LUXFER HOLDINGS PLC

REPORT & ACCOUNTS **2008**

HIGH PERFORMANCE ENGINEERING MATERIALS **WORLDWIDE**

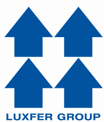
ABOUT THE COVER

The cover shows a Lockheed/Boeing AC-130U Gunship from the 4th Special Operations Squadron deploying Infrared decoy flares, which incorporate magnesium powder supplied by Magnesium Elektron Powders in Tamaqua, Pennsylvania.

Decoy flares are jettisoned from aircraft to act as a countermeasure against heat-seeking missiles. The properties of magnesium generate sufficient heat and light to provide an efficient defence against missiles programmed to lock onto the aircraft's engine exhaust.

Magnesium Elektron's Tamaqua plant is the largest atomiser of magnesium powders in the world. The atomisation process results in exceptionally uniform, spherical powder with unique characteristics making it the material of choice for many military flares and munitions applications.

Magnesium Elektron's high performance Elektron® alloys are used extensively in defence applications including military aircraft and helicopters. The Rolls Royce Allison engines on the AC-130 use our advanced ZE41 magnesium alloy for the main engine gearbox.



Aerospace | Fire | Auto | Rail | Defence | Medical | Graphic Arts

Luxfer is an international group employing approximately 1,600 people in 26 countries. It operates 17 manufacturing plants in the UK, USA, France, Czech Republic, Canada and China, plus a joint venture in Japan.

Luxfer's products are sold worldwide into a wide range of demanding applications, including those illustrated above.

These are just seven 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.

You can obtain an electronic copy of the Annual Report from our website **www.luxfer.com**

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Peter Haslehurst

Chairman

"Our employees have shown themselves to be capable of handling even the most difficult of challenges"

The business environment has rarely been more difficult, but our employees have shown themselves to be capable of handling even the most difficult of challenges, to return the Group's best profit result for quite a number of years. I would like to thank all of my colleagues across the Group for their hard work and dedication during another challenging year.

During the first half of the year, the cost of the Group's principal raw materials again rose rapidly; energy costs were spiralling with the price of oil and the strength of sterling was unhelpful. Once again the Group was faced with the need for substantial cost savings and pricing actions.

Our decision of some years ago to reduce our dependence on the volume automotive industry has helped the Group to enjoy an improved result despite the weakness of the automotive sector during 2008. Automotive accounted for only 20% of our 2008 sales revenue, while other significant sectors such as aerospace, defence, environmental and medical remain relatively stable.

Whilst automotive demand progressively weakened during the year, there were positive developments in other markets, particularly with demand for composite breathing apparatus cylinders, which improved in 2008 after being quite depressed in 2007.

Our main cost-saving project during the year was the rationalisation of our aluminium cylinder plants, reducing the number of manufacturing plants from four down to three. This project involved the closure of the aluminium cylinder plant in Riverside, California with the transfer of production to our facilities in North Carolina and Nottingham. The US composite cylinder operations are now being consolidated from three leased locations into the single vacated facility in Riverside.

While the project will not be completed until the end of the first quarter of 2009, most of the actions have already been achieved and we remain confident of delivering the planned cost savings.

As with all manufacturing businesses, the current economic conditions are a concern. Whilst the global automotive market is severely depressed and although several of our other markets are not directly linked to overall economic growth, the depth of the recession is likely to affect a number of our non-automotive markets.

The Group generates the bulk of its income in US dollars and the weakening of sterling during the second half of 2008 was helpful to us. If continued into 2009 this will provide a welcome boost to our results. Furthermore, many of our raw materials have fallen in price from the peak around mid-2008. It takes some time for the benefit to reach our Income Statement, especially at a time of falling demand, so we can again expect an incremental benefit at some point in 2009, if costs remain low. These factors, although quite likely to be temporary, may help to offset any weakness in demand in 2009.

With hands-on management at all levels, our business has shown a remarkable resilience over the past four years and our plans for the future remain exciting, although the Board recognises that the current recessionary conditions will probably extend the timeframe over which our profit improvement plans will be achieved. With the benefit of exchange rates, lower material and energy costs, the total quality of our products and service and our broad spread of markets, together with our focus on cost control, the Group is well placed to weather the global economic storm that confronts us in 2009.

Peter Haslehurst
Chairman

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 2008.

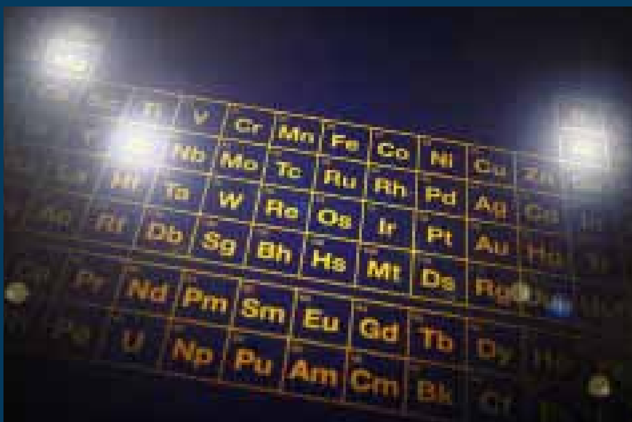
Principal Activities

The principal activity of the Company is the holding company for the Luxfer Group. Luxfer is an international group of businesses that specialise in the design, manufacture and supply of high performance materials to the engineering industry worldwide.

The Group manufactures:

- high pressure gas cylinders in aluminium and composite materials;
- advanced alloys of magnesium;
- components in aluminium, magnesium and carbon composites; and
- chemically-derived compounds of zirconium.

The focus is on specialist products into high performance sectors where Luxfer's technical know-how and manufacturing expertise combine to deliver a superior product.



The Group is international, employing approximately 1,600 people in 26 countries. It operates 17 manufacturing plants in 6 countries, UK, US, France, Czech Republic, Canada and China, plus a joint venture in Japan.

Luxfer's products are sold worldwide into a wide range of demanding applications. The main markets served include aerospace, defence, medical, automotive and general engineering.

During 2008 the Group was comprised of two divisions:

- GAS CYLINDERS, which trades as Luxfer Gas Cylinders and Superform; and
- ELEKTRON, which trades as MEL Chemicals and Magnesium Elektron.

GAS CYLINDERS

Revenue: £127.2 million

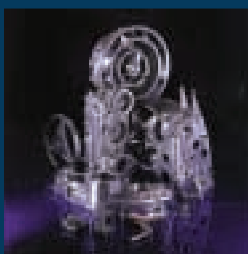
Luxfer Gas Cylinders is the world's largest manufacturer of portable aluminium and composite high-pressure gas cylinders. From manufacturing facilities in the UK, France, US and China, Luxfer supplies high-performance products to customers in more than 50 countries.

Superform is the world's leading supplier of superplastically formed aluminium components for a wide variety of industries, including aerospace, automotive, rail transportation and architecture. It operates from two manufacturing facilities in the UK and US.

ELEKTRON

Revenue: £130.5 million

MEL Chemicals is a leading manufacturer and supplier of zirconium chemicals and oxides. From being pioneers in zirconium chemistry just 60 years ago, MEL Chemicals have developed an extensive expertise in zirconium. It operates from two manufacturing sites in the UK and US.



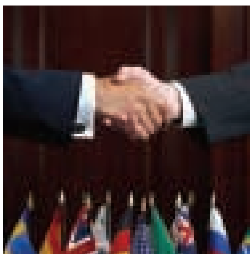
Magnesium Elektron specialises in the development, manufacture and supply of magnesium products and services to technology industries worldwide. It operates from manufacturing plants in the UK, US, Canada and the Czech Republic. Lighter than aluminium, ELEKTRON® magnesium alloys are used in high performance, extreme environment, safety critical automotive, aerospace, defence and other specialty applications. The Magnesium Elektron product range includes commercial casting alloys, sheet, plate and extruded products, recycling services and magnesium powders.

Strategy

During 2008 we continued to pursue our strategy of developing, manufacturing and selling high performance products into specialist markets. We focused on the commercial and strategic development of Luxfer Group, while improving business processes and efficiency.

Over time we have developed what we believe to be an appropriate business philosophy for the Group. A "model" Luxfer business is one that focuses on:

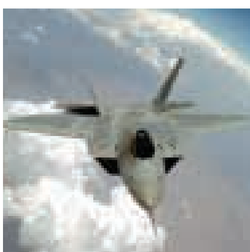
- building long-term customer relationships;
- selling high performance products into specialist markets;
- maintaining a strong technical engineering base;
- achieving high levels of manufacturing excellence; and
- fostering industry-leading innovation, through research and the development of new products and processes.



Strong Customer Relationships

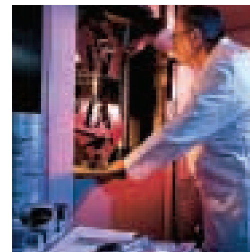
Our business philosophy places the customer at the centre of everything we do. We strive to establish lasting relationships, enabling us to work closely with customers as their partner of choice to ensure that the development of our products meets their operational goals. Luxfer's customer base includes many blue chip companies who have worked with us over decades.

Where possible, we promote our own brands and technology to end-users. We believe this will help maintain our presence in markets where we enjoy a technical lead and enable us to identify future growth areas at an early stage of development.



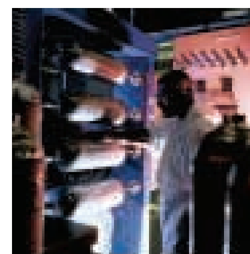
High Performance Products for Specialist Markets

We specialise in the manufacture of advanced materials where our expertise in metallurgy and materials science enables us to develop superior engineering materials and products for demanding specialist applications. We seek to focus production on higher added-value products, whilst limiting exposure to commodity business. We regularly review our product portfolio to ensure that we are addressing the requirements of market segments with growth potential. We often seek out markets that require a high level of technical expertise in which we believe we can deliver suitable innovative products ahead of competitors, which we believe gives us the opportunity to add value.



Strong Technical Base

Technology is at the core of the Luxfer business. We continue to develop our expertise in material science and to extend the boundaries of our core materials, and maintain our expertise in manufacturing and processing techniques. Luxfer´s proprietary technology, technical know-how, and international presence often provide a competitive advantage over alternative suppliers.



Manufacturing Excellence

We believe that manufacturing excellence is key to the Group's continuing commercial success.

The Group seeks to achieve high levels of manufacturing performance and efficiency by:

- investing in modern Enterprise Resource Planning ("ERP") Systems;
- achieving class-leading control over sales and operational planning; and
- managing the Group's manufacturing cost base to enable it to compete globally in a lower cost environment.

Over the past decade, the Group has made a major investment in its ERP business improvement programme, which is focused on achieving world-class levels of manufacturing excellence. Luxfer's approach makes use of external ERP auditors to benchmark progress against a rigorous checklist of world-class criteria, which include many different key performance indicators, including on-time in full delivery to customers, minimisation of waste, quality levels, efficient management of inventories and production planning. Many of our facilities have been awarded 'Class A' status from our external ERP auditors, which is widely recognised as a world-class standard of operational excellence.

Since 2001, the Group has undergone significant rationalisation of its manufacturing cost base, partly in response to increased competition in its traditional markets, including competition from lower labour-cost economies, and partly to counter increases in raw material and other input costs. For example, the Gas Cylinder division had six aluminium cylinder plants at the start of 2001, four by the middle of 2004, and three by the end of 2008, without materially reducing overall capacity. The Group has invested in the automation of its remaining aluminium cylinder plants and aims, where possible, to focus plants on producing cylinders for particular end-use markets.

As an international group, part of the Group's long-term strategy is to position its manufacturing facilities in locations that are optimal, based on a range of criteria (for example where the key markets and customers are located), not just low-cost labour.

Commitment to R&D and New Product Development

Luxfer has always recognised the importance of research in materials science and the need for innovation in the development of new products. As a result, the Group makes a major investment in the development of new products and processes each year.

Thanks to the ingenuity of our own research and development teams, and close collaboration with research departments in universities around the world, Luxfer has developed a steady stream of new products, including carbon composite lightweight gas cylinders, L7X® high pressure aluminium gas cylinders, G4 zirconium oxides for automotive and chemical catalysis, Isolux zirconium separation products and ELEKTRON® magnesium alloys for advanced aerospace and specialist automotive applications.

We believe that this commitment to research and new product development will drive the growth of the Luxfer Group worldwide.

Strategy Development

The long-term success of our strategy is dependent on investing in the right areas of our business. In particular, where we face competition from competitors in lower labour-cost economies, we have found ways to reduce our own cost base, or reposition ourselves in premium product sectors. In 2008 we made significant further progress in reducing our cost base.

Brian Purves

Chief Executive

"The operating profit result for the year was very pleasing given the tough business conditions experienced during 2008"

Review of 2008

Group revenue for continuing operations increased by £45.0 million (21%) to £257.7 million in 2008, from £212.7 million in 2007. Revere Graphics, purchased in September 2007, generated £14.6 million of revenue in 2008 and the net impact of the more favourable exchange rates increased translated revenue by £16.8 million. The US dollar averaged $1.84 against the pound sterling in 2008, compared to $2.01 in 2007. Adjusting for acquisitions and disposals, like-for-like revenue at constant translation exchange rates was still 11% higher.

During the year trading profit for continuing operations rose to £22.5 million from £17.6 million in 2007. The main reason for the improvement was a partial recovery in the Gas Cylinders division, which came on top of another good trading performance from the Elektron division. It was very pleasing to record such a good profit result in the face of continuing economic volatility.

We again experienced large increases in input costs during the first half of 2008, but during the second half of the year these started to moderate as concerns over the global economy shifted the balance of supply and demand.

The LME three-month price for primary aluminium averaged around $3,000 per tonne for much of the first half of the year, reaching $3,340 per tonne in July. Since that date, however, the LME price has declined steadily to below $1,500 per tonne at the year end.

UK gas prices rose once again, influenced by the soaring oil price. Although the price of oil has since fallen back, gas prices have subsided much more slowly. The sharp rise in the price of magnesium, which we had seen in the second half of 2007, continued through the first half of 2008. Chinese prices have since fallen back, although the price in the US, where much of our material has to be sourced, remains very high. The value of magnesium purchases rose by 54% to £35.1 million in 2008, while the value of aluminium purchases rose by 9% to £31.1 million.

Following the extremely large input cost increases that we have been seeing since 2006, we have been forced to be aggressive with price increases. It is pleasing that most of our customers have recognised the need and accepted a fair proposal.

Gas Cylinders

The Gas Cylinders division saw an upturn in revenue of 17.3%, to £127.2 million in 2008 compared to £108.4 million in 2007. The weaker pound sterling increased revenue through a translation gain of £8.5 million, but at constant exchange rates underlying revenue was still up by 13.7%.

Although well below its peak, the market for composite cylinders for breathing apparatus in the US picked up in 2008, boosted by a major supply contract with the US Navy.

Sales of high-strength aluminium cylinders based on our patented L7X® alloy technology have steadily increased and the selling proposition, of 50% more gas in the same size cylinder, is attracting keen interest.

We expanded our customer base in the US for our new range of Compressed Natural Gas ("CNG") cylinders and opened a facility in Northern Italy to satisfy the demand for system sales rather than cylinder sales in Europe.

Superform continues to struggle in the US, where the speciality automotive sector has been depressed for some time. The UK operation experienced strong growth until the fourth quarter, winning orders for new components on existing vehicles and preparing tooling for the London Underground rail business. The efficiency of the business was compromised by the late (ten months!) delivery of a new press.

Gas Cylinders made a trading profit of £7.2 million in 2008, £4.1 million more than 2007. While profitability was affected by increased energy and raw material costs, sales prices were increased to recover this sum and the upturn in demand for composite cylinders and medical cylinders drove the profit improvement.

In response to the severe cost pressures on the business, management have been working on a package of radical cost saving opportunities, involving plant closures and investment in automation. The project has changed from that envisaged a year ago, to reflect different demand patterns, but will shortly be complete and is expected to generate in total around £3.5 million per annum in savings (some of which benefited the second half of 2008).

Elektron

Revenue from the Elektron division increased by 25%, to £130.5 million in 2008 compared to £104.3 million in 2007. The weaker pound sterling resulted in a translation gain on revenue of £8.3 million. The acquisition of Revere added £10.2 million to year-on-year revenue. Using constant exchange rates and adjusting for disposals and acquisitions, the ongoing operations achieved an underlying sales increase in 2008 of £10.7 million or 8.9% compared to 2007.

Sales of G4 auto-catalyst products were depressed by conditions in the automotive industry. We have a high share of the North American market, and this was the first to show steep declines year-on-year. We secured, however, our first major contract for Isolux® separations media, and this will benefit 2009 and 2010.

The business continued to benefit from its strong position in the specialist aerospace and defence markets, with total sales to this sector increasing by approximately 20%. We achieved growth in high performance aerospace alloys and specialised fine powders.

Back in September 2007 we acquired the trade and assets of Revere Graphics Worldwide, which enabled us to extend our photo-engraving product offering to brass, copper and zinc plate, in addition to the magnesium that we already supplied. The integration of the Revere production into our pre-existing facilities should be complete by the end of Q1 2009.

Trading profit for Elektron was £15.3 million in 2008, an increase of 5.5% compared to £14.5 million in 2007. The improved profit reflected the increased sales of our high performance products, across a range of specialised markets.

New Product and Market Developments

We continued to focus on new product development. Our new alternative fuel cylinder plant at Riverside in California was opened mid-2007, and is allowing us to expand sales into the growing market for CNG cylinders. During the year we sold over 3,100 of these cylinders, which sell for between $1,500 and $2,000 per unit owing to their physical dimensions, compared to a standard breathing apparatus cylinder at around $200 each.

For the longer term, we are excited about the work that we are doing on applications for magnesium in civil aircraft, ambulatory oxygen supply systems in Gas Cylinders, and zirconium-based absorption technologies.

Non-Financial KPIs

We have selected two non-financial Key Performance Indicators (KPI's) that are important to our business.

Firstly, we have decided to report on the number of productive days lost through accidents at work. Our operations variously involve the use of rotating machinery, molten metal, heat treatment, strong acids and alkalis, high pressures and flammable materials, so the safety of our workforce is a top priority. For every accident at work involving the loss of more than a part-shift, we record the number of days lost while the employee is recovering. For 2008 this figure is 697 man days, down from 718 man days in 2007.

Secondly, we use a number of materials and generate waste streams that need careful management to ensure that no damage is done to the environment. We are encouraging all of our major business units to work towards ISO14001 Environmental Management System Certification. Each year we will report on the proportion of our sales revenue that originates from ISO14001-certified business units.

At the end of 2008 five of our units were certified and these units produced 39.7% of the Groups turnover in 2008. The corresponding figure in 2007 was 15.8%, when only three units were certificated. We are also working to develop a measure that shows the proportion of sales derived from products developed in the last, say, five years, KPIs are shown in Table 1.

Summary

The operating profit result for the year was very pleasing given the tough business conditions experienced during 2008. Our focus was again on cost-reduction actions, with a reduction of 2% in the average workforce during the year despite overall higher demand. The radical actions taken in the Gas Cylinders division have already delivered some improvement in 2008, with more to come in 2009.

