LUXFER HOLDINGS PLC

REPORT & ACCOUNTS

2007

High performance engineering materials worldwide

LUXFER GROUP

ABOUT THE COVER

COMMITTED TO EXCELLENCE

The Luxfer Model Makes It All Possible

Strong Customer Relationships

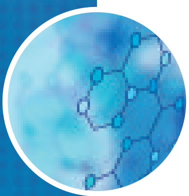
Luxfer's business philosophy places the customer at the centre of everything we do.

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 make 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

HIGH PERFORMANCE ENGINEERING MATERIALS **WORLDWIDE**

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"Management has responded to the weakness in one of our key markets and the Board remains committed to our profit improvement goals."

Peter Haslehurst Chairman

Early in 2007, we were 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, has enabled us to be more expansive, despite continuing difficulties with the economic environment.

The Group's most exciting near term opportunities relate to the work being done to expand into the market for compressed natural gas cylinders, and the development of a range of zirconia-based catalytic products aimed at the developing diesel market.

The market for composite cylinders, particularly for breathing apparatus, reduced in 2007 after several years of strong growth. Whilst this has been disappointing, and has reduced the profits of our Gas Cylinders division, it is perhaps not so surprising given that the US Homeland Security Grants have been pumping money into the US Fire Departments for several years now, and this was bound to have a distorting affect on the market for fire equipment.

We remain convinced of the long-term health of the composite cylinder sector, but management has responded to the weakness in the Gas Cylinders business by developing aggressive cost reduction plans to bring that division back on course over the next two years. This is a remarkable effort given the substantial cost reductions already achieved, particularly in 2006.

The talk of recession, especially in the US, is a concern as we continue through 2008. Although several of the markets that we serve are not directly linked to overall economic growth, we are exposed to the automotive industry, particularly in the US. Also experience has shown that a tight economic climate often results in customers reining back capital spending and levels of inventory holding, even in non-cyclical sectors.

The Group is heavily exposed to the US dollar and our results are best viewed in that currency to see the true underlying performance. Accordingly we have given an indication of the most significant impact of the weakness of the US dollar where appropriate in these accounts.

The business has shown a remarkable resilience over the past three years, which is testimony to the hard work and dedication of our employees across the Group. I would like to place on record my thanks to them for their efforts during another challenging year. With the actions planned, your Board is confident that our medium-term profit improvement plans remain robust.

Peter Haslehurst
Chairman

The Directors submit their annual report together with the audited financial statements of the Group and of the Company, Luxfer Holdings PLC, for the year ended 31 December 2007.

Principal Activities

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

The Group manufactures:

- advanced alloys of magnesium;
- components in aluminium, magnesium and carbon composites; and
- chemically-derived compounds of zirconium.

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

The Group is international, employing approximately 1,600 people in 17 countries. It operates 21 manufacturing plants in 6 countries, UK, USA, France, Czech Republic, Canada and China.

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

During 2007 the Group was comprised of three divisions:

- GAS CYLINDERS, which includes Luxfer Gas Cylinders and Superform;
- ELEKTRON, which includes MEL Chemicals and Magnesium Elektron; and
- SPECIALITY ALUMINIUM, comprising BA Tubes.

At the end of 2007 the Group agreed to sell its BA Tubes business and certain assets. The sale was completed in January 2008. As a consequence of the sale, Speciality Aluminium's results have been classified as from a discontinued activity, with the 2006 consolidated financial statements being restated.

GAS CYLINDERS

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

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

ELEKTRON

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

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

Business Review

A review of the business of the Group and the Group's results for the year, a description of the principal risks and uncertainties facing the Group, the key events and significant changes during the year in the Group and each of the divisions may be found in the Chief Executive's Review and the Finance Review on the following pages. 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 in Table 1 in the Finance Review.

In 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 referred to in this report as the capital reorganisation. 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. Details of the current capital structure of the Company are set out in Note 20 to the financial statements. The effect of the various elements of the capital reorganisation are described in the various reviews and this Report as deemed appropriate and Notes 2 and 35 to the financial statements further describe the effects of this event on the Group and Company respectively.

"We continue to overcome the difficulties that are thrown our way."

Brian Purves Chief Executive

Results

Group revenue for continuing operations decreased by £15.0 million to £212.7 million in 2007, from £227.7 million in 2006. The sale of Zitzmann Druckguss ("Zitzmann") in August of 2006 reduced revenue by £8.4 million and the net impact of the weaker translation exchange rates reduced translated revenue by £9.4 million. The US dollar averaged $2.01 against pounds sterling in 2007, compared to $1.86 in 2006. The acquisition in September 2007 of the trade and assets of Revere Graphics Worldwide ("Revere") contributed £4.1 million to Group revenue. Adjusting for acquisitions and disposals, like-for-like revenue at constant translation exchange rates was only 0.6% lower.

During the year trading profit for continuing operations fell to £17.6 million from £19.8 million in 2006. The main reason for this deterioration was the downturn in the Gas Cylinders division, which offset the improved trading performance in the Elektron division.

We continue to experience large increases in input costs, although to a lesser extent than in 2006. Aluminium did not hit the heights of 2006, when prices of $3,200 per tonne were seen, but the average cost in 2007, of $2,724 per tonne, was $386 per tonne higher than the average for 2006, net of LME hedging benefits. UK gas prices offered some relief, as prices fell back from the highs of 2006. In the second half of the year we started to see a sharp rise in the price of magnesium, which had previously escaped the attentions of the speculators. Taking into consideration the acquisition of Revere and the trade and assets sale of BA Tubes, magnesium purchases have increased by 17.2% to £25.8 million in 2007, whereas aluminium purchases have decreased by 3% to £28.5 million in the same year.

Gas Cylinders

The Gas Cylinders division saw a downturn in sales of 10.4%, to £108.4 million in 2007 compared to £121.0 million in 2006. The weaker US dollar reduced revenue through a translation loss of £5.1 million, but at constant exchange rates underlying revenue was still down by 6.2%.

One key issue was in composite cylinders for breathing apparatus, where sales were well down on the past two years. The largest market for these cylinders is in the US, where it has been boosted over several years by US Government funds injected into Homeland Security.

Following the extremely large increases in the cost of aluminium since 2005, we have been forced to be aggressive with price increases. It is pleasing that most of our customers have recognised the need, but in certain instances this has not been the case. In the middle of 2007 we terminated our largest single contract for fire extinguisher cylinders because it no longer made sense to supply at the depressed margins caused by the high aluminium cost, and we could not get agreement to an economical price increase. This resulted in a reduction in sales of around £3.1 million in the second half of the year. Sales of high-strength aluminium cylinders based on our patented L7X® alloy technology have steadily increased and the selling proposition, of 50% more gas in the cylinder, is attracting keen interest.

We achieved several important milestones with our new range of Compressed Natural Gas ("CNG") cylinders in both the US and Europe. We have now received repeat business from several US customers and have taken our first major orders for the European market.

Superform continues to struggle in the US, where the speciality automotive sector is quite depressed. The UK operation, however, is experiencing strong growth.

Gas Cylinders made a trading profit of £3.1 million in 2007, £4.4 million less than 2006. Profitability was affected by increased raw material costs, with aluminium costs again adding over £3.2 million to our direct costs in 2007. The downturn in composite cylinder demand was, however, the larger factor.

In response to the downturn in profitability, management have put together a radical package of cost saving opportunities, involving both plant closures and investment in automation. This will take some time to complete, but the target is to reduce costs by £5 million a year by the start of 2010.

Elektron

Revenue from the Elektron division decreased by 2.2%, to £104.3 million in 2007 compared to £106.7 million in 2006. The weaker US dollar resulted in a translation loss on revenue of £4.3 million and the sale of Zitzmann reduced revenue by a further £8.4 million. The acquisition of Revere added £4.1 million of revenue. Using constant exchange rates and adjusting for disposals and acquisitions, the ongoing operations achieved an underlying sales increase in 2007 of £6.2 million or 6.3% compared to 2006.

Sales of G4 auto-catalyst products rose by 4% over the year helped by their increasing use for diesel engine applications, whilst certain older generation products for the paper industry declined.

The business continued to benefit from its strong position in the specialist aerospace and defence markets, with total sales to this sector increasing by approximately 16%. We achieved growth in high performance aerospace alloys and specialised fine powders. This growth was partly offset by a reduction of £1.9 million caused by the natural conclusion, mid-year, of our forty-plus years contract to supply nuclear fuel cans for the Magnox Reactors, now in the final stage of their operational life. Following the end of the contract, we rationalised the layout of the Manchester site and reduced overheads.

In September 2007 we acquired the trade and assets of Revere. This manufacturer of photo-engraving products allows us to extend our product offering to brass, copper and zinc plate, in addition to the magnesium that we already supply.

Trading profit for Elektron was £14.5 million in 2007, an increase of 17.9% compared to £12.3 million in 2006. The improved profit reflected the increased sales of our high performance products, across a range of specialised markets.

Speciality Aluminium

After a difficult first half of 2007, we took further cost reduction actions at the Redditch site. Trading improved in the second half of the year and we were able to negotiate a sale of the trade and assets of the business. This completes the sale of the former British Aluminium division, which commenced back in 2000. The Speciality Aluminium business has been an almost continual drain on cash and management resources and its sale enables us to focus on our core operations.

New Product and Market Developments

We continued to focus on new product development and more than doubled sales of new catalytic products for diesel engine applications, as new environmental legislation starts to bite. Our new alternative fuel cylinder plant at Riverside, California was opened mid-year, and is allowing us to expand sales into the growing market for CNG cylinders. During the year we sold just short of 1,700 of these cylinders, which sell for between $1,000 and $2,000 per unit owing to their physical dimensions, compared to a standard breathing apparatus cylinder at around $200 each.

For the longer term, we are excited about the work that we are doing on magnesium armour plate (with the assistance of a grant from the US Department of Defense), magnesium superplastic sheet, ambulatory oxygen systems, and zirconium-based absorption technologies.

Capital Reorganisation

The capital reorganisation agreed with our shareholders and bondholders was welcome, relieving part of the Group's debt in turbulent times. The debt relieved appears as a substantial gain in the Group's Consolidated Income Statement, but no cash was generated by this transaction – quite the contrary. To achieve genuine cash generation our focus remains upon an improvement in operating profit.

Summary

The operating profit result for the year is disappointing after the improvement seen in 2006, although the majority of the deterioration can be ascribed to economic factors outside management's control. The year was again characterised by cost-reduction actions, with a reduction of 6.1% in the average workforce during the year in response to lower demand and cost pressures. The radical actions being taken in the Gas Cylinders division should get us back on an improving trend as we move through 2008.

Brian Purves
Chief Executive

"We continued to face tough economic challenges, with higher material input costs and a weak US dollar that impacted on both our margins and the translation of our results."

Stephen Williams Group Finance Director

Finance Review of 2007

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

Introduction

In 2007 the Group continued to face tough economic challenges, with higher material input costs and a weak US dollar that impacted on both our margins and the translation of our results.

Whilst the average three-month LME price for aluminium at $2,661 per tonne in 2007 was only $69 higher than 2006, the actual impact was much higher because of the timing of our purchases and the lack of hedging benefits realised during 2006. With regard to our cost of sales, because of our purchase terms and our inventory levels, the impact of aluminium price increases is deferred by about three months. In 2006 we saw the highest average aluminium prices in the fourth quarter of the year and these higher costs impacted on our first quarter 2007 results. For 2007, we saw aluminium cost remain high for the majority of the year, but with a reduction in the fourth quarter. The benefit of these lower fourth quarter costs will not impact on our cost of sales until the first quarter of 2008.

In addition, the Group did not hold any forward aluminium commodity contracts at 31 December 2006, and, therefore, there has been no income statement impact in 2007 with respect to contracts maturing.

Taking into consideration the three-month lag, our average cost of aluminium per tonne, net of hedging, was $2,338 in 2006 compared to $2,724 per tonne in 2007, an increase of $386 per tonne. For the year 2007, we saw the highest average three-month price of $2,797 per tonne for aluminium, in the third quarter, with a reduction in the fourth quarter to $2,609 per tonne. Overall we estimate that the higher price of aluminium cost the Group an additional £3.2 million in 2007, compared to 2006.

In addition, Chinese sourced Rare Earths used by our zirconium business virtually doubled in price during the year and we saw the cost of Chinese sourced magnesium, a metal not quoted on the LME, rise by 42% over the course of the year. The increased cost of non-aluminium raw materials was approximately £3.3 million. Fortunately, in 2007 we saw a reduction in utility costs compared to the spike in prices experienced in 2006, and the full year on year benefit was £0.8 million.

During the year the US dollar further weakened against sterling, and with 52% of revenue from our continuing operations arising in the US, this had a significant impact on the results of our US operations, when translating their US dollar performance back to pounds sterling. The average US dollar to pounds sterling exchange rate in 2007 was $2.01 compared to $1.86 in 2006.

Over the past few years the Group, recognising these major economic challenges, has implemented and continues to implement profit improvement plans with the objective of achieving a step change in the operating performance of the Group. The plans focus on additional and more aggressive cost reduction programmes combined with price increases across most of our markets to recover these significant increases in cost.

Income Statement

Revenue

Total Group revenue for both 2007 and 2006 is shown excluding the revenue of the BA Tubes business within our Speciality Aluminium division. The business was sold in January 2008, and is disclosed in the accounts as a discontinued activity.

Revenue from our continuing operations for the year at £212.7 million was £15.0 million less than for 2006. Included within this negative variance is the translation impact of a weaker US dollar, which amounts to £9.7 million. The revenue for 2006 also included £8.4 million from our German die-casting business Zitzmann Druckguss ("Zitzmann"), which was disposed of during that year. This was partly offset by the acquisition in September 2007 of the trade and assets of Revere

Graphics Worldwide ("Revere"), which contributed £4.1 million to Group revenue for part of the year. Despite the reduction in revenue and reflecting the cost savings instigated during the year, the revenue per employee for 2007, adjusted for translation exchange rates was £136,000 compared to £129,000 in 2006.

If we were reporting in US dollars, our revenue for ongoing operations would have been $426.8 million in 2007 compared to $407.2 million in 2006, adjusting for Zitzmann and BA Tubes.

Gross profit

Gross Profit for the year at £40.9 million was £5.9 million lower than 2006 and the gross profit percentage fell from 20.6% to 19.2%. The lower level of gross profit arose from the lower sales volumes of higher margin composite cylinders, the sale of Zitzmann and the completion of the nuclear contract within our Elektron business. The increases in raw material costs were broadly offset by increased sales prices and gains in operating efficiencies.

Net operating expenses

Our net operating expenses decreased by £3.7 million or 13.7%, compared to 2006. The disposal of Zitzmann, partly offset by the acquisition of Revere, accounted for £0.5 million of the decrease and exchange translation accounted for a further decrease of £0.7 million, but the balance of £2.5 million arose from a programme of cost savings within the Group.

Trading profit

Trading profit for the year before exceptional items was £17.6 million compared to £19.8 million last year. There was a £1.1 million negative exchange translation impact on trading profit because of the weaker US dollar and Zitzmann had contributed £0.8 million to 2006. Trading profit as a percentage of sales revenue was 8.3% compared to 8.7% last year. In US dollars, our trading profit before exceptional items was $35.3 million compared to $36.7 million in 2006.

Exceptional items

Exceptional costs provided in 2007 were £6.3 million. Within our Gas Cylinder division, at our UK operation, we instigated a redundancy programme at a cost of £0.8 million following our decision to end a contract with a major customer that had become unprofitable. Within our US operation we have announced a major restructuring of the production facilities of our California aluminium plant, with production being transferred to our North Carolina and UK operations. The cost of the reorganisation and rationalisation programme, which should be completed by the end of 2008, was £2.1 million and there is a further provision of £1.6 million for the impairment of the aluminium production assets. The other major rationalisation and redundancy programme was at our UK magnesium operation following the end of the nuclear fuel can programme. The cost of the redundancy programme was £0.5 million.

In addition, we provided a further £1.0 million for environmental costs, being £0.5 million relating to the TCE contamination at the Speciality Aluminium site, Redditch, and £0.5 million relating to the landfill site owned by the Elektron division in the UK.

In 2006 there was 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. The removal of the effluent pond was completed within the first half of 2006. These exceptional costs were offset by a £0.8 million net credit resulting mainly from the closure of our US retirement benefit scheme, which provided life assurance benefits to certain retired employees in the US.

Profit on operations before interest and tax

The operating profit after exceptional items was £11.3 million for the year, compared to £16.7 million in 2006, which was stated after the loss arising from the disposal of Zitzmann. EBITDA for our ongoing operations and before exceptional items was £24.9 million compared to £26.2 million in 2006, for the same businesses.

Finance costs

Included within finance costs is the £56.0 million gain on the Senior Notes exchange, arising from the capital reorganisation implemented in February 2007. This is detailed in Note 2 to the financial statements.

Net interest costs payable during the year were £10.5 million, comprising £1.3 million relating to bond interest on the Senior Notes due 2009, £7.5 million relating to the bond interest on the new Senior Notes due 2012, £1.6 million to other bank borrowings and £0.1 million relating to the amortisation of loan issue costs. The Group also provided for £0.6 million of dividends relating to the Group's preference shares, before this dividend was cancelled as part of the capital reorganisation.

Taxation

The exceptional gain arising from the refinancing of £56.0 million was not subject to tax. The tax expense of £2.6 million is against a profit before tax of £0.2 million. The tax expense is split between a corporation tax charge of £2.9 million and a deferred tax credit of £0.3 million. Profits in our overseas subsidiaries again led to a local corporation tax charge, despite the UK remaining in a loss making position.

