Gooch & Housego

ANNUAL REPORT + ACCOUNTS 2010

FINANCIAL HIGHLIGHTS

"The combination of a strong recovery and success in winning new business presented us with some major challenges in 2010, but also provided the opportunity to put Gooch & Housego firmly back on course. I am pleased that we were able to meet these challenges and as a result deliver some very positive results. With an order book at record levels and demand still rising we look forward to 2011."

Gareth Jones, Chief Executive of Gooch & Housego PLC

	2010	2009	Increase/ (decrease)
Revenue	**£44.7m**	£36.4m	23%
Reported operating profit	**£5.9m**	£2.8m	111%
Reported profit before tax	**£5.1m**	£1.4m	264%
Basic earnings per share	**24.4p**	5.0p	388%
Adjusted operating profit[1]	**£6.9m**	£4.1m	68%
Adjusted profit before tax[1]	**£6.0m**	£3.1m	94%
Adjusted earnings per share[1]	**23.1p**	11.5p	101%
Net borrowing at 30 September	**£5.2m**	£12.1m	(57%)
Net cash generated from operating activities	**£8.8m**	£7.7m	14%

1 Adjusted for amortisation of acquired intangible assets, recognition of deferred tax assets, restructuring and redundancy costs and profit on sale of properties.

Other operational highlights

- Strong recovery in core Industrial market, up 37% on 2009
- Significant growth in Aerospace & Defence and Life Sciences sectors
- Year ended with a record order book of £23.5m (2009: £15.5m)
- Expanded production capacity to satisfy increasing demand
- Bolt-on acquisition opportunities under consideration

Post year end

- Potential acquisition of EM4, a US based fibre optics business, has been approved by shareholders and is awaiting regulatory approval
- Raised £10.6 million (£10.2 million net of costs) through a placement of New 20p Ordinary Shares in January 2011

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CHAIRMAN'S STATEMENT 2010

+37%

Strong recovery in core Industrial market, up 37% on 2009

"The business has delivered encouraging earnings, excellent cash flow and continued to develop as an increasingly diversified and integrated company."

I am delighted to be able to report that your company has had a very successful twelve months. During the last year, Gooch & Housego saw a rapid improvement in trading conditions within our Industrial business segment, starting with our markets in the Far East and, as the year progressed, spreading to virtually all of our markets worldwide. 2010 also saw the growth and consolidation of our Aerospace & Defence and Life Sciences business segments. This growth involved all the major technologies of the business, acousto-optics, electro-optics, fibre optics and precision optical components and sub-systems. To meet the challenges of the rapidly increasing customer demand, we have invested across the Group in new equipment and recruited where required.

Our strategy to diversify our markets, to broaden our product base and to integrate our businesses remained unchanged in the year. To this end, we continued our activities in hyperspectral imaging systems for medical, defence and industrial process monitoring applications. In due course, these may lead to noteworthy contracts, both in the US and the UK. With the fast growth in the order book, and the need of our customers for a quick response, particularly affecting our Ilminster site and the processing of optical components, we broadened capacity and capability at our Californian business which we acquired in 2008, enabling it to complement the Ilminster facility.

There was an encouraging increase in earnings in the year as a result of the growth in revenues and the efficiency and cost savings measures effected in 2009. Following the three year banking facilities that were put in place in 2009, we have focused strongly on cash flow. Despite funding the rapid growth of our business, this has been very successful achieving a good cash flow in the period with net debt at the year end significantly reduced.

The Board believes that it would be in the long term interest of shareholders for Gooch & Housego to expand through both organic and acquisition growth. At the year end a limited number of bolt-on acquisition opportunities were being investigated and, should the results of the investigations indicate a benefit to the Group, this approach may be pursued further.

This year, 2011, has started encouragingly, with our traditional markets continuing to exhibit growth and our recent investments in new products and markets showing significant promise. Although recruiting personnel with the required skills and capability is sometimes challenging, the Board expects your company to make good progress this year. With the improvement in business performance over the last year, the Board is proposing a return to the dividend list relating to 2010.

My and the Board's thanks are due to all our employees who rose to meet the demands of our customers during the year and are continuing their efforts in 2011.

Dr Julian Blogh
Chairman
21 January 2011

Dr Julian Blogh, Non-executive Chairman, commented on the post year end acquisition of EM4:

"I am delighted to announce the placing and proposed acquisition of EM4, which the Board believes is directly in line with Gooch & Housego's strategy of market diversification. The acquisition of EM4 will enable Gooch & Housego to move further towards a fully integrated service platform offering both 'active' and' passive' fibre optic technology, and enhance our penetration of the US aerospace and defence market.Gooch & Housego has a good track record of successfully integrating businesses into the Group and I am confident that EM4 will fit in well. The prospects for the fibre optics market are exciting and make the acquisition both strategically and commercially compelling. I believe that, with the support that Gooch & Housego can offer EM4, the business will continue to go from strength to strength."

CHIEF EXECUTIVE'S REVIEW 2010

£23.5m

Year ended with a record order book of £23.5m (2009: £15.5m)

"The combination of a strong recovery and success in winning new business presented us with some major challenges in 2010, but also provided the opportunity to put Gooch & Housego firmly back on course. I am pleased that we were able to meet these challenges and as a result deliver some very positive results. With an order book at record levels and demand still rising we look forward to 2011."

OVERVIEW

Gooch & Housego has had an excellent year, achieving record sales and finishing the year with a record order book. The challenging trading environment of 2009 was replaced by much more positive conditions in 2010 as a result of a rapid recovery in our core Industrial markets and success in winning substantial new business in our target Aerospace & Defence and Life Sciences sectors. While sales into the industrial sector increased by 37% year on year on the back of a strong market recovery, the revenue split between sectors remained broadly constant due to the growing importance of these new markets.

The rapid and substantial increase in demand put considerable pressure on manufacturing capacity, and the drive to increase output to support our customers as their businesses underwent a similar recovery, characterised 2010. The innovative solutions we adopted to satisfy the rise in demand brought about a significant change in the way in which Gooch & Housego does business. These included outsourcing, contract manufacturing and the establishment of strategic partnerships in addition to investment in people and specialist manufacturing equipment. In order to deliver these initiatives, and meet the different needs and expectations of our new Aerospace & Defence and Life Sciences customers, we have introduced new skills and strengthened the management team.

That we were able to increase sales by 23% to £44.7 million entirely by organic growth demonstrates that these efforts were successful, but more importantly we were able to meet the needs of our customers. In the dynamic environment of the recovery those needs changed rapidly. Our global sales team provided the essential interface between our customers and our manufacturing operations, enabling supply to be prioritised to ensure that their needs were met.

As fast as output increased it was matched by further increases in demand as different market sectors and geographical regions emerged from recession, and as we won new business in new markets. The order book increased by over 50% during the course of the year, rising from £15.5 million to £23.5 million at the year end despite average monthly revenues in the fourth quarter exceeding those in the first quarter by more than 27%.

In parallel with ramping output to meet demand we have remained focussed on our strategies of diversifying into new and growing markets and moving up the value-chain by offering higher added-value products that wrap mechanical, electronic and software systems around our core optical technology. This has proved to be particularly relevant in Aerospace & Defence and Life Sciences where the trend is for our customers to move towards a systems integrator model, requiring them to outsource increasingly complex sub-assemblies. The net effect on Gooch & Housego of the changing product, customer and sector mix is a more sustainable growth model and improving margins.

TRADING AND SECTOR ANALYSIS

During 2010 Gooch & Housego experienced strong growth in its Industrial, Aerospace & Defence and Life Sciences sectors, while the Scientific Research sector declined slightly as some projects reached maturity.

