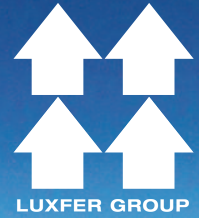
LUXFER HOLDINGS PLC REPORT & ACCOUNTS 2005



Luxfer's products are in service **everywhere**

HIGH PERFORMANCE ENGINEERING MATERIALS WORLDWIDE

Aerospace

Rail Transport

Automotive

Emergency Services

Defence

Medical

ABOUT THE COVER

Luxfer is an international group employing approximately 2,000 people in 17 countries.
It operates 22 manufacturing plants in the UK, USA, France, Germany, Czech Republic, Canada, China and Japan.

Luxfer's products are sold worldwide into a wide range of applications, including those illustrated on the cover.

These are just six of the end use applications where you will find Luxfer's products in service improving the everyday lives of people worldwide. Luxfer's products are in use all around us in most countries of the world.

Luxfer is an international group of businesses that specialise in the design, manufacture and supply of high performance materials to engineering industry worldwide.

The Group manufactures high pressure gas cylinders, various alloys of magnesium and components in aluminium and magnesium, and compounds of zirconium.

Main markets served include automotive, aerospace and defence, medical and general engineering.

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LUXFER GROUP PRINCIPAL BUSINESSES AND DIVISIONAL STRUCTURE

GAS CYLINDERS	ELEKTRON	SPECIALITY ALUMINIUM
Luxfer Gas Cylinders **Superform**	**MEL Chemicals** **Magnesium Elektron** **Zitzmann Druckguss**	**BA Tubes**

THE DIRECTORS

Peter Joseph Kinder Haslehurst

Non-Executive Chairman - appointed Chairman effective 31 March 2006 on the resignation of Jeffrey Whalley. Peter has been a non-executive special director of the Company since June 2003 representing CVC Capital Partners Limited on the Board. A chartered engineer, a Companion of the Chartered Institute of Management and a fellow of the Institution of Mechanical Engineers, the Institution of Electrical Engineers, the RSA and also of the Institute of Materials, Minerals and Mining, where he is a past vice president, he has been a managing director/chief executive and chairman in manufacturing industry for over 35 years. From 1985 to 1999 he was chief executive of the EIS Group PLC. He holds a number of other non-executive and executive directorships and appointments including executive chairman of the Brunner Mond Group, chairman of Imago at Loughborough and president emeritus of VAI Industries (UK). He was made an Eisenhower Fellow in 1980. He has also been appointed chairman of the Audit and Remuneration Committees. Peter is 65 years old.

Brian Gordon Purves

Chief Executive - appointed as a Director of the main Board of Luxfer Group in 1996. In January 2002 Brian was appointed as Chief Executive having served as Finance Director since the formation of the Luxfer Group in 1996. He was also a member of the management buy-in team. A qualified accountant with a degree in physics and a masters in business studies and having held senior positions in Land Rover and Rover Group covering both financial and commercial responsibilities, Brian is well placed to lead the Luxfer Group. Brian is 51 years old.

Stephen Norman Williams

Group Finance Director - appointed a Director in 2002 when he also took on the role of Group Finance Director in succession to Brian Purves. Steve was formerly Group Financial Controller having been appointed to the position on formation of the Luxfer Group in 1996. Prior to joining the Luxfer Group he was divisional finance director responsible for the business acquired by the management buy-in in 1996 while employed at Alcan. Steve is 54 years old.

Graham Daniel Medley Thomas

Non-Executive Special Director - appointed as a Director in 2003. Graham is a partner of MidOcean UK Advisor LLP. He is also a director of Morgan Grenfell Private Equity Limited representing them on the Board of Luxfer Group, having been appointed to the role of Special Director pursuant to the Investment Agreement between the shareholders of the Company and the Articles of Association for so long as a Morgan Grenfell party is a member of the Company. He is also a member of the Audit and Remuneration Committees. Graham is 38 years old.

Jeffrey Whalley

Non-Executive Chairman until 31 March 2006 - appointed Non-Executive Director and Chairman of the main Board of Luxfer Group in 1996. He has chaired the Group's Remuneration Committee since 1996 and the Audit Committee since 2002. Jeff held a succession of senior executive positions in industry before joining FKI plc in 1980 where he became managing director and later chairman, a position he resigned in 1999. He is a director of Towcester Racecourse Limited. Jeff resigned as a Director and Chairman on the 31 March 2006 following his recent appointment as chairman and chief executive of GWB Holdings plc. Jeff is 63 years old.

Francis John McKay

Non-Executive Director - appointed as a Director of the main Board of Luxfer Group in 1998. He was also a member of the Audit and Remuneration Committees during 2005. He was chief executive of Travis Perkins Plc from 1999 until 2005. Frank resigned as a Director at the end of December 2005 on taking up the chief executive's role with another group. Frank is 60 years old.

THE CURRENT MEMBERS OF THE EXECUTIVE MANAGEMENT BOARD

NAME	TITLE	AGE
Brian Gordon Purves	Chief Executive	51
Stephen Norman Williams	Group Finance Director	54
David Richard Betts	Managing Director of BA Tubes	43
Christopher John Hilary Dagger	Managing Director of Magnesium Elektron	57
Edward John Haughey	Managing Director of MEL Chemicals	50
John Stephen Rhodes	President of Luxfer Gas Cylinders	56
Linda Frances Seddon	Company Secretary and Legal Adviser	55
Andrew Michael Beaden*	Group Financial Controller	38

*Joined the Executive Management Board in January 2006

"Our strong technology and leading position in our key markets continues to generate excellent opportunities to develop the business."

Peter Haslehurst Chairman

I was pleased to assume the chairmanship of your Board this month. Together with my colleagues I would like to thank Jeff Whalley, my predecessor, for the leadership he provided over the past ten years.

The business made continued progress in 2005 with a further increase in revenues and operating profit.

Faced with a year of steeply increasing input costs the focus was again upon tight control of internal costs while protecting our commitment to the development of our technology and new products. The fact that we were able to further improve our earnings over and above the significant improvement we saw in 2004, in the face of large increases in aluminium and gas prices in particular, is testimony to the hard work and dedication of our employees across the Group. I would like to record my thanks to them for their outstanding efforts during another challenging year.

Our strong technology and leading position in our key markets continues to generate excellent opportunities to develop the business.

With the present difficult operating environment determining the need for tight control of costs and prudent use of resources we focused on our strategy of maintaining our technological and market leadership in key products.

We expanded our production capacity for carbon composite cylinders with new plants in France and China. We also increased our capacity in the UK and US to meet the continuing growth in demand for our G4 zirconium products.

It is pleasing to report that Magnesium Elektron North America (MENA) acquired in 2003, again made excellent progress with further growth, both in market share and geographic spread, of its world leading magnesium photo-engraving plate products. MENA, the most recent acquisition made by the Group, has more than met expectations.

Our challenge in 2006 is to improve Group profitability again despite the continuing difficult environment of increasing world commodity prices and energy costs, so that we are in a position to exploit more of the growth opportunities available to the Group. I am confident that with the innovation and dedication of our employees we will succeed.

Peter Haslehurst
Chairman

> "We must improve our operating performance further and faster."
>
> **Brian Purves** Chief Executive

2005 saw the Group make further commercial progress in the marketplace despite an unhelpful economic environment.

Results

During the year the Group made a trading profit before exceptionals of £14.8 million compared to £14.0 million in 2004.

The US dollar strengthened slightly during the year, but the average $/£ rate incurred of 1.81 remained painful when translating the results of our US operations back into sterling.

The increases in input costs that we saw in 2004 continued into 2005. Since the half-year, the price of aluminium has risen steadily to levels some 50% higher than our previous long-term view of the average cost of aluminium. Aluminium is the largest raw material purchase made by the Group. We have also seen a dramatic increase in the costs of the various forms of energy that we use, together with the knock-on impact on the cost of many commodity chemicals. Worryingly, the increase in energy costs is much worse in the UK than elsewhere, handing our overseas competition a ready-made advantage.

Faced with such large input cost increases, we have had no option but to be aggressive on pricing. I am pleased that most customers have recognised our need and acceded to our requests, although inevitably some business has been lost to low-cost competition. The benefit of these price rises will only be fully realised during 2006.

Following on from the actions taken in the last two years to mitigate the actuarial deficit in the UK defined benefit pension scheme, we regretfully decided that we had to close the US defined benefit pension scheme at the end of 2005. Alternative arrangements have been put in place for our US employees that were members of the scheme. Our total pension deficit has fallen over the year as a consequence of our actions.

Gas Cylinders

Divisional turnover in 2005 was 6% or £6.9 million up on 2004. The US medical market continued to be difficult, with prices being kept low by the excess capacity targeted at this sector. Demand for composite cylinders continued to grow, albeit at a slower rate than previously. The shortage of carbon fibre that has plagued the industry since 2004 continued, but there were signs of an easing towards the end of the year.

The European medical sector is developing well and after a few false starts the new UK Home Oxygen Therapy Policy is now up and running. We have contracted to supply the bulk of the lightweight cylinders needed by the new operators. During the year a milestone was achieved in our European operations, with the value of medical cylinders sold exceeding that of fire extinguisher cylinders for the first time.

Superform had a good year, especially in the US as the Ford GT programme reached its planned production levels, and prior to the end of our contract to supply panels for the F22 aircraft. The UK operation made good progress.

Divisional trading profit was 5% down on 2004 at £7.8 million, because of higher utility costs, a carbon fibre shortage and escalating aluminium costs. Year on year carbon fibre costs rose 55% and aluminium costs were up nearly 16%.

Elektron

Elektron division's revenues were 3% higher than in 2004.

Zirconium turnover grew by 16% with the popularity of our G4 autocat products, which are now established as the market-leading technology for catalyst manufacturers. During the year we successfully managed to start G4 production at our plant in New Jersey and that effectively doubled our manufacturing capacity for this important product line. While the US plant needs more work to bring its efficiency up to planned levels, the additional revenue stream is having a beneficial effect.

In 2004, the Zirconium business suffered a very steep rise in raw material costs as demand for zircon sand exceeded supply. This year the problem area has been energy. We have suffered large increases in the cost of gas, with December costs being at almost three times the budgeted level. Many commodity chemicals are energy-intensive to manufacture, and so the cost of these raw materials has also been rising rapidly.

Sales of our Isolux arsenic treatment system were disappointing, with little apparent will on behalf of the regulatory authorities to compel water utilities in the US to comply with the legislation that came into force on 23 January 2006. While the market is still of considerable value, it seems clear that the utilities, particularly smaller ones, will in some cases be given several years to become compliant with the WHO guidelines. While we will remain in the sector, the level of resources allocated to this market has been scaled-back.

Magnesium sales dropped by 3% over 2004, largely driven by weakness in the automotive sector, primarily affecting our die-casting and recycling businesses.

Sales of military powders were high, despite the interruption of supplies to one of our major customers during protracted contract negotiations.

The UK magnesium business had another good year with very strong aerospace alloy sales into North America.

The Group's most recent acquisition, MENA - the magnesium casting and rolling facility in Madison, Illinois and its finishing plant in Ohio, continued to perform ahead of expectations and contributed well during the year.

Divisional trading profit, impacted by higher input costs, was down 4%, at £6.9 million compared with £7.2 million in 2004.

Speciality Aluminium

While the actions taken at the end of 2004 to downsize the business were painful, it is pleasing to be able to report that they were successful in stemming the losses previously being incurred by this business. The loss of £1.4 million incurred in 2004 was turned into a small profit of £0.1 million in 2005.

The large increase in the cost of aluminium and in UK energy costs means that 2006 will be no less of a challenge than 2005.

New Product Development

While overheads have been very tightly controlled over the past few years, we have protected our investment in new product development and this is resulting in a growing proportion of the Group's revenues coming from product lines introduced within the last five years.

In particular, the G4 catalyst products grew strongly during 2005 and they are now widely recognised as market-leaders. Almost all of our catalyst business today is for three-way catalysts for petrol engines, but it is exciting to see the development of a market for diesel catalysts and we are working on variants of the G4 product family to address this potentially large market.

Sales of composite cylinders grew and we have a major success in terms of our level of sales into the Chinese market, which we were happy to support with an investment in a composite wrapping and finishing facility in Shanghai.

During the year we announced our intention to launch a range of composite cylinders targeting the Alternative Fuel Vehicles (AFV) market, principally for Compressed Natural Gas (CNG). While poor availability of carbon fibre has delayed our ambitions in this regard, we are hopeful of making progress in 2006.

Our newest magnesium alloy, Elektron 21, was qualified for military aerospace use during the year and is already being considered for a number of helicopter programmes.

Capital Expenditure

In the present circumstances, we have to tightly constrain capital expenditure throughout the Group. Nevertheless, we made two significant investments during the year, introducing full-wrap composite cylinder manufacturing to Luxfer France and establishing a similar facility in China.

Summary

The operating profit result for the year is a further significant improvement over 2004 despite the large external cost increases we are experiencing.

Our current level of profitability, however, is inadequate given the level of debt in the business. We must improve our operating performance further and faster. Prior to the end of 2005 we launched a major profit improvement initiative to help us do just that.

Brian Purves
Chief Executive

> "From 1 January 2005 the Group is required to prepare its consolidated financial statements in accordance with IFRS."

Stephen Williams Group Finance Director

Transition to International Financial Reporting Standards

From 1 January 2005 onwards the Group is required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). In preparing these financial statements, the Group has started from an opening balance sheet as at 1 January 2004, the date of transition to IFRS, and applied those changes in accounting policies and other restatements required for the first time adoption of IFRS.

The change in the Group's operating profit and the Group's net liabilities is shown in the tables below and can be summarised as follows:

Intangible assets – goodwill amortisation is not required under IFRS. Therefore, the 2004 charge of £1.8 million has been reversed.

Pension costs – the Group fully recognised the pension liability and associated deferred tax asset on the balance sheet at the date of transition. The impact of IAS 19 on the results of the Group led to a credit of £0.6 million in the income statement.

Other employee benefits – liabilities arising on the Group's US workers compensation scheme have been reassessed on an actuarial basis. This led to an increase in the provision required of £0.8 million at the date of transition with a reduction of £0.1 million in the year to 31 December 2004.

Adoption of IAS 32 and IAS 39 on 1 January 2005 – the Group adopted IAS 32 and IAS 39 on 1 January 2005, without any restatement to the financial statements of the year ended 31 December 2004. The impact on the date of adoption was to recognise preference shares as a £102.9 million financial liability rather than as part of shareholders' funds and to recognise £1.0 million in an equity reserve account, being the fair value of derivative financial instruments qualifying as effective cash flow hedges.

Discontinued activities – the results of discontinued activities are shown as a single line after tax, rather than being included as part of the Group's turnover and operating profit.

	Operating profit for the year £M	Net Liabilities £M
Under UK GAAP for 31 December 2004	10.0	(19.9)
Discontinued operations	0.2	-
Reversal of amortisation of goodwill	1.8	1.8
Retirement benefits	0.6	(23.3)
Deferred tax on retirement benefits	-	7.2
Other employee benefits	0.1	(0.7)
Other adjustments	(0.1)	-
Under IFRS for 31 December 2004	12.6	(34.9)
Preference share liability at 1 January 2005		(102.9)
Recognition of fair value of effective cash flow hedges		1.0
Net liabilities under IFRS at 1 January 2005		(136.8)

IFRS 1 “First-time adoption of International Reporting Financial Standards” allows a number of exemptions on transition to IFRS. A summary of the exemptions taken by the Group are detailed in Note 31 to the financial statements.

Finance Review of 2005

The operating results for the year are discussed in more detail in the Chairman’s Statement and in the Chief Executive’s Review.

Turnover

Total Group turnover of £232.7 million for the year was £5.9 million ahead of last year. After accounting for the movement in the US dollar in the year and the decision to exit from certain commodity markets in our Speciality Aluminium business, turnover on a like for like basis was up 4% compared to 2004.

Within our Gas Cylinder division, turnover at £117.4 million was £6.9 million ahead of last year. Aluminium cylinder volumes and revenues are at similar levels to last year despite the closure of our Australian plant in 2004. Lower revenues from the fire market were offset by a growth in revenues from the industrial, beverage and medical markets. Composite cylinders grew in volume by 8% and in revenue by 6% compared to last year. Whilst the volume of life support composite cylinders was down by 3%, the sales of composite medical cylinders grew by over 20% and of composite paintball cylinders by 13%. Both our US and UK Superform operations had a good year and revenues increased by 18%.

Within our Elektron division, turnover of £102.4 million was £3.2 million ahead of last year. Zirconium sales revenues were 16% ahead of last year. Catalyst sales were up by 35% driven by the success of our G4 products, but sales volumes to other markets were at similar levels to 2004. We were able to achieve price rises in most markets to recover some of the additional raw material and utility costs suffered during the year.

In our magnesium operations turnover was 3% below last year, the weakness of the European automotive market impacting on our die-casting and recycling businesses. Whilst sales of military powders remained high they were below last year because of protracted contract negotiations at one of our major customers. Our magnesium casting and rolling facility continued to prosper and sales are up by 17% compared to 2004.

Within the Speciality Aluminium division, revenue fell as a result of the decisions taken at the end of 2004 to rationalise the business, to concentrate on higher value-added products and exit from sales of commodity products.

Earnings

Despite an increase of over £5 million in raw material costs we managed to maintain the Group’s gross profit margin for continuing operations at 19%, the same as 2004. The gross profit margin was maintained by a combination of higher sales prices and further cost savings and operational efficiencies.

Net operating expenses have increased by £0.6 million over 2004 levels, representing the increased level of activity within the Group.