Discontinued operations

The loss for the year shown for our discontinued Speciality Aluminium business of £1.9 million comprises the trading loss of £0.9 million, a provision of £0.3 million relating to redundancies and £0.7 million relating to the impairment of the fixed assets.

The retained profit of the Group for the year after discontinued operations was £51.7 million compared to a loss in 2006 of £9.1 million.

Cash Flow

Net cash flows from continuing operating activities of £12.2 million were £8.1 million lower than 2006. Whilst trading profit for the year was only £2.2 million below last year, we provided for exceptional items totalling £6.3 million, which reduced operating profit to £11.3 million compared £19.8 million last year. Within the exceptional items, the non-cash items included the impairment of the aluminium plant at our California operation of £1.6 million. The balance of the exceptional cost of £4.7 million was added to our opening provisions, and cash expenditure in the year on exceptional items was £2.1 million.

Working capital increased by £6.6 million during the year compared to an increase of £0.7 million last year. The value of inventory increased by £3.1 million during the year, the majority of which at the end of the year is within our Elektron division where we have bought-forward as a hedge against the steep rise in magnesium and other commodity prices. Elsewhere within the Group we have been lowering inventory levels in the fourth quarter by reducing purchases of raw materials, and this resulted in the reduction of £4.6 million in the level of payables.

Capital expenditure in the year of £9.6 million was £2.7 million higher than 2006, and in line with the strategy outlined to investors at the time of the capital reorganisation, to increase our investment and improve profitability. Within the Gas Cylinders division, the major expenditure has been targeted at expanding our capability to produce a wider range of alternative fuel composite cylinders. In our Superform UK business, the major project was the installation of a new press and production line to cope with the increased level of demand.

Within the Elektron division we have continued to expand our G4 catalyst capability at both our UK and US sites and invested to reduce the cost of production. Following the end of the nuclear contract, we have instigated a major site reorganisation designed to significantly reduce the cost of the ongoing UK magnesium operation.

In September we completed the acquisition of the business and assets of Revere for a consideration (net of costs) of £7.3 million. Revere specialises in the manufacture and supply of a wide range of photo-engraving materials and has operations based in both the US and UK.

Interest costs paid during the year total £17.8 million. These costs include £10.3 million paid on the Senior Notes due 2009, £6.1 million on the new Senior Notes due 2012 and £1.4 million in bank interest. The £10.3 million payment was in settlement of all interest accrued on the Senior Notes due 2009 up to the exchange for the new Senior Notes due 2012 on the 6 February 2007.

As part of the capital reorganisation, a further £3.1 million of new Senior Notes were issued at par for a cash consideration of £3.1 million and management purchased shares from the ESOP for a cash consideration of £0.4 million. Costs paid during the year relating to the capital reorganisation amounted to £3.0 million.

The net cash flow for the year following our trading activities, the capital reorganisation and the investment in Revere, was an outflow of £23.8 million. This was financed by a drawdown of £22.7 million on our bank facility and a £1.1 million reduction in our cash balance. At the end of the year we had drawn down £24.7 million on our bank facility and had a cash balance of £2.2 million.

Capital Reorganisation

On 6 February 2007, the Group was able to announce that a scheme of arrangement between Luxfer Holdings PLC ("the Company") and the ultimate beneficial holders of our 10.125% Senior Notes due 2009 ("the noteholders scheme") and a scheme of arrangement between the Company and certain of its shareholders, ("the shareholder scheme") had both come into effect on 6 February 2007, following the sanction of both schemes by the High Court of Justice, England and Wales.

The existing noteholders exchanged the Company's outstanding £131.4 million Senior Notes due 2009 in return for £68.8 million of new notes and subscribed for an additional £3.1 million of new notes. The new notes have a new five-year maturity date. The noteholders also used £8.5 million of the outstanding interest paid to them on the Senior Notes due 2009, to acquire 87% of the Company's post reorganisation equity.

As part of the capital reorganisation, the ordinary and 5% cumulative preference share capital was converted into a combination of new ordinary share capital and deferred shares, which under International Financial Reporting Standards reduced the Company's balance sheet liabilities by £113.5 million, based on the accrued liability outstanding at 31 December 2006.

Certain senior managers and the employee benefit trust hold 13% of the post reorganisation share capital. Participation in the economic rights of this holding is initially restricted to 5%, and may grow to 13% of post reorganisation share capital based upon the attainment of certain profit growth targets.

Overall, the capital reorganisation eliminated the liability associated with the £0.6487 preference shares and also achieved a reduction of £59.5 million in the Group's senior unsecured debt, offset by the increase in senior secured debt in order to meet the funding requirements of the capital reorganisation.

Shareholder Funds & Borrowings

Shareholder funds at the end of the year were £22.6 million compared to a deficit at the end of 2006 of £153.9 million, an increase of £176.5 million over 2006. This significant improvement comprises the increase in ordinary and deferred share capital of £85.6 million, the credit to retained earnings as a result of the share capital reorganisation of £28.8 million and the gain in the year of £62.1 million on the consolidated statement of recognised income and expense.

The new share capital comprises £10.0 million of ordinary shares and £76.9 million of deferred shares less £0.4 million of shares held by the employee benefit trust compared to the £0.9 million share capital at the end of 2006.

The gain on the consolidated statement of recognised income and expense for the year included the £51.7 million profit for the year, £1.0 million for the exchange gain arising on the translation of foreign operations, £14.9 million actuarial gain arising from the defined benefit pension scheme, a deferred tax charge of £4.6 million arising on the actuarial gain and a transfer to income statement of a £0.9 million loss arising on cash flow hedges. In addition, the share capital reorganisation, whereby the existing preference shares, accrued dividend and ordinary shares, totalling £115.0 million, were converted to new share capital of £86.9 million and 'B' preference shares (not converted) of £0.1 million, resulted in a credit of £28.8 million.

Banking Facilities

The Group has a three-year £45.0 million facility which commenced in April 2006. The facility provides for up to £10.0 million of ancillary financing for letters of credit, bank guarantees and foreign exchange hedging within the total £45.0 million facility. The facility 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 US.

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. Under IFRS 7 we have now extended our accounting disclosures for these activities under Notes 28 and 29.

Interest Rate Risk

In addition to the bank facility, interest on the Group's new Senior Notes due 2012 is at a variable rate based on six-month LIBOR plus 5.5% to 6% depending on the credit rating of the notes. At the Group's discretion 1% (1.5% if the interest rate is LIBOR plus 6%) may be paid in kind through the issue of new notes. The rate payable at the end of December was 11.74125% being 5.5% above the relevant LIBOR rate.

Metal Cost Risk

The Group's annual aluminium purchase requirement following the sale of our BA Tubes operation is approximately 15,000 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. At the end of December 2007 the Group had 3,600 tonnes hedged, representing approximately 24% of usage in 2008.

In addition, the Group, following the acquisition of Revere, purchases approximately 10,000 tonnes of magnesium, and in the latter half of 2007 we have seen significant price increases in the cost of this metal. Magnesium is not traded on the London Metal Exchange so we are not able to maintain a hedge position.

Foreign Currency Risk

Where no natural hedge exists, all firm contractual commitments denominated in foreign currencies are hedged by means of forward foreign exchange contracts at the point of inception. By virtue, however, of the short-term contract nature of much of the Group's export business, hedges in place at 31 December 2007 cover a relatively small proportion of forecast currency revenue in 2008. The main transaction exposures originate from the UK operations exporting goods priced in US dollars and Euros.

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 the employees who were members of that scheme.

At 31 December 2007 the Group's actuaries prepared a valuation of the pension schemes under IAS 19. This indicated that, based upon the state of the equities market at that point in time, there would be a shortfall of £1.6 million (2006: £18.3 million), and £1.1 million (2006: £12.6 million) net of the related deferred tax asset.

The last full actuarial valuation of the UK defined benefit scheme as at April 2006 identified a funding deficit of £15.1 million, and it is this figure that drives the Group's contributions into the scheme. It should be noted that the deficit will change over time as a result of fluctuating equity markets.

The pension cost to the Group for 2007 was a regular cost of £1.5 million (2006: £1.5 million). There was no credit for curtailment benefits and other charges in 2007 (2006: £0.8 million). Pension contributions during the year totalled £3.3 million (2006: £4.0 million) including Company contributions into employee's 401(k) schemes.

Stephen Williams
Group Finance Director

Table 1: Group Key Performance Indicators

		2007	2006
Operating Performance			
Trading Profit	£m	**17.6**	19.8
EBITDA before exceptionals (excluding Zitzmann and BA Tubes)	£m	**24.9**	26.2
Gross profit percentage	%	**19.2**	20.6
Return on sales (trading profit divided by revenue)	%	**8.3**	8.7
Sales per average full time equivalent employee for ongoing operations - adjusted for prior year translation exchange rates	£000s	**136**	129
Operating Performance in US dollars			
Revenue (excluding Zitzmann and BA Tubes)	$m	**426.8**	407.2
EBITDA before exceptionals (excluding Zitzmann and BA Tubes)	$m	**49.8**	48.5
Financial Performance			
Net cash flow from continuing operating activities	£m	**12.2**	20.3
Working capital turnover for continuing operations (annual sales divided by average trading working capital)		**5.3x**	6.9x
Net debt to EBITDA		**3.8x**	4.7x
Economic Indicators			
Average aluminium price (three-month LME)	$ per Tonne	**2,661**	2,592
Average aluminium price (three-month LME, three month lag and net of hedging)	$ per Tonne	**2,724**	2,338
Average US dollar to pounds sterling exchange rate	$:£	**2.01**	1.86

Peter Joseph Kinder Haslehurst (67), Non-Executive Chairman

Appointed Chairman effective 31 March 2006, Peter has been a Non-Executive Director of the Company since June 2003. A Chartered Engineer, a Companion of the Chartered Management Institute and a fellow of the Institution of Mechanical Engineers, 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 39 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 also chairs both the Audit and Remuneration Committees.

Brian Gordon Purves (53), Chief Executive

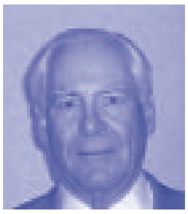
Appointed as Chief Executive in 2002, Brian has been a Director of the main Board of Luxfer Group since its formation in 1996, serving as Finance Director from 1996 to 2002. He was also a member of the management buy-in team. He is a qualified accountant with a degree in physics and a masters in business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

Stephen Norman Williams (56), Group Finance Director

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

Joseph Allison Bonn (64), Non-Executive Director

Appointed as a Non-Executive Director on 1 March 2007 following the capital reorganisation of the Company in 2007. Joe has extensive experience in the aluminium and specialty chemical industry having worked for Kaiser Aluminium and Chemical Corporation for over 35 years in various senior capacities. Since leaving Kaiser in 2004 he has acted as a consultant to various corporations, investment banks and financial organisations in M & A, restructuring, due diligence and board activity matters. Among other appointments in the US he has served on the Board and Executive Committee of the Aluminium Association, the Board of the National Association of Purchasing Management, and the International Primary Aluminium Institute Board. He is a US citizen and resides in the US. Joe is a member of both the Audit and Remuneration Committees.



Kevin Flannery (63), Non-Executive Director

Appointed as a Non-Executive Director on 1 June 2007 following the capital reorganisation of the Company in 2007. Kevin has extensive experience in Corporate Finance, pursuing a career on Wall Street, notably with Bear Stearns, over 24 years. Since leaving Bear Stearns in 1992 he has worked for Whelan Financial Corporation, becoming President & Chief Executive in 2004. He has also held the position of Chairman and Chief Executive with both Telespectrum Worldwide Inc (2002-04) and RoweCom, Inc (2003-04). He is engaged in Corporate Advisory work with several US corporations and since 1997 has held directorships with several US companies, including Geneva Steel Company, Sheffield Steel Company and Raytech Corporation. He is a US citizen and resides in the US. Kevin is a member of both the Audit and Remuneration Committees.

MEMBERS OF THE EXECUTIVE MANAGEMENT BOARD

Brian Gordon Purves (53), Chief Executive
Please refer to the main Board biographies on page 11.

Stephen Norman Williams (56), Group Finance Director
Please refer to the main Board biographies on page 11.

Andrew Michael Beaden (40), Group Financial Controller
Andy was appointed to the Executive Management Board in January 2006. He joined the Luxfer Group in 1997 and was promoted to Group Financial Controller in 2002. Andy is a qualified Chartered Accountant who has worked for KPMG, as well as several UK FTSE 100 companies in a variety of financial roles. He has an Economics honours degree from Nottingham University.

Christopher John Hilary Dagger (59), Managing Director of Magnesium Elektron
Chris was appointed to the Executive Management Board in 2001 on assuming responsibility for Luxfer's Magnesium businesses. He joined the Luxfer Group in 1999 as Managing Director of Magnesium Elektron UK and became Divisional Managing Director in 2001. Prior to this he held a number of positions within Alcan Aluminium over 20 years in businesses ranging from stockholders, gas cylinder manufacture, extrusions to smelting.

Edward John Haughey (52), Managing Director of MEL Chemicals
Eddie was appointed to the Executive Management Board on his appointment as Managing Director of Luxfer´s Zirconium businesses in 2003. Eddie joined the Luxfer Group from Croda International Plc where he held the post of Managing Director of Croda Colloids Limited. He is a graduate in chemistry and has held a series of senior general management positions in the Croda Group, BASF and Rhone Poulenc.

John Stephen Rhodes (58), President of Luxfer Gas Cylinders
John has been a member of the Executive Management Board since the formation of the Luxfer Group. He joined Alcan in 1974 following 3 years with The British Council, and has a BSc (Hons) from London University. He initially worked in HR and, after post graduate studies at Cranfield, he moved into Sales & Marketing within the Alcan Distribution business becoming Managing Director in 1986. In 1989 he became Director of Business Development for the Enterprise Division of Alcan and following that Managing Director of Superform in 1991. John moved to the USA in 1994 to become President of Luxfer Gas Cylinders.

Linda Frances Seddon (57), Company Secretary and Legal Adviser
Linda was appointed to the Executive Management Board in 2001. She qualified as a solicitor in 1976. After 14 years in private practice she joined industry in 1990 initially as an in-house legal adviser dealing with general commercial, property, IP, M & A and corporate matters. Subsequently she added the role of group company secretary. She joined the Luxfer Group in 1997 as Company Secretary and Legal Adviser.

David Richard Betts (45), Managing Director of BA Tubes
David was a member of the Executive Management Board for the whole of 2007, until the sale of the BA Tubes business in January 2008.

The Directors of the Company are shown on page 11 together with their brief biographical details, membership of Board Committees and main outside commitments. The following have been Directors of the Company during the year ended 31 December 2007: Peter Haslehurst, Brian Purves, Stephen Williams, Joseph Bonn, Kevin Flannery and Graham Thomas. Graham Thomas resigned as Non-Executive Special Director with effect from 5 February 2007 as part of the capital reorganisation. Joseph Allison Bonn was appointed as a Non-Executive Director on 1 March 2007 and Kevin Flannery was appointed as a Non-Executive Director on 1 June 2007. They were also appointed to the Remuneration and Audit Committees on the date of their appointment as a Non-Executive Director.

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

Directors' Interests and Related Party Transactions

No Director had a material interest in, nor were they a party to, any contract or arrangement to which the Company or any subsidiary is or was party either during the year or at the end of the year, with the exception of their individual service contract, the shareholders' agreement, which regulated certain aspects of the relationship among the shareholders in the Company prior to the capital reorganisation and the management incentive plan described below. The investment agreement was terminated on completion of the capital reorganisation.

The interests of the Directors who held office at 31 December 2007 and their families in the share capital of the Company at 1 January 2007 are set out in Table 2 below. All of the interests were beneficial. As part of the capital reorganisation described in Notes 2 and 35 to the financial statements, the interests of the Directors changed during the year.

Immediately prior to the capital reorganisation, a reallocation of shareholdings among continuing management took place to optimise the Group's management incentive structure following completion of the capital reorganisation. Pursuant to conditional agreements entered into during 2006 and along with other continuing management, Brian Purves sold a certain number of £0.6487 preferences shares to the employee benefit trust and Peter Haslehurst and Stephen Williams purchased from the employee benefit trust a certain number of £0.6487 preference shares.

On completion of the capital reorganisation all of the £0.6487 ordinary shares and £0.6487 preference shares held at that date by Peter Haslehurst, Brian Purves and Stephen Williams (including shares over which options had been exercised) were converted into a combination of £1 ordinary shares and £0.0001 deferred shares.

Table 3 sets out the interests of the Directors at 31 December 2007 resulting from the capital reorganisation.

Table 2: Directors' Shareholdings in the Company at 1 January 2007 – Audited

Executive Directors:	Ordinary £0.6487 each No.	Preference £0.6487 each No.	'B' Preference £1 each (25% paid) No.	Deferred shares £0.0001 each No.
Brian Purves	71,438	5,188,887*	25,000	10,000
Stephen Williams	9,158	691,713	-	-

* Includes Brian Purves' beneficial holding through the BG Purves Retirement Trust.

Table 3: Directors' Shareholdings in the Company at 31 December 2007 – Audited

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

* Includes Brian Purves' beneficial holding through the BG Purves Retirement Trust.
** Includes shares over which Stephen Williams exercised options during the year as per Table 4 and shares held in his SIPP.
Restricted ordinary shares are held subject to the provisions of the MIP – see page 14.

Directors' Options over shares in the Company during the year

As part of the capital reorganisation during the year, at the end of 2006, the Directors (along with all other option holders) were given notice to exercise all options over existing ordinary shares and preference shares of £0.6487 each in the Company, conditional on the required approvals of the capital reorganisation. Any unexercised options would lapse. Table 4 sets out the Directors' decisions concerning their options over these shares.

