REPORT & ACCOUNTS 2006

LUXFER HOLDINGS PLC


Manufacturing Excellence


Commitment to R&D


Technical Excellence


Specialist Markets


Customer Service

COMMITTED TO **EXCELLENCE**

HIGH PERFORMANCE ENGINEERING MATERIALS **WORLDWIDE**

ABOUT THE COVER

COMMITTED TO EXCELLENCE

The Luxfer Model Makes It All Possible

Strong Customer Relationships

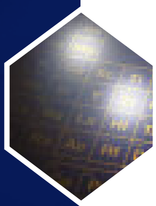
Luxfer's business philosophy places the customer at the centre of everything we do.

High Performance Products into Specialist Markets

We specialise in advanced materials where our expertise in metallurgy and materials science enables us to develop superior engineering materials and products for demanding specialist applications.

Strong Technical Base

Technology is at the core of the Luxfer business. Expertise in material science and a commitment to extending the boundaries of our core materials coupled with an unrivalled expertise in manufacturing and processing techniques.



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, each year we makes a major investment in R&D across the Group.

Manufacturing excellence

Over the last decade the Group has made a major investment in a business improvement programme, "Enterprise Resource Planning" (ERP) focussed on achieving world-class levels of manufacturing excellence.

LUXFER GROUP

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

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

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

CONTENTS

LUXFER GROUP PRINCIPAL BUSINESSES AND DIVISIONAL STRUCTURE

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

“ Our strategy of building on our technological and market leadership in key products, is standing us in good stead.”

Peter Haslehurst Chairman

The cost reduction programme, launched in late 2005, was a great success and has allowed the business to improve operating profit, despite experiencing some large increases in input costs.

This is testimony to the hard work and dedication of our employees across the Group. I would like to record my thanks to them for their outstanding efforts during yet another challenging year.

Our strategy of building on our technical and market leadership in key products, particularly carbon composite gas cylinders, G4 zirconium oxides for catalysis and advanced magnesium products is standing us in good stead, and has created some exciting opportunities for growth over the next few years. Our concern was how to ensure that we had the finances to fully exploit these opportunities, given the high level of debt that was on the balance sheet at the end of 2005.

I am delighted to confirm that, in early 2007, we have been able to reach agreement with the Company's noteholders and shareholders over the need to reorganise the Group's balance sheet. The consequent reduction in debt, and in particular the lower cost of servicing that debt, should enable us to take maximum advantage of the opportunities that we have spent several years developing.

Whilst we will continue to control costs tightly, we have now embarked, on a new phase of investment-led improvements. 2007 will see an increase in our level of capital investment, intended to take us to a much higher, and sustainable level of profitability within three years. I am confident that with the continued innovation and dedication of our employees we will succeed.

Finally, I would like to thank Graham Thomas, who resigned from the Board in February 2007, for his considerable and much valued contribution over the past three years.

Peter Haslehurst
Chairman

"The entire organisation responded magnificently to the challenges that confronted us during 2006."

Brian Purves Chief Executive

In 2006 our employees made extraordinary efforts to overcome the high additional external costs experienced by the Group and drive the business forward.

Results

Group revenue increased by £8.8 million to £241.5 million in 2006, from £232.7 million in 2005. The sale of Zitzmann Druckguss reduced revenues by £3.3 million and the net impact of the weaker US dollar reduced translated revenues by £2.9 million. Despite this £6.2 million reduction, we increased underlying revenues by approximately £15 million, or 6%.

During the year we achieved a trading profit of £19.3 million from £14.8 million in 2005, a 30% increase.

The large increases in input costs that we have seen since 2004 continued into 2006. In particular, the price of aluminium, which we had budgeted to be at $1,800 per tonne, reached a record $3,200 per tonne in May, more than double our previous long-term view of the average cost of aluminium. Aluminium is the largest raw material purchase made by the Group. While we had budgeted for a large increase in the cost of energy, the cost of UK gas almost trebled at one point in the year. Fortunately, we had already put in place a major initiative to take cost out of the business and to seek price increases to recover those cost increases already foreseen.

I am delighted to say that we were largely successful. The entire organisation responded magnificently to the challenge, and it is a great credit to our employees, particularly in the sales departments, that we are able to report such a significant improvement in profitability. Of course, even this improved level remains well below what is required for long-term sustainability.

Gas Cylinders

The Gas Cylinders division increased sales revenue by 3%, to £121.0 million in 2006 compared to £117.4 million in 2005. The weaker US dollar reduced revenues through a translation loss of £1.8 million, but at constant exchange rates underlying revenues were up 5%.

Sales of aluminium cylinders increased in volume by 17%. Growth was achieved in all the major aluminium product markets and encouragingly, 10% growth was achieved in the US medical market, though pricing remained very competitive. We also launched a new range of high-strength aluminium cylinders based on our patented L7X® alloy technology.

Our composite cylinder business had a more difficult year, seeking to recover increased costs for carbon fibre and aluminium. The US life support market for self contained breathing apparatus saw a fall in demand in the second half of the year, which customers have attributed to delayed release of Government funding for the fire fighting services. In Europe, sales of hoop-wrapped composite cylinders to the medical market fell significantly as the UK implemented a change in service providers for the new Home Oxygen Therapy contracts. The UK medical market did recover in the last few months of 2006, as the new service providers sought to increase their inventory levels. In total, composite cylinder revenues were down 9%, but we did achieve several important strategic milestones, with the launch and qualification of a new range of Compressed Natural Gas ("CNG") cylinders in the US and the global launch of new high specification (fully wrapped) composite medical cylinders.

Our Superform operations had a mixed year, with the US operation having lower sales following the end of the Ford GT programme and a high margin specialist aerospace contract. In contrast, the UK operations had a stronger year, achieving growth in both the aerospace and automotive markets.

Gas Cylinders made a trading profit of £7.5 million in 2006, 4% or £0.3 million less than 2005. Although divisional revenue in 2006 was ahead of the prior year, profitability was affected by increased raw material costs, with aluminium, carbon fibre and energy costs significantly higher in 2006. We estimate that these higher costs have added over £8 million to our direct costs in 2006.

Elektron

The Elektron division increased divisional revenue by 4%, to £106.7 million in 2006 compared to £102.4 million in 2005. The weaker US dollar resulted in a translation loss on revenues of £0.9 million and the sale of Zitzmann Druckguss reduced revenues by a further £3.3 million. Using constant exchange rates and adjusting for the disposal, the ongoing operations achieved an underlying sales increase in 2006 of £8.5 million or 8% compared to 2005.

Our zirconium chemical operation increased revenues by 10%, with catalyst unit volumes also up by a similar amount. The business continued to see a change in its overall mix of sales, with G4 auto-catalysts sales increasing 16%, whilst older generation catalysts declined in volume by approximately 10%. The most significant achievement in 2006 was an increase in sales of specialist catalysts for use in industrial chemical and petrol-chemical applications. We also continued to launch new catalyst products during the period, making our first commercial sales of catalysts for use in new diesel particulate filters.

Our magnesium operations also had a good year. If we exclude Zitzmann Druckguss, which was sold during the year, sales revenues increased by 7% in 2006. The business benefited from its strong position in the specialist aerospace and defence markets, with total sales to this sector increasing by approximately 16%. We achieved growth in high performance aerospace alloys and specialised fine powders. This growth was partly offset by reduced demand for lower-grade alloys from the automotive sector and lower-grade powders for use in the steel industry.

Trading profit for Elektron was £12.3 million in 2006, an increase of 78% compared to £6.9 million in 2005. The division's operating profits were helped by higher sales, efficiency gains from investment in its chemical operations and a number of cost saving projects, which were part of the Group's profit improvement plan. These included headcount reductions mainly made in the latter part of 2005, which provided a full-year benefit for the first time in 2006.

Speciality Aluminium

Our Speciality Aluminium division achieved a sales revenue of £14.0 million in 2006, compared to £13.1 million in 2005, a 7% increase. Increased revenues related primarily to price increases rather than unit volume growth. Having achieved a significant turnaround in operating performance in 2005, it was disappointing to incur the severe cost increases in 2006. Aluminium and energy together are a high percentage of BA Tubes' cost of sales and necessitated some very aggressive pricing activity. The cost increases were not fully recovered and the price increases did precipitate some loss of business. The resultant under-recovery of higher input costs pushed the business back into a loss of £0.5 million for 2006.

New Product Development

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

In particular, the G4 catalytic products continued to grow strongly during 2006 and they are now widely recognised as market leaders. The continuing development of a market for diesel catalysts also offers great opportunities and we launched our first products to address this potentially large market. Our newest cylinder plant, the composite wrapping and finishing facility in Shanghai, is now fully operational and I have already authorised an extension to its capacity. During the year we obtained the necessary approvals for the first of our range of composite cylinders targeting the Alternative Fuel markets, principally for CNG. While still at a modest level, our first sales were made during the second half of the year and we already have follow-on orders. Our capacity remains limited, but the first machines to be dedicated to this market are now on order. Sales of our newest magnesium alloy, Elektron 21, achieved aerospace approval in 2006 and a further alloy, Elektron 1220, was launched during the year.

Summary

The profit result for the year is very satisfying given the scale of the input cost increases that we suffered, and is the third successive year of improvement during quite difficult economic circumstances. Our level of profitability, however, remained inadequate given the level of debt in the business, and we face some significant investments that will be required to capitalise on the opportunities that our technical prowess has generated. Accordingly, early in 2006 we approached our Senior Noteholders and shareholders to discuss a financial reorganisation that would free up some additional investment funds and improve the robustness of the Group's balance sheet.

I am pleased to report that we were able to reach agreement among all parties and the capital reorganisation took effect in early February 2007. The Senior Noteholders, who are now also our shareholders, have backed our programme of investment-led profit growth, and we can be optimistic about the future.

Brian Purves
Chief Executive

“ Our trading profit increased by 30% to £19.3 million.”

Stephen Williams Group Finance Director

Finance Review of 2006

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

Introduction

Over recent years we have seen significant increases in the cost of our raw materials, particularly chemicals and carbon fibre, and in the fourth quarter of 2005 we started to see a major rise in the price of aluminium. The LME three-month price for aluminium rose from $1,851 per tonne in September 2005 to $2,277 in December 2005, and then to $2,803 in December 2006, peaking at over $3,200 in May 2006. The monthly average LME three-month price in 2006 was $2,592 per tonne compared to an average of $1,914 in 2005, an escalation of 35%. Energy costs also increased, with some dramatic increases in the UK gas and electricity costs in the first half of 2006. For 2006 our aluminium costs were over £6 million higher than 2005, our utility costs were £1.8 million higher, and the cost of other raw materials rose by £3.7 million. In addition, during the year the US dollar exchange rate weakened against pounds sterling and with almost 50% of our turnover arising in the US, this had a significant impact on the US results when translating US dollar performance to pounds sterling.

The average US dollar to pounds sterling exchange rate in 2006 was $1.858 compared to $1.814 in 2005.

In the latter half of 2005, faced with these large cost increases, we launched a major new profit improvement plan, with the objective of achieving a step change in Group operating performance. The plan focussed on additional and more aggressive cost reduction, combined with working with our customers to agree price increases across most of our markets to recover a sizeable element of the significant increases in our raw material and utility costs. Our businesses responded with a large number of individual initiatives, and the success of the plan can be determined by our improved trading performance, with trading profit increasing to £19.3 million an increase of 30% over 2005.

This commercial success helped to convince our shareholders and senior noteholders to agree to a new capital structure for Luxfer Holdings PLC. The capital reorganisation, completed on 6 February 2007, will enable us to invest further in our operations and provide our suppliers and customers with greater confidence in the financial stability of the Group.

Group Key Performance Indicators

		2006	2005
Operating Performance			
Trading Profit	£m	**19.3**	14.8
EBITDA before exceptionals	£m	**27.2**	22.8
Gross profit	%	**19.8**	19.1
Return on Sales (trading profit divided by revenue)	%	**8.0**	6.4
Sales per average full time equivalent employee	£000s	**129**	119
Financial Performance			
Operating cash flow after tax	£m	**19.6**	12.7
Working capital turnover (annual sales divided by average trading working capital)		**5.3**	5.3
Net debt to EBITDA before exceptionals		**4.7x**	6.0x
Economic Indicators			
Average aluminium price (LME 3 Month)	$ per Tonne	**2,592**	1,914
Average US dollar to pounds sterling exchange rate	$:£	**1.86**	1.81

Income Statement

Revenue

We increased revenue to £241.5 million in 2006 and this represented a £15 million or 6% increase at constant exchange rates and after adjusting for the disposal of Zitzmann Druckguss.

Gross profit

The success of our profit improvement plan can be measured by the fact that despite the major increases in raw material and utility costs, the Group's gross profit rose by £3.3 million, with the gross profit margin increasing to 19.8%, from 19.1% in 2005.

Net operating expenses

Compared to 2005, net operating expenses decreased by £1.2 million or 4%, despite the increased level of sales activity within the Group. Of this decrease, £0.5 million is accounted for by the sale of Zitzmann Druckguss, and £0.7 million from our cost reduction programme.

Trading profit

Trading profit for the year before exceptional items was £19.3 million compared to £14.8 million in 2005, an improvement of 30%. There was a £0.4 million negative exchange translation impact on profit because of the weaker US dollar in the last quarter of the year. The key performance indicators of the Group demonstrate the operational efficiencies achieved in the last year, with revenue per full-time employee rising to £129,000 from £119,000 and our trading profit return on sales rising to 8.0% from 6.4%.

Exceptional items

Exceptional costs in the year netted out to zero, but included a £0.7 million charge for environmental costs relating to the removal of an effluent pond at our Zirconium operation in North America, and redundancy costs of £0.1 million in relation to the closure of our Japanese cylinder distribution centre. These exceptional costs were offset by a £0.8 million net credit for benefit changes in overseas retirement benefit schemes, resulting mainly from the closure of our US retirement death benefit scheme which provided life assurance benefits to certain retired employees in the US.

In 2005 there was a net exceptional credit of £1.6 million, rationalisation and redundancy costs totalled £0.6 million, environmental costs were £1.5 million, but these were offset by a credit of £3.7 million arising from the closure of the main US defined benefit pension scheme.

Operating profit

Operating profit was £19.3 million for the year, compared to £16.4 million in 2005.

Disposal of business

We sold our automotive die-casting operation based in Germany in August 2006 for a consideration of £7.4 million. The business was capital intensive, low margin and exposed to the European automotive sector. It was increasingly a poor fit within the Luxfer portfolio. We made a book loss of £3.1 million on the sale, but realised £6.8 million of cash after costs, which will provide additional funds to re-invest in other more profitable areas of our Elektron division.

Finance costs

Net interest costs payable during the year were £15.8 million, comprising £13.8 million relating to interest charges for the now cancelled Senior Notes due 2009, £0.8 million for other bank borrowings and £1.3 million in relation to the arrangement costs of the Group's new banking facilities established in April 2006. Under IAS 39, the Group also made a provision of £5.4 million for dividends relating to the Group's preference shares of £0.6487 each, though this dividend was cancelled as part of the capital reorganisation.

Taxation

The tax expense of £4.1 million is against a loss before taxation of £5.0 million and comprises a corporation tax charge of £3.4 million and a deferred tax charge of £0.7 million. Profits in our overseas subsidiaries led to a local corporation tax charge, whilst the UK remained in a loss making position. The loss on the disposal of Zitzmann Druckguss and the preference share dividend were not tax deductible.

The after tax retained loss for the year amounted to £9.1 million compared to £6.6 million in 2005.

Cash Flow

Net cash flows from operating activities of £19.6 million were £6.9 million or 54% higher than 2005. The increase in EBITDA before exceptionals of £4.4 million to £27.2 million was partly offset by higher inventory and trade receivables. The increase in inventory partially reflects the higher raw material costs and the decision to maintain higher strategic stocks of some materials currently in short supply. The higher level of receivables at the year-end reflects increased sales in November and December compared to 2005.