Brian Purves
Chief Executive

Table 1: Group Key Performance Indicators

		2008	2007
Operating Performance			
Trading Profit	£m	**22.5**	17.6
EBITDA before exceptionals (excluding BA Tubes)	£m	**30.5**	24.9
Gross profit percentage	%	**19.7**	19.2
Return on revenue (trading profit divided by revenue)	%	**8.7**	8.3
Revenue per average full time equivalent employee for ongoing operations	£000s	**162**	131
– prior year adjusted for translation exchange rates	£000s	**162**	142
Operating Performance in US dollars			
Revenue (excluding BA Tubes)	$m	**475.9**	426.8
EBITDA before exceptionals (excluding BA Tubes)	$m	**56.6**	49.8
Financial Performance			
Net cash flow from continuing operating activities	£m	**20.2**	12.2
Working capital turnover for continuing operations (annual revenue divided by average trading working capital)		**5.3x**	5.3x
Net debt to EBITDA		**3.2x**	3.8x
Non-Financial Performance			
Number of man days lost following accidents at work	Man Days	**697**	718
ISO14001 Environmental Management System Certification (percentage of Group revenue originating from ISO14001 certified business units)	%	**39.7**	15.8
Economic Indicators			
Average aluminium price (three-month LME)	$ per Tonne	**2,620**	2,661
Average aluminium price (three-month LME, three month lag and net of hedging)	$ per Tonne	**2,704**	2,724
Average US dollar to pounds sterling exchange rate	$:£	**1.84**	2.01

Stephen Williams

Group Finance Director

"Over the last few years the Group has implemented and continues to implement profit improvement plans with the objective of achieving a step change in operating performance"

Finance Review of 2008

The operating results for the year are discussed in more detail in the Chief Executive's Review.

Introduction

Over the past few years, the Group has had to cope with adverse economic conditions with rising commodity prices, higher energy costs and the relative strength of sterling against the US dollar. This proved particularly painful as over 70% of our trading profit is derived from our US operations. For the first nine months of 2008, this trend continued, as commodity prices and utility costs increased and the US dollar remained weak. In the fourth quarter of the year, with the deterioration of the world economy we saw a dramatic decrease in certain commodity costs, an easing of utility prices and a significant fall in the value of sterling against most currencies and particularly the US dollar.

Our largest commodity material purchases are aluminium and magnesium. During 2008, we experienced the roller coaster ride of the three-month LME price for aluminium peaking at $3,340 per tonne in July and ending the year down at $1,495 per tonne. The movement in the price of magnesium was even more dramatic, with the cost of Chinese magnesium peaking at over $6,000 per tonne and ending the year at $2,900 per tonne. In the US where production is protected by significant tariff barriers, the price of magnesium has remained at over $7,000 per tonne.

We estimate that allowing for hedges that our average cost for aluminium in 2008 was $2,704 per tonne compared to a similar figure in 2007 of $2,724 per tonne. This small saving on the base cost of aluminium was offset by higher premium costs on the large variety of alloys and billet sizes we buy to manufacture our gas cylinders. The fall in the LME cost of aluminium will not benefit our trading profitability until the first quarter of 2009 because of our purchase terms and inventory levels, and even then will be limited by fixed price supply arrangements put in place last year when the price was much higher.

The increase in the cost of magnesium was more significant and we estimate that this cost us an additional £11.9 million in 2008 compared to 2007. Other significant cost increases were in rare earth and commodity chemicals for our zirconium business, which cost us another £1.8 million, and in utility costs, which increased by a further £3.2 million, compared to 2007.

We have therefore, as in previous years, continued to focus on achieving price increases across a number of our markets to recover these significant commodity and utility cost increases.

During the year, sterling remained strong against the US dollar until the fourth quarter when it weakened to end the year at $1.46: £1. The average exchange rate for the year was $1.84: £1 compared to an average rate in 2007 of $2.01: £1. Sterling weakened against the euro throughout 2008, ending at a rate of €1.05: £1 and with the average rate in 2008 at €1.25: £1 compared to €1.47: £1 in 2007. The particularly weak position of sterling has benefited our trading profit and at the end of the year has had a significant positive impact on the translation of the Group's balance sheet, with a gain of £16.2 million being recognised through the Statement of Recognised Income and Expense.

Over the last few years the Group, recognising these major economic challenges, has implemented and continues to implement profit improvement plans with the objective of achieving a step change in the operating performance of the Group. During 2008 we closed our aluminium plant in California, transferring production to both our North Carolina operation and our UK operation. We relocated the plant that makes the aluminium liners for our composite cylinders to the vacated aluminium plant and will transfer our composite cylinder plant to this freehold site in the near future thereby making significant cost savings. We have also transferred the majority of the production from the Revere Graphics (Revere) operations, acquired in September 2007, to our own plants with the view to closing the remaining Revere operation by the end of the first quarter of 2009.

Income Statement

Revenue

Revenue from our continuing operations for the year at £257.7 million was £45.0 million higher than for 2007. The positive translation impact of the stronger US dollar and euro, on the consolidation of our overseas operations was £16.8 million. Revenue was reduced by the cessation of two major contracts in 2007, a fire extinguisher contract of £5 million and the nuclear fuel can contract worth £3 million in 2007. These two contracts were more than offset by the inclusion of the full year revenue for Revere, where the additional revenue on a pro forma basis was £10.2 million.

In total, these structural changes to our operations accounted for £19 million of the increase in revenue. The balance of £26 million represents the underlying trading improvement in our ongoing operations and was accounted for by additional volume £5.9 million, pricing £17.7 million and foreign exchange transaction benefits of £2.4 million.

The volume increase reflected the strong demand for composite cylinders and our L7X medical cylinders which were partially offset by a fall in demand for our zirconium auto catalysis products following the major cutback in automotive demand experienced in the fourth quarter of the year. The pricing increase reflects the Group's need to recover the similarly large cost increases suffered in magnesium and zirconium chemical raw materials, along with energy cost increases throughout the Group.

The revenue per employee for 2008, adjusted for translation exchange rates was £162,000 compared to £142,000 last year.

If we were reporting in US dollars, our revenue for ongoing operations would have been $475.9 million in 2008 compared to $426.8 million in 2007.

Gross profit

Gross profit for the year at £50.8 million was £9.9 million greater than 2007 and the gross profit percentage increased from 19.2% to 19.7%. The improvement in gross profit arose from the increased sales volumes of higher value product lines, along with a reduction in some lower margin areas, such as absence of the terminated fire contract. The increases in raw material and utility costs were broadly offset by increased sales prices and gains in operating efficiencies.

Net operating expenses

Our net operating expenses increased by £5.0 million or 21.5%, compared to 2007. The full year impact of Revere accounted for £1.6 million and exchange translation accounted for a further £1.6 million on administrative costs and distribution costs. We also incurred a new charge of £1.0 million in 2008 for our UK pension schemes cost of funding with the significantly increased PPF levy. The balance of the increase in expenditure arose from inflation and higher levels of activity.

Trading profit

Trading profit before exceptional items for the year was £22.5 million compared to £17.6 million last year. Of this £4.9 million improvement, foreign exchange translation accounted for £1.2 million, and the inclusion of Revere for a full year accounted for a further £1.7 million. The balance of the improvement in trading profit arose from the volume improvements in the gas cylinder and magnesium operations and the success in achieving price increases to offset the significant increases in raw material and utility costs. Our zirconium operation's volumes were down as a result of the poor state of automotive demand. Trading profit as a percentage of sales revenue was 8.7% compared to 8.3% for 2007. In US dollars our trading profit before exceptional items was $41.9 million compared to $35.3 million in 2007.

Exceptional items

The cost of exceptional items provided in the year totalled £1.9 million. Of this £0.2 million related to the rationalisation of our production facilities within our US Gas Cylinder division and within our magnesium photo engraving operations. We have responded to the downturn in automotive demand by putting our US zirconium operation on short time working and by implementing redundancies at our UK zirconium operation and at our Czech Republic magnesium recycling operation. The cost of this redundancy programme was £1.0 million. Within the Gas Cylinders division the rationalisation loss on the disposal of property, plant and equipment was £0.5 million. We also provided an additional £0.2 million in relation to environmental issues.

In 2007 there was a £4.7 million charge in relation to the rationalisation of our gas cylinder operations in the US and £0.6 million with regard to the rationalisation of production facilities following our acquisition of Revere. We also provided a £0.5 million for environmental costs relating to TCE contamination at our former Speciality Aluminium site and £0.5 million relating to the landfill site owned by the Elektron division.

Profit on operations before interest and tax

The operating profit after exceptional items was £20.6 million for the year, compared to £11.3 million in 2007. EBITDA for our ongoing operations and before exceptional items was £30.5 million compared to £24.9 million last year.

Finance costs

Net interest costs payable during the year were £9.4 million, comprising £8.3 million relating to bond interest on the Senior Notes due 2012, £1.0 million to other bank borrowings and £0.1 million relating to the amortisation of loan issue costs.

Net interest costs in 2007 of £10.5 million comprised £1.3 million of bond interest on the Senior Notes due 2009, £7.5 million of bond interest on the Senior Notes due 2012, £1.6 million on other bank borrowings and £0.1 million relating to the amortisation of loan issue costs. In 2007, the profit on operations before taxation included an exceptional gain of £56.0 million on the Senior Note exchange which arose from the capital reorganisation implemented in February 2007. This is detailed in Note 2 to the accounts. The Group also provided for £0.6 million of dividends relating to the Group's preference shares in 2007.

Taxation

The tax expense of £4.3 million is against a profit before tax of £11.2 million. The tax expense is split between a corporation tax charge of £2.8 million and a deferred tax charge of £1.5 million.

Discontinued operations

No operations were discontinued during 2008. In 2007, the operating loss of £1.9 million related to our discontinued Speciality Aluminium business and comprised of a trading loss of £0.9 million, a provision of £0.3 million relating to redundancies and a £0.7 million impairment of plant and equipment.

The total retained profit of the Group for the year after discontinued operations was £6.9 million compared to a profit in 2007 of £51.7 million, which included the £56.0 million exceptional gain arising on the Senior Note exchange.

Cash Flow

Net cash flows from continuing operating activities of £20.2 million were £8.0 million higher than 2007. Of this increase £9.3 million arose from the improvement in operating profit from continued operations.

The increase in Working capital cost us £3.2 million more in cash terms during the year, compared to an increase of £6.6 million in 2007. The increase in the cash cost of inventory was £7.3 million, reflecting the significantly higher cost of magnesium and the fact that we had bought-forward metal as a hedge against the steep rise in magnesium costs.

Capital expenditure on property, plant and equipment in the year of £12.0 million was £2.4 million higher than 2007, and in line with the strategy outlined to investors at the time of the capital reorganisation, to increase our investment and improve profitability. Within the Gas Cylinder division, the major expenditure has been targeted at the rationalisation of our aluminium facilities, the increased automation of our composite facilities and the expansion of our capability to produce a wider range of Alternative Fuel composite cylinders. At our Superform UK business, the major project was the installation of a new press and production line to increase the operation's capacity and capability. We have also established facilities within our magnesium operations to be able to produce superplastic aluminium feedstock for our Superform operations.

Within the Elektron division we have invested in projects to reduce the cost of production of both our zirconium and magnesium products and we have purchased a press to extend our range of magnesium alloy extrusions.

In January we completed the sale of the business and assets of our Speciality Aluminium division for a gross consideration of £6.0 million. The consideration payable was split between £3.6 million received for working capital and a deferred amount of £2.4 million for plant and equipment, payable in annual instalments over the next five years.

Interest costs paid during the year total £9.7 million. These costs include £8.4 million paid on the Senior Notes due 2012 and £1.3 million in bank interest. In 2007 we paid £10.3 million in settlement of all interest accrued on the Senior Notes due 2009 and as part of the financial reorganisation, a further £3.1 million of new Senior Notes were issued at par for a cash consideration of £3.1 million and management purchased shares from the ESOP for a cash consideration of £0.4 million. Financing costs paid during 2007 relating to the reorganisation amounted to £3.0 million.

The net cash inflow for the year following our trading activities and the sale of our Speciality Aluminium division was £1.2 million. We repaid £1.8 million of our bank facilities and reduced our cash balance by £0.6 million. At the end of the year we had drawn down £26.9 million on our bank facility and had a cash balance of £2.0 million.

Capital Reorganisation

On 6 February 2007, the Group completed a capital reorganisation which eliminated the liability associated with the Group's preference shares and also achieved a reduction of £59.5 million in the Group's senior unsecured debt, offset by the increase in senior secured debt in order to meet the funding requirements of the reorganisation. The details of the reorganisation are explained in Note 2.

Shareholder Funds & Borrowings

Shareholder funds at the end of the year were £23.2 million compared to £22.6 million at the end of 2007.

The gain on the consolidated statement of recognised income and expense for the year of £0.6 million included £16.2 million exchange gain on the translation of foreign operations, a loss of £3.3 million on cash flow hedges, an actuarial loss of £29.3 million on our defined benefit pension schemes and a deferred tax benefit on the actuarial loss of £9.1 million.

Banking Facilities

The Group has renewed its £45.0 million facility, which now expires in April 2011. Included within the facility is the provision for up to £10.0 million of ancillary financing for letters of credit, bank guarantees and foreign exchange hedging. The facility is provided through asset-backed financing arrangements in the UK and the US and is secured over substantially all of the operating assets of the Group in the UK and the US.

Treasury

The Group operates a central treasury function that controls all borrowing facilities, the 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 monitors these risks.

Pension Plans

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

At the end of 2005, 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 in that year.

At 31 December 2008 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 £28.7 million (2007: £1.6 million) and £19.3 million (2007: £1.1 million) net of the related deferred tax asset.

The last full actuarial valuation of the UK defined benefit scheme as at April 2006 identified a deficit of £15.1 million, and it is this figure that drives the Group's contributions into the scheme.

Interest Rate Risk

In addition to the bank facility, interest on the Group's Senior Notes due 2012 is at a variable rate based on six-month LIBOR plus 5.5% to 6% depending on the credit rating of the notes. At the Group's discretion 1% (1.5% if the interest rate is LIBOR plus 6%) may be paid in kind through the issue of new notes. The rate payable at the end of December was 11.45% being 5.5% above the relevant LIBOR rate.

Metal Cost Risk

In 2008 the Group purchased approximately 15,000 tonnes, of primary aluminium of which approximately 3,000 tonnes of process scrap was sold at market prices.

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 movements in the Group's metal cost to the customer. At the end of December 2008 the Group had 300 tonnes hedged and a further 5,907 tonnes of fixed price purchase agreements representing approximately 60% to 65% of the planned usage for 2009.

In addition, the Group, following the acquisition of Revere, purchases approximately 10,000 tonnes of primary magnesium, and in the latter half of 2008 we have seen significant price increases in the cost of this metal. Magnesium is not traded on the London Metal Exchange so we are not able to maintain a hedge position.

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 2008 cover a relatively small proportion of forecast currency revenues in 2009. 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.

Stephen Williams
Group Finance Director

Peter Joseph Kinder Haslehurst (68), Non-Executive Chairman

Appointed Chairman in March 2006, Peter has been a Non-Executive Director of the Company since June 2003. A Chartered Engineer, a Companion of the Chartered Management Institute and a fellow of the Institution of Mechanical Engineers, the Institution of Engineering and Technology, the RSA and also the Institute of Materials, Minerals and Mining, where he is a past vice president. Peter has been a managing director/chief executive and chairman in international manufacturing industry for 40 years. From 1985 to 1999 he was chief executive of the EIS Group PLC. He was chairman of the Brunner Mond Group from 2000 to 2008, stepping down an agreed 2 years after the company was sold, tripling shareholder value, in 2006. He holds a number of other non-executive directorships and appointments including non-executive director of ECGD (Export Credits Guarantee Department of BERR), chairman of Imago at Loughborough, chairman and Vice Commodore of the Royal Thames Yacht Club Ltd and president emeritus of VAI Industries (UK), following chairmanship of VA Tech (UK) from 1999 to 2002. He was made an Eisenhower Fellow in 1980, an honorary Doctor of Science at Loughborough University in 2008 and is a Freeman of the City of London. He also chairs both the Audit and Remuneration Committees.

Brian Gordon Purves (54), Chief Executive

Appointed as Chief Executive in 2002, Brian has been a Director of the main Board of Luxfer Group since its formation in 1996, serving as Finance Director from 1996 to 2002. He was also a member of the management buy-in team. He is a qualified accountant with a degree in physics and a masters in business studies. Prior to joining the Luxfer Group he held senior positions in Land Rover and Rover Group covering both financial and commercial responsibilities.

Stephen Norman Williams (57), Group Finance Director

Appointed as Group Finance Director in 2002 when he took on the role 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 by Alcan.

Joseph Allison Bonn (65), Non-Executive Director

Appointed as a Non-Executive Director in March 2007. Joe has extensive experience in the aluminium and specialty chemical industry having worked for Kaiser Aluminium and Chemical Corporation for over 35 years in various senior capacities. Since leaving Kaiser in 2004 he has acted as a consultant to various corporations, investment banks and financial organisations in M & A, restructuring, due diligence and board activity matters. Among other appointments in the US he has served on the Board and Executive Committee of the Aluminium Association, the Board of the National Association of Purchasing Management, and the International Primary Aluminium Institute Board. He is a US citizen and resides in the US. Joe is a member of both the Audit and Remuneration Committees.

Kevin Flannery (64), Non-Executive Director

Appointed as a Non-Executive Director in June 2007. Kevin has extensive experience in Corporate Finance, pursuing a career on Wall Street for over 24 years. Since leaving Bear Stearns in 1992 he has worked for Whelan Financial Corporation, becoming President & Chief Executive in 2004. He has also held the position of Chairman and Chief Executive with both Telespectrum Worldwide, Inc (2002-04) and RoweCom, Inc (2003-04). He is engaged in Corporate Advisory work with several US corporations and since 1997 has held directorships with several US companies, including Geneva Steel Company, Sheffield Steel Company and Raytech Corporation. He is a US citizen and resides in the US. Kevin is a member of both the Audit and Remuneration Committees.

MEMBERS OF THE EXECUTIVE MANAGEMENT BOARD

Brian Gordon Purves (54), Chief Executive

Please refer to the main Board biographies on page 15.

Stephen Norman Williams (57), Group Finance Director

Please refer to the main Board biographies on page 15.

Andrew Michael Beaden (41), Director of Planning and Finance

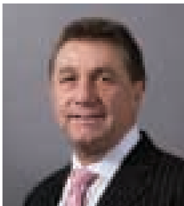
Andy was appointed to the Executive Management Board in January 2006. He joined the Luxfer Group in 1997 and was promoted to Group Financial Controller in 2002. Andy is a qualified Chartered Accountant who has worked for KPMG, as well as several UK FTSE 100 companies in a variety of financial roles. He has an Economics honours degree from Nottingham University.

Christopher John Hilary Dagger (60), Managing Director of Magnesium Elektron

Chris was appointed to the Executive Management Board in 2001 on assuming responsibility for Luxfer's Magnesium businesses. He joined the Luxfer Group in 1999 as Managing Director of Magnesium Elektron UK and became Divisional Managing Director in 2001. Prior to this he held a number of positions within Alcan Aluminium over 20 years in businesses ranging from stockholders, gas cylinder manufacture, extrusions to smelting.