Also, as part of the capital reorganisation during the year the Company set up a new share options scheme described in Notes 31 and 44 to the financial statements. Options were granted to certain management under the new scheme over the £1 ordinary shares held by the employee benefit trust. Details of the options held by the Executive Directors under the new option scheme are set out in Table 4 below. A proportion of the options granted are over restricted shares. Such shares remain restricted after exercise of the options over them.

No performance conditions apply to any options held by the Executive Directors during the year that relate to their exercise. No Director had any other notifiable interest in any securities of any Group company or undertaking during the year.

Management Incentive Plan

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

Table 4: Options held by Directors – Audited

Executive Directors:	Options held at 31 December 2007 No.	Options held at 1 January 2007 No.	Options granted in year No.	Options exercised in year No.	Options lapsed in year No.
Brian Purves					
£0.6487 Preference shares:					
- exercise price of £0.01	-	968,715	-	968,715	-
- exercise price of £0.34	-	914,760	-	-	914,760
Stephen Williams					
£0.6487 Ordinary shares:					
- exercise price of £0.65	-	10,842	-	-	10,842
£0.6487 Preference shares:					
- exercise price of £0.01	-	96,921	-	96,921	-
- exercise price of £0.34	-	118,008	-	-	118,008
£1 Ordinary shares:					
- exercise price of £0.97					
restricted shares	8,000	-	10,400	2,400*	-
unrestricted shares	-	-	6,500	6,500*	-

* Exercised on 6 February 2007.

Directors' Remuneration

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

Remuneration packages aim to attract, retain and 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 for the Executive Directors and other senior executives in the Group comprises the following elements:

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

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

Table 5 details the remuneration payable to each Director in respect of the year ended 31 December 2007, together with comparative totals in respect of the year ended 31 December 2006.

Table 5: Directors' Remuneration for the year ended 31 December 2007 – Audited

	Salary/ Fees	Annual Bonus	Benefits	Total 2007	Total 2006
Executive Directors:	**£**	**£**	**£**	**£**	£
Brian Purves	**246,000**	-	**18,524**	**264,524**	361,148
Stephen Williams	**137,000**	-	**15,407**	**152,407**	201,530
Non-Executive Directors:					
Peter Haslehurst	**75,000**	-	-	**75,000**	56,808
Joseph Bonn*	**29,167**	-	-	**29,167**	-
Kevin Flannery*	**20,417**	-	-	**20,417**	-
Jeffrey Whalley**	-	-	-	-	24,709
Non-Executive Special Directors:					
Graham Thomas**	**3,041**	-	-	**3,041**	30,000
Total	**510,625**	-	**33,931**	**544,556**	674,195

* Fees paid from date of appointment. ** Fees paid to date of resignation.

DIRECTORS' INTERESTS AND REMUNERATION

Pensions

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

Changes were made to the defined benefit pension arrangements from 6 October 2007, the result of which is that the defined pension accrual rate for both Executive Directors reduced from 7/400ths (1.75%) to 6/400ths (1.5%) of pensionable earnings for each year of service, from 6 October 2007, where pensionable earnings are restricted to a scheme specific earnings cap of £63,000 per annum (£60,000 for 2006/2007), with a defined contribution continuing to be made in addition. Member contributions for both Executive Directors were increased from 7.4% to 9.8% of pensionable earnings. Provision is also made for payment of a spouse's pension on death and a lump sum payment on death in service.

Details of the pension benefits are set out in Table 6.

Table 6: Directors' Pension benefits for the year ended 31 December 2007 – Audited

Pensions – defined benefit ***Executive Directors:***	**Accumulated total accrued pension at 31 December 2007**	**Increase in accrued pension over year to 31 December 2007**	**Transfer value of increase/(decrease)**
Brian Purves	**£24,066 pa**	**£939 pa**	**£4,282**
Stephen Williams	**£30,926 pa**	**£939 pa**	**£4,447**

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 an 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 Brian Purves and Stephen Williams to have both contributed £4,626 over the year. This is based on 7.4% of the salary cap less State Pension Deduction until the 5 October 2007, and 9.8% thereafter.
6. Neither Additional Voluntary Contributions nor their resulting benefits are included in the above table.

Pensions - defined contribution

The defined contributions made in respect of Brian Purves were divided between the Group's registered contribution arrangements and a personal pension plan. The Company's contributions to the Group registered defined contribution arrangements in respect of Brian Purves over the year to 31 December 2007 were £17,690 (2006: £16,986) and to his personal arrangements were £43,296 (2006: £39,288). These contributions are subject to a cap.

For Stephen Williams, the Company paid £24,826 (2006: £21,348) into the Group's registered defined contribution arrangements.

The Company follows principals of corporate governance in so far as is practical for a company of it's size.

Board of Directors

Board composition – The Board of Directors was rearranged as a result of the capital reorganisation which took place in February 2007. It now consists of five members: a Non-Executive Chairman, two Non-Executive Directors and two Executive Directors. The Executive Directors and Chairman are also shareholders.

As part of the capital reorganisation, new articles of association for the Company were adopted. 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 Group 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. The Board have also agreed a schedule of appropriate matters reserved to the Board, which it reviewed subsequent to the capital reorganisation.

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 11.

Internal Controls and Risk Management

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

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

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

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

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

- A requirement that all operating units comply with the Group's health and safety policy.
- Health and safety is considered as an element in the Group's corporate risk assessment.
- Each operating site has a designated health and safety 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.
- A quarterly report is made to the Board by the Chief Executive who also reports any issue of which the Board should be aware if and when such issues may arise.

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

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

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

- All UK manufacturing sites that require IPPC permits have attained them.
- The environment is managed and reported on at various levels within the Group. Each operating site has a manager designated with responsibility for environmental matters who has appropriate knowledge and expertise.
- External expertise and advice is sought as necessary and appropriate.
- The Chief Executive reports to the Board annually on the main environmental issues affecting the Group and any significant individual issues are brought to the attention of the Board as appropriate and as they arise during the year.
- The environment is considered as an element of the Group's corporate risk assessment. No acquisition involving land or an operating site is undertaken without first obtaining an independent environmental report.

Internal Financial Controls - The key controls consist of:

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

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

Dividend

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

As part of the capital reorganisation the 5% cumulative dividend on the redeemable cumulative preference shares of £0.6487 each was cancelled prior to their conversion as referred to in Notes 2 and 35 to the financial statements.

Employee Involvement

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

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

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

Disabled Employees

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

Research and Development

During the year the Group invested £3.2 million in research and development on new and improved products and processes. This compares with a total spend in 2006 of £3.8 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 2007 the Group had an average of 44 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 £24,000 (2006: £23,000).

Post Balance Sheet Events

In January 2008 the Group sold its BA Tubes business together with certain of the assets used by that business.

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 11. Having made enquiries of fellow Directors and of the Company's auditors, each of those Directors confirms that:

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

Auditors

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

By order of the Board

Linda F Seddon
Secretary
27 March 2008

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO THE FINANCIAL STATEMENTS

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 2007, which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Recognised Income and Expense, notes 1 to 33 and tables 2 to 6 in the Directors' Report marked as audited. These group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Luxfer Holdings PLC for the year ended 31 December 2007.

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

Respective responsibilities of Directors and auditors

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

Our responsibility is to audit the group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the group financial statements give a true and fair view and whether the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding Director's remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited group financial statements. The other information comprises only the Chairman's Statement. 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 2007 and of its profit for the year then ended;
- have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' report is consistent with the group financial statements.

Ernst & Young LLP
Registered Auditor
Manchester
27 March 2008

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

		2007	2006
			(As restated – Note 3)
CONTINUING OPERATIONS	Notes	**£M**	£M
REVENUE	3	**212.7**	227.7
Cost of sales		**(171.8)**	(180.9)
Gross profit		**40.9**	46.8
Other income		**0.1**	-
Distribution costs		**(3.9)**	(4.9)
Administrative expenses		**(19.5)**	(22.1)
TRADING PROFIT		**17.6**	19.8
Exceptional items	5	**(6.3)**	-
OPERATING PROFIT	4	**11.3**	19.8
Loss on disposal of business	6	**-**	(3.1)
PROFIT ON OPERATIONS BEFORE INTEREST AND TAX		**11.3**	16.7
Exceptional gain on Senior Note exchange	2	**56.0**	-
Finance income	8	**-**	0.1
Finance costs:			
Interest costs	9	**(10.5)**	(15.9)
Preference share dividend	9, 20	**(0.6)**	(5.4)
PROFIT/(LOSS) ON OPERATIONS BEFORE TAXATION		**56.2**	(4.5)
Tax expense	10	**(2.6)**	(4.1)
PROFIT/(LOSS) FOR THE FINANCIAL YEAR ON CONTINUING ACTIVITIES		**53.6**	(8.6)
Loss for the year from discontinued activities	3, 11	**(1.9)**	(0.5)
PROFIT/(LOSS) FOR THE YEAR	21	**51.7**	(9.1)
Attributable to:			
Equity shareholders		**51.7**	(9.1)
Minority shareholders		**-**	-
		51.7	(9.1)

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE FOR THE YEAR ENDED 31 DECEMBER 2007

	2007 £M	2006 £M
Income and expense recognised directly in equity		
Exchange differences on translation of foreign operations	**1.0**	(4.6)
Actuarial gains/(losses) on defined benefit retirement schemes	**14.9**	(0.3)
Deferred tax on items taken directly to equity	**(4.6)**	-
Net income/(expense) recognised directly in equity	**11.3**	(4.9)
Transfers to income statement on cash flow hedges	**(0.9)**	(0.9)
Net income/(expense) recognised in equity	**10.4**	(5.8)
Profit/(loss) for the year	**51.7**	(9.1)
TOTAL RECOGNISED INCOME AND EXPENSE	**62.1**	(14.9)
Attributed to:		
Equity shareholders	**62.1**	(14.9)
Minority interests	**-**	-
	62.1	(14.9)

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2007

	Notes	2007 £M	2006 £M
ASSETS			
Non-current assets			
Property, plant and equipment	13	**55.9**	56.1
Intangible assets	14	**23.8**	23.8
Investments	16	**0.1**	0.1
Deferred tax assets	24	**0.3**	4.7
Other non-current assets	25	**-**	2.3
		80.1	87.0
Current assets			
Inventories	17	**41.5**	34.9
Trade and other receivables	18	**30.6**	33.8
Income tax receivable		**0.2**	-
Cash and short term deposits	19	**2.2**	3.2
		74.5	71.9
Assets classified as held for sale	11	**7.0**	-
TOTAL ASSETS		**161.6**	158.9
EQUITY AND LIABILITIES			
Capital and reserves attributable to the Group's equity holders			
Ordinary share capital	20	**10.0**	0.9
Deferred share capital	20	**76.9**	-
Retained earnings	21	**144.9**	54.1
Own shares held by ESOP	2, 31	**(0.4)**	-
Hedging reserve	21	**(1.0)**	(0.1)
Translation reserve	21	**(1.1)**	(2.1)
Merger reserve	21	**(207.5)**	(207.5)
Equity attributable to the equity holders of the parent		**21.8**	(154.7)
Minority interests	32	**0.8**	0.8
Total equity		**22.6**	(153.9)
Non-current liabilities			
Senior loan Notes due 2009	22	**-**	130.4
Senior loan Notes due 2012	22	**71.5**	-
Retirement benefits	30	**1.6**	18.3
Preference shares	20	**0.1**	113.5
Provisions	23	**3.1**	3.3
Deferred tax liabilities	24	**-**	0.1
Other long-term liabilities	25	**-**	2.3
		76.3	267.9
Current liabilities			
Bank loans and overdrafts	22	**24.7**	1.6
Trade and other payables	26	**33.5**	42.9
Current income tax liabilities		**-**	0.1
Provisions	23	**3.1**	0.3
		61.3	44.9
Liabilities classified as held for sale	11	**1.4**	-
Total liabilities		**139.0**	312.8
TOTAL EQUITY AND LIABILITIES		**161.6**	158.9

SIGNED ON BEHALF OF THE BOARD

Brian Purves **Stephen Williams**

27 March 2008

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	**2007 £M**	**2007 £M**	2006 £M	2006 £M
CASH FLOWS FROM OPERATING ACTIVITIES					
Operating profit (2006 – as restated)		**11.3**		19.8	
Less: loss from discontinued activities (2006 – as restated)	11	**(1.9)**		(0.5)	
Adjustments for:					
Depreciation and amortisation		**7.6**		7.9	
Impairment of fixed assets	11, 13	**2.3**		-	
Increase in inventories		**(3.1)**		(4.0)	
Decrease/(increase) in receivables		**1.1**		(3.4)	
(Decrease)/increase in payables		**(4.6)**		6.7	
Decrease in retirement benefits	30	**(1.8)**		(2.5)	
Retirement benefit curtailment gains		**-**		(0.8)	
Increase/(decrease) in provisions	23	**2.6**		(1.3)	
Income tax paid		**(3.1)**		(2.3)	
NET CASH FLOWS FROM OPERATING ACTIVITIES			**10.4**		19.6
Net cash inflow from continuing operating activities			***12.2***		*20.3*
Net cash outflow from discontinued operating activities			***(1.8)***		*(0.7)*
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of property, plant and equipment		**(9.6)**		(6.9)	
Purchase of intangible assets		**(0.1)**		(0.1)	
Proceeds on disposal of property, plant and equipment (net of costs)		**0.1**		-	
Purchase of business (net of costs)	12	**(7.3)**		-	
Proceeds from sale of business (net of costs)	6	**-**		6.8	
Cash included in disposed business	6	**-**		(0.3)	
NET CASH USED IN INVESTING ACTIVITIES			**(16.9)**		(0.5)
NET CASH FLOW BEFORE FINANCING			**(6.5)**		19.1
FINANCING ACTIVITIES					
Net interest paid on banking facilities		**(1.4)**		(0.7)	
Interest paid on Senior Notes due 2009	2	**(10.3)**		(6.6)	
Interest paid on Senior Notes due 2012		**(6.1)**		-	
Subscription for Senior Notes due 2012	2	**3.1**		-	
New banking facility – financing costs	9	**-**		(1.3)	
Capital reorganisation – financing costs	2	**(3.0)**		(2.6)	
Purchase of shares from ESOP	2	**0.4**		-	
Draw down of banking facilities		**22.7**		1.6	
Repayments of previous banking facility		**-**		(11.7)	
NET CASH FLOWS FROM FINANCING ACTIVITIES			**5.4**		(21.3)
NET DECREASE IN CASH AND CASH EQUIVALENTS			**(1.1)**		(2.2)
Net decrease in cash and cash equivalents			**(1.1)**		(2.2)
Net foreign exchange difference			**0.1**		(0.5)
Cash and cash equivalents at 1 January	19		**3.2**		5.9
Cash and cash equivalents at 31 December	19		**2.2**		3.2

1. ACCOUNTING POLICIES

Authorisation of financial statements

The Group's financial statements for the year ended 31 December 2007 were authorised for issue by the Board of Directors on 27 March 2008 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 2007 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 2007.

Business combinations and goodwill

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

Goodwill is recognised as an asset and reviewed for impairment at least annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Any impairment is recognised immediately in the income statement and is not subsequently reversed. Impairment is determined by assessing the recoverable amount of a cash generating unit to which the goodwill relates. Where the recoverable amount of the unit is less than the carrying amount of goodwill, an impairment loss is recognised. On disposal of a business, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

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

Patents

Patents are measured initially at purchase cost and are amortised on a straight-line basis over the lower of their estimated useful lives, or legal life; this being 17 to 20 years. The carrying values are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Reviews are made annually of the estimated remaining lives and residual values of the patents.

Revenue

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

Property, plant and equipment

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

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

Freehold land is not depreciated.

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

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

1. ACCOUNTING POLICIES (continued)

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

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

Inventories

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

Research and development

Research expenditure is written off as incurred. Internal development expenditure is charged to 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.

1. ACCOUNTING POLICIES (continued)

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.

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 estimated useful life of the asset or the lease term.

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

Retirement benefit costs

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

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

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

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

Government grants

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

Discontinued activities and assets and liabilities held for sale

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

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

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

Provisions

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

Cash and cash equivalents

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

Financial assets and liabilities

Trade and other receivables

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

1. ACCOUNTING POLICIES (continued)

Interest bearing loans and borrowings

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

Trade payables

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

Derivative financial instruments

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

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

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

In relation to derivative financial instruments used to hedge a forecast transaction, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in the income statement. Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss.

Financial liabilities and equity instruments

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

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

Changes in accounting policies

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

IFRS 7	Financial Instruments: Disclosures
IAS 1	Amendment – Presentation of Financial Statements: Capital Disclosures
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment

The principal effects of these changes are as follows:

IFRS 7 Financial Instruments: Disclosures

The Group has adopted IFRS 7, which requires disclosures that enable users to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial statements. The new disclosures are included throughout the financial statements.

IAS 1 Presentation of Financial Statements

This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in Note 28.

IFRIC 8 Scope of IFRS 2

This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration, which appears to be less than fair value. As equity instruments are only issued to employees in accordance with the Luxfer Group Employee Share Ownership Plans, the interpretation had no impact on the financial position or performance of the Group.

IFRIC 9 Reassessment of Embedded Derivatives

IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation had no impact on the financial position or performance of the Group.

IFRIC 10 Interim Financial Reporting and Impairment

The Group adopted IFRIC 10 as of 1 January 2007, which requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Group had no impairment losses previously reversed, the interpretation had no impact on the financial position or performance of the Group.