Industrial

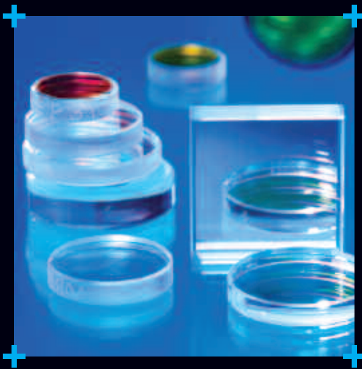
The Industrial sector, which is closely-coupled to the semiconductor and microelectronic market but also includes analytical instrumentation and metrology, experienced an exceptionally strong recovery in 2010. The recovery was led by, and continues to be dominated by, demand from the Far East. Gooch & Housego products range from precision and crystal optics for lithography and stepper systems, optics and acousto-optics for semiconductor inspection systems and Q-switches and fibre optic components for lasers used in manufacturing the finished goods. The surge in demand for innovative mobile phone and computing products in the past year has been a major factor not just in the recovery but also in pushing demand to new highs. By the end of the year shipments of Q-switches had exceeded the historic peak reached in 2007.

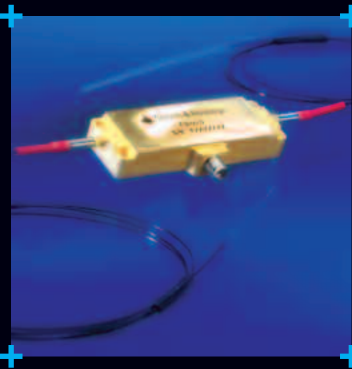
Despite progressively increasing production capacity, lead-times increased during the first and second quarters. This trend was halted in the second half as the roll out of additional capacity took effect, although investment in people, training and manufacturing continued throughout the year.

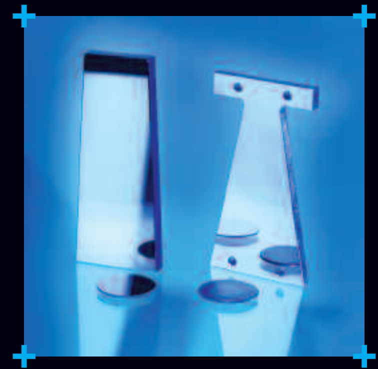
Aerospace & Defence

The Aerospace & Defence sector is becoming increasingly important to Gooch & Housego and was a major contributor to revenue growth in 2010. Our recent successes in this sector are a direct result of our long

CHIEF EXECUTIVE'S REVIEW continued







term strategy that commenced in 2006 when Aerospace & Defence was identified as a key target market. Subsequent acquisitions and investments in facilities during 2007 and 2008 provided the routes to market and the manufacturing infrastructure needed to be a credible supplier in this highly demanding sector. During 2008 and 2009 we focussed on building customer relationships and establishing trust and confidence. This year we implemented the essential regulatory framework by concluding the registration of our US manufacturing operations under the International Trade in Arms Regulations (ITAR) with the US Directorate of Defense Trade Controls (DDTC).

In the past year all Gooch & Housego product types and operating locations have benefitted from opportunities in Aerospace & Defence. Set against the highly fragmented nature of the optics supply-chain, our breadth of class-leading capabilities and our ability to bring them together to provide complex, integrated solutions delivered from manufacturing facilities in North America and Europe has made Gooch & Housego a preferred partner.

Life Sciences

The increase in importance of the Life Sciences sector has mirrored that in Aerospace & Defence. Acquisitions in 2006 and 2007 established a presence and provided critical technology, while subsequent investment in research and development has provided initial product offerings. In the Life Sciences sector products tend to be more complex and development timescales longer than in other sectors and regulatory requirements are demanding and approvals time consuming. In 2010, after several years spent gradually building trust and confidence with a number of key customers we have seen significant increases in the level of business as these relationships develop.

Current products address applications ranging from laser surgery to diagnostics and vary from well-established techniques to cutting edge research. As in Aerospace & Defence, the trend is to move up the value-chain from low-level components to more complex integrated modules and eventually complete instruments. Growth in Life Sciences revenues in 2010 was driven by several factors including a strong market recovery, growing acceptance of laser surgical techniques and optical diagnostics reaching "high street" applications (for example optical coherence tomography (OCT) for retinal imaging).

Scientific Research

The scientific research sector, typified by large-scale, long term "big science" projects such as the National Ignition Facility (NIF) at Lawrence Livermore National Laboratory, continued to be important to Gooch & Housego during 2010. Indeed, Gooch & Housego was recently recognised for its contribution to the success of this project. Our world-class crystal optics and coatings continue to be critical to the success of ongoing projects such as NIF, and may possibly play a role in subsequent follow-on projects in the medium to long term future, some of which are currently in the conceptual planning phase. The research sector, both academic and government funded, has been relatively constant when compared to the sharp swings of downturn and recovery that have affected other sectors.

SUPPLIERS AND PARTNERS

The demand for higher level products from the Aerospace & Defence and Life Sciences sectors brought about a major change in the way Gooch & Housego does business. During 2010, as we responded to the market recovery and we began to supply increasingly complex products our requirements have expanded and it is no longer possible or desirable to manufacture everything in-house.

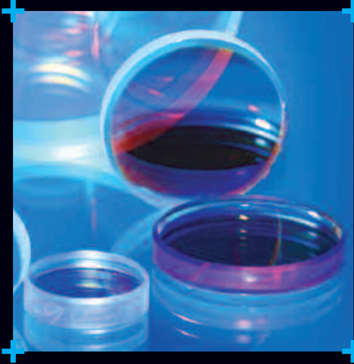
Recognising that Gooch & Housego's strength lies in the leadership position it occupies in certain key aspects of optical technology, we chose some time ago not to compete in those fields where we felt that we could not add to the state-of-the-art or that had become commoditised. However, such products are frequently part of the sub-assemblies that we are now manufacturing, and as result we have developed a network of key suppliers, many of whom we would have regarded as competitors until quite recently. This supply-chain has provided Gooch & Housego with greater and more flexible capacity, enabling shorter response times and the ability to increase output more quickly and at lower cost than would have previously been possible. To support this activity we began the implementation of the aerospace industry's "21st Century Supply Chains" (SC21) improvement programme with sponsorship from one of our key customers.

In addition to developing a supply-chain we have also established strategic relationships with complementary businesses to facilitate the development of new products or opportunities and to reduce costs. In 2010 we developed such partnerships in the fields of optical materials and electronics. Having access to a broader range of high quality optical crystals is already enabling us to respond to opportunities that we would previously not have been able to address, while migrating to a contract manufacturing model for RF electronics has enabled us to make significant cost savings and reduce our development times.

RESEARCH & DEVELOPMENT

During the past year we continued to take a market-led approach to research & development. We have focused on a small number of projects spanning our principal market sectors and ranging from near term, low-risk products for existing customers through to medium term, higher risk but potentially transformational opportunities. Some significant advances have been made and several new products launched. Recognising and protecting key intellectual property has remained a priority and several new patents were filed in the past twelve months.

CHIEF EXECUTIVE'S REVIEW continued



PROSPECTS AND OUTLOOK

We will continue our strategy of diversification and strengthen our position in the Aerospace & Defence and Life Sciences sectors as we develop closer relationships with our key customers and progressively migrate from the largely component-level product set of today to modules, sub-assemblies and instruments in the future. Adding the necessary skills and resources in engineering, management and manufacturing will be a high priority, with increased capacity, reduced lead-times and shorter development times as the main objectives. The supply-chain and the strategic partnerships we have established will be important in supporting growth and providing flexibility, and we are considering a small number of bolt-on acquisition opportunities which have to potential to help achieve our objectives more quickly and cost effectively than would be possible by other means.

The momentum gained in 2010 has continued into the first months of the new financial year and customer sentiment remains positive. Despite the uncertain economic climate in Europe and the USA, Gooch & Housego is well positioned for further growth in 2011.

Gareth Jones
Chief Executive Officer
21 January 2011

CHIEF FINANCIAL OFFICER'S REPORT

+23%

Revenue up 23% to £44.7m (2009: £36.4m)

"The Company has delivered strong results, grown its key target markets and reduced net debt by 57%. This year has provided a financial foundation on which the business can continue to grow."

FINANCIAL REVIEW

Revenue Year ended 30 September	**2010**		2009		2008	
	£000	**% mix**	£000	% mix	£000	% mix
Industrial	**23,383**	**52%**	17,096	47%	25,694	77%
Aerospace & Defence	**11,304**	**25%**	10,450	29%	2,002	6%
Life Sciences	**4,890**	**11%**	3,442	9%	1,335	4%
Scientific Research	**5,106**	**12%**	5,426	15%	4,338	13%
Group Revenue	**44,683**	**100%**	36,414	100%	33,369	100%

ANALYSIS OF REVENUE

In the financial year to 30 September 2010 revenue grew 23% in both absolute terms and on a constant currency basis, compared to the same period last year. These results include a full contribution from our acquisition in California for both periods.