Capital expenditure in the year of £6.9 million, was at the same level as in 2005. Although capital expenditure was deliberately constrained during the year, we did undertake several major projects designed to expand our capability and reduce our cost base. Within the Gas Cylinder division the major expenditure has been targeted at our composite cylinder capability. Projects included further investment in the composite line in the US to reduce operating costs, a new composite wrapping machine for our operation in China and the first phase of a project designed to expand our capability to produce a wider range of Alternative Fuel composite cylinders. In our Superform business, the major project was the introduction of a new hemming machine to expand our capability in the automotive market. Within the Elektron division we expanded our G4 catalyst capability at both our UK and US sites, and we have invested in our wrought magnesium operations in the US. We have also made investments to reduce our energy consumption, the most notable being the introduction of regenerative burners at our Speciality Aluminium tubes plant.

Finance costs paid during the year included £7.3 million of net interest, £1.3 million to set up our new bank facility and £2.6 million of costs in relation to the 2007 capital reorganisation. The payment of interest of £7.3 million includes interest on our bank debt and interest on our Senior Notes due 2009 for the period 1 November 2005 to 2 May 2006. The balance of the accrued interest was deferred until completion of the capital reorganisation. Tax payments during the year were £2.3 million.

The net cash inflow after interest payments and other finance costs but before other financing activities was £7.9 million compared to a net outflow in 2005 of £8.2 million. During the year we repaid £11.7 million being the outstanding balance on our previous bank facility. At the end of the year we had drawn down £1.6 million of our new facility. The cash balance at the end of the year was £3.2 million.

Shareholder Funds & Borrowings

The shareholder deficit at the end of 2006 was £153.9 million, an increase of £14.9 million over 2005. Included within the consolidated statement of recognised income and expense for the year was the £9.1 million loss for the year, £4.6 million for the exchange loss arising on the translation of foreign operations, a £0.3 million actuarial loss arising from the defined benefit retirement schemes and a transfer to the income statement of a £0.9 million loss arising on cash flow hedges.

At the end of 2006, preference shares and accrued dividends totalled £113.5 million and net debt decreased by £6.9 million during the year to £128.8 million. These were then subject to our capital reorganisation on the 6 February 2007, see “2007 Capital Reorganisation” below.

Banking Facilities

In April 2006 the Group replaced its existing £30 million revolving credit bank facility with a new three year, £45 million facility. The new facility provides for loans and overdrafts and up to £10 million of ancillary financing for letters of credit, bank guarantees and foreign exchange hedging. It is provided through asset-backed financing arrangements in the UK and the US and is secured over substantially all the operating assets of the Group in the UK and the US.

2007 Capital Reorganisation

The Group over recent years has been burdened with high levels of debt at a time when we have had to cope with increasingly difficult economic conditions. Whilst we have been successful in raising our prices and taking costs out of the business, we have also during 2006 been working on a capital reorganisation designed to improve the Group’s financial condition by significantly reducing the Group’s debt and interest expense.

On 6 February 2007, we were pleased to be able to announce that a scheme of arrangement between Luxfer Holdings PLC and the ultimate beneficial holders of our 10.125% Senior Notes due 2009 (“the noteholders scheme”) and the scheme of arrangement between the Company and certain of its shareholders, (“the shareholder scheme”) both came into effect, following the sanction of both schemes by the High Court.

The financial statements for 2006 have been prepared with the capital reorganisation being treated as a non-adjusting post balance sheet event as disclosed in Notes 32 and 45 to the financial statements. However, pro forma accounts have also been prepared to show the hypothetical impact on the Group’s balance sheet as at 31 December 2006. These are further explained in Notes 2 and 34 of the financial statements. The main details of the capital reorganisation are set out below.

The third party Senior Noteholders have in consideration for the release and cancellation of the Company’s outstanding £131.4 million Senior Notes due 2009, been issued with £68.8 million of new floating rate Senior Notes due 2012 and cash proceeds of £10.3 million to settle interest obligations. The Senior Noteholders purchased 87% of the share capital in the Group. They also subscribed to additional new Senior Notes due 2012 of £3.1 million. After taking into account the further subscription of £3.1 million, we have in issue total new Senior Notes due 2012 of £71.9 million.

The new Senior Notes due 2012 will have a five-year maturity date, the floating rate is 6% above six month LIBOR, but the Company has the option to pay-in-kind 1.5%, through the issue of further notes, and the opportunity to reduce the rate by 0.5% above a certain credit rating. The new notes have been listed on the Luxembourg MTF Stock Market.

Under the shareholder scheme, institutional and ex-management shareholders, in aggregate holding approximately 85% of current ordinary and preference shares of £0.6487 each, received £8.45 million in aggregate in return for their stake.

Also under the shareholder scheme, the £0.6487 ordinary and £0.6487 preference share capital were converted into a combination of new £1 ordinary share capital and £0.0001 deferred shares, which under International Financial Reporting Standards will reduce the Company's balance sheet liabilities by £113.4 million, based on the accrued liability outstanding at 31 December 2006. This included the cancellation of the preference share dividend liability.

Management retained an interest in 13% of the post reorganisation share capital. Participation in the economic rights of this holding will initially be restricted to 5%, and may grow to the full 13% of post reorganisation share capital based upon the attainment of certain growth targets.

Overall, along with the significant reduction in the preference share liability, the capital reorganisation has reduced our Senior Notes debt by approximately £60 million and this in turn should reduce our cash interest costs by at least £5 million a year. To fund the transaction we have drawn down approximately £10 million of additional loans from our revolving credit banking facility, with £2.6 million of these costs being prepaid by the end of 2006. The pro forma balance sheets illustrate this benefit to the Group and holding company's own financial statements. Based on this pro forma information, the Group would have reported shareholder equity of £15.2 million rather than the deficit reported of £153.9 million. At 31 December 2006 our net debt to EBITDA ratio was 4.7x. Based on the pro forma balance sheet it would have been 2.9x, a significant reduction from the 6.0x at the end of 2005.

Treasury

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

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

Interest Rate Risk

In recent years, apart from the short-term bank facility, the Group had no variable interest rate risk, the Senior Notes due 2009 being at a fixed rate of 10.125%. Following the capital reorganisation we are now exposed to a much higher level of risk, with the issue of the new floating rate Senior Notes due 2012. At present we have no hedges in place against this risk, but will review this policy over the coming year.

Aluminium Metal Cost Risk

The Group's annual aluminium price risk is now equivalent to approximately 18,000 tonnes, calculated from purchases of 21,000 tonnes of primary aluminium less aluminium scrapped and sold back into the market of 3,000 tonnes. 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. The Group had no metal hedging facility at the end of 2006 and, therefore, no metal hedges were in place. In February 2007, a new facility was negotiated with our main bankers and this will enable us to reintroduce hedging of aluminium price risks.

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. The Group has a degree of natural hedge against transaction risk due to its similar levels of purchases and sales in US dollars. Our UK businesses, however, have a sizeable transaction exposure to the pound sterling to euro exchange rate. The nature and level of hedges in place at 31 December each year are disclosed in Note 27 to the Group's financial statements.

Pension Plans

The Group operates defined benefit arrangements in the UK, US, France and Japan. 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 members of the scheme. In 2006 we closed the US retirement death benefits scheme.

At 31 December 2006 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 £18.3 million (2005: £21.9 million), with the UK element being £15.7 million (2005: £16.0 million).

The pension cost to the Group excluding the gains on curtailment of benefits in 2006 was £1.5 million (2005: £2.5 million). Pension contributions during the year totalled £4.0 million (2005: £4.0 million) including company contributions into employee's 401(k) schemes.

Stephen Williams
Group Finance Director

THE DIRECTORS

Peter Joseph Kinder Haslehurst

Non-Executive Chairman - appointed Chairman effective 31 March 2006, Peter has been a non-executive special 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, a fellow of the Institution of Electrical Engineers, a fellow of the Royal Society of the Arts and also a fellow of the Institute of Materials, Minerals and Mining, where he is a past vice president, he has been a managing director/chief executive and chairman in manufacturing industry for 38 years. From 1985 to 1999 he was chief executive of the EIS Group PLC. He holds a number of non-executive directorships and appointments including non-executive chairman of the Brunner Mond Group, where he was chairman and chief executive until September 2006; chairman of Imago at Loughborough, the UK's largest single site residential conference centres business, part of the University where he is a member of Council; president emeritus of VAI Industries (UK) and a director of Export Credits Guarantee Department (ECGD). He was made an Eisenhower Fellow in 1980. He has since his appointment as Chairman chaired the Audit and Remuneration Committees. Peter is 66 years old.

Brian Gordon Purves

Chief Executive - appointed as a Director of the main Board of Luxfer Group in 1996. In January 2002 Brian was appointed as Chief Executive having served as Finance Director since the formation of the Luxfer Group in 1996. He was also a member of the management buy-in team. A qualified accountant with a degree in physics and a masters in business studies and having held senior positions in Land Rover and Rover Group covering both financial and commercial responsibilities, Brian is well placed to lead the Luxfer Group. Brian is 52 years old.

Stephen Norman Williams

Group Finance Director - appointed as a Director in 2002 when he also took on the role of Group Finance Director in succession to Brian Purves. Steve was formerly Group Financial Controller having been appointed to the position on formation of the Luxfer Group in 1996. Prior to joining the Luxfer Group he was divisional finance director responsible for the business acquired by the management buy-in in 1996 while employed at Alcan. Steve is 55 years old.

Joseph Allison Bonn

Non-Executive Director - appointed as a director on 1 March 2007 after consultation with the non-management shareholders as agreed as part of the capital reorganisation. 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 Aluminum Association, the Board of the National Association of Purchasing Management, and the International Primary Aluminium Institute Board. Joe is a US citizen and resides in the US. He is 63 years old.

Graham Daniel Medley Thomas

Non-Executive Special Director - appointed as a Director in 2003. Graham is a partner of MidOcean UK Advisor LLP. He is also a director of Morgan Grenfell Private Equity Limited representing them on the Board of Luxfer Group, having been appointed to the role of Special Director pursuant to the Investment Agreement between the shareholders of the Company and the Articles of Association for so long as a Morgan Grenfell party is a member of the Company. He was also a member of the Audit and Remuneration Committees during the year. With Morgan Grenfell no longer holding equity in the Company, Graham resigned on completion of the capital reorganisation with effect from 5 February 2007. Graham is 39 years old.

Jeffrey Whalley

After holding the post of Non-Executive Chairman since 1996 and chairing the Audit and Remuneration Committees for most of that period, Jeff resigned as a director and Chairman on 31 March 2006 following his appointment as chairman and chief executive of GWB Holdings PLC.

THE CURRENT MEMBERS OF THE EXECUTIVE MANAGEMENT BOARD

NAME	TITLE	AGE
Brian Gordon Purves	**Chief Executive**	**52**
Stephen Norman Williams	**Group Finance Director**	**55**
Andrew Michael Beaden	**Group Financial Controller**	**39**
David Richard Betts	**Managing Director of BA Tubes**	**44**
Christopher John Hilary Dagger	**Managing Director of Magnesium Elektron**	**58**
Edward John Haughey	**Managing Director of MEL Chemicals**	**51**
John Stephen Rhodes	**President of Luxfer Gas Cylinders**	**57**
Linda Frances Seddon	**Company Secretary and Legal Adviser**	**56**

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 2006.

Linda Seddon Company Secretary

Business and Principal Activities

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

A review of the Group's results for the year and a description of key events and significant changes during the year in the Group and each of the divisions may be found in the Chairman's Statement, the Chief Executive's Review and the Finance Review on pages 2 to 9. Events affecting the Group since the end of the year and likely future developments are also referred to in those pages. The Group's key financial and other performance indicators are disclosed and discussed in the Finance Review on pages 5 to 9.

Dividend

The ordinary shares of £0.6487 each and the redeemable cumulative preferences shares of £0.6487 each were converted into a combination of ordinary shares of £1 each and deferred shares of £0.0001 each in February 2007 as part of the 2007 capital reorganisation. At the same time the 5% cumulative dividend on these preference shares was cancelled. No dividend was paid during the year on the ordinary shares of £0.6487 each.

Directors

The names of the Directors who held office at 31 December 2006 and during the year together with their brief biographical details, membership of Board Committees and their main outside commitments appear on page 10.

Jeffrey Whalley resigned as Non-Executive Chairman and Director on 31 March 2006. On the same date Peter Haslehurst was appointed as Non-Executive Chairman.

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

Since the end of the year, Graham Thomas has resigned as Non-Executive Special Director with effect from 5 February 2007. Joseph Allison Bonn was appointed as a Non-Executive Director, effective 1 March 2007, after consultation with non-management shareholders as agreed in the capital reorganisation. Appointment of a further non-executive director, also in consultation with non-management shareholders, is underway.

Directors' Interests and Related Party Transactions

No Director had a material interest in, nor were they a party to, any contract or arrangement to which the Company or any subsidiary is or was party either during the year or at the end of the year, with the exception of their individual service contract, the shareholders' agreement, which regulated during the year certain aspects of the relationship among the then shareholders in the Company and referred to in this Report as the Investment Agreement, and the matters referred to in "Directors' Interests after the 2007 Capital Reorganisation". The Investment Agreement was terminated on completion of the capital reorganisation.

The interests of the Directors who held office at 31 December 2006 and their families in the share capital of the Company are set out below. All of the interests are beneficial. There was no change in the Directors' shareholdings during the year.

Directors' Shareholdings in the Company during the year

	Ordinary shares of £0.6487 each		**Preference shares of £0.6487 each**		**B Preference shares of £1 each (25% paid)**		**Deferred shares of £0.0001 each**	
	Held at 31 December 2006	Held at 1 January 2006	Held at 31 December 2006	Held at 1 January 2006	Held at 31 December 2006	Held at 1 January 2006	Held at 31 December 2006	Held at 1 January 2006
Executive Directors:	No.	No.	No.	No.	No.	No.	No.	No.
Brian Purves	71,438	71,438	5,188,887	5,188,887	25,000	25,000	10,000	10,000
Stephen Williams	9,158	9,158	691,713	691,713	-	-	-	-
Non-executive Director:								
Jeffrey Whalley	77,127	77,127	7,635,573	7,635,573	-	-	-	-

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

	Ordinary shares of £0.6487 each		Preference shares of £0.6487 each	
	Held at 31 December 2006	Held at 1 January 2006	Held at 31 December 2006	Held at 1 January 2006
Executive Directors	No.	No.	No.	No.
Brian Purves:				
Exercise price of £0.01	-	-	968,715	968,715
Exercise price of £0.34	-	-	914,760[(a)]	914,760[(a)]
Stephen Williams:				
Exercise price of £0.65	10,842	10,842	-	-
Exercise price of £0.01	-	-	96,921	96,921
Exercise price of £0.34	-	-	118,008[(a)]	118,008[(a)]

[(a)] *During the year, these options due to expire in March 2006 were rolled over as described in Notes 29 and 43 to the financial statements.*

No options were exercised during the year, except as referred to in "Directors' Interest after the 2007 Capital Reorganisation". Except in the circumstance described in Notes 29 and 43 to the financial statements, no options were granted to any Director during the year. No performance conditions apply to any options held by the Executive Directors during the year.
No Director had any other notifiable interest in any securities of any Group company or undertaking during the year.

Directors' Interests after the 2007 Capital Reorganisation

After the year end, as part of the capital reorganisation of the Company described elsewhere in the various reviews, this report and the financial statements, the Directors' interests changed to reflect the conversion of the Company's existing ordinary shares of £0.6487 each and preference shares of £0.6487 each into new ordinary shares of £1 each and deferred shares of £0.0001 each and to reflect the agreement concluded on the capital reorganisation with the holders of the Company's Senior Notes of 10.125% due 2009.

A) Immediately prior to the implementation of the capital reorganisation:

- In the circumstances described in Notes 29 and 43 to the financial statements, Brian Purves and Stephen Williams (along with all other option holders) were entitled to exercise all options they held over the existing £0.6487 ordinary shares and £0.6487 preference shares in the Company. Elections to exercise options were made at the end of the year conditional on the schemes of arrangement being approved by the High Court. Both Brian Purves and Stephen Williams elected to exercise all the options over existing preference shares of £0.6487 each that they each held at the end of the year, as set out in the above table at the exercise price of £0.01p. Each of them allowed their options over the existing £0.6487 ordinary shares and/or £0.6487 preferences shares with an exercise price of £0.34 or £0.65 to lapse.