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 2	Amendment to IFRS 2 Vesting Conditions and Cancellations	1 January 2009
IFRS 3	Business Combinations (Revised January 2008)	1 July 2009
IFRS 8	Operating Segments	1 January 2009
IAS 1	Presentation of Financial Statements (Revised September 2007)	1 January 2009
IAS 23	Borrowing Costs (Revised March 2007)	1 January 2009
IAS 27	Consolidated and Separate Financial Statements (Revised January 2008)	1 July 2009
International Financial Reporting Interpretations Committee (IFRIC)		
IFRIC 12	Service Concession Arrangements	1 January 2008
IFRIC 13	Customer Loyalty Programmes	1 July 2008
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2008

The Directors do not anticipate that the adoption of these standards and interpretations will have a material effect on the Group's financial statements in the period of initial application. However, the adoption of IFRIC 14 could limit the recognition of any defined benefit asset that might arise in the future on the Group's defined benefit retirement schemes. At present the schemes are either in balance or in a deficit and as such IFRIC 14 is not expected to have any material impact on the Group's financial statements.

2. CAPITAL REORGANISATION

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

The capital reorganisation included the following transactions:

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

2. CAPITAL REORGANISATION (continued)

Senior Notes exchange

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

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

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

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

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 has been attributed to the issue costs of the Senior Notes due 2012 and capitalised and is being amortised over the five-year life of the Senior Notes due 2012.

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

Share capital reorganisation

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

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

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

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

3. REVENUE AND SEGMENTAL ANALYSIS

The tables below set out information on the results of the Group's businesses as defined on page 3 of the Directors' Report. The 2006 results have been restated to reflect Speciality Aluminium division now being treated as a discontinued activity following the sale of its BA Tubes operation in January 2008 (see Note 11). All inter-segment sales are made on an arms length basis.

BUSINESS SEGMENTS:

Year ended 31 December 2007

	Gas Cylinders £M	Elektron £M	Unallocated £M	Total Continuing Activities £M	Discontinued Activities – Speciality Aluminium (Note 11) £M	Total £M
Revenue						
Segment revenue	108.4	104.3	-	**212.7**	13.7	**226.4**
Inter-segment sales	-	-	-	**-**	(0.2)	**(0.2)**
Sales to external customers	108.4	104.3	-	**212.7**	13.9	**226.6**
Result						
Trading profit/(loss)	3.1	14.5	-	**17.6**	(0.9)	**16.7**
Exceptional items (Note 5):						
Rationalisation and redundancy	(3.1)	(0.6)	-	**(3.7)**	(0.3)	**(4.0)**
Impairment of plant and equipment	(1.6)	-	-	**(1.6)**	(0.7)	**(2.3)**
Provision for environmental costs	-	(0.5)	(0.5)	**(1.0)**	-	**(1.0)**
Operating (loss)/profit	(1.6)	13.4	(0.5)	**11.3**	(1.9)	**9.4**
Exceptional gain on Senior Note exchange				**56.0**	-	**56.0**
Net finance costs				**(11.1)**	-	**(11.1)**
Profit/(loss) before tax				**56.2**	(1.9)	**54.3**
Tax expense				**(2.6)**	-	**(2.6)**
Net profit/(loss) for the year				**53.6**	(1.9)	**51.7**
Other segment information						
Segment assets	71.5	77.6	5.5	**154.6**	7.0	**161.6**
Segment liabilities	18.8	17.3	101.5	**137.6**	1.4	**139.0**
Capital expenditure: Property, plant and equipment	4.5	4.5	-	**9.0**	0.6	**9.6**
Capital expenditure: Intangible assets	0.1	-	-	**0.1**	-	**0.1**
Depreciation and amortisation	3.2	4.1	-	**7.3**	0.3	**7.6**

Year ended 31 December 2006 – as restated

	Gas Cylinders £M	Elektron £M	Unallocated £M	Total Continuing Activities £M	Discontinued Activities – Speciality Aluminium (Note 11) £M	Total £M
Revenue						
Segment revenue	121.0	106.7	-	**227.7**	14.0	**241.7**
Inter-segment sales	-	-	-	**-**	(0.2)	**(0.2)**
Sales to external customers	121.0	106.7	-	**227.7**	13.8	**241.5**
Result						
Trading profit/(loss)	7.5	12.3	-	**19.8**	(0.5)	**19.3**
Exceptional items (Note 5):						
Retirement benefits curtailment credit	0.8	-	-	**0.8**	-	**0.8**
Rationalisation and redundancy	(0.1)	-	-	**(0.1)**	-	**(0.1)**
Provision for environmental costs	-	(0.7)	-	**(0.7)**	-	**(0.7)**
Operating profit/(loss)	8.2	11.6	-	**19.8**	(0.5)	**19.3**
Loss on disposal of business	-	(3.1)	-	**(3.1)**	-	**(3.1)**
Profit/(loss) from operations before tax and finance costs	8.2	8.5	-	**16.7**	(0.5)	**16.2**
Net finance costs				**(21.2)**	-	**(21.2)**
Loss before tax				**(4.5)**	(0.5)	**(5.0)**
Tax expense				**(4.1)**	-	**(4.1)**
Net loss for the year				**(8.6)**	(0.5)	**(9.1)**
Other segment information						
Segment assets	72.1	65.6	12.7	**150.4**	8.5	**158.9**
Segment liabilities	19.3	17.6	272.8	**309.7**	3.1	**312.8**
Capital expenditure: Property, plant and equipment	2.9	3.3	-	**6.2**	0.6	**6.8**
Capital expenditure: Intangible assets	0.1	-	-	**0.1**	-	**0.1**
Depreciation and amortisation	3.2	4.5	-	**7.7**	0.2	**7.9**

3. REVENUE AND SEGMENTAL ANALYSIS (continued)

GEOGRAPHIC ORIGIN:

Year ended 31 December 2007

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

Year ended 31 December 2006 – as restated

	United Kingdom £M	Rest of Europe £M	Americas £M	Australasia £M	Asia £M	Total Continuing Activities £M	Discontinued Activities – United Kingdom £M	Total £M
Revenue								
Segment revenue	85.6	30.4	128.3	0.1	3.4	**247.8**	14.0	**261.8**
Inter-segment sales	(9.4)	(0.5)	(10.2)	-	-	**(20.1)**	(0.2)	**(20.3)**
Revenue	76.2	29.9	118.1	0.1	3.4	**227.7**	13.8	**241.5**
Result								
Trading profit/(loss)	6.2	(0.2)	13.8	-	-	**19.8**	(0.5)	**19.3**
Exceptional items (Note 5):								
Retirement benefits curtailment (loss)/gain	-	(0.2)	1.0	-	-	**0.8**	-	**0.8**
Rationalisation and redundancy	-	-	-	-	(0.1)	**(0.1)**	-	**(0.1)**
Provision for environmental costs	-	-	(0.7)	-	-	**(0.7)**	-	**(0.7)**
Operating profit/(loss)	6.2	(0.4)	14.1	-	(0.1)	**19.8**	(0.5)	**19.3**
Other segment information								
Segment assets	52.9	26.6	68.9	0.2	1.8	**150.4**	8.5	**158.9**
Segment liabilities	285.8	7.0	16.4	0.1	0.4	**309.7**	3.1	**312.8**
Capital expenditure: Property, plant and equipment	2.5	0.7	2.8	-	0.2	**6.2**	0.6	**6.8**
Capital expenditure: Intangible assets	-	-	0.1	-	-	**0.1**	-	**0.1**
Depreciation and amortisation	3.1	1.7	2.9	-	-	**7.7**	0.2	**7.9**

3. REVENUE AND SEGMENTAL ANALYSIS (continued)

GEOGRAPHIC DESTINATION:

	United Kingdom £M	Rest of Europe £M	Africa £M	Americas £M	Asia £M	Australasia £M	Total £M
Revenue - Continuing							
Year ended 31 December 2007	26.2	61.9	5.6	99.3	16.2	3.5	**212.7**
Year ended 31 December 2006 – as restated	29.8	65.4	4.1	107.6	17.2	3.6	**227.7**

4. OPERATING PROFIT

Operating profit for continuing activities is stated after charging/(crediting):	**2007** £M	2006 Restated £M
Depreciation of tangible fixed assets	**7.2**	7.6
Impairment of tangible fixed assets – continuing (Note 5)	**1.6**	-
Amortisation	**0.1**	0.1
Staff costs (Note 7)	**54.8**	56.1
Cost of inventories recognised as expense	**159.6**	167.5
Research and development income - grants	**(0.2)**	(0.1)
Research and development expenditure	**3.2**	3.8

Fees paid to auditors for the audit of the financial statements were £0.3 million (2006: £0.3 million). Other fees paid to auditors for non-audit services were £0.3 million (2006: £0.7 million) relating to taxation services, £nil (2006: £0.5 million) relating to corporate finance services and £nil (2006: £0.1 million) relating to other services. The audit fee for the parent Company financial statement of Luxfer Holdings PLC was £0.1 million (2006: £0.1 million).

Included in other fees to auditors is £0.2 million (2006: £0.6 million) relating to the Company and its UK subsidiaries.

5. EXCEPTIONAL ITEMS

	2007 £M	2006 £M
Retirement benefits curtailment credit	**-**	0.8
Rationalisation on operations:		
- redundancy and restructuring costs	**(3.7)**	(0.1)
- impairment of fixed assets	**(1.6)**	-
Environmental costs	**(1.0)**	(0.7)
Exceptional items included within operating profit	**(6.3)**	-

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.

Rationalisation of operations

In 2007, the UK Gas Cylinders and Elektron divisions incurred costs of £0.9 million and £0.6 million respectively, relating to a series of rationalisation activities conducted at the manufacturing plants to improve operating efficiencies.

At the end of 2007, a further rationalisation and redundancy charge of £2.1 million was made by the Gas Cylinders division in the US, to provide under IAS 37 for a major restructuring of its production facilities, which should be completed by the end of 2008. The production restructuring will include a rationalisation of production assets and the subsequent sale of some of those assets for below carrying value, therefore an impairment of fixed assets has also been made for £1.6 million. The impairment was based on the net book value of assets to be scrapped and an initial estimate of their scrap values determined in conjunction with third party contractors.

Also in 2007, some additional rationalisation and redundancy costs of £0.1 million (2006: £0.1 million) were made by the Gas Cylinders division for the closure and outsourcing of its Japanese distribution operations.

5. EXCEPTIONAL ITEMS (continued)

Environmental costs

The 2006 charge of £0.7 million was made for environmental costs at the US zirconium operations of the Elektron division. In 2007, total environmental charges of £1.0 million were made by the Group on behalf of the Magnesium Elektron and Speciality Aluminium divisions in the UK to increase long term provisions in relation to environmental remediation activities as further explained in Note 23.

6. LOSS ON DISPOSAL OF BUSINESS

	2007 £M	2006 £M
Loss on disposal of business	**-**	(3.1)

In August 2006 the Group sold 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

	2007 Continuing £M	**2007 Discontinued £M**	**2007 Total £M**	2006 Continuing £M	2006 Discontinued £M	2006 Total £M
Redundancy costs:						
– continuing activities (Note 5)	**2.8**	**-**	**2.8**	0.1	-	0.1
– discontinued activities	**-**	**0.3**	**0.3**	-	-	-
Wages and salaries	**44.2**	**3.3**	**47.5**	48.8	3.5	52.3
Social security costs	**6.5**	**0.3**	**6.8**	6.7	0.3	7.0
Retirement benefits costs	**1.3**	**0.2**	**1.5**	1.3	0.2	1.5
Retirement benefits curtailment (Notes 5 and 30)	**-**	**-**	**-**	(0.8)	-	(0.8)
	54.8	**4.1**	**58.9**	56.1	4.0	60.1

The details of Directors' remuneration, pension entitlements and share options are disclosed in the Directors' Report in Tables 4 to 6.

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

	2007 Continuing No.	**2007 Discontinued No.**	**2007 Total No.**	2006 Continuing No.	2006 Discontinued No.	2006 Total No.
Production and distribution	**1,418**	**124**	**1,542**	1,501	148	1,649
Sales and administration	**162**	**7**	**169**	169	8	177
Research and development	**40**	**1**	**41**	39	1	40
	1,620	**132**	**1,752**	1,709	157	1,866

Compensation of key management personnel (including Directors) was £1.2 million (2006: £1.5 million) for short-term employee benefits and £0.2 million (2006: £0.2 million) for post-employment benefits.

8. FINANCE INCOME

	2007 £M	2006 £M
Bank interest received	**-**	0.1

9. FINANCE COSTS

	2007 £M	2006 £M
Senior notes due 2009	**1.3**	13.3
Senior notes due 2012	**7.5**	-
Bank loans, overdrafts and revolving credit facilities	**1.6**	0.8
New banking facility – financing cost	**-**	1.3
Amortisation of loan issue costs	**0.1**	0.5
Total interest costs	**10.5**	15.9
Preference share dividend	**0.6**	5.4
Total finance costs	**11.1**	21.3

10. INCOME TAX

(a) Analysis of taxation charge for the year	2007 £M	2006 £M
Current tax:		
UK Corporation tax	**4.4**	1.6
Double tax relief	**(4.4)**	(1.6)
	-	-
Overseas tax	**3.2**	3.3
Adjustments in respect to previous years	**(0.3)**	0.1
Total current tax charge	**2.9**	3.4
Deferred tax:		
Origination and reversal of temporary differences	**(1.0)**	1.0
Adjustments in respect to previous years	**0.7**	(0.3)
Total deferred tax (credit)/charge	**(0.3)**	0.7
Tax on profit/(loss) on ordinary activities	**2.6**	4.1

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

(b) Factors affecting the taxation charge for the year

The tax assessed for the year differs from the standard rate of 30% for corporation tax in the UK.

The differences are explained below:	2007 £M	2006 £M
Profit/(loss) on ordinary activities before taxation	**54.3**	(5.0)
Profit/(loss) on ordinary activities at 2007 standard rate of corporation tax in the UK of 30% (2006: 30%)	**16.3**	(1.5)
Effects of:		
(Gains)/expenses not deductible for tax purposes	**(16.9)**	2.0
Unprovided deferred tax	**2.0**	1.3
Finance costs on redeemable preference shares	**-**	1.6
Foreign tax rate differences	**0.8**	0.9
Adjustment in respect of prior years	**0.4**	(0.2)
Tax expense	**2.6**	4.1

(c) Factors that may affect future taxation charge

As at 31 December 2007, the Group has carried forward tax losses of £51.2 million (UK: £48.8 million, Overseas: £2.4 million). Carried forward tax losses for 2006 were £47.5 million (UK: £45.8 million, Overseas: £1.7 million). To the extent that these losses are available to offset against future taxable profits, it is expected that the future effective tax rate would be below the standard rate in the country where the profits are offset.

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

11. DISCONTINUED ACTIVITIES

In December 2007, the Group reached an agreement to sell the Speciality Aluminium division to Alunna Tubes Limited, for a gross consideration equal to £5.9 million, subject to closing balance sheet adjustments for working capital. The costs of disposal are estimated at £0.3 million and the consideration payable is split between £3.6 million payable in the first half of 2008 and a further five £0.6 million annual payments over the next five years, which have been discounted to a fair value of £2.3 million. The transaction was completed in January 2008. As the activities of Speciality Aluminium represent a separate major line of business and meet the held for sale criteria at 31 December 2007, they have been classified as discontinued. The related assets and liabilities have been classified as held for sale and presented separately in the balance sheet at 31 December 2007. At 31 December 2007 an impairment of £0.7 million was recognised to fixed assets to write them down to their net realisable value (net of disposal costs), £0.4 million related to fair value adjustments and £0.3 million related to the costs of disposal. The results of Speciality Aluminium have been included in the consolidated income statement as a single line item after taxation as 'Loss for the year from discontinued activities', the full results were as follows:

	2007 **£M**	2006 £M
Revenue	**13.7**	13.8
Expenses	**(14.6)**	(14.3)
Trading loss	**(0.9)**	(0.5)
Exceptional items:		
- redundancy	**(0.3)**	-
- impairment of fixed assets to net realisable value	**(0.7)**	-
Loss before tax	**(1.9)**	(0.5)
Tax expense	**-**	-
Net loss attributable to discontinued activities	**(1.9)**	(0.5)

The Group has not sold the land and buildings at the Redditch site, where the business operates, but we have agreed terms for a further sale at or above the net book value of the property. The Group has also retained the environmental liabilities relating to the site, as further disclosed in Note 23. The major classes of assets and liabilities comprising the Speciality Aluminium operation classified as held for sale at 31 December 2007 are as follows:

	2007 **£M**
Plant and equipment (after impairment of £0.7 million)	**2.0**
Inventories	**2.4**
Trade and other receivables	**2.6**
Assets classified as held for sale	**7.0**
Trade and other payables	**1.4**
Liabilities classified as held for sale	**1.4**

For the year ended 31 December 2007 the cash outflow for the Speciality Aluminium operation for operating activities after tax was £1.8 million (2006: £0.7 million) and in relation to the purchase of property, plant and equipment was £0.6 million (2006: £0.5 million).