Edward John Haughey (53), Managing Director of MEL Chemicals

Eddie was appointed to the Executive Management Board on his appointment as Managing Director of Luxfer´s Zirconium businesses in 2003. Eddie joined the Luxfer Group from Croda International Plc where he held the post of Managing Director of Croda Colloids Limited. He is a graduate in chemistry and has held a series of senior general management positions in the Croda Group, BASF and Rhone Poulenc.



John Stephen Rhodes (59), President of Luxfer Gas Cylinders

John has been a member of the Executive Management Board since the formation of the Luxfer Group. He joined Alcan in 1974 following 3 years with The British Council, and has a BSc (Hons) from London University. He initially worked in HR and, after post graduate studies at Cranfield, he moved into Sales & Marketing within the Alcan Distribution business becoming Managing Director in 1986. In 1989 he became Director of Business Development for the Enterprise Division of Alcan and following that Managing Director of Superform in 1991. John moved to the US in 1994 to become President of Luxfer Gas Cylinders.

Linda Frances Seddon (58), Company Secretary and Legal Adviser

Linda was appointed to the Executive Management Board in 2001. She qualified as a solicitor in 1976. After 14 years in private practice she joined industry in 1990 initially as an in-house legal adviser dealing with general commercial, property, IP, M & A and corporate matters. Subsequently she added the role of group company secretary. She joined the Luxfer Group in 1997 as Company Secretary and Legal Adviser.

The Directors of the Company during the year ended 31 December 2008 were Peter Haslehurst, Brian Purves, Stephen Williams, Joseph Bonn and Kevin Flannery. They all served throughout the year. Their brief biographical details, membership of Board Committees and main outside commitments are shown on page 15.

There were no changes in membership of the Board or of the Board Committees during the year.

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 following exceptions: in the case of the executive directors their individual service contract; in the case of the non-executive directors their engagement letters or the contract for services under which their services as a director of the Company are provided; and Brian Purves, Steve Williams and Peter Haslehurst are party to the Management Incentive Plan ("MIP") described below.

The interests of the Directors who held office at 31 December 2008 and their families in the share capital of the Company are set out in Table 2 *'Directors' Shareholdings in the Company'* and Table 3 *'Options held by Directors'* below. All of the interests were beneficial.

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

Management Share Incentives

In February 2007, the Company entered into a share incentive arrangement, the Management Incentive Plan ("MIP"), with a group of senior managers, including certain Directors being Peter Haslehurst, Brian Purves and Stephen Williams, established to promote the success of the Group and incentivise certain Directors and senior management by providing them the opportunity to share in any increase in the long term value of the Group. On establishment of the MIP, out of the 1.3 million ordinary shares of £1 each held by MIP members (including the Directors identified above) 800,000 shares were restricted shares held subject to the provision of the MIP and subject to contractual restrictions whereby they waive their economic rights, benefits and/or entitlement as holders of restricted ordinary shares (such as their rights to receive dividends or distributions from the Company) until certain specified EBITDA targets are attained. MIP members also waive their entitlement to transfer any restricted ordinary shares, other than in accordance with certain leaver provisions set out in the MIP, whether or not the EBITDA targets have been attained. However, all restricted ordinary shares of £1 each held by management (including the Directors) carry the same voting rights per share as any other ordinary share of £1 each, with very limited exceptions.

The Board has determined pursuant to the rules of the MIP that at the 31 December 2008 the Company acheived a MIP defined EBITDA of £30.5 million exceeding the first adjusted MIP target of £29.2 million. Under the rules of the MIP a further 262,500 of the 800,000 restricted shares become classified as Unrestricted Shares. The division between restricted shares and unrestricted shares held by the Directors in Table 2 does not reflect the lifting of these restrictions, which occurred after the year end.

No performance conditions apply to any options held by the Executive Directors during the year that relate to their exercise.

Table 2: Directors' Shareholdings in the Company – Audited

	Held at 1 Jan 2008 and 31 Dec 2008 Ordinary shares of £1 each			Held at 1 Jan 2008 and 31 Dec 2008	
	Restricted	Unrestricted	Total	'B' Preference £1 each (25% paid)	Deferred shares £0.0001 each
Directors:	**No.**	**No.**	**No.**	**No.**	**No.**
Peter Haslehurst	**40,000**	**25,000**	**65,000**	**-**	**5,920,598,526**
Brian Purves*	**200,000**	**124,999**	**324,999**	**25,000**	**29,602,992,629**
Stephen Williams**	**52,000**	**37,500**	**89,500**	**-**	**7,341,542,172**

* Includes Brian Purves' beneficial holding through BG Purves Retirement Trust.
** Includes shares held in Stephen Williams' SIPP.
Restricted ordinary shares are held subject to the provisions of the MIP – see above.

Table 3: Options held by Directors – Audited

	Options held at 31 December 2008	Options held at 1 January 2008	Options granted in year	Options exercised in year	Options lapsed in year
Executive Directors:	**No.**	**No.**	**No.**	**No.**	**No.**
Stephen Williams					
Ordinary share of £1 each* – Restricted	**8,000**	**8,000**	**-**	**-**	**-**

* Exercise price of 97p

Directors' Remuneration

Executive Directors – The remuneration packages of the Executive Directors are determined by the Company's Remuneration Committee on a consistent basis with the policy for senior executive remuneration within the Group. The Committee also determines compensation packages for exiting executives when appropriate.

Remuneration packages aim to attract, retain and incentivise high calibre managers and reward individual performance. On appointment and periodically thereafter the Committee benchmarks executive remuneration packages against appropriate comparators.

The reward structure for the Executive Directors and other senior executives in the Group comprises the following elements:

- **Basic salary** which takes into account market rates, affordability, the responsibilities of the position held, the experience and contribution of the individual executive and the international scale of the Group's operations. Basic salary is reviewed annually.
- **Annual bonus** based on achievement against financial targets. These financial targets are set in January of each year and for the Executive Directors are primarily based on Group trading profit and annual pre-interest cash flow, measured against the approved annual budget. 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. There is a maximum annual bonus payable of a pre-defined percentage of annual salary related to the individual's position in the Group. The Executive Directors' maximum percentage bonus achievable is normally 50% of basic salary. Maximum percentage bonus is payable only for achieving specified stretch targets beyond budget in the target areas. In addition, the Remuneration Committee has determined to consider each year offering to the Executive Directors as an incentive, an additional percentage bonus over and above the pre-defined maximum annual bonus payable only on achievement of specific additional targets set by them aligned with the requirements of the business. The Executive Directors' bonus is not normally pensionable, however, the Committee determined that for 2008 a percentage of Stephen Williams' bonus would be pensionable. The sums paid are included in the figures set out for Stephen Williams in *'Pensions – defined contribution'* below.
- **Benefits** consisting of membership of pension schemes, company car or car allowance, medical, dental and life insurance and participation in the Group's share option scheme.

Non-Executive Directors – The remuneration of the Chairman and the Non-Executive Directors consists of an annual fee for their services as members of the Board and Committees which is reviewed annually. Non-Executive Remuneration is determined by the Board and benchmarked against appropriate comparators on appointment and periodically thereafter.

Table 4 details the remuneration payable to each Director in respect of the year ended 31 December 2008, together with comparative totals in respect of the year ended 31 December 2007.

Table 4: Directors' Remuneration for the year ended 31 December 2008 – Audited

	Salary/Fees	Annual Bonus	Benefits	Total 2008	Total 2007
Executive Directors:	**£**	**£**	**£**	**£**	£
Brian Purves	**254,604**	**101,842**	**17,627**	**374,073**	264,524
Stephen Williams	**141,804**	**56,722**	**13,868**	**212,394**	152,407
Non-Executive Directors:					
Peter Haslehurst*	**77,250**	**-**	**-**	**77,250**	75,000
Joseph Bonn	**36,050**	**-**	**-**	**36,050**	29,167 **
Kevin Flannery	**36,050**	**-**	**-**	**36,050**	20,417 **
Non-Executive Special Directors:					
Graham Thomas	**-**	**-**	**-**	**-**	3,041 ***
Total	**545,758**	**158,564**	**31,495**	**735,817**	544,556

* Fees paid to third party for services provided as a Director.
** Fees paid from date of appointment.
*** Fees paid to date of resignation.

Pensions

During the year, Brian Purves and Stephen Williams participated in the Group's contributory pension arrangements.

Pensions - defined benefit

Changes were made to the defined benefit pension arrangements from 6 October 2007, the result of which is that the defined benefit pension accrual rate for both Executive Directors reduced from 7/400ths (1.75%) to 6/400ths (1.5%) of pensionable earnings for each year of service, from 6 October 2007, where pensionable earnings are restricted to a scheme specific earnings cap of £65,000 per annum (£63,000 for 2007/2008), with employer and employee contributions in respect of salary above this level being made into the Company's defined contribution arrangements. Member contributions for both Executive Directors in 2008 were 9.8% of capped pensionable earnings into the defined benefit scheme and 7.4% of pensionable earnings above the defined benefit salary cap. 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 in Table 5.

Table 5: Directors' Pension Benefits for the year ended 31 December 2008 – Audited

Pensions – defined benefit ***Executive Directors:***	**Accumulated total accrued pension at 31 December 2008**	**Increase in accrued pension over year to 31 December 2008**	**Transfer value of increase/(decrease)**
Brian Purves	£25,874 pa	£869 pa	£5,499
Stephen Williams	£33,002 pa	£869 pa	£6,273

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.
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. The transfer value has been calculated on the basis set by the Trustees of the Luxfer Group Pension Plan under legislation, less contributions paid by the Directors themselves.
5. We have allowed for Brian Purves and Stephen Williams to have both contributed £5,866 over the year. This is based on 9.8% of the salary cap less State Pension Deduction.
6. Neither Additional Voluntary Contributions nor their resulting benefits are included in the above table.

Pensions - defined contribution

The defined contributions made in respect of Brian Purves were divided between the Group's registered contribution arrangements and a personal pension plan. The Company's contributions to the Group registered defined contribution arrangements in respect of Brian Purves over the year to 31 December 2008 (which are subject to a cap) were £19,114 (2007: £17,690) and to his personal arrangements were £44,810 (2007: £43,296).

For Stephen Williams, the Company paid £33,546 (2007: £24,826) into the Group's registered defined contribution arrangements including for 2008 pensionable bonus.

In October 2008 the Group's registered defined contribution arrangments were switched from a trust based occupational plan to a Group personal pension plan. The contributions shown above are the combined payments made by the Company to the two arrangements in respect of the Executive Directors over the year.

The Directors support the principals of corporate governance in so far as is practical for a company of it's size.

Board of Directors

Board composition – In 2008, the Board of Directors consisted of five members, the maximum number permitted under the articles of association of the company: a Non-Executive Chairman, two Non-Executive Directors and two Executive Directors. The Executive Directors and Chairman are also shareholders.

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. 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 15.

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.
- Health and safety is considered as an element in the Group's corporate risk assessment.
- Each operating site has a designated health and safety officer 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 on site.
- 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. There are also regional periodic meetings of health and safety officers from operating units across the Group.
- Professional expertise is sourced as and when appropriate.
- A quarterly report is made to the Board by the Chief Executive 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 site-specific Environmental Management System ("EMS") with which all operating sites are required to comply. The Group is committed to achieve ISO 14001 certification at larger sites and several business units have already achieved this standard. Many of the elements of the current EMS and work carried out for IPPC registration are consistent with ISO 14001.
- All UK manufacturing sites that require IPPC permits have attained them.
- The environment is managed and reported on at various levels within the Group. 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 Chief Executive reports to the Board annually 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. Policies are reviewed periodically as circumstances dictate.
- 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.

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 and discussed, policies agreed and appropriate measures implemented.

OTHER STATUTORY INFORMATION

Risks and Uncertainties

Risks and uncertainties facing the Group are discussed in their context in the Chief Executive's Review and the Finance Review earlier in this report and in Note 27 to the Group financial statements.

Dividend

No dividend has been paid and the Directors do not recommend a dividend on the ordinary shares of £1 each.

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, share ownership and other performance related incentives. 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 £3.8 million in research and development on new and improved products and processes. This compares with a total spend in 2007 of £3.2 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 2008 the Group had an average of 48 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 £30,000 (2007: £24,000).

Post Balance Sheet Events

At the beginning of March 2009 the Group agreed to renew its £45 million revolving credit facility with a major international bank for another two year term from the expiry of the old facility in April 2009. Further details of the renewed facility are disclosed in the Finance Review.

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.

Directors' Liabilities

During the year the Company had in force an indemnity provision in favour of the Directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985.

Directors' Statement as to Disclosure of Information to Auditors

The Directors who were members of the Board at the time of approving the directors' report are listed on page 15. Having made enquiries of fellow Directors and of the Company's auditors, each of those Directors confirms that:

- to the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors are unaware; and
- each Director has taken all steps a Director may be reasonably expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

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 March 2009

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; and
- 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.

Luxfer Board of Directors 2008

We have audited the group financial statements of Luxfer Holdings PLC for the year ended 31 December 2008, which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Recognised Income and Expense, the related notes 1 to 32 and tables 2 to 5 in the Directors' Report marked as audited. 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 2008.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the 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 are 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 whether in our opinion the information given in the Directors' report is consistent with the financial statements. The information given in the Directors' report includes that specific information presented in the Chief Executive's Review and Finance Review that is cross referred from the Business and Principal Activities section of the Directors' report and specific information presented in the Finance Review that is cross referred from the Financial Instruments section of the Directors' Report.

In addition we report to you if, in our opinion, 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 the 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 and the Finance Review. 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 2008 and of its profit for the year then ended;
- have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' report is consistent with the group financial statements.

Ernst & Young LLP
Registered Auditor
Manchester
26 March 2009

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

CONTINUING OPERATIONS	Notes	2008 £M	2007 £M
REVENUE	3	**257.7**	212.7
Cost of sales		**(206.9)**	(171.8)
Gross profit		**50.8**	40.9
Other income		**0.2**	0.1
Distribution costs		**(4.5)**	(3.9)
Administrative expenses		**(24.0)**	(19.5)
TRADING PROFIT		**22.5**	17.6
Exceptional items	5	**(1.9)**	(6.3)
OPERATING PROFIT	4	**20.6**	11.3
PROFIT ON OPERATIONS BEFORE INTEREST AND TAX		**20.6**	11.3
Exceptional gain on Senior Note exchange	2	**-**	56.0
Finance income	7	**0.2**	-
Finance costs:			
Interest costs	8	**(9.6)**	(10.5)
Preference share dividend	2, 8	**-**	(0.6)
PROFIT ON OPERATIONS BEFORE TAXATION		**11.2**	56.2
Tax expense	9	**(4.3)**	(2.6)
PROFIT FOR THE FINANCIAL YEAR ON CONTINUING ACTIVITIES		**6.9**	53.6
Loss for the year from discontinued activities	3, 10	**-**	(1.9)
PROFIT FOR THE YEAR		**6.9**	51.7
Attributable to:			
Equity shareholders		**6.8**	51.7
Minority shareholders		**0.1**	-
		6.9	51.7

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE FOR THE YEAR ENDED 31 DECEMBER 2008

	2008 £M	2007 £M
Income and expense recognised directly in equity		
Exchange differences on translation of foreign operations	**16.2**	1.0
Fair value movements in cash flow hedges	**(3.3)**	(1.2)
Actuarial (losses)/gains on defined benefit retirement schemes	**(29.3)**	14.9
Deferred tax on items taken directly to equity	**9.1**	(4.6)
Net (expense)/income recognised directly in equity	**(7.3)**	10.1
Transfers to income statement on cash flow hedges	**1.0**	0.3
Profit for the year	**6.9**	51.7
TOTAL RECOGNISED INCOME AND EXPENSE	**0.6**	62.1
Attributed to:		
Equity shareholders	**0.5**	62.1
Minority interests	**0.1**	-
	0.6	62.1

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2008

	Notes	**2008 £M**	2007 £M
ASSETS			
Non-current assets			
Property, plant and equipment	12	**72.2**	55.9
Intangible assets	13	**24.0**	23.8
Investments	15	**0.1**	0.1
Deferred tax assets	23	**8.1**	0.3
Other non-current assets	24	**1.9**	-
		106.3	80.1
Current assets			
Inventories	16	**59.1**	41.5
Trade and other receivables	17	**36.7**	30.6
Income tax receivable		**-**	0.2
Cash and short term deposits	18	**2.0**	2.2
		97.8	74.5
Assets classified as held for sale	10	**-**	7.0
TOTAL ASSETS		**204.1**	161.6
EQUITY AND LIABILITIES			
Capital and reserves attributable to the Group's equity holders			
Ordinary share capital	19	**10.0**	10.0
Deferred share capital	19	**76.9**	76.9
Retained earnings	20	**131.5**	144.9
Own shares held by ESOP	2	**(0.4)**	(0.4)
Hedging reserve	20	**(3.3)**	(1.0)
Translation reserve	20	**15.1**	(1.1)
Merger reserve	20	**(207.5)**	(207.5)
Equity attributable to the equity holders of the parent		**22.3**	21.8
Minority interests	31	**0.9**	0.8
Total equity		**23.2**	22.6
Non-current liabilities			
Senior loan Notes due 2012	21	**71.6**	71.5
Retirement benefits	29	**28.7**	1.6
Preference shares	19	**0.1**	0.1
Provisions	22	**1.8**	3.1
Deferred tax liabilities	23	**0.4**	-
		102.6	76.3
Current liabilities			
Bank loans and overdrafts	21	**26.9**	24.7
Trade and other payables	25	**46.5**	33.5
Current income tax liabilities		**1.1**	-
Provisions	22	**3.8**	3.1
		78.3	61.3
Liabilities classified as held for sale	10	**-**	1.4
Total liabilities		**180.9**	139.0
TOTAL EQUITY AND LIABILITIES		**204.1**	161.6

SIGNED ON BEHALF OF THE BOARD

Brian Purves **Stephen Williams**
26 March 2009

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	**2008 £M**	**2008 £M**	2007 £M	2007 £M
CASH FLOWS FROM OPERATING ACTIVITIES					
Operating profit		**20.6**		11.3	
Less: loss from discontinued activities	10	**-**		(1.9)	
Adjustments for:					
Depreciation and amortisation		**8.0**		7.6	
Impairment of property, plant and equipment	10, 12	**-**		2.3	
Loss on disposal of property, plant and equipment	4	**0.5**		-	
Increase in inventories		**(7.3)**		(3.1)	
Decrease in receivables		**3.0**		1.1	
Increase/(decrease) in payables		**1.1**		(4.6)	
Decrease in retirement benefits	29	**(2.6)**		(1.8)	
(Decrease)/increase in provisions	22	**(1.4)**		2.6	
Income tax paid		**(1.9)**		(3.1)	
NET CASH FLOWS FROM OPERATING ACTIVITIES			**20.0**		10.4
Net cash inflow from continuing operating activities			***20.2***		*12.2*
Net cash outflow from discontinued operating activities			***(0.2)***		*(1.8)*
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of property, plant and equipment		**(12.0)**		(9.6)	
Purchase of intangible assets		**(0.3)**		(0.1)	
Proceeds on disposal of property, plant and equipment (net of costs)		**0.2**		0.1	
Purchase of business (net of costs)	11	**(0.2)**		(7.3)	
Proceeds from sale of business (net of costs)	10	**3.2**		-	
NET CASH USED IN INVESTING ACTIVITIES			**(9.1)**		(16.9)
NET CASH FLOW BEFORE FINANCING			**10.9**		(6.5)
FINANCING ACTIVITIES					
Net interest paid on banking facilities		**(1.3)**		(1.4)	
Interest paid on Senior Notes due 2009	2	**-**		(10.3)	
Interest paid on Senior Notes due 2012		**(8.4)**		(6.1)	
Subscription for Senior Notes due 2012	2	**-**		3.1	
Capital reorganisation – financing costs	2	**-**		(3.0)	
Purchase of shares from ESOP	2	**-**		0.4	
Draw down of banking facilities		**-**		22.7	
Repayments of banking facility		**(1.8)**		-	
NET CASH FLOWS FROM FINANCING ACTIVITIES			**(11.5)**		5.4
NET DECREASE IN CASH AND CASH EQUIVALENTS			**(0.6)**		(1.1)
Net decrease in cash and cash equivalents			**(0.6)**		(1.1)
Net foreign exchange difference			**0.4**		0.1
Cash and cash equivalents at 1 January	18		**2.2**		3.2
Cash and cash equivalents at 31 December	18		**2.0**		2.2

1. ACCOUNTING POLICIES

Authorisation of financial statements

The Group's financial statements for the year ended 31 December 2008 were authorised for issue by the Board of Directors on 26 March 2009 and the balance sheet was signed on the Board's behalf by BG Purves and SN Williams. Luxfer Holdings PLC is a company incorporated and domiciled in England and Wales.

Basis of preparation and statement of compliance with IFRS

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union as they apply to the financial statements of the Group for the year ended 31 December 2008 and applied in accordance with the Companies Act 1985. 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 consolidated financial statements are presented in pounds sterling and all values are rounded to the nearest £0.1 million except when otherwise indicated.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Luxfer Holdings PLC and its subsidiaries as at 31 December each year. The financial statements consolidated of the 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.

The accounting policies which follow set out those polices which apply in preparing the financial statements for the year ended 31 December 2008.

Business combinations and goodwill

Goodwill on the acquisition of a business is initially measured at purchase 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 the income statement and is not subsequently reversed.

Impairment is determined by assessing the recoverable amount of a cash generating 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 business, 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 are measured initially at purchase cost and are amortised on a straight-line basis over the lower of their estimated useful lives, or legal life, this being 17 to 20 years. The carrying values are reviewed for impairment when events or changes in circumstances indicate that the 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 is 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. The annual charge is 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.

For any specific cash generating units 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 of the cash generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of the net selling price and the value in use.

1. ACCOUNTING POLICIES (continued)

In assessing the 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 costs comprise direct materials and, where applicable, direct labour costs, an apportionment of production overheads and any other 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.

Research and development

Research expenditure is written off as incurred. Internal development expenditure is charged to the income statement in the year it is incurred unless it meets the recognition criteria of IAS 38 “Intangible Assets”. Regulatory and other uncertainties generally mean that such criteria are not usually met. Where, however, 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 borrowings 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 in the income statement in the period in which the operation is disposed.

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, investments in associates, 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 substantially 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.

Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items, 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.

1. ACCOUNTING POLICIES (continued)

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 leased 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 Credit 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 asset concerned.

Discontinued operations and assets and liabilities held for sale

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 activities 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.

Assets (or disposal groups) held for sale are classified as assets held for sale and stated at the lower of their carrying amount and fair value less costs to sell, if their carrying amount is recovered principally through a sale transaction rather than through continuing use. Assets held for sale are no longer amortised or depreciated from the time they are classified as such.

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

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
Interest bearing bank loans and overdrafts are recorded at the fair value of the proceeds received. Issue costs relating to revolving credit facilities and overdrafts are written off directly to the income statement when incurred. Issue costs relating to fixed term loans are charged to the income statement using the effective interest method and are added to the carrying amount of the fixed term loan.

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 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 the income statement.

1. ACCOUNTING POLICIES (continued)

In relation to derivative financial instruments used to hedge a forecast transaction, 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 the income statement. Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss.

Financial liabilities and equity instruments
Financial liabilities and equity instruments issued by the Group are recorded at the proceeds received.

Financial liabilities and equity instruments are all instruments that are issued by the Group as a means of raising finance, including shares, loan notes, debentures, debt instruments and options and warrants that give the holder the right to subscribe for or obtain financial liabilities and equity 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. The finance costs incurred in respect of an equity instrument are charged directly to the income statement. Other instruments are classified as financial liabilities if they contain a contractual obligation to transfer economic benefits.

Critical accounting judgements and key sources of estimation of uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below. The judgements used by management in the application of the Group's accounting policies in respect of these key areas of estimation are considered to be the most significant.

Impairment of non-financial assets
The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill is tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amount may not be recoverable.

When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Details regarding goodwill and assumptions used in carrying out the impairment review are provided in Note 14.

Pensions
Determining the present value of future obligations of pensions requires an estimation of future mortality rates, expected rates of return on assets, future salary increases, future pension increases and discount rates. These assumptions are determined in association with qualified actuaries. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. The pension liability at 31 December 2008 is £28.7 million (2007: £1.6 million). Further details are given in Note 29.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended standards and interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial statements of the Group.

Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets

IFRIC 11 IFRS 2 – Group and Treasury Share Transactions

IFRIC 12 Service Concession Arrangements

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The principal effects of these changes are as follows:

IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets (Amendments)
These amendments allow the Group to reclassify certain financial instruments from held for trading and available for sale categories. As the Group has no financial instruments in either of these categories, the amendments had no impact on the financial position or performance of the Group.

IFRIC 11 IFRS 2 – Group and Treasury Share Transactions
This interpretation requires IFRIC 11 to be applied to any arrangements whereby an employee has rights to the Group's equity instruments to be accounted for as an equity-settled scheme. As equity instruments are only issued to employees in accordance with the Luxfer Group Employee Share Ownership Plan, the interpretation had no impact on the financial position or performance of the Group.

1. ACCOUNTING POLICIES (continued)

IFRIC 12 Service Concession Arrangements

This interpretation provides guidance on the accounting by operators of public-to-private service concession arrangements. As the Group has no public-to-private service concessions, the interpretation had no impact on the financial position or performance of the Group.

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

This interpretation addresses how to assess the limit, under IAS 19 Employee Benefits, on the amount of the surplus that can be recognised as a defined benefit pension asset, particularly when a minimum funding requirement exists. At present the pension schemes are in a deficit and as such IFRIC 14 has not had an impact on the Group's financial position or performance. However, the adoption of IFRIC 14 could limit the recognition of any defined benefit asset that might arise in the future on the Group's defined benefit retirement schemes.

New standards and interpretations not applied

During the year, the IASB and IFRIC 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 to IFRS 1 First-time Adoption of International Financial Reporting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	1 January 2009
IFRS 2	Amendment to IFRS 2 Share-based Payment - Vesting Conditions and Cancellations	1 January 2009
IFRS 8	Operating Segments	1 January 2009
IAS 1	Presentation of Financial Statements (Revised)	1 January 2009
IAS 23	Borrowing Costs (Revised)	1 January 2009
IAS 27	Amendments to IAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	1 January 2009
IAS 32	Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation	1 January 2009

International Financial Reporting Interpretations Committee (IFRIC)		
IFRIC 13	Customer Loyalty Programmes	1 July 2008
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	1 October 2008

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. However, the adoption of IFRS 8 Operating Segments will give rise to additional segmental disclosure made by the Group effective from 1 January 2009.

2. CAPITAL REORGANISATION

On 6 February 2007, Luxfer Holdings PLC entered into schemes of arrangement pursuant to section 425 of the Companies Act 1985 with the ultimate beneficial holders (the "Noteholders") of its 10.125% Senior Notes due May 2009 and certain of its shareholders, which resulted in a reorganisation of the Group's capital structure.

The capital reorganisation included the following transactions:

- The release and cancellation of the existing fixed rate Senior Notes due 2009 and in return the issue of new floating rate Senior Notes due 2012;
- A payment to settle the outstanding interest accrued on the existing Senior Notes due 2009;
- The exercise by members of the ESOP of all outstanding options with an exercise price of £0.01 over the £0.6487 preference shares and the purchase for cash of a further number of £0.6487 preference shares by management from the Group's ESOP;
- Following the management transactions with the ESOP, the reorganisation of the Company's existing share capital, including the conversion of the £0.6487 ordinary shares and £0.6487 preference shares into a combination of new £1 ordinary shares and £0.0001 deferred shares and the cancellation of the related accrued preference share dividend;
- The purchase of 87% of the new share capital of the Group by the Noteholders for a consideration of £8.5 million; and
- Under the schemes of arrangement the rights and obligations under the Senior Notes due 2009 and the £0.6487 preference shares were cancelled in full.

2. CAPITAL REORGANISATION (continued)

Senior Notes exchange

As a result of the release and cancellation of the Senior Notes due 2009 and, under the capital reorganisation, the issue of new Senior Notes due 2012, an exceptional credit of £56.0 million was recognised in the income statement on 6 February 2007. This was calculated as follows:

	£M
Senior Notes due 2009	131.4
Less deferred issue costs	(1.0)
Senior Notes due 2009 at 6 February 2007	130.4
Add interest accrued:	
From 2 May 2006 to 6 February 2007	10.2
Less fair value of financial instruments exchanged:	
Cash settlement of interest	(10.3)
Senior Notes due 2012	(68.8)
Less transaction costs	(5.5)
Exceptional credit to income statement	56.0

On 6 February 2007 the £131.4 million of Senior Notes due 2009 held by third parties was exchanged for an amount of new Senior Notes due 2012 with a fair value of £68.8 million. A cash payment of £10.3 million was made to these Noteholders in settlement of all interest accrued from 2 May 2006 on the Senior Notes due 2009. The deferred issue costs of £1.0 million on the Senior Notes due 2009 were written off.

A further £3.1 million of new Senior Notes due 2012 were issued at par for a cash consideration of £3.1 million. The total fair value of the new Senior Notes due 2012 issued as part of the capital reorganisation was therefore £71.9 million. The net cash movement on the Senior Notes exchange was an outflow of £7.2 million, being the interest payment of £10.3 million less the cash received for the additional Senior Notes due 2012 of £3.1 million. The Group had already paid £2.6 million of advisory fees in 2006 and approximately £3.0 million of additional fees were paid in 2007. The net cash outflow from the transaction was funded through the Group's short term borrowing facilities.

An estimate of £6.0 million was made for transaction costs incurred by the Group for advisors' fees. Of this amount £5.5 million was written off through the income statement. The remaining £0.5 million has been attributed to the issue costs of the Senior Notes due 2012 and capitalised and is being amortised over the five-year life of the Senior Notes due 2012.

The rights and obligations of the other creditors of Luxfer Holdings PLC and the Group were not affected by the capital reorganisation.

Share capital reorganisation

The share capital reorganisation resulted in a credit of £28.8 million to retained earnings on 6 February 2007 and was calculated as follows:

	£M
Preference share capital held outside ESOP	77.8
Accrued dividend	36.3
Preference share liability as at 6 February 2007	114.1
Ordinary shares	0.9
Total recognised net book value of all share capital instruments prior to reorganisation	115.0
Less share capital instruments in balance sheet after reorganisation:	
£1 'B' preference shares – not converted	(0.1)
£1 ordinary share capital	(10.0)
£0.0001 deferred share capital	(76.9)
ESOP – investment in own shares	0.4
	28.4
Cash received by ESOP from management	0.4
Credit to retained earnings	28.8

On 5 February 2007, all of the £0.01 share options over existing £0.6487 preference shares held by the ESOP were exercised. Members of a new management incentive plan then purchased shares from the ESOP for a consideration of £0.4 million. After the ESOP transactions, preference shares with a par value of £2.3 million were still held by the ESOP. These preference shares were originally purchased for a consideration of £0.4 million and this cost of investment is shown as a separate line item in equity.

The existing £0.6487 ordinary shares and £0.6487 preference shares, excluding 50,000 £1 'B' preference shares, were converted into new £1 ordinary shares and £0.0001 deferred shares, with the £0.9 million par value of £0.6487 ordinary shares and £86.0 million of the £0.6487 preference shares converted into £10.0 million par value of new £1 ordinary shares and £76.9 million par value of £0.0001 deferred shares. An accrued preference share dividend with respect to the £0.6487 preference shares of £36.3 million was also cancelled on 6 February 2007. As part of the capital reorganisation and issue of new shares, new articles of association were adopted for Luxfer Holdings PLC.

3. REVENUE AND SEGMENTAL ANALYSIS

The tables below set out information on the results of the Group's businesses as defined on page 4 of the Directors' Report. All inter-segment sales are made on an arms length basis.

BUSINESS SEGMENTS:

Year ended 31 December 2008

	Gas Cylinders £M	Elektron £M	Unallocated £M	Total Continuing Activities £M
Revenue				
Segment revenue	127.2	130.5	-	**257.7**
Inter-segment sales	-	-	-	**-**
Sales to external customers	127.2	130.5	-	**257.7**
Result				
Trading profit	7.2	15.3	-	**22.5**
Exceptional items (Note 5):				
Rationalisation and redundancy	0.2	(1.4)	-	**(1.2)**
Loss on disposal of property, plant and equipment	(0.5)	-	-	**(0.5)**
Provision for environmental costs	(0.2)	-	-	**(0.2)**
Operating profit	6.7	13.9	-	**20.6**
Net finance costs				**(9.4)**
Profit before tax				**11.2**
Tax expense				**(4.3)**
Net profit for the year				**6.9**
Other segment information				
Segment assets	91.0	96.2	16.9	**204.1**
Segment liabilities	28.8	21.3	130.8	**180.9**
Capital expenditure: Property, plant and equipment	6.0	6.4	-	**12.4**
Capital expenditure: Intangible assets	0.3	-	-	**0.3**
Depreciation and amortisation	3.2	4.8	-	**8.0**

Year ended 31 December 2007

	Gas Cylinders £M	Elektron £M	Unallocated £M	Total Continuing Activities £M	Discontinued Activities – Speciality Aluminium (Note 10) £M	Total £M
Revenue						
Segment revenue	108.4	104.3	-	**212.7**	13.9	**226.6**
Inter-segment sales	-	-	-	**-**	(0.2)	**(0.2)**
Sales to external customers	108.4	104.3	-	**212.7**	13.7	**226.4**
Result						
Trading profit/(loss)	3.1	14.5	-	**17.6**	(0.9)	**16.7**
Exceptional items (Note 5):						
Rationalisation and redundancy	(3.1)	(0.6)	-	**(3.7)**	(0.3)	**(4.0)**
Impairment of plant and equipment	(1.6)	-	-	**(1.6)**	(0.7)	**(2.3)**
Provision for environmental costs	-	(0.5)	(0.5)	**(1.0)**	-	**(1.0)**
Operating (loss)/profit	(1.6)	13.4	(0.5)	**11.3**	(1.9)	**9.4**
Exceptional gain on Senior Note exchange				**56.0**	-	**56.0**
Net finance costs				**(11.1)**	-	**(11.1)**
Profit/(loss) before tax				**56.2**	(1.9)	**54.3**
Tax expense				**(2.6)**	-	**(2.6)**
Net profit/(loss) for the year				**53.6**	(1.9)	**51.7**
Other segment information						
Segment assets	71.5	77.6	5.5	**154.6**	7.0	**161.6**
Segment liabilities	18.8	17.3	101.5	**137.6**	1.4	**139.0**
Capital expenditure: Property, plant and equipment	4.5	4.5	-	**9.0**	0.6	**9.6**
Capital expenditure: Intangible assets	0.1	-	-	**0.1**	-	**0.1**
Depreciation and amortisation	3.2	4.1	-	**7.3**	0.3	**7.6**

3. REVENUE AND SEGMENTAL ANALYSIS (continued)

GEOGRAPHIC ORIGIN:

Year ended 31 December 2008

	United Kingdom £M	Rest of Europe £M	Americas £M	Australasia £M	Asia £M	Total Continuing Activities £M
Revenue						
Segment revenue	97.5	41.1	146.6	-	3.2	**288.4**
Inter-segment sales	(14.7)	(1.2)	(14.8)	-	-	**(30.7)**
Revenue	82.8	39.9	131.8	-	3.2	**257.7**
Result						
Trading profit	4.2	1.5	16.5	-	0.3	**22.5**
Exceptional items (Note 5):						
Rationalisation and redundancy	(0.8)	(0.2)	(0.2)	-	-	**(1.2)**
Loss on disposal of property, plant and equipment	-	(0.2)	(0.3)	-	-	**(0.5)**
Provision for environmental costs	-	-	(0.2)	-	-	**(0.2)**
Operating profit	3.4	1.1	15.8	-	0.3	**20.6**
Other segment information						
Segment assets	71.1	31.8	98.8	0.2	2.2	**204.1**
Segment liabilities	124.6	9.7	46.2	0.2	0.2	**180.9**
Capital expenditure: Property, plant and equipment	3.5	1.2	7.7	-	-	**12.4**
Capital expenditure: Intangible assets	0.3	-	-	-	-	**0.3**
Depreciation and amortisation	3.5	1.5	2.9	-	0.1	**8.0**

Year ended 31 December 2007

	United Kingdom £M	Rest of Europe £M	Americas £M	Australasia £M	Asia £M	Total Continuing Activities £M	Discontinued Activities – United Kingdom £M	Total £M
Revenue								
Segment revenue	83.5	27.2	120.4	0.1	1.7	**232.9**	13.9	**246.8**
Inter-segment sales	(6.3)	(3.5)	(9.7)	-	(0.7)	**(20.2)**	(0.2)	**(20.4)**
Revenue	77.2	23.7	110.7	0.1	1.0	**212.7**	13.7	**226.4**
Result								
Trading profit/(loss)	5.7	0.2	11.6	0.1	-	**17.6**	(0.9)	**16.7**
Exceptional items (Note 5):								
Rationalisation and redundancy	(1.5)	-	(2.1)	-	(0.1)	**(3.7)**	(0.3)	**(4.0)**
Impairment of plant and equipment	-	-	(1.6)	-	-	**(1.6)**	(0.7)	**(2.3)**
Provision for environmental costs	(1.0)	-	-	-	-	**(1.0)**	-	**(1.0)**
Operating profit/(loss)	3.2	0.2	7.9	0.1	(0.1)	**11.3**	(1.9)	**9.4**
Other segment information								
Segment assets	53.0	28.1	72.5	0.1	0.9	**154.6**	7.0	**161.6**
Segment liabilities	99.4	6.6	31.4	0.1	0.1	**137.6**	1.4	**139.0**
Capital expenditure: Property, plant and equipment	4.2	0.8	4.0	-	-	**9.0**	0.6	**9.6**
Capital expenditure: Intangible assets	0.1	-	-	-	-	**0.1**	-	**0.1**
Depreciation and amortisation	3.2	1.3	2.8	-	-	**7.3**	0.3	**7.6**

3. REVENUE AND SEGMENTAL ANALYSIS (continued)

GEOGRAPHIC DESTINATION:

	United Kingdom £M	Rest of Europe £M	Africa £M	Americas £M	Asia £M	Australasia £M	Total £M
Revenue - Continuing							
Year ended 31 December 2008	27.8	76.9	4.3	125.7	18.9	4.1	**257.7**
Year ended 31 December 2007	26.2	61.9	5.6	99.3	16.2	3.5	**212.7**

4. OPERATING PROFIT

Operating profit for continuing activities is stated after charging/(crediting):	**2008 £M**	2007 £M
Depreciation (Note 12)	**7.9**	7.2
Impairment of property, plant and equipment – continuing (Note 5)	**-**	1.6
Loss on disposal of property, plant and equipment (Note 5)	**0.5**	-
Amortisation (Note 13)	**0.1**	0.1
Staff costs (Note 6)	**59.1**	54.8
Cost of inventories recognised as expense	**191.7**	159.6
Research and development income - grants	**(0.3)**	(0.2)
Research and development expenditure	**3.8**	3.2

Fees paid to auditors for the audit of the financial statements were £0.3 million (2007: £0.3 million). Other fees paid to auditors for non-audit services were £0.3 million (2007: £0.3 million) relating to taxation services and £0.1 million (2007: £nil) relating to corporate finance services. The audit fee for the Company financial statements of Luxfer Holdings PLC was £0.1 million (2007: £0.1 million).

Included in other fees to auditors is £0.2 million (2007: £0.2 million) relating to the Company and its UK subsidiaries.

5. EXCEPTIONAL ITEMS

	2008 £M	2007 £M
Rationalisation of operations:		
- redundancy and restructuring costs	**(1.2)**	(3.7)
- impairment of property, plant and equipment	**-**	(1.6)
- loss on disposal of property, plant and equipment	**(0.5)**	-
Environmental costs	**(0.2)**	(1.0)
Exceptional items included within operating profit	**(1.9)**	(6.3)

Rationalisation of operations

In 2008, the Elektron division incurred costs of £1.4 million, relating to a series of rationalisation activities conducted at the manufacturing plants to improve operating efficiencies. £0.4 million of these costs relate to US operations, £0.8 million UK operations and £0.2 million at operations in the Rest of Europe.

In 2008, the US Gas Cylinders division recognised an exceptional credit of £0.2 million relating to the part release of its redundancy and restructuring costs provision made at 31 December 2007. The provision related to a global reorganisation of the division's gas cylinder production facilities in 2008 and credit has arisen due to redundancy costs being lower than originally expected. In relation to the same reorganisation project, a loss on disposal of property, plant and equipment of £0.3 million has been made in the United States, resulting from the sale of some redundant assets for below their carrying value. Also in conjunction with this reorganisation a £0.2 million loss on disposal of redundant plant and equipment has been made at the Gas Cylinders division in the Rest of Europe.

Environmental costs

The 2007 charge of £1.0 million was made for environmental costs at the Magnesium Elektron and Speciality Aluminium divisions in the UK to increase long term provisions in relation to environmental remediation activities. In 2008, total environmental charges of £0.2 million were made by the Group on behalf of the Gas Cylinders division in the US.

6. STAFF COSTS

	2008 Continuing £M	**2008 Discontinued £M**	**2008 Total £M**	2007 Continuing £M	2007 Discontinued £M	2007 Total £M
Redundancy costs:						
– continuing activities (Note 5)	**1.2**	**-**	**1.2**	2.8	-	2.8
– discontinued activities	**-**	**-**	**-**	-	0.3	0.3
Wages and salaries	**49.1**	**-**	**49.1**	44.2	3.3	47.5
Social security costs	**6.9**	**-**	**6.9**	6.5	0.3	6.8
Retirement benefits costs	**1.9**	**-**	**1.9**	1.3	0.2	1.5
	59.1	**-**	**59.1**	54.8	4.1	58.9

The details of Directors' share options, remuneration and pension entitlements are disclosed in the Directors' Report in Tables 3 to 5.

The average monthly number of employees during the year was made up as follows:

	2008 Continuing No.	**2008 Discontinued No.**	**2008 Total No.**	2007 Continuing No.	2007 Discontinued No.	2007 Total No.
Production and distribution	**1,370**	**-**	**1,370**	1,418	124	1,542
Sales and administration	**176**	**-**	**176**	162	7	169
Research and development	**42**	**-**	**42**	40	1	41
	1,588	**-**	**1,588**	1,620	132	1,752

Compensation of key management personnel (comprising the Executive Management Board as set out on page 16 of the Directors' Report) was £1.4 million (2007: £1.2 million) for short term employee benefits and £0.2 million (2007: £0.2 million) for post-employment benefits.

7. FINANCE INCOME

	2008 £M	2007 £M
Bank interest received	**0.1**	-
Other interest received (Note 10)	**0.1**	-
Total finance income	**0.2**	-

8. FINANCE COSTS

	2008 £M	2007 £M
Senior notes due 2009	**-**	1.3
Senior notes due 2012	**8.3**	7.5
Bank loan, overdrafts and revolving credit facilities	**1.2**	1.6
Amortisation of loan issue costs	**0.1**	0.1
Total interest costs	**9.6**	10.5
Preference share dividend	**-**	0.6
Total finance costs	**9.6**	11.1

9. INCOME TAX

(a) Analysis of taxation charge for the year	**2008 £M**	2007 £M
Current tax:		
UK Corporation tax	**-**	4.4
Double tax relief	**-**	(4.4)
	-	-
Overseas tax	**3.0**	3.2
Adjustments in respect to previous years	**(0.2)**	(0.3)
Total current tax charge	**2.8**	2.9
Deferred tax:		
Origination and reversal of temporary differences	**2.3**	(1.0)
Adjustments in respect to previous years	**(0.8)**	0.7
Total deferred tax charge/(credit)	**1.5**	(0.3)
Tax on profit on ordinary activities	**4.3**	2.6

The income tax charge relates to continuing activities and there is no tax charge in relation to discontinued activities.

(b) Factors affecting the taxation charge for the year

From 1 April 2008 the main rate of corporation tax in the UK was reduced to 28%. This produced an effective rate of corporation tax of 28.5% for the year ended 31 December 2008.

The tax assessed for the year differs from the standard rate of 28.5% (2007: 30%) for corporation tax in the UK.

The differences are explained below:

	2008 £M	2007 £M
Profit on ordinary activities before taxation	**11.2**	54.3
Profit on ordinary activities at 2008 standard rate of corporation tax in the UK of 28.5% (2007: 30%)	**3.2**	16.3
Effects of:		
Gains not taxable	**(0.2)**	(16.9)
Unprovided deferred tax	**0.9**	2.0
Foreign tax rate differences	**1.4**	0.8
Adjustment in respect of prior years	**(1.0)**	0.4
Tax expense	**4.3**	2.6

(c) Factors that may affect future taxation charge

As at 31 December 2008, the Group has carried forward tax losses of £44.4 million (UK: £41.5 million, Overseas: £2.9 million). Carried forward tax losses for 2007 were £51.2 million (UK: £48.8 million, Overseas: £2.4 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. PROCEEDS FROM SALE OF BUSINESS

In December 2007, the Group reached an agreement to sell the Speciality Aluminium division to Alunna Tubes Limited. The transaction was completed in January 2008 for a gross consideration equal to £6.0 million, including estimated costs of disposal of £0.4 million. The consideration payable was split between £3.6 million received in the first half of 2008, for working capital, and a deferred amount of £2.4 million, for plant and equipment, payable in annual instalments over the next five years, commencing on the first anniversary of the sale date. The deferred consideration is in the form of a Loan Note which earns interest at 6.5% pa from the sale date, and the interest is payable annually in arrears. The interest accrued to 31 December 2008 was £0.1 million, as disclosed in Note 7. The first repayment instalment of the loan note of £0.5 million, plus interest accrued, was received in January 2009. The business was sold for consideration equal to the net book value of the assets sold and therefore there was no profit or loss on disposal, as shown below:

	£M
Net assets held for sale at 31 December 2007	**5.6**
Satisfied by:	
Cash consideration received during first half of 2008 – working capital	**3.6**
Deferred consideration – plant and equipment	**2.4**
Costs of disposal	**(0.4)**
Net proceeds	**5.6**
Profit on disposal for 2008	**-**

As at 31 December 2008, the fair value of the deferred consideration was £2.5 million, which included £0.1 million of interest accrued. Of the £2.5 million, £0.6 million has been included within other receivables, as disclosed in Note 17, and £1.9 million has been included within other non-current assets, as disclosed in Note 24.

In 2007, the activities of Speciality Aluminium were classified as discontinued and were included in the consolidated income statement as a single line item after taxation as 'Loss for the year from discontinued activities'. Refer to Note 3 Revenue and Segmental Analysis for the full results of Speciality Aluminium for 2007.

The Group did not sell the land and buildings at the Redditch site, where the business operates. The Group has also retained the environmental liabilities relating to the site, as further disclosed in Note 22.

11. ACQUISITION OF TRADE AND ASSETS

In September 2007, the Group acquired the business and assets of Revere Graphics Worldwide. Revere specialises in the manufacture and supply of a wide range of photo engraving materials, including magnesium, copper, zinc and brass and etching chemicals.
The consideration for the business was based on the agreed net asset fair value of the acquisition balance sheet. Following final negotiations in 2008, this was agreed at £7.2 million. Of this amount, £7.0 million had been paid at the date of acquisition and £0.2 million was paid in July 2008. At 31 December 2007, the net assets acquired had been estimated at a fair value of £6.6 million and during 2008 this was reassessed and the agreed fair value of the net assets acquired was £7.4 million. The additional £0.8 million being reflected as an increase in the fair value of the plant and equipment acquired, as shown in Note 12. Additionally, £0.2 million of acquisition costs were incurred. Since the consideration was equal to the fair value of the tangible net assets acquired, no goodwill was generated on acquisition.

The net assets acquired were as follows:

	2007 Book value prior to acquisition £M	**Revaluation of fixed assets £M**	**Provision for doubtful debts £M**	**Adjustment to net realisable value £M**	**2008 Fair value £M**
Property, plant and equipment	2.0	(0.4)	-	-	1.6
Inventories	6.0	-	-	(0.5)	5.5
Trade and other receivables	2.3	-	(0.1)	-	2.2
Total assets	**10.3**	**(0.4)**	**(0.1)**	**(0.5)**	**9.3**
Trade and other payables	(1.9)	-	-	-	(1.9)
Total liabilities	(1.9)	-	-	-	(1.9)
Net assets acquired	**8.4**	**(0.4)**	**(0.1)**	**(0.5)**	**7.4**

	2008 £M
Satisfied by:	
Cash consideration	**7.2**
Costs associated with the acquisition	**0.2**
Total consideration	**7.4**

12. PROPERTY, PLANT AND EQUIPMENT

	Freehold £M	Long leasehold £M	Short leasehold £M	Plant and equipment £M	Total £M
Cost:					
At 1 January 2007	20.3	2.5	2.0	147.8	**172.6**
Additions	-	-	0.2	9.4	**9.6**
Disposals	-	-	-	(0.3)	**(0.3)**
Business additions	-	-	0.1	0.8	**0.9**
Transfer to assets held for sale	-	-	-	(24.1)	**(24.1)**
Exchange adjustments	0.3	-	-	1.2	**1.5**
At 1 January 2008	20.6	2.5	2.3	134.8	**160.2**
Additions	2.0	-	1.0	9.4	**12.4**
Business additions	-	-	-	0.8	**0.8**
Disposals	(1.2)	-	-	(6.5)	**(7.7)**
Exchange adjustments	5.3	-	0.7	18.6	**24.6**
At 31 December 2008	26.7	2.5	4.0	157.1	**190.3**
Depreciation:					
At 1 January 2007	7.2	2.0	0.9	106.4	**116.5**
Provided during the year	0.4	-	0.1	7.0	**7.5**
Impairment	-	-	-	2.3	**2.3**
Disposals	-	-	-	(0.2)	**(0.2)**
Transfer to assets held for sale	-	-	-	(22.1)	**(22.1)**
Exchange adjustments	-	-	-	0.3	**0.3**
At 1 January 2008	7.6	2.0	1.0	93.7	**104.3**
Provided during the year	0.4	-	0.1	7.4	**7.9**
Disposals	(0.7)	-	-	(6.3)	**(7.0)**
Exchange adjustments	1.9	-	0.3	10.7	**12.9**
At 31 December 2008	9.2	2.0	1.4	105.5	**118.1**
Net book values:					
At 31 December 2008	17.5	0.5	2.6	51.6	**72.2**
At 31 December 2007	13.0	0.5	1.3	41.1	**55.9**
At 1 January 2007	13.1	0.5	1.1	41.4	**56.1**

Business additions

The £0.8 million business addition in 2008 has resulted from the finalisation of the net asset value of the balance sheet of Revere Graphics Worldwide, as further explained in Note 11.

Long and short leasehold

The long and short leasehold costs relate to leasehold property improvements.

13. INTANGIBLE ASSETS

	Goodwill	Patents	Other	Total
	£M	£M	£M	£M
Cost:				
At 1 January 2007	34.9	1.0	0.3	**36.2**
Additions	-	-	0.1	**0.1**
At 1 January 2008	34.9	1.0	0.4	**36.3**
Additions	-	-	0.3	**0.3**
At 31 December 2008	34.9	1.0	0.7	**36.6**
Amortisation:				
At 1 January 2007	12.0	0.2	0.2	**12.4**
Provided during the year	-	0.1	-	**0.1**
At 1 January 2008	12.0	0.3	0.2	**12.5**
Provided during the year	-	-	0.1	**0.1**
At 31 December 2008	12.0	0.3	0.3	**12.6**
Net book values:				
At 31 December 2008	22.9	0.7	0.4	**24.0**
At 31 December 2007	22.9	0.7	0.2	**23.8**
At 1 January 2007	22.9	0.8	0.1	**23.8**

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

14. 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	
	2008	2007	**2008**	2007	**2008**	2007
	£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 2%. The strategic plans were driven by detailed sales forecasts by product type and 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 before tax discount rate used was 11%, which was considered a best estimate for the risk-adjusted cost of capital for the business units. The long term projections assumed product prices and costs were based on a long term LME cost of primary aluminium of $2,650 per tonne, US: £ exchange rate of $1.85 and euro: £ exchange rate of €1.30. These assumptions are higher than the actual costs and exchange rates as at 31 December 2008. Lower costs and exchange rates would be expected to result in higher valuations for each cash-generating unit. Based on the current business plans used in the impairment testing, it is believed no reasonable changes in the discount and growth rates are expected to result in an impairment of the carrying value of the goodwill.

15. INVESTMENTS

	Other £M
At 1 January 2008 and 31 December 2008	**0.1**

A list of the significant subsidiaries, including the name, country of incorporation and proportion of voting rights is given in Note 35 to the company's separate financial statements.

16. INVENTORIES

	2008 £M	2007 £M
Raw materials and consumables	**24.3**	15.6
Work in progress	**16.0**	10.0
Finished goods and goods for resale	**18.8**	15.9
	59.1	41.5

The provision against obsolete and excess stocks at 31 December 2008 was £3.5 million (2007: £2.6 million). The cost of inventories recognised as an expense during the year has been disclosed in Note 4.

17. TRADE AND OTHER RECEIVABLES

	2008 £M	2007 £M
Trade receivables	**30.4**	26.1
Other receivables	**2.9**	1.7
Prepayments and accrued income	**3.4**	2.8
	36.7	30.6

The Directors consider that the carrying value of trade and other receivables approximates their fair value.
Trade receivables are non-interest bearing and are generally on 30-90 days' terms.
Trade receivables above are disclosed net of any provisions for doubtful receivables.
As at 31 December 2008, trade receivables at nominal value £0.9 million (2007: £0.7 million) were impaired and fully provided for.

Movements in the provision for impairment of trade receivables were as follows:

	2008 £M	2007 £M
At 1 January	**0.7**	0.8
Credit in the year	**-**	(0.1)
Utilised in the year	**(0.3)**	-
Other movements	**0.4**	-
Foreign exchange movement	**0.1**	-
At 31 December	**0.9**	0.7

18. CASH AND SHORT TERM DEPOSITS

	2008 £M	2007 £M
Cash at bank and in hand	**2.0**	2.2

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.

19. SHARE CAPITAL

(a) Ordinary share capital

	2008 No.	2007 No.	2008 £M	2007 £M
Authorised:				
Ordinary shares of £1 each	**10,000,000**	10,000,000	**10.0**	10.0
Deferred ordinary shares of £0.0001 each	**769,423,688,000**	769,423,688,000	**76.9**	76.9
	769,433,688,000	769,433,688,000	**86.9**	86.9
Allotted, called up and fully paid:				
Ordinary shares of £1 each	**10,000,000**	10,000,000	**10.0**	10.0
Deferred ordinary shares of £0.0001 each	**769,413,688,000**	769,413,688,000	**76.9**	76.9
	769,423,688,000	769,423,688,000	**86.9**	86.9

(b) Preference share capital

	2008 No.	2007 No.	2008 £M	2007 £M
Authorised:				
'B' preference shares of £1 each	**50,000**	50,000	**0.1**	0.1
	50,000	50,000	**0.1**	0.1
Allotted, called up and 25% paid:				
'B' preference shares of £1 each	**50,000**	50,000	**0.1**	0.1
	50,000	50,000	**0.1**	0.1

The 50,000 'B' preference shares are entitled to a dividend and are entitled to be redeemed prior to any distribution or return of capital to shareholders.

20. RESERVES

	Hedging reserve £M	Translation reserve £M	Merger reserve £M	Retained earnings £M
At 1 January 2007	(0.1)	(2.1)	(207.5)	54.1
Profit for the year	-	-	-	51.7
Currency translation differences	-	1.0	-	-
Decrease in fair value of cash flow hedges	(1.2)	-	-	-
Transfer to income statement on cash flow hedges	0.3	-	-	-
Share capital reorganisation (Note 2)	-	-	-	28.8
Actuarial gains on retirement benefit schemes	-	-	-	14.9
Deferred tax on items taken directly to equity	-	-	-	(4.6)
At 31 December 2007	(1.0)	(1.1)	(207.5)	144.9
Profit for the year	-	-	-	6.8
Currency translation differences	-	16.2	-	-
Decrease in fair value of cash flow hedges	(3.3)	-	-	-
Transfer to income statement on cash flow hedges	1.0	-	-	-
Actuarial losses on retirement benefit schemes	-	-	-	(29.3)
Deferred tax on items taken directly to equity	-	-	-	9.1
At 31 December 2008	**(3.3)**	**15.1**	**(207.5)**	**131.5**

21. INTEREST BEARING LOANS AND BORROWINGS

Current	2008 £M	2007 £M
Bank loans and overdrafts	**26.9**	24.7

Non-current	2008 £M	2007 £M
Senior notes due 2012	**71.6**	71.5

Bank loans and overdrafts

The bank loan and overdrafts relate to drawings on the Group's revolving credit facilities and were secured against the Group's UK operating assets. These facilities were originally due to mature in April 2009, but on 5 March 2009 were extended until April 2011 under a similar facility agreement.

Senior notes due 2012

The Senior Notes due 2012 were issued as part of the 6 February 2007 capital reorganisation as further explained in Note 2. The principal amount held by external parties was £71.9 million. The notes are listed on the Euro MTF Luxembourg Stock Exchange and interest is payable bi-annually. At 31 December 2008, the Senior Notes due 2012 are shown net of deferred transaction costs of £0.3 million (2007: £0.4 million). On issue, £0.5 million of costs were capitalised and are being amortised over the five-year life of the notes, with £0.2 million of these issue costs being amortised up to 31 December 2008. A variable interest rate is payable on 1 May and 1 November, each year, based on six-month LIBOR plus 5.5% to 6%, depending on the credit rating of the Notes. The rate payable at the end of 31 December 2008 was 11.45%, being 5.5% above the relevant LIBOR rate, which is fixed at the start of each six-month interest period. At the Company's discretion, 1% (1.5% if the interest rate is LIBOR plus 6%) may be paid in kind through the issue of new notes. The Senior Notes were not allowed to be repaid until one year after issue, with a 3% early redemption premium for repayment in the second year after issue, 2% in the third and 1% in the fourth year. There is no redemption premium for repayment after four years from issue. The maturity then being February 2012.

22. PROVISIONS

	Rationalisation & redundancy £M	Employee benefits £M	Environmental provisions £M	Total £M
At 1 January 2008	2.5	0.6	3.1	6.2
Charge to income statement	1.2	0.1	0.2	1.5
Cash payments	(2.5)	-	(0.4)	(2.9)
Exchange adjustments	0.5	0.2	0.1	0.8
At 31 December 2008	**1.7**	**0.9**	**3.0**	**5.6**
Included in current liabilities	1.5	-	2.3	3.8
Included in non-current liabilities	0.2	0.9	0.7	1.8
	1.7	**0.9**	**3.0**	**5.6**

Rationalisation and redundancy

At 31 December 2008 the Group had £1.7 million of provisions relating to redundancy and the rationalisation of its operations. £0.8 million of this provision relates to restructuring of the production facilities within the Gas Cylinders division, of which £0.6 million relates to production operations at Riverside, California, US. This mainly relates to the costs associated with the exiting of leasehold properties.

A further £0.7 million of the provision relates to rationalisation and redundancy within the Elektron division to improve operating efficiencies. Most of these costs are expected to be spent in 2009.

Employee benefits

At 31 December 2008 the Group had £0.9 million of employee benefit liabilities (in addition to retirement benefits), as calculated on an actuarial basis, relating to a provision for workers' compensation at the Gas Cylinder division in the US.

Environmental provisions

As at 31 December 2008, the Group had environmental provisions of £3.0 million relating to environmental clean up costs. £0.1 million of the provision relates to work required at the Gas Cylinders division in the US in the next few years. £0.9 million of the provision is for future remediation costs required at the Speciality Aluminium site, 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 £2.0 million of environmental provisions relate to work required at the UK Elektron division site. This expenditure is expected to take place over the next two years.

23. DEFERRED TAX

	Accelerated tax depreciation	Other temporary differences	Tax losses	Retirement benefit obligations	Total
	£M	£M	£M	£M	£M
At 1 January 2007	3.6	(2.3)	(0.2)	(5.7)	(4.6)
(Credited)/charged to income	(0.1)	(0.8)	-	0.6	(0.3)
Charged to equity	-	-	-	4.6	4.6
At 31 December 2007	3.5	(3.1)	(0.2)	(0.5)	(0.3)
Charged to income	1.1	0.1	0.1	0.2	1.5
Credited to equity	-	-	-	(9.1)	(9.1)
Exchange adjustment	0.2	-	-	-	0.2
At 31 December 2008	**4.8**	**(3.0)**	**(0.1)**	**(9.4)**	**(7.7)**

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

	2008	2007
	£M	£M
Deferred tax liabilities	**0.4**	-
Deferred tax assets	**(8.1)**	(0.3)
Net deferred tax asset	**(7.7)**	(0.3)

At the balance sheet date, the Group has unrecognised deferred tax assets relating to certain trading and capital losses and other temporary differences of £15.8 million (2007: £18.2 million) potentially available for offset against future profits. No deferred tax asset has been recognised in respect of this amount because of the unpredictability of future qualifying profit streams. Of the £15.8 million (2007: £18.2 million), losses of £12.3 million (2007: £14.0 million) can be carried forward indefinitely under current legislation.

24. OTHER LONG TERM ASSETS AND LIABILITIES

	2008	2007
	£M	£M
Loan Note – deferred consideration	**1.9**	-

The loan note receivable relates to the deferred consideration due from the sale of plant and equipment of the Speciality Aluminium division as further disclosed in Note 10.

25. TRADE AND OTHER PAYABLES

	2008 **£M**	2007 £M
Trade payables	**22.3**	16.2
Other taxation and social security	**2.8**	1.6
Accruals	**15.8**	12.8
Interest payable	**1.4**	1.6
Derivative financial instruments	**4.2**	1.3
	46.5	33.5

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

26. COMMITMENTS AND CONTINGENCIES

	2008 **£M**	2007 £M
Operating lease commitments – Group as a lessee		
Minimum lease payments under operating leases recognised in the income statement	**2.6**	2.3

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:

	2008 **£M**	2007 £M
Within one year	**2.3**	2.4
In two to five years	**5.8**	5.0
In over five years	**11.0**	10.8
	19.1	18.2

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 2 and 65 years. Plant and equipment held under operating leases have an average life between 2 and 5 years. Renewal terms are included in the lease contracts.

Capital commitments

At 31 December 2008, the Group had capital expenditure commitments of £0.5 million (2007: £0.6 million) for the aquisition of new plant and equipment.

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial risk management objectives and policies

The Group's financial instruments comprise bank loans and overdrafts, senior loan notes, derivatives and trade payables. Other than derivatives, the main purpose of these financial instruments is to raise finance for the Group's operations. The Group also has various financial assets such as trade receivables and cash and short-term deposits, which arise directly from its operations.

The Group enters into forward currency contracts and London Metal Exchange ("LME") derivative transactions to manage currency and aluminium pricing risks. A Hedging Committee, chaired by the Group Finance Director, oversees the implementation of the Group's hedging policies, including the risk management of currency and aluminium risks and the use of derivative financial instruments.

It is not the Group's policy or business activity to trade in derivatives. They are only used to hedge underlying risks occurring as part of the Group's normal operating activities.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency translation and transaction risk, aluminium price risk and credit risk on trade receivables and a £45 million variable interest rate revolving credit facility, of which £26.9 million was drawn down as at 31 December 2008.

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk

The Group has significant exposure to variable interest rates in the form of its £71.9 million floating rate Senior Notes due 2012. The Senior Notes bear interest at six-month LIBOR plus a margin, a portion of which interest may, with the sole discretion of the Company, be paid in kind. As a result of this exposure, the Group may decide to hedge interest payable under the notes based on a combination of forward rate agreements, interest rate caps and swaps.

No such hedges were entered into in 2008. The Senior Notes due 2012 are shown net of transaction costs of £0.3 million (2007: £0.4 million) which have been capitalised and amortised over the five-year life of the Senior Notes due 2012.

Total debt, before netting off issue costs as at 31 December 2008, subject to variable interest rates was therefore £98.8 million and based on this level a 1% increase in rates would increase the Group's annual interest cost by £1.0 million.

Liquidity risk

To understand and monitor cash flows, the Group uses a combination of a short-term rolling six week cash forecast, based on expected daily liquidity requirements and longer term monthly rolling forecasts, covering forecast periods of between six and eighteen months forward. The Group also prepares, at least annually, longer-term strategic cash forecasts. Together this system of control is used to ensure the Group can fund its ongoing operations, including working capital, capital expenditure and interest payments. Short and medium term changes in liquidity needs are funded from the Group's £45 million bank facility, which provides the ability to draw down and repay funds on a daily basis.

In monitoring liquidity requirements and planning its working capital and capital expenditure programmes, the Group aims to maintain a sufficiently prudent level of headroom against its banking facilities as protection against any unexpected or sudden market shocks.

The maturity of the Group's liabilities are also monitored to ensure sufficient funds remain available to meet liabilities as they fall due. The table below summarises the maturity profile of the Group's financial liabilities at 31 December based on contractual undiscounted payments. In the table below, the Group's revolving credit facilities are reported under Bank loans and overdrafts as maturing in 1 – 5 years. These facilities were originally due to mature in April 2009, but have been extended to mature in April 2011. For further information see Note 21.

	31 December 2008			31 December 2007		
	Within 12 months £M	**1-5 years £M**	**Total £M**	Within 12 months £M	1-5 years £M	Total £M
Senior notes due 2012	**-**	**71.9**	**71.9**	-	71.9	71.9
Cumulative preference shares	**-**	**0.1**	**0.1**	-	0.1	0.1
Bank loans and overdrafts	**-**	**26.9**	**26.9**	-	24.7	24.7
Trade payables	**22.3**	**-**	**22.3**	16.2	-	16.2
Other taxation and social security	**2.8**	**-**	**2.8**	1.6	-	1.6
Accruals	**15.8**	**-**	**15.8**	12.8	-	12.8
Interest payable	**1.4**	**-**	**1.4**	1.6	-	1.6
Derivative financial instruments	**4.2**	**-**	**4.2**	1.3	-	1.3
	46.5	**98.9**	**145.4**	33.5	96.7	130.2

Capital management

The Group underwent a major reorganisation of its capital structure, which was completed 6 February 2007, as further explained in Note 2. The reasons for the reorganisation were to ensure the Group could fund its medium and long-term investment programmes aimed at the development and production of new products, whilst also automating and rationalising existing production facilities.

This reorganisation resulted in the Group significantly reducing its financial liabilities and related finance costs, reducing the level of interest payments. The reorganisation was performed to enable more of the Group's cash flows to be invested in its businesses to enhance profitability.

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The Group monitors its EBITDA for continuing activities before exceptional items to net debt ratio and has sought to reduce this over time from between 5x to 6x to between 3x to 4x. The table below sets out the calculations for 2008 and 2007:

	2008	2007
	£M	£M
For continuing operations:		
Trading profit	**22.5**	17.6
Depreciation and amortisation	**8.0**	7.3
EBITDA – before exceptionals	**30.5**	24.9
Bank loans and overdrafts	**26.9**	24.7
Senior Notes due 2012	**71.6**	71.5
Total debt	**98.5**	96.2
Less cash	**(2.0)**	(2.2)
Net debt	**96.5**	94.0
Net debt: EBITDA ratio	**3.2x**	3.8x

Credit risk

The Group only provides trade credit to creditworthy third parties. Credit checks are performed on new and existing customers along with monitoring payment histories of customers. Outstanding receivables from customers are closely monitored to ensure they are paid when due, with both outstanding overdue days and total days of sales outstanding ("DSO days") reported as a business unit key performance measure. Where possible export sales are also protected through the use of credit export insurance. At 31 December 2008, the Group has a provision for bad and doubtful debtors of £0.9 million (2007: £0.7 million) and no significant bad debts were incurred in 2008.

As at 31 December, the analysis of trade receivables that were past due but not impaired is as follows:

		Neither past due	**Past due but not impaired**				
	Total	**nor impaired**	**< 31 days**	**31-61 days**	**61-91 days**	**91-121 days**	**> 121 days**
	£M	**£M**	**£M**	**£M**	**£M**	**£M**	**£M**
2008	**30.4**	**23.4**	**4.8**	**1.4**	**0.4**	**0.4**	**-**
2007	26.1	21.1	4.1	0.4	0.1	0.1	0.3

The Group also monitors the spread of its customer base with the objective of trying to minimise exposure at a Group and divisional level to any one customer. The top ten customers in 2008 represented 30.6% (2007: 28.9%) of total revenue.

Foreign currency translation risk

With substantial operations in the US and Europe, the Group is exposed to translation risk on both its Income Statement, based on average exchange rates, and its Balance Sheet with regards to period end exchange rates.

The Group's results, assets and liabilities are reported by geographic region in Note 3. This analysis shows in 2008 the Group had revenue of £131.8 million derived from US operations, a trading profit of £16.5 million and when adding back depreciation and amortisation an EBITDA of £19.4 million. During 2008, the average exchange rate for the US dollar was $1.8437, being stronger than the 2007 average of $2.0076. This resulted in a favourable impact of £11.3 million on revenue, £1.2 million on trading profit and £1.5 million on EBITDA. Based on the 2008 level of sales and profits a $0.10 increase in the US dollar to pound sterling exchange rate would result in a £6.9 million decrease in revenue, £0.7 million decrease in trading profit and £0.9 million decrease in EBITDA. The capital employed as at 31 December 2008 in the US was £63.2 million translated at an exchange rate of $1.4644. A $0.10 increase in exchange rates would reduce capital employed by approximately £4.0 million.

During 2008, the average exchange rate for the euro was €1.2525, being stronger than the 2007 average of €1.4570. This resulted in a favourable impact of £2.6 million on revenue, £0.2 million on trading profit and £0.4 million on EBITDA. Based on the 2008 level of sales and profits a €0.10 increase would have a £1.3 million decrease in revenue, £0.1 million decrease in trading profit and £0.2 million decrease in EBITDA.

Foreign currency transaction risk

The Group is also exposed to exchange transaction risks, mainly because its UK operations sell goods priced in euros and US dollars, and purchase raw materials priced in US dollars.

The UK operations within the Group have around an estimated $20 million net sales risk after offsetting raw material purchases made in US dollars and a substantial euro sales risk, with approximately €30 million to €40 million of exports priced in euros each year. These risks are being partly hedged through the use of forward foreign currency exchange rate contracts, but we estimate that in 2008 our Elektron division has incurred a transaction gain of £0.4 million, and our Gas Cylinder division made a transaction gain of £1.7 million.

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Based on a $20 million net exposure to the US dollar, a $0.10 increase in exchange rates would have a £0.9 million annual decrease in Group trading profit and based on a €35 million euro sales risk a €0.10 increase in exchange rates would have a £2.9 million annual decrease in Group trading profit.

Aluminium and other commodity risks

The Group is exposed to a number of commodity price risks, including primary aluminium, magnesium, rare earth chemicals, zircon sand and other zirconium basic compounds. All have been subject to substantial increases in recent years. The two largest exposures to the Group continue to be aluminium and magnesium prices and the Group will spend annually approximately £65 million to £70 million on these two raw materials.

Unlike the other major commodities purchased, aluminium is traded on the London Metal Exchange ("LME") and therefore the Group is able to use LME derivative contracts to hedge a portion of its price exposure. In 2008 the Group purchased approximately 15,000 tonnes of primary aluminium, it scrapped around 3,000 tonnes of processed waste and made finished goods equal to approximately 12,000 tonnes. The processed waste can be sold as scrap aluminium at prices linked to the LME price. The price risk on aluminium is mitigated by agreeing fixed prices with the suppliers, along with the use of LME derivative contracts. As at 31 December 2008, the Group had hedged 300 tonnes of aluminium for 2009 and was exposed on the price movements for the remainder. Before hedging the risk, a $100 movement in the LME price of aluminium would increase our Gas Cylinders division's costs by £0.9 million.

In the long term the Group has sought to recover the cost of increased commodity costs through price increases and surcharges. Any hedging of aluminium risk is performed to protect the Group against short-term fluctuations in aluminium costs.

In 2008 the Group purchased approximately 10,000 tonnes of primary magnesium. Magnesium is not traded on the LME so we are not able to maintain a hedge position of its price exposure.

28. FINANCIAL INSTRUMENTS

The following disclosures relating to financial instruments have been prepared on a basis which excludes short-term debtors and creditors which have 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 2008 £M**	**Fair value 2008 £M**	Book value 2007 £M	Fair value 2007 £M
Financial assets:				
Cash at bank and in hand	**2.0**	**2.0**	2.2	2.2
Financial liabilities:				
Bank loans – drawn under revolving credit facility	**26.9**	**26.9**	24.7	24.7
Cumulative preference shares	**0.1**	**0.1**	0.1	0.1
Senior Notes due 2012	**71.9**	**48.5**	71.9	73.7
	98.9	**75.5**	96.7	98.5

All financial assets mature within one year. The maturity of the financial liabilities are disclosed in Note 27.
For 2008, £14.7 million (2007: £16.2 million) of the revolving credit facility is denominated in US dollars with the remaining financial liabilities being denominated in sterling.

Derivative financial instruments are as follows:	**Book value 2008 £M**	**Fair value 2008 £M**	Book value 2007 £M	Fair value 2007 £M
Held to hedge purchases and sales by trading businesses:				
Forward foreign currency contracts	**(3.9)**	**(3.9)**	(1.0)	(1.0)
Forward aluminium commodity contracts	**(0.3)**	**(0.3)**	(0.3)	(0.3)

28. FINANCIAL INSTRUMENTS (continued)

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 2008 a short term bank loan of £26.9 million (2007: £24.7 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 50,000 'B' preference shares of £1 each are entitled to a dividend and are entitled to be redeemed prior to any distribution or return of capital to ordinary shareholders. The fair value as at 31 December 2008 is £0.1 million.

Senior notes due 2012

For the Senior Notes due 2012 the principal amount held by external parties was £71.9 million. The Senior Notes due 2012 are shown in the Group balance sheet as £71.6 million, being net of issue costs which were originally £0.5 million. These issue costs were capitalised and amortised over the five-year life of the Senior Notes due 2012. £0.2 million of the issue costs have been amortised to 31 December 2008 and £0.3 million have been offset against the par value of the notes.

The Senior Notes due 2012 are traded instruments listed on the Euro MTF Luxembourg Stock Exchange. The fair value at 31 December 2008 was derived from a quoted price as at 31 December, however, market prices of corporate bonds are very volatile, making a market price based fair value of these notes difficult to estimate.

Forward foreign currency contracts

The fair value of these contracts was 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 contacts against the equivalent forward rates quoted on the LME.

(b) Interest rate risks

Interest rate risk profile on financial assets

This table shows the Group's financial assets as at 31 December, which are cash at bank and in hand. These assets are all subject to floating interest rate risk, the Group has no fixed interest rate assets.

Cash by currency:	**2008 £M**	2007 £M
US Dollar	**(0.3)**	1.0
GBP	**0.4**	-
Euro	**0.6**	0.6
Australian Dollar	**0.1**	0.1
Chinese Renminbi	**0.5**	-
Japanese Yen	**-**	0.3
Czech Koruna	**0.7**	0.2
	2.0	2.2

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.

28. FINANCIAL INSTRUMENTS (continued)

Interest rate risk profile on financial liabilities

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

	31 December 2008			31 December 2007		
	Within 12 months	**1-5 years**	**Total**	Within 12 months	1-5 years	Total
	£M	**£M**	**£M**	£M	£M	£M
Fixed interest rate risk:						
Cumulative preference shares	**-**	**0.1**	**0.1**	-	0.1	0.1
	-	**0.1**	**0.1**	-	0.1	0.1
Variable interest rate risk:						
Bank loans and overdrafts	**-**	**26.9**	**26.9**	-	24.7	24.7
Senior notes due 2012	**-**	**71.9**	**71.9**	-	71.9	71.9
	-	**98.8**	**98.8**	-	96.6	96.6

The Group's floating rate liabilities related to bank loans and overdrafts under the Group's revolving credit facilities of £26.9 million (2007: £24.7 million) and the Senior Notes due 2012 issued as part of the capital reorganisation on 6 February 2007. Details of the Senior Notes due 2012 are disclosed in Note 21 – Interest Bearing Loans and Borrowings.

(c) Hedging activities

Forward foreign exchange contracts

The Group utilises forward foreign exchange contracts to hedge significant future transactions and cash flows to manage its exchange rate exposures. The contracts purchased are primarily denominated in Sterling, US dollars and euros. The Group is also exposed to a number of other currencies like Australian dollars with hedges against these on a more adhoc basis, when exposures are more significant.

At 31 December 2008, the fair value of forward foreign exchange contracts deferred in equity was a liability of £3.0 million (2007: £0.7 million). £1.0 million (2007: £0.3 million) has been transferred to the income statement in respect of contracts that have matured in the year.

28. FINANCIAL INSTRUMENTS (continued)

At 31 December 2008 and 2007 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:

2008

Sales hedges

	US dollars	**Euros**	**Australian dollars**
Contract totals/£M	14.6	14.9	0.4
Maturity dates	01/09 to 09/09	01/09 to 10/09	02/09 to 04/09
Exchange rates	$1.5073 to $1.9748	€1.1161 to €1.2807	AUD2.2777 to AUD2.2877

Purchase hedges

	US dollars	**Euros**	**Australian dollars**
Contract totals/£M	8.9	1.4	N/A
Maturity dates	01/09 to 09/09	01/09 to 05/09	N/A
Exchange rates	$1.4959 to $1.9755	€1.0593 to €1.2579	N/A

2007

Sales hedges

	US dollars	**Euros**	**Australian dollars**
Contract totals/£M	6.3	17.2	N/A
Maturity dates	01/08 to 12/08	01/08 to 12/08	N/A
Exchange rates	$1.9607 to $2.0649	€1.3751 to €1.4773	N/A

Purchase hedges

	US dollars	**Euros**	**Australian dollars**
Contract totals/£M	6.3	0.4	N/A
Maturity dates	01/08 to 12/08	04/08 to 06/08	N/A
Exchange rates	$1.9344 to $2.0649	€1.3835 to €1.3860	N/A

Aluminium commodity contracts

At 31 December 2008, the fair value of forward aluminium commodity contracts deferred in equity was a loss of £0.3 million (2007: £0.3 million) and relates to contracts for 300 tonnes of aluminium that will mature in 2009, at 75 tonnes per month. In 2008 a loss of £0.8 million has been transferred to the income statement in respect of contracts that have matured in the year.

(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 2008 a gain of £16.2 million (2007: £1.0 million) was recognised in translation reserves.

(e) Un-drawn committed facilities

At 31 December 2008 the Group had committed banking facilities of £45.0 million (2007: £45.0 million) for providing short-term loans and overdrafts, with a sub-limit of £10.0 million (2007: £10.0 million) for letters of credit and bank guarantees. Of these committed facilities, £26.9 million (2007: £24.7 million) of short-term loans and £4.1 million (2007: £6.5 million) for letters of credit, forward foreign currency contracts and bank guarantees were drawn.

29. RETIREMENT BENEFITS

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

29. RETIREMENT BENEFITS (continued)

The principal defined benefit pension scheme in the UK 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 subject to inflation increases was introduced, effectively replacing the statutory earnings cap. In October 2007 the rate of the future accrual for pension was reduced and a longevity adjustment was introduced to mitigate against the risk of further increases in life expectancies. 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 with members being offered contributions to the Company's 401(k) plan.

The total charge to the Group's income statement for 2008 for retirement benefits was a cost of £1.9 million (2007: £1.5 million).

The movement in the pension liability is shown below:

	2008	2007
	£M	£M
Balance at 1 January	**1.6**	18.3
Charged to the Income Statement	**1.9**	1.5
Contributions	**(4.5)**	(3.3)
Charged/(credited) to the Statement of Recognised Income and Expense	**29.3**	(14.9)
Exchange adjustments	**0.4**	-
Balance at 31 December	**28.7**	1.6

The financial assumptions used in the calculations are:

	Projected Unit Valuation			
	United Kingdom		**Non United Kingdom**	
	2008	2007	**2008**	2007
	%	%	**%**	%
Discount Rate	**6.40**	5.90	**6.00**	6.25
Salary Inflation	**3.80**	4.20	**-**	-
Price Inflation	**2.80**	3.20	**-**	-
Pension Increase - pre 6 April 1997	**2.60**	2.60	**-**	-
- 1997-2005	**2.80**	3.10	**-**	-
- post 5 April 2005	**2.10**	2.20	**-**	-

The assets in the scheme and expected rate of long-term return were:

	Long term rate of return expected			
	United Kingdom		**Non United Kingdom**	
	2008	2007	**2008**	2007
	%	%	**%**	%
Equities and Growth Funds	**7.70**	7.60	**8.60**	8.60
Gilts	**3.80**	4.40	**-**	-
Other Bonds	**5.00**	5.00	**5.80**	6.10
Cash	**3.80**	4.40	**-**	-

Other principal actuarial assumptions:

	2008	2007
	Years	Years
Life expectancy of male in the UK aged 65 in 2008	**19.2**	19.2
Life expectancy of male in the UK aged 65 in 2028	**20.3**	20.2

29. RETIREMENT BENEFITS (continued)

The amounts recognised in income in respect of the pension schemes are as follows:

	Year ended 31 December 2008			Value at 31 December 2007		
	UK	**Non UK**	**Total**	UK	Non UK	Total
	£M	**£M**	**£M**	£M	£M	£M
In respect of defined benefit schemes						
Current service cost	**0.6**	**0.1**	**0.7**	1.6	0.1	1.7
Interest cost	**8.9**	**1.6**	**10.5**	8.5	1.4	9.9
Expected return on scheme assets	**(9.0)**	**(1.8)**	**(10.8)**	(9.8)	(1.6)	(11.4)
Gains on curtailments and settlements	**-**	**-**	**-**	-	-	-
Total charge / (credit) for defined benefit schemes	**0.5**	**(0.1)**	**0.4**	0.3	(0.1)	0.2
In respect of defined contribution schemes						
Total charge for defined contribution schemes	**0.5**	**1.0**	**1.5**	0.5	0.8	1.3
Total charge for pension schemes	**1.0**	**0.9**	**1.9**	0.8	0.7	1.5

Of the charge for the year, charges of £1.4 million and £0.5 million (2007: £1.2 million and £0.3 million) have been included in cost of sales and administrative costs respectively.

For the year, the amount of losses recognised in the Statement of Recognised Income and Expense is £29.3 million (2007: gain of £14.9 million). The actual return of the scheme assets was a loss of £33.7 million (2007: gain of £11.1 million). The overall expected rate of return is determined on the basis of the market prices prevailing at the respective balance sheet date, applicable to the period over which the obligation is to be settled.

The value of the scheme assets were:

	Value at 31 December 2008			Value at 31 December 2007		
	UK	**Non UK**	**Total**	UK	Non UK	Total
	£M	**£M**	**£M**	£M	£M	£M
Equities and Growth Funds	**89.0**	**9.4**	**98.4**	108.5	13.2	121.7
Gilts	**15.0**	**-**	**15.0**	32.7	-	32.7
Other Bonds	**22.1**	**13.1**	**35.2**	13.8	10.1	23.9
Cash	**0.1**	**-**	**0.1**	(0.8)	-	(0.8)
Total market value of assets	**126.2**	**22.5**	**148.7**	154.2	23.3	177.5
Present value of scheme liabilities	**(141.8)**	**(35.6)**	**(177.4)**	(154.2)	(24.9)	(179.1)
Deficit in the scheme	**(15.6)**	**(13.1)**	**(28.7)**	-	(1.6)	(1.6)
Related deferred tax asset	**4.4**	**5.0**	**9.4**	-	0.5	0.5
Net pension liability	**(11.2)**	**(8.1)**	**(19.3)**	-	(1.1)	(1.1)

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

	2008	**2008**	**2008**	2007	2007	2007
	UK	**Non UK**	**Group**	UK	Non UK	Group
	£M	**£M**	**£M**	£M	£M	£M
At 1 January	**154.2**	**24.9**	**179.1**	167.1	24.7	191.8
Service cost	**0.6**	**0.1**	**0.7**	1.6	0.1	1.7
Interest cost	**8.9**	**1.6**	**10.5**	8.5	1.4	9.9
Contributions from scheme members	**0.7**	**-**	**0.7**	0.7	-	0.7
Age related NI rebate	**0.2**	**-**	**0.2**	0.3	-	0.3
Actuarial gains and losses	**(15.8)**	**1.1**	**(14.7)**	(15.2)	(0.1)	(15.3)
Exchange difference	**-**	**9.0**	**9.0**	-	(0.2)	(0.2)
Benefits paid	**(7.0)**	**(1.1)**	**(8.1)**	(8.8)	(1.0)	(9.8)
Curtailments and settlements	**-**	**-**	**-**	-	-	-
At 31 December	**141.8**	**35.6**	**177.4**	154.2	24.9	179.1

The defined benefit obligation comprises £0.9 million (2007: £0.7 million) arising from unfunded plans and £176.5 million (2007: £178.4 million) from plans that are funded.

29. RETIREMENT BENEFITS (continued)

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

	2008 UK £M	**2008 Non UK £M**	**2008 Group £M**	2007 UK £M	2007 Non UK £M	2007 Group £M
At 1 January	**154.2**	**23.3**	**177.5**	151.4	22.1	173.5
Expected return on scheme assets	**9.0**	**1.8**	**10.8**	9.8	1.6	11.4
Actuarial gains and losses	**(33.7)**	**(10.3)**	**(44.0)**	(0.8)	0.4	(0.4)
Exchange difference	**-**	**8.6**	**8.6**	-	(0.2)	(0.2)
Contributions from employer	**2.8**	**0.2**	**3.0**	1.6	0.4	2.0
Contributions from scheme members	**0.7**	**-**	**0.7**	0.7	-	0.7
Age related NI rebate	**0.2**	**-**	**0.2**	0.3	-	0.3
Settlements	**-**	**-**	**-**	-	-	-
Benefits paid	**(7.0)**	**(1.1)**	**(8.1)**	(8.8)	(1.0)	(9.8)
At 31 December	**126.2**	**22.5**	**148.7**	154.2	23.3	177.5

Amounts for the current and previous four years are as follows:

	2008 UK £M	**2008 Non UK £M**	**2008 Group £M**
Total market value of scheme assets £M	**126.2**	**22.5**	**148.7**
Present value of scheme liabilities £M	**(141.8)**	**(35.6)**	**(177.4)**
Deficit in the scheme £M	**(15.6)**	**(13.1)**	**(28.7)**
Difference between the expected and actual return on scheme assets:			
Amount £M	**(33.7)**	**(10.3)**	**(44.0)**
Percentage of scheme assets	**(27)%**	**(46)%**	**(30)%**
Experience gains and losses on scheme liabilities:			
Amount £M	**-**	**0.0**	**0.0**
Percentage of present value of scheme liabilities	**-**	**0%**	**0%**
Total cumulative amount recognised in Statement of Recognised Income and Expense:			
Amount £M	**2.6**	**9.7**	**12.3**
Percentage of present value of scheme liabilities	**2%**	**27%**	**7%**

	2007 UK £M	2007 Non UK £M	2007 Group £M	2006 UK £M	2006 Non UK £M	2006 Group £M
Total market value of scheme assets £M	154.2	23.3	177.5	151.4	22.1	173.5
Present value of scheme liabilities £M	(154.2)	(24.9)	(179.1)	(167.1)	(24.7)	(191.8)
Deficit in the scheme £M	-	(1.6)	(1.6)	(15.7)	(2.6)	(18.3)
Difference between the expected and actual return on scheme assets:						
Amount £M	(0.8)	0.5	(0.3)	7.8	0.5	8.3
Percentage of scheme assets	(1)%	2%	-	5%	2%	5%
Experience gains and losses on scheme liabilities:						
Amount £M	-	-	-	2.1	0.1	2.2
Percentage of present value of scheme liabilities	-	-	-	1%	-	1%
Total cumulative amount recognised in Statement of Recognised Income and Expense:						
Amount £M	(15.3)	(1.7)	(17.0)	(0.9)	(1.2)	(2.1)
Percentage of present value of scheme liabilities	10%	7%	10%	1%	4%	1%

29. RETIREMENT BENEFITS (continued)

	2005 UK £M	2005 Non UK £M	2005 Group £M	2004 UK £M	2004 Non UK £M	2004 Group £M
Total market value of scheme assets £M	137.9	23.0	160.9	120.4	19.0	139.4
Present value of scheme liabilities £M	(153.9)	(28.9)	(182.8)	(140.6)	(26.9)	(167.5)
Deficit in the scheme £M	(16.0)	(5.9)	(21.9)	(20.2)	(7.9)	(28.1)
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 cumulative 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 amount of contributions expected to be paid to the pension schemes for the year ending 31 December 2009 is £4.6 million.

30. THE LUXFER GROUP EMPLOYEE SHARE OWNERSHIP PLAN

The trust

In 1997, the Group established an employee benefit trust ("the ESOP") with independent trustees, to purchase and hold shares in the Company in trust to be used to satisfy options granted to eligible senior employees under the Company's share schemes established from time to time.

The ESOP was established with the benefit of a gift equivalent to the set up and running costs. Purchase monies and costs 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 senior employees when they exercise options granted to them over shares. Surplus shares are held by the ESOP trustees to satisfy future option awards. The ESOP trustees have waived their right to receive dividends on shares held in trust. The Remuneration Committee is charged with determining which senior employees are to be granted options and in what number subject to the relevant scheme rules.

The current scheme

The current share option scheme, implemented by the Company in February 2007 is the Luxfer Holdings Executive Share Option Plan ("the Plan"), which consists of two parts. Part A of the Plan is approved by HM Revenue & Customs and Part B is unapproved. Options can be exercised at any time up to the tenth anniversary of their grant subject to the rules of the relevant part of the Plan. It is a condition of exercise of options granted under Part B that immediately on exercise the ordinary shares over which the option is exercised become restricted shares and subject to rules of the Management Incentive Plan, brief details of which can be found in the Directors' Report. There is no other performance criteria attached to the options.

Movements in the year

There have been no movements in the year. At 31 December 2008 the loan outstanding from the ESOP was £2.3 million (31 December 2007: £2.3 million). No options have been exercised over the ordinary shares of £1 each during the year and at 31 December 2008 the ESOP held 175,674 (31 December 2007: 175,674) £1 ordinary shares and 15,977,968,688 (31 December 2007: 15,977,968,688) £0.0001deferred shares. At 31 December 2008 senior employees held 70,400 (31 December 2007: 70,400) options over the £1 ordinary shares held by the ESOP trustees.

31. MINORITY INTERESTS

	2008	2007
	£M	£M
At beginning of year	**0.8**	0.8
Profit for the year	**0.1**	-
At end of year	**0.9**	0.8

32. RELATED PARTY TRANSACTIONS

Before the capital reorganisation on 6 February 2007, management and ex-management, including the Company's Directors owned 15% of the ordinary and preference share capital of the Company. As part of the capital reorganisation, ongoing management agreed for this shareholding to be diluted to 13% or 1.3 million £1 ordinary shares. They also agreed for 800,000 £1 ordinary shares to be contractually restricted under a Management Incentive Plan ("MIP") pursuant to which they agreed to waive their economic rights in these restricted shares, unless certain Group EBITDA targets are achieved. Further details on the MIP are set out in the Directors' Report on page 17.

As at 31 December 2008, the Chairman and key management comprising the members of the Executive Management Board, as set out on page 16 of the Directors' Report, owned 803,875 £1 ordinary shares (2007: 803,875 £1 ordinary shares) and had options over a further 41,800 £1 ordinary shares (2007: 41,800 £1 ordinary shares). 480,535 of these shares were subject to the contractual restrictions of the MIP.

The details of the Directors' shareholdings are shown in Table 2 of the Directors' Report. Table 3, 4 and 5 of the Directors' Report set out the details of the Directors' share options, remuneration and pension benefits, respectively.

Other than the transactions with key management personnel disclosed above and in Note 6, no other related party transactions have been identified.

We have audited the parent company financial statements of Luxfer Holdings PLC for the year ended 31 December 2008, which comprise the Company Balance Sheet, the related notes 33 to 44 and tables 2 to 5 in the Directors' Report marked as audited. These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the group financial statements of Luxfer Holdings PLC for the year ended 31 December 2008.

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

Our responsibility is to audit the parent company 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 parent company financial statements give a true and fair view and whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the parent company Directors' report is consistent with the financial statements. The information given in the Directors' report includes that specific information presented in the Chief Executive's Review and Finance Review that is cross referred from the Business and Principal Activities section of the Directors' report and specific information presented in the Finance Review that is cross referenced from the Financial Instruments section of the Directors' Report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the 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 Corporate Information, the Chairman's Statement, the Chief Executive's Review and Finance Review. 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. 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 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.

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 2008;
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the parent company financial statements.

Ernst & Young LLP
Registered Auditor
Manchester
26 March 2009

	Notes	2008 £M	2007 £M
FIXED ASSETS			
Investments	35	**234.6**	234.6
		234.6	234.6
CURRENT ASSETS			
Debtors	36	**2.9**	5.1
Cash at bank and in hand		**-**	-
		2.9	5.1
CREDITORS: amounts falling due within one year	37	**(6.6)**	(6.8)
NET CURRENT LIABILITIES		**(3.7)**	(1.7)
TOTAL ASSETS LESS CURRENT LIABILITIES		**230.9**	232.9
CREDITORS: amounts falling due in more than one year			
Senior Notes due 2012	38	**(71.6)**	(71.5)
Loan Note to subsidiary undertaking	38	**(28.6)**	(28.6)
Preference shares	38	**(0.1)**	(0.1)
PENSION COMMITMENTS	42	**(11.2)**	-
NET ASSETS		**119.4**	132.7
CAPITAL AND RESERVES			
Ordinary share capital	40	**10.0**	10.0
Deferred share capital	40	**76.9**	76.9
Own shares held by ESOP	41	**(0.4)**	(0.4)
Profit and loss account	41	**32.9**	46.2
Equity shareholders' funds	41	**119.4**	132.7

SIGNED ON BEHALF OF THE BOARD

Brian Purves **Stephen Williams**

26 March 2009

33. SIGNIFICANT ACCOUNTING POLICIES

Authorisation of financial statements

The Company's financial statements for the year ended 31 December 2008 were authorised for issue by the Board of Directors on 26 March 2009 and the balance sheet was signed on the Board's behalf by BG Purves and SN Williams. Luxfer Holdings PLC is a company incorporated and domiciled in England and Wales.

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.

No profit and loss account has been presented as permitted by section 230 of the Companies Act 1985. The profit after taxation of the Company was £0.2 million (2007: £59.5 million).

The Company has taken advantage of the exemption in paragraph 2D of FRS 29 Financial Instruments: Disclosures and has not disclosed information required by that standard, as the Group's consolidated financial statements, in which the Company is included, provides equivalent disclosures for the Group under IFRS 7 Financial Instruments: Disclosures.

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 Credit Method, with actuarial valuations being carried out at each balance sheet date. The charge to the profit and loss account 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 borrowings 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 profit and loss account 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.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Financial liabilities and equity 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 financial liabilities and equity 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 respect of an equity instrument are charged directly to the profit and loss account.

34. SHARE CAPITAL REORGANISATION

On 6 February 2007, Luxfer Holdings PLC entered into schemes of arrangement pursuant to section 425 of the Companies Act 1985 with the ultimate beneficial holders (the "Noteholders") of its 10.125% Senior Notes due May 2009 and certain of its shareholders, which resulted in a reorganisation of the Company's capital structure.

The capital reorganisation included the following transactions:

- The release and cancellation of the existing fixed rate Senior Notes due 2009 and in return the issue of new floating rate Senior Notes due 2012 for third party Noteholders and an intercompany loan for those Senior Notes due 2012 held by Luxfer Group Limited, a subsidiary of the Company;
- A payment to settle the outstanding interest accrued on the existing Senior Notes due 2009;
- The exercise by members of the ESOP of all outstanding options with an exercise price of £0.01 over the £0.6487 preference shares by members of the ESOP and the purchase for cash of a further number of £0.6487 preference shares by management from the ESOP;
- Following the management transactions with the ESOP, the reorganisation of the Company's existing share capital, including the conversion of the £0.6487 ordinary shares and £0.6487 preference shares into a combination of new £1 ordinary shares and £0.0001 deferred shares and the cancellation of the related accrued preference share dividend;
- The purchase of 87% of the new share capital of the Company by the Noteholders for a consideration of £8.5 million; and
- Under the schemes of arrangement the rights and obligations under the Senior Notes due 2009 and the £0.6487 preference shares were cancelled in full.

Senior Notes exchange

As a result of the release and cancellation of the Senior Notes due 2009 and under the capital reorganisation, the issue of new Senior Notes due 2012, an exceptional credit of £56.0 million was recognised in the profit and loss account on 6 February 2007. This was calculated as follows:

	£M
Senior Notes due 2009	**160.0**
Less deferred issue costs	**(1.0)**
Senior Notes due 2009 at 6 February 2007	**159.0**
Add interest accrued:	
From 2 May 2006 to 6 February 2007	**12.4**
Less fair value of financial instruments exchanged:	
Cash settlement of interest to third party Noteholders	**(10.3)**
Senior Notes due 2012	**(68.8)**
Interest paid to Luxfer Group Limited	**(2.2)**
Inter-company loan to Luxfer Group Limited	**(28.6)**
Less transaction costs	**(5.5)**
Exceptional credit to the profit and loss account	**56.0**

On 6 February 2007, the £131.4 million of Senior Notes due 2009, being those held by third parties, was exchanged for an amount of new Senior Notes due 2012 with a fair value of £68.8 million. A cash payment of £10.3 million was made in settlement of all interest accrued from 2 May 2006 on the Senior Notes due 2009. The deferred issue costs of £1.0 million on the Senior Notes due 2009 were written off.

The Senior Notes due 2009 held by Luxfer Group Limited were cancelled and replaced with an inter-company loan of £28.6 million with the Company. Interest of £2.2 million outstanding on the Senior Notes due 2009 held by Luxfer Group Limited was also paid.

A further £3.1 million of new Senior Notes due 2012 were issued at par for a cash consideration of £3.1 million. The total fair value of the new Senior Notes due 2012 issued was therefore £71.9 million. The net cash movement was an outflow of £9.4 million, being the interest payment of £12.5 million less the cash received for the additional Senior Notes due 2012 of £3.1 million. The net cash outflow of £9.4 million was funded through dividends received from subsidiaries.

34. SHARE CAPITAL REORGANISATION (continued)

Transaction costs of £6.0 million were incurred by the Company for advisors' fees of which £2.3 million had been paid by the Company by 31 December 2006. Of the £6.0 million, £5.5 million was written off through the profit and loss account on 6 February 2007. The remaining £0.5 million was attributed to the issue costs of the Senior Notes due 2012 and have been capitalised and amortised over the five year life of the Senior Notes due 2012.

The rights and obligations of the other creditors of the Company were not affected by the capital reorganisation.

Share capital reorganisation

The share capital reorganisation resulted in a credit of £28.8 million to retained earnings on 6 February 2007 and was calculated as follows:

	£M
Preference Share capital held outside ESOP	**77.8**
Accrued dividend	**36.3**
Preference share liability as reported at 6 February 2007	**114.1**
Ordinary shares	**0.9**
Total recognised net book value of all share capital instruments prior to reorganisation	**115.0**
Less share capital instruments in balance sheet after reorganisation:	
£1 'B' preference shares – not converted	**(0.1)**
£1 ordinary share capital	**(10.0)**
£0.0001 deferred share capital	**(76.9)**
ESOP – investment in own shares	**0.4**
	28.4
Cash received by ESOP from management	**0.4**
Credit to retained earnings	**28.8**

On 5 February 2007, all of the £0.01 share options over existing £0.6487 preference shares held by the ESOP were exercised. Members of a new management incentive plan then purchased shares from the ESOP for a consideration of £0.4 million. After the ESOP transactions, shares with a par value of £2.3 million were still held by the ESOP. These preference shares were originally purchased for a consideration of £0.4 million and this cost of investment is shown as a separate line item in equity.

The existing £0.6487 ordinary shares and £0.6487 preference shares, excluding 50,000 £1 'B' preference shares, were converted into a combination of new £1 ordinary shares and £0.0001 deferred shares, with the £0.9 million par value of £0.6487 ordinary shares and £86.0 million of the £0.6487 preference shares converted into £10.0 million par value of new £1 ordinary shares and £76.9 million par value of £0.0001 deferred shares. An accrued preference share dividend with respect to the £0.6487 preference shares of £36.3 million was also cancelled on 6 February 2007.

As part of the capital reorganisation and issue of new shares, new articles of association were adopted for the Company.

35. INVESTMENTS

	Subsidiary undertakings £M
Cost:	
At 1 January 2008 and 31 December 2008	**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 as at 31 December 2008 are as follows:

Name of company	Country of incorporation	Holding	Proportion of voting rights and shares held	Nature of business
BA Holdings, Inc.*	United States	Common stock	100%	Holding company
Biggleswick Limited * [2]	England and Wales	Ordinary shares	80%	Non trading
Luxfer Group Services Limited *	England and Wales	Ordinary shares	100%	Property Services
Hart Metals, Inc. *	United States	Common stock	100%	Manufacturing
Lumina Trustee Limited [3]	England and Wales	Ordinary shares	100%	Trustee company
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 Gas Cylinders (Shanghai) Co., Limited*	England and Wales	Ordinary shares	100%	Manufacturing
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 Overseas Holdings Limited *	England and Wales	Ordinary shares	100%	Holding company
Magnesium Elektron Limited *	England and Wales	Ordinary shares	100%	Manufacturing
MEL Chemicals, Inc.* [1]	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%	Manufacturing
MEL Chemicals China Limited	England and Wales	Ordinary shares	100%	Dormant
Niagara Metallurgical Products Limited *	Canada	Common stock	100%	Manufacturing
Reade Manufacturing, Inc.*	United States	Common stock	100%	Manufacturing
Luxfer Gas Cylinders S.A.S. *	France	Ordinary shares	100%	Engineering
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] In November 2008 the name of the company was changed from Magnesium Elektron, Inc.

[2] In January 2009 the 20% minority interest shareholding in the company was acquired by the Group.

[3] Acts as bare trustee in connection with the share capital reorganisation referred to in Note 2.

36. DEBTORS

	2008 £M	2007 £M
Amounts due from subsidiary undertakings	**2.9**	5.1

37. CREDITORS: amounts falling due within one year

	2008 £M	2007 £M
Amounts owed to subsidiary undertakings	**5.3**	5.2
Accruals and deferred income	**1.3**	1.6
	6.6	6.8

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

	2008 £M	2007 £M
Senior notes due 2012	**71.6**	71.5
Loan Note to subsidiary undertaking	**28.6**	28.6
Preference shares	**0.1**	0.1
	100.3	100.2

Senior notes due 2012

The Senior Notes due 2012 were issued as part of the 6 February 2007 capital reorganisation as further explained in Note 34. The principal amount held by external parties was £71.9 million. The notes are listed on the Euro MTF Luxembourg Stock Exchange and interest is payable bi-annually. At 31 December 2008, the Senior Notes due 2012 are shown net of deferred transaction costs of £0.3 million (2007: £0.4 million). On issue, £0.5 million of costs were capitalised and are being amortised over the five-year life of the notes, with £0.2 million of these issue costs being amortised up to 31 December 2008. A variable interest rate is payable on 1 May and 1 November, each year, based on six-month LIBOR plus 5.5% to 6%, depending on the credit rating of the Notes. The rate payable at the end of 31 December 2008 was 11.45%, being 5.5% above the relevant LIBOR rate, which is fixed at the start of each six-month interest period. At the Company's discretion, 1% (1.5% if the interest rate is LIBOR plus 6%) may be paid in kind through the issue of new notes. The Senior Notes were not allowed to be repaid until one year after issue, with a 3% early redemption premium for repayment in the second year after issue, 2% in the third and 1% in the fourth year. There is no redemption premium for repayment after four years from issue. The maturity then being February 2012.

Preference share liability

The preference liability of £0.1 million represents the 50,000 'B' preference shares of £1 each.

39. DEFERRED TAX

	£M
At 1 January 2008	-
Credited to statement of total recognised gains and losses	(4.4)
Charged to income	-
At 31 December 2008	(4.4)

No provision has been made for deferred tax on losses carried forward of £34.9 million (2007: £34.2 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.

40. SHARE CAPITAL

(a) Ordinary share capital	**2008 No.**	2007 No.	**2008 £M**	2007 £M
Authorised:				
Ordinary shares of £1 each	**10,000,000**	10,000,000	**10.0**	10.0
Deferred ordinary shares of £0.0001 each	**769,423,688,000**	769,423,688,000	**76.9**	76.9
	769,433,688,000	769,433,688,000	**86.9**	86.9
Allotted, called up and fully paid:				
Ordinary shares of £1 each	**10,000,000**	10,000,000	**10.0**	10.0
Deferred ordinary shares of £0.0001 each	**769,413,688,000**	769,413,688,000	**76.9**	76.9
	769,423,688,000	769,423,688,000	**86.9**	86.9

(b) Preference share capital

	2008 No.	2007 No.	**2008 £M**	2007 £M
Authorised:				
‘B’ preference shares of £1 each	**50,000**	50,000	**0.1**	0.1
	50,000	50,000	**0.1**	0.1
Allotted, called up and 25% paid:				
‘B’ preference shares of £1 each	**50,000**	50,000	**0.1**	0.1
	50,000	50,000	**0.1**	0.1

The 50,000 ‘B’ preference shares are entitled to a dividend and are entitled to be redeemed prior to any distribution or return of capital to shareholders.

41. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS IN RESERVES

	Share Capital £M	Deferred Share Capital £M	Own shares held by ESOP £M	Profit and loss account £M	Shareholders' funds £M
At 1 January 2007	0.9	-	-	(56.5)	(55.6)
Share capital reorganisation (Note 34)	9.1	76.9	(0.4)	28.8	114.4
Profit for the year	-	-	-	59.5	59.5
Actuarial gains and losses on pension schemes	-	-	-	14.4	14.4
At 31 December 2007	10.0	76.9	(0.4)	46.2	132.7
Profit for the year	-	-	-	0.2	0.2
Actuarial gains and losses on pension schemes	-	-	-	(13.5)	(13.5)
At 31 December 2008	**10.0**	**76.9**	**(0.4)**	**32.9**	**119.4**

The Company had a surplus on its profit and loss account of £32.9 million as at 31 December 2008 (31 December 2007: £46.2 million).

The profit after taxation dealt with in the financial statements of the parent company was £0.2 million (2007: £59.5 million).

42. RETIREMENT BENEFITS

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 the profit and loss account 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 Credit 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 subject to inflation increases was introduced, effectively replacing the statutory earnings cap. In October 2007 the rate of the future accrual for pension was reduced and a longevity adjustment was introduced to mitigate against the risk of further increases in life expectancies. 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 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 leave it as an unallocated consolidation adjustment as allowed by FRS 17.

The total charge to the profit and loss account for this scheme in the UK was £0.5 million. The Company's subsidiaries have charged £2.8 million, this being their cash contributions to the scheme and the Company has recognised a credit of £2.3 million.

The financial assumptions used in the calculations are:		**Projected Unit Valuation**	
	2008	2007	2006
	%	%	%
Discount Rate	**6.40**	5.90	5.20
Salary Inflation	**3.80**	4.20	4.00
Price Inflation	**2.80**	3.20	2.90
Pension Increases	**2.80**	3.10	2.90

42. RETIREMENT BENEFITS (continued)

The assets in the scheme and expected rate of long-term return were:	Long term rate of return expected		
	2008	2007	2006
	%	%	%
Equities	**7.70**	7.60	7.50
Gilts	**3.80**	4.40	4.30
Other Bonds	**5.00**	5.00	4.80
Cash	**3.80**	4.40	4.30

The value of the scheme assets were:	Value at 31 Dec 2008	Value at 31 Dec 2007	Value at 31 Dec 2006
	£M	£M	£M
Equities	**89.0**	108.5	106.2
Gilts	**15.0**	32.7	32.2
Other Bonds	**22.1**	13.8	12.9
Cash	**0.1**	(0.8)	0.2
Total market value of assets	**126.2**	154.2	151.5
Present value of scheme liabilities	**(141.8)**	(154.2)	(167.1)
Deficit in the scheme	**(15.6)**	-	(15.6)
Related deferred tax asset	**4.4**	-	4.7
Net pension liability	**(11.2)**	-	(10.9)

Analysis of amount charged to operating profit:	2008	2007
	£M	£M
In respect of defined benefit schemes:		
Current service cost (employer's)	**(0.6)**	(1.6)
Total operating charge for defined benefit schemes	**(0.6)**	(1.6)

Analysis of amount credited/(charged) to other finance income:	2008	2007
	£M	£M
Expected return on pension scheme assets	**9.0**	9.8
Interest on pension scheme liabilities	**(8.9)**	(8.6)
Net credit to other finance income	**0.1**	1.2

Analysis of amount recognised in the Statement of Total Recognised Gains and Losses:	2008	2007
	£M	£M
Actual return less expected return on pension scheme assets	**(33.7)**	(0.8)
Changes in assumptions underlying the present value of scheme liabilities	**20.2**	15.2
Actuarial (loss)/profit recognised in Statement of Total Recognised Gains and Losses	**(13.5)**	14.4

Analysis of movement in deficit in the scheme during the year:	2008	2007
	£M	£M
Deficit in defined benefit schemes at beginning of year	**-**	(15.6)
Current service cost	**(1.3)**	(2.3)
Aggregate contributions (employers' and employees')	**3.5**	2.3
Other finance income	**0.1**	1.2
Actuarial (loss)/gain recognised in Statement of Total Recognised Gains and Losses	**(17.9)**	14.4
Deficit in defined benefit schemes at end of year	**(15.6)**	-

42. RETIREMENT BENEFITS (continued)

Analysis of movement in present value of scheme assets:	**2008**	2007
	£M	£M
At 1 January	**154.2**	151.5
Expected return on scheme assets	**9.0**	9.8
Actuarial gains and losses	**(33.7)**	(0.9)
Contributions from employer	**2.8**	1.6
Contributions from scheme members	**0.7**	0.7
Age related NI	**0.2**	0.3
Benefits paid	**(7.0)**	(8.8)
	126.2	154.2

Analysis of movement in present value of the defined benefit obligation:	**2008**	2007
	£M	£M
At 1 January	**154.2**	167.1
Service cost	**0.6**	1.6
Interest cost	**8.9**	8.6
Contributions from scheme members	**0.7**	0.7
Age related NI	**0.2**	0.3
Actuarial gains and losses	**(15.8)**	(15.3)
Benefits paid	**(7.0)**	(8.8)
	141.8	154.2

History of experience in gains and losses:	**2008**	2007	2006	2005	2004
Difference between the expected and actual return on scheme assets:					
Amount £M	**(33.7)**	(0.8)	7.8	13.9	5.1
Percentage of scheme assets	**(27)%**	(1)%	5%	10%	4%
Experience gains and losses on scheme liabilities:					
Amount £M	**-**	-	2.1	-	-
Percentage of present value of scheme liabilities	**-**	-	1%	-	-
Total amount recognised in Statement of Total Recognised Gains and Losses:					
Amount £M	**(13.5)**	14.4	(0.9)	2.1	(0.6)
Percentage of present value of scheme liabilities	**10%**	9%	1%	-	-

43. THE LUXFER GROUP EMPLOYEE SHARE OWNERSHIP PLAN

The trust

In 1997, the Group established an employee benefit trust ("the ESOP") with independent trustees, to purchase and hold shares in the Company in trust to be used to satisfy options granted to eligible senior employees under the Company's share schemes established from time to time.

The ESOP was established with the benefit of a gift equivalent to the set up and running costs. Purchase monies and costs 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 senior employees when they exercise options granted to them over shares. Surplus shares are held by the ESOP trustees to satisfy future option awards. The ESOP trustees have waived their right to receive dividends on shares held in trust. The Remuneration Committee is charged with determining which senior employees are to be granted options and in what number subject to the relevant scheme rules.

The current scheme

The current share option scheme, implemented by the Company in February 2007 is the Luxfer Holdings Executive Share Option Plan ("the Plan"), which consists of two parts. Part A of the Plan is approved by HM Revenue & Customs and Part B is unapproved. Options can be exercised at any time up to the tenth anniversary of their grant subject to the rules of the relevant part of the Plan. It is a condition of exercise of options granted under Part B that immediately on exercise the ordinary shares over which the option is exercised become restricted shares and subject to rules of the Management Incentive Plan, brief details of which can be found in the Directors' Report. There is no other performance criteria attached to the options.

Movements in the year

There have been no movements in the year. At 31 December 2008 the loan outstanding from the ESOP was £2.3 million (31 December 2007: £2.3 million). No options have been exercised over the ordinary shares of £1 each during the year and at 31 December 2008 the ESOP held 175,674 (31 December 2007: 175,674) £1 ordinary shares and 15,977,968,688 (31 December 2007: 15,977,968,688) £0.0001deferred shares. At 31 December 2008 senior employees held 70,400 (31 December 2007: 70,400) options over the £1 ordinary shares held by the ESOP trustees.

44. 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

Company Registration
Registration no. 3690830

Registered Office
The Victoria,
150 - 182 Harbour City
Salford Quays
Salford M50 3SP

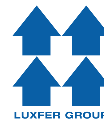
Secretary
Linda F Seddon

Group Finance Director
Stephen N Williams

Auditors
Ernst & Young LLP
100 Barbirolli Square
Manchester M2 3EY

Additional Information
Information regarding the
financial statements:
Andy Beaden
Director of Planning and Finance
Telephone: 0161 911 8829
Email: andy.beaden@luxfer.com

Company Secretarial Information
Linda Seddon
Telephone: 0161 911 8840
Email: linda.seddon@luxfer.com



LUXFER HOLDINGS PLC
The Victoria,
150 - 182 Harbour City
Salford Quays
Salford M50 3SP
England

Tel: +44 (0) 161 911 8826
Fax: +44 (0) 161 911 8893

Website: www.luxfer.com

LUXFER GROUP