Accounting policies (continued)

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. Further information on charges in the year and future commitments is given in note 19.

i) Consolidation

Consolidated accounts have not been prepared, as permitted under 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.

2 Turnover

The geographical analysis of turnover by destination is as follows:

	1995 £	1994 £
United Kingdom	7,671,092	6,748,507
Europe	4,626,059	1,677,085
Other	(135,158)	641,036
	<u>12,161,993</u>	<u>9,066,628</u>

3 Other operating expenses

	1995 £	1994 £
Raw materials and consumables	9,475,467	3,366,587
Staff costs	3,853,967	3,336,779
Depreciation	263,035	298,922
Other charges	2,522,835	4,441,940
Relocation costs	-	1,329
	<u>16,115,304</u>	<u>11,445,557</u>

Notes to accounts (continued)

4 Interest payable and similar charges

	1995 £	1994 £
On loans from other group undertakings:		
- repayable within 5 years, by instalments	220,020	224,355
- finance leases	371	-
	<u>220,391</u>	<u>224,355</u>

5 Loss on ordinary activities before taxation

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

	1995 £	1994 £
Hire of plant and machinery under operating leases	122,500	138,065
Other operating lease rentals	490,000	487,000
Exchange losses/(gains) on intercompany loans	10,980	(131,671)
Auditors' remuneration	<u>12,800</u>	<u>14,500</u>

Remuneration of the company's auditors for provision of non-audit services to the company and its subsidiary undertaking was £13,600 (1994: £7,500).

6 Staff costs

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

	1995 £	1994 £
Wages and salaries	3,385,605	2,900,735
Social security costs	259,589	247,322
Other pension costs	<u>208,773</u>	<u>188,722</u>
	<u>3,853,967</u>	<u>3,336,779</u>

Notes to accounts (continued)

6 Staff costs (continued)

The average weekly number of persons employed during the year was as follows:

	1995 Number	1994 Number
Production	145	135
Selling and distribution	40	37
Administration	27	17
	<u>212</u>	<u>189</u>

Directors' remuneration was as follows:

	1995 £	1994 £
Emoluments (including pension contributions)	<u>109,368</u>	<u>93,812</u>

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

	1995 £	1994 £
Managing director and highest paid director	<u>94,192</u>	<u>86,648</u>

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

	1995 Number	1994 Number
Up to £5,000	4	4
£85,001 - £90,000	-	1
£90,001 - £95,000	<u>1</u>	<u>-</u>

P R J Lamb is the majority shareholder of L J Properties Limited, a company which own 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 10 year break per the deed of variation dated July 1992. The current annual rental is £172,000. The directors consider that these arrangements have been entered into on an arm's length basis.

Notes to accounts (continued)

7 Taxation

Taxation is based on the loss for the year and comprises:

	1995 £	1994 £
Adjustment of current taxation in respect of prior years	<u>293,815</u>	<u>-</u>

8 Tangible fixed assets

The movement in the year was as follows:

	Improvements to long leasehold £	Plant and machinery £	Motor vehicles £	Total £
Cost				
Beginning of year	477,160	2,275,348	21,895	2,774,403
Additions	39,806	149,646	22,723	212,175
Disposals	(8,624)	(194,379)	-	(203,003)
End of year	<u>508,342</u>	<u>2,230,615</u>	<u>44,618</u>	<u>2,783,575</u>
Depreciation				
Beginning of year	112,206	1,033,963	13,521	1,159,690
Charge	50,342	204,510	8,183	263,035
Disposals	-	(183,328)	-	(183,328)
End of year	<u>162,548</u>	<u>1,055,145</u>	<u>21,704</u>	<u>1,239,397</u>
Net book value				
Beginning of year	<u>364,954</u>	<u>1,241,385</u>	<u>8,374</u>	<u>1,614,713</u>
End of year	<u>345,794</u>	<u>1,175,470</u>	<u>22,914</u>	<u>1,544,178</u>

Included within the above are items of plant and machinery held under finance leases with a cost of £86,124 (1994: £86,124). The accumulated depreciation in respect of these assets was £74,302 (1994: £67,962).

9 Fixed asset investment

	1995 £	1994 £
Investment at cost	<u>32,765</u>	<u>32,765</u>

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.