12. ACQUISITION OF TRADE AND ASSETS

In September 2007, the Group acquired the trade and assets of Revere Graphics Worldwide. The business specialises in the manufacture and supply of a broad range of photo engraving materials, including magnesium, copper, zinc and brass and etching chemicals. The consideration for the business was £6.5 million with an additional £0.2 million of acquisition costs having been incurred. The fair value of the net assets of the business acquired amounted to £6.7 million and as a result there was no goodwill generated on acquisition. The net assets acquired are shown as follows:

	2007 Book value prior to acquisition £M	Revaluation of fixed assets £M	Provision for doubtful debts £M	Adjustment to net realisable value £M	2007 Fair value £M
Property, plant and equipment	2.0	(1.1)	-	-	**0.9**
Inventories	6.0	-	-	(0.5)	**5.5**
Trade and other receivables	2.3	-	(0.1)	-	**2.2**
Total assets	10.3	(1.1)	(0.1)	(0.5)	**8.6**
Trade and other payables	(1.9)	-	-	-	**(1.9)**
Total liabilities	(1.9)	-	-	-	**(1.9)**
Net assets acquired	8.4	(1.1)	(0.1)	(0.5)	**6.7**

	2007 £M
Consideration:	
Amounts paid (net of costs)	**7.3**
Owed back to Group	**(0.6)**
Total consideration (net)	**6.7**

The results of Revere Graphics Worldwide from the date of acquisition to the period ended 31 December 2007, which have been included in the consolidated income statement, are shown below:

	2007 £M
Revenue	**4.1**
Expenses	**(3.8)**
Trading profit and profit before tax	**0.3**
Tax expense	**-**
Net profit attributable to Revere Graphics Worldwide	**0.3**

If the acquisition of Revere Graphics Worldwide had taken effect on 1 January 2007 the consolidated entity would have recorded total revenue of £17.3 million and an earnings before interest, taxation, depreciation and amortisation (“EBITDA”) of £1.0 million.

13. PROPERTY, PLANT AND EQUIPMENT

	Freehold £M	Long leasehold £M	Short leasehold £M	Plant and equipment £M	Total £M
Cost:					
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 1 January 2007	20.3	2.5	2.0	147.8	**172.6**
Additions	-	-	0.2	9.4	**9.6**
Disposals	-	-	-	(0.3)	**(0.3)**
Business disposals	-	-	0.1	0.8	**0.9**
Transfer to assets held for sale	-	-	-	(24.1)	**(24.1)**
Exchange adjustments	0.3	-	-	1.2	**1.5**
At 31 December 2007	20.6	2.5	2.3	134.8	**160.2**
Depreciation:					
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 (see Note 6)	-	-	-	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 1 January 2007	7.2	2.0	0.9	106.4	**116.5**
Provided during the year	0.4	-	0.1	7.0	**7.5**
Impairment (see below)	-	-	-	2.3	**2.3**
Disposals	-	-	-	(0.2)	**(0.2)**
Transfer to assets held for sale	-	-	-	(22.1)	**(22.1)**
Exchange adjustments	-	-	-	0.3	**0.3**
At 31 December 2007	7.6	2.0	1.0	93.7	**104.3**
Net book values:					
At 31 December 2007	13.0	0.5	1.3	41.1	**55.9**
At 31 December 2006	13.1	0.5	1.1	41.4	**56.1**
At 1 January 2006	18.2	0.6	1.2	47.8	**67.8**

Impairment of plant and equipment

In 2007, a £1.6 million impairment of plant and equipment was recognised for continuing activities, in relation to the restructuring and rationalisation of manufacturing operations, as further explained in Note 5. A further £0.7 million impairment relates to the discontinued Speciality Aluminium operation, which is further explained in Note 11.

Long and short leasehold

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

14. INTANGIBLE ASSETS

	Goodwill £M	Patents £M	Other £M	Total £M
Cost:				
At 1 January 2006	34.9	0.9	0.4	**36.2**
Additions	-	0.1	-	**0.1**
Business disposals	-	-	(0.1)	**(0.1)**
At 1 January 2007	34.9	1.0	0.3	**36.2**
Additions	-	-	0.1	**0.1**
At 31 December 2007	34.9	1.0	0.4	**36.3**
Amortisation:				
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 1 January 2007	12.0	0.2	0.2	**12.4**
Provided during the year	-	0.1	-	**0.1**
At 31 December 2007	12.0	0.3	0.2	**12.5**
Net book values:				
At 31 December 2007	22.9	0.7	0.2	**23.8**
At 31 December 2006	22.9	0.8	0.1	**23.8**
At 1 January 2006	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.

15. 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**	
	2007 £M	2006 £M	**2007 £M**	2006 £M	**2007 £M**	2006 £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 before tax 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 primary aluminium which was assumed to average $2,650 per tonne falling to $2,500 per tonne in the long term, and the US:£ exchange rate which was assumed to start at $2.00 in 2008 and fall over time to $1.80.

16. INVESTMENTS

	Other £M
At 1 January 2007 and 31 December 2007	**0.1**

A list of the investments in which the Group holds more than 20% of the nominal value of any class of share capital, including the name and country of incorporation is given in Note 36 to the Company's separate financial statements.

17. INVENTORIES

	2007 £M	2006 £M
Raw materials and consumables	**15.6**	12.8
Work in progress	**10.0**	9.8
Finished goods and goods for resale	**15.9**	12.3
	41.5	34.9

The provision against obsolete and excess stocks at 31 December 2007 was £2.6 million (2006: £2.4 million). The cost of inventories recognised as an expense during the year has been disclosed in Note 4.

18. TRADE AND OTHER RECEIVABLES

	2007 £M	2006 £M
Trade debtors	**26.1**	26.3
Other debtors	**1.7**	4.3
Prepayments and accrued income	**2.8**	3.2
	30.6	33.8

The Directors consider that the carrying value of trade and other receivables approximates their fair value.
Trade debtors are non-interest bearing and are generally on 30-90 days' terms.
Trade debtors above are disclosed net of any provisions for doubtful debtors.
As at 31 December 2007, trade debtors at nominal value £0.7 million (2006: £0.8 million) were impaired and fully provided for.

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

	2007 £M	2006 £M
At 1 January 2007	**0.8**	0.7
(Credit)/charge for the year	**(0.1)**	0.2
Foreign exchange movement	**-**	(0.1)
At 31 December 2007	**0.7**	0.8

19. CASH AND SHORT TERM DEPOSITS

	2007 £M	2006 £M
Cash at bank and in hand	**2.2**	3.2

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

20. SHARE CAPITAL

The share capital of the Company was subject to a capital reorganisation on 6 February 2007 as further explained in Note 2.

(a) Ordinary share capital

	2007 No.	2006 No.	2007 £M	2006 £M
Authorised:				
Ordinary shares of £1 (2006: £0.6487) each	**10,000,000**	1,410,778	**10.0**	0.9
Deferred ordinary shares of £0.0001 each	**769,423,688,000**	10,000,000	**76.9**	-
	769,433,688,000	11,410,778	**86.9**	0.9
Allotted, called up and fully paid:				
Ordinary shares of £1 (2006: £0.6487) each	**10,000,000**	1,340,240	**10.0**	0.9
Deferred ordinary shares of £0.0001 each	**769,413,688,000**	20,000	**76.9**	-
	769,423,688,000	1,360,240	**86.9**	0.9

The rights of the shares were as follows:

Ordinary shares

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 share dividend (see below). As part of the capital reorganisation, the ordinary shares were converted into new £1 ordinary shares and deferred shares, as further explained in Note 2.

Deferred ordinary shares of £0.0001 each

The 20,000 deferred ordinary 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. As part of the capital reorganisation, the deferred share capital was increased to 769,413,688,000 deferred ordinary shares.

(b) Preference share capital

As result of the capital reorganisation on 6 February 2007, further described in Note 2, the £0.6487 cumulative preference shares were converted into new ordinary and deferred shares.

	2007 No.	2006 No.	2007 £M	2006 £M
Authorised:				
Preference shares of £0.6487 each	**-**	132,683,760	**-**	86.0
'B' preference shares of £1 each	**50,000**	50,000	**0.1**	0.1
	50,000	132,733,760	**0.1**	86.1
Allotted, called up and fully paid:				
Preference shares of £0.6487 each	**-**	132,683,760	**-**	86.0
Allotted, called up and 25% paid:				
'B' preference shares of £1 each	**50,000**	50,000	**0.1**	0.1
	50,000	132,733,760	**0.1**	86.1

20. SHARE CAPITAL CAPITAL (continued)

Preference shares of £0.6487 each

The £0.6487 cumulative 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, they were converted into new ordinary and deferred shares as part of the capital reorganisation noted above.

	£M
Non-equity shareholders' funds at 1 January 2006	108.1
Preference share of dividend to 31 December 2006	5.4
Preference share liability at 31 December 2006	113.5
Preference share of dividend to 31 December 2007	0.6
Share capital reorganisation (Note 2)	(114.0)
Preference share liability at 31 December 2007 – relates to 'B' preference shares of £1 each	0.1

'B' preference shares of £1 each

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

21. RESERVES

	Hedging reserve £M	Translation reserve £M	Merger reserve £M	Retained earnings £M
At 1 January 2006	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)
At 31 December 2006	(0.1)	(2.1)	(207.5)	54.1
Profit for the year	-	-	-	51.7
Currency translation differences	-	1.0	-	-
Transfer to income statement on cash flow hedges	(0.9)	-	-	-
Share capital reorganisation (Note 2)	-	-	-	28.8
Actuarial gains and losses on retirement benefit schemes	-	-	-	14.9
Deferred tax on items taken directly to equity	-	-	-	(4.6)
At 31 December 2007	**(1.0)**	**(1.1)**	**(207.5)**	**144.9**

22. INTEREST BEARING LOANS AND BORROWINGS

Current liabilities	**2007 £M**	2006 £M
Bank loans and overdrafts	**24.7**	1.6

Non-current liabilities	**2007 £M**	2006 £M
Senior Notes due 2009	**-**	130.4
Senior Notes due 2012	**71.5**	-

Bank loans and overdrafts

The bank loan and overdrafts relate to drawings on the Group's revolving credit facilities and were secured against the Group's UK operating assets. They 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 capital reorganisation further explained in Note 2. 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 (2006: £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 (2006: £131.4 million). The Senior Notes due 2009 were shown net of unamortised issue costs of £1.0 million and had an original maturity date of May 2009.

22. INTEREST BEARING LOANS AND BORROWINGS (continued)

Senior notes due 2012

The Senior Notes due 2012 were issued as part of the 6 February capital reorganisation as further explained in Note 2. The principal amount held by external parties was £71.9 million. The notes are listed of the Euro MTF Luxembourg Stock Exchange and interest is payable bi-annually. The Senior Notes due 2012 are shown net of deferred transaction costs of £0.4 million. On issue, £0.5 million of costs were capitalised and are being amortised over the five-year life of the notes, with £0.1 million of these issue costs being amortised up to 31 December 2007. A variable interest rate is payable on 1 May and 1 November, each year, based on six-month LIBOR plus 5.5% to 6%, depending on the credit rating of the Notes. The rate payable at the end of 31 December 2007 was 11.74125%, being 5.5% above the relevant LIBOR rate, which is fixed at the start of each six-month interest period. At the Company's discretion, 1% (1.5% if the interest rate is LIBOR plus 6%) may be paid in kind through the issue of new notes. The Senior Notes cannot be repaid until one year after issue, with a 3% early redemption premium for repayment in the second year after issue, 2% in the third and 1% in the fourth year. There is no redemption premium for repayment after four years from issue. The maturity then being February 2012.

23. PROVISIONS

	Rationalisation & redundancy £M	Employee benefits £M	Environmental provisions £M	Total £M
At 1 January 2007	0.5	0.9	2.2	3.6
Charge to income statement	3.7	-	1.0	4.7
Cash payments	(1.7)	(0.3)	(0.1)	(2.1)
At 31 December 2007	**2.5**	**0.6**	**3.1**	**6.2**
Included in current liabilities	2.3	-	0.8	3.1
Included in non-current liabilities	0.2	0.6	2.3	3.1
	2.5	**0.6**	**3.1**	**6.2**

Rationalisation and redundancy

At 31 December 2007 the Group had £2.5 million of provisions relating to redundancy and the rationalisation of its operations. The provisions relate to restructuring of the production facilities within the Gas Cylinders division, of which £2.1 million relates to production operations at Riverside, California, USA. Most of the provision is expected to be spent in 2008, with the remainder in 2009 and 2010 in relation to exiting leasehold properties.

Employee benefits

At 31 December 2007 the Group had £0.6 million of employee benefit liabilities (in addition to retirement benefits), as calculated on an actuarial basis, with a £0.5 million provision for workers' compensation at the Gas Cylinder division in the USA. A further £0.1 million related to a provision for a permanent disability allowance scheme in the UK. The UK scheme is now closed to new claims.

Environmental provisions

As at 31 December 2007, the Group had environmental provisions of £3.1 million relating to environmental clean up costs in the UK. £1.0 million of the provision is for future remediation costs required at the Speciality Aluminium site, in relation to an incident before Luxfer Group's ownership. The remediation expenditure is expected to take place over the next five years. A further £2.1 million of environmental provisions relate to work required at the UK Elektron division site. This expenditure is expected to take place over the next two to three years.

24. DEFERRED TAX

	Accelerated tax depreciation £M	Other temporary differences £M	Tax losses £M	Retirement benefit obligations £M	Total £M
At 1 January 2006	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)
At 31 December 2006	3.6	(2.3)	(0.2)	(5.7)	(4.6)
(Credited)/charged to income	(0.1)	(0.8)	-	0.6	(0.3)
Charged to equity	-	-	-	4.6	4.6
At 31 December 2007	**3.5**	**(3.1)**	**(0.2)**	**(0.5)**	**(0.3)**

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

	2007 £M	2006 £M
Deferred tax liabilities		
Accelerated capital allowances	**3.5**	3.6
Deferred tax assets		
Pension and post retirement benefits	**(0.5)**	(5.7)
Trading losses	**(0.2)**	(0.2)
Other temporary differences	**(3.1)**	(2.3)
	(3.8)	(8.2)
Net deferred tax asset	**(0.3)**	(4.6)

25. OTHER LONG TERM LIABILITIES

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 and the income benefit was being recognised over the full fifteen-year life of the fixed assets it relates to. The investment incentive is paid via a tax credit against corporation tax payable.

In the year to 31 December 2006, no income was recognised in the income statement and £2.3 million was deferred for recognition in future periods and was included in other long term liabilities. This grant is paid via corporation tax credits, of which £0.5 million had been received prior to 31 December 2006. The remaining £2.3 million receivable was disclosed in 'Other non-current assets'.

Contingent Asset

In the year to 31 December 2007, no government grant income has been recognised in the income statement and no further grant income has been received in the form of corporation tax credits. The Group does not consider it probable that tax credits will be received in the short term. As a result, at 31 December 2007 the non-current asset and associated deferred grant income included within other long term liabilities have been derecognised from the balance sheet. No tax credits are expected to be received next year. At 31 December 2007, the contingent asset has increased by £0.3 million during the year to £2.6 million as a result of exchange rate differences. The £2.6 million, at 31 December 2007 being the total potential amount that could be paid via future tax credits as a capital grant.

26. TRADE AND OTHER PAYABLES

	2007 £M	2006 £M
Trade payables	**16.2**	16.7
Other taxation and social security	**1.6**	1.6
Accruals	**12.8**	15.6
Interest payable	**1.6**	8.9
Derivative financial instruments	**1.3**	0.1
	33.5	42.9

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

27. COMMITMENTS AND CONTINGENCIES

	2007 £M	2006 £M
Operating lease commitments – Group as a lessee		
Minimum lease payments under operating leases recognised in income for the year	**2.3**	2.1

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:

	2007 £M	2006 £M
Within one year	**2.4**	1.8
In two to five years	**5.0**	4.7
In over five years	**10.8**	10.8
	18.2	17.3

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.

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial risk management objectives and policies

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

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

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

The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency translation and transaction risk, aluminium price risk and credit risk on trade receivables.

Interest rate risk

The Group did not have significant exposure to interest rate movements in 2006 because the Group's debt was primarily comprised of fixed interest liabilities relating to the Senior Notes due 2009. The Group's only exposure to variable interest rates was in the form of draw-downs on its revolving credit bank facilities, which at 31 December 2006 were only £1.6 million.

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The Group's exposure to floating rate interest rates increased significantly, following the capital reorganisation on 6 February 2007, when the Group issued £71.9 million floating rate Senior Notes due 2012 in exchange for the cancellation and release of the old fixed rate Senior Notes due 2009 held by third parties and through a separate offering to eligible Noteholders. The new notes bear interest at six-month LIBOR plus a margin, a portion of which interest may, with the sole discretion of the Company, be paid in kind. As a result of this exposure, the Group may decide to hedge interest payable under the new notes based on a combination of forward rate agreements, interest rate caps and swaps. No such hedges were entered into in 2007. The Senior Notes due 2012 are shown net of transaction costs of £0.5 million. These costs have been capitalised and amortised over the five-year life of the Senior Notes due 2012. £0.1 million of the costs have been amortised to 31 December 2007.

As at 31 December 2007 bank loans and overdrafts have also risen to £24.7 million, as a result of increased drawing on the Group's revolving credit bank facility. Total debt, before netting off issue costs as at 31 December 2007, subject to variable interest rates was therefore £96.6 million and based on this level a 1% increase in rates would increase the Group's annual interest cost by £1.0 million.

Liquidity risk

To understand and monitor cash flows, the Group uses a combination of a short-term rolling six week cash forecast, based on expected daily liquidity requirements and longer term monthly rolling forecasts, covering forecast periods of between six and eighteen months forward. The Group also prepares, at least annually, longer-term strategic cash forecasts. Together this system of control is used to ensure the Group can fund its ongoing operations, including working capital, capital expenditure and interest payments. Short and medium term changes in liquidity needs are funded from the Group's £45 million bank facility, which provides the ability to draw down and repay funds on a daily basis. In monitoring liquidity requirements and planning its working capital and capital expenditure programmes, the Group aims to maintain a sufficiently prudent level of headroom against its banking facilities, usually £10 million, as protection against any unexpected or sudden market shocks.