- To reallocate shareholdings among continuing management to optimise the Group's management incentive structure following completion of the capital reorganisation along with certain other continuing management pursuant to conditional agreements entered into during 2006, (i) Brian Purves sold a certain number of £0.6487 preferences shares to the ESOP, (ii) Peter Haslehurst purchased from the ESOP a certain number of £0.6487 preference shares and (iii) Stephen Williams purchased an additional number of £0.6487 preference shares.

B) On completion of the capital reorganisation:

- All the 0.6487 ordinary shares and £0.6487 preference shares held at that date by Peter Haslehurst, Brian Purves and Stephen Williams were converted into a combination of £1 ordinary shares and £0.0001 deferred shares.

- The Company entered into a management incentive plan ("MIP") with a group of senior managers, including Peter Haslehurst, Brian Purves and Stephen Williams ("MIP Members"), established to promote the success of the Group and incentivise members of the management by providing them the opportunity to share in any increase in the long term value of the Group. Under the MIP, MIP Members are subject to contractual restrictions in respect of a percentage of their new ordinary shares whereby they waive their economic rights, benefits and/or entitlement as holders of new restricted ordinary shares (such as their rights to receive dividends or distributions from the Company) until certain specified EBITDA targets are attained and also waive their entitlement to transfer any restricted new 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 new ordinary shares held by management carry the same voting rights per share as any other new ordinary share, except that they have contractually agreed not to vote on the two new non executive director appointments.

- As described in Notes 29 and 43 to the financial statements the Group set up a new share option scheme under which options over the new £1 ordinary shares held by the ESOP were granted to certain management at an exercise price of £0.97 exercisable at any time.

The net effect of the implementation of the capital reorganisation on the Directors' interests as described above is that after 6 February 2007 the Directors' interests in the Company and its shares and options held over shares are:

	New ordinary shares of £1 each			Options over £1 ordinary shares			Deferred shares of £0.0001 each
	Restricted	Unrestricted	Total	Restricted	Unrestricted	Total	
Directors:	No.	No.	No.	No.	No.	No.	No.
Peter Haslehurst	40,000	25,000	65,000	-	-	-	5,920,598,526
Brian Purves*	200,000	125,000	325,000	-	-	-	29,602,992,629
Stephen Williams**	52,000	37,500	89,500	8,000	-	8,000	7,341,542,172

* Includes Brian Purves' beneficial holding through the BG Purves Retirement Trust.
** Stephen Williams was granted options over 10,400 restricted new ordinary shares and 6,500 unrestricted new ordinary shares. On 6 February he exercised options over 2,400 restricted ordinary shares and 6,500 unrestricted ordinary shares at the exercise price of £0.97.

Directors' Remuneration

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

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

- Base salary which takes into account, market rates, the responsibilities of the position held, the experience and contribution of the individual executive and the international scale of the Group's or division's operations. Annual reviews also take into account inflation, general economic conditions and Group or divisional performance.
- An annual bonus based on achievement against financial targets. These financial targets are set in January of each year and are primarily based on Group trading profit and annual cash flow, measured against the approved annual budget. Financial targets for divisional senior executives are based on their division's annual results measured against their divisional annual budgets. The specific combination of financial targets in any year are aligned, as appropriate, with the needs of the Group and the businesses for that year. The maximum annual bonus payable is a pre-defined percentage of annual salary related to the individual's position in the Group. The Executive Directors' maximum percentage bonus achievable is 50% of base salary. Maximum percentage bonus is payable only for achieving specified targets beyond budget in the target areas. For the 2006 year only the Executive Directors' maximum percentage bonus achievable was increased to 100% of base salary (and the percentage bonus achievable by certain other senior executives in differing additional lesser percentages) to support the Profit Improvement Programme instituted by the Group in late 2005. That part of the increased bonus achieved by the Executive Directors is included in the bonus figure for the year set out in the table below.
- Other benefits consist of membership of a pension scheme, company car or car allowance, medical, dental and life insurance and participation in the Group's share option schemes and tertiary education allowance. Both Executive Directors and other senior Group executives participate in such benefits.

The following table details the remuneration payable to each Director in respect of the year ended 31 December 2006, together with comparative totals in respect of the year ended 31 December 2005:

	Salary/ Fees	**Committee Fees**	**Annual Bonus**	**Benefits**	**Total 2006**	Total 2005
Executive Directors:	**£**	**£**	**£**	**£**	**£**	£
Brian Purves	**223,200**	**-**	**111,600**	**26,348**	**361,148**	268,275
Stephen Williams	**124,200**	**-**	**62,100**	**15,230**	**201,530**	138,732
Non-executive Directors:						
Peter Haslehurst	**56,808**	**-**	**-**	**-**	**56,808**	30,000
Jeffrey Whalley*	**18,100**	**-**	**-**	**6,609**	**24,709**	92,712
Francis McKay	**-**	**-**	**-**	**-**	**-**	30,000
Non-executive Special Directors:						
Graham Thomas	**30,000**	**-**	**-**	**-**	**30,000**	30,000
Total	**452,308**	**-**	**173,700**	**48,187**	**674,195**	589,719

* fees paid from 1 January 2006 to the 31 March 2006 date of resignation as Director and Chairman.

Non-Executive Directors and Non-Executive Special Directors - The fees of the Chairman, in respect of both his Chairmanship of the Company and the Remuneration and Audit Committees, are subject to annual review. They are also periodically benchmarked against comparable companies.

The fees payable for Non-Executive Special Directors were determined by the Investment Agreement, which provided for an RPI related increase annually. Fees for Graham Thomas were paid to Morgan Grenfell Private Equity Limited. Fees for Peter Haslehurst were paid to PH Technology Limited at the request of CVC Capital Partners Limited for the period to 31 March 2006, whilst he represented that company on the Board. Since his appointment as Chairman, his fees for that appointment have continued to be paid to PH Technology Limited which company has contractually agreed to provide Mr. Haslehurst's services as Chairman.

Under the terms of his appointment as Chairman, Jeffrey Whalley was entitled to and received a termination payment equivalent to three months salary amounting to £18,700.

Pensions

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

Details of the pension benefits are set out below:

Pensions – defined benefit

Executive Directors:	**Accumulated total accrued pension at 31 December 2006**	**Increase in accrued pension over year to 31 December 2006**	**Transfer value of increase/(decrease)**
Brian Purves	**£22,323 pa**	**£952 pa**	**£(2,294)**
Stephen Williams	**£28,945 pa**	**£952 pa**	**£4,527**

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 of actuarial advice in accordance with Actuarial Guidance Note GN11 less contributions paid by the Directors themselves.
5. We have allowed for Stephen Williams to have contributed £4,119 over the year and Brian Purves to have contributed £5,855 over the year. This is based on 7.4% 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 (including unapproved arrangements)

As Brian Purves is subject to the statutory earnings cap, the defined contributions made in respect of him were, prior to 6 April 2006, divided between the Group's approved contribution arrangements and a defined contribution Funded Unapproved Retirement Benefit Scheme ("FURBS"). After 6 April 2006, the payments that previously were made to the FURBS on behalf of Brian Purves were switched to an approved defined contribution personal pension plan.

The Company's contributions to the Group approved defined contribution arrangements in respect of Brian Purves over the year to 31 December 2006 were £16,986 (2005: £6,765) and to his personal arrangements were £39,288 (2005: £39,283). For Stephen Williams, the Company paid £21,348 (2005: £8,510) into the Group's approved defined contribution arrangements.

Employee Involvement

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

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

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

Disabled Employees

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

Research and Development

During the year the Group invested £3.7 million in research and development on new and improved products and processes. This compares with a total spend in 2005 of £4.1 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 2006 the Group had an average of 40 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 £23,000 (2005: £31,000).

Financial Instruments

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

Corporate Governance

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

Board of Directors

Board composition – During the year, the Board of Directors consisted of four members: a Non-Executive Chairman, one Non-Executive Special Director appointed by a major investor and two Executive Directors. The Executive Directors were also shareholders. Brian Purves the Chief Executive officer also represented the management shareholders on the Board as a Special Director under the Investment Agreement. Following the effectiveness of the capital reorganisation, new articles of association for the Company came into effect on 6 February 2007. Under the new articles of association, the Board of Directors can have a maximum of five members and shall at all times include the Group's Chief Executive and Finance Director, and three Non-Executive Directors, including the Chairman. The Non-Executive Directors are to be appointed in consultation with the non-management shareholders and the management shareholders have contractually agreed not to vote their shares on any such appointments.

The role of the Board – The Board has responsibility for the overall management and performance of the Group and approval of its long-term strategy. Certain matters, identified in the Investment Agreement required the consent of at least two of the three Special Directors, in addition to a majority decision of the Board. The Investment Agreement was terminated on the effectiveness of the capital reorganisation. 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 10.

Internal Controls and Risk Management

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

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

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

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

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

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

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

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

- A Group Environmental Policy and Management System (EMS) with which all operating sites are required to comply. The Group is committed to working towards ISO 14001 and many of the larger business units already have plans in place to achieve this. Many of the elements of the current EMS and work carried out for IPPC are consistent with ISO 14001.

- Actively working towards and/or attainment of IPPC permits as appropriate by UK sites.
- The environment is actively managed and reported on at various levels within the Group. Certain members of the Executive Management Board have been designated to co-ordinate, monitor and report on environmental matters for specific regions of the Group's international operations. Each operating site has a manager designated with responsibility for environmental matters who has appropriate knowledge and expertise.
- External expertise and advice is sought as necessary and appropriate.
- The Board receives an annual report on the main environmental issues affecting the Group and any significant individual issues are brought to the attention of the Board as appropriate and as they arise during the year.
- The environment is considered as an element of the Group's corporate risk assessment. No acquisition involving land or an operating site is undertaken without first obtaining an independent environmental report.

Internal Financial Controls - The key controls consist of:

- The preparation of comprehensive monthly financial reviews submitted to and discussed with the Directors at regular Board meetings.
- Hedging policies, approved by the Board, which cover the Group's exposure to and management of metal costs and foreign exchange rates as appropriate. The Board also receives regular monthly reports on such activities.
- Group Accounting Manual and Group Authority Manual requiring proper, consistent, and legally compliant financial management at all levels.
- Regular performance reviews with divisional management carried out by the Chief Executive and the Group Finance Director at site.
- Periodic internal audits carried out by Head Office finance staff.

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

Post Balance Sheet Events

On 6 February 2007, under Section 425 of the Companies Act 1985, the Group entered into schemes of arrangement with the holders of its 10.125% Senior Notes due 2009 and certain of its shareholders, which resulted in the reorganisation of the Group's capital structure. The effect of the various elements of the capital reorganisation are described in the various reviews and this Report as deemed appropriate and Notes 32 and 45 further describe the effects of this post balance sheet event on the Group and Company respectively.

As this is a non-adjusting post balance sheet event, pro forma balance sheets for the Group and the Company have been prepared to illustrate the effects of the reorganisation as if it had occurred on 31 December 2006. The purpose of the pro forma information is to provide an illustration of the accounting for elements of the reorganisation. Details of the pro forma information for the Group and the Company can be found at Notes 2 and 34 respectively.

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 10. 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 to 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
27 March 2007

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

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

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

In preparing financial statements, the Directors are required to:

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

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

We have audited the group financial statements of Luxfer Holdings PLC for the year ended 31 December 2006 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Recognised Income and Expense and the related Notes 1 and 3 to 32. 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 2006 and on the information in the Directors' Remuneration Report that is described as having been audited.

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

Respective responsibilities of Directors and Auditors

The directors' 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 audited group financial statements. The information 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.

We read other information contained in the Annual Report and consider whether it is consistent with the audited group financial statements. The other information comprises only Corporate Information, the Chairman's Statement, the Chief Executive's Review, the Finance Review and the Unaudited Pro Forma Consolidated Balance Sheet as at 31 December 2006 and accompanying Note 2. 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 2006 and of its loss for the year then ended;
- the group financial statements 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
27 March 2007

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

CONTINUING OPERATIONS	Notes	2006 £M	2005 £M
REVENUE	3	**241.5**	232.7
Cost of sales		**(193.7)**	(188.2)
Gross profit		**47.8**	44.5
Other income		**-**	0.5
Distribution costs		**(5.5)**	(6.4)
Administrative expenses		**(23.0)**	(23.8)
TRADING PROFIT		**19.3**	14.8
Operating exceptional items	5	**-**	1.6
OPERATING PROFIT	4	**19.3**	16.4
Loss on disposal of business	6	**(3.1)**	-
PROFIT ON OPERATIONS BEFORE INTEREST AND TAX		**16.2**	16.4
Finance income	9	**0.1**	0.1
Finance costs:			
Interest costs	10	**(15.9)**	(14.5)
Preference share dividend	10	**(5.4)**	(5.2)
LOSS ON OPERATIONS BEFORE TAXATION		**(5.0)**	(3.2)
Tax expense	11	**(4.1)**	(3.2)
LOSS FOR THE FINANCIAL YEAR ON CONTINUING ACTIVITIES		**(9.1)**	(6.4)
Loss for the year from discontinued activities	8	**-**	(0.2)
LOSS FOR THE YEAR	20	**(9.1)**	(6.6)
Attributable to:			
Equity shareholders		**(9.1)**	(6.6)
Minority shareholders		**-**	-
		(9.1)	(6.6)

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE FOR THE YEAR ENDED 31 DECEMBER 2006

	2006 £M	2005 £M
Income and expense recognised directly in equity		
Exchange differences on translation of foreign operations	**(4.6)**	3.3
Actuarial (losses)/gains on defined benefit retirement schemes	**(0.3)**	1.8
Tax on items taken directly to equity	**-**	(0.5)
Net (expense)/income recognised directly in equity	**(4.9)**	4.6
Transfers to income statement on cash flow hedges	**(0.9)**	(0.2)
Net (expense)/income recognised in equity	**(5.8)**	4.4
Loss for the period	**(9.1)**	(6.6)
TOTAL RECOGNISED INCOME AND EXPENSE	**(14.9)**	(2.2)
Attributed to:		
Equity shareholders	**(14.9)**	(2.2)
Minority interests	**-**	-
	(14.9)	(2.2)

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2006

	Notes	**2006**	2005	2006 (unaudited pro forma) (see Note 2)
		£M	£M	£M
ASSETS				
Non-current assets				
Property, plant and equipment	12	**56.1**	67.8	56.1
Intangible assets	13	**23.8**	23.8	23.8
Investments	15	**0.1**	0.1	0.1
Deferred tax assets	23	**4.7**	5.5	4.7
Other non-current assets	24	**2.3**	2.1	2.3
		87.0	99.3	87.0
Current assets				
Inventories	16	**34.9**	35.7	34.9
Trade and other receivables	17	**33.8**	32.2	30.5
Income tax receivable		**-**	1.1	-
Cash and short term deposits	18	**3.2**	5.9	3.2
		71.9	74.9	68.6
TOTAL ASSETS		**158.9**	174.2	155.6
EQUITY AND LIABILITES				
Capital and reserves attributable to the Group's equity holders				
Ordinary share capital	19	**0.9**	0.9	10.0
Deferred share capital	2	**-**	-	76.9
Retained earnings	20	**54.1**	63.5	137.6
Own shares held by ESOP	2	**-**	-	(0.4)
Hedging reserve	20	**(0.1)**	0.8	(0.1)
Translation reserve	20	**(2.1)**	2.5	(2.1)
Merger reserve	20	**(207.5)**	(207.5)	(207.5)
Equity attributable to the equity holders of the parent		**(154.7)**	(139.8)	14.4
Minority interests	30	**0.8**	0.8	0.8
Total equity		**(153.9)**	(139.0)	15.2
Non-current liabilities				
Senior loan Notes due 2009	21	**130.4**	129.9	-
Senior loan Notes due 2012	2	**-**	-	71.4
Retirement benefits	28	**18.3**	21.9	18.3
Preference shares	19	**113.5**	108.1	0.1
Provisions	22	**3.3**	2.0	3.3
Deferred tax liabilities	23	**0.1**	0.3	0.1
Other long-term liabilities	24	**2.3**	2.1	2.3
		267.9	264.3	95.5
Current liabilities				
Bank loans and overdrafts	21	**1.6**	11.7	11.2
Trade and other payables	25	**42.9**	34.1	33.3
Current income tax liabilities		**0.1**	0.1	0.1
Provisions	22	**0.3**	3.0	0.3
		44.9	48.9	44.9
Total liabilities		**312.8**	313.2	140.4
TOTAL EQUITY AND LIABILITES		**158.9**	174.2	155.6