Notes to accounts (continued)

10 Stocks

	1995 £	1994 £
Raw materials and consumables	1,571,159	2,644,384
Work-in-progress	-	345,004
Finished goods and goods for resale	3,391,998	1,814,877
	<u>4,963,157</u>	<u>4,804,265</u>

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

	1995 £	1994 £
Amounts falling due within one year:		
Trade debtors	4,736,673	2,427,769
Corporation tax recoverable	-	58,828
VAT	16,113	3,870
Prepayments and accrued income	181,994	167,893
	<u>4,934,780</u>	<u>2,658,360</u>

12 Creditors: Amounts falling due within one year

	1995 £	1994 £
Trade creditors	592,437	855,326
Amounts owed to subsidiary undertaking	32,765	32,765
Amounts owed to other group undertakings	5,890,365	721,899
Obligations under finance leases	27,553	37,098
Social security and PAYE	88,248	89,017
Accruals and deferred income	373,873	360,519
	<u>7,005,241</u>	<u>2,096,624</u>

Notes to accounts (continued)

13 Creditors: Amounts falling due after more than one year

	1995 £	1994 £
Amounts owed to other group undertakings	2,446,877	2,435,897
Obligations under finance leases	46,131	74,313
	<u>2,493,008</u>	<u>2,510,210</u>

The amounts owed to other group undertakings are repayable in 1999 and are unsecured and bear interest at a fixed rate of 4.28% per annum.

Obligations under finance leases and hire purchase contracts:

	1995 £	1994 £
Amounts payable		
- within one year	27,553	37,098
- within two to five years	46,131	74,313
	<u>73,684</u>	<u>111,411</u>

14 Deferred taxation

Timing differences at the year end unprovided.

	1995 £	1994 £
Excess of tax allowances over book depreciation of fixed assets	157,362	58,000
The effect of tax losses carried forward	(157,362)	(58,000)
	<u>-</u>	<u>-</u>

Notes to accounts (continued)

15 Called-up share capital

	1995 £	1994 £
<i>Authorised</i>		
14,000 ordinary shares of £1 each	14,000	14,000
470,000 redeemable non-cumulative preference shares of £1 each	470,000	470,000
	<u>484,000</u>	<u>484,000</u>
<i>Allotted, called-up and fully-paid</i>		
13,900 ordinary shares of £1 each	13,900	13,900
300,000 redeemable non-cumulative preference shares of £1 each	300,000	300,000
	<u>313,900</u>	<u>313,900</u>

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 (1994 - £Nil).

16 Reserves

	Capital contribution account £	Share premium account £	Profit and loss account £	Total £
1 January 1994	-	2,499,900	(1,114,206)	1,385,694
Retained loss for the year	-	-	(2,515,288)	(2,515,288)
Capital contribution	5,898,734	-	-	5,898,734
1 January 1995	<u>5,898,734</u>	<u>2,499,900</u>	<u>(3,629,494)</u>	<u>4,769,140</u>
Retained loss for the year	-	-	(2,647,196)	(2,647,196)
31 December 1995	<u>5,898,734</u>	<u>2,499,900</u>	<u>(6,276,690)</u>	<u>2,121,944</u>

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

Notes to accounts (continued)

17 Reconciliation of movements in shareholders' funds

	1995 £	1994 £
Shareholders' funds, beginning of year	5,083,040	1,699,594
Loss for the year	(2,647,196)	(2,515,288)
Capital contribution	-	5,898,734
Shareholders' funds, end of year	<u>2,435,844</u>	<u>5,083,040</u>

18 Cash flow information

a) Reconciliation of operating loss to net cash outflow from operating activities

	1995 £	1994 £
Operating loss	(2,737,004)	(2,296,745)
Depreciation	263,035	298,922
Loss on sale of tangible fixed assets	15,810	9,777
Foreign exchange losses/(gains) on inter company loans	10,980	(131,671)
Increase in stocks	(158,892)	(1,243,931)
Increase in debtors	(2,335,248)	(251,643)
Increase in creditors	215,241	526,161
Net cash outflow from operating activities	<u>(4,726,078)</u>	<u>(3,089,130)</u>

b) Analysis of cash and cash equivalents

	1995 £	1994 £
Changes during the year		
At beginning of year	579,771	230,713
Net cash (outflow)/inflow	<u>(120,558)</u>	<u>349,058</u>
At end of year	<u>459,213</u>	<u>579,771</u>
Analysis of balances		
Cash at bank and in hand	<u>459,213</u>	<u>579,771</u>