The maturity of the Group's liabilities are also monitored to ensure sufficient funds remain available to meet liabilities as they fall due. The table below summarises the maturity profile of the Group's financial liabilities at 31 December based on contractual undiscounted payments.

	31 December 2007			31 December 2006		
	Within 12 months £M	**1-5 years £M**	**Total £M**	Within 12 months £M	1-5 years £M	Total £M
Senior notes due 2009	**-**	**-**	**-**	-	131.4	131.4
Senior notes due 2012	**-**	**71.9**	**71.9**	-	-	-
Cumulative preference shares	**-**	**0.1**	**0.1**	-	113.5	113.5
Bank loans and overdrafts	**-**	**24.7**	**24.7**	-	1.6	1.6
Trade payables	**16.2**	**-**	**16.2**	16.7	-	16.7
Other taxation and social security	**1.6**	**-**	**1.6**	1.6	-	1.6
Accruals	**12.8**	**-**	**12.8**	15.6	-	15.6
Interest payable	**1.6**	**-**	**1.6**	8.9	-	8.9
Derivative financial instruments	**1.3**	**-**	**1.3**	0.1	-	0.1
	33.5	**96.7**	**130.2**	42.9	246.5	289.4

Capital Management

After a strategic review in 2006, the Group underwent a major reorganisation of its capital structure, which was completed 6 February 2007. The impact on the financial statements of this reorganisation is further explained in Note 2.

The reasons for the reorganisation were to ensure the Group could fund its medium and long-term investment programmes aimed at the development and production of new products, whilst also automating and rationalising existing production facilities.

The result of the reorganisation was to significantly reduce the Group's financial liabilities and related finance costs, which in turn reduced the level of interest payments and improved the Group's credit rating. The reorganisation was performed to enable more of the Group's cash flows to be invested in its businesses to enhance profitability.

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The Group monitorss its EBITDA for continuing activities before exceptional items to net debt ratio and has sought to reduce this over time from between 5x to 6x to between 3x to 4x. The table below sets out the calculations for 2007 and 2006:

	2007 £M	2006 £M
For continuing activities:		
Trading profit	**17.6**	19.8
Depreciation and amortisation	**7.3**	7.7
EBITDA – before exceptionals	**24.9**	27.5
Bank loans and overdrafts	**24.7**	1.6
Senior Notes due 2012	**71.5**	-
Senior Notes due 2009	**-**	130.4
Total debt	**96.2**	132.0
Less cash	**(2.2)**	(3.2)
Net debt	**94.0**	128.8
Net debt: EBITDA ratio	**3.8x**	4.7x

Credit Risk

The Group only provides trade credit to creditworthy third parties. Credit checks are performed on new and existing customers along with monitoring payment histories of customers. Outstanding receivables from customers are closely monitored to ensure they are paid when due, with both outstanding overdue days and total days of sales outstanding ("DSO days") reported as a business unit key performance measure. Where possible export sales are also protected through the use of credit export insurance. The Group has a provision for bad and doubtful debtors of £0.7 million (2006: £0.8 million) and no significant bad debts were incurred in 2007.

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

	Total £M	Neither past due nor impaired £M	Past due but not impaired < 31 days £M	31-61 days £M	61-91 days £M	91-121 days £M	> 121 days £M
2007	**26.1**	**21.1**	**4.1**	**0.4**	**0.1**	**0.1**	**0.3**
2006	26.3	21.8	3.6	0.7	0.1	0.1	-

The Group also monitors the spread of its customer base with the objective of trying to minimise exposure at a Group and divisional level to any one customer. The top ten customers in 2007 represented 28.9% (2006: 28.0%) of total revenue.

Foreign currency translation risk

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

The Group's results, assets and liabilities are reported by geographic region in Note 3. This analysis shows in 2007 the Group had revenue of £110.7 million derived from US operations, a trading profit of £11.6 million and when adding back depreciation and amortisation an EBITDA of £14.4 million. During 2007, the average exchange rate for the US dollar was $2.0076, being weaker than the 2006 average of $1.8581. This resulted in a negative impact of £9.7 million on revenue, £1.1 million on trading profit and £1.4 million EBITDA. Based on the 2007 level of sales and profits a $0.10 increase in the US dollar to GBP sterling exchange rate would result in a £6.5 million decrease in revenue, £0.7 million decrease in trading profit and £0.9 million decrease in EBITDA.

The net assets employed as at 31 December 2007 in the USA was £41.1 million translated at an exchange rate of $1.9583. A $0.10 increase in exchange rates would reduce net assets by approximately £2.1 million.

Foreign currency transaction risk

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

The UK operations within the Group have around an estimated $30 million net sales risk after offsetting raw material purchases made in US dollars. This risk is being partly hedged through the use of forward foreign currency exchange rate contracts, but we estimate that in 2007 our Elektron division has incurred a transaction loss of £1.4 million, whilst our Gas Cylinder division made a transaction gain of £0.7 million.

Based on a $30 million net exposure to the US dollar, a $0.10 increase in exchange rates would have a £0.8 million annual decrease in Group trading profit.

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The UK operations have a substantial Euro sales risk, with approximately €30 million to €40 million of exports priced in Euros each year. In 2007 the Euro to GBP sterling exchange was relatively stable, with little impact on results, but each €0.10 increase could have a £1.8 million reduction in both annual revenue and trading profit.

Aluminium and other commodity risks

The Group is exposed to a number of commodity price risks, including primary aluminium, magnesium, rare earth chemicals, zircon sand and other zirconium basic compounds. All have been subject to substantial increases in recent years. After the disposal of Speciality Aluminium division and the doubling of prices of primary magnesium, the two largest exposures are to aluminium and magnesium prices and the Group will spend annually approximately £55 million to £60 million on these two raw materials.

Unlike the other major commodities purchased, aluminium is traded on the London Metal Exchange ("LME") and therefore the Group is able to use LME derivative contracts to hedge a portion of its price exposure. After the disposal of Speciality Aluminium division, the Group purchases approximately 15,000 tonnes of primary aluminium each year. As at 31 December 2007, the Group had hedged 3,600 tonnes of aluminium for 2008 and was exposed on the price movements for the remainder. Before hedging the risk, a $100 movement in the LME price of aluminium would increase our Gas Cylinders division's costs by £0.8 million.

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

29. FINANCIAL INSTRUMENTS

The following disclosures relating to financial instruments have been prepared on a basis which excludes short-term debtors and creditors which have resulted from the Group's operating activities.

(a) Financial instruments of the Group

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

Primary financial instruments:	**Book value 2007 £M**	**Fair value 2007 £M**	Book value 2006 £M	Fair value 2006 £M
Financial assets:				
Cash at bank and in hand	**2.2**	**2.2**	3.2	3.2
Financial liabilities:				
Bank loans – drawn under revolving credit facility	**24.7**	**24.7**	1.3	1.3
Bank overdrafts – drawn under revolving credit facility	**-**	**-**	0.3	0.3
Cumulative preference shares	**0.1**	**0.1**	113.5	9.7
Senior Notes due 2009	**-**	**-**	131.4	133.4
Senior Notes due 2012	**71.9**	**73.7**	-	-
	96.7	**98.5**	246.5	144.7

All financial assets mature within one year. The maturity of the financial liabilities are disclosed in Note 28.
For 2007, £16.2 million of the revolving credit facility is denominated in US dollars with the remaining financial liabilities being denominated in sterling.

Derivative financial instruments:	**Book value 2007 £M**	**Fair value 2007 £M**	Book value 2006 £M	Fair value 2006 £M
Held to hedge purchases and sales by trading businesses:				
Forward foreign currency contracts	**(1.0)**	**(1.0)**	(0.1)	(0.1)
Forward aluminium commodity contracts	**(0.3)**	**(0.3)**	-	-

The fair value calculations were performed on the following basis:

Cash at bank and in hand

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

Bank loans

At 31 December 2007 a short term bank loan of £24.7 million (2006: £1.3 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.

29. FINANCIAL INSTRUMENTS (continued)

Cumulative preference shares

As explained further in Note 2, the cumulative preference shares were eliminated as a financial liability from the Group's balance sheet as part of the capital reorganisation on 6 February 2007. As part of the reorganisation 50,000 'B' preference shares were not converted. These preference shares are entitled to a dividend on the same terms as the Company's converted cumulative redeemable preference shares of £0.6487 and are entitled to be redeemed prior to any distribution or return of capital to ordinary shareholders.

The cumulative preference shares, which were issued in April 1999 and eliminated following the capital reorganisation, 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 as at 31 December 2006 of £113.5 million, disclosed in the financial liabilities table in part (a) related to 90.35% of the issued cumulative preference shares and its 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 exiting shareholders from Noteholders as a result of the capital reorganisation on 6 February 2007. The fair value as at 31 December 2007 is £0.1 million and relates to the 50,000 'B' preference shares of £1 each.

Senior notes due 2009

As explained further in Note 2, the Senior Notes due 2009 were redeemed as part 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 at 31 December 2006 was derived from a quoted price as at that date.

Senior notes due 2012

For the Senior Notes due 2012 the principal amount held by external parties was £71.9 million. The Senior Notes due 2012 are shown in the Group balance sheet as £71.5 million, being net of issue costs which were originally £0.5 million. These issue costs were capitalised and amortised over the five-year life of the Senior Notes due 2012. £0.1 million of the issue costs have been amortised to 31 December 2007 and £0.4 million have been offset against the par value of the notes.

The Senior Notes due 2012 are traded instrument listed on the Euro MTF Luxembourg Stock Exchange. The fair value at 31 December 2007 was derived from a quoted price as at 31 December.

Forward foreign currency contracts

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

Aluminium commodity contracts

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

(b) Interest rate risks

Interest rate risk profile on financial assets

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

Cash by currency:	**2007 £M**	2006 £M
US dollar	**1.0**	2.0
Euro	**0.6**	-
Australian dollar	**0.1**	0.1
Japanese Yen	**0.3**	0.3
Czech Krona	**0.2**	0.8
	2.2	3.2

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

29. FINANCIAL INSTRUMENTS (continued)

Interest rate risk profile on financial liabilities

As explained in Note 2, the Group underwent a capital reorganisation on 6 February 2007. On that date the Senior Notes due 2009 were redeemed and the cumulative preference shares, along with the existing ordinary shares, were exchanged for new ordinary and deferred shares.

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

	31 December 2007			31 December 2006		
	Within 12 months	**1-5 years**	**Total**	Within 12 months	1-5 years	Total
	£M	**£M**	**£M**	£M	£M	£M
Fixed interest rate risk:						
Senior notes due 2009	**-**	**-**	**-**	-	131.4	131.4
Cumulative preference shares	**-**	**0.1**	**0.1**	-	113.5	113.5
	-	**0.1**	**0.1**	-	244.9	244.9
Variable interest rate risk:						
Bank loans and overdrafts	**-**	**24.7**	**24.7**	-	1.6	1.6
Senior notes due 2012	**-**	**71.9**	**71.9**	-	-	-
	-	**96.6**	**96.6**	-	1.6	1.6

The Group's floating rate liabilities related to bank loans and overdrafts under the Group's revolving credit facilities of £24.7 million (2006: £1.6 million) and the Senior Notes due 2012 issued as part of the capital reorganisation on 6 February 2007. Details of the Senior Notes due 2012 are disclosed in Note 22 – Interest Bearing Loans and Borrowings.

(c) Hedging activities

Forward foreign exchange contracts

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

At 31 December 2007, the fair value of forward foreign exchange contracts deferred in equity was £0.7 million (2006: £0.1 million). £0.3 million (2006: £0.1 million) has been transferred to the income statement in respect of contracts that have matured in the year.

29. FINANCIAL INSTRUMENTS (continued)

At 31 December 2007 and 2006 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:

2007

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

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

2006

Sales hedges	US dollars	Euros	Australian dollars
Contract totals/£M	8.2	8.9	0.1
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	12.5	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

Aluminium commodity contracts

The Group did not hold any forward aluminium commodity contracts at 31 December 2006. At 31 December 2007, the fair value of forward aluminium commodity contracts deferred in equity was a loss of £0.3 million (2006: £Nil) and relates to contracts for 3,600 tonnes of aluminium that will mature in 2008, at 300 tonnes per month. £Nil has been transferred to the income statement in respect of contracts that have matured in the year.

(d) Currency risk disclosures

Exchange gains and losses arising on the translation of the Group's overseas assets and liabilities are classified as equity and transferred to the Group's translation reserve. In 2007 a gain of £1.0 million (2006: loss of £4.6 million) was recognised in translation reserves.

(e) Un-drawn committed facilities

At 31 December 2007 the Group had committed banking facilities of £45.0 million (2006: £45.0 million) for providing short-term loans and overdrafts, with a sub-limit of £10.0 million (2006: £10.0 million) for letters of credit and bank guarantees. Of these committed facilities, £24.7 million (2006: £1.3 million) of short-term loans and £6.5 million (2006: £4.7 million) for letters of credit, forward foreign currency contracts and bank guarantees were drawn.

30. RETIREMENT BENEFITS

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

Actuarial gains and losses are recognised in full in the period in which they occur. The liability recognised in the balance sheet represents the present value of the defined benefit obligation, as reduced by the fair value of plan assets. The cost of providing benefits is determined using the Projected Unit Credit Method.

30. RETIREMENT BENEFITS (continued)

The principal defined benefit pension scheme in the UK is the Luxfer Group Pension Plan, which closed to new members in 1998, new employees then being eligible for a defined contribution plan. With effect from April 2004 the Luxfer Group Pension Plan changed from a final salary to a career average revalued earnings benefit scale. In August 2005 a scheme specific earnings cap of £60,000 per annum subject to inflation increases was introduced, effectively replacing the statutory earnings cap. In October 2007 the rate of the future accrual for pension was reduced and a longevity adjustment was introduced to mitigate against the risk of further increases in life expectancies. The pension cost of the Plan is assessed in accordance with the advice of an independent firm of professionally qualified actuaries, Lane Clark & Peacock LLP.

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

The total charge to the Group's income statement for 2007 for retirement benefits was a regular cost of £1.5 million (2006: £1.5 million) and a credit of £Nil (2006: £0.8 million) for curtailment benefits and other changes.

The movement in the pension liability is shown below:

	2007	2006
	£M	£M
Balance at 1 January	**18.3**	21.9
Charged/(credited) to the Income Statement - regular cost	**1.5**	1.5
- curtailment gains and benefit changes (Note 5)	**-**	(0.8)
Contributions	**(3.3)**	(4.0)
(Credited)/charged to the Statement of Recognised Income and Expense	**(14.9)**	0.3
Exchange adjustments	**-**	(0.6)
Balance at 31 December	**1.6**	18.3

The financial assumptions used in the calculations are:

	Projected Unit Valuation			
	United Kingdom		**Non United Kingdom**	
	2007	2006	**2007**	2006
	%	%	**%**	%
Discount Rate	**5.90**	5.20	**6.25**	6.00
Salary Inflation	**4.20**	4.00	**-**	-
Price Inflation	**3.20**	2.90	**-**	-
Pension Increase - pre 6 April 1997	**2.60**	2.40	**-**	-
- 1997-2005	**3.10**	2.60	**-**	-
- post 5 April 2005	**2.20**	2.20	**-**	-

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

	Long term rate of return expected			
	United Kingdom		**Non United Kingdom**	
	2007	2006	**2007**	2006
	%	%	**%**	%
Equities	**7.60**	7.50	**8.60**	8.90
Gilts	**4.40**	4.30	**n/a**	n/a
Other Bonds	**5.00**	4.80	**6.10**	5.70
Cash	**4.40**	4.30	**n/a**	n/a

Other principal actuarial assumptions:

	2007	2006
	Years	Years
Life expectancy of male aged 65 in 2007	**19.2**	19.1
Life expectancy of male aged 65 in 2027	**20.2**	20.2

For mortality the pa92mc+3 tables have been used as a best estimate.

30. RETIREMENT BENEFITS (continued)

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

	Year ended 31 December 2007			Value at 31 December 2006		
	UK	Non UK	Total	UK	Non UK	Total
	£M	£M	£M	£M	£M	£M
In respect of defined benefit schemes						
Current service cost	1.6	0.1	1.7	1.4	0.1	1.5
Interest cost	8.5	1.4	9.9	7.3	1.5	8.8
Expected return on scheme assets	(9.8)	(1.6)	(11.4)	(8.7)	(1.6)	(10.3)
Gains on curtailments and settlements	-	-	-	-	(0.8)	(0.8)
Total charge/(credit) for defined benefit schemes	0.3	(0.1)	0.2	-	(0.8)	(0.8)
In respect of defined contribution schemes						
Total charge for defined contribution schemes	0.5	0.8	1.3	0.5	1.0	1.5
Total charge for pension schemes	0.8	0.7	1.5	0.5	0.2	0.7

Of the charge for the year, a credit of £Nil (2006: £0.8 million) has been included in exceptional items, and charges of £1.2 million and £0.3 million (2006: £1.2 million and £0.3 million) has been included in cost of sales and administrative costs respectively.

For the year, the amount of gains recognised in the Statement of Recognised Income and Expense is £14.9 million (2006: loss of £0.3 million). The actual return of the scheme assets was £11.1 million (2006: £18.6 million). The overall expected rate of return is determined on the basis of the market prices prevailing at the respective balance sheet date, applicable to the period over which the obligation is to be settled.