The most significant growth came from the recovery in our core Industrial market which saw a 37% increase on the same period last year. Aerospace & Defence and Life Sciences contributed significant growth with a 17% increase. Non Industrial markets contributed 48% of Group revenues compared to 53% for 2009 and 23% in 2008.

All market sectors experienced an improvement in revenue flows as 2010 progressed. Overall revenues accelerated by 19% in the second half of the financial year compared to the first half, with the Life Sciences market growing 79% over this six month period.

The geographical pattern of revenues also changed, with 20% of Group revenues being generated from the Asia Pacific region, compared to 13% in 2009. This increase was largely driven by the recovery in the semiconductor and microelectronics industries.

The order book at the end of September 2010 was £23.5m (2009: £15.5m), £22.4m of which was scheduled for shipment in financial year 2011.

ANALYSIS OF EARNINGS

Group Earnings Performance All amounts in £000 Year ended 30 September	**Adjusted**		**Reported**	
	2010	2009	**2010**	2009
Operating profit	**6,863**	4,145	**5,929**	2,784
Net finance costs	**(833)**	(1,031)	**(833)**	(1,361)
Profit before taxation	**6,030**	3,114	**5,096**	1,423
Taxation	**(1,529)**	(463)	**(405)**	(463)
Profit for the period	**4,501**	2,651	**4,691**	960
Earnings per share (p)	**23.1p**	11.5p	**24.4p**	5.0p

The principal drivers for the strong earnings performance were the improved revenue performance, described earlier, together with the full benefit of cost savings made in 2009.

Adjusted profit from operations grew by 66% to £6.9m (2009: £4.1m) reflecting, largely, the strong demand from the semiconductor and microelectronics markets that form part of our Industrial business

CHIEF FINANCIAL OFFICERS' REPORT continued

segment. This was supplemented by a combined 55% increase in operating profitability from our Aerospace & Defence and Life Sciences business segments.

After net finance costs and tax, adjusted basic earnings per share grew by 101% to 23.1p (2009: 11.5p). Reported earnings per share were 24.4p (2009: 5.0p) after amortisation of acquired intangible assets and actual tax charge.

EBITDA grew by 50% to £9.0m (2009: £6.0m) on both an absolute and a constant currency basis compared with the same period last year.

Gross profit margins increased to 41.8% (2009: 36.3%) on the back of increased volumes and the recovery in the Industrial business segment, which has traditionally delivered strong margins.

Gooch & Housego continued to invest in company funded research and development to the sum of £2.8m (2009: £2.8m), which represented 6.3% of revenue. During the year none of these research and development costs met the requirement to be capitalised (2009: £0.3m).

In January 2010 the Group introduced a Value Creation Plan for directors and senior management. This scheme directly aligns the participants' interests with those of our shareholders over a four year period. The total share based payments expense of the plan is £1.6m, of which £0.4m was charged to the income statement for 2010.

Other Income was £0.4m lower in the current year than in 2009. This was driven primarily by the profit on the sale of property in 2009 of £0.3m, and a lower grant income of £0.1m in 2010.

Adjusted net finance costs were £0.8m (2009: £1.0m), primarily reflecting the lower utilisation of the Group's working capital facility and lower interest rates. On an adjusted basis the interest cover was 8.2 times (2009: 4.0 times).

The net tax charge for the period was £0.4m (2009: £0.5m), representing an effective tax rate of 8% (2009: 32.5%). The reduction in the effective tax rate is largely due to the recognition of deferred tax assets in respect of unutilised tax losses and share options.

Reconciliation of Adjusted Performance Measures	**Profit from operations**		**Net finance costs**		**Taxation**		**Earnings per share**	
Year ended 30 September	**2010 £000**	2009 £000	**2010 £000**	2009 £000	**2010 £000**	2009 £000	**2010 pence**	2009 pence
Reported	**5,929**	2,784	**(833)**	(1,361)	**(405)**	(463)	**24.4p**	5.0p
Amortisation of acquired intangible assets	**934**	1,095	**–**	–	**–**	–	**4.5p**	3.5p
Restructuring costs	**–**	603	**–**	–	**–**	–	**–**	3.1p
Profit on sale of property	**–**	(337)	**–**	–	**–**	–	**–**	(1.8p)
Debt refinancing costs	**–**	–	**–**	330	**–**	–	**–**	1.7p
Recognition of deferred tax assets	**–**	–	**–**	–	**(1,124)**	–	**(5.8p)**	–
Adjusted	**6,863**	4,145	**(833)**	(1,031)	**(1,529)**	(463)	**23.1p**	11.5p

NON GAAP MEASURES

The Group uses a number of non GAAP measures which are shown in the table above. These measures are used to illustrate the impact of non-recurring and non-trading items on the Group's financial results. These are the impact of the amortisation of acquired intangible assets, the recognition of deferred tax assets; and in 2009, one off costs associated with the Group's restructuring activities and the sale of property. In addition, the Group uses the term EBITDA (Earnings before interest, taxation, depreciation and amortisation). This is a commonly used measure of operating performance and cash flow.

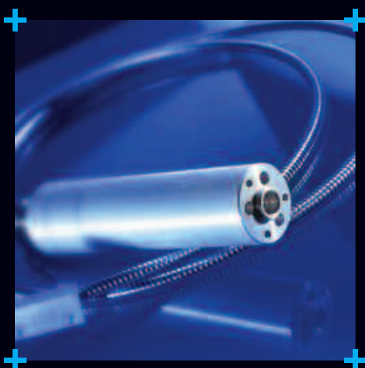
CASH FLOW AND FINANCING

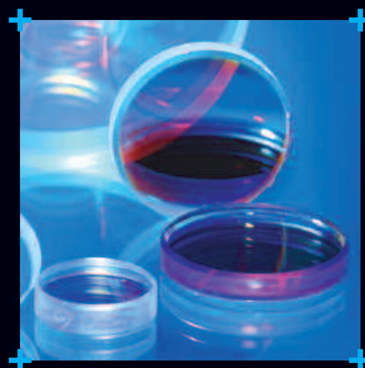
Reported net debt reduced from £12.1m at 30 September 2009 to £5.2m at 30 September 2010. On a constant currency basis adjusted net debt fell by 57% in 2010.

Over the period the Group was highly cash generative. This was achieved through the Group's strong trading performance and continued focus on working capital.

Net operating cash flow, after capital expenditure, was £8.0m (2009: £7.0m). The ratio of operating cash flows to operating profit was 171%. (2009: 285%)

CHIEF FINANCIAL OFFICERS' REPORT continued





Capital expenditure on property, plant and equipment increased to £0.9m (2009: £0.7m).

The cash impact of working capital movements was an overall inflow of £0.7m (2009: £2.3m); the cash outflow in receivables and inventories, driven by the increased business levels, was more than offset by the increase in payables, arising mainly from the growth in the business, and the increase in provisions.

The major non-operating cash flow items were:

- Net interest paid which fell by £0.1m to £0.8m (2009: £0.9m) due to lower bank debt utilisation and more favourable interest rates.
- The cash cost of tax increased from £0.2m in 2009 to £1.3m due to improved profitability.

Cash, cash equivalents and bank overdrafts as at 30 September 2010 amounted to a positive cash position of £5.7m, representing an improvement of £4.6m from a position of £1.1m as at 30 September 2009.

On 5 January 2011, Gooch & Housego raised approximately £10.2 million (net of expenses) through a Placing of New 20p Ordinary Shares in order to fund the proposed acquisition of EM4.

BANKING FACILITIES

At 30 September 2010, the banking facilities for Gooch & Housego comprise of a $15.9m dollar denominated term loan, a £3.6m Sterling denominated term loan and a three year, $10m dollar working capital facility. All facilities are committed until March 2012.

At the year end the term loan balances were $11.5m and £3.2m. In respect of the working capital facility, $4.0m of the facility was utilised.