Notes to accounts (continued)

18 Cash flow information (continued)

c) Analysis of changes in finance

	Share capital and share premium £	Capital contribution £	Short term group loans £	Long term group loans £	Finance leases £
Balance at 1 January 1994	2,813,800	-	1,545,116	2,567,568	164,366
Cash inflow/(outflow) from financing	-	-	4,249,969	-	(52,955)
Effect of foreign exchange differences	-	-	-	(131,671)	-
Conversion of loans to capital contribution	-	5,795,085	(5,795,085)	-	-
Conversion of accrued interest charges to capital contribution	-	103,649	-	-	-
Balance at 31 December 1994	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 short term loan	-	-	220,020	-	-
Balance at 31 December 1995	2,813,800	5,898,734	4,702,921	2,446,877	73,684

Notes to accounts (continued)

19 Financial commitments

a) The company had no capital commitments at 31 December 1995 or 31 December 1994.

b) Pensions

The pension cost charge for the year was £208,773 (1994: £188,722) for the staff scheme and £Nil (1994: £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 1994 and used the attained age method. The main actuarial assumptions for the Lennox Industries - Staff Retirement Benefits Scheme were that (a) salaries would increase by 7.5% 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 £1,770,348 and that the actuarial value of those assets represented 151% 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 2% of pensionable payroll consisting of a regular cost of 10.1% and a variation from regular cost of 8.1%. Due to a number of uncertainties which existed relating to the implementation of certain aspects of the Social Security Act 1990 and the outcome of other pension related litigation cases affecting the future funding requirements of the scheme, it was decided in consultation with the scheme's actuary to maintain the existing funding rate of 9.9% which forms the basis of the accounting charge until the next actuarial review.

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 £387,715 and that the actuarial value of those assets represent 177% 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.

Notes to accounts (continued)

19 Financial commitments (continued)

c) Leases

The company has entered into non-cancellable operating leases in respect of plant and equipment, the payments for which extend over a period up to 3 years. The total annual rental for 1995 was £122,500 (1994: £138,065). The company also leases certain land and buildings on long term operating leases. The annual rental on these leases was £490,000 (1994: £487,000). During the year a director had a material interest in certain of the lease commitments as set out in note 6. 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.

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

	1995		1994	
	£	£	£	£
	Land and buildings	Other	Land and buildings	Other
Expiring within one year	-	119,112	-	26,585
Expiring between two and five years inclusive	-	3,388	-	80,420
Expiring after five years	490,000	-	487,000	-
	<u>490,000</u>	<u>122,500</u>	<u>487,000</u>	<u>107,005</u>

20 Contingent liabilities

a) The company has guarantees in respect of indemnity losses attributable to third parties of £120,000 (1994: £120,000).

b) The company has unsecured contingent liabilities in respect of discounted bills of exchange (subject to recourse) of £24,206 (1994 - £65,086).

c) During January 1996, in response to a claim of £19,000 made by the company relating to amounts overdue for payment, the company received a counterclaim from a customer for damages in relation to equipment (purchased by the company from a third party supplier) it had supplied to a construction project.

The value of the counterclaim received is approximately £540,000. The directors consider that should this claim be settled via court proceeding in favour of the customer, and the company is in turn unsuccessful in passing on its costs to the supplier of the equipment, then taking into account possible legal costs and interest, the final outcome could be in the range of approximately £1 million.

The directors intend to defend vigorously the counterclaim, but at the time of approving the accounts they have not been able to obtain sufficient information or evidence to determine with any certainty the likely outcome. The directors have also been advised that should the counterclaim be settled in court it is unlikely that settlement will be reached for several years.

Notes to accounts (continued)

20 Contingent liabilities (continued)

Due to the uncertainty as to the outcome of the claim, the timing of proceedings and any potential settlement, the directors have concluded that it is not practicable at this stage to make a reasonable estimate as to the financial effect of the claim and accordingly no provision has been made in the accounts.

21 Going concern

The company has incurred significant losses in recent years and is reliant upon the continued financial support of fellow group undertakings. The directors have received an undertaking from the parent company that sufficient financial assistance will be provided to enable the company to honour its debts as they fall due for the foreseeable future.

22 Ultimate parent company

The company is a subsidiary of Lennox Global Inc., a company registered in Iowa, USA, which heads the smallest group in which the results 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 financial statements of Lennox International Inc are not available to the public.