The value of the scheme assets were:

	Year ended 31 December 2007			Value at 31 December 2006		
	UK	Non UK	Total	UK	Non UK	Total
	£M	£M	£M	£M	£M	£M
Equities	108.5	13.2	121.7	106.2	12.5	118.7
Gilts	32.7	-	32.7	32.2	-	32.2
Other Bonds	13.8	10.1	23.9	12.9	9.6	22.5
Cash	(0.8)	-	(0.8)	0.1	-	0.1
Total market value of assets	154.2	23.3	177.5	151.4	22.1	173.5
Present value of scheme liabilities	(154.2)	(24.9)	(179.1)	(167.1)	(24.7)	(191.8)
Deficit in the scheme	-	(1.6)	(1.6)	(15.7)	(2.6)	(18.3)
Related deferred tax asset	-	0.5	0.5	4.7	1.0	5.7
Net pension liability	-	(1.1)	(1.1)	(11.0)	(1.6)	(12.6)

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

	2007	2007	2007	2006	2006	2006
	UK	Non UK	Group	UK	Non UK	Group
	£M	£M	£M	£M	£M	£M
At 1 January	167.1	24.7	191.8	153.9	28.9	182.8
Service cost	1.6	0.1	1.7	1.4	0.1	1.5
Interest cost	8.5	1.4	9.9	7.3	1.5	8.8
Contributions from scheme members	0.7	-	0.7	0.8	-	0.8
Age related NI rebate	0.3	-	0.3	0.4	-	0.4
Actuarial gains and losses	(15.2)	(0.1)	(15.3)	8.8	(0.3)	8.5
Exchange difference	-	(0.2)	(0.2)	-	(3.4)	(3.4)
Benefits paid	(8.8)	(1.0)	(9.8)	(5.5)	(1.1)	(6.6)
Curtailments and settlements	-	-	-	-	(1.0)	(1.0)
At 31 December	154.2	24.9	179.1	167.1	24.7	191.8

The defined benefit obligation comprises £0.7 million (2006: £0.7 million) arising from unfunded plans and £178.4 million (2006: £191.1 million) from plans that are funded.

30. RETIREMENT BENEFITS (continued)

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

	2007 UK £M	**2007 Non UK £M**	**2007 Group £M**	2006 UK £M	2006 Non UK £M	2006 Group £M
At 1 January	**151.4**	**22.1**	**173.5**	137.9	23.0	160.9
Expected return on scheme assets	**9.8**	**1.6**	**11.4**	8.7	1.6	10.3
Actuarial gains and losses	**(0.8)**	**0.4**	**(0.4)**	7.8	0.4	8.2
Exchange difference	**-**	**(0.2)**	**(0.2)**	-	(2.8)	(2.8)
Contributions from employer	**1.6**	**0.4**	**2.0**	1.3	1.2	2.5
Contributions from scheme members	**0.7**	**-**	**0.7**	0.8	-	0.8
Age related NI rebate	**0.3**	**-**	**0.3**	0.4	-	0.4
Settlements	**-**	**-**	**-**	-	(0.2)	(0.2)
Benefits paid	**(8.8)**	**(1.0)**	**(9.8)**	(5.5)	(1.1)	(6.6)
At 31 December	**154.2**	**23.3**	**177.5**	151.4	22.1	173.5

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

	2007 UK	**2007 Non UK**	**2007 Group**	2006 UK	2006 Non UK	2006 Group
Total market value of scheme assets £M	**154.2**	**23.3**	**177.5**	151.4	22.1	173.5
Present value of scheme liabilities £M	**(154.2)**	**(24.9)**	**(179.1)**	(167.1)	(24.7)	(191.8)
Deficit in the scheme £M	**-**	**(1.6)**	**(1.6)**	(15.7)	(2.6)	(18.3)
Difference between the expected and actual return on scheme assets:						
Amount £M	**(0.8)**	**0.5**	**(0.3)**	7.8	0.5	8.3
Percentage of scheme assets	**(1)%**	**2%**	**-**	5%	2%	5%
Experience gains and losses on scheme liabilities:						
Amount £M	**-**	**0.0**	**0.0**	2.1	0.1	2.2
Percentage of present value of scheme liabilities	**-**	**0%**	**0%**	1%	-	1%
Total cumulative amount recognised in Statement of Recognised Income and Expense:						
Amount £M	**(15.3)**	**(1.7)**	**(17.0)**	(0.9)	(1.2)	(2.1)
Percentage of present value of scheme liabilities	**10%**	**7%**	**10%**	1%	4%	1%

	2005 UK	2005 Non UK	2005 Group	2004 UK	2004 Non UK	2004 Group
Total market value of scheme assets £M	137.9	23.0	160.9	120.4	19.0	139.4
Present value of scheme liabilities £M	(153.9)	(28.9)	(182.8)	(140.6)	(26.9)	(167.5)
Deficit in the scheme £M	(16.0)	(5.9)	(21.9)	(20.2)	(7.9)	(28.1)
Difference between the expected and actual return on scheme assets:						
Amount £M	13.9	(0.1)	13.8	5.1	0.7	5.8
Percentage of scheme assets	10%	1%	9%	4%	4%	4%
Experience gains and losses on scheme liabilities:						
Amount £M	-	0.5	0.5	-	0.1	0.1
Percentage of present value of scheme liabilities	-	2%	-	-	-	-
Total cumulative amount recognised in Statement of Recognised Income and Expense:						
Amount £M	(1.8)	(0.3)	(2.1)	0.9	(1.2)	(0.3)
Percentage of present value of scheme liabilities	1%	1%	1%	1%	4%	-

The estimated amounts of contributions expected to be paid to the pension schemes for the year ending 31 December 2008 is £3.5 million.

31. THE LUXFER GROUP EMPLOYEE SHARE OWNERSHIP PLANS

Background

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

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

The Remuneration Committee is charged with determining which senior employees are to be granted options and in what number. Under the Schemes, options become exercisable on the occurrence of a listing or sale of the Company 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 will expire on the seventh anniversary of their grant or the second anniversary of a listing of the Luxfer Group and options under the 2001 Scheme will expire on the tenth anniversary of their grant or the second anniversary of a listing of the Luxfer Group.

Schemes

In March 2006, the final tranche of options under the 1997 Scheme granted in 1999, totalling 2,588,553 options, were due to expire. In January 2006, the Remuneration Committee determined to offer employees (and ex-employees who would continue to be eligible to hold options over preference shares under the Rules of the 2001 Scheme after the expiry date) the opportunity to exchange their existing options held under the 1997 Scheme for identical options under the 2001 Scheme. 2,422,926 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 the beginning of 2007 the option scheme operated by the Group was the 2001 Scheme. The rules of the 2001 Scheme entitled option holders to exercise their options on the occurrence of, amongst other things, a capital reorganisation of the type proposed by the capital reorganisation in Note 2. At the end of 2006, all option holders under the 2001 scheme were given notice under the scheme to exercise their options conditional on the High Court sanctioning the proposed scheme of arrangement the basis of the capital reorganisation ("the schemes of arrangement"). All of the holders of the £0.01 options over the Company's £0.6487 preference shares exercised their options and were issued with an aggregate of 4,052,466 £0.6487 redeemable cumulative preference shares in the Company on 5 February 2007. All other options with varying higher exercise prices were not exercised and lapsed under the terms of the 2001 Scheme. All options under the 2001 scheme had either been exercised or lapsed immediately prior to the capital reorganisation and no further options have been or will be granted under that scheme.

At the end of 2006, the ESOP conducted a number of sales and purchases of £0.6487 redeemable cumulative preference shares with management conditional on the sanction of the schemes of arrangement by the High Court, which were completed immediately before the capital reorganisation became effective. Pursuant to the schemes of arrangement it also purchased a number of new ordinary shares of £1 each on the effective date of the capital reorganisation. These sales and purchases were designed to reallocate 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 redeemable 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.

As part of the capital reorganisation, the Directors approved a new share option scheme, the Luxfer Holdings Executive Share Option Plan ("the Plan"), which consists of two parts. Part A of the Plan is approved by HM Revenue & Customs and Part B is unapproved. Options can be exercised at any time up to the tenth anniversary of their grant subject to the rules of the relevant part of the Plan. It is a condition of exercise of options granted under Part B that immediately on exercise the ordinary shares over which the option is exercised become restricted shares and subject to rules of the Management Incentive Plan, brief details of which can be found in the Directors' Report. At the time of the capital reorganisation options over 79,300 £1 ordinary shares were granted to management at an exercise price equal to the fair value of these shares during the capital reorganisation and specifically the sale and purchase transactions of the share capital. The options vested immediately on the date of the capital reorganisation and could have been been exercised at any time from this grant date. As such there was no difference between their fair value and option price at the date of grant and therefore no charge under IFRS 2.

31. THE LUXFER GROUP EMPLOYEE SHARE OWNERSHIP PLANS (continued)

Movements in the year

The movement in the shares held by the trustees of the ESOP and the options held over those shares are shown below:

(i) Number of shares held by ESOP

	Held at 31 Dec 2006	Purchased during the year	Sold during the year	Options exercised on 5 Feb 2007	Converted at capital reorganisation	Options exercised at capital reorganisation	**Held at 31 Dec 2007** **£1 Ordinary shares**	**£0.0001 deferred shares**
£0.6487 Ordinary shares:	46,471	-	-	-	46,471*	-	**-**	**-**
£1 Ordinary shares	-	-	-	-	-	-	**2,982**	**-**
£0.0001 deferred shares	-	-	-	-	-	-	**-**	**271,635,556**
£0.6487 Preference shares:	12,803,769	2,023,400	8,749,270	4,052,466	2,025,433**	-	**-**	**-**
£1 Ordinary shares	-	-	-	-	-	-	**129,978**	**-**
£0.0001 deferred shares	-	-	-	-	-	-	**-**	**11,839,203,381**
£1 Ordinary shares:								
£1 Ordinary shares	-	51,614	-	-	-	8,900	**42,714**	**-**
£0.0001 deferred shares	-	3,867,129,751	-	-	-	-	**-**	**3,867,129,751**
	12,850,240	3,869,204,765	8,749,270	4,052,466	2,071,904	8,900	**175,674**	**15,977,968,688**

* The 46,471 ordinary shares of £0.6487 each were converted into 2,982 new £1 ordinary shares and 271,635,556 £0.0001 deferred shares.

** The 2,025,433 preference shares of £0.6487 each were converted into 129,978 new £1 ordinary shares and 11,839,203,381 £0.0001 deferred shares.

(ii) Number of options over shares held by ESOP

	Held at 31 Dec 2006	Lapsed during the year	Granted during the year	Options exercised on 5 Feb 2007	Options exercised at capital reorganisation	**Held at 31 Dec 2007**
£0.6487 Ordinary shares:						
65p exercise price	42,888	42,888	-	-	-	**-**
£0.6487 Preference shares:						
1p exercise price	4,052,466	-	-	4,052,466	-	**-**
15p exercise price	498,000	498,000	-	-	-	**-**
34p exercise price	2,422,926	2,422,926	-	-	-	**-**
£1 Ordinary shares:						
97p exercise price	-	-	79,300	-	8,900	**70,400**
	7,016,280	2,963,814	79,300	4,052,466	8,900	**70,400**

At the 31 December 2007 the loan outstanding from the ESOP was £2.3 million (2006: £2.7 million). At 31 December 2007 the ESOP held 175,674 £1 ordinary shares at an investment cost of £0.4 million. This amount is reported in the Group's consolidated balance sheet within Capital and reserves attributable to the Group's equity holders – Own shares held by ESOP.

32. MINORITY INTERESTS

	2007	2006
	£M	£M
At beginning of year	**0.8**	0.8
Dividends	**-**	-
At end of year	**0.8**	0.8

33. RELATED PARTY TRANSACTIONS

Before the capital reorganisation on 6 February 2007, management and ex-management, including the Company's Directors owned 15% of the ordinary and preference share capital of the Company. As part of the capital reorganisation, ongoing management agreed for this shareholding to be diluted to 13% or 1.3 million £1 ordinary shares. They also agreed for 800,000 £1 ordinary shares to be contractually restricted under a Management Incentive Plan ("MIP") pursuant to which they agreed to waive their economic rights in these restricted shares, unless certain Group EBITDA targets are achieved. Further details on the MIP are set out in the Directors' Report on page 14.

As at 31 December 2007 key management comprising the members of the Executive Management Board, as set out on page 12 of the Directors' Report, owned 803,875 £1 ordinary shares and had options over a further 41,800 £1 ordinary shares. 480,535 of these shares were subject to the contractual restrictions of the MIP.

The details of the Directors' shareholdings are shown in Tables 2 and 3 of the Directors' Report. Tables 4, 5 and 6 of the Directors' Report set out the details of the Directors' share options, remuneration and pension benefits, respectively.

Other than the transactions with key management personnel disclosed above and in Note 7, no other related party transactions have been identified.

We have audited the parent company financial statements of Luxfer Holdings PLC for the year ended 31 December 2007, which comprise the Balance Sheet, the related notes 34 to 45 and tables 2 to 6 in the Directors' Report marked as audited. These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the group financial statements of Luxfer Holdings PLC for the year ended 31 December 2007.

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

Respective responsibilities of Directors and auditors

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

Our responsibility is to audit the parent company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements.

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 Chairman's Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007;
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the parent company financial statements.

Ernst & Young LLP
Registered Auditor
Manchester
27 March 2008

	Notes	2007 £M	2006 £M
FIXED ASSETS			
Investments	36	**234.6**	234.6
		234.6	234.6
CURRENT ASSETS			
Debtors	37	**5.1**	10.3
Cash at bank and in hand		**-**	-
		5.1	10.3
CREDITORS: amounts falling due within one year	38	**(6.8)**	(17.1)
NET CURRENT LIABILITIES		**(1.7)**	(6.8)
TOTAL ASSETS LESS CURRENT LIABILITIES		**232.9**	227.8
CREDITORS: amounts falling due in more than one year			
Senior Notes due 2009	39	**-**	(159.0)
Senior Notes due 2012	39	**(71.5)**	-
Loan Note to subsidiary undertaking	39	**(28.6)**	-
Preference shares	39	**(0.1)**	(113.5)
PENSION COMMITMENTS	43	**-**	(10.9)
NET ASSETS/(LIABILITIES)		**132.7**	(55.6)
CAPITAL AND RESERVES			
Ordinary share capital	41	**10.0**	0.9
Deferred share capital	41	**76.9**	-
Own shares held by ESOP	42	**(0.4)**	-
Profit and loss account	42	**46.2**	(56.5)
Equity shareholders' funds/(deficit)	42	**132.7**	(55.6)

SIGNED ON BEHALF OF THE BOARD

Brian Purves **Stephen Williams**

27 March 2008

34. SIGNIFICANT ACCOUNTING POLICIES

Authorisation of financial statements

The Company's financial statements for the year ended 31 December 2007 were authorised for issue by the Board of Directors on 27 March 2008 and the balance sheet was signed on the Board's behalf by BG Purves and SN Williams. Luxfer Holdings PLC is a company incorporated and domiciled in England and Wales.

Basis of preparation

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

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

Investments

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

Retirement benefit costs

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

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

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

Financial assets and liabilities

Interest bearing loans and borrowings

All loans and 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 profit and loss account using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Financial liabilities and equity instruments

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

Financial liabilities and equity instruments are all instruments that are issued by the Company as a means of raising finance, including shares, debentures, debt instruments and options and warrants that give the holder the right to subscribe for or obtain financial liabilities and equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. All equity instruments are included in shareholders' funds. Other instruments are classified as financial liabilities if they contain a contractual obligation to transfer economic benefits. The finance costs incurred in respect of an equity instrument are charged directly to the profit and loss account.

35. SHARE CAPITAL REORGANISATION

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

The capital reorganisation included the following transactions:

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

(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 was calculated as follows:

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

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

The Senior Notes due 2009 held by Luxfer Group Limited were cancelled and replaced with an inter-company loan of £28.6 million with the Company. Interest of £2.2 million outstanding on the Senior Notes due 2009 held by 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 was therefore £71.9 million. The net cash movement was an outflow of £9.4 million, being the interest payment of £12.5 million less the cash received for the additional Senior Notes due 2012 of £3.1 million. The net cash outflow of £9.4 million was funded through dividends received from subsidiaries.

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.

35. SHARE CAPITAL REORGANISATION (continued)

(ii) 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 New Ordinary Share capital	(10.0)
£0.0001 Deferred Share capital	(76.9)
ESOP – investment in own shares	0.4
	28.4
Cash received by ESOP from management	0.4
Credit to retained earnings	28.8

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

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

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

36. INVESTMENTS

	Subsidiary undertakings £M
Cost:	
At 1 January 2007 and 31 December 2007	**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 2007 are as follows:

Name of company	Country of incorporation	Holding	Proportion of voting rights and shares held	Nature of business
BA Holdings, Inc.*	United States	Common stock	100%	Holding company
Biggleswick Limited*	England and Wales	Ordinary shares	80%	Non trading
Luxfer Group Services Limited*[1]	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*[2]	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 CZ s.r.o.*[3]	Czech Republic	Basic capital	100%	Manufacturing
MEL Chemicals China Limited*	England and Wales	Ordinary shares	100%	Dormant
Niagara Metallurgical Products Limited *	Canada	Common stock	100%	Manufacturing
Reade Manufacturing, Inc.*	United States	Common stock	100%	Manufacturing
Luxfer Gas Cylinders S.A.S.*	France	Ordinary shares	100%	Engineering
Other Investments:				
Nikkei-MEL Co Limited*	Japan	Ordinary shares	50%	Distribution

Subsidiary undertakings are all held by the Company unless indicated.

* Held by a subsidiary undertaking.

[1] On 1 March 2008 the name of the company was changed from BA Tubes Limited.

[2] The Company is currently undergoing the equivalent of a voluntary liquidation.

[3] In May 2007 the name of the company was changed from Magnesium Elektron Recycling CZ s.r.o.