On 7 December 2010, the working capital facility was reduced to $8.0m by way of mutual agreement with our bankers.

The Company has reported under its current banking covenants since January 2009 and has been in compliance. The Group monitors its financial performance against these covenants on a regular basis. Based upon its forecasts and current trading conditions, the Group considers that it has sufficient headroom to operate within these covenants..

GOING CONCERN

Based on the Group's current financial position and anticipated trading performance, the Directors are confident that the Group has adequate resources to continue as a going concern for at least the next twelve months.

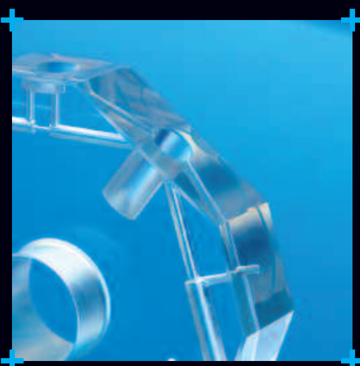
DIVIDENDS

The Group made significant progress in the year. The Directors are of the opinion that it is now appropriate to pay a dividend.

Accordingly, the Directors propose a final dividend of 2.0p per share.

Andrew Boteler
Chief Financial Officer
21 January 2011

DIRECTORS AND ADVISERS



Directors
Dr Julian Blogh
Non Executive Chairman

Gareth C W Jones
Chief Executive Officer

Terry Scribbins
Chief Operating Officer

Andrew N Boteler
Chief Financial Officer

Dr Eugene G Arthurs
Non Executive Director

Jan A Melles
Non Executive Director

Paul Heal
Non Executive Director

Secretary and Registered Office
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Registered Number
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31 Great George Street
Bristol BS1 5QD

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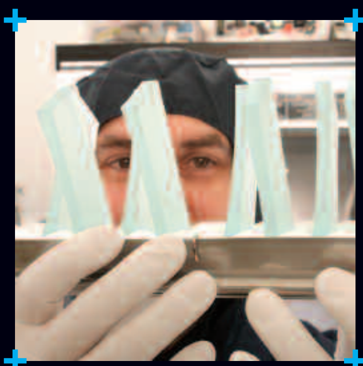
Kent BR3 4TU

EXPECTED FINANCIAL CALENDAR

23 February 2011	Annual General Meeting.
2 March 2011	Final dividend for the year ended 30 September 2010 to shareholders on the register at close of business 14 January 2011. Subject to approval by shareholders at the Annual General Meeting.
June 2011	Interim Results announced.
30 September 2011	Financial Year End.
November 2011	Preliminary announcement of results for the year ending 30 September 2011.

DIRECTORS' REPORT



£6.9m

Adjusted operating profit up 68% to £6.9m (2009: £4.1m)

The Directors present their report together with the audited financial statements for the year ended 30 September 2010.

PRINCIPAL ACTIVITY

Gooch & Housego is a manufacturer of acousto-optic, electro-optic and fibre-optic devices, precision optical components, crystals, optical instruments and imaging systems.

BUSINESS REVIEW

A review of the development and performance of the Group during the year is set out in the Financial Highlights and in the Chief Executive's Review on pages 3 to 5. A description of the principal risks and uncertainties facing the Group is provided below.

- Retention of key personnel – The Group recognises the importance of retaining and developing its highly skilled management team and workforce in order to achieve its strategic objectives. As a result, the Group has an established development and reward scheme in place to encourage individuals to play a long term role in the future development of the Group.
- Foreign currency risk – The Group recognises that it has currency risk exposure. The Group experiences foreign currency risk from both translational and transactional movements. Exposure to translational risk comes from the conversion of the Group's US and German subsidiaries' results into sterling. As a result, the Group principally borrows in US Dollars to offset this risk. Exposure to transactional risk comes from the majority of the Group's UK derived revenue being denominated in US Dollars. To offset this foreign currency exposure the Group seeks to contract with its significant suppliers in US Dollars wherever possible and undertakes regular financial reviews to assess whether it would be appropriate for the Group to enter into currency hedging contracts to mitigate the currency risk.
- Financing – For the year ended 30 September 2010 gearing was 14.5% (2009: 39.3%). The level of debt is considered to be appropriate and serviceable. The Group operates within certain banking covenants which it has reported under and complied with since January 2009. The Group undertakes detailed and regular financial planning and forecasting reviews to minimise any financial risk due to changing market conditions.

KEY FINANCIAL PERFORMANCE INDICATORS ("KPIs")

The Group uses a selection of KPIs to monitor and review the performance of the business. The Group monitors a number of key financial indicators for compliance against the Company's internal financial plan. These are detailed in the Chief Financial Officer's report and include key income statement, cash collection and balance sheet metrics.

DIVIDENDS

During the year under review no dividends were paid. The Directors propose the payment of a final dividend for the 2010 financial year of 2.0p per share.

SUBSTANTIAL SHAREHOLDINGS

As at 12 January 2011, the following shareholders had notified the Company that they held an interest in 3% or more of its issued ordinary share capital:

Shareholder	Number	% holding
Gooch/Virgin Family Trusts	4,068,459	18.7
BlackRock Investment Management	2,868,898	13.2
Standard Life	1,418,838	6.5
Rensburg Sheppards Investment Management	1,087,097	5.0
Scottish Widows	838,281	3.8

Save for these interests, the Directors have not been notified that any person is directly or indirectly interested in 3% or more of the issued ordinary share capital of the Company.

DIRECTORS

The Directors in office during the year and their beneficial interests in the issued ordinary share capital of the Company were as follows:

	30 September 2010	30 September 2009
Dr Julian Blogh*	10,000	10,000
Gareth C W Jones	8,000	8,000
Andrew N Boteler	31,065	31,065
Terry Scribbins	–	–
Dr Eugene G Arthurs*	–	–
Jan A Melles*	20,000	20,000
Paul Heal*	21,485	7,485

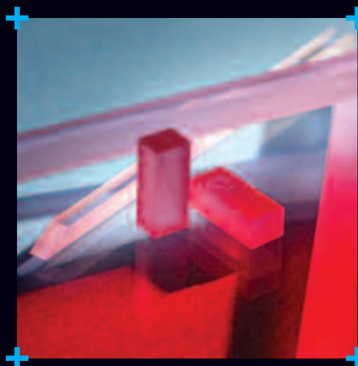
* Non Executive Directors

On 3 February 2010 and the 23 March 2010 Paul Heal purchased 10,000 and 4,000 shares respectively. There were no other changes in Directors' interests between 1 October 2010 and 12 January 2011.

For details of Directors' interests in options to subscribe for shares of the Company, see pages 14 and 15.

In accordance with the Company's Articles of Association Paul Heal, who is subject to retirement by reason of having been in office for three years since his last re-election, retires at the Annual General Meeting and, being eligible, offers himself for re-election. Also in accordance with the Company's Articles of Association Jan Melles and Dr Eugene Arthurs, who have been in office for more than nine years, must retire

DIRECTORS' REPORT continued



at the Annual General Meeting and, being eligible, offer themselves for re-election.

FINANCIAL RISK MANAGEMENT

The Group's operations expose it to a variety of financial risks that include credit risk, liquidity risk, foreign currency risk and interest rate risk.

The Group operates a central treasury function, headed by the Chief Financial Officer, which is responsible for all debt and liquidity management, foreign exchange and interest rate management. The Group does not undertake speculative financial transactions or utilise off balance sheet financing vehicles.