An operating exceptional credit of £1.6 million was made in the year. The US defined benefit pension scheme was closed at the end of the year which led to an exceptional credit of £3.7 million. A £0.6 million charge was made in relation to rationalisation and redundancy costs in the Elektron division in the UK and Europe, and a further £1.5 million charge was made for future environmental costs at the zirconium operations in the US. It is expected that these provisions will be utilised over the next twelve months.

Profit on operations before interest and tax was £16.4 million for the year, compared to £14.4 million in 2004.

Interest costs of £14.5 million were incurred during the year, with £13.7 million relating to bond interest and £0.8 million to other bank borrowings. The conversion to IFRS during the year has led to the disclosure of the preference dividend of £5.2 million being included in finance costs.

The tax expense of £3.2 million was against a loss before taxation of £3.2 million and was split between a corporation tax charge of £2.6 million and a deferred tax charge of £0.6 million. Profits in our overseas subsidiaries again led to a local corporation tax charge, despite the UK remaining in a loss making position.

The retained loss for the year after adding back the preference share dividend amounted to £1.4 million compared to £3.6 million in 2004.

Cash Flow

Net cash flows from operating activities of £12.7 million are £1.9 million higher than 2004. The increase in EBITDA of £3.8 million to £24.4 million was offset by a reduction in payables, provisions and retirement benefits. Despite higher raw material costs, we managed to reduce inventories by £1.1 million.

Capital expenditure in the year was £6.9 million. The composite wrapping facility was completed at Luxfer France, with production commencing in June. In addition, the manufacturing facility in Shanghai was completed during the year. Within the magnesium business a cold chamber die casting machine was installed at the German plant, which will enable us to produce a wider range of products. The zirconium business benefited from further capital expenditure on the G4 process in both the UK and the US.

Net interest payments during the year were £14.0 million and the tax paid was £3.1 million.

The net cash outflow after interest payments, but before other financing activities, was £8.2 million compared to £7.0 million in 2004. This outflow was funded by a reduction in the cash balances of £1.1 million, together with a net draw down of the revolving credit facilities of £7.2 million.

Shareholder Funds & Borrowings

The transition to IFRS has resulted in a change to the disclosure of preference shares from equity in 2004 to non-current liabilities in 2005. This change in disclosure increased the shareholder deficit to £139.8 million at the end of 2005. If preference shares had continued to be included in equity, this deficit would be £31.7 million compared to £35.7 million in 2004.

Net debt increased by £8.6 million during the year to £135.7 million.

Renewal of Banking Facilities

In April 2006 the Group replaced its existing £30 million revolving credit facilities with a new £45 million facility. The new facility is for 3 years and provides £35 million of loans and overdrafts and £10 million of ancillary financing for letters of credit, bank guarantees and foreign exchange hedging. It is provided through asset backed financing arrangements in the UK and US. The new larger facilities will enable the Group to meet its obligations over the coming years.

Financial Risk Management

Treasury

The Group operates a central treasury function that controls all borrowing facilities, investment of surplus funds and the management of financial risks.

The Board has approved hedging policies to cover the Group's exposure to interest rates, metal costs and foreign exchange risks. A Hedging Committee chaired by the Group Finance Director controls these risks.

Interest Rate Risk

Apart from the short-term bank facility, the Group currently has no variable interest rate risk, the bond debt being at a fixed rate of 10.125%.

Aluminium Metal Cost Risk

The Group's annual aluminium requirement is now approximately 18,500. The Group maintains a board-approved metal hedging policy, which recognises that depending on our products and markets there is a varying delay in our ability to pass on any movement in the Group's metal cost to the customer. The proportion of the Group's exposure covered by hedges, at the end of 2005 stood at 2,400 tonnes covering 2006. Forward hedging covered approximately 15% of our aluminium price exposure for 2006 as at the end of December 2005.

Foreign Currency Risk

Where no natural hedge exists, all firm contractual commitments denominated in foreign currencies are hedged by means of forward foreign exchange contracts at the point of inception. By virtue, however, of the short-term contract nature of much of the Group's export business, hedges in place at 31 December 2005 cover a relatively small proportion of forecast currency revenues in 2006. The Group has a degree of natural hedge against transaction risk due to its similar levels of purchases and sales in US dollars. The UK businesses, however, have a sizeable transaction exposure to the sterling to euro exchange rate.

Pension Plans

The Group operates defined benefit arrangements in the UK, US, France and Japan. The levels of funding are determined by periodic actuarial valuations. The Group also operates defined contribution schemes in the UK, US and Australia.

At the end of the year, the decision was taken to close the US defined benefit pension scheme, offering alternative arrangements to the employees who were members of that scheme. The termination of the scheme resulted in an exceptional credit to the income statement of £3.7 million.

At 31 December 2005 the Group's actuaries prepared a valuation of the pension schemes under IAS 19. This indicated that, based upon the current state of the equities market, there would be a point-in-time shortfall of £21.9 million (2004: £28.1 million), £15.0 million (2004: £19.0 million) net of the related deferred tax asset.

The pension cost to the Group excluding the gain on curtailment was £2.5 million (2004: £3.3 million).

Stephen Williams
Group Finance Director

The Directors submit their annual report together with the audited financial statements of the Group and of the Company, Luxfer Holdings PLC, for the year ended 31 December 2005.

Linda Seddon Company Secretary

Business and Principal Activities

The principal activity of the Company is the holding company for the Luxfer Group. The Group's principal activities together with details of the three divisions within which they are carried out are set out on page 1.

A review of the Group's results for the year and a description of key events and significant changes during the year in the Group and each of the divisions may be found in the Chairman's Statement, the Chief Executive's Review and the Finance Review on pages 3 to 8. Events affecting the Group since the end of the year and likely future developments are also referred to in those pages.

Dividend

The Directors do not recommend a final dividend on the ordinary shares.

Directors

The names of the Directors who held office at 31 December 2005 and during the year together with their brief biographical details, membership of Board Committees and their main outside commitments appear on page 2.

There was no change in membership of the Board or of the Board Committees until the end of the year when Francis McKay resigned as a Director on the 30 December 2005 to take up other commitments. Since the end of the year Jeffrey Whalley has resigned as Non-Executive Chairman and Director with effect from 31 March 2006.

Directors' interests and related party transactions

No Director had a material interest in, nor were they a party to, any contract or arrangement to which the Company or any subsidiary is or was party either during the year or at the end of the year, with the exception of their individual service contract and the shareholders' agreement which regulates certain aspects of the relationship among the shareholders in the Company, referred to in this Report as the Investment Agreement.

The interests of the Directors who held office at 31 December 2005 and their families in the share capital of the Company are set out below. All of the interests are beneficial.

There was no change in the Directors' shareholdings in the year nor have there been after the year end.

Directors' Shareholdings in the Company

	Ordinary shares of £0.6487 each		**Preference shares of £0.6487 each**		**B Preference shares of £1 each (25% paid)**		**Deferred shares of £0.0001 each**	
	Held at 31 December 2005	Held at 1 January 2005	Held at 31 December 2005	Held at 1 January 2005	Held at 31 December 2005	Held at 1 January 2005	Held at 31 December 2005	Held at 1 January 2005
Executive Directors:	No.	No.	No.	No.	No.	No.	No.	No.
Brian Purves	71,438	71,438	5,188,887	5,188,887	25,000	25,000	10,000	10,000
Stephen Williams	9,158	9,158	691,713	691,713	-	-	-	-
Non-executive Director:								
Jeffrey Whalley	77,127	77,127	7,635,573	7,635,573	-	-	-	-

Directors' Options over shares in the Company held by the Employee Shares Ownership Plan

	Ordinary shares of £0.6487 each		Preference shares of £0.6487 each		Options exercised in the year
	Held at 31 December 2005	Held at 1 January 2005	Held at 31 December 2005	Held at 1 January 2005	
Executive Directors	No.	No.	No.	No.	No.
Brian Purves:					
Exercise price of £0.01	-	-	968,715[(a)]	968,715[(a)]	-
Exercise price of £0.34	-	-	914,760[(b)]	914,760[(b)]	-
Stephen Williams:					
Exercise price of £0.65	10,842	10,842	-	-	-
Exercise price of £0.01	-	-	96,921[(a)]	96,921[(a)]	-
Exercise price of £0.34	-	-	118,008[(b)]	118,008[(b)]	-

[(a)]*During the year 396,000 of the options held by Brian Purves and 59,400 of the options held by Stephen Williams were due to expire and were rolled over as described in Notes 27 and 41 to the financial statements.*

[(b)]*After the end of the year, in January 2006, those options due to expire in March 2006 were rolled over as described in Notes 27 and 41 to the financial statements.*

Except in the circumstance described in Notes 27 and 41 to the financial statements, no options were granted to any Director during the year. No performance conditions apply to any options held by the Executive Directors.

No Director had any other notifiable interest in any securities of any Group company or undertaking during the year.

Directors' Remuneration

Executive Directors - The remuneration packages of the Executive Directors and other senior executives are determined by the Company's Remuneration Committee. The Committee also determines compensation packages for exiting executives when appropriate.

Remuneration packages aim to attract, retain and motivate high calibre managers and reward individual performance. On appointment and periodically thereafter the Committee benchmarks the executive remuneration packages against appropriate comparators. The reward structure comprises the following elements:

- Base salary which takes into account, market rates, the responsibilities of the position held, the experience and contribution of the individual executive and the international scale of the Group's or division's operations. Annual reviews also take into account inflation, general economic conditions and Group or divisional performance.
- An annual bonus based on achievement against financial targets. These financial targets are set in January of each year and are primarily based on Group trading profit and annual cash flow, measured against the approved annual budget. Financial targets for divisional senior executives are based on their division's annual results measured against their divisional annual budgets. The specific combination of financial targets in any year are aligned, as appropriate, with the needs of the Group and the businesses for that year. The maximum annual bonus payable is a pre-defined percentage of annual salary related to the individual's position in the Group. The Executive Directors' maximum percentage bonus achievable is 50% of base salary. Maximum percentage bonus is payable only for achieving specified targets beyond budget in the target areas.
- Other benefits consist of membership of a pension scheme, company car or car allowance, medical, dental and life insurance and participation in the Group's share option schemes. Both Executive Directors and other senior Group executives participate in such benefits.

The following table details the remuneration payable to each Director in respect of the year ended 31 December 2005, together with comparative totals in respect of the year ended 31 December 2004:

	Salary/ Fees	**Committee Fees**	**Annual Bonus**	**Benefits**	**Total 2005**	Total 2004
Executive Directors:	**£**	**£**	**£**	**£**	**£**	£
Brian Purves	**223,200**	**-**	**-**	**45,075**	**268,275**	258,708
Stephen Williams	**124,200**	**-**	**-**	**14,532**	**138,732**	134,106
Non-executive Directors:						
Jeffrey Whalley	**62,400**	**10,000**	**-**	**20,312**	**92,712**	90,390
Francis McKay	**30,000**	**-**	**-**	**-**	**30,000**	22,453
Non-executive Special Directors:						
Graham Thomas	**30,000**	**-**	**-**	**-**	**30,000**	29,230
Peter Haslehurst	**30,000**	**-**	**-**	**-**	**30,000**	29,230
Total	**499,800**	**10,000**	**-**	**79,919**	**589,719**	564,117

Non-Executive Directors - The fees of the Chairman, in respect of both his Chairmanship of the Company and the Remuneration and Audit Committees, are reviewed annually by the Remuneration Committee as required by the Investment Agreement. They are also periodically benchmarked against comparable companies. The fees of Francis McKay (prior to his retirement) were determined by the Board and also periodically benchmarked against comparable companies.

Non-Executive Special Directors - The fees payable for Non-Executive Special Directors are determined by the Investment Agreement, which provides for an RPI related increase annually. Fees for Graham Thomas were paid to Morgan Grenfell Private Equity Limited. Fees for Peter Haslehurst were paid to Ph Technologies Ltd at the request of CVC Capital Partners Limited.

No termination payments were payable by the Company during the year to any Director.

Pensions

During the year, Brian Purves and Stephen Williams participated in the Group's contributory and non-contributory pension arrangements. A number of changes were made to these arrangements during the year the result of which is that the defined benefit pension accrual rate is now 7/400ths (1.75%) of earnings for each year of service, where pensionable earnings are restricted to a new scheme specific earnings cap (£60,000 for 2005/6), with a defined contribution made in addition. Provision is also made for payment of a spouse's pension on death and a lump sum payment on death in service.

Details of the pension benefits are set out below:

Pensions – defined benefit

Executive Directors:	**Accumulated total accrued pension at 31 December 2005**	**Increase in accrued pension over year to 31 December 2005**	**Transfer value of increase/ (decrease)**
Brian Purves	**£21,405 pa**	**£1,810 pa**	**(£1,483)**
Stephen Williams	**£28,052 pa**	**£1,927 pa**	**£9,342**

Notes

1. The accumulated total pension is the total defined benefit pension which would be paid annually on retirement based on service to and salary at the end of the year. The defined benefit pension of both executive Directors in the Group's arrangements reduced during the year as the result of the introduction of a scheme specific earnings cap on pensionable earnings, and the conversion (calculated on the standard terms that apply to individual transfer values) of pension accrued to 31 July 2005 in excess of 7/400ths (1.75%) of the scheme specific earnings cap, to a money purchase benefit in the Group's defined contribution arrangements.
2. The increase in accrued pension includes all defined benefit pension earned during the year, excluding any increase due to inflation.
3. Brian Purves previously brought a transfer value into the Group pension arrangements from the scheme of a previous employer, in exchange for added years of service credit. The pension resulting from this service credit is included in the accumulated total accrued pension figure.
4. During the year it was recognised that Brian Purves' pensionable earnings during 2003 had been understated. The transfer value of the resulting increase in accrued pension less the additional backdated member contributions paid was £31,834.
5. The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11 less contributions paid by the Directors themselves.
6. Neither Additional Voluntary Contributions nor their resulting benefits are included in the above table.

Pensions - defined contribution (including unapproved arrangements)

As Brian Purves is subject to the statutory earnings cap, the defined contributions made in respect of him were divided between the Group's approved contribution arrangements and a defined contribution Funded Unapproved Retirement Benefit Scheme (FURBS). The Company's contributions to the Group approved defined contribution arrangements in respect of Brian Purves over the year to 31 December 2005 were £6,765 (2004: nil) and to his FURBS were £39,283 (2004: £37,968). For Stephen Williams, the Company paid £8,510 (2004: nil) into the Group's approved defined contribution arrangements.

Employee Involvement

Employees are directly involved in the performance of the Group and their divisions through the use of various incentive schemes. These include bonus schemes, and for senior management share option schemes and share ownership. A combination of newsletters, regular briefings, exchanges and consultations at both Group and site level (as appropriate) are used to communicate with employees and develop their awareness of matters, which concern their business unit, division or the Group.

The Group continues to offer training and development opportunities to employees at all levels, which provide benefit to both the Group and the individual employee.

The Group has an equal opportunities policy, which is intended to promote good employment practices throughout the Group in the treatment of both employees and job applicants.

Disabled Employees

Where an employee has developed a disability whilst employed in his or her business which impacts on their ability to carry out their job effectively, the relevant business unit will make arrangements where possible to retain that employee and continue his or her employment. Applicants for job vacancies who are disabled are given full and fair consideration bearing in mind the requirements of the particular job and the particular aptitude and abilities of the candidate.

Research and Development

During the year the Group invested £4.1million in research and development on new and improved products and processes. This compares with a total spend in 2004 of £4 million. The Group continues to maintain links in fields of research with both leading universities in various countries and outside agencies to support and supplement its own in house expertise.

Payment of Creditors

The Group does not follow a formal code on payment of creditors. Group policy provides that payment terms should be agreed with suppliers during negotiations. Each business unit endeavours to adhere to this policy as far as it is practicable. Usual practice is to pay suppliers in accordance with agreed terms and conditions provided that goods or services supplied are in accordance with the agreed terms and conditions of contract. Normally, suppliers will be advised as soon as is practicable of a dispute and payment will be made of that part of the invoice not in dispute unless good reason exists. Smaller suppliers will usually be paid in accordance with their standard terms and conditions or those of the business unit concerned (of which they are made aware) as appropriate. Actual practice may vary between business units. As the Company is a parent company it has no trade creditors. However, at 31 December 2005 the Group had an average of 42 days purchases outstanding to trade creditors calculated in accordance with the Companies Act 1985 (Directors' Report) (Statement of Payments Practice) Regulations 1997.

Donations

The Company and its subsidiaries made no political donations in the year. Charitable donations in the year amounted to £31,000 (2004: £33,000).

Financial Instruments

The Group's financial risk management objectives and policies are discussed under Financial Risk Management in the Finance Review on page 8.

Corporate Governance

The Company follows principles of corporate governance in so far as is practical and possible for a Company of its size.

Board of Directors

Board composition – Until the end of 2005 the Board consisted of six members. As a result of the resignations of Jeff Whalley and Francis Mckay it now consists of four members: a Non-Executive Chairman, one Non-Executive Special Director appointed by a major investor and two Executive Directors. The Executive Directors are also shareholders. Brain Purves the Chief Executive officer also represents the management shareholders on the Board as a Special Director.

The role of the Board - The Board has responsibility for the overall management and performance of the Group and approval of its long-term strategy. Certain matters, identified in the Investment Agreement require the consent of at least two of the three Special Directors, in addition to a majority decision of the Board. The Board have also agreed a schedule of appropriate matters reserved to the Board.

Board Committees - The Company has a Remuneration Committee and Audit Committee, which deal with various appropriate aspects of the affairs of both the Company and the Group in accordance with written terms of reference. Membership of these Committees appears in the Directors' biographical details on page 2.

Internal Controls and Risk Management

The Group operates to established procedures, which are designed to identify, evaluate and manage significant risks in the Group. These procedures are reviewed on an on-going basis as considered appropriate and cover both financial and non-financial risks. The Board receives periodic reports on internal controls, the management of identified risks and the processes involved in their identification.