37. DEBTORS

	2007 £M	2006 £M
Amounts due from subsidiary undertakings	**5.1**	7.0
Other debtors	**-**	3.3
	5.1	10.3

38. CREDITORS: amounts falling due within one year

	2007 £M	2006 £M
Amounts owed to subsidiary undertakings	**5.2**	6.2
Accruals and deferred income	**1.6**	10.9
	6.8	17.1

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

	2007 £M	2006 £M
Senior notes due 2009	**-**	159.0
Senior notes due 2012	**71.5**	-
Loan Note to subsidiary undertaking	**28.6**	-
Preference shares	**0.1**	113.5
	100.2	272.5

Senior notes due 2009

The Senior Notes due 2009 were redeemed on 6 February 2007 as part of a capital reorganisation further explained in Note 35. 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 (2006: £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 (2006: £131.4 million). The Senior Notes due 2009 were shown net of unamortised issue costs of £1.0 million.

Senior notes due 2012

For the Senior Notes due 2012 the principal amount held by external parties was £71.9 million. The Senior Notes due 2012 are shown net of transaction costs of £0.5 million. These issue costs are therefore capitalised and amortised over the five-year life of the Senior Notes due 2012. £0.1 million of the issue costs have been amortised to 31 December 2007.

The Senior Notes due 2012 are traded instrument listed on the Euro MTF Luxembourg Stock Exchange. A variable interest rate is payable on 1 May and 1 November, each year, based on six-month LIBOR plus 5.5% to 6%, depending on the credit rating of the Notes. The rate payable at the end of 31 December 2007 was 11.74125%, being 5.5% above the relevant LIBOR rate, which is fixed at the start of each six-month interest period. At the Company's discretion, 1% (1.5% if the interest rate is LIBOR plus 6%) may be paid in kind through the issue of new notes. The Senior Notes cannot be repaid until one year after issue, with a 3% early redemption premium for repayment in the second year after issue, 2% in the third and 1% in the fourth year. There is no redemption premium for repayment after four years from issue. The maturity then being February 2012.

Preference share liability:

	£M
Preference share liability at 1 January 2007	**113.5**
Preference share of dividend to 31 December 2007	**0.6**
Share capital reorganisation (Note 35)	**(114.0)**
Preference share liability at 31 December 2007	**0.1**

As explained further in Note 35, on 6 February 2007 the preference shares of £0.6487 each were converted into equity shares and the preference liability was reduced to £0.1 million, representing the 50,000 'B' preference shares of £1 each.

40. DEFERRED TAX

	£M
At 1 January 2007	**(4.7)**
Charged to statement of total recognised gains and losses	**4.7**
At 31 December 2007	**-**

No provision has been made for deferred tax on losses carried forward of £34.2 million (2006: £30.2 million). These losses will only be available for offset if the holding company makes taxable profits. Given that the holding company incurs the interest payable on the Senior Notes, it is assumed the losses will not be recoverable in the foreseeable future. Assets are recognised in subsidiary companies where there is sufficient evidence to indicate that there will be future taxable profits. There is no other unprovided deferred tax.

41. SHARE CAPITAL

The share capital of the Company was subject to a capital reorganisation on 6 February 2007 as further explained in Note 35.

(a) Ordinary share capital

	2007 No.	2006 No.	2007 £M	2006 £M
Authorised:				
Ordinary shares of £1 (2006: £0.6487) each	**10,000,000**	1,410,778	**10.0**	0.9
Deferred ordinary shares of £0.0001 each	**769,423,688,000**	10,000,000	**76.9**	-
	769,433,688,000	11,410,778	**86.9**	0.9
Allotted, called up and fully paid:				
Ordinary shares of £1 (2006: £0.6487) each	**10,000,000**	1,340,240	**10.0**	0.9
Deferred ordinary shares of £0.0001 each	**769,413,688,000**	20,000	**76.9**	-
	769,423,688,000	1,360,240	**86.9**	0.9

The rights of the shares were as follows:

Ordinary shares

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 share dividend (see below). As part of the capital reorganisation, the ordinary shares were converted into new £1 ordinary shares and deferred shares, refer to Note 35.

Deferred ordinary shares of £0.0001 each

The 20,000 deferred ordinary 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. As part of the capital reorganisation, the deferred share capital was increased to 769,413,688,000 deferred ordinary shares.

(b) Preference share capital

As a result of the capital reorganisation on 6 February 2007, further disclosed in Note 35, the preference shares of £0.6487 each were converted into equity shares and all rights attaching to the preference shares of £0.6487 were cancelled.

	2007 No.	2006 No.	2007 £M	2006 £M
Authorised:				
Preference shares of £0.6487 each	**-**	132,683,760	**-**	86.0
'B' preference shares of £1 each	**50,000**	50,000	**0.1**	0.1
	50,000	132,733,760	**0.1**	86.1
Allotted, called up and fully paid:				
Preference shares of £0.6487 each	**-**	132,683,760	**-**	86.0
Allotted, called up and 25% paid:				
'B' preference shares of £1 each	**50,000**	50,000	**0.1**	0.1
	50,000	132,733,760	**0.1**	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 in 2010 at par. However, they were converted into ordinary and deferred shares as part of the capital reorganisation further explained in Note 35.

'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 converted cumulative redeemable preference shares of £0.6487 and are entitled to be redeemed prior to any distribution or return of capital to ordinary shareholders.

42. RECONCILIATION OF SHAREHOLDERS' FUNDS/(DEFICIT) AND MOVEMENTS IN RESERVES

	Share Capital £M	Deferred Share Capital £M	Own shares held by ESOP £M	Profit and loss account £M	Shareholders' (deficit)/funds £M
At 1 January 2006	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)
Share capital reorganisation (Note 35)	9.1	76.9	(0.4)	28.8	114.4
Profit for the year	-	-	-	59.5	59.5
Actuarial gains and losses on pension schemes	-	-	-	14.4	14.4
At 31 December 2007	**10.0**	**76.9**	**(0.4)**	**46.2**	**132.7**

The Company had a surplus on its profit and loss account of £46.2 million as at 31 December 2007 (31 December 2006: £56.5 million - deficit). 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 profit after taxation dealt with in the financial statements of the parent company was £59.5 million (2006: £11.1 million - loss).

43. 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 Income and Expense. The liability recognised in the balance sheet represents the present value of the defined benefit obligation, as reduced by the fair value of plan assets. The cost of providing benefits is determined using the Projected Unit Credit Method.

The Luxfer Group Pension Plan was closed to new members in 1998, new employees then being eligible for an alternative defined contribution plan. With effect from April 2004 the Luxfer Group Pension Plan changed from a final salary to a career average revalued earnings benefit scale. In August 2005 a scheme specific earnings cap of £60,000 per annum subject to inflation increases was introduced, effectively replacing the statutory earnings cap. In October 2007 the rate of the future accrual for pension was reduced and a longevity adjustment was introduced to mitigate against the risk of further increases in life expectancies. The pension cost of the Plan is assessed in accordance with the advice of an independent firm of professionally qualified actuaries, Lane Clark & Peacock LLP.

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

The total charge to the profit and loss account for this scheme in the UK was £0.4 million. The Company's subsidiaries have charged £1.6 million, this being their cash contributions to the scheme and the Company has recognised a credit of £1.2 million.

The financial assumptions used in the calculations are:		**Projected Unit Valuation**	
	2007	2006	2005
	%	%	%
Discount Rate	**5.90**	5.20	4.80
Salary Inflation	**4.20**	4.00	4.30
Price Inflation	**3.20**	2.90	2.80
Pension Increases	**3.10**	2.90	2.60

43. RETIREMENT BENEFITS (continued)

The assets in the scheme and expected rate of long-term return were:	**Long term rate of return expected**		
	2007	2006	2005
	%	%	%
Equities	**7.60**	7.50	7.30
Gilts	**4.40**	4.30	4.00
Other Bonds	**5.00**	4.80	4.40
Cash	**4.40**	4.30	4.00

The value of the scheme assets were:	**Value at 31 Dec 2007**	Value at 31 Dec 2006	Value at 31 Dec 2005
	£M	£M	£M
Equities	**108.5**	106.2	97.9
Gilts	**32.7**	32.2	27.6
Other Bonds	**13.8**	12.9	12.4
Cash	**(0.8)**	0.2	-
Total market value of assets	**154.2**	151.5	137.9
Present value of scheme liabilities	**(154.2)**	(167.1)	(153.9)
Deficit in the scheme	**-**	(15.6)	(16.0)
Related deferred tax asset	**-**	4.7	4.8
Net pension liability	**-**	(10.9)	(11.2)

Analysis of amount charged to operating profit:	**2007**	2006
	£M	£M
In respect of defined benefit schemes:		
Current service cost (employer's)	**(1.6)**	(1.4)
Total operating charge for defined benefit schemes	**(1.6)**	(1.4)

Analysis of amount credited/(charged) to other finance income:	**2007**	2006
	£M	£M
Expected return on pension scheme assets	**9.8**	8.7
Interest on pension scheme liabilities	**(8.6)**	(7.3)
Net credit to other finance income	**1.2**	1.4

Analysis of amount recognised in the Statement of Total Recognised Income and Expense:	**2007**	2006
	£M	£M
Actual return less expected return on pension scheme assets	**(0.9)**	7.9
Changes in assumptions underlying the present value of scheme liabilities	**15.3**	(8.8)
Actuarial profit/(loss) recognised in Statement of Total Recognised Income and Expense	**14.4**	(0.9)

Analysis of movement in deficit in the scheme during the year:	**2007**	2006
	£M	£M
Deficit in defined benefit schemes at beginning of year	**(15.6)**	(16.0)
Current service cost	**(2.3)**	(2.2)
Aggregate contributions (employers' and employees')	**2.3**	2.1
Other finance income	**1.2**	1.4
Actuarial gain/(loss) recognised in Statement of Total Recognised Income and Expense	**14.4**	(0.9)
Deficit in defined benefit schemes at end of year	**-**	(15.6)

43. RETIREMENT BENEFITS (continued)

Analysis of movement in present value of scheme assets:	**2007**	2006
	£M	£M
At 1 January	**151.5**	137.9
Expected return on scheme assets	**9.8**	8.7
Actuarial gains and losses	**(0.9)**	7.9
Contributions from employer	**1.6**	1.3
Contributions from scheme members	**0.7**	0.8
Age related NI	**0.3**	0.4
Benefits paid	**(8.8)**	(5.5)
	154.2	151.5

Analysis of movement in present value of the defined benefit obligation:	**2007**	2006
	£M	£M
At 1 January	**167.1**	153.9
Service cost	**1.6**	1.4
Interest cost	**8.6**	7.3
Contributions from scheme members	**0.7**	0.8
Age related NI	**0.3**	0.4
Actuarial gains and losses	**(15.3)**	8.8
Curtailments and settlements	**(8.8)**	(5.5)
	154.2	167.1

History of experience in gains and losses:	**2007**	2006	2005	2004	2003
Difference between the expected and actual return on scheme assets:					
Amount £M	**(0.8)**	7.8	13.9	5.1	9.8
Percentage of scheme assets	**(1)%**	5%	10%	4%	9%
Experience of gains and losses on scheme liabilities:					
Amount £M	**-**	2.1	-	-	14.8
Percentage of present value of scheme liabilities	**-**	1%	-	-	11%
Total amount recognised in Statement of Total Recognised Gains and Expense:					
Amount £M	**14.4**	(0.9)	2.1	(0.6)	12.5
Percentage of present value of scheme liabilities	**9%**	1%	-	-	10%

44. THE LUXFER GROUP EMPLOYEE SHARE OWNERSHIP PLANS

Background

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

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

The Remuneration Committee is charged with determining which senior employees are to be granted options and in what number. Under the Schemes, options become exercisable on the occurrence of a listing or sale of the Company 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 will expire on the seventh anniversary of their grant or the second anniversary of a listing of the Luxfer Group and options under the 2001 Scheme will expire on the tenth anniversary of their grant or the second anniversary of a listing of the Luxfer Group.

Schemes

In March 2006, the final tranche of options under the 1997 Scheme granted in 1999, totalling 2,588,553 options, were due to expire. In January 2006, the Remuneration Committee determined to offer employees (and ex-employees who would continue to be eligible to hold options over preference shares under the Rules of the 2001 Scheme after the expiry date) the opportunity to exchange their existing options held under the 1997 Scheme for identical options under the 2001 Scheme. 2,422,926 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 the beginning of 2007 the option scheme operated by the Group was the 2001 Scheme. The rules of the 2001 Scheme entitled option holders to exercise their options on the occurrence of, amongst other things, a capital reorganisation of the type proposed by the capital reorganisation in Note 2. At the end of 2006, all option holders under the 2001 scheme were given notice under the scheme to exercise their options conditional on the High Court sanctioning the proposed scheme of arrangement the basis of the capital reorganisation ("the schemes of arrangement"). All of the holders of the £0.01 options over the Company's £0.6487 preference shares exercised their options and were issued with an aggregate of 4,052,466 £0.6487 redeemable cumulative preference shares in the Company on 5 February 2007. All other options with varying higher exercise prices were not exercised and lapsed under the terms of the 2001 Scheme. All options under the 2001 scheme had either been exercised or lapsed immediately prior to the capital reorganisation and no further options have been or will be granted under that scheme.

At the end of 2006, the ESOP conducted a number of sales and purchases of £0.6487 redeemable cumulative preference shares with management conditional on the sanction of the schemes of arrangement by the High Court, which were completed immediately before the capital reorganisation became effective. Pursuant to the schemes of arrangement it also purchased a number of new ordinary shares of £1 each on the effective date of the capital reorganisation. These sales and purchases were designed to reallocate 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 redeemable 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.

As part of the capital reorganisation, the Directors approved a new share option scheme, the Luxfer Holdings Executive Share Option Plan ("the Plan"), which consists of two parts. Part A of the Plan is approved by HM Revenue & Customs and Part B is unapproved. Options can be exercised at any time up to the tenth anniversary of their grant subject to the rules of the relevant part of the Plan. It is a condition of exercise of options granted under Part B that immediately on exercise the ordinary shares over which the option is exercised become restricted shares and subject to rules of the Management Incentive Plan, brief details of which can be found in the Directors' Report. At the time of the capital reorganisation options over 79,300 £1 ordinary shares were granted to management at an exercise price equal to the fair value of these shares during the capital reorganisation and specifically the sale and purchase transactions of the share capital. The options vested immediately on the date of the capital reorganisation and could have been been exercised at any time from this grant date. As such there was no difference between their fair value and option price at the date of grant and therefore no charge under FRS 20.

44. THE LUXFER GROUP EMPLOYEE SHARE OWNERSHIP PLANS (continued)

Movements in the year

The movement in the shares held by the trustees of the ESOP and the options held over those shares are shown below:

(i) Number of shares held by ESOP

	Held at 31 Dec 2006	Purchased during the year	Sold during the year	Options exercised on 5 Feb 2007	Converted at capital reorganisation	Options exercised at capital reorganisation	Held at 31 Dec 2007 £1 Ordinary shares	Held at 31 Dec 2007 £0.0001 deferred shares
£0.6487 Ordinary shares:	46,471	-	-	-	46,471*	-	**-**	**-**
£1 Ordinary shares	-	-	-	-	-	-	**2,982**	**-**
£0.0001 deferred shares	-	-	-	-	-	**-**	**-**	**271,635,556**
£0.6487 Preference shares:	12,803,769	2,023,400	8,749,270	4,052,466	2,025,433**	-	**-**	**-**
£1 Ordinary shares	-	-	-	-	-	-	**129,978**	**-**
£0.0001 deferred shares	-	-	-	-	-	-	**-**	**11,839,203,381**
£1 Ordinary shares:								
£1 Ordinary shares	-	51,614	-	-	-	8,900	**42,714**	**-**
£0.0001 deferred shares	-	3,867,129,751	-	-	-	-	**-**	**3,867,129,751**
	12,850,240	3,869,204,765	8,749,270	4,052,466	2,071,904	8,900	**175,674**	**15,977,968,688**

* The 46,471 ordinary shares of £0.6487 each were converted into 2,982 new £1 ordinary shares and 271,635,556 £0.0001 deferred shares.

** The 2,025,433 preference shares of £0.6487 each were converted into 129,978 new £1 ordinary shares and 11,839,203,381 £0.0001 deferred shares.

(ii) Number of options over shares held by ESOP

	Held at 31 Dec 2006	Lapsed during the year	Granted during the year	Options exercised on 5 Feb 2007	Options exercised at capital reorganisation	Held at 31 Dec 2007
£0.6487 Ordinary shares:						
65p exercise price	42,888	42,888	-	-	-	**-**
£0.6487 Preference shares:						
1p exercise price	4,052,466	-	-	4,052,466	-	**-**
15p exercise price	498,000	498,000	-	-	-	**-**
34p exercise price	2,422,926	2,422,926	-	-	-	**-**
£1 Ordinary shares:						
97p exercise price	-	-	79,300	-	8,900	**70,400**
	7,016,280	2,963,814	79,300	4,052,466	8,900	**70,400**

At the 31 December 2007 the loan outstanding from the ESOP was £2.3 million (2006: £2.7 million). At 31 December 2007 the ESOP held 175,674 £1 ordinary shares at an investment cost of £0.4 million. This amount is reported in the Group's consolidated balance sheet within Capital and reserves attributable to the Group's equity holders – Own shares held by ESOP.

45. RELATED PARTY TRANSACTIONS

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

COMPANY DETAILS

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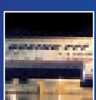
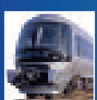
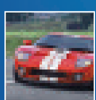
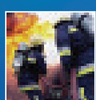
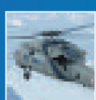
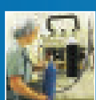
LUXFER GROUP

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