- Credit risk – The Group regularly monitors the credit status of its customers both new and existing. It also applies, in accordance with Group internal control policies, appropriate credit limits to each customer to ensure that exposure to any particular customer is not excessive.
- Liquidity risk – The Group actively maintains a mixture of long term and short term debt finance that is designed to ensure the Group has sufficient funds available to fund both its operations and organic growth. The Group's day to day funding is accommodated through its $8m Working Capital Facility from its bankers, The Royal Bank of Scotland plc. The Group's bankers have also provided long term secured debt finance. Details of the borrowing are stated in Note 23.
- Foreign currency risk – The Group has exposure to foreign currency risk from both translational and transactional movements. Exposure to translational risk comes from the conversion of the Group's US and German subsidiaries' results into sterling. To offset the potential currency exposure the Group principally borrows in US Dollars. Investments in US subsidiaries have been traditionally part financed with US Dollar borrowings. While each foreign acquisition is viewed on a stand-alone basis from a funding perspective the Group endeavours to hedge the currency risk associated with its overseas investments by funding the investments in local currencies. Exposure to transactional risk comes from the majority of the Group's UK derived revenue being denominated in US Dollars. To offset this foreign currency exposure the Group seeks to contract with its significant suppliers in US Dollars wherever possible.
- Interest rate risk – The Group has both interest bearing assets and interest bearing liabilities. Interest bearing assets comprise cash deposits, all of which earn interest at variable rates. Interest bearing liabilities comprise the Group's $8m Working Capital Facility, its long term funding and a property mortgage on the Group's Melbourne facility. The Group has a policy of using the most commercially suitable financing options and exercises control over future interest payments by entering into interest rate hedges when considered appropriate. Factors that would be considered are the prevailing interest rates and the level of debt in the business.

QUALITY

The Group prides itself on the highest standards of product quality and customer satisfaction. In doing this, it recognises that a failure to maintain such standards would be detrimental to its future trading performance. As a result, an ongoing emphasis is placed on quality control and customer communication.

RESEARCH AND DEVELOPMENT

Group policy is to actively develop new technologies and capabilities that will become a key part of the Group's future product portfolio and revenues.

SUPPLIER PAYMENT POLICY AND PRACTICE

It is the Group's policy to comply with the payment terms agreed with suppliers providing it is satisfied that the supplier has provided the goods and services in accordance with agreed terms and conditions. Trade creditors outstanding at 30 September 2010 represent 56 days as a proportion of the total amount invoiced by suppliers during the year (2009: 70).

DONATIONS

The Group made donations of £850 (2009: £851) to various local charities during the year. No political donations have been made during the current or previous year.

EMPLOYEES

The Group is committed to including all employees in the performance and development of the business. An established employee appraisal and reward scheme is in operation and employees are appraised regularly with relevant development support provided by the Group.

The Group attaches considerable importance to informing and involving its employees on matters which concern them and in the achievement of its business objectives. The Group has a formal employee communication plan involving regular meetings between management and employees and the provision of a comprehensive employee handbook.

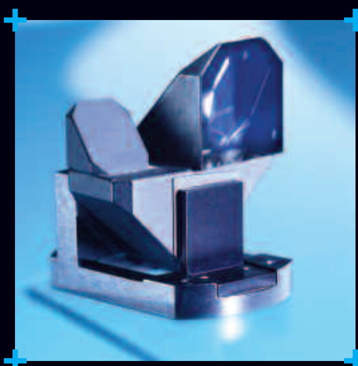
EMPLOYMENT OF DISABLED INDIVIDUALS

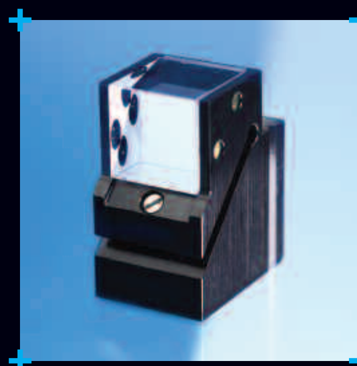
It is the policy of the Group that disabled individuals, whether registered or not, should receive full and fair consideration for all job vacancies for which they are suitable applicants. Employees who become disabled during their working life will be retained in employment wherever possible and will be provided help with any necessary rehabilitation and retraining. The Group is prepared to modify procedures or equipment, wherever this is practicable, so that full use can be made of an individual's abilities.

CORPORATE GOVERNANCE

The Board recognises the importance of good corporate governance and has put in place procedures it considers appropriate. The Group currently has a Non Executive Chairman and three Non Executive Directors who advise the Board on business and corporate governance issues.

DIRECTORS' REPORT continued





The Audit Committee, which consists of all four Non Executive Directors, is responsible for ensuring that the financial performance of the Group is properly monitored, controlled and reported. The Committee has met with the external auditors on three occasions during the year to review matters relating to the financial statements and internal financial control systems.

The Remuneration Committee consists of all four of the Non Executive Directors and one Executive Director. It has met three times during the year and a summary of the Committee's report is on pages 13 to 15.

The Directors acknowledge that they are responsible for the Group's system of internal financial control. The system can provide only reasonable, and not absolute, assurance against material misstatements and losses. Among the procedures designed to maintain an appropriate control environment are the following:

- Annual budgets are prepared for each company. Financial and operational reports enable the Board to compare performance against budget and to take action where appropriate.
- Procedures are in place to identify any major business risks and evaluate their potential financial effects.
- Internal financial controls are in existence which provides reasonable assurance of the maintenance of proper accounting records and the reliability of financial information used within the business.

The Board is also aware that it is responsible for the Group's systems of internal control, not just those relating to financial controls. The Board regularly assess the controls in place to ensure they are reasonable and appropriate.

ENVIRONMENTAL POLICY

The policy of the Group is to meet the statutory environmental requirements placed upon it and to apply good environmental practice in its operations while recognising that it is contractually obliged to meet its customer requirements.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards and the parent Company financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The Group and parent Company financial statements are required by law to give a true and fair view of the state of affairs of the Company and Group and of the profit or loss of the Group for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting polices and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the Group financial statements comply with IFRSs as adopted by the European Union, and with regard to the parent Company financial statements that the applicable UK Accounting Standards have been followed subject to any material departures disclosed and explained in the financial statements.
- prepare the Group and parent Company financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

So far as each Director is aware, there is no relevant audit information of which the Company's and Group's auditors are unaware. Each Director has taken all the steps that he ought to have taken in his duty as a Director to make himself aware of any relevant audit information and to establish that the Company's and Group's auditors are aware of that information.

The Directors are also responsible for the maintenance and integrity of the Company's web-site.

GOING CONCERN

Based on the Group's operating projections and cash flow forecasts, the Directors believe that the Group will generate sufficient cash and have access to working capital facilities to enable it to meet its funding requirements for at least the next 12 months and comply with its banking covenants

Accordingly, the Directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

AUDITORS

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company and the Group will be proposed at the Annual General Meeting.

Approved and signed on behalf of the Board of Directors by:

Gareth C W Jones
Director
21 January 2011

REMUNERATION COMMITTEE REPORT

23.1p

Adjusted earnings per share increases to 23.1p (2009: 11.5p)

The Remuneration Committee members at 30 September 2010 were Paul Heal, Dr J Blogh, Dr E G Arthurs and Jan Melles. Although not a member of the committee, Gareth Jones submits a report and is usually requested to present the report to the committee. After presenting the report he withdraws from the meeting and does not participate in the decision making or voting processes.

POLICY ON DIRECTORS' REMUNERATION

It is an objective of the Group to attract and retain Directors of high calibre and reward them in a way which encourages the creation of value for shareholders. The Committee undertakes the determination of Executive Directors' annual remuneration packages and these are reviewed with effect from 1 October each year. No Executive Director plays a part in the discussion about their remuneration.

Executive Directors are paid a basic salary together with annual bonus payments based on the achievement of Group earnings per share related targets. In addition, certain Executive Directors participate in a share option scheme and receive benefits in kind, including medical expenses and insurance.

From 1 March to 30 September 2009 the Executive and Non Executive Directors took salary sacrifices of between 10% and 15% of their annual basic salary. From 1 October until 31 December 2009 the salary sacrifice was reduced to 5% of annual basic salary. On 1 January 2010 the annual basic salaries of the Executive and Non Executive Directors returned to pre salary sacrifice levels.

Non Executive Directors are paid a fee to attend board meetings and to serve as members of the Audit and Remuneration committees. Further payments may be made in respect of additional services provided at the request of the Company, although no such payments have been made during the current or previous year.

DIRECTORS' PENSION ARRANGEMENTS

During the year the Company contributed to a money purchase pension scheme on behalf of the Executive Directors. The number of Directors who are accruing benefits under a pension scheme is 3 (2009: 3). Contributions to a scheme on behalf of continuing Directors amount to 8% of the Director's basic salary.