The following are the Group's principal internal control procedures:

Risk Management - The Group has over the years developed and implemented a Risk Management Process with the help of external advisors. On an annual self-certification and monitoring basis, local management create a risk profile for their business by identifying and evaluating the likelihood and magnitude of their key operational, commercial and financial risks. These risk factors are also consolidated annually to form an overall risk profile for the Group. Risk profiles are used as a management tool both at business unit and Group level with a view to reducing, transferring or eliminating risk as appropriate or possible.

Health and Safety - The Group is fully committed to achieving and maintaining the highest standards of health and safety for all its employees, contractors, visitors and all those who may be affected by its operations as an integral part of good business practice.

The main elements of the Group's approach to health and safety are:

- A requirement that all operating units comply with the Group's health and safety policy.
- Certain members of the Executive Board have been designated to monitor, co-ordinate and report upon the health and safety aspects of specific regions of the Group's international operations.
- Each operating site has a designated health and safety manager who is appropriately trained and responsible for health and safety matters and compliance with relevant legislation at the site.
- Site health and safety issues are discussed at the regular business review meetings undertaken by the Chief Executive and the Group Finance Director at site.
- A system of periodic cross audits between operating units. The results of these audits are reported upon to the site managing director with appropriate recommendations. Progress on implementation of any recommendations is followed and reported upon in the business review meetings undertaken by the Chief Executive.
- Professional expertise is sourced as and when appropriate.
- An annual report is made to the Board by the Chief Executive Officer who also reports any issue of which the Board should be aware if and when such issues may arise.

Environment - The Group remains committed to a high standard of environmental management to ensure legislative compliance across the Group.

The main elements of the Group's approach to the environment are:

- A Group Environmental Policy and Management System (EMS) with which all operating sites are required to comply. The Group is committed to working towards ISO 14001 and many of the larger business units already have plans in place to achieve this. Many of the elements of the current EMS and work carried out for IPPC are consistent with ISO 14001.
- Actively working towards and/or attainment of IPPC permits as appropriate by UK sites.
- The environment is actively managed and reported on at various levels within the Group. Certain members of the Executive Management Board have been designated to co-ordinate, monitor and report on environmental matters for specific regions of the Group's international operations. Each operating site has a manager designated with responsibility for environmental matters who has appropriate knowledge and expertise.
- External expertise and advice is sought as necessary and appropriate.
- The Board receives an annual report on the main environmental issues affecting the Group and any significant individual issues are brought to the attention of the Board as appropriate and as they arise during the year.
- The environment is considered as an element of the Group's corporate risk assessment. No acquisition involving land or an operating site is undertaken without first obtaining an independent environmental report.

Internal Financial Controls - The key controls consist of:

- The preparation of comprehensive monthly financial reviews submitted to and discussed with the Directors at regular Board meetings.
- Hedging policies, approved by the Board, which cover the Group's exposure to and management of metal costs and foreign exchange rates as appropriate. The Board also receives regular monthly reports on such activities.
- Group Accounting Manual and Group Authority Manual requiring proper, consistent, and legally compliant financial management at all levels.
- Regular performance reviews with divisional management carried out by the Chief Executive and the Group Finance Director at site.
- Periodic internal audits carried out by Head Office finance staff. In 2005 audits were undertaken at several business units and within the Head Office function whose terms of references included a range of tasks tailored to test the issues concerning the particular business units or functions audited.

Executive Management Board - This board consists of senior management at Group and divisional level and provides a forum where matters of interest or concern to the Group can be reviewed, discussed and appropriate measures implemented.

Post Balance Sheet events

On the 26 April 2006 the Group agreed a new £45 million revolving credit facility with a major international bank, details of the new facility are disclosed within the Finance Review.

Peter Haslehurst was appointed Chairman of the Company effective 31 March 2006 on the resignation of Jeffrey Whalley as Chairman and a Director effective on that date.

Going Concern

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources and borrowing facilities to continue operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Auditors

A resolution will be put to the Annual General Meeting of the Company to re-appoint Ernst & Young LLP as auditors.

By order of the Board

Linda F Seddon
Secretary
26 April 2006

STATEMENT OF DIRECTORS' RESPONSIBILITIES

For each financial year, the Directors are responsible for preparing the annual report, the group consolidated financial statements and the company financial statements in accordance with applicable laws and regulations.

Under United Kingdom company law the Directors are required to prepare the group consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. The Directors are also responsible for preparing group financial statements for each financial period which give a true and fair view of the state of affairs of the Group as at the end of the financial period and of the profit and loss for that period.

The Directors have chosen to prepare the company financial statements in accordance with UK applicable accounting standards (United Kingdom Generally Accepted Accounting Practice) as required by United Kingdom company law. The company financial statements are required by company law to give a true and fair view of the state of affairs of the Company as at the end of the financial year.

In preparing financial statements, the Directors are required to:

- select appropriate accounting policies and apply them consistently;
- make judgements and estimates which are reasonable and prudent;
- in respect of the group consolidated financial statements only, state they have been prepared in accordance with International Financial Reporting Standards;
- in respect of the company financial statements only, state whether they have followed applicable accounting standards subject to any material departures disclosed or explained in the financial statements.

The Directors are responsible for maintaining adequate accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that its financial statements comply with the Company's Act 1985. They are responsible for safeguarding the assets of the Company and the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

We have audited the group financial statements of Luxfer Holdings PLC for the year ended 31 December 2005 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Recognised Income and Expense and the related Notes 1 to 31. These group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Luxfer Holdings PLC for the year ended 31 December 2005 and on the information in the Directors' Remuneration Report that is described as having been audited.

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 auditors' 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 are responsible for preparing the Annual Report and the group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the group 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 group financial statements give a true and fair view and whether the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' Report is not consistent with the group financial statements, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding director's remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited group financial statements. The other information comprises only Corporate Information, the Chairman's Statement, the Chief Executive's Review, Finance Review and Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any other information.

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 group financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the group financial statements, and of whether the accounting policies are appropriate to the group'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 group 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 group financial statements.

Opinion

In our opinion the group financial statements:

- give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group'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 and Article 4 of the IAS Regulation.

Ernst & Young LLP
Registered Auditor
Manchester
26 April 2006

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

CONTINUING OPERATIONS	Notes	2005 £M	2004 £M
REVENUE	2	**232.7**	226.8
Cost of sales		**(188.2)**	(183.7)
Gross profit		**44.5**	43.1
Other income		**0.5**	0.2
Distribution costs		**(6.4)**	(5.7)
Administrative expenses		**(23.8)**	(23.6)
TRADING PROFIT		**14.8**	14.0
Operating exceptional items	4	**1.6**	(1.4)
OPERATING PROFIT	3	**16.4**	12.6
Profit on disposal of property, plant and equipment		**-**	1.8
PROFIT ON OPERATIONS BEFORE INTEREST AND TAX		**16.4**	14.4
Finance income	7	**0.1**	0.1
Finance costs:			
Interest costs	8	**(14.5)**	(14.2)
Preference share dividend	8	**(5.2)**	-
(LOSS)/PROFIT ON OPERATIONS BEFORE TAXATION		**(3.2)**	0.3
Tax expense	9	**(3.2)**	(3.7)
LOSS FOR THE FINANCIAL YEAR ON CONTINUING OPERATIONS		**(6.4)**	(3.4)
Loss for the year from discontinued activities	6	**(0.2)**	(0.2)
LOSS FOR THE YEAR	18	**(6.6)**	(3.6)
Attributable to:			
Equity shareholders		**(6.6)**	(8.5)
Preference shareholders		**-**	4.9
Minority shareholders		**-**	-
		(6.6)	(3.6)

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE FOR THE YEAR ENDED 31 DECEMBER 2005

	2005 £M	2004 £M
Income and expense recognised directly in equity		
Exchange differences on translation of foreign operations	**3.3**	(1.8)
Actuarial gains on defined benefit pension scheme	**1.8**	0.3
Tax on items taken directly to equity	**(0.5)**	(0.1)
Net income/(expense) recognised directly in equity	**4.6**	(1.6)
Transfers to income statement on cash flow hedges	**(0.2)**	-
Net income/(expense) recognised in equity	**4.4**	(1.6)
Loss for the period	**(6.6)**	(3.6)
TOTAL RECOGNISED INCOME AND EXPENSE	**(2.2)**	(5.2)
Attributed to:		
Equity shareholders	**(2.2)**	(10.1)
Preference shareholders	**-**	4.9
Minority interests	**-**	-
	(2.2)	(5.2)
Effects of changes in accounting policy:		
Net gain on hedges on first-time application of IAS 39	**1.0**	-

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2005

	Notes	2005 £M	2004 £M
ASSETS			
Non-current assets			
Property, plant and equipment	10	**67.8**	67.1
Intangible assets	11	**23.8**	23.8
Investments	13	**0.1**	0.1
Deferred tax assets	21	**5.5**	7.4
Other non-current assets	22	**2.1**	2.1
		99.3	100.5
Current assets			
Inventories	14	**35.7**	34.9
Trade and other receivables	15	**32.2**	29.1
Income tax receivable		**1.1**	0.4
Cash and short term deposits	16	**5.9**	6.9
		74.9	71.3
TOTAL ASSETS		**174.2**	171.8
EQUITY AND LIABILITES			
Capital and reserves attributable to the Group's equity holders			
Ordinary share capital	17	**0.9**	0.9
Retained earnings	18	**63.5**	68.8
Translation reserve	18	**2.5**	(0.8)
Hedging reserve	18	**0.8**	-
Merger reserve	18	**(207.5)**	(207.5)
Ordinary shareholders' equity		**(139.8)**	(138.6)
Preference shareholders' funds	17	**-**	102.9
Equity attributable to the equity holders of the parent		**(139.8)**	(35.7)
Minority interests	28	**0.8**	0.8
Total equity		**(139.0)**	(34.9)
Non-current liabilities			
Senior loan Notes due 2009	19	**129.9**	129.5
Retirement benefits	26	**21.9**	28.1
Preference shares	17	**108.1**	-
Provisions	20	**2.0**	3.0
Deferred tax liabilities	21	**0.3**	1.2
Other long-term liabilities	22	**2.1**	2.2
		264.3	164.0
Current liabilities			
Bank loans and overdrafts	19	**11.7**	4.5
Trade and other payables	23	**34.1**	36.4
Obligations under finance leases	19	**-**	0.1
Current income tax liabilities		**0.1**	0.2
Provisions	20	**3.0**	1.5
		48.9	42.7
Total liabilities		**313.2**	206.7
TOTAL EQUITY AND LIABILITES		**174.2**	171.8

SIGNED ON BEHALF OF THE BOARD

Brian Purves **Stephen Williams**

26 April 2006

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	**2005 £M**	**2005 £M**	2004 £M	2004 £M
CASH FLOWS FROM OPERATING ACTIVITES					
Operating profit		**16.4**		12.6	
Less: loss from discontinued activities		**(0.2)**		(0.2)	
Adjustments for:					
Depreciation and amortisation		**8.0**		8.0	
Decrease / (increase) in inventories		**1.1**		(3.9)	
(Increase) / decrease in receivables		**(0.8)**		1.7	
(Decrease) / increase in payables		**(3.9)**		0.2	
Decrease in retirement benefits		**(5.2)**		(1.6)	
Increase / (decrease) in provisions		**0.4**		(2.5)	
Income tax paid		**(3.1)**		(3.5)	
NET CASH FLOWS FROM OPERATING ACTIVITIES			**12.7**		10.8
CASH FLOWS FROM INVESTING ACTIVITES					
Interest received		**0.1**		0.1	
Purchases of property, plant and equipment		**(6.9)**		(8.4)	
Proceeds on disposal of property, plant and equipment		**0.1**		4.3	
Purchase of intangible assets		**(0.1)**		-	
Acquisition of subsidiary		**-**		(0.1)	
NET CASH FLOWS USED IN INVESTING ACTIVITIES			**(6.8)**		(4.1)
FINANCING ACTIVITES					
Interest paid		**(14.1)**		(13.7)	
Minority dividends paid		**-**		(0.1)	
Draw down of revolving credit facilities		**15.0**		7.0	
Repayments of revolving credit facilities		**(7.8)**		(2.5)	
Repayments of obligations under finance leases		**(0.1)**		(0.3)	
NET CASH FLOWS FROM FINANCING ACTIVITIES			**(7.0)**		(9.6)
NET DECREASE IN CASH AND CASH EQUIVALENTS			**(1.1)**		(2.9)
Net decrease in cash and cash equivalents			**(1.1)**		(2.9)
Net foreign exchange difference			**0.1**		(0.1)
Cash and cash equivalents at 1 January	16		**6.9**		9.9
Cash and cash equivalents at 31 December	16		**5.9**		6.9

1. ACCOUNTING POLICIES

Authorisation of financial statements

The Group's financial statements for the year ended 31 December 2005 were authorised for issue by the Board of Directors on 26 April 2006 and the balance sheet was signed on the Board's behalf by B.G. Purves and S.N. Williams. Luxfer Holdings PLC is a company incorporated and domiciled in England and Wales.

Basis of preparation and consolidation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) for the first time. The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS are given in Note 31.

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments, which have been measured at fair value.

The accounting policies which follow set out those polices which apply in preparing the financial statements for the year ended 31 December 2005. Where the Group have applied different policies for part of the period since its transition to IFRS on 1 January 2004, this is explained in Note 31.

The consolidated financial statements comprise the financial statements of Luxfer Holdings PLC and its subsidiaries as at 31 December each year. The financial statements of subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. All inter-company balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Business combinations and goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary at the date of acquisition.

Goodwill is recognised as an asset and reviewed for impairment at least annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Any impairment is recognised immediately in profit or loss and is not subsequently reversed. At the acquisition date, any goodwill acquired is allocated against the units expected to benefit from the synergies of the acquisition. Impairment is determined by assessing the recoverable amount of the unit to which the goodwill relates. Where the recoverable amount of the unit is less than the carrying amount of goodwill, an impairment loss is recognised.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date.

Patents

Patents and trademarks are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives. The carrying values are reviewed for impairment in periods if events or changes in circumstances indicate that their carrying amount may not be recoverable. Reviews are made annually of the estimated remaining lives and residual values of the patents and trademarks.

Revenue

Revenue excludes inter-company sales and value added tax and represents net invoice value less estimated rebates, returns and settlement discounts. Revenue is recognised on the sale of goods and services when the significant risks and rewards of ownership of those goods and services have been transferred to a third party.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Depreciation is initially calculated on a straight-line basis over the estimated useful life of the asset as follows:

Freehold buildings	3% - 10%
Leasehold land and buildings	The lesser of life of lease or freehold rate
Plant and equipment	4% - 30%

Freehold land is not depreciated.

Reviews are made annually of the estimated remaining lives and residual values of individual productive assets, taking account of commercial and technological obsolescence as well as normal wear and tear.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price and value in use.

1. ACCOUNTING POLICIES (continued)

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in the income statement as part of the profit or loss before tax and interest.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognised.

Inventories

Inventories are stated at the lower of cost and net realisable value. Raw materials are valued on a first-in, first-out basis. Work in progress and finished goods cost comprises direct materials and, where applicable, direct labour costs and those costs that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Income tax

Deferred income tax is the future corporation tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred income tax liabilities are generally recognised for all taxable temporary differences. Deferred income tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred income tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of a deferred income tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred income tax is calculated at the tax rate that is expected to apply in the period when the liability is settled or the asset is realised based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. Deferred income tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred income tax is also dealt with in equity.

Research and development

Research expenditure is written off as incurred. Internal development expenditure is charged to income in the year it is incurred unless it meets the recognition criteria of IAS 38 “Intangible Assets”. Where the recognition criteria are met, intangible assets are capitalised and amortised over their useful economic lives from product launch. Intangible assets relating to products in development are subject to impairment testing at each balance sheet date or earlier upon indication of impairment.

Foreign currencies

The functional and presentation currency of Luxfer Holdings PLC and its UK subsidiaries is pounds sterling. Transactions in currencies other than pounds sterling are initially recorded in the functional currency at the rate of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. All differences are taken to the consolidated income statement with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the consolidated income statement. Tax charges and credits attributable to exchange differences on those borrowing are also dealt with in equity.

On consolidation, the assets and liabilities of the Group’s foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences that arise, if any, are classified as equity and transferred to the Group’s translation reserve. Such translation differences are recognised as income or an expense in the period in which the operation is disposed of.

1. ACCOUNTING POLICIES (continued)

Leases

Finance leases, which transfer to the Group substantially all the risk and benefits incidental to ownership of the leased item, are capitalised as a fixed asset at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments.

The capital element of the leasing commitment is shown as obligations under finance leases. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalised lease assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Retirement benefit costs

In respect of defined benefit plans, obligations are measured at discounted present value whilst plan assets are recorded at fair value. The cost of providing benefits is determined using the Projected Unit Method, with actuarial valuations being carried out at each balance sheet date. The charge to the income statement is based on an actuarial calculation of the Group's portion of the annual expected costs of the benefit plans, based on a series of actuarial assumptions which include an estimate of the regular service costs, the liability discount rate and the expected return on assets.

When a settlement or curtailment occurs the obligation and related plan assets are re-measured using current actuarial assumptions and the resultant gain or loss recognised in the income statement in the period in which the settlement or curtailment occurs.

Actuarial gains and losses are recognised immediately in the statement of recognised income and expense.

Payments to defined contribution schemes are charged as an expense as they fall due.

Government grants

Government grants relating to property, plant and equipment are treated as deferred income and released to the income statement over the expected useful lives of the assets concerned.

Discontinued operations

Discontinued operations are those operations that represent a separately identifiable major line of business that has either been disposed of, or is classified as held for sale.