SIGNED ON BEHALF OF THE BOARD

Brian Purves **Stephen Williams**

27 March 2007

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	2006 £M	2006 £M	2005 £M	2005 £M
CASH FLOWS FROM OPERATING ACTIVITES					
Operating profit		**19.3**		16.4	
Less: loss from discontinued activities		**-**		(0.2)	
Adjustments for:					
Depreciation and amortisation		**7.9**		8.0	
(Increase)/decrease in inventories		**(4.0)**		1.1	
(Increase) in receivables		**(3.4)**		(0.8)	
Increase/(decrease) in payables		**6.7**		(3.9)	
(Decrease) in retirement benefits		**(2.5)**		(1.3)	
Retirement benefit curtailment gains		**(0.8)**		(3.9)	
(Decrease)/increase in provisions		**(1.3)**		0.4	
Income tax paid		**(2.3)**		(3.1)	
NET CASH FLOWS FROM OPERATING ACTIVITIES			**19.6**		12.7
CASH FLOWS FROM INVESTING ACTIVITES					
Purchases of property, plant and equipment		**(6.9)**		(6.9)	
Purchase of intangible assets		**(0.1)**		(0.1)	
Proceeds on disposal of property, plant and equipment		**-**		0.1	
Proceeds from sale of business (net of costs)	6	**6.8**		-	
Cash included in disposed business	6	**(0.3)**		-	
NET CASH FLOWS USED IN INVESTING ACTIVITIES			**(0.5)**		(6.9)
FINANCING ACTIVITES					
Net interest paid		**(7.3)**		(14.0)	
New banking facility – financing costs	10	**(1.3)**		-	
Capital reorganisation – financing costs	32	**(2.6)**		-	
Draw down of revolving credit facilities		**1.6**		15.0	
Repayments on revolving credit facilities		**(11.7)**		(7.8)	
Repayments of obligations under finance leases		**-**		(0.1)	
NET CASH FLOWS FROM FINANCING ACTIVITIES			**(21.3)**		(6.9)
NET DECREASE IN CASH AND CASH EQUIVALENTS			**(2.2)**		(1.1)
Net decrease in cash and cash equivalents			**(2.2)**		(1.1)
Net foreign exchange difference			**(0.5)**		0.1
Cash and cash equivalents at 1 January	18		**5.9**		6.9
Cash and cash equivalents at 31 December	18		**3.2**		5.9

1. ACCOUNTING POLICIES

Authorisation of financial statements

The Group's financial statements for the year ended 31 December 2006 were authorised for issue by the Board of Directors on 27 March 2007 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 consolidation

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 2006 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 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 2006.

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

Revenue

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

Property, plant and equipment

Property, plant and equipment 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 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 or cash generating units are written down to their recoverable amount.

1. ACCOUNTING POLICIES (continued)

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Raw materials are valued on a first-in, first-out basis. Work in progress and finished goods 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 income 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, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

1. ACCOUNTING POLICIES (continued)

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.

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 estimates useful life of the asset or the lease term.

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

Retirement benefit costs

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

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

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

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

Government grants

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

Discontinued operations

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

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

Provisions

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

Cash and cash equivalents

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

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.

1. ACCOUNTING POLICIES (continued)

Interest bearing loans and borrowings

Interest bearing loans and borrowings are recorded at the fair value of the proceeds received. Direct issue costs relating to revolving credit facilities and overdafts are written off directly to the income statement when incurred. Direct 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 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 that is including premiums payable on settlement or redemption and direct issue 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.

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.

Capital instruments

Capital instruments issued by the Group are recorded at the proceeds received.

Capital 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 capital instruments. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. All equity instruments are included in shareholders' funds. Other instruments are classified as financial liabilities if they contain a contractual obligation to transfer economic benefits.

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 7	Financial Instruments: Disclosures	1 January 2007
IFRS 8	Operating Segments	1 January 2009
IAS 1	Amendment – Presentation of Financial Statements: Capital Disclosures	1 January 2007

International Financial Reporting Interpretations Committee (IFRIC)		
IFRIC 8	Scope of IFRS 2	1 May 2006
IFRIC 9	Reassessment of Embedded Derivatives	1 June 2006
IFRIC 10	Interim Financial Reporting and Impairment	1 November 2006
IFRIC 11	IFRS 2 – Group and Treasury Share Transactions	1 March 2007

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

2. PRO FORMA FINANCIAL INFORMATION

Basis of preparation

On 6 February 2007, the Group entered into schemes of arrangement pursant to Section 425 of the Companies Act 1985 with the ultimate beneficial holders (the "Noteholders") of its 10.125% Senior Notes due 2009 and certain of its shareholders, which resulted in a reorganisation of the Group's capital structure. This 2007 captial reorganisation is a non-adjusting Post Balance Sheet Event (see Note 32) for these financial statements and therefore the Board has prepared pro forma consolidated balance sheet information to illustrate the effects of the capital reorganisation as if it had occurred at 31 December 2006.

The unaudited pro forma balance sheet is derived from the Group's consolidated financial statements for the year ended 31 December 2006. The purpose of the unaudited pro forma balance sheet is to provide an illustration of the accounting for elements of the capital reorganisation. The adjustments illustrate how the capital reorganisation would have affected the consolidated balance sheet of Luxfer Holdings PLC had the transaction occurred on 31 December 2006.

The pro forma adjustments illustrate the financial and accounting impact of the following elements of the capital reorganisation:

- 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;
- The settlement of the outstanding interest accrued on the existing Senior Notes due 2009;
- The exercise of all outstanding £0.6487 preference share options with an exercise price of £0.01 by members of the ESOP and the purchase for cash of a certain number of £0.6487 preference shares by management from the Group's ESOP;
- Following the management share 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 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 (other than Luxfer Group Limited) for a consideration of £8.5 million;
- The costs of the transaction, including those expenses for legal and financial advisors.

The illustrative effects of the capital reorganisation on the balance sheet as if it had ocurred at 31 December 2006 are set out below:

	2006 audited balance sheet	Reversal of costs (note i)	Senior Notes exchange (note ii)	Share capital reorganisation (note iii)	Transaction costs (note iv)	2006 pro forma balance sheet
	£M	£M	£M	£M	£M	£M
Total assets	158.9	(3.3)	-	-	-	155.6
Ordinary share capital	0.9	-	-	(0.9)	-	-
New ordinary share capital	-	-	-	10.0	-	10.0
Deferred share capital	-	-	-	76.9	-	76.9
Own shares held by ESOP	-	-	-	(0.4)	-	(0.4)
Retained earnings	54.1	-	60.8	28.2	(5.5)	137.6
Other reserves	(208.9)	-	-	-	-	(208.9)
Total equity	(153.9)	-	60.8	113.8	(5.5)	15.2
Senior Notes due 2009	130.4	-	(130.4)	-	-	-
Senior Notes due 2012	-	-	71.9	-	(0.5)	71.4
Preference shares	113.5	-	-	(113.4)	-	0.1
Bank loans and overdrafts	1.6	(2.6)	6.6	(0.4)	6.0	11.2
Trade and other payables	42.9	(0.7)	(8.9)	-	-	33.3
Other liabilities	24.4	-	-	-	-	24.4
Total liabilities	312.8	(3.3)	(60.8)	(113.8)	5.5	140.4
Total equity and liabilities	158.9	(3.3)	-	-	-	155.6

Notes on the pro forma adjustments and assumptions made:

(i) **Reversal of costs incurred to 31 December 2006** – Transaction costs of £3.3 million from the Group's legal and financial advisors had been invoiced by 31 December 2006. Of these costs, £2.6 million had been paid at 31 December 2006. It has been assumed that all of the transaction costs are paid at the date of the completion of the capital reorganisation (see note iv).

(ii) **Senior Notes exchange** - It is assumed that on 31 December 2006 the £131.4 million of Senior Notes due 2009 held by third parties, is exchanged for an amount of new Senior Notes due 2012 with a fair value of £68.8 million. A cash payment of £9.7 million is made to these Noteholders in settlement of all interest accrued from 2 May 2006 on the Senior Notes due 2009. Deferred issue costs of £1.0 million relating to the Senior Notes due 2009 are written off.

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2. PRO FORMA FINANCIAL INFORMATION (continued)

The gain on the Senior Notes exchange is calculated as follows:

	£M
Senior Notes due 2009	131.4
Less: deferred issue costs	(1.0)
Senior Notes due 2009 as at 31 December 2006	130.4
Add interest accrued to 31 December 2006:	
Interest accrued from 2 May 2006 to 31 December 2006	8.9
Less fair value of financial instruments exchanged:	
Cash settlement of interest	(9.7)
Senior Notes due 2012	(68.8)
Exceptional credit to income statement	60.8

A further £3.1 million of Senior Notes due 2012 are issued at par for a cash consideration of £3.1 million. The total fair value of the new Senior Notes due 2012 issued is therefore £71.9 million. The net cash movement is an outflow of £6.6 million, being the interest payment of £9.7 million less the cash received for Senior Notes due 2012 of £3.1 million. It is assumed that the net cash outflow of £6.6 million is funded through the Group's short term borrowing facilities.

(iii) **Share capital reorganisation** – It is assumed that all of the £0.01 share options over existing £0.6487 preference shares held by the ESOP are exercised. It is also assumed that the members of a new management incentive plan, purchase shares from the ESOP for a consideration of £0.4 million. After the ESOP transactions, a number of £0.6487 preference shares with a par value of £2.3 million are still held by the ESOP. These shares were originally purchased for a consideration of £0.4 million and this cost of investment is now shown as a separate line in equity.

The existing £0.6847 ordinary shares and £0.6847 preference shares, excluding 50,000 £1 B preference shares, are converted into a combination of new £1 ordinary shares and £0.0001 deferred shares, with £0.9 million par value of £0.6487 ordinary shares and £86.0 million of £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 of £35.7 million as at 31 December 2006 is cancelled.

The movement in retained earnings is a gain of £28.2 million and is calculated as follows:

	£M
Preference share capital held outside ESOP	77.8
Accrued dividend	35.7
Preference share liability as at 31 December 2006	113.5
Ordinary shares	0.9
Total recognised net book value of all share capital instruments prior to reorganisation	114.4
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
	27.8
Cash received by ESOP from management	0.4
Retained earnings movement	28.2

(iv) **Transaction costs** – It is assumed that total transaction costs incurred by the Group for advisors' fees is £6.0 million. Of this amount, £5.5 million is written off through the income statement. The remaining £0.5 million is attributed to the issue costs of the Senior Notes due 2012 and is therefore capitalised and amortised over the five-year life of the Senior Notes due 2012. The costs of £6.0 million are assumed to be funded through the Group's short term borrowing facilities and by the issuing of the additional Senior Notes due 2012 for £3.1 million.

3. REVENUE AND SEGMENTAL ANALYSIS

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

BUSINESS SEGMENTS:

Year ended 31 December 2006 **For continuing operations**	**Gas Cylinders £M**	**Elektron £M**	**Speciality Aluminium £M**	**Unallocated £M**	**Total £M**
Revenue					
Sales to external customers	121.0	106.7	14.0	-	**241.7**
Inter-segment sales	-	-	(0.2)	-	**(0.2)**
Segment revenue	121.0	106.7	13.8	-	**241.5**
Result					
Trading profit/(loss)	7.5	12.3	(0.5)	-	**19.3**
Exceptional items	0.7	(0.7)	-	-	**-**
Operating profit/(loss)	8.2	11.6	(0.5)	-	**19.3**
Loss on disposal of business	-	(3.1)	-	-	**(3.1)**
Profit/(loss) from continuing operations before tax and finance costs	8.2	8.5	(0.5)	-	**16.2**
Net finance costs					**(21.2)**
Loss before income tax					**(5.0)**
Tax expense					**(4.1)**
Net loss for the year					**(9.1)**
Other segment information					
Segment assets	72.1	65.6	8.5	12.7	**158.9**
Segment liabilities	19.3	17.6	3.1	272.8	**312.8**
Capital expenditure: Property, plant and equipment	2.9	3.3	0.6	-	**6.8**
Capital expenditure: Intangible assets	0.1	-	-	-	**0.1**
Depreciation and amortisation	3.2	4.5	0.2	-	**7.9**

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

3. REVENUE AND SEGMENTAL ANALYSIS (continued)

GEOGRAPHIC ORIGIN:

Year ended 31 December 2006

For continuing operations	United Kingdom £M	Rest of Europe £M	Americas £M	Australasia £M	Asia £M	Total £M
Revenue						
Revenue from continuing operations	99.6	30.4	128.3	0.1	3.4	**261.8**
Inter-segment sales	(9.6)	(0.5)	(10.2)	-	-	**(20.3)**
Segment revenue	90.0	29.9	118.1	0.1	3.4	**241.5**
Result						
Trading profit/(loss)	5.7	(0.2)	13.8	-	-	**19.3**
Less: exceptional items	-	(0.2)	0.3	-	(0.1)	**-**
Operating profit/(loss)	5.7	(0.4)	14.1	-	(0.1)	**19.3**
Other segment information						
Segment assets	61.4	26.6	68.9	0.2	1.8	**158.9**
Segment liabilities	288.9	7.0	16.4	0.1	0.4	**312.8**
Capital expenditure: Property, plant and equipment	3.1	0.7	2.8	-	0.2	**6.8**
Capital expenditure: Intangible assets	-	-	0.1	-	-	**0.1**
Depreciation and amortisation	3.3	1.7	2.9	-	-	**7.9**

Year ended 31 December 2005

For continuing operations	United Kingdom £M	Rest of Europe £M	Americas £M	Australasia £M	Asia £M	Total £M
Revenue						
Revenue from continuing operations	90.6	30.8	124.2	0.5	2.4	**248.5**
Inter-segment sales	(9.5)	(0.1)	(6.1)	(0.1)	-	**(15.8)**
Segment revenue	81.1	30.7	118.1	0.4	2.4	**232.7**
Result						
Trading profit/(loss)	4.7	0.3	10.0	(0.1)	(0.1)	**14.8**
Less: exceptional items	(0.3)	(0.3)	2.2	-	-	**1.6**
Operating profit/(loss)	4.4	-	12.2	(0.1)	(0.1)	**16.4**
Other segment information						
Segment assets	57.9	38.3	76.6	0.3	1.1	**174.2**
Segment liabilities	283.4	8.5	20.9	0.1	0.3	**313.2**
Capital expenditure: Property, plant and equipment	2.7	2.4	1.6	-	-	**6.7**
Capital expenditure: Intangible assets	0.1	-	-	-	-	**0.1**
Depreciation and amortisation	3.2	2.0	2.8	-	-	**8.0**

GEOGRAPHIC DESTINATION:

For continuing operations	United Kingdom £M	Rest of Europe £M	Africa £M	Americas £M	Asia £M	Australasia £M	Total £M
Revenue							
Year ended 31 December 2006	34.0	73.4	4.1	109.1	17.3	3.6	**241.5**
Year ended 31 December 2005	34.2	67.3	3.9	105.2	17.9	4.2	**232.7**

4. OPERATING PROFIT

Operating profit is stated after charging/(crediting):	**2006**	2005
	£M	£M
Depreciation	**7.8**	7.9
Amortisation	**0.1**	0.1
Net foreign exchange gains	**-**	(0.2)
Government grants	**-**	(0.2)
Cost of inventories recognised as expense	**180.2**	175.1
Staff costs (see Note 7)	**60.1**	61.0
Research and development expenditure	**3.7**	4.1

Fees paid to auditors for remuneration as auditors of the financial statements was £0.3 million (2005: £0.3 million). Fees paid to Group auditors for local statutory audits, taxation and corporate finance fees were £0.1 million (2005: £0.1 million), £0.7 million (2005: £0.4 million) and £0.5 million (2005: £nil) respectively.