DIRECTORS' CONTRACTS

Gareth Jones currently has a rolling service contract terminable on twelve months' notice. Terry Scribbins and Andrew Boteler also have rolling service contracts that are subject to six months' notice. The Chairman and Non Executive Directors do not have contracts of service.

DIRECTORS' INTEREST IN SHARES OF THE COMPANY

The Directors' interests in the shares of the Company are set out in the Directors' Report on page 10.

DIRECTORS' REMUNERATION

		Basic pay £000	Performance related bonus £000	Benefits in kind £000	Pension contribution £000	**Total 2010 £000**	Total 2009 £000
Executive	G C W Jones	191	151	6	16	**364**	200
	P J Quinn[1]	–	–	–	–	**–**	199
	T Scribbins	122	96	3	10	**231**	126
	A N Boteler[1]	104	82	2	8	**196**	16
Non Executive	Dr J Blogh	59	–	–	–	**59**	58
	Dr E G Arthurs	15	–	–	–	**15**	15
	J A Melles	19	–	–	–	**19**	18
	P Heal[2]	30	–	–	–	**30**	44
		540	329	11	34	**914**	676

[1] P J Quinn resigned as a director on 31 March 2009 and A N Boteler was appointed on 1 August 2009

[2] P Heal held the position of Interim Finance Director for the period 31 March 2009 until 31 July 2009

REMUNERATION COMMITTEE REPORT continued

SHARE OPTION SCHEMES

Policy

The Board believes that a share based incentive scheme is an important element in promoting closer alignment of the interests of shareholders and Executive Directors. The policy is to make periodic grants of share options under appropriate schemes in place at the time of grant.

At 30 September 2010 Gooch & Housego has two active share based incentive schemes and one other which is dormant. These are detailed below:

Gooch & Housego PLC 2004 Company Share Option Scheme

The Gooch & Housego PLC 2004 Company Share Option Scheme (the "2004 Scheme") has had two grants of share options, on 23 July 2004, and on 8 December 2005. These share option awards were to three Executive Directors and four senior employees. No further awards have been made under the 2004 Scheme.

Performance criteria

The share options may be exercised on the achievement of certain financial performance criteria. 50% of each allocation of options may be exercised from the earliest exercise date if the earnings per share figure for the Group, based on the most recent audited annual financial statements, has improved by a rate equivalent to the growth in the UK Retail Prices Index plus 3%. The remaining 50% of each allocation of options may be exercised from the earliest exercise date if the earnings per share figure for the Group, based on the most recent audited financial statements, have improved by a rate equivalent to the growth in the UK Retail Prices Index plus 6%.

Senior employees' share options also have performance criteria attached and can only be exercised if these conditions are met. Details of the performance criteria are given in Note 29 of the financial statements.

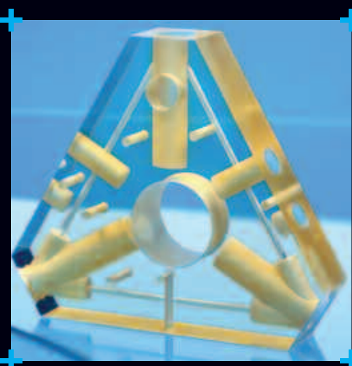
Executive Directors' share options are listed below:

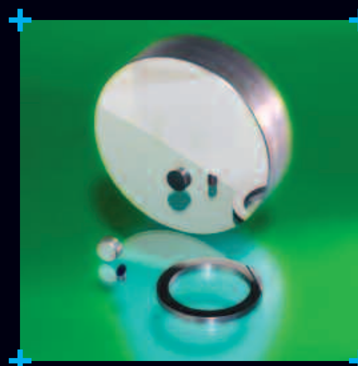
			— Number of ordinary shares under option —					— Exercise period —	
	Date of grant	Exercise price	At 01.10.09	Exercised in year	Lapsed in year	At 30.09.10		From	To
G C W Jones	23.07.04	133.5p	2,394	–	–	**2,394**	a	23.07.05	22.04.14
	23.07.04	133.5p	118,416	–	–	**118,416**	a	23.07.06	22.04.14
	23.07.04	133.5p	118,416	–	–	**118,416**	a	23.07.07	22.04.14
	23.07.04	133.5p	137,142	–	–	**137,142**	a	23.07.08	22.04.14
			376,368	–	–	**376,368**			
T Scribbins	08.12.05	272.5p	31,250	–	–	**31,250**	a	08.12.06	07.12.15
	08.12.05	272.5p	31,250	–	–	**31,250**	a	08.12.07	07.12.15
	08.12.05	272.5p	31,250	–	–	**31,250**	a	08.12.08	07.12.15
	08.12.05	272.5p	31,250	–	–	**31,250**	b	08.12.09	07.12.15
			125,000	–	–	**125,000**			
Total			501,368	–	–	**501,368**			

a Performance criteria met

b Performance criteria have not yet been met

REMUNERATION COMMITTEE REPORT continued





Gooch & Housego 2010 Value Creation Plan

On 7 January 2010, the Company introduced a Value Creation Plan (the "2010 VCP") as a replacement to the 2007 Long Term Incentive Plan (the "2007 LTIP). The 2010 VCP has become the primary equity incentive vehicle to retain and incentivise key employees in the company and align their interests with those of shareholders.

Under the 2010 VCP, key employees are granted a one-off award of units from an agreed total. These units have no intrinsic value on grant but give participants an opportunity to be awarded Company shares proportionate to the value created for shareholders above the threshold value at the third anniversary of the plan.

Performance will be measured once only at the end of the plan's three year period. At that time, if the market share price exceeds the threshold value of £2.00, the participants in the plan will be awarded a share of the value created above the threshold value in accordance with a pre-determined formula as nil cost options. The participants' share of the value created will start at 7.5% at the hurdle share price of £2.00 and rise to 15% for value gains achieved at a share price of £6.00 and above.

Should nil cost options be awarded under the plan, participants will be entitled to exercise half of the share options immediately and the remainder can be exercised after a further year to encourage continued focus on maintaining the value gains achieved.

Participants in the 2010 VCP that already participate in the 2007 LTIP have waived any awards made to them under the 2007 LTIP. None of the participants in the VCP will receive any other share-based incentives during the life of the VCP.

The following units were awarded to Executive Directors' under the 2010 VCP:

G C W Jones	20
T Scribbins	12
A Boteler	12

Gooch & Housego 2007 Long Term Incentive Plan

The Gooch & Housego 2007 Long Term Incentive Plan (the "2007 LTIP") was set up in 2007 and has had three grants of share options, on 13 August and 6 December 2007, respectively, to three Executive Directors and two senior employees and a further grant of share options on 23 July 2008 to an Executive Director and one senior employee. The share options granted on 23 July 2008 were based on a share price applied to awards made on 6 December 2007.

Following the introduction of the Gooch & Housego 2010 Value Creation Scheme on the 7 January 2010, all share options under the Gooch & Housego 2007 Long Term Incentive Plan were surrendered. The scheme is now dormant, although may be utilised in the future.

Executive Directors' share options under the 2007 LTIP are listed below:

			— Number of ordinary shares under option —						— Exercise period —	
	Date of grant	Grant price	At 30.09.09	Granted in year	Exercised in year	Surrendered in year	**At 30.09.10**		From	To
G C W Jones	14.08.07	432.5p	17,341	–	–	(17,341)	–	b	14.08.10	13.08.17
	06.12.07	415.0p	43,373	–	–	(43,373)	–	b	06.12.10	05.12.17
			60,714	–	–	(60,714)	–			
T Scribbins	14.08.07	432.5p	23,121	–	–	(23,121)	–	b	14.08.10	13.08.17
	06.12.07	415.0p	27,710	–	–	(27,710)	–	b	06.12.10	05.12.17
			50,831	–	–	(50,831)	–			
Total			111,545	–	–	(111,545)	–			

a Performance criteria met

b Performance criteria have not yet been met

The mid-market price of an ordinary share at 30 September 2010 was 355.0p (2009: 128.0p). The mid-market price ranged from a low of 123.9p to a high of 363.0p during the year ended 30 September 2010.

INDEPENDENT AUDITORS' REPORT to the Members of Gooch & Housego PLC

We have audited the Group financial statements of Gooch & Housego PLC for the year ended 30 September 2010 which comprise the Group Income Statement, the Group Balance Sheet, the Group Statement of Changes in Shareholders' Equity, the Group Statement of Comprehensive Income, the Group Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Directors' Responsibilities Statement set out on page 12, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

OPINION ON FINANCIAL STATEMENTS

In our opinion the Group financial statements:

- give a true and fair view of the state of the group's affairs as at 30 September 2010 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Directors' Report for the financial year for which the group financial statements are prepared is consistent with the group financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

OTHER MATTER

We have reported separately on the parent company financial statements of Gooch & Housego PLC for the year ended 30 September 2010.

David Charles (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
21 January 2011

GROUP INCOME STATEMENT for the year ended 30 September 2010

	Note	2010 £000	2009 £000
Revenue	7	**44,683**	36,414
Cost of revenue		**(25,992)**	(23,205)
Gross Profit		**18,691**	13,209
Research & Development		**(2,834)**	(2,789)
Sales & Marketing		**(2,529)**	(2,066)
Administration		**(7,768)**	(6,334)
Other Income	9	**369**	764
Operating profit	11	**5,929**	2,784
Finance income	12	**2**	26
Finance costs	12	**(835)**	(1,387)
Profit before income tax expense		**5,096**	1,423
Income tax expense	13	**(405)**	(463)
Profit for the period		**4,691**	960
Basic earnings per share	15	**24.4p**	5.0p
Diluted earnings per share	15	**23.8p**	5.0p

The notes on pages 22 to 43 form part of these financial statements.

All operations undertaken by the Group during the current year are continuing.

Reconciliation of operating profit to adjusted operating profit:	2010 £000	2009 £000
Operating profit	**5,929**	2,784
Amortisation of acquired intangible assets	**934**	1,095
Restructuring and redundancy costs	**–**	603
Profit from sale of properties	**–**	(337)
Adjusted operating profit	**6,863**	4,145

Reconciliation of net finance costs to adjusted net finance costs:	2010 £000	2009 £000
Net finance costs	**(833)**	(1,361)
Costs associated with debt re-financing	**–**	330
Adjusted net finance costs	**(833)**	(1,031)

GROUP BALANCE SHEET as at 30 September 2010

	Note	2010 £000	2009 £000
Non-current assets			
Property, plant & equipment	16	**15,753**	16,634
Intangible assets	17	**15,291**	16,858
Deferred income tax assets	25	**3,092**	1,421
		34,136	34,913
Current assets			
Inventories	18	**7,281**	6,691
Trade and other receivables	19	**7,595**	6,296
Income tax receivable	20	**168**	345
Cash and cash equivalents	21	**8,285**	6,714
		23,329	20,046
Current liabilities			
Trade and other payables	22	**(6,650)**	(4,184)
Borrowings	23	**(4,981)**	(8,071)
Income tax liabilities		**–**	(77)
Provision for other liabilities and charges	24	**(369)**	(351)
		(12,000)	(12,683)
Net current assets		**11,329**	7,363
Non-current liabilities			
Borrowings	23	**(8,545)**	(10,751)
Deferred income tax liabilities	25	**(696)**	(534)
Derivative financial instruments	32	**(171)**	(193)
		(9,412)	(11,478)
Net assets		**36,053**	30,798
Shareholders' equity			
Called up share capital	26	**3,853**	3,853
Share premium account	27	**4,105**	4,105
Merger reserve	27	**2,671**	2,671
Hedging reserve	27	**(184)**	(186)
Cumulative translation reserve	27	**276**	484
Retained earnings	27	**25,332**	19,871
Shareholders' equity	28	**36,053**	30,798

The notes on pages 22 to 43 form part of these financial statements.
Approved by the Board of Directors on 21 January 2011 and signed on its behalf by:

....

Gareth C W Jones Andrew N Boteler

GROUP STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
for the year ended 30 September 2010

	2010 £000	2009 £000
Balance at 1 October	**30,798**	29,040
Fair value adjustment of interest rate swap	**2**	(186)
Income tax recognised in reserves	**–**	533
Currency transation differences	**(208)**	423
Net (expense)/income recognised directly in equity	**(206)**	770
Profit for the period	**4,691**	960
Total comprehensive income for the period	**4,485**	1,730
Employee share option schemes:		
- Deferred income tax movement on share options	**417**	–
- Fair value of employee services	**353**	28
	770	28
Balance at 30 September	**36,053**	30,798

GROUP STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 September 2010

	2010 £000	2009 £000
Profit for the year	**4,691**	960
Other comprehensive income		
Fair value adjustment of interest rate swap	**2**	(186)
Income tax recognised in reserves	**–**	533
Currency translation differences	**(208)**	423
Other comprehensive (expense)/income for the period	**(206)**	770
Total comprehensive income for the period	**4,485**	1,730
Total comprehensive income for the period is attributed to:		
Shareholders of Gooch & Housego PLC	**4,485**	1,730

GROUP CASH FLOW STATEMENT for the year ended 30 September 2010

	2010 £000	2009 £000
Cash flows from operating activities		
Cash generated from operations	**10,142**	7,944
Income tax paid	**(1,307)**	(238)
Net cash generated from operating activities	**8,835**	7,706
Cash flows from investing activities		
Acquisition of subsidiary, net of cash acquired	**–**	(12,437)
Purchase of property, plant and equipment	**(873)**	(696)
Sale of property, plant and equipment	**7**	463
Purchase of intangible assets	**(81)**	(505)
Interest received	**2**	25
Net cash used in investing activities	**(945)**	(13,150)
Cash flows from financing activities		
Proceeds from issue of ordinary shares		–
Proceeds from borrowings	**38**	12,168
Repayment of borrowings	**(2,447)**	(2,554)
Interest paid	**(750)**	(912)
Net cash (used in)/generated from financing activities	**(3,159)**	8,702
Net increase/(decrease) in cash, cash equivalents, working capital facility and bank overdraft	**4,731**	3,258
Cash, cash equivalents, working capital facility and bank overdraft at beginning of the period	**1,087**	(1,997)
Exchange losses on cash and bank overdrafts	**(72)**	(174)
Cash, cash equivalents, working capital facility and bank overdraft at the end of the period	**5,746**	1,087

Cash, cash equivalents, working capital facility and bank overdrafts at the end of the period comprise of:	2010 £000	2009 £000
Cash and cash equivalents	**8,285**	6,714
Bank borrowings and overdraft	**(2,539)**	(5,627)
Cash, cash equivalents, working capital facility and bank overdraft at the end of the period	**5,746**	1,087

NOTES TO THE GROUP CASH FLOW STATEMENT for the year ended 30 September 2010

Reconciliation of cash generated from operations	2010 £000	2009 £000
Profit before income tax	**5,096**	1,423
Adjustments for:		
- Amortisation of acquired intangible assets	**934**	1,095
- Amortisation of other intangible assets	**356**	315
- Depreciation	**1,796**	1,805
- Profit on disposal of property, plant and equipment	**(2)**	(337)
- Share based payment obligations	**412**	(9)
- Finance income	**(2)**	(25)
- Finance costs	**835**	1,387
Total	**4,329**	4,231
Changes in working capital		
- Inventories	**(484)**	(210)
- Trade and other receivables	**(1,333)**	3,014
- Trade and other payables	**864**	(1,274)
- Provisions for liabilities and charges	**1,670**	760
Total	**717**	2,290
Cash generated from operating activities	**10,142**	7,944

Reconciliation of net cash inflow to movements in net debt	2010 £000	2009 £000
Increase in cash in the year	**4,731**	3,258
Cash outflow from decrease in debt and lease financing	**2,447**	1,557
Changes in net debt resulting from cash flows	**7,178**	4,815
New borrowings	**(38)**	(12,168)
Translation differences	**(273)**	(1,460)
Movement in net debt in the year	**6,867**	(8,813)
Net debt at 1 October	**(12,108)**	(3,295)
Net debt at 30 September	**(5,241)**	(12,108)

Analysis of net debt	At 1 October 2009 £000	Cash flow £000	Exchange movement £000	New Borrowing £000	Non-cash movement £000	At 30 September 2010 £000
Cash in hand and at bank	6,714	1,604	(33)	–	–	**8,285**
Bank overdrafts and working capital facility	(5,627)	3,127	(39)	–	–	**(2,539)**
	1,087	4,731	(72)	–	–	**5,746**
Debt due within 1 year	(2,443)	2,438	5	–	(2,430)	**(2,430)**
Debt due after 1 year	(10,751)	–	(206)	–	2,430	**(8,527)**
Finance leases	(1)	9	–	(38)	–	**(30)**
Net debt	(12,108)	7,178	(273)	(38)	–	**(5,241)**

NOTES TO FINANCIAL STATEMENTS for the year ended 30 September 2010

1 GENERAL INFORMATION

Gooch & Housego PLC (the "Company") is incorporated and domiciled in the United Kingdom. The Company is listed on the Alternative Investment Market ("AIM Market") of the London Stock Exchange. The address of the registered office of the Company is given on page 9.