For those operations classified as discontinued, the post-tax profit or loss is disclosed separately on the face of the income statement. The cash flows associated with the discontinued operation are also disclosed.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that a transfer of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity date of three months or less. For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

Financial assets and liabilities

Adoption of IAS 32 and IAS 39 on 1 January 2005

The Group adopted IAS 32 and IAS 39 on 1 January 2005, without any restatement to the financial statements for the year ended 31 December 2004. The impact on the date of adoption was to recognise preference shares as a £102.9 million financial liability rather than as part of shareholders' funds, (see Note 17) and to recognise £1.0 million in an equity reserve account being the fair value of derivative financial intruments qualifying as effective cash flow hedges (see Note 18).

Trade and other receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Interest bearing loans and borrowings

All loans and borrowing are initially recorded at fair value net of issue costs associated with the borrowing.

Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an amortised cost basis and charged to the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

1. ACCOUNTING POLICIES (continued)

Trade payables

Trade payables are not interest bearing and are stated at their nominal value.

Derivative financial instruments

The Group uses derivative financial instruments such as foreign currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are stated at fair value.

Hedges are classified as cash flow hedges when they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecast transaction.

In relation to cash flow hedges to hedge firm commitments which meet the conditions for special hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in net profit or loss.

Commodity contracts

Aluminium LME future contracts are used to hedge the future cost of primary aluminium. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in net profit or loss. Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss.

Capital instruments

Capital instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Capital instruments are all instruments that are issued by the Group as a means of raising finance, including shares, debentures, debt instruments and options and warrants that give the holder the right to subscribe for or obtain capital instruments. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. All equity instruments are included in shareholders' funds. Other instruments are classified as financial liabilities if they contain a contractual obligation to transfer economic benefits. The finance costs incurred in a respect of a capital instrument, other than equity shares, are charged to the income statement over the term of the instrument at a constant percentage rate to the carrying value.

In accordance with IAS 32, preference shares have been reclassified as financial liabilities during the year.

New standards and interpretations not applied

During the year, the IASB and OFRIC have issued the following standards and interpretations with an effective date after the date of these financial statements.

International Accounting Standards			**Effective date**
IFRS 1	Amendment -	IFRS 1 and IFRS 6	1 January 2006
IFRS 7	New Standard:	Financial Instruments: Disclosure	1 January 2007
IAS 1	Amendment -	Capital disclosures	1 January 2007
IAS 19	Amendment -	Actuarial Gains and Losses, Group Plans and Disclosures	1 January 2006
IAS 39	Amendment -	The Fair Value option; Cash Flow Hedge Accounting; Financial Guarantee Contracts	1 January 2006
International Financial Reporting Interpretations Committee (IFRIC)			
IFRIC 4	Determining Whether an Arrangement Contains a Lease		1 January 2006
IFRIC 7	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds incorporating an amendment to IAS 39		1 January 2006

The Directors do not anticipate that the adoption of these standards and interpretations will have a material effect on the Group's financial statements in the period of initial application.

2. TURNOVER AND SEGMENTAL ANALYSIS

These tables set out information on a world wide basis for each of the Group's industry segments. The industry segments represents the Group's structure as set out on page 1. All inter-segment sales are made on an arms length basis.

BUSINESS SEGMENTS:

Year ended 31 December 2005 For continuing operations	Gas Cylinders £M	Elektron £M	Speciality Aluminium £M	Unallocated £M	Total £M
Revenue					
Sales to external customers	117.4	102.4	13.1	-	**232.9**
Inter-segment sales	-	-	(0.2)	-	**(0.2)**
Segment revenue	117.4	102.4	12.9	-	**232.7**
Result					
Trading profit	7.8	6.9	0.1	-	**14.8**
Exceptional items	1.6	-	-	-	**1.6**
Operating profit	9.4	6.9	0.1	-	**16.4**
Profit on disposal of property, plant and equipment	-	-	-	-	**-**
Profit from continuing operations before tax and finance costs	9.4	6.9	0.1	-	**16.4**
Net finance costs					**(19.6)**
Loss before income tax					**(3.2)**
Tax expense					**(3.2)**
Net loss for the year					**(6.4)**
Other segment information					
Segment assets	70.5	81.2	7.6	14.9	**174.2**
Segment liabilities	20.8	19.5	2.9	270.0	**313.2**
Capital expenditure: Property, plant and equipment	2.8	3.4	0.5	-	**6.7**
Capital expenditure: Intangible assets	0.1	-	-	-	**0.1**
Depreciation and amortisation	3.0	4.8	0.2	-	**8.0**

Year ended 31 December 2004 For continuing operations	Gas Cylinders £M	Elektron £M	Speciality Aluminium £M	Unallocated £M	Total £M
Revenue					
Sales to external customers	110.5	99.2	17.3	-	**227.0**
Inter-segment sales	-	-	(0.2)	-	**(0.2)**
Segment revenue	110.5	99.2	17.1	-	**226.8**
Result					
Trading profit	8.2	7.2	(1.4)	-	**14.0**
Exceptional items	(0.3)	(0.6)	(0.5)	-	**(1.4)**
Operating profit	7.9	6.6	(1.9)	-	**12.6**
Profit on disposal of property, plant and equipment	1.8	-	-	-	**1.8**
Profit from continuing operations before tax and finance costs	9.7	6.6	(1.9)	-	**14.4**
Net finance costs					**(14.1)**
Profit before income tax					**0.3**
Tax expense					**(3.7)**
Net loss for the year					**(3.4)**
Other segment information					
Segment assets	66.0	81.9	7.5	16.4	**171.8**
Segment liabilities	22.4	21.0	3.5	159.8	**206.7**
Capital expenditure: Property, plant and equipment	3.6	4.7	0.5	-	**8.8**
Depreciation and amortisation	3.1	4.7	0.2	-	**8.0**

2. TURNOVER AND SEGMENTAL ANALYSIS (continued)

GEOGRAPHIC ORIGIN:

Year ended 31 December 2005

For continuing operations	United Kingdom £M	Rest of Europe £M	Americas £M	Australasia £M	Asia £M	Unallocated £M	Total £M
Revenue							
Revenue	90.6	30.8	124.2	0.5	2.4	-	**248.5**
Inter-segment sales	(9.5)	(0.1)	(6.1)	(0.1)	-	-	**(15.8)**
Segment revenue	81.1	30.7	118.1	0.4	2.4	-	**232.7**
Result							
Trading profit	4.7	0.3	10.0	(0.1)	(0.1)	-	**14.8**
Less: exceptional items	(0.3)	(0.3)	2.2	-	-	-	**1.6**
Operating profit	4.4	-	12.2	(0.1)	(0.1)	-	**16.4**
Other segment information							
Segment assets	50.8	36.8	70.6	0.1	1.0	14.9	**174.2**
Capital expenditure: Property, plant and equipment	2.7	2.4	1.6	-	-	-	**6.7**
Capital expenditure: Intangible assets	0.1	-	-	-	-	-	**0.1**

Year ended 31 December 2004

For continuing operations	United Kingdom £M	Rest of Europe £M	Americas £M	Australasia £M	Asia £M	Unallocated £M	Total £M
Revenue							
Revenue	89.9	31.1	115.1	6.6	1.6	-	**244.3**
Inter-segment sales	(10.4)	-	(5.4)	(1.7)	-	-	**(17.5)**
Segment revenue	79.5	31.1	109.7	4.9	1.6	-	**226.8**
Result							
Trading profit	2.2	1.7	9.9	0.1	0.1	-	**14.0**
Less: exceptional items	(0.5)	(0.1)	(0.6)	(0.2)	-	-	**(1.4)**
Operating profit	1.7	1.6	9.3	(0.1)	0.1	-	**12.6**
Other segment information							
Segment assets	51.0	36.5	66.8	0.9	0.7	15.9	**171.8**
Capital expenditure: Property, plant and equipment	3.5	1.8	3.5	-	-	-	**8.8**

GEOGRAPHIC DESTINATION:

For continuing operations	United Kingdom £M	Rest of Europe £M	Africa £M	Americas £M	Asia £M	Australasia £M	Total £M
Revenue							
Year ended 31 December 2005	34.2	67.3	3.9	105.2	17.9	4.2	**232.7**
Year ended 31 December 2004	34.9	67.8	3.5	104.0	13.5	3.1	**226.8**

3. OPERATING PROFIT

Operating profit is stated after charging/(crediting):	**2005**	2004
	£M	£M
Depreciation	**7.9**	8.0
Amortisation	**0.1**	-
Net foreign exchange gains	**(0.2)**	(0.4)
Government grants	**(0.2)**	(0.4)
Cost of inventories recognised as expense	**84.9**	77.5
Staff costs (see Note 5)	**61.0**	66.1
Research and development expenditure	**4.1**	4.0

Fees paid to auditors for remuneration as auditors was £0.4 million (2004 - £0.3 million). Fees paid to Group auditors for UK non-audit services, which relate to tax and advisory services, amounted to £0.4 million (2004 - £0.3 million).

4. EXCEPTIONAL ITEMS

	2005	2004
	£M	£M
Pension curtailment credit	**3.7**	-
Rationalisation and redundancy - charged in year	**(1.1)**	(0.8)
- provision released in year	**0.5**	-
Environmental costs	**(1.5)**	(0.6)
	1.6	(1.4)

Pension curtailment

A £3.7 million credit arose as a result of the decision to curtail the US defined benefit pension scheme. This led to a credit of £1.7 million in the US Gas Cylinders division and a credit of £2.0 million in the US Elektron division.

Rationalisation and redundancy

Rationalisation and redundancy costs of £0.5 million (2004 - £0.3 million) and £0.6 million (2004 - £nil) were incurred by the Gas Cylinders division and the Elektron division respectively. No charge was made for rationalisation and redundancy costs in the Speciality Aluminium division (2004 - £0.5 million). Provisions of £0.5 million made in previous years in relation to the Gas Cylinders division were released in the year.

Environmental costs

A charge of £1.5 million was made for future environmental costs at the zirconium operations (2004 - £0.6 million). This is expected to be spent over the next twelve months.

2004: Profit on disposal of property, plant and equipment

The Group made a net profit of £1.8 million on the disposal of property, plant and equipment in its Gas Cylinders division. During the year the division sold its Australian property and disposed of redundant plant and equipment raising net cash proceeds (after sale costs) of £4.3 million. The tax charge on this disposal was £0.5 million.

5. STAFF COSTS

	2005	2004
	£M	£M
Redundancy costs (Note 4)	**1.1**	0.9
Wages and salaries	**54.1**	54.6
Social security costs	**7.0**	7.3
Pension costs	**2.5**	3.3
Pension curtailment (Notes 4 and 26)	**(3.7)**	-
	61.0	66.1

The details of Directors' remuneration, pension entitlements and share options are disclosed in the Directors' Report.

The average monthly number of employees during the year was made up as follows:	**2005**	2004
	No.	No.
Production and distribution	**1,715**	1,790
Sales and administration	**188**	192
Research and development	**49**	52
	1,952	2,034

Compensation of key management personnel (including Directors) was £1.1 million (2004 - £1.1 million) for short-term employee benefits and £0.1 million (2004 - £0.1 million) for post-employment benefits.

6. DISCONTINUED OPERATIONS

	2005	2004
	£M	£M
Revenue	**-**	0.3
Expenses	**(0.2)**	(0.5)
Loss before tax	**(0.2)**	(0.2)
Tax expense	**-**	-
Net loss attributable to discontinued operations	**(0.2)**	(0.2)

The discontinued operations contributed a net cash inflow of £0.1 million to the Group (2004 - net cash outflow of £0.2 million). There were no assets or liabilities attributable to discontinued operations.

7. FINANCE INCOME

	2005	2004
	£M	£M
Bank interest received	**0.1**	0.1

8. FINANCE COSTS

	2005	2004
	£M	£M
Senior Notes due 2009	**13.3**	13.3
Bank loan, overdrafts and revolving credit facilities	**0.8**	0.4
Amortisation of loan issue costs	**0.4**	0.4
Finance leases	**-**	0.1
Total interest costs	**14.5**	14.2
Preference share dividend	**5.2**	-
Total finance costs	**19.7**	14.2

9. INCOME TAX

(a) Analysis of taxation charge for the year

	2005 £M	2004 £M
Current tax:		
UK Corporation tax	**6.7**	1.9
Double tax relief	**(6.7)**	(1.9)
Adjustments in respect to previous years	**-**	(0.7)
	-	(0.7)
Overseas tax:	**2.4**	3.4
Adjustments in respect to previous years	**0.2**	(0.7)
Total current tax	**2.6**	2.0
Deferred tax:		
Origination and reversal of temporary differences	**2.1**	0.9
Adjustments in respect to previous years	**(1.5)**	0.8
Total deferred tax	**0.6**	1.7
Tax expense	**3.2**	3.7

(b) Factors affecting the taxation charge for the year

The tax assessed for the year differs from the standard rate of 30% for corporation tax in the UK. The differences are explained below:

	2005 £M	2004 £M
(Loss)/profit on operations before taxation	**(3.2)**	0.3
(Loss)/profit on operations at 2005 standard rate of corporation tax in the UK of 30%	**(1.0)**	0.1
Effects of:		
Expenses not deductible for tax purposes	**0.9**	0.9
Unprovided deferred tax	**1.1**	0.6
Finance costs on redeemable preference shares	**1.6**	-
Foreign tax rate differences	**0.8**	0.4
Utilisation of tax losses brought forward	**-**	(0.7)
Tax losses not utilised	**-**	3.0
Tax losses not recognised	**1.1**	-
Adjustment in respect of prior years	**(1.3)**	(0.6)
Tax expense	**3.2**	3.7

(c) Factors that may affect future taxation charge

As at 31 December 2005, the Group has carried forward tax losses of £35.8 million (UK - £34.9 million, Overseas - £0.9 million). Carried forward tax losses for 2004 were £30.6 million (UK - £30.1 million, Overseas - £0.5 million). To the extent that these losses are available to offset against future taxable profits, it is expected that the future effective tax rate would be below the standard rate in the country where the profits are offset.

The Senior Notes issued by Luxfer Holdings PLC, form a significant interest burden for the UK companies. Profits from overseas companies cannot be offset against this interest burden. To the extent that insufficient taxable profits arise in the UK companies to utilise the tax loss from the interest burden, there will be an impact on the future tax rate. This may also result in further losses being carried forward, which would remain unrelieved.

10. PROPERTY, PLANT AND EQUIPMENT

	Freehold £M	Long leasehold £M	Short leasehold £M	Plant and equipment £M	Total £M
Cost:					
At 1 January 2004	27.9	2.3	0.9	146.1	**177.2**
Additions	0.1	0.1	0.9	7.7	**8.8**
Disposals	(2.2)	-	-	(2.9)	**(5.1)**
Exchange adjustments	(0.8)	-	(0.1)	(2.4)	**(3.3)**
At 1 January 2005	25.0	2.4	1.7	148.5	**177.6**
Additions	0.4	0.1	0.1	6.1	**6.7**
Disposals	-	-	-	(1.7)	**(1.7)**
Exchange adjustments	1.1	0.1	0.2	3.6	**5.0**
At 31 December 2005	26.5	2.6	2.0	156.5	**187.6**
Depreciation:					
At 1 January 2004	7.3	1.7	0.6	97.4	**107.0**
Provided during the year	0.5	0.1	0.1	7.3	**8.0**
Disposals	(0.2)	-	-	(2.4)	**(2.6)**
Exchange adjustments	(0.3)	-	-	(1.6)	**(1.9)**
At 1 January 2005	7.3	1.8	0.7	100.7	**110.5**
Provided during the year	0.5	0.1	0.1	7.2	**7.9**
Disposals	-	-	-	(1.6)	**(1.6)**
Exchange adjustments	0.5	0.1	-	2.4	**3.0**
At 31 December 2005	8.3	2.0	0.8	108.7	**119.8**
Net book values:					
At 31 December 2005	18.2	0.6	1.2	47.8	**67.8**
At 31 December 2004	17.7	0.6	1.0	47.8	**67.1**
At 1 January 2004	20.6	0.6	0.3	48.7	**70.2**

The net book value of plant and equipment at 31 December 2005 includes £0.6 million (2004 - £0.7 million) acquired under finance leases.

11. INTANGIBLE ASSETS

	Goodwill £M	Patents £M	Other £M	Total £M
At 1 January 2004	34.9	0.9	0.2	**36.0**
Additions	-	-	0.1	**0.1**
At 1 January 2005	34.9	0.9	0.3	**36.1**
Additions	-	-	0.1	**0.1**
At 31 December 2005	34.9	0.9	0.4	**36.2**
Amortisation:				
At 1 January 2004	12.0	0.1	0.2	**12.3**
Provided during the year	-	-	-	**-**
At 1 January 2005	12.0	0.1	0.2	**12.3**
Provided during the year	-	-	0.1	**0.1**
At 31 December 2005	12.0	0.1	0.3	**12.4**
Net book values:				
At 31 December 2005	22.9	0.8	0.1	**23.8**
At 31 December 2004	22.9	0.8	0.1	**23.8**
At 1 January 2004	22.9	0.8	-	**23.7**

The patents acquired are being amortised over the lower of their estimated useful life, or legal life; this being 17 to 20 years.

12. IMPAIRMENT OF GOODWILL

Goodwill acquired through business combinations has been allocated for impairment testing purposes to two cash generating units, the Gas Cylinder division and the Elektron division. Both of these cash-generating units are also reportable segments.

	Gas Cylinder division		**Elektron division**		**Total**	
	2005	2004	**2005**	2004	**2005**	2004
	£M	£M	**£M**	£M	**£M**	£M
Carrying amount of goodwill	**14.7**	14.7	**8.2**	8.2	**22.9**	22.9

The recoverable amount of both cash-generating units has been determined based on a value in use calculation using a discounted cash flow method. The cash flows were derived from a three year consolidated strategic plan prepared at a detailed level by individual businesses within each division. The results of these plans were then extrapolated to give long-term cash flow projections, based on a growth rate of 3%. The strategic plans were driven by detailed sales forecasts by product type and a best estimate of future demand by end market. The cash flows included allowance for detailed capital expenditure and maintenance programmes, along with working capital requirements based on the projected level of sales. The discount rate used was 14%, which was considered a best estimate for the risk-adjusted cost of capital for the business units. The other main assumptions related to the LME cost of aluminium which was assumed to average $2,500 a tonne for primary aluminium, and the US:£ exchange rate, which was assumed to average $1.75.

13. INVESTMENTS

	Other
	£M
At 1 January 2005 and 31December 2005	**0.1**

A list of the significant subsidiaries, including the name, country of incorporation and proportion of voting rights is given in Note 33 to the Company's separate financial statements.

14. INVENTORIES

	2005	2004
	£M	£M
Raw materials and consumables	**12.5**	11.8
Work in progress	**10.8**	10.4
Finished goods and goods for resale	**12.4**	12.7
	35.7	34.9

The provision against obsolete and excess stocks at 31 December 2005 was £2.8 million (2004 - £2.9 million). During the year the write-down of inventories recognised as an expense was £0.3 million (2004 - £0.4 million). The reversal of any write-down previously recognised as an expense was £0.3 million (2004 - £0.4 million).

15. TRADE AND OTHER RECEIVABLES

	2005	2004
	£M	£M
Trade debtors	**26.7**	24.5
Other debtors	**2.0**	1.5
Prepayments and accrued income	**3.5**	3.1
	32.2	29.1

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.
The provision against doubtful debts at 31 December 2005 was £0.7 million (2004 - £0.5 million). The amount charged as an expense during the year was £0.3 million (2004 - £0.1 million), while the amount reversed in the year was £0.1 million (2004 - £0.3 million).

16. CASH AND SHORT TERM DEPOSITS

	2005	2004
	£M	£M
Cash at bank and in hand	**5.9**	6.9

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. The Directors consider that the carrying amount of cash and short-term deposits approximates to their fair value.

17. SHARE CAPITAL

(a) Ordinary share capital	2005 No.	2004 No.	2005 £M	2004 £M
Authorised:				
Ordinary shares of £0.6487 each	**1,410,778**	1,410,778	**0.9**	0.9
Deferred ordinary shares of £0.0001 each	**10,000,000**	10,000,000	**-**	-
	11,410,778	11,410,778	**0.9**	0.9
Allotted, called up and fully paid:				
Ordinary shares of £0.6487 each	**1,340,240**	1,340,240	**0.9**	0.9
Deferred ordinary shares of £0.0001 each	**20,000**	20,000	**-**	-
	1,360,240	1,360,240	**0.9**	0.9

The rights of the shares are as follows:

Ordinary shares of £0.6487 each

The ordinary shares carry no entitlement to an automatic dividend but rank pari passu in respect of any dividend declared and paid other than preference dividend (see below).

Deferred ordinary shares of £0.0001 each

The 20,000 deferred shares have no entitlement to dividends or to vote and are entitled to a return of capital on a liquidation or winding up only after the holders of the ordinary shares have received £1,000,000 per ordinary share.

(b) Preference share capital	2005 No.	2004 No.	2005 £M	2004 £M
Authorised:				
Preference shares of £0.6487 each	**132,683,760**	132,683,760	**86.0**	86.0
'B' preference shares of £1 each	**50,000**	50,000	**0.1**	0.1
	132,733,760	132,733,760	**86.1**	86.1
Allotted, called up and fully paid:				
Preference shares of £0.6487 each	**132,683,760**	132,683,760	**86.0**	86.0
Allotted, called up and 25% paid:				
'B' preference shares of £1 each	**50,000**	50,000	**0.1**	0.1
	132,733,760	132,733,760	**86.1**	86.1
Disclosed within shareholders' funds			**-**	86.1
Disclosed within non-current liabilities			**86.1**	-
			86.1	86.1

Preference shares of £0.6487 each

The preference shares have an entitlement to a fixed cumulative dividend of 5% per annum payable on redemption of the preference shares. Interest will accrue on unpaid preference dividends at the rate of 5% per annum of the nominal amount of the preference shares compounding on 31 December in each year. The preference shares are redeemable at any time, but must be redeemed in 2010 at par. In certain circumstances they can be redeemed earlier but only if permitted under the terms of the senior Notes 2009 indenture. The ability to pay dividends in cash and redeem the preference shares is subject to certain restrictions contained in the indenture.

The preference shares had previously been disclosed as part of shareholders' funds. From 1 January 2005, the Group adopted IAS 32 and IAS 39 and under these new accounting standards the preference shares are now disclosed as non-current liabilities. The amount disclosed in the financial statements as a liability excludes the 9.65% held by the Employee Share Ownership Plan ("ESOP"). The ESOP's shares are deemed to be held within the Group and so are eliminated on consolidation. The table below sets out how the liability has been calculated.

	£M
Nominal value of preference shares at 31 December 2004	86.1
Accrued dividend to 31 December 2004	27.8
	113.9
ESOP's allocation of preference shares and accrued dividend	(11.0)
Non-equity shareholders' funds at 31 December 2004	102.9
Preference share of dividend to 31 December 2005	5.2
Preference share liability at 31 December 2005 (see Note 19)	108.1

'B' preference shares of £1 each

The 50,000 'B' preference shares are entitled to a dividend on the same terms as the Company's other preference shares and are entitled to be redeemed prior to any distribution or return of capital to shareholders. The 'B' preference shares were also disclosed within shareholders' funds in 2004.

18. RESERVES

	Hedging reserve £M	Translation reserve £M	Merger reserve £M	Retained earnings £M
At 1 January 2004	-	1.0	(207.5)	77.1
Loss for the year	-	-	-	(3.6)
Transfer of preference dividend	-	-	-	(4.9)
Currency translation differences	-	(1.8)	-	-
Actuarial gains	-	-	-	0.3
Tax on actuarial gains	-	-	-	(0.1)
At 31 December 2004	-	(0.8)	(207.5)	68.8
Implementation of IAS 39 (see below)	1.0	-	-	-
At 1 January 2005	1.0	(0.8)	(207.5)	68.8
Loss for the year	-	-	-	(6.6)
Currency translation differences	-	3.3	-	-
Loss on hedging instruments	(0.2)	-	-	-
Actuarial gains	-	-	-	1.8
Tax on actuarial gains	-	-	-	(0.5)
At 31 December 2005	**0.8**	**2.5**	**(207.5)**	**63.5**

On the adoption of IAS 32 and IAS 39 on 1 January 2005, a gain of £1.0 million was recognised in a Hedging Reserve account, representing the fair value of effective cashflow hedges against future forecasted transactions.

19. INTEREST BEARING LOANS AND BORROWINGS

Current	**2005 £M**	2004 £M
Obligations under finance leases	**-**	0.1
Bank loans and overdrafts	**11.7**	4.5
	11.7	4.6

Non-current	**2005 £M**	2004 £M
Senior Notes due 2009	**129.9**	129.5

Bank loans and overdrafts

The bank loan and overdraft were secured against the Group's UK operating assets and bears interest at a rate connected to LIBOR.

Senior Notes due 2009

The Senior Notes due 2009 are listed on the Luxembourg Stock Exchange. The interest rate is fixed at 10.125% on a total principal amount of £160.0 million and is payable bi-annually. A principal amount of £28.6 million (2004 - £28.6 million) is held by the Group, through Luxfer Group Limited, a subsidiary of Luxfer Holdings PLC. The principal amount held by external parties is £131.4 million (2004 - £131.4 million). The Senior Notes are shown net of unamortised issue costs of £1.5 million (2004 - £1.9 million).

20. PROVISIONS

	Rationalisation & redundancy	Employee benefits	Environmental provisions	Total
	£M	£M	£M	£M
At 1 January 2005	1.5	1.0	2.0	4.5
Charge to profit and loss account	1.1	0.5	1.5	3.1
Credit to income statement	(0.5)	-	-	(0.5)
Cash payments	(1.3)	(0.2)	(0.7)	(2.2)
Translation movement	-	-	0.1	0.1
At 31 December 2005	**0.8**	**1.3**	**2.9**	**5.0**
Included in current liabilities	0.5	0.2	2.3	3.0
Included in non-current liabilities	0.3	1.1	0.6	2.0
	0.8	**1.3**	**2.9**	**5.0**

Rationalisation and redundancy

As at 31 December 2005 the Group had £0.8 million of provisions relating to the rationalisation of its operations. £0.5 million of this provision relates to rationalisation within the Gas Cylinders division, with the remaining £0.3 million relating to the Elektron division. £0.5 million of the provision is expected to be utilised in 2006, leaving £0.3 million over a longer period relating to a vacant leasehold property.

Employee benefits

Of the employee benefits provision at 31 December 2005 of £1.3 million, £1.0 million relates to a provision for workers' compensation at the Gas Cylinder division in the US. A further £0.1 million relates to a provision for permanent disability allowance in the UK Gas Cylinder division. £0.2 million relates to a provision for long service awards in France.

Environmental provisions

As at 31 December 2005, the Group had environmental provisions of £2.9 million relating to further environmental clean up costs. £0.7 million of the provision is for future remediation costs required at the UK Speciality Aluminium plant, in relation to an incident before Luxfer Group's ownership. The remediation expenditure is expected to take place over the next five years. A further £2.2 million of environmental provisions relate to work required at the US zirconium plant. The expenditure is expected to take place over the next year.

21. DEFERRED TAX

	Accelerated tax depreciation	Other temporary differences	Tax losses	Retirement benefit obligations	Total
	£M	£M	£M	£M	£M
At 1 January 2004	(3.2)	5.6	(0.4)	(10.0)	(8.0)
Charged to income	6.8	(6.2)	0.3	0.8	1.7
Charged to equity	-	-	-	0.1	0.1
At 1 January 2005	3.6	(0.6)	(0.1)	(9.1)	(6.2)
Charged to income	0.2	(1.5)	0.1	1.8	0.6
Exchange difference	-	-	-	(0.1)	(0.1)
Charged to equity	-	-	-	0.5	0.5
At 31 December 2005	3.8	(2.1)	-	(6.9)	(5.2)

The amounts of deferred taxation accounted for in the Group balance sheet, before netting off of balances within countries, comprised the following deferred tax liabilities and assets:

	2005	2004
	£M	£M
Deferred tax liabilities		
Accelerated capital allowances	**3.8**	3.6
Deferred tax assets		
Pension and post retirement benefits	**(6.9)**	(9.1)
Trading losses	**-**	(0.1)
Other temporary differences	**(2.1)**	(0.6)
	(9.0)	(9.8)
Net deferred tax asset	**(5.2)**	(6.2)

22. OTHER LONG TERM LIABILITIES

(a) Government Grants

In 2004 the Group met, and so secured, all of the conditions attaching to a capital grant of £2.8 million in relation to the Group's capital investment made in the Czech Republic in 2001 and the income benefit is now being recognised over the full fifteen-year life of the fixed assets it relates to. The investment incentive is paid via a deduction from the corporation tax charge.

In the year to 31 December 2005, £0.2 million (2004 - £0.5 million) was recognised in the profit and loss account and £2.2 million (2004 - £2.3 million) was deferred for recognition in future periods. The ongoing annual credit to operating profit is £0.2 million, being calculated so as to offset the depreciation charge for the Czech plant. £0.2 million (2004 - £0.2 million) of the deferred income is recorded within current liabilities, with the remaining £2.0 million (2004 - £2.1 million) of deferred income included in other long term liabilities.

This grant is paid via corporation tax credits, of which £0.5 million (2004 - £0.3 million) has been received to date. Of the remaining £2.3 million (2004 - £2.5 million) receivable, £0.2 million (2004 - £0.4 million) is estimated to be received within the next year and therefore £2.1 million (2004 - £2.1 million) has been disclosed in "Other non-current assets".

(b) Lease commitments

Other long term liabilities include £0.1 million in relation to an operating lease liability (2004: £0.1 million).

23. TRADE AND OTHER PAYABLES

	2005	2004
	£M	£M
Trade payables	**16.3**	18.2
Other taxation and social security	**1.9**	2.0
Accruals	**15.9**	16.2
	34.1	36.4

The Directors consider that the carrying amount of trade payables approximates to their fair value.

24. COMMITMENTS AND CONTINGENCIES

	2005	2004
	£M	£M
Operating lease commitments – Group as a lessee		
Minimum lease payments under operating leases recognised in income for the year	**2.3**	2.5

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2005	2004
	£M	£M
Within one year	**2.1**	2.1
In two to five years	**5.8**	6.0
In over five years	**10.1**	10.0
	18.0	18.1

Operating lease payments represent rentals payable by the Group for certain of its properties and items of machinery. Leasehold land and buildings have a life between 4 and 67 years. Plants and equipment held under operating leases have an average life of between 2 and 5 years. Renewal terms are included in the lease contracts.

25. FINANCIAL INSTRUMENTS

A summary of the Group's objectives, policies and strategies in relation to financial risk management and use of financial instruments is set out in the Finance Review. The following disclosures relating to financial instruments have been prepared on a basis which excludes short-term debtors and creditors which had resulted from the Group's operating activities.

(a) Financial instruments of the Group

The financial instruments of the Group other than short-term debtors and creditors were as follows:

Primary financial instruments:

	Book value 2005 £M	**Fair value 2005 £M**	Book value 2004 £M	Fair value 2004 £M
Financial assets:				
Cash at bank and in hand	**5.9**	**5.9**	6.9	6.9
Financial liabilities:				
Short term bank loan	**10.8**	**10.8**	4.5	4.5
Bank overdraft	**0.9**	**0.9**	-	-
Cumulative preference shares	**108.1**	**65.8**	102.9	69.2
Senior Notes due 2009	**131.4**	**105.1**	131.4	119.6
Obligations under finance leases	**-**	**-**	0.1	0.1
	251.2	**182.6**	238.9	193.4

All financial assets mature within one year. The maturity of the financial liabilities is disclosed in Note 19.

All financial liabilities are denominated in sterling.

Derivative financial instruments are as follows:

	Book value 2005 £M	**Fair value 2005 £M**	Book value 2004 £M	Fair value 2004 £M
Held to hedge purchases and sales by trading businesses:				
Forward foreign currency contracts	**-**	**-**	-	(0.5)
Forward aluminium commodity contracts	**0.8**	**0.8**	-	1.5

There were no unrecognised gains or losses in respect of forward foreign currency contracts or forward aluminium commodity contracts.

The fair value calculations were performed on the following basis:

Cash in hand, at bank

The carrying value approximates to the fair value as a result of the short-term maturity of the instruments.

Bank loans

At 31 December 2005 a short term bank loan of £10.8 million (2004 - £4.5 million) was outstanding. This represented the utilisation of the Group's revolving credit facility. The fair value is calculated to be the same as the book value.

Cumulative preference shares

The cumulative preference shares, which were issued in April 1999, have a right to a cumulative 5% dividend, which must be paid by 2010 along with the par value of the shares. The book value of £108.1 million (2004 - £102.9 million) disclosed in the financial liabilities table in part (a) relates to 90.35% of the issued cumulative preference shares and its accrued dividend. The remaining 9.65% held by the ESOP has been eliminated on consolidation of the ESOP in the financial statements. The fair value has been estimated by discounting the future cash flows relating to shares on the assumption that the shares and cumulative dividend will be repaid ten years after issue, in 2009. The discount rate used is the annual interest rate yield implicit in the Senior Notes due 2009, based on their market value at end of the year.

Senior Notes due 2009

The Senior Notes are a traded instrument and are listed on the Luxembourg stock exchange. The fair value is derived from a quoted price as at 31 December, each year.

Forward foreign currency contracts

The fair value of these contracts is calculated by determining what the Group would be expected to receive or pay on termination of each individual contract by comparison to present market prices.

Aluminium commodity contracts

The fair value of these contracts has been calculated by valuing the contracts against the equivalent forward rates quoted on the LME at 31 December 2005.

25. FINANCIAL INSTRUMENTS (continued)

(b) Interest rate risks

Interest rate risk profile on financial assets

This table shows the present split between the floating interest rate by currency of the Group's financial assets, which are cash at bank and in hand. The Group has no fixed interest rate assets.

Currency:	Floating rate 2005 £M	Floating rate 2004 £M
Sterling	-	2.5
US Dollar	4.4	2.7
Euro	0.8	0.8
Australian Dollar	0.1	0.5
Japanese Yen	0.1	0.1
Czech Krona	0.5	0.3
	5.9	6.9

The Group earns interest on cash balances through either deposit accounts or placing funds on money markets at short-term fixed rates. In all cases, interest earned is at approximately LIBOR rates during the year.

Interest rate risk profile on financial liabilities

The following table sets out the carrying amount, by maturity, of the Group's financial instruments that are exposed to fixed interest rate risk:

	31 December 2005			31 December 2004		
	Within 1 year £M	3-4 years £M	Total £M	Within 1 year £M	4-5 years £M	Total £M
Senior Notes due 2009	-	131.4	131.4	-	131.4	131.4
Cumulative preference shares	-	108.1	108.1	-	102.9	102.9
Finance leases	-	-	-	0.1	-	0.1
	-	239.5	239.5	0.1	234.3	234.4

The Group's only floating rate liability related to bank loans and overdrafts under the Group's revolving credit facilities of £11.7 million (2004 - £4.5 million), which is due for repayment within one year.

(c) Hedging activities

Forward foreign exchange contracts

The Group utilises forward foreign exchange contracts to hedge significant future transactions and cash flows and so manage its exchange rate exposures. The contracts purchased are primarily denominated in sterling, US dollars and Euros.

At 31 December 2005 the Group held various foreign exchange contracts designated as hedges in respect of forward sales for US dollars, Euros and Australian dollars. The Group also held foreign exchange contracts designated as hedges in respect of forward purchases for US dollars and Euros. The contract totals, range of maturity dates and range of exchange rates are disclosed below.

Sales hedges	US dollars	Euros	Australian dollars
Contract totals/£M	12.3	8.2	0.3
Maturity dates	01/06 to 12/06	01/06 to 09/06	01/06 to 06/06
Exchange rates	$1.7148 to $1.8688	€1.4160 to €1.4653	AUD2.3095 to AUD2.3225

Purchase hedges	US dollars	Euros	Australian dollars
Contract totals/£M	2.8	0.1	N/A
Maturity dates	01/06 to 09/06	04/06	N/A
Exchange rates	$1.7069 to $1.8795	€1.4648	N/A

At 31 December 2005, the fair value of forward foreign exchange contracts deferred in equity was £nil. £0.5 million has been transferred to the income statement in respect of contracts that have matured in the year.

Aluminium commodity contracts

At 31 December 2005 the Group held various forward aluminium commodity contracts. These contracts total £2.4 million and are for various maturity dates to December 2006. At 31 December 2005, the fair value of forward aluminium commodity contracts deferred in equity was £0.8 million.

25. FINANCIAL INSTRUMENTS (continued)

(d) Currency risk disclosures

Exchange gains and losses arising on the translation of the Group's overseas assets and liabilities are classified as equity and transferred to the Group's translation reserve. In 2005 a gain of £3.3 million (2004 - loss of £1.8 million) was recognised in translation reserves.

(e) Un-drawn committed facilities

At 31 December 2005 the Group had committed banking facilities of £30.0 million (2004 - £30.0 million) comprising £20.0 million (2004 - £20.0 million) of short-term loans and overdrafts, and a credit value of £10.0 million (2004 - £10.0 million) for letters of credit, forward foreign currency contracts and bank guarantees. Of these committed facilities, £9.2 million (2004 - £15.5 million) of the short-term loans and £1.8 million (2004 - £2.6 million) for letters of credit, forward foreign currency contracts and bank guarantees were un-drawn.

(f) Renewal of banking facilities

In April 2006 the Group replaced its existing £30 million revolving credit facilities with a new £45 million facility. The new facility is for 3 years and provides £35 million of loans and overdrafts and £10 million of ancillary financing for letters of credit, bank guarantees and foreign exchange hedging. It is provided through asset backed financing arrangements in the UK and US. The new larger facilities will enable the Group to meet its obligations over the next few years.

26. PENSION COMMITMENTS

The Group operates defined benefit arrangements in the United Kingdom, the United States of America, France and Japan. The levels of funding are determined by periodic actuarial valuations. Further, the Group operates defined contribution schemes in the UK, USA and Australia. The assets of the schemes are generally held in separate trustee administered funds.

Actuarial gains and losses are recognised in full in the period in which they occur. The Group has early adopted the revised version of IAS 19 ("Employee Benefits") published in December 2004. As permitted by the revised standard, actuarial gains and losses are recognised outside profit or loss and presented in the Statement of Recognised Income and Expense. The liability recognised in the balance sheet represents the present value of the defined benefit obligation, as reduced by the fair value of plan assets. The cost of providing benefits is determined using the Projected Unit Method.

The principal defined benefit pension scheme in the United Kingdom is the Luxfer Group Pension Plan, which closed to new members in 1998, new employees then being eligible for a defined contribution plan. With effect from April 2004 the Luxfer Group Pension Plan changed from a final salary to a career average revalued earnings benefit scale. In August 2005 a scheme specific earnings cap of £60,000 per annum was introduced, effectively replacing the statutory earnings cap. The pension cost of the Plan is assessed in accordance with the advice of an independent firm of professionally qualified actuaries, Lane Clark & Peacock LLP.

The Group's other arrangements are less significant than the Luxfer Group Pension Plan, the largest being the BA Holdings Inc Pension Plan in the US. In December 2005 the plan was closed to further benefit accrual, members being offered contributions to the company's 401(k) plan. This led to a reduction in the net pension liability in the US of £3.7 million to £5.3 million.

The total credit to the Group's income statement for 2005 for retirement benefits was £1.2 million (2004 - charge of £3.3 million). The credit included £2.2 million (2004 - charge of £2.4 million) in relation to defined benefit schemes and a charge of £1.0 million (2004 - £0.9 million) in relation to defined contribution schemes.

The movement in the pension liability is shown below:	**2005**	2004
	£M	£M
Balance at 1 January	**28.1**	30.6
(Credited)/charged to the income statement	**(1.2)**	3.3
Contributions	**(4.0)**	(4.9)
Credited to the Statement of Recognised Income and Expense	**(1.8)**	(0.3)
Exchange adjustments	**0.8**	(0.6)
Balance at 31 December	**21.9**	28.1

The financial assumptions used in the calculations:	Projected Unit Valuation United Kingdom		Non United Kingdom	
	2005	2004	**2005**	2004
	%	%	%	%
Discount Rate	**4.80**	5.30	**5.75**	6.00
Salary Inflation	**4.30**	4.40	**3.50**	3.50
Price Inflation	**2.80**	2.90	**2.75**	2.75
Pension Increases	**2.60**	2.70	**-**	-

26. PENSION COMMITMENTS (continued)

The expected rate of long-term return of the schemes' assets were:	**Long term rate of return expected**			
	United Kingdom		**Non United Kingdom**	
	2005	2004	**2005**	2004
	%	%	**%**	%
Equities	**7.30**	7.50	**8.40**	8.10
Gilts	**4.00**	4.50	**n/a**	n/a
Other Bonds	**4.40**	5.30	**5.40**	6.00
Cash	**4.00**	4.50	**n/a**	n/a

The amounts recognised in the Income Statement in respect of the pension schemes were as follows:

	Year ended 31 December 2005			Year ended 31 December 2004		
	UK	**Non UK**	**Total**	UK	Non UK	Total
	£M	**£M**	**£M**	£M	£M	£M
In respect of defined benefit schemes:						
Current service cost	**1.3**	**1.3**	**2.6**	1.3	1.5	2.8
Interest cost	**7.3**	**1.7**	**9.0**	6.9	1.6	8.5
Expected return on scheme assets	**(7.9)**	**(1.5)**	**(9.4)**	(7.6)	(1.3)	(8.9)
Gains on curtailments and settlements	**(0.6)**	**(3.9)**	**(4.5)**	-	-	-
Past service cost	**-**	**0.1**	**0.1**	-	-	-
Total (credit)/charge for defined benefit schemes	**0.1**	**(2.3)**	**(2.2)**	0.6	1.8	2.4
In respect of defined contribution schemes:						
Total charge for defined contribution schemes	**0.4**	**0.6**	**1.0**	0.2	0.7	0.9
Total (credit)/charge for all pension schemes	**0.5**	**(1.7)**	**(1.2)**	0.8	2.5	3.3

Of the £1.2 million credit for the year, £3.7 million has been included in exceptional items, and charges of £1.9 million and £0.6 million have been included in cost of sales and administrative costs respectively.

The cumulative amounts of gains recognised in the Statement of Recognised Income and Expense is £1.8 million (2004 - £0.3 million). The actual return of the scheme assets was £23.2 million (2004 - £14.6 million). The overall expected rate of return is determined on the basis of the market prices prevailing at that date, applicable to the period over which the obligation is to be settled.

The value of the scheme assets:

	Value at 31 December 2005			Value at 31 December 2004		
	UK	**Non UK**	**Total**	UK	Non UK	Total
	£M	**£M**	**£M**	£M	£M	£M
Equities	**97.9**	**16.0**	**113.9**	88.0	13.5	101.5
Gilts	**27.6**	**-**	**27.6**	24.3	-	24.3
Other Bonds	**12.4**	**7.0**	**19.4**	7.4	5.5	12.9
Cash	**-**	**-**	**-**	0.7	-	0.7
Total market value of assets	**137.9**	**23.0**	**160.9**	120.4	19.0	139.4
Present value of scheme liabilities	**(153.9)**	**(28.9)**	**(182.8)**	(140.6)	(26.9)	(167.5)
Deficit in the scheme	**(16.0)**	**(5.9)**	**(21.9)**	(20.2)	(7.9)	(28.1)
Related deferred tax asset	**4.8**	**2.1**	**6.9**	6.0	3.1	9.1
Net pension liability	**(11.2)**	**(3.8)**	**(15.0)**	(14.2)	(4.8)	(19.0)

26. PENSION COMMITMENTS (continued)

Analysis of movement in the present value of the defined benefit obligations:

	2005 UK £M	2005 Non UK £M	2005 Group £M	2004 UK £M	2004 Non UK £M	2004 Group £M
At 1 January	**140.6**	**26.9**	**167.5**	130.6	27.0	157.6
Service cost	**1.3**	**1.3**	**2.6**	1.3	1.5	2.8
Interest cost	**7.3**	**1.7**	**9.0**	7.0	1.6	8.6
Contributions from scheme members	**0.8**	**-**	**0.8**	0.8	-	0.8
Age related NI rebate	**0.4**	**-**	**0.4**	0.4	-	0.4
Actuarial gains and losses	**11.2**	**0.7**	**11.9**	6.0	(0.6)	5.4
Exchange difference	**-**	**3.1**	**3.1**	-	(1.8)	(1.8)
Benefits paid	**(5.8)**	**(0.8)**	**(6.6)**	(5.5)	(0.8)	(6.3)
Curtailments and settlements	**(1.9)**	**(4.1)**	**(6.0)**	-	-	-
Past service cost	**-**	**0.1**	**0.1**	-	-	-
At 31 December	**153.9**	**28.9**	**182.8**	140.6	26.9	167.5

Analysis of movement in the present value of the fair value of scheme assets:

	2005 UK £M	2005 Non UK £M	2005 Group £M	2004 UK £M	2004 Non UK £M	2004 Group £M
At 1 January	**120.4**	**19.0**	**139.4**	110.5	16.5	127.0
Expected return on scheme assets	**7.9**	**1.5**	**9.4**	7.6	1.2	8.8
Actuarial gains and losses	**13.9**	**(0.2)**	**13.7**	5.1	0.7	5.8
Exchange difference	**-**	**2.3**	**2.3**	-	(1.2)	(1.2)
Contributions from employer	**1.5**	**1.3**	**2.8**	1.5	2.6	4.1
Contributions from scheme members	**0.8**	**-**	**0.8**	0.8	-	0.8
Age related NI rebate	**0.4**	**-**	**0.4**	0.4	-	0.4
Settlements	**(1.3)**	**(0.2)**	**(1.5)**	-	-	-
Benefits paid	**(5.7)**	**(0.7)**	**(6.4)**	(5.5)	(0.8)	(6.3)
At 31 December	**137.9**	**23.0**	**160.9**	120.4	19.0	139.4

History of experience in gains and losses:	2005 UK	2005 Non UK	2005 Group	2004 UK	2004 Non UK	2004 Group
Difference between the expected and actual return on scheme assets:						
Amount £M	**13.9**	**(0.1)**	**13.8**	5.1	0.7	5.8
Percentage of scheme assets	**10%**	**1%**	**9%**	4%	4%	4%
Experience gains and losses on scheme liabilities:						
Amount £M	**-**	**0.5**	**0.5**	-	0.1	0.1
Percentage of present value of scheme liabilities	**-**	**2%**	**-**	-	-	-
Total amount recognised in Statement of Recognised Income and Expense:						
Amount £M	**(1.8)**	**(0.3)**	**(2.1)**	0.9	(1.2)	(0.3)
Percentage of present value of scheme liabilities	**1%**	**1%**	**1%**	1%	4%	-

The estimated amounts of contributions expected to be paid to the scheme for the year ended 31 December 2006 is £4.2 million.

27. THE LUXFER GROUP EMPLOYEE SHARE OWNERSHIP PLAN 1997

The Group has established an employee benefit trust ("the ESOP") with independent trustees, to purchase and hold shares in trust which are used to satisfy options granted to senior executives under The Luxfer Group Unapproved Executive Share Option Scheme 1997 ("the 1997 Scheme") and the more recently established Luxfer Holdings Unapproved Executive Share Scheme 2001 ("the 2001 Scheme") (together "the Schemes").

The ESOP was established with the benefit of a gift equivalent to the set up and running costs. Purchase monies required by the ESOP trustees to purchase shares for and under the provisions of the trust are provided by way of an interest free loan from a Group subsidiary. The loan is repayable, in normal circumstances, out of monies received from employees when they exercise options granted to them over shares under the Schemes. Surplus shares are held to satisfy future option awards. The ESOP trustees have waived their right to receive dividends on shares held in the trust.

The Remuneration Committee is charged with determining which senior employees are to be granted options and in what number. Under the Schemes, options become exercisable on the occurrence of a listing or sale of Luxfer Holdings PLC or as otherwise determined by the Remuneration Committee. The Schemes each have a duration of 10 years. In normal circumstances, options under the 1997 Scheme will expire on the seventh anniversary of their grant or the second anniversary of a listing of the Luxfer Holdings PLC and options under the 2001 Scheme will expire on the tenth anniversary of their grant or the second anniversary of a listing of the Luxfer Holdings PLC.

During the year 3,703,788 options over preference shares granted to employees in 1998 under the 1997 Scheme were due to expire. Prior to the expiry date the Remuneration Committee determined to offer employees (and ex-employees who would continue to be eligible to hold options over preference shares under the Rules of the 2001 Scheme after the expiry date) the opportunity to exchange their existing options held under the 1997 Scheme for identical options under the 2001 Scheme. 2,214,927 options over preference shares were rolled over. The remaining 1,488,861 of these options lapsed or expired during the year. Options over preference shares are accounted for under the Projected Unit Credit Method.

At 31 December 2005: the ESOP held 46,471 ordinary shares of £0.6487 each (2004 - 46,471) and 12,803,769 preference shares of £0.6487 each (2004 - 12,803,769) in the Company; employees held options under the terms of the Schemes over 7,388,499 preference shares of £0.6487 each ((2004 – 8,877,360) in the Company and 42,888 ordinary shares of £0.6487 each (2004 – 42,888) in the Company. The loans outstanding from the ESOP were £2.7 million (2004 - £2.7 million).

The costs of the ESOP are charged through the Group's income statement as they accrue.

After the year end in March 2006, the final tranche of options under the 1997 Scheme granted in 1999, totalling 2,588,553 options, were due to expire. In January 2006, the Remuneration Commitee determined to offer employees (and ex employees who would continue to be eligible to hold options over preference shares under the rules of the 2001 Scheme after the expiry date) the opportunity to exchange these existing options held under the 1997 Scheme, for identical options under the 2001 Scheme 2,422,926 options over preference shares were rolled over. The remaining 165,627 of these options expired on 21 March 2006. All options under the 1997 Scheme have now expired.

28. MINORITY INTERESTS

	2005	2004
	£M	£M
At beginning of year	**0.8**	0.8
Dividends	**-**	-
At end of year	**0.8**	0.8

29. RELATED PARTY TRANSACTIONS

Other than the transactions with key management personal disclosed in Note 5, no related party transactions have been identified.

30. POST BALANCE SHEET EVENTS

In April 2006 the Group replaced its revolving credit facilities with a new three year asset-backed £45 million facility. The new facility is secured over the assets of the UK and US businesses.

31. EXPLANATION OF TRANSITION TO IFRS

For all periods up to and including 31 December 2004, the Group prepared its financial statements in accordance with UK GAAP. These financial statements, for the year ended 31 December 2005, are the first that the Group is required to prepare under International Financial Reporting Standards (IFRS) as adopted by the European Union.

Accordingly, the Group has prepared financial statements which comply with IFRSs applicable with periods beginning on or after 1 January 2005 and the significant accounting policies meeting these requirements are described in Note 1. In preparing these financial statements, the Group has started from an opening balance sheet as at 1 January 2004, the Group's date of transition to IFRSs, and made those changes in accounting policies and other restatements required by IFRS 1for the first-time adoption of IFRSs. This Note explains the principal adjustments made by the Group in restating its UK GAAP balance sheet as at 1 January 2004 and its previously published UK GAAP financial statements for the year ended 31 December 2004.

Exemptions applied

IFRS 1 allows certain exemptions to first-time adopters from the requirement to report under IFRS to assist in the transition to IFRS. The exemptions taken by the Group are noted below:

IFRS 2 Share-based Payment
The Group has elected not to apply IFRS 2 to equity instruments that were granted before 1 January 2005.

IFRS 3 Business Combinations
The Group has elected not to apply IFRS 3 retrospectively to business combinations that took place before the date of transition. As a result, in the opening balance sheet, the goodwill arising from past business combinations of £22.9 million remains as stated under UK GAAP at 31 December 2003. Any amortisation of goodwill previously reported under UK GAAP is reversed as part of the IFRS restatment.

IAS 19 Employee Benefits
The Group has elected to recognise all cumulative actuarial gains and losses in relation to employee benefit schemes at the date of transition. The Group has chosen to recognise actuarial gains and losses in full in the period in which they occur in the statement of recognised income and expense in accordance with the amendment to IAS 19 issued on 16 December 2004. As a result, the accounting deficit on pension and other retirement benefits has been recognised in full on 1 January 2004.

IAS 32 Financial Instruments: Disclosure and Presentation and IAS 39 Financial Instruments: Recognition and Measurement
Comparative information on financial instruments has been prepared in accordance with UK GAAP. The Group has applied IAS 32 and IAS 39 from 1 January 2005. Had IAS 32 and IAS 39 been applied from 1 January 2004 the following adjustments would have been necessary in the financial statements for the year ended 31 December 2004:

- all derivative financial instruments would have been brought onto the balance sheet at fair value;
- the preference shares would have been reclassified from equity to non-current liabilities.

Early adoption

IFRS 5 Non-current Assets held for Sale and Discontinued Operations.
The Group has elected to early adopt IFRS 5.

31. EXPLANATION OF TRANSITION TO IFRS (continued)

RECONCILIATION OF EQUITY AT 1 JANUARY 2004 (DATE OF TRANSITION TO IFRS)

	Notes	UK GAAP £M	IFRS adjustments £M	IFRS £M
ASSETS				
Non-current assets				
Property, plant and equipment		70.2	-	70.2
Intangible assets	1	23.7	0.1	23.8
Investments		0.1	-	0.1
Deferred tax assets	2,3	-	8.6	8.6
		94.0	8.7	102.7
Current assets				
Inventories		32.2	-	32.2
Trade and other receivables	3	32.4	(1.0)	31.4
Cash and cash equivalents		9.9	-	9.9
		74.5	(1.0)	73.5
TOTAL ASSETS		168.5	7.7	176.2
EQUITY AND LIABILITES				
Capital and reserves attributable to the Group's equity holders				
Ordinary share capital		0.9	-	0.9
Retained earnings	7	95.6	(18.5)	77.1
Translation reserve	4	-	1.0	1.0
Merger reserve		(207.5)	-	(207.5)
Ordinary shareholders' equity		(111.0)	(17.5)	(128.5)
Preference shareholders' funds		98.0	-	98.0
Equity attributable to the equity holders of the parent		(13.0)	(17.5)	(30.5)
Minority interests		0.8	-	0.8
Total equity		(12.2)	(17.5)	(29.7)
Non-current liabilities				
Senior loan Notes due 2009		129.1	-	129.1
Obligations under finance leases		0.1	-	0.1
Retirement benefits	2	6.2	24.4	30.6
Provisions	5,6	5.6	(2.5)	3.1
Deferred tax liabilities		0.6	-	0.6
		141.6	21.9	163.5
Current liabilities				
Trade and other payables	6	37.2	(0.8)	36.4
Obligations under finance leases		0.3	-	0.3
Current income tax liabilities		1.6	-	1.6
Provisions	6	-	4.1	4.1
		39.1	3.3	42.4
Total liabilities		180.7	25.2	205.9
TOTAL EQUITY AND LIABILITES		168.5	7.7	176.2

31. EXPLANATION OF TRANSITION TO IFRS (continued)

Notes to the reconciliation of equity at 1 January 2004

1. Software costs of £0.1 million have been capitalised under IFRS.
2. An additional pension liability of £24.4 million is recognised under IFRS which was not recognised under previously adopted UK GAAP. A deferred tax asset of £7.6 million relating to this liability has also been recognised.
3. Under IFRS deferred tax assets are shown separately from trade and other receivables. Consequently, the deferred tax asset of £1.0 million at 1 January 2004 has been transferred to non-current assets.
4. Exchange differences of £1.0 million arising on translation of foreign operations are shown as a separate reserve under IFRS.
5. Under IFRS the Group has reassessed its liabilities for its US working compensation schemes and in the UK a smaller permanent disability allowance scheme. For these arrangements the Group originally had an accrual of £0.3 million as at 1 January 2004 and this has been increased to £1.1 million to cover the uninsured elements of these types of arrangements across the Group.
6. Under IFRS short-term provisions and long-term provisions are disclosed separately. Consequently, £3.3 million and £0.8 million were transferred from long-term provisions and trade and other payables respectively to short-term provisions.
7. The adjustments to retained earnings are as follows:

	£M
Intangible assets (note 1)	0.1
Pension liability (note 2)	(24.4)
Deferred tax on pensions (note 2)	7.6
Translation reserve (note 4)	(1.0)
Other employee benefits (note 5)	(0.8)
	(18.5)

31. EXPLANATION OF TRANSITION TO IFRS (continued)

RECONCILIATION OF EQUITY AT 31 DECEMBER 2004

	Notes	UK GAAP £M	IFRS adjustments £M	IFRS £M
ASSETS				
Non-current assets				
Property, plant and equipment		67.1	-	67.1
Intangible assets	1,2	21.9	1.9	23.8
Investments		0.1	-	0.1
Deferred tax assets	3,4	-	7.4	7.4
Other non-current assets		2.1	-	2.1
		91.2	9.3	100.5
Current assets				
Inventories		34.9	-	34.9
Trade and other receivables	4	29.7	(0.2)	29.5
Cash and cash equivalents		6.9	-	6.9
		71.5	(0.2)	71.3
TOTAL ASSETS		162.7	9.1	171.8
EQUITY AND LIABILITES				
Capital and reserves attributable to the Group's equity holders				
Ordinary share capital		0.9	-	0.9
Retained earnings	9	83.0	(14.2)	68.8
Translation reserve	5	-	(0.8)	(0.8)
Merger reserve		(207.5)	-	(207.5)
Ordinary shareholders' equity		(123.6)	(15.0)	(138.6)
Preference shareholders' funds		102.9	-	102.9
Equity attributable to the equity holders of the parent		(20.7)	(15.0)	(35.7)
Minority interests		0.8	-	0.8
Total equity		(19.9)	(15.0)	(34.9)
Non-current liabilities				
Senior loan Notes due 2009		129.5	-	129.5
Retirement benefits	3	4.8	23.3	28.1
Provisions	6,7	3.5	(0.5)	3.0
Deferred tax liabilities		1.2	-	1.2
Other long-term liabilities	8	2.1	0.1	2.2
		141.1	22.9	164.0
Current liabilities				
Bank loans and overdrafts		4.5	-	4.5
Trade and other payables	6	36.7	(0.3)	36.4
Obligations under finance leases		0.1	-	0.1
Current income tax liabilities		0.2	-	0.2
Provisions	7	-	1.5	1.5
		41.5	1.2	42.7
Total liabilities		182.6	24.1	206.7
TOTAL EQUITY AND LIABILITIES		162.7	9.1	171.8

31. EXPLANATION OF TRANSITION TO IFRS (continued)

Notes to the reconciliation of equity at 31 December 2004

1. Software costs of £0.1 million have been capitalised under IFRS.
2. Under IFRS goodwill is not amortised. Consequently, the charge under previously adopted UK GAAP of £1.8 million has been written back against intangible fixed assets.
3. An additional pension liability of £23.3 million is recognised under IFRS which was not recognised under UK GAAP. A deferred tax asset of £7.2 million relating to this liability has also been recognised.
4. Under IFRS deferred tax assets are shown separately from trade and other receivables. Consequently, the deferred tax asset of £0.2 million at 31 December 2004 has been transferred to non-current assets.
5. Exchange differences of £0.8 million arising on translation of foreign operations are shown as a separate reserve under IFRS.
6. Under IFRS the Group has reassessed its liabilities for its US working compensation schemes and in the UK a smaller permanent disability allowance scheme. For these arrangements the Group originally had an accrual of £0.3 million as at 1 January 2004 and this has been increased to £1.0 million to cover the uninsured elements of these types of arrangements across the Group.
7. Under IFRS short-term provisions and long-term provisions are disclosed separately. Consequently, £1.5 million was transferred from long-term provisions to short-term provisions.
8. Other long-term liabilities include an additional £0.1 million in relation to an increased operating lease liability.
9. The adjustments to retained earnings are as follows:

	£M
Intangible assets (note 1)	0.1
Goodwill amortisation (note 2)	1.8
Pension liability (note 3)	(23.3)
Deferred tax on pensions (note 3)	7.2
Translation reserve (note 5)	0.8
Other employee benefits (note 6)	(0.7)
Operating lease (note 8)	(0.1)
	(14.2)

31. EXPLANATION OF TRANSITION TO IFRS (continued)

RECONCILIATION OF INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2004

	Notes	UK GAAP £M	IFRS adjustments £M	IFRS £M
CONTINUING OPERATIONS				
REVENUE	1	227.1	(0.3)	226.8
Cost of sales	1,2,3	(184.9)	1.2	(183.7)
Gross profit		42.2	0.9	43.1
Other income		0.2	-	0.2
Distribution costs		(5.7)	-	(5.7)
Administrative expenses	4	(23.5)	(0.1)	(23.6)
TRADING PROFIT		13.2	0.8	14.0
Goodwill amortisation	5	(1.8)	1.8	-
Restructuring costs		(0.8)	-	(0.8)
Environmental costs		(0.6)	-	(0.6)
OPERATING PROFIT		10.0	2.6	12.6
Profit on disposal of fixed assets		1.8	-	1.8
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST		11.8	2.6	14.4
Finance income		0.1	-	0.1
Finance costs		(14.2)	-	(14.2)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(2.3)	2.6	0.3
Tax on (loss) / profit on ordinary activities	6	(3.4)	(0.3)	(3.7)
LOSS FOR THE FINANCIAL YEAR ON CONTINUING ACTIVITIES		(5.7)	2.3	(3.4)
Loss for the year from discontinued activities	1	-	(0.2)	(0.2)
LOSS FOR THE YEAR		(5.7)	2.1	(3.6)
Attributable to:				
Equity shareholders		(10.6)	2.1	(8.5)
Preference shareholders		4.9	-	4.9
		(5.7)	2.1	(3.6)

Notes to the reconciliation of the income statement for the year ended 31 December 2004

1. Under IFRS, the net result for discontinued operations of £0.2 million is shown as one line on the face of the income statement after the charge for taxation. Consequently, turnover of £0.3 million and cost of sales of £0.5 million have been transferred from total turnover and cost of sales.
2. The pension charge under IAS 19 is £0.6 million lower than under UK GAAP. This has resulted in a decrease in employment costs charged to cost of sales of £0.6 million.
3. A reduction in the provision for an employee permanent disability allowance scheme (long-term sick pay) resulted in a credit to cost of sales of £0.1 million.
4. Administrative expenses increased by £0.1 million as a result of an additional charge of £0.1 million relating to an operating lease.
5. Under IFRS goodwill is not amortised. Consequently, the charge under UK GAAP of £1.8 million has been reversed under IFRS.
6. An additional deferred tax charge of £0.3 million has been recognised under IFRS as a result of the changes in the profit before tax.

31. EXPLANATION OF TRANSITION TO IFRS (continued)

RECONCILIATION OF CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2004

	Notes	UK GAAP £M	IFRS adjustments £M	IFRS £M
CASH FLOWS FROM OPERATING ACTVITIES				
Operating profit	1	10.0	2.6	12.6
Less: loss from discontinued operations	2	-	(0.2)	(0.2)
Adjustments for:				
Depreciation		8.0	-	8.0
Amortisation of goodwill	3	1.8	(1.8)	-
Increase in inventories		(3.9)	-	(3.9)
Decrease in receivables		1.7	-	1.7
Decrease in payables and provisions	4	(3.3)	(0.6)	(3.9)
Income tax paid		(3.5)	-	(3.5)
NET CASH FLOWS FROM OPERATING ACTIVITIES		10.8	-	10.8
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received		0.1	-	0.1
Purchases of property, plant and equipment		(8.4)	-	(8.4)
Proceeds on disposal of property, plant and equipment		4.3	-	4.3
Acquisition of subsidiary		(0.1)	-	(0.1)
NET CASH USED IN INVESTING ACTIVITIES		(4.1)	-	(4.1)
FINANCING ACTIVITIES				
Interest paid		(13.7)	-	(13.7)
Minority dividends paid		(0.1)	-	(0.1)
Draw down of revolving credit facilities		7.0	-	7.0
Repayment of revolving credit facilities		(2.5)	-	(2.5)
Repayment of obligation under finance leases		(0.3)	-	(0.3)
NET CASH FROM FINANCING ACTIVITIES		(9.6)	-	(9.6)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(2.9)	-	(2.9)
Net decrease in cash and cash equivalents		(2.9)	-	(2.9)
Net foreign exchange differences		(0.1)	-	(0.1)
Cash and cash equivalents at 1 January 2004		9.9	-	9.9
Cash and cash equivalents at 31 December 2004		6.9	-	6.9

Notes to the reconciliation of the cash flow statement for the year ended 31 December 2004

1. The adjustments to profit before tax are as follows:

	£M
Decrease in pension liability	0.6
Decrease in PDA accrual	0.1
Reversal of goodwill amortisation	1.8
Increase in operating lease liability	(0.1)
Loss on discontinued operations	0.2
	2.6

2. Under IFRS 5, the net result of discontinued operations is disclosed as one line item on the income statement.
3. Under IFRS goodwill is not amortised. Consequently, the charge for the year under UK GAAP of £1.8 million has been reversed under IFRS.
4. Under IFRS the pensions costs charged to cost of sales were £0.6 million lower than under UK GAAP. The decrease in the PDA accrual of £0.1 million is offset by the additional operating lease liability of £0.1 million.

We have audited the parent company financial statements of Luxfer Holdings PLC for the year ended 31 December 2005 which comprise the Balance Sheet and the related Notes 32 to 43. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the group financial statements of Luxfer Holdings PLC for the year ended 31 December 2005.

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 auditors' 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 are responsible for preparing the Annual Report, the Directors' Remuneration Report and the parent company financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements and the part of the Directors' Remuneration Report to be audited 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 parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been 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 parent company 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 other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the unaudited part of the Directors' Remuneration Report, Corporate Information, the Chairman's Statement, the Chief Executive's Review, Finance Review and Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

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 parent company financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company 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 parent company financial statements and the part of the Directors' Remuneration Report to be audited 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 parent company financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005; and
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor
Manchester
26 April 2006

	Notes	**2005** £M	2004 *as restated* £M
FIXED ASSETS			
Investments	33	**234.6**	234.6
		234.6	234.6
CURRENT ASSETS			
Debtors	34	**7.1**	2.5
Cash at bank and in hand		**0.6**	0.6
		7.7	3.1
CREDITORS: amounts falling due within one year	35	**(8.1)**	(8.0)
NET CURRENT LIABILITIES		**(0.4)**	(4.9)
TOTAL ASSETS LESS CURRENT LIABILITIES		**234.2**	229.7
CREDITORS: amounts falling due in more than one year			
Senior Notes due 2009	36	**(158.5)**	(158.1)
Preference shares	36	**(108.1)**	-
PENSION COMMITMENTS	40	**(11.2)**	(13.7)
		(43.6)	57.9
CAPITAL AND RESERVES			
Called up share capital	38	**0.9**	87.0
Own shares held by ESOP	39	**-**	(2.8)
Profit and loss account	39	**(44.5)**	(26.3)
Shareholders' funds	39	**(43.6)**	57.9
Shareholders' funds are represented by:			
- Equity		**(43.6)**	(45.0)
- Non-equity		**-**	102.9
		(43.6)	57.9

SIGNED ON BEHALF OF THE BOARD

Brian Purves **Stephen Williams**

26 April 2006

32. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation
The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards and Section 235 of the Companies Act 1985.

During the year the Company adopted FRS17 which is applicable for the years ended 31 December 2004 and 31 December 2005. The adoption of this new standard represents a change in accounting policy and comparative figures have been restated accordingly. The effects of this change in accounting policy are shown in Note 42.

No profit and loss account has been presented as permitted by section 230 of the Companies Act 1985.

Investments
Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

Retirement benefit costs
In respect of defined benefit plans, obligations are measured at discounted present value whilst scheme assets are recorded at fair value. The cost of providing benefits is determined using the Projected Unit Method, with actuarial valuations being carried out at each balance sheet date. The charge to the income statement is based on an actuarial calculation of the Company's portion of the annual expected costs of the benefit plans, based on a series of actuarial assumptions which include an assumption of the regular service costs, the liability discount rate and the expected return on the assets.

When a settlement or curtailment occurs the obligation and the related plan assets are re-measured using current actuarial assumptions and the resultant gain or loss recognised in the profit and loss account in the period in which the settlement or curtailment occurs.

Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Financial assets and liabilities
Interest bearing loans and borrowings
All loans and borrowing are initially recorded at fair value net of issue costs associated with the borrowing.
Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an amortised cost basis and charged to the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Capital instruments
Capital instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.
Capital instruments are all instruments that are issued by the Company as a means of raising finance, including shares, debentures, debt instruments and options and warrants that give the holder the right to subscribe for or obtain capital instruments. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. All equity instruments are included in shareholders' funds. Other instruments are classified as financial liabilities if they contain a contractual obligation to transfer economic benefits. The finance costs incurred in a respect of a capital instrument, other than equity shares, are charged to the income statement over the term of the instrument at a constant percentage rate to the carrying value.

In accordance with FRS 25, preference shares have been reclassified as financial liabilities during the year.

33. INVESTMENTS

	Subsidiary undertakings £M
Cost:	
At 1 January 2005 and 31 December 2005	**234.6**

Details of the investments in which the Group or the Company holds more than 20% of the nominal value of any class of share capital are as follows:

Name of company	Country of incorporation	Holding	Proportion of voting rights and shares held	Nature of business
Architectural Distribution Systems Limited *	Eire	Ordinary shares	100%	Dormant
BA Holdings, Inc.*	United States	Common stock	100%	Holding company
Biggleswick Limited *	England and Wales	Ordinary shares	80%	Non trading
BA Tubes Limited *	England and Wales	Ordinary shares	100%	Engineering
Hart Metals, Inc. *	United States	Common stock	100%	Manufacturing
LGL Manufacturing Services Limited*	England and Wales	Ordinary shares	100%	Dormant
Luxfer Australia Pty Limited *	Australia	Ordinary shares	100%	Distribution
Luxfer Gas Cylinders Limited *	England and Wales	Ordinary shares	100%	Engineering
Luxfer Gas Cylinders China Holdings Limited*	England and Wales	Ordinary shares	100%	Holding company
Luxfer Group Limited	England and Wales	Ordinary shares	100%	Holding company
Luxfer Group 2000 Limited	England and Wales	Ordinary shares	100%	Holding company
Luxfer, Inc.*	United States	Common stock	100%	Engineering
Luxfer Japan, Ltd*	Japan	Ordinary shares	100%	Distribution
Luxfer Overseas Holdings Limited*	England and Wales	Ordinary shares	100%	Holding company
Magnesium Elektron Limited *	England and Wales	Ordinary shares	100%	Manufacturing
Magnesium Elektron, Inc.*	United States	Common stock	100%	Manufacturing
Magnesium Elektron North America, Inc. *	United States	Common stock	100%	Manufacturing
Magnesium Elektron Recycling CZ s.r.o. *	Czech Republic	Basic capital	100%	Recycling
MEL Chemicals China Limited	England and Wales	Ordinary shares	100%	Dormant
Niagara Metallurgical Products Limited *	Canada	Common stock	100%	Manufacturing
Reade Manufacturing Company*	United States	Common stock	100%	Manufacturing
Luxfer Gas Cylinders S.A.S. *(1)	France	Ordinary shares	100%	Engineering
Zitzmann Druckguss GmbH *	Germany	Ordinary shares	100%	Manufacturing
Other Investments:				
Nikkei-MEL Co Limited *	Japan	Ordinary shares	50%	Distribution

Subsidiary undertakings are all held by the Company unless indicated.
* Held by a subsidiary undertaking.
(1) Luxfer Gas Cylinders S.A.S. changed its name from Societé Metallurgique de Gerzat S.A.S. during the year.

34. DEBTORS

	2005 £M	2004 £M
Amounts due from subsidiary undertakings	**7.1**	2.5

35. CREDITORS: amounts falling due within one year

	2005 £M	2004 £M
Amounts owed to subsidiary undertakings	**5.2**	5.2
Accruals and deferred income	**2.9**	2.8
	8.1	8.0

36. CREDITORS: amounts falling due after more than one year

	2005 £M	2004 £M
Senior Notes due 2009	**158.5**	158.1

The Senior Notes due 2009 are listed on the Luxembourg Stock Exchange. The interest rate is fixed at 10.125% on a total principal amount of £160.0 million. A principal amount of £28.6 million (2004 - £28.6 million) is held by the Group, through Luxfer Group Limited, a subsidiary of Luxfer Holdings PLC. The principal amount held by external parties is £131.4 million (2004 - £131.4 million). The Senior Notes are shown net of unamortised issue costs of £1.5 million (2004 - £1.9 million).

Preference share liablity

	£M
Preference shares at 31 December 2004 (see Note 38b)	86.1
Application of FRS 25 (see Note 38b)	16.8
Preference share liability at 1 January 2005	**102.9**
Preference share allocation of dividend to 31 December 2005	**5.2**
Preference share liability at 31 December 2005	**108.1**

37. DEFERRED TAX

Retirement benefit obligations

	£M
At 1 January 2005	**(5.8)**
Charged to statement of total recognised gains and losses	**(0.2)**
Charged to profit and loss	**1.2**
At 31 December 2005 (see Note 40)	**(4.8)**

No provision has been made for deferred tax assets in respect of losses carried forward of £25.5 million (2004 - £26.7 million). These losses will only be available for offset if the holding company makes taxable profits. Given that the holding company incurs the interest payable on the Senior Notes, it is assumed the losses will not be recoverable in the foreseeable future. Assets are recognised in subsidiary companies where there is sufficient evidence to indicate that there will be future taxable profits. There is no other unprovided deferred tax.

38. SHARE CAPITAL

(a) Ordinary share capital

	2005 No.	2004 No.	2005 £M	2004 £M
Authorised:				
Ordinary shares of £0.6487 each	**1,410,778**	1,410,778	**0.9**	0.9
Deferred ordinary shares of £0.0001 each	**10,000,000**	10,000,000	**-**	-
	11,410,778	11,410,778	**0.9**	0.9
Allotted, called up and fully paid:				
Ordinary shares of £0.6487 each	**1,340,240**	1,340,240	**0.9**	0.9
Deferred ordinary shares of £0.0001 each	**20,000**	20,000	**-**	-
	1,360,240	1,360,240	**0.9**	0.9

The rights of the shares are as follows:

Ordinary shares of £0.6487 each

The ordinary shares carry no entitlement to an automatic dividend but rank pari passu in respect of any dividend declared and paid other than preference dividend (see below).

Deferred ordinary shares of £0.0001 each

The 20,000 deferred shares have no entitlement to dividends or to vote and are entitled to a return of capital on a liquidation or winding up only after the holders of the ordinary shares have received £1,000,000 per ordinary share.

(b) Preference share capital

	2005 No.	2004 No.	2005 £M	2004 £M
Authorised:				
Preference shares of £0.6487 each	**132,683,760**	132,683,760	**86.0**	86.0
'B' preference shares of £1 each	**50,000**	50,000	**0.1**	0.1
	132,733,760	132,733,760	**86.1**	86.1
Allotted, called up and fully paid:				
Preference shares of £0.6487 each	**132,683,760**	132,683,760	**86.0**	86.0
Allotted, called up and 25% paid:				
'B' preference shares of £1 each	**50,000**	50,000	**0.1**	0.1
	132,733,760	132,733,760	**86.1**	86.1
Disclosed within shareholders' funds			**-**	86.1
Disclosed within creditors due in more than one year			**86.1**	-
			86.1	86.1

Preference shares of £0.6487 each

The preference shares have an entitlement to a fixed cumulative dividend of 5% per annum payable on redemption of the preference shares. Interest will accrue on unpaid preference dividends at the rate of 5% per annum of the nominal amount of the preference shares compounding on 31 December in each year. The preference shares are redeemable at any time, but must be redeemed in 2010 at par. In certain circumstances they can be redeemed earlier but only if permitted under the terms of the Senior Notes 2009 indenture. The ability to pay dividends in cash and redeem the preference shares is subject to certain restrictions contained in the indenture.

The preference shares had previously been disclosed as part of shareholders' funds. From 1 January 2005, the Group adopted IAS 32 and IAS 39 and under these new accounting standards the preference shares are now disclosed as non-current liabilities. The amount disclosed in the financial statements as a liability excludes the 9.65% held by the Employee Share Ownership Plan ("ESOP"). The ESOP's shares are deemed to be held within the Group and so are eliminated on consolidation. The table below sets out how the liability has been calculated.

	£M
Nominal value of preference shares at 31 December 2004	86.1
Accrued dividend to 31 December 2004	27.8
	113.9
ESOP's allocation of preference shares and accrued dividend	(11.0)
Non-equity shareholders' funds at 31 December 2004	102.9
Preference share of dividend to 31 December 2005	5.2
Preference share liability at 31 December 2005 (see Note 19)	108.1

'B' preference shares of £1 each

The 50,000 'B' preference shares are entitled to a dividend on the same terms as the Company's other preference shares and are entitled to be redeemed prior to any distribution or return of capital to shareholders. The 'B' preference shares were also disclosed within shareholders' funds in 2004.

39. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS IN RESERVES

	Share capital £M	Own shares held by ESOP £M	Profit and loss account £M	Shareholders' funds £M
At 1 January 2004 (as previously stated)	87.0	(2.8)	(14.4)	69.8
Prior year adjustment (see Note 42)	-	-	(13.8)	(13.8)
At 1 January 2004 (as restated)	87.0	(2.8)	(28.2)	56.0
Loss for the year (as restated)	-	-	(2.4)	(2.4)
Credit back of preference dividend not paid	-	-	4.9	4.9
Actuarial loss	-	-	(0.6)	(0.6)
At 31 December 2004 (as restated)	87.0	(2.8)	(26.3)	57.9
Application of FRS 25	(86.1)	2.8	(19.6)	(102.9)
At 1 January 2005	0.9	-	(45.9)	(45.0)
Loss for the year	-	-	(0.9)	(0.9)
Actuarial gain	-	-	2.3	2.3
At 31 December 2005	0.9	-	(44.5)	(43.6)

As at 31 December 2005, accrued cumulative preference dividends amounted to £33.2 million (2004 - £27.8 million). Up to 31 December 2004, these dividends have been accrued through the profit and loss account and credited back to reserves because the dividends are not due for payment. Following the implementation of FRS26, the cumulative preference dividends have been included as a charge to the profit and loss account.

The loss after taxation dealt with in the financial statements of the parent company was £0.9 million (2004 - £2.4 million).

40. PENSION COMMITMENTS

The Company is a member of the Luxfer Group Pension Plan, a defined benefit scheme in the United Kingdom. The levels of funding are determined by periodic actuarial valuations.

Actuarial gains and losses are recognised in full in the period in which they occur. Actuarial gains and losses are recognised outside profit or loss and presented in the Statement of Total Recognised Gains and Losses. The liability recognised in the balance sheet represents the present value of the defined benefit obligation, as reduced by the fair value of plan assets. The cost of providing benefits is determined using the Projected Unit Method.

The Luxfer Group Pension Plan was closed to new members in 1998, new employees then being eligible for an alternative defined contribution plan. With effect from April 2004 the Luxfer Group Pension Plan changed from a final salary to a career average revalued earnings benefit scale. In August 2005 a scheme specific earnings cap of £60,000 per annum was introduced, effectively replacing the statutory earnings cap. The valuation used for the FRS 17 accounting has been based on the most recent actuarial valuation at 5 April 2004 as carried out by an independent firm of professionally qualified actuaries, Lane Clark and Peacock, and updated, where appropriate to reflect the conditions at 31 December 2005.

The Directors have decided to adopt the accounting required by FRS 17 wiith effect from 1 January 2004. As required under that standard, this is a change in accounting policy requiring a prior year adjustment. The detailed accounting for pensions under FRS 17 is reflected in the balance sheet for 2005 and 2004. Further information on the impact of the accounting under FRS 17 is set out in Note 42.

The full deficit relating to the pension scheme has been included in the parent company balance sheet. This is because it is not possible to allocate the deficit between the various subsidiary companies and the Directors consider that it is most appropriate to allocate it to the ultimate parent company in the Group, rather than leaving it as an unallocated consolidation adjustment as allowed by FRS 17.

The total credit to the Company's profit and loss account in respect of the defined benefit pension schemes was £1.3 million (2004 - £0.8 million).

The financial assumptions used in the calculations are:	**Projected Unit Valuation United Kingdom**		
	2005	2004	2003
	%	%	%
Discount Rate	**4.80**	5.30	5.40
Salary Inflation	**4.30**	4.40	4.30
Price Inflation	**2.80**	2.90	2.80
Pension Increases	**2.60**	2.70	2.60

The expected rate of long-term return on the scheme's assets were:	**Long term rate of return expected**		
	2005	2004	2003
	%	%	%
Equities	**7.30**	7.50	7.80
Gilts	**4.00**	4.50	4.80
Other Bonds	**4.40**	5.30	5.40
Cash	**4.00**	4.50	4.60

The value of the scheme assets were:	**Value at 31 Dec 2005**	Value at 31 Dec 2004	Value at 31 Dec 2003
	£M	£M	£M
Equities	**97.9**	88.2	80.9
Gilts	**27.6**	24.4	22.5
Other Bonds	**12.4**	7.3	6.8
Cash	**-**	0.7	0.5
Total market value of assets	**137.9**	120.6	110.7
Present value of scheme liabilities	**(153.9)**	(140.1)	(130.4)
Deficit in the scheme	**(16.0)**	(19.5)	(19.7)
Related deferred tax asset (see Note 37)	**4.8**	5.8	5.9
Net pension liability	**(11.2)**	(13.7)	(13.8)

40. PENSION COMMITMENTS (continued)

Analysis of amount credited to operating profit:	**2005 UK £M**	2004 UK £M
In respect of defined benefit schemes:		
Current service credit (employer's)	**0.1**	0.1
Curtailment and settlement credit	**0.6**	-
Total operating credit for defined benefit schemes	**0.7**	0.1

Analysis of amount credited to other finance income:	**2005 UK £M**	2004 UK £M
Expected return on pension scheme assets	**7.9**	7.7
Interest on pension scheme liabilities	**(7.3)**	(7.0)
Net credit to other finance income	**0.6**	0.7

Analysis of amount recognised in the Statement of Total Recognised Gains and Losses:	**2005 UK £M**	2004 UK £M
Actual return less expected return on pension scheme assets	**13.9**	5.1
Changes in assumptions underlying the present value of scheme liabilities	**(11.2)**	(5.7)
Other movements	**(0.6)**	-
Actuarial profit/(loss) recognised in Statement of Total Recognised Gains and Losses	**2.1**	(0.6)

Analysis of movement in deficit in the scheme during the year:	**2005 UK £M**	2004 UK £M
Deficit in defined benefit schemes at beginning of year	**(19.5)**	(19.7)
Current service cost (employers and employees)	**(2.1)**	(2.6)
Aggregate Contributions (employers and employees)	**2.3**	2.7
Curtailment and settlement credit	**0.6**	-
Other finance cost	**0.6**	0.7
Actuarial gain/(loss) recognised in Statement of Total Recognised Gains and Losses	**2.1**	(0.6)
Deficit in defined benefit schemes at end of year	**(16.0)**	(19.5)

History of experience in gains and losses:	**2005 UK**	2004 UK	2003 UK	2002 UK
Difference between the expected and actual return on scheme assets:				
Amount £M	**13.9**	5.1	9.8	(22.4)
Percentage of scheme assets	**10%**	4%	9%	(23)%
Experience of gains and losses on scheme liabilities:				
Amount £M	**-**	-	14.8	-
Percentage of present value of scheme liabilities	**0%**	0%	11%	-
Total amount recognised in Statement of Total Recognised Gains and Losses:				
Amount £M	**2.1**	(0.6)	12.5	(28.0)
Percentage of present value of scheme liabilities	**-**	-	10%	(21)%

41. THE LUXFER GROUP EMPLOYEE SHARE OWNERSHIP PLAN 1997

The Group has established an employee benefit trust (“the ESOP”) with independent trustees, to purchase and hold shares in trust which are used to satisfy options granted to senior executives in the Group under The Luxfer Group Unapproved Executive Share Option Scheme 1997 (“the 1997 Scheme”) and the more recently established Luxfer Holdings Unapproved Executive Share Scheme 2001 (“the 2001 Scheme”) (together “the Schemes”).

The ESOP was established with the benefit of a gift equivalent to the set up and running costs. Purchase monies required by the ESOP trustees to purchase shares for and under the provisions of the trust are provided by way of an interest free loan from a Group subsidiary. The loan is repayable, in normal circumstances, out of monies received from employees when they exercise options granted to them over shares under the Schemes. Surplus shares are held to satisfy future option awards. The ESOP trustees have waived their right to receive dividends on shares held in the trust.

The Remuneration Committee is charged with determining which senior employees are to be granted options and in what number. Under the Schemes, options become exercisable on the occurrence of a listing or sale of the Company or as otherwise determined by the Remuneration Committee. The Schemes each have a duration of 10 years. In normal circumstances, options under the 1997 Scheme will expire on the seventh anniversary of their grant or the second anniversary of a listing of the Company and options under the 2001 Scheme will expire on the tenth anniversary of their grant or the second anniversary of a listing of the Company.

During the year 3,703,788 options over preference shares granted to employees in 1998 under the 1997 Scheme were due to expire. Prior to the expiry date the Remuneration Committee determined to offer employees (and ex-employees who would continue to be eligible to hold options over preference shares under the Rules of the 2001 Scheme after the expiry date) the opportunity to exchange their existing options held under the 1997 Scheme for identical options under the 2001 Scheme. 2,214,927 options over preference shares were rolled over. The remaining 1,488,861 of these options lapsed or expired during the year. Options over preference shares are accounted for under the Projected Unit Credit Method.

At 31 December 2005: the ESOP held 46,471 ordinary shares of £0.6487 each (2004 - 46,471) and 12,803,769 preference shares of £0.6487 each (2004 - 12,803,769) in the Company; employees held options under the terms of the Schemes over 7,388,499 preference shares of £0.6487 each ((2004 – 8,877,360) in the Company and 42,888 ordinary shares of £0.6487 each (2004 - 42,888) in the Company. The loans outstanding from the ESOP were £2.7 million (2004 - £2.7 million).

The costs of the ESOP are charged through a subsidiary of the Company.

After the year end in March 2006, the final tranche of options under the 1997 Scheme granted in 1999, totalling 2,588,553 options, were due to expire. In January 2006, the Remuneration Commitee determined to offer employees (and ex-employees who would continue to be eligible to hold options over preference shares under the rules of the 2001 Scheme after the expiry date) the opportunity to exchange these existing options held under the 1997 Scheme for identical options under the 2001 Scheme. 2,422,926 options over preference shares were rolled over. The remaining 165,627 of these options expired on 21 March 2006. All options under the 1997 Scheme have now expired.

42. PRIOR YEAR ADJUSTMENT

The adoption of the full provisions of Financial Reporting Standard 17, “Retirement Benefits”, now requires the full consolidation of the fair value of the assets and liabilities arising from retirement benefit obligations. The impact of this change in accounting policy is shown below:

Balance sheet	**Pension liability £M**	**Shareholders' funds £M**
Year ended 31 December 2005		
Excluding effect of FRS 17	-	(32.4)
Adoption of FRS 17	(11.2)	(11.2)
As stated	**(11.2)**	**(43.6)**
Year ended 31 December 2004		
As previously stated	-	71.6
Adoption of FRS 17	(13.7)	(13.7)
As restated	**(13.7)**	**57.9**

43. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption in FRS 8 from disclosing transactions with related parties that are part of Luxfer Holdings PLC.

COMPANY DETAILS

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Registration no. 3690830

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Secretary
Linda F Seddon

Group Finance Director
Stephen N Williams

Auditors
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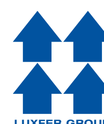

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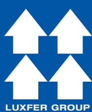

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