5. EXCEPTIONAL ITEMS

	2006	2005
	£M	£M
Retirement benefits curtailment credit	**0.8**	3.7
Rationalisation and redundancy - charged in year	**(0.1)**	(1.1)
- provision released in year	**-**	0.5
Environmental costs	**(0.7)**	(1.5)
Operating exceptional items	**-**	1.6

Retirement benefits curtailment

In 2006, a net £0.8 million exceptional credit has been recognised for the actuarial gains arising on the change in benefits relating to overseas retirement benefit schemes. A gain of £1.0 million was made on the closure of a US death benefit scheme and a loss of £0.2 million was incurred on a change to a French benefit scheme. In 2005, a £3.7 million credit arose as a result of the decision to curtail the main US defined benefit pension scheme. This led to a credit of £1.7 million in the Gas Cylinders division and a credit of £2.0 million in the Elektron division.

Rationalisation and redundancy

In 2006, rationalisation and redundancy costs of £0.1 million were incurred by the Gas Cylinders division for the closure of its Japanese distribution centre. In 2005, rationalisation and redundancy costs of £0.5 million and £0.6 million were incurred by the Gas Cylinders division and Elektron division, respectively. Provisions of £0.5 million made in previous years in relation to the Gas Cylinders division were released in 2005.

Environmental costs

A charge of £0.7 million (2005: £1.5 million) was made for environmental costs at the US zirconium operations of the Elektron division.

6. LOSS ON DISPOSAL OF BUSINESS

	2006	2005
	£M	£M
Loss on disposal of Zitzmann Druckguss GmbH	**3.1**	-

In August 2006 the Group disposed of its German magnesium die-casting operation, Zitzmann Druckguss GmbH, for a cash consideration of £7.4 million. The costs of disposal were £0.6 million and the net proceeds were therefore £6.8 million. The net assets at disposal were £7.8 million, which together with an impairment loss of £2.1 million already recognised against property, plant and equipment led to a loss on disposal of £3.1 million. Included in the assets sold was cash of £0.3 million.

7. STAFF COSTS

	2006 £M	2005 £M
Redundancy costs (Note 5)	**0.1**	1.1
Wages and salaries	**52.3**	54.1
Social security costs	**7.0**	7.0
Retirement benefits costs (Note 28)	**1.5**	2.5
Retirement benefits curtailment (Notes 5 and 28)	**(0.8)**	(3.7)
	60.1	61.0

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

The average monthly number of employees during the year was made up as follows:	2006 No.	2005 No.
Production and distribution	**1,649**	1,715
Sales and administration	**177**	188
Research and development	**40**	49
	1,866	1,952

Compensation of key management personnel (including Directors) was £1.5 million (2005: £1.2 million) for short-term employee benefits and £0.2 million (2005: £0.1 million) for post-employment benefits.

8. DISCONTINUED OPERATIONS

The results of the discontinued operation which have been included in the consolidated income statement, were as follows:

	2006 £M	2005 £M
Revenue	**-**	-
Expenses	**-**	(0.2)
Loss before tax	**-**	(0.2)
Tax expense	**-**	-
Net loss attributable to discontinued operations	**-**	(0.2)

The discontinued operations contributed a net cash inflow of £Nil to the Group (2005: £0.1 million). There were no assets or liabilities attributable to discontinued operations.

9. FINANCE INCOME

	2006 £M	2005 £M
Bank interest received	**0.1**	0.1

10. FINANCE COSTS

	2006 £M	2005 £M
Senior Notes due 2009	**13.3**	13.3
Bank loan, overdrafts and revolving credit facilities	**0.8**	0.8
New banking facility financing cost	**1.3**	-
Amortisation of loan issue costs	**0.5**	0.4
Total interest costs	**15.9**	14.5
Preference share dividend	**5.4**	5.2
Total finance costs	**21.3**	19.7

11. INCOME TAX

(a) Analysis of taxation charge for the year	2006 £M	2005 £M
Current tax:		
UK Corporation tax	**1.6**	6.7
Double tax relief	**(1.6)**	(6.7)
	-	-
Overseas tax:	**3.3**	2.4
Adjustments in respect to previous years	**0.1**	0.2
Total current tax	**3.4**	2.6
Deferred tax:		
Origination and reversal of temporary differences	**1.0**	2.1
Adjustments in respect to previous years	**(0.3)**	(1.5)
Total deferred tax	**0.7**	0.6
Tax expense	**4.1**	3.2

(b) Factors affecting the taxation charge for the year

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

	2006 £M	2005 £M
Loss on ordinary activities before taxation	**(5.0)**	(3.2)
Loss on ordinary activities at 2006 standard rate of corporation tax in the UK of 30% (2005: 30%)	**(1.5)**	(1.0)
Effects of:		
Expenses not deductible for tax purposes	**2.0**	0.9
Unprovided deferred tax	**1.3**	1.1
Finance costs on preference share dividend	**1.6**	1.6
Foreign tax rate differences	**0.9**	0.8
Tax losses not recognised	**-**	1.1
Adjustment in respect of prior years	**(0.2)**	(1.3)
Tax expense	**4.1**	3.2

(c) Factors that may affect future taxation charge

As at 31 December 2006, the Group has carried forward tax losses of £37.3 million (UK: £35.6 million, Overseas: £1.7 million). Carried forward tax losses for 2005 were £35.8 million (UK: £34.9 million, Overseas: £0.9 million).

The Senior Notes due 2009 and after their release and cancellation under the 2007 capital reorganisation, the issue of new Senior Notes due 2012 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.

12. PROPERTY, PLANT AND EQUIPMENT

	Freehold £M	Long leasehold £M	Short leasehold £M	Plant and equipment £M	Total £M
Cost:					
At 1 January 2005	25.0	2.4	1.7	148.5	**177.6**
Additions	0.4	0.1	0.1	6.1	**6.7**
Disposals	-	-	-	(1.7)	**(1.7)**
Exchange adjustments	1.1	0.1	0.2	3.6	**5.0**
At 1 January 2006	26.5	2.6	2.0	156.5	**187.6**
Additions	-	-	0.2	6.6	**6.8**
Disposals	-	-	-	(1.2)	**(1.2)**
Business disposals	(4.7)	-	-	(9.3)	**(14.0)**
Exchange adjustments	(1.5)	(0.1)	(0.2)	(4.8)	**(6.6)**
At 31 December 2006	20.3	2.5	2.0	147.8	**172.6**
Depreciation:					
At 1 January 2005	7.3	1.8	0.7	100.7	**110.5**
Provided during the year	0.5	0.1	0.1	7.2	**7.9**
Disposals	-	-	-	(1.6)	**(1.6)**
Exchange adjustments	0.5	0.1	-	2.4	**3.0**
At 1 January 2006	8.3	2.0	0.8	108.7	**119.8**
Provided during the year	0.4	0.1	0.1	7.2	**7.8**
Impairment	-	-	-	2.1	**2.1**
Disposals	-	-	-	(1.1)	**(1.1)**
Business disposals	(0.9)	-	-	(7.3)	**(8.2)**
Exchange adjustments	(0.6)	(0.1)	-	(3.2)	**(3.9)**
At 31 December 2006	7.2	2.0	0.9	106.4	**116.5**
Net book values:					
At 31 December 2006	13.1	0.5	1.1	41.4	**56.1**
At 31 December 2005	18.2	0.6	1.2	47.8	**67.8**
At 1 January 2005	17.7	0.6	1.0	47.8	**67.1**

The net book value of plant and equipment at 31 December 2006 includes £Nil (2005: £0.6 million) acquired under finance leases.

13. INTANGIBLE ASSETS

	Goodwill £M	Patents £M	Other £M	Total £M
Cost:				
At 1 January 2005	34.9	0.9	0.3	**36.1**
Additions	-	-	0.1	**0.1**
At 1 January 2006	34.9	0.9	0.4	**36.2**
Additions	-	0.1	-	**0.1**
Business disposals	-	-	(0.1)	**(0.1)**
At 31 December 2006	34.9	1.0	0.3	**36.2**
Amortisation:				
At 1 January 2005	12.0	0.1	0.2	**12.3**
Provided during the year	-	-	0.1	**0.1**
At 1 January 2006	12.0	0.1	0.3	**12.4**
Provided during the year	-	0.1	-	**0.1**
Business disposals	-	-	(0.1)	**(0.1)**
At 31 December 2006	12.0	0.2	0.2	**12.4**
Net book values:				
At 31 December 2006	22.9	0.8	0.1	**23.8**
At 31 December 2005	22.9	0.8	0.1	**23.8**
At 1 January 2005	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	
	2006	2005	**2006**	2005	**2006**	2005
	£M	£M	**£M**	£M	**£M**	£M
Carrying amount of goodwill	**14.7**	14.7	**8.2**	8.2	**22.9**	22.9

The recoverable amount of both cash-generating units has been determined based on a value in use calculation using a discounted cash flow method. The cash flows were derived from a three year consolidated strategic plan prepared at a detailed level by individual businesses within each division. The results of these plans were then extrapolated to give long-term cash flow projections, based on a growth rate of 3%. The strategic plans were driven by detailed sales forecasts by product type and best estimate of future demand by end market. The cash flows included allowance for detailed capital expenditure and maintenance programmes, along with working capital requirements based on the projected level of sales. The discount rate used was 12%, which was considered a best estimate for the risk-adjusted cost of capital for the business units. The other main assumptions related to the LME cost of aluminium which was assumed to average $2,500 a tonne for primary aluminium, and the US$:£ exchange rate which was assumed to average $1.85.

15. INVESTMENTS

	Other
	£M
At 1 January 2006 and 31 December 2006	**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

	2006	2005
	£M	£M
Raw materials and consumables	**12.8**	12.5
Work in progress	**9.8**	10.8
Finished goods and goods for resale	**12.3**	12.4
	34.9	35.7

The provision against obsolete and excess stocks at 31 December 2006 was £2.4 million (2005: £2.8 million).

17. TRADE AND OTHER RECEIVABLES

	2006	2005
	£M	£M
Trade debtors	**26.3**	26.7
Other debtors	**4.3**	2.0
Prepayments and accrued income	**3.2**	3.5
	33.8	32.2

The Directors consider that the carrying value of trade and other receivables approximates to their fair value.
The provision against doubtful debts at 31 December 2006 was £0.8 million (2005: £0.7 million). The amount charged as an expense during the year was £0.1 million (2005: £0.3 million), while the amount reversed in the year was £Nil (2005: £0.1 million).

18. CASH AND SHORT TERM DEPOSITS

	2006	2005
	£M	£M
Cash at bank and in hand	**3.2**	5.9

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

19. SHARE CAPITAL

The share captial of the Company was subject to a capital reorganisation that was completed on 6 February 2007 as further explained in Notes 2 and 32.

(a) Ordinary share capital

	2006 No.	2005 No.	2006 £M	2005 £M
Authorised:				
Ordinary shares of £0.6487 each	**1,410,778**	1,410,778	**0.9**	0.9
Deferred ordinary shares of £0.0001 each	**10,000,000**	10,000,000	**-**	-
	11,410,778	11,410,778	**0.9**	0.9
Allotted, called up and fully paid:				
Ordinary shares of £0.6487 each	**1,340,240**	1,340,240	**0.9**	0.9
Deferred ordinary shares of £0.0001 each	**20,000**	20,000	**-**	-
	1,360,240	1,360,240	**0.9**	0.9

The rights of the shares were as follows:

Ordinary shares of £0.6487 each

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

Deferred ordinary shares of £0.0001 each

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

(b) Preference share capital

As a result of the completion of the capital reorganisation on 6 February 2007, further described in Notes 2 and 32, the preference shares of £0.6487 each were converted into equity shares and all rights to these preference shares were cancelled.

	2006 No.	2005 No.	2006 £M	2005 £M
Authorised:				
Preference shares of £0.6487 each	**132,683,760**	132,683,760	**86.0**	86.0
'B' preference shares of £1 each	**50,000**	50,000	**0.1**	0.1
	132,733,760	132,733,760	**86.1**	86.1
Allotted, called up and fully paid:				
Preference shares of £0.6487 each	**132,683,760**	132,683,760	**86.0**	86.0
Allotted, called up and 25% paid:				
'B' preference shares of £1 each	**50,000**	50,000	**0.1**	0.1
	132,733,760	132,733,760	**86.1**	86.1

Preference shares of £0.6487 each

The preference shares had an entitlement to a fixed cumulative dividend of 5% per annum payable on redemption of the preference shares. Interest accrued on unpaid preference dividends at the rate of 5% per annum of the nominal amount of the preference shares compounding on 31 December in each year. The preference shares originally had to be redeemed by 2010 at par. However, on 6 February 2007 they were converted into a combination of new £1 ordinary and £0.0001 deferred shares as further explained in Note 32.

	£M
Preference share liability at 1 January 2005	102.9
Preference share of dividend to 31 December 2005	5.2
Preference share liability at 31 December 2005	108.1
Preference share of dividend to 31 December 2006	5.4
Preference share liability at 31 December 2006	113.5

'B' preference shares of £1 each

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

20. RESERVES

	Hedging reserve £M	Translation reserve £M	Merger reserve £M	Retained earnings £M
At 1 January 2005	1.0	(0.8)	(207.5)	68.8
Loss for the year	-	-	-	(6.6)
Currency translation differences	-	3.3	-	-
Transfer to income statement on cash flow hedges	(0.2)	-	-	-
Actuarial gains and losses on retirement benefit schemes	-	-	-	1.8
Tax on actuarial gains and losses	-	-	-	(0.5)
At 31 December 2005	0.8	2.5	(207.5)	63.5
Loss for the year	-	-	-	(9.1)
Currency translation differences	-	(4.6)	-	-
Transfer to income statement on cash flow hedges	(0.9)	-	-	-
Actuarial gains and losses on retirement benefit schemes	-	-	-	(0.3)
Tax on actuarial gains and losses	-	-	-	-
At 31 December 2005	**(0.1)**	**(2.1)**	**(207.5)**	**54.1**

21. INTEREST BEARING LOANS AND BORROWINGS

Current	**2006 £M**	2005 £M
Bank loans and overdrafts	**1.6**	11.7

Non-current	**2006 £M**	2005 £M
Senior Notes due 2009	**130.4**	129.9

Bank loans and overdrafts

The bank loans and overdrafts are secured against certain of the Group's United Kingdom and United States operating assets and bear interest at a rate connected to LIBOR.

Senior Notes due 2009

The Senior Notes due 2009 were released and cancelled on 6 February 2007 as part of the Company's capital reorganisation further explained in Notes 2 and 32.

The Senior Notes due 2009 were listed on the Luxembourg Stock Exchange. The interest rate was fixed at 10.125% on a total principal amount of £160.0 million and was payable bi-annually. A principal amount of £28.6 million (2005: £28.6 million) was held by the Group, through Luxfer Group Limited, a subsidiary of Luxfer Holdings PLC. The principal amount held by external parties was £131.4 million (2005: £131.4 million). The Senior Notes due 2009 were shown net of unamortised issue costs of £1.0 million (2005: £1.5 million).

22. PROVISIONS

	Rationalisation & redundancy £M	Employee benefits £M	Environmental provisions £M	Total £M
At 1 January 2006	0.8	1.3	2.9	5.0
Charge to profit and loss account	0.1	0.2	0.7	1.0
Cash payments	(0.4)	(0.5)	(1.3)	(2.2)
Translation movement	-	(0.1)	(0.1)	(0.2)
At 31 December 2006	**0.5**	**0.9**	**2.2**	**3.6**
Included in current liabilities	0.2	-	0.1	0.3
Included in non-current liabilities	0.3	0.9	2.1	3.3
	0.5	**0.9**	**2.2**	**3.6**

Rationalisation and redundancy

At 31 December 2006 the Group had £0.5 million of provisions relating to the rationalisation of its operations. These provisions mainly relate to liabilities regarding leasehold properties and are expected to be utilised over the next three years.

Employee benefits

Of the employee benefits provision at 31 December 2006 of £0.9 million, £0.8 million relates to a provision for workers' compensation at the Gas Cylinder division in the United States. A further £0.1 million relates to a provision for permanent disability allowance in the United Kingdom. This scheme is now closed.

Environmental provisions

At 31 December 2006, the Group had environmental provisions of £2.2 million relating to further environmental clean up costs. £0.6 million of the provision is for future remediation costs required at the UK 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 £1.6 million of the environmental provisions relate to work required at the UK Elektron division site. This expenditure is expected to take place over the next three years.

23. DEFERRED TAX

	Accelerated tax depreciation £M	Other temporary differences £M	Tax losses £M	Retirement benefit obligations £M	Total £M
At 1 January 2005	3.6	(0.6)	(0.1)	(9.1)	(6.2)
Charged/(credited) to income	0.2	(1.5)	0.1	1.8	0.6
Exchange difference	-	-	-	(0.1)	(0.1)
Charged to equity	-	-	-	0.5	0.5
At 31 December 2005	3.8	(2.1)	-	(6.9)	(5.2)
Credited/(charged) to income	(0.1)	(0.2)	(0.2)	1.1	0.6
Exchange difference	-	-	-	0.1	0.1
Disposed with business	(0.1)	-	-	-	(0.1)
Charged to equity	-	-	-	-	-
At 31 December 2006	**3.6**	**(2.3)**	**(0.2)**	**(5.7)**	**(4.6)**

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

	2006 £M	2005 £M
Deferred tax liabilities		
Accelerated capital allowances	**3.6**	3.8
Deferred tax assets		
Pension and post retirement benefits	**(5.7)**	(6.9)
Trading losses	**(0.2)**	-
Other temporary differences	**(2.3)**	(2.1)
	(8.2)	(9.0)
Net deferred tax asset	**(4.6)**	(5.2)

24. OTHER LONG TERM LIABILITIES

(a) Government Grants

In 2004, the Group was able to confirm securing a capital grant of £2.8 million, in relation to the Group's capital investment made in the Czech Republic in 2001. The income benefit is now being recognised over the full fifteen-year life of the fixed assets to which it relates.

In the year to 31 December 2006, £Nil (2005: £0.2 million) was recognised in the income statement and £2.2 million (2005: £2.0 million) was deferred for recognition in future periods and is included in other long term liabilities. £nil (2005: £0.2 million) of the deferred income is recorded within current liabilities.

This grant is paid via corporation tax credits, of which £0.5 million (2005: £0.5 million) has been received to date. The remaining £2.3 million (2005: £2.1 million) receivable, has been disclosed in 'Other non-current assets'. £nil (2005: £0.2 million) is estimated to be received next year.

(b) Lease commitments

Other long term liabilities include £0.1 million (2005: £0.1 million) in relation to an operating lease liability.

25. TRADE AND OTHER PAYABLES

	2006	2005
	£M	£M
Trade payables	**16.7**	16.3
Other taxation and social security	**1.6**	1.9
Accruals	**24.6**	15.9
	42.9	34.1

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

26. COMMITMENTS AND CONTINGENCIES

	2006	2005
	£M	£M
Operating lease commitments – Group as a lessee		
Minimum lease payments under operating leases recognised in the income statement for the year	**2.1**	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:

	2006	2005
	£M	£M
Within one year	**1.8**	2.1
In two to five years	**4.7**	5.8
In over five years	**10.8**	10.1
	17.3	18.0

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.

27. FINANCIAL INSTRUMENTS

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

(a) Financial instruments of the Group

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

	Book value 2006 £M	**Fair value 2006 £M**	Book value 2005 £M	Fair value 2005 £M
Financial assets:				
Cash at bank and in hand	**3.2**	**3.2**	5.9	5.9
Financial liabilities:				
Short term bank loan	**1.3**	**1.3**	10.8	10.8
Bank overdrafts	**0.3**	**0.3**	0.9	0.9
Cumulative preference shares	**113.5**	**9.7**	108.1	65.8
Senior Notes due 2009	**131.4**	**133.4**	131.4	105.1
	246.5	**144.7**	251.2	182.6

All financial assets mature within one year. The maturity of the financial liabilities are disclosed in Notes 19 and 21.
All of the above financial liabilities are denominated in pounds sterling.
The difference between the fair valuation of the preference shares of £9.7 million at 31 December 2006 to their estimated fair valuation of £65.8 million at 31 December 2005 reflects the discount in value of the preference shares as a result of ranking behind the Senior Notes due 2009 and the greater credit risk associated with the preference shares.

Derivative financial instruments are as follows:

	Book value 2006 £M	**Fair value 2006 £M**	Book value 2005 £M	Fair value 2005 £M
Held to hedge purchases and sales by trading businesses:				
Forward foreign currency contracts	**(0.1)**	**(0.1)**	-	-
Forward aluminium commodity contracts	**-**	**-**	0.8	0.8

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

The fair value calculations were performed on the following basis:

Cash in hand, at bank

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

Bank loans

At 31 December 2006 a short term bank loan of £1.3 million (2005: £10.8 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

As explained further in Notes 2 and 32, the £0.6487 preference shares were eliminated as a financial liability from the Group's balance sheet as part of the completion of the capital reorganisation on 6 February 2007.

The £0.6487 preference shares, which were issued in April 1999, had a right to a cumulative 5% dividend, which originally had to be paid by 2010 along with the par value of the shares. The book value of £113.5 million (2005: £108.1 million) disclosed in the financial liabilities table in part (a) related to 90.35% of the issued £0.6487 preference shares and accrued dividend. The remaining 9.65% held by the ESOP was eliminated on consolidation of the ESOP in the financial statements. The fair value for 2006 has been calculated by reference to the consideration received by the shareholders as a result of the capital reorganisation that was completed on 6 February 2007.

Senior notes due 2009

As explained further in Notes 2 and 32, the Senior Notes due 2009 were released and cancelled as part of the completion of the capital reorganisation on 6 February 2007. The Senior Notes due 2009 were a traded instrument listed on the Luxembourg Stock Exchange. The fair value is derived from a quoted price as at 31 December, each year.

Forward foreign currency contracts

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

27. FINANCIAL INSTRUMENTS (continued)

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 as at 31 December each year.

(b) Interest rate risks

Interest rate risk profile on financial assets

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

Currency:	**2006 £M**	2005 £M
Sterling	**-**	-
US Dollar	**2.0**	4.4
Euro	**-**	0.8
Australian Dollar	**0.1**	0.1
Japanese Yen	**0.3**	0.1
Czech Krona	**0.8**	0.5
	3.2	5.9

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

Interest rate risk profile on financial liabilities

As further explained in Notes 2 and 32, the Group underwent a capital reorganisation that was completed on 6 February 2007. On this date the Senior Notes due 2009 were released and cancelled and the £0.6487 preference shares, along with the existing £0.6487 ordinary shares, were converted into new £1 ordinary and £0.0001 deferred shares.

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

	31 December 2006			31 December 2005		
	Within 1 year £M	**2-3 years £M**	**Total £M**	Within 1 year £M	2-3 years £M	Total £M
Senior notes due 2009	**-**	**131.4**	**131.4**	-	131.4	131.4
Cumulative preference shares	**-**	**113.5**	**113.5**	-	108.1	108.1
	-	**244.9**	**244.9**	-	239.5	239.5

The Group's only floating rate liability related to bank loans and overdrafts under the Group's revolving credit facilities of £1.6 million (2005: £11.7 million), which is due for repayment within one year. As part of the capital reorganisation completed on 6 February 2007, the Group issued new floating rate Senior Notes due 2012 of £71.9 million.

(c) Hedging activities

Forward foreign exchange contracts

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

At 31 December 2006, the fair value of forward foreign exchange contracts deferred in equity was £0.1 million (2005: £nil). £0.1 million (2005: £0.5 million) has been transferred to the income statement in respect of contracts that have matured in the year.

At 31 December 2006 and 31 December 2005 the Group held various foreign exchange contracts designated as hedges in respect of forward sales for US dollars, euros and Australian dollars. The Group also held foreign exchange contracts designated as hedges in respect of forward purchases for US dollars and euros. The contract totals, range of maturity dates and range of exchange rates are disclosed below:

2006

Sales hedges	**US dollars**	**Euros**	**Australian dollars**
Contract totals/£M	15.5	12.6	0.2
Maturity dates	01/07 to 09/07	01/07 to 06/07	01/07
Exchange rates	$1.8299 to $1.9616	€1.4567 to €1.4877	AUD2.4890

Purchase hedges	**US dollars**	**Euros**	**Australian dollars**
Contract totals/£M	24.0	N/A	N/A
Maturity dates	01/07 to 12/07	N/A	N/A
Exchange rates	$1.8587 to $1.9705	N/A	N/A

27. FINANCIAL INSTRUMENTS (continued)

2005

Sales hedges

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

Purchase hedges

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

Aluminium commodity contracts

The Group did not hold any forward aluminium commodity contracts at 31 December 2006.

(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 2006 a loss of £4.6 million (2005: gain of £3.3 million) was recognised in translation reserves.

(e) Un-drawn committed facilities

At 31 December 2006 the Group had committed banking facilities of £45.0 million (2005: £30.0 million) for providing short-term loans and overdrafts, with a sub-limit of £10.0 million (2005: £10.0 million) for letters of credit and bank guarantees. Of these committed facilities, £1.3 million (2005: £10.8 million) of the short-term loans and £4.7 million (2005: £8.2 million) for letters of credit, forward foreign currency contracts and bank guarantees were drawn.

28. RETIREMENT BENEFITS

The Group operates defined benefit arrangements in the United Kingdom, the United States, France and Japan. The levels of funding are determined by periodic actuarial valuations. Further, the Group operates defined contribution schemes in the United Kingdom, United States 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 Method.

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

The Group's other arrangements are less significant than the Luxfer Group Pension Plan, the largest being the BA Holdings Inc Pension Plan in the United States. In December 2005 the plan was closed to further benefit accrual, members being offered contributions to the company's 401(k) plan.

The total charge to the Group's income statement for 2006 for retirement benefits was a regular cost of £1.5 million (2005: £2.5 million) and a credit of £0.8 million (2005: £3.7 million) for curtailment benefits and other changes.

The movement in the pension liability is shown below:	**2006**	2005
	£M	£M
Balance at 1 January	**21.9**	28.1
Charged/(credited) to the Income Statement – regular cost	**1.5**	2.5
– curtailment gains and benefit changes (see Note 5)	**(0.8)**	(3.7)
Contributions	**(4.0)**	(4.0)
Charged/(credited) to the Statement of Recognised Income and Expense	**0.3**	(1.8)
Exchange adjustments	**(0.6)**	0.8
Balance at 31 December	**18.3**	21.9

28. RETIREMENT BENEFITS (continued)

The financial assumptions used in the calculations are:	Projected Unit Valuation United Kingdom 2006 %	United Kingdom 2005 %	Non United Kingdom 2006 %	Non United Kingdom 2005 %
Discount Rate	**5.20**	4.80	**6.00**	5.75
Salary Inflation	**4.00**	4.30	**-**	-
Price Inflation	**2.90**	2.80	**-**	-
Pension Increases	**2.90**	2.60	**-**	-

The expected rate of long-term return of the schemes assets were:	Long term rate of return expected United Kingdom 2006 %	United Kingdom 2005 %	Non United Kingdom 2006 %	Non United Kingdom 2005 %
Equities	**7.50**	7.30	**8.90**	8.40
Gilts	**4.30**	4.00	**n/a**	n/a
Other Bonds	**4.80**	4.40	**5.70**	5.40
Cash	**4.30**	4.00	**n/a**	n/a

Other principal actuarial assumptions:

	2006 Years	2005 Years
Life expectancy of male aged 65 in 2006	**19.1**	17.1
Life expectancy of male aged 65 in 2026	**20.2**	17.5

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

	Year ended 31 December 2006 UK £M	Non UK £M	Total £M	Year ended 31 December 2005 UK £M	Non UK £M	Total £M
In respect of defined benefit schemes:						
Current service cost	**1.4**	**0.1**	**1.5**	1.3	1.3	2.6
Interest cost	**7.3**	**1.5**	**8.8**	7.3	1.7	9.0
Expected return on scheme assets	**(8.7)**	**(1.6)**	**(10.3)**	(7.9)	(1.5)	(9.4)
Gains on curtailments and settlements	**-**	**(0.8)**	**(0.8)**	(0.6)	(3.9)	(4.5)
Past service cost	**-**	**-**	**-**	-	0.1	0.1
Total (credit)/charge for defined benefit schemes	**-**	**(0.8)**	**(0.8)**	0.1	(2.3)	(2.2)
In respect of defined contribution schemes:						
Total charge for defined contribution schemes	**0.5**	**1.0**	**1.5**	0.4	0.6	1.0
Total charge/(credit) for all pension schemes	**0.5**	**0.2**	**0.7**	0.5	(1.7)	(1.2)

Of the charge for the year, a credit of £0.8 million (2005: £3.7 million) has been included in exceptional items, and charges of £1.2 million and £0.3 million (2005: £1.9 million and £0.6 million) has been included in cost of sales and administrative costs respectively.
The cumulative amounts of losses recognised in the Statement of Recognised Income and Expense is £0.3 million (2005: gain of £1.8 million).
The actual return of the scheme assets was £18.6 million (2005: £23.2 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.

28. RETIREMENT BENEFITS (continued)

The value of the scheme assets were:

	Value at 31 December 2006			Value at 31 December 2005		
	UK	**Non UK**	**Total**	UK	Non UK	Total
	£M	**£M**	**£M**	£M	£M	£M
Equities	**106.2**	**12.5**	**118.7**	97.9	16.0	113.9
Gilts	**32.2**	**-**	**32.2**	27.6	-	27.6
Other Bonds	**12.9**	**9.6**	**22.5**	12.4	7.0	19.4
Cash	**0.1**	**-**	**0.1**	-	-	-
Total market value of assets	**151.4**	**22.1**	**173.5**	137.9	23.0	160.9
Present value of scheme liabilities	**(167.1)**	**(24.7)**	**(191.8)**	(153.9)	(28.9)	(182.8)
Deficit in the scheme	**(15.7)**	**(2.6)**	**(18.3)**	(16.0)	(5.9)	(21.9)
Related deferred tax asset	**4.7**	**1.0**	**5.7**	4.8	2.1	6.9
Net pension liability	**(11.0)**	**(1.6)**	**(12.6)**	(11.2)	(3.8)	(15.0)

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

	2006	**2006**	**2006**	2005	2005	2005
	UK	**Non UK**	**Group**	UK	Non UK	Group
	£M	**£M**	**£M**	£M	£M	£M
At 1 January	**153.9**	**28.9**	**182.8**	140.6	26.9	167.5
Service cost	**1.4**	**0.1**	**1.5**	1.3	1.3	2.6
Interest cost	**7.3**	**1.5**	**8.8**	7.3	1.7	9.0
Contributions from scheme members	**0.8**	**-**	**0.8**	0.8	-	0.8
Age related NI rebate	**0.4**	**-**	**0.4**	0.4	-	0.4
Actuarial gains and losses	**8.8**	**(0.3)**	**8.5**	11.2	0.7	11.9
Exchange difference	**-**	**(3.4)**	**(3.4)**	-	3.1	3.1
Benefits paid	**(5.5)**	**(1.1)**	**(6.6)**	(5.8)	(0.8)	(6.6)
Curtailments and settlements	**-**	**(1.0)**	**(1.0)**	(1.9)	(4.1)	(6.0)
Past service cost	**-**	**-**	**-**	-	0.1	0.1
At 31 December	**167.1**	**24.7**	**191.8**	153.9	28.9	182.8

The defined benefit obligation comprises £0.7 million (2005: £1.6 million) arising from unfunded plans and £191.1 million (2005: £181.2 million) from plans that are fully funded.

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

	2006	**2006**	**2006**	2005	2005	2005
	UK	**Non UK**	**Group**	UK	Non UK	Group
	£M	**£M**	**£M**	£M	£M	£M
At 1 January	**137.9**	**23.0**	**160.9**	120.4	19.0	139.4
Expected return on scheme assets	**8.7**	**1.6**	**10.3**	7.9	1.5	9.4
Actuarial gains and losses	**7.8**	**0.4**	**8.2**	13.9	(0.2)	13.7
Exchange difference	**-**	**(2.8)**	**(2.8)**	-	2.3	2.3
Contributions from employer	**1.3**	**1.2**	**2.5**	1.5	1.3	2.8
Contributions from scheme members	**0.8**	**-**	**0.8**	0.8	-	0.8
Age related NI rebate	**0.4**	**-**	**0.4**	0.4	-	0.4
Settlements	**-**	**(0.2)**	**(0.2)**	(1.3)	(0.2)	(1.5)
Benefits paid	**(5.5)**	**(1.1)**	**(6.6)**	(5.7)	(0.7)	(6.4)
At 31 December	**151.4**	**22.1**	**173.5**	137.9	23.0	160.9

28. RETIREMENT BENEFITS (continued)

History of experience in gains and losses:	**2006 UK**	**2006 Non UK**	**2006 Group**	2005 UK	2005 Non UK	2005 Group
Difference between the expected and actual return on scheme assets:						
Amount £M	**7.8**	**0.5**	**8.3**	13.9	(0.1)	13.8
Percentage of scheme assets	**5%**	**2%**	**5%**	10%	1%	9%
Experience gains and losses on scheme liabilities:						
Amount £M	**2.1**	**0.1**	**2.2**	-	0.5	0.5
Percentage of present value of scheme liabilities	**1%**	**-**	**1%**	-	2%	-
Total amount recognised in Statement of Recognised Income and Expense:						
Amount £M	**(0.8)**	**(1.0)**	**(1.8)**	(1.8)	(0.3)	(2.1)
Percentage of present value of scheme liabilities	**1%**	**4%**	**1%**	1%	1%	1%

	2004 UK	2004 Non UK	2004 Group
Difference between the expected and actual return on scheme assets:			
Amount £M	5.1	0.7	5.8
Percentage of scheme assets	4%	4%	4%
Experience gains and losses on scheme liabilities:			
Amount £M	-	0.1	0.1
Percentage of present value of scheme liabilities	-	-	-
Total amount recognised in Statement of Recognised Income and Expense:			
Amount £M	0.9	(1.2)	(0.3)
Percentage of present value of scheme liabilities	1%	4%	-

The estimated amounts of contributions expected to be paid to the pension schemes for the year ended 31 December 2007 is £2.8 million.

29. THE LUXFER GROUP EMPLOYEE SHARE OWNERSHIP PLAN 1997

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

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

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

In the first quarter of 2006, the final tranche of options under the 1997 Scheme granted in 1999, totalling 2,588,553 options, were due to expire. The Remuneration Committee determined to offer eligible employees and ex-employees the opportunity to exchange their existing options held under the 1997 Scheme for identical options under the 2001 Scheme. 2,422,926 options over preference shares were rolled over. The remaining 165,627 of these options expired on 21 March 2006. All options under the 1997 Scheme have now expired.

At 31 December 2006, the ESOP held 46,471 ordinary shares of £0.6487 each (2005: 46,471) in the Company and 12,803,769 preference shares of £0.6487 each (2005: 12,803,769) in the Company. The employees held options under the terms of the Schemes over 6,973,392 preference shares of £0.6487 each (2005: 7,388,499) in the Company and 42,888 ordinary shares of £0.6487 each (2005: 42,888) in the Company. The loans outstanding from the ESOP were £2.7 million (2005: £2.7 million).

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

Under the rules of the 2001 Scheme the capital reorganisation entitled the holders of options over shares held by the ESOP and granted under that scheme to exercise their options in exchange for the relevant ordinary or preference shares. At the end of 2006, all option holders were given notice to exercise their options conditional on the High Court sanctioning the schemes of arrangement. All holders of options over the £0.6487 preference shares at an exercise price of £0.01 exercised their options and were issued with an aggregate of 4,052,466 preference shares of £0.6487 each on 5 February 2007, the day before the capital reorganisation became effective. All remaining options with various higher excercise prices were not exercised and lapsed pursuant to their terms.

29. THE LUXFER GROUP EMPLOYEE SHARE OWNERSHIP PLAN 1997 (continued)

All options under the 2001 scheme have now either been exercised or lapsed. No new options will be granted under the 2001 scheme.

At the end of the year, the ESOP conducted a number of sales and purchases of the £0.6487 preference shares with management conditional on the sanction of the schemes of arrangement by the High Court, which were completed on 5 February 2007. Pursuant to the schemes of arrangement, it also purchased a number of new £1 ordinary shares on 6 February 2007, the effective date of the capital reorganisation. These sales and purchases were designed to reallocate the shareholdings of management to optimise the Group's new Management Incentive Plan implemented as part of the capital reorganisation.

All £0.6487 ordinary shares and £0.6487 preference shares held by the ESOP on the effective date of the capital reorganisation were converted into the requisite combination of new £1 ordinary shares and £0.0001 deferred shares. A new share option plan was established by the Group and certain management were granted options over new £1 ordinary shares held by the ESOP at an exercise price of £0.97. These options may be excercised at any time.

At 6 February 2007, on the effectiveness of the capital reorganisation, the ESOP held 184,574 new £1 ordinary shares and 15,977,968,688 deferred shares of £0.0001 each in the Company. Employees of the Company held options over 82,400 new £1 ordinary shares. The loan outstanding from the ESOP was £2.3 million.

30. MINORITY INTERESTS

	2006	2005
	£M	£M
At beginning of year	**0.8**	0.8
Dividends	**-**	-
At end of year	**0.8**	0.8

31. RELATED PARTY TRANSACTIONS

The following related party transactions during the year have been identified:

- Brian Purves and Stephen Williams are both Trustees of the Luxfer Group Pension Plan.
- Transactions with key management personnel are disclosed in Note 7.

32. POST BALANCE SHEET EVENTS

On 6 February 2007, Luxfer Holdings PLC entered into schemes of arrangement pursuant to Section 425 of the Companies Act 1985 with the 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 pro forma information shown at Note 2 details the hypothetical effects of this capital reorganisation of the balance sheet of the Group as if it had ocurred at 31 December 2006.

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 was made 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 share and the purchase for cash of a further number of £0.6487 preference shares by management from the Group's ESOP;
- Following the management share 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 consideration of £8.5 million;
- 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.

32. POST BALANCE SHEET EVENTS (continued)

(i) **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 is 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 to 6 February 2007:	
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 the 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 £3.4 million of addtional fees were paid in 2007. The net cash outflow from the transaction was funded through the Group's short term borrowing facilities.

Transaction costs of £6.0 million were 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 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 Luxfer Holdings PLC and the Group were not affected by the capital reorganisation.

(ii) **Share capital reorganisation**

The share capital reorganisation resulted in a credit of £28.8 million to retained earnings and is 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, shares with a par value of £2.3 million were still held by the ESOP. These shares were originally purchased for a consideration of £0.4 million and this cost of investment will be 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.

We have audited the parent company financial statements of Luxfer Holdings PLC for the year ended 31 December 2006 which comprise the Balance Sheet and the related Notes 33 and 35 to 45. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the group financial statements of Luxfer Holdings PLC for the year ended 31 December 2006.

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

Our responsibility is to audit the parent company financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the Directors' Report is consistent with the parent company 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 the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the unaudited part of the Directors' Remuneration Report, Corporate Information, the Chairman's Statement, the Chief Executive's Review, the Finance Review and the Unaudited Pro Forma Balance Sheet as at 31 December 2006 and accompanying Note 34. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006;
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the parent company financial statements.

Ernst & Young LLP
Registered Auditor
Manchester
27 March 2007

	Notes	2006 £M	2005 £M	2006 (unaudited pro forma) (see Note 34) £M
FIXED ASSETS				
Investments	35	**234.6**	234.6	234.6
		234.6	234.6	234.6
CURRENT ASSETS				
Debtors	36	**10.3**	7.1	5.2
Cash at bank and in hand		**-**	0.6	-
		10.3	7.7	5.2
CREDITORS: amounts falling due within one year	37	**(17.1)**	(8.1)	(5.3)
NET CURRENT LIABILITIES		**(6.8)**	(0.4)	(0.1)
TOTAL ASSETS LESS CURRENT LIABILITIES		**227.8**	234.2	234.5
CREDITORS: amounts falling due in more than one year				
Senior Notes due 2009	38	**(159.0)**	(158.5)	-
Senior Notes due 2012	34	**-**	-	(71.4)
Preference shares	38	**(113.5)**	(108.1)	(0.1)
Amounts due to subsidiary undertakings	34	**-**	-	(28.6)
PENSION COMMITMENTS	42	**(10.9)**	(11.2)	(10.9)
		(55.6)	43.6	123.5
CAPITAL AND RESERVES				
Ordinary share capital	40	**0.9**	0.9	10.0
Deferred share capital	34	**-**	-	76.9
Own shares held by ESOP	34	**-**	-	(0.4)
Profit and loss account	41	**(56.5)**	(44.5)	37.0
Equity shareholders' funds	41	**(55.6)**	(43.6)	123.5

SIGNED ON BEHALF OF THE BOARD

Brian Purves **Stephen Williams**

27 March 2007

33. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

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

Investments

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

Retirement benefit costs

In respect of defined benefit plans, obligations are measured at discounted present value whilst scheme assets are recorded at fair value. The cost of providing benefits is determined using the Projected Unit Method, with actuarial valuations being carried out at each balance sheet date. The charge to the 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 borrowing are initially recorded at fair value net of issue costs associated with the borrowing.

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

Capital instruments

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

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

In 2005, in accordance with FRS 25, preference shares have been reclassified as financial liabilities during the year.

34. PRO FORMA INFORMATION

On 6 February 2007, the Company entered into schemes of arrangement pursuant to Section 425 of the Companies Act 1985 with the holders (the "Noteholders") of its 10.125% Senior Notes due 2009 and certain of its shareholders, which resulted in a reorganisation of the Company's capital structure. This 2007 capital reorganisation is a non-adjusting Post Balance Sheet Event (see Note 45) for these financial statements and therefore the Board has prepared pro forma consolidated balance sheet information to illustrate the effects of the capital reorganisation as if it had occurred at 31 December 2006.

The unaudited pro forma balance sheet is derived from the Company's financial statements for the year ended 31 December 2006. The purpose of the unaudited pro forma balance sheet is to provide an illustration of the accounting for elements of the capital reorganisation. The adjustments illustrate how the capital reorganisation would have affected the Company's balance sheet had the transaction occurred on 31 December 2006.

The pro forma adjustments illustrate the financial and accounting impact of the following elements of the capital reorganisation:

- 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;
- The settlement of the outstanding interest accrued on the existing Senior Notes due 2009;
- The exercise of all outstanding £0.6487 preference share options with an exercise price of £0.01 by members of the ESOP and the purchase for cash of a certain number of £0.6487 preference share capital by management from the Company's ESOP;
- Following the management share transactions 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 an accrued preference share dividend;
- The purchase of 87% of the new share capital of the Company by the Noteholders (other than Luxfer Group Limited) for a consideration of £8.5 million;
- The costs of the transaction, including those expenses of legal and financial advisors.

34. PRO FORMA INFORMATION (continued)

The illustrative effects of the capital reorganisation on the balance sheet as if it had occurred on 31 December 2006 are as follows:

	2006 audited balance sheet £M	Reversal of costs incured to date (note i) £M	Dividends received (note ii) £M	Senior Notes exchange (note iii) £M	Share capital reorganisation (note iv) £M	Transaction costs (note v) £M	2006 pro forma balance sheet £M
Fixed assets							
Investments	234.6	-	-	-	-	-	234.6
Current assets							
Debtors	10.3	(3.3)	-	-	-	(1.8)	5.2
Cash at bank and in hand	-	2.3	10.0	(8.5)	0.4	(4.2)	-
	10.3	(1.0)	10.0	(8.5)	0.4	(6.0)	5.2
Creditors: amounts falling due within one year	(17.1)	1.0	-	10.8	-	-	(5.3)
Net current liabilities	(6.8)	-	10.0	2.3	0.4	(6.0)	(0.1)
Total assets less current liabilities	227.8	-	10.0	2.3	0.4	(6.0)	234.5
Creditors: amounts falling due after one year							
Senior Notes due 2009	(159.0)	-	-	(159.0)	-	-	-
Senior Notes due 2012	-	-	-	(71.9)	-	0.5	(71.4)
Preference shares	(113.5)	-	-	-	113.4	-	(0.1)
Inter-company loan	-	-	-	(28.6)	-	-	(28.6)
Pension commitments	(10.9)	-	-	-	-	-	(10.9)
	(55.6)	-	10.0	60.8	113.8	(5.5)	123.5
Equity and liabilities							
Ordinary share capital	0.9	-	-	-	(0.9)	-	-
New ordinary share capital	-	-	-	-	10.0	-	10.0
Deferred share capital	-	-	-	-	76.9	-	76.9
Own shares held by ESOP	-	-	-	-	(0.4)	-	(0.4)
Profit and loss account	(56.5)	-	10.0	60.8	28.2	(5.5)	37.0
	(55.6)	-	10.0	60.8	113.8	(5.5)	123.5

Notes on pro forma adjustments and assumptions used

(i) **Reversal of costs incurred to 31 December 2006** – Transaction costs of £3.3 million from the Company's legal and financial advisors had been invoiced by 31 December 2006. Of these costs, £2.3 million had been paid by the Company at 31 December 2006. It has been assumed that all of the transaction costs are paid at the date of the capital reorganisation.

(ii) **Dividends received** – On 31 December 2006 it is assumed that the Company received a dividend of £10.0 million to enable it to fund the Senior Notes exchange (see note (iii) below).

(iii) **Senior Notes exchange** – Of the £160.0 million of Senior Notes due 2009, £131.4 million were held by third parties and £28.6 million were held by the Company's subsidiary Luxfer Group Limited. It is assumed that on 31 December 2006 the £131.4 million of Senior Notes due 2009 held by third parties, is exchanged for an amount of new Senior Notes due 2012 with a fair value of £68.8 million. A cash payment of £9.7 million is made to these Noteholders in settlement of all interest accrued from 2 May 2006 on the Senior Notes due 2009. Deferred issue costs of £1.0 million are written off.

The Senior Notes due 2009 held by Luxfer Group Limited are released and cancelled in return for a new inter-company loan of £28.6 million with the Company. The interest of £1.9 million outstanding on the Senior Notes due 2009 held by Luxfer Group Limited is paid.

34. PRO FORMA INFORMATION (continued)

The gain on the Senior Notes exchange is calculated as follows:

	£M
Senior Notes due 2009	160.0
Less: deferred issue costs	(1.0)
Senior Notes due as at 31 December 2006	159.0
Add: Interest accrued to 31 December 2006:	
Interest accrued from 2 May 2006 to 31 December 2006	10.8
Less: Fair value of financial instruments exchanged:	
Cash settlement of interest to third party Noteholders	(9.7)
Senior Notes due 2012	(68.8)
Interest paid to Luxfer Group Limited	(1.9)
Inter-company loan to Luxfer Group Limited	(28.6)
Exceptional credit to profit and loss account	60.8

A further £3.1 million of Senior Notes due 2012 are issued at par for a cash consideration of £3.1 million. The total fair value of the Senior Notes due 2012 issued is therefore £71.9 million. The net cash movement is an outflow of £8.5 million, being the interest payment of £11.6 million less the cash received for Senior Notes due 2012 of £3.1 million. It is assumed that the net cash outflow of £8.5 million is funded through dividends received from subsidiaries.

(iv) **Share capital reorganisation –** It is assumed that all of the £0.01 share options over existing preference shares held by the ESOP are exercised. It is also assumed that the members of a new management incentive plan purchase shares from the ESOP for a consideration of £0.4 million. After the ESOP transactions, a number of shares with a par value of £2.3 million are still held by the ESOP. These shares were originally purchased for a consideration of £0.4 million and this cost of investment is now shown as a separate line in equity.

The existing £0.6487 ordinary shares and £0.6487 preference shares, excluding 50,000 £1 B preference shares, are converted into new £1 ordinary shares and £0.0001 deferred shares, with £0.9 million par value of the £0.6487 ordinary shares and £86.0 million of the £0.6487 preference shares converted into £10 million par value of new £1 ordinary shares and £76.9 million par value of £0.0001 deferred shares. An accrued preference share dividend of £35.7 million at 31 December 2006 is cancelled.

The movement in profit and loss reserves is a gain of £28.2 million and is calculated as follows:

	£M
Preference share capital held outside ESOP	77.8
Accrued dividend	35.7
Preference share liability as at 31 December 2006	113.5
Ordinary shares	0.9
Total recognised net book value of all share capital instruments prior to reorganisation	114.4
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
	27.8
Cash received by ESOP from management	0.4
Profit and loss reserves movement	28.2

(v) **Transaction costs –** It is assumed that total transaction costs incurred by the Company for advisors' fees is £6.0 million. Of this amount, £5.5 million is written off through the profit and loss account The remaining £0.5 million is attributed to the issue costs of the Senior Notes due 2012 and is therefore capitalised and amortised over the five-year life of the Senior Notes due 2012. The costs of £6.0 million are assumed to be funded through the receipt of dividends from subsidiaries and by issuing additional Senior Notes due 2012 for £3.1 million.

35. INVESTMENTS

	Subsidiary undertakings £M
Cost:	
At 1 January 2006 and 31 December 2006	**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 2006 are as follows:

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

36. DEBTORS

	2006 £M	2005 £M
Amounts due from subsidiary undertakings	**7.0**	7.1
Other debtors	**3.3**	-
	10.3	7.1

37. CREDITORS: amounts falling due within one year

	2006 £M	2005 £M
Amounts owed to subsidiary undertakings	**6.2**	5.2
Accruals and deferred income	**10.9**	2.9
	17.1	8.1

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

	2006 £M	2005 £M
Senior Notes due 2009	**159.0**	158.5

The Senior Notes due 2009 were released and cancelled on 6 February 2007 as part of the Company's capital reorganisation further explained in Notes 34 and 45. In return for the release and cancellation of the £131.4 million held by third parties there was an issuance of new floating rate Senior Notes due 2012 issued at a par value of £68.8 million, with an additional £3.1 million of Senior Notes due 2012 being issued for a cash consideration of £3.1 million.

The Senior Notes due 2009 were listed on the Luxembourg Stock Exchange. The interest rate was fixed at 10.125% on a total principal amount of £160.0 million. A principal amount of £28.6 million (2005: £28.6 million) was held by the Group, through Luxfer Group Limited, a subsidiary of Luxfer Holdings PLC. The principal amount held by external parties was £131.4 million (2005: £131.4 million). The Senior Notes due 2009 were shown net of unamortised issue costs of £1.0 million (2005: £1.5 million).

Preference share liablity:

	£M
Preference shares at 1 January 2006	108.1
Preference share allocation of dividend to 31 December 2006	5.4
Preference share liability at 31 December 2006	**113.5**

As further explained in Notes 34 and 45, on 6 February 2007, the preference shares of £0.6487 each were converted into equity shares and the preference share liability was reduced to £0.1 million.

39. DEFERRED TAX

Retirement benefit obligations

	£M
At 1 January 2006	**(4.8)**
Charged to statement of total recognised gains and losses	**0.1**
Charged to income	**-**
At 31 December 2006	**(4.7)**

No provision has been made for deferred tax on losses carried forward of £28.9 million (2005: £25.5 million). These losses will only be available for offset if the holding company makes taxable profits. Given that the holding company incurred the interest payable on the Senior Notes due 2009, and following the completion of the capital reorganisation will incur interest payable on the Senior Notes due 2012, 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

The share capital of the Company was subject to a capital reorganisation completed on 6 February 2007 as further explained in Notes 34 and 45.

(a) Ordinary share capital

	2006 No.	2005 No.	2006 £M	2005 £M
Authorised:				
Ordinary shares of £0.6487 each	**1,410,778**	1,410,778	**0.9**	0.9
Deferred ordinary shares of £0.0001 each	**10,000,000**	10,000,000	**-**	-
	11,410,778	11,410,778	**0.9**	0.9
Allotted, called up and fully paid:				
Ordinary shares of £0.6487 each	**1,340,240**	1,340,240	**0.9**	0.9
Deferred ordinary shares of £0.0001 each	**20,000**	20,000	**-**	-
	1,360,240	1,360,240	**0.9**	0.9

The rights of the shares were as follows:

Ordinary shares of £0.6487 each

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

Deferred ordinary shares of £0.0001 each

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

(b) Preference share capital

As a result of the capital reoganisation on 6 February 2007, further disclosed in Notes 34 and 45, the preference shares of £0.6487 each were converted into equity shares and all rights to these preference shares were cancelled.

	2006 No.	2005 No.	2006 £M	2005 £M
Authorised:				
Preference shares of £0.6487 each	**132,683,760**	132,683,760	**86.0**	86.0
'B' preference shares of £1 each	**50,000**	50,000	**0.1**	0.1
	132,733,760	132,733,760	**86.1**	86.1
Allotted, called up and fully paid:				
Preference shares of £0.6487 each	**132,683,760**	132,683,760	**86.0**	86.0
Allotted, called up and 25% paid:				
'B' preference shares of £1 each	**50,000**	50,000	**0.1**	0.1
	132,733,760	132,733,760	**86.1**	86.1

Preference shares of £0.6487 each

The preference shares had an entitlement to a fixed cumulative dividend of 5% per annum payable on redemption of the preference shares. Interest accrued on unpaid preference dividends at the rate of 5% per annum of the nominal amount of the preference shares compounding on 31 December in each year. The preference originally had to be redeemed in 2010 at par. However, they were converted into a combination of new £1 ordinary and £0.0001 deferred shares as part of the capital reorganisation further explained in Note 45.

'B' preference shares of £1 each

The 50,000 'B' preference shares are entitled to a dividend on the same terms as the preference shares of £0.6487 each and are entitled to be redeemed prior to any distribution or return of capital to ordinary shareholders.

41. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS IN RESERVES

	Share capital £M	Profit and loss account £M	Shareholders' funds £M
At 1 January 2005	0.9	(45.9)	(45.0)
Loss for the year	-	(0.9)	(0.9)
Actuarial gains and losses on pension schemes	-	2.3	2.3
At 31 December 2005	0.9	(44.5)	(43.6)
Loss for the year	-	(11.1)	(11.1)
Actuarial gains and losses on pension schemes	-	(0.9)	(0.9)
At 31 December 2006	**0.9**	**(56.5)**	**(55.6)**

The Company had a deficit on its profit and loss account of £56.5 million as at 31 December 2006. As part of the capital reorganisation on 6 February 2007, gains of £56.0 million and £28.8 million were realised on the reorganisation of the Company's loan notes and share capital respectively.

The loss after taxation dealt with in the financial statements of the parent company was £11.1 million (2005: £0.9 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 or 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 Method.

The Luxfer Group Pension Plan was closed to new members in 1998, new employees then being eligible for an alternative defined contribution plan. With effect from April 2004 the Luxfer Group Pension Plan changed from a final salary to a career average revalued earnings benefit scale. In August 2005 a scheme specific earnings cap of £60,000 per annum was introduced, effectively replacing the statutory earnings cap. The pension cost of the Plan is assessed in accordance with the advice of an independant firm of professionally qualified actuaries, Lane Clark and 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 credit to the Company's profit and loss account in respect of the defined benefit scheme was £1.2 million (2005: £1.3 million).

The financial assumptions used in the calculations are:		**Projected Unit Valuation**	
	2006	2005	2004
	%	%	%
Discount Rate	**5.20**	4.80	5.30
Salary Inflation	**4.00**	4.30	4.40
Price Inflation	**2.90**	2.80	2.90
Pension Increases	**2.90**	2.60	2.70

The assets in the scheme and expected rate of long-term return were:		**Long term rate of return expected**	
	2006	2005	2004
	%	%	%
Equities	**7.50**	7.30	7.50
Gilts	**5.20**	4.00	4.50
Other Bonds	**4.80**	4.40	5.30
Cash	**5.20**	4.00	4.50

The value of the scheme assets were:	**Value at 31 Dec 2006**	Value at 31 Dec 2005	Value at 31 Dec 2004
	£M	£M	£M
Equities	**106.2**	97.9	88.2
Gilts	**32.2**	27.6	24.4
Other Bonds	**12.9**	12.4	7.3
Cash	**0.2**	-	0.7
Total market value of assets	**151.5**	137.9	120.6
Present value of scheme liabilities	**(167.1)**	(153.9)	(140.1)
Deficit in the scheme	**(15.6)**	(16.0)	(19.5)
Related deferred tax asset	**4.7**	4.8	5.8
Net pension liability	**(10.9)**	(11.2)	(13.7)

42. RETIREMENT BENEFITS (continued)

Analysis of amount (charged)/credited to operating profit:	**2006**	2005
	£M	£M
In respect of defined benefit schemes:		
Current service (charge)/credit (employer's)	**(1.4)**	0.1
Curtailment and settlement credit	**-**	0.6
Total operating (charge)/credit for defined benefit schemes	**(1.4)**	0.7

Analysis of amount credited to other finance income:	**2006**	2005
	£M	£M
Expected return on pension scheme assets	**8.7**	7.9
Interest on pension scheme liabilities	**(7.3)**	(7.3)
Net credit to other finance income	**1.4**	0.6

Analysis of amount recognised in the Statement of Total Recognised Gains and Losses:	**2006**	2005
	£M	£M
Actual return less expected return on pension scheme assets	**7.9**	13.9
Changes in assumptions underlying the present value of scheme liabilities	**(8.8)**	(11.2)
Other movements	**-**	(0.6)
Actuarial (loss)/profit recognised in Statement of Total Recognised Gains and Losses	**(0.9)**	2.1

Analysis of movement in deficit in the scheme during the year:	**2006**	2005
	£M	£M
Deficit in defined benefit schemes at beginning of year	**(16.0)**	(19.5)
Current service cost (employers and employees)	**(2.2)**	(2.1)
Aggregate Contributions (employers and employees)	**2.1**	2.3
Curtailment and settlement credit	**-**	0.6
Other finance income	**1.4**	0.6
Actuarial (loss)/gain recognised in Statement of Total Recognised Gains and Losses	**(0.9)**	2.1
Deficit in defined benefit schemes at end of year	**(15.6)**	(16.0)

Analysis of movement in the present value of scheme assets:	**2006**	2005
	£M	£M
At 1 January	**137.9**	120.6
Expected return on sheme assets	**8.7**	7.7
Actuarial gains and losses	**7.9**	13.9
Contributions from employer	**1.3**	1.5
Contributions from scheme members	**0.8**	0.8
Age related NI	**0.4**	0.4
Settlements	**-**	(1.3)
Benefits paid	**(5.5)**	(5.7)
	151.5	137.9

Analysis of movement in the present value of the defined benefit obligations:	**2006**	2005
	£M	£M
At 1 January	**153.9**	140.1
Service cost	**1.4**	1.3
Interest cost	**7.3**	7.7
Contributions from scheme members	**0.8**	0.8
Age related NI	**0.4**	0.4
Actuarial gains and losses	**8.8**	11.2
Benefits paid	**(5.5)**	(5.7)
Curtailments and settlements	**-**	(1.9)
	167.1	153.9

42. RETIREMENT BENEFITS (continued)

History of experience in gains and losses:	**2006**	2005	2004	2003	2002
	£M	£M	£M	£M	£M
Difference between expected and actual return on scheme assets:					
Amount £M	**7.8**	13.9	5.1	9.8	(22.4)
Percentage of scheme assets	**5%**	10%	4%	9%	(23)%
Experience of gains and losses on scheme liabilities:					
Amount £M	**2.1**	-	-	14.8	-
Percentage of present value of scheme liabilities	**1%**	0%	0%	11%	0%
Total amount recognised in Statement of Total Recognised Gains and Losses:					
Amount £M	**(0.9)**	2.1	(0.6)	12.5	(28.0)
Percentage of present value of scheme liabilities	**1%**	-	-	10%	(21)%

43. THE LUXFER GROUP EMPLOYEE SHARE OWNERSHIP PLAN 1997

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

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

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

In the first quarter of 2006, the final tranche of options under the 1997 Scheme granted in 1999, totalling 2,588,553 options, were due to expire. The Remuneration Committee determined to offer eligible employees and ex-employees the opportunity to exchange their existing options held under the 1997 Scheme for identical options under the 2001 Scheme. 2,422,926 options over preference shares were rolled over. The remaining 165,627 of these options expired on 21 March 2006. All options under the 1997 Scheme have now expired.

At 31 December 2006, the ESOP held 46,471 ordinary shares of £0.6487 each (2005: 46,471) in the Company and 12,803,769 preference shares of £0.6487 each (2005: 12,803,769) in the Company. The employees held options under the terms of the Schemes over 6,973,392 preference shares of £0.6487 each (2005: 7,388,499) in the Company and 42,888 ordinary shares of £0.6487 each (2005: 42,888) in the Company. The loans outstanding from the ESOP were £2.7 million (2005: £2.7 million).

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

Under the rules of the 2001 Scheme the capital reorganisation entitled the holders of options over shares held by the ESOP and granted under that scheme to exercise their options in exchange for the relevant ordinary or preference shares. At the end of 2006, all option holders were given notice to exercise their options conditional on the High Court sanctioning the schemes of arrangement. All holders of options over the £0.6487 preference shares at an exercise price of £0.01 exercised their options and were issued with an aggregate of 4,052,466 preference shares of £0.6487 each on 5 February 2007, the day before the capital reorganisation became effective. All remaining options with various higher excercise prices were not exercised and lapsed pursuant to their terms.

All options under the 2001 scheme have now either been exercised or lapsed. No new options will be granted under the 2001 scheme.

At the end of the year, the ESOP conducted a number of sales and purchases of the £0.6487 preference shares with management conditional on the sanction of the schemes of arrangement by the High Court, which were completed on 5 February 2007. Pursuant to the schemes of arrangement, it also purchased a number of new £1 ordinary shares on 6 February 2007, the effective date of the capital reorganisation. These sales and purchases were designed to reallocate the shareholdings of management to optimise the Group's new Management Incentive Plan implemented as part of the capital reorganisation.

All £0.6487 ordinary shares and £0.6487 preference shares held by the ESOP on the effective date of the capital reorganisation were converted into the requisite combination of new £1 ordinary shares and £0.0001 deferred shares. A new share option plan was established by the Group and certain management were granted options over new £1 ordinary shares held by the ESOP at an exercise price of £0.97. These options may be excercised at any time.

At 6 February 2007, on the effectiveness of the capital reorganisation, the ESOP held 184,574 new £1 ordinary shares and 15,977,968,688 deferred shares of £0.0001 each in the Company. Employees of the Company held options over 82,400 new £1 ordinary shares. The loan outstanding from the ESOP was £2.3 million.

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. Brian Purves and Stephen Williams are both Trustees of the Luxfer Group Pension Plan.

45. POST BALANCE SHEET EVENTS

On 6 February 2007, the Company entered into schemes of arrangement pursuant to Section 425 of the Companies Act 1985 with the 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 pro forma information shown at Note 34 details the effects of this capital reorganisation on the balance sheet of the Company as at 31 December 2006.

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 2009 for third party Noteholders and an inter company loan for those Senior Notes due 2009 held by a 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 certain number of the £0.6487 preference share capital by management from the ESOP;
- Following the management share transactions with the ESOP, the reorganisation of the Company's existing share capital, including the conversion of the £0.6487 preference shares and £0.6487 ordinary shares into a combination of new £1 ordinary shares and £0.0001 deferred shares and the cancellation of the accrued preference share dividend.
- The purchase of 87% of the new share capital of the Company by the Noteholders for consideration of £8.5 million;
- 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.

(i) **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. This is 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 at 6 February 2007:	
Accrued interest 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)
Retained earnings movement	56.0

On 6 February 2007, £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 released and cancelled and in return replaced with a new inter-company loan of £28.6 million with the Company. Interest of £2.2 million outstanding on the Senior Notes due 2009 held by the 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 as part of the capital reorganisation was therefore £71.9 million. The net cash movement was an outflow of £9.4 million, being the interest payments 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.

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 income statement 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.

45. POST BALANCE SHEET EVENTS (continued)

(i) Share capital reorganisation

The share capital reorganisation resulted in a credit of £28.8 million on retained earnings and is 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
Retained earnings movement	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 shares were originally purchased for a consideration of £0.4 million and this cost of investment will be 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 £0.6487 preference shares converted into for £10.0 million par value of £1 new ordinary shares and £76.9 million par value of £0.0001 deferred shares. An accrued preference share dividend 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.

COMPANY DETAILS

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Registration no. 3690830

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Group Finance Director

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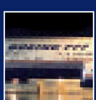
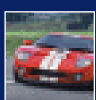
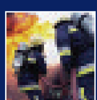
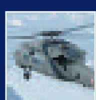
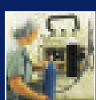
LUXFER GROUP

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