The consolidated financial statements of the Group for the year ended 30 September 2010 comprise the Company, Gooch & Housego PLC, and its subsidiaries (together referred to as the "Group"). A listing of the Company's major subsidiaries is set out on page 47.

The Group is a manufacturer of specialist optoelectronic components, materials and systems and specialist instrumentation and life sciences devices. The Group has manufacturing facilities in the United Kingdom, Germany and the United States

2 BASIS OF PREPARATION

These financial statements have been prepared under the historical cost convention and in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and interpretations in issue at 30 September 2010, and with those parts of the Companies Act 2006 applicable to companies preparing financial statements in accordance with IFRS.

3 APPLICATION OF IFRS

Adoption of new standards

The following standards and amendments applicable to the preparation of the Group accounts became effective for the current reporting period:

- IAS 1 (revised) – Presentation of Financial Statements
- IAS 23 (revised) – Borrowing costs
- IAS 27 (revised) – Consolidated and Separate Financial Statements
- IFRS 3 (revised) – Business combinations
- IFRS 1 and IAS 27 (amendment) – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
- IFRS 7 (amendment) – Financial Instruments: Disclosures
- IFRS 8 – Operating Segments
- IFRIC 16 – Hedges in a Net Investment in a Foreign Operation

Application of these standards and interpretations has not had a material impact on the net assets of the Group in the current financial year.

As a consequence of adopting IFRS 8, the Group has revised segmental reporting to report by market sector. See note 7 for more details.

In future financial years, the adoption of IFRS 3 is expected to increase the charge to the Income Statement for acquisition costs that would have previously been included in the Investment cost on the Balance Sheet. In respect of the remaining standards, the Directors anticipate that the adoption of these standards and interpretations will have no material impact on the net assets or results of the Group.

The following standards and interpretations were issued but application was not mandatory for the period:

IFRS 2 (amendment) – Group Cash-Settled Share-Based Payments
IFRS 9 – Financial Instruments

4 ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all of the years presented, unless otherwise stated.

Consolidation

Subsidiaries are entities that are directly or indirectly controlled by the Group. Control exists where the Group has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of a business combination is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the business combination. The excess of the costs of a business combination over the fair value of the identifiable net assets acquired is recorded as goodwill. If the cost of a business combination is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Segment reporting

A business segment is a grouping of operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A market segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns which are different from those of segments operating in other economic environments.

The chief operating decision maker in determining a business or operating segment is the Board of Directors.

Foreign currency translation

a. Functional and presentational currency

The consolidated financial statements are presented in Pounds Sterling, which is the Group's presentational currency. Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

b. Transactions and balances

Foreign currency transactions are translated into an entity's functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at balance sheet exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

c. Subsidiaries

The results and financial position of subsidiaries that have a functional currency different from the presentational currency are translated into the presentational currency as follows:

NOTES TO FINANCIAL STATEMENTS for the year ended 30 September 2010

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income and as a separate component of equity..

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Property, plant & equipment

Property, plant & equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

No depreciation is charged on freehold land or capital work in progress. Certain plant used in the manufacturing process which is constructed from precious metals is not depreciated but is reviewed annually for impairment.

Depreciation on other assets is calculated using the straight-line method to allocate their cost over their estimated useful lives, as follows:

• Freehold buildings	2-3%	Straight line
• Short leasehold improvements	over term of lease	Straight line
• Plant & machinery	10-20%	Straight line
• Fixtures, fittings & computer hardware	10-33%	Straight line
• Motor vehicles	25%	Reducing balance

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Where an asset's carrying amount is greater than its estimated recoverable amount, the asset's carrying amount is written down immediately to its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or an asset's value in use.

Intangible assets

a. Goodwill

Goodwill represents the excess of the cost of a business combination over the fair value of the net identifiable assets of the acquired business. Goodwill arising from business combinations is included in 'intangible assets'.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. The impairment testing requires an estimation of the 'value in use' of the Cash-generating unit (the "CGU") to which goodwill is allocated using appropriately discounted cash flow projections.

For the purpose of impairment testing a CGU is defined as either a business segment or an operating entity, as appropriate.

Impairment losses on goodwill are not reversed.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

b. Patents, Trademarks and Licenses

Internally incurred costs associated with the filing and perfection of patents and trademarks are capitalised and carried at cost less accumulated amortisation. Amortisation is calculated using the straight line method to allocate the cost over their useful economic lives.

Acquired patents, trademarks and licences are shown at historical cost. Patents, trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight line method to allocate the cost over their useful economic lives and are charged to Research and development costs in the Income statement.

c. Computer software

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are capitalised and recognised as intangible assets. Costs include the software development employee costs and an appropriate portion of relevant overheads.

Acquired computer software and licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Capitalised software costs are amortised using the straight line method over their estimated useful lives of up to 5 years and charged to Administration costs in the Income statement.

d. Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised as an expense as incurred.

Development costs incurred after the point at which the commercial and technical feasibility of the product have been proven, and the decision to complete the development has been taken and resources made available, are capitalised. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses. Development costs are amortised using the straight line method over their estimated useful life lives and are charged to Research and development costs in the Income statement.

e. Other intangibles

Other acquired intangible assets are stated at fair value less accumulated amortisation and impairment losses.

The useful life of each of these assets is assessed based on the differing natures of each of the intangible assets acquired. Amortisation is charged on a straight-line basis over the estimated useful life of the assets acquired:

• Customer relationships	up to 3 years
• Brand names	up to 3 years
• Non-compete clauses	up to 2 years

NOTES TO FINANCIAL STATEMENTS for the year ended 30 September 2010

Government grants
Government grants are accounted for on an accruals basis. Grants are credited to the income statement over the life of the project. Where grants are used to fund the acquisition of a tangible fixed asset the grant is initially credited to deferred income then credited to the income statement over the estimated economic life of the asset.

Impairment of non-financial assets
The Group assesses at each balance sheet date whether an asset may be impaired. If any such indicator exists, the Group tests for impairment by estimating the recoverable amount. If the recoverable amount is less than the carrying value of the asset, the asset is impaired and the carrying value is reduced to its recoverable amount. In addition to this, assets with indefinite lives are tested for impairment annually.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except those with maturities greater than 12 months from the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet.

Inventories
Inventories are stated at the lower of cost and net realisable value. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Long term contract balances included in work in progress comprise costs incurred on long term contracts, net of any amounts transferred to trading expenditure, after deducting foreseeable losses and related payments on account. Costs include all direct material and labour costs incurred in bringing a contract to its state of completion at the year end. Provisions for estimated losses on contracts are made in the period in which such losses are foreseen. Long term contract balances do not include attributable profit. The amount by which customer billings exceed the revenue recognised on a contract is shown as a payment on account.

Trade receivables
Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable may be impaired.

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'selling and marketing costs'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'selling and marketing costs' in the income statement.

Cash and cash equivalents
Cash and cash equivalents includes cash in hand, deposits held on call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

Trade payables
Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowing costs which are directly attributable to the acquisition, construction or production of a qualifying asset the borrowing costs are capitalised as part of the cost of that asset.

Borrowing costs are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Financial instruments
Financial instruments are initially recognized at fair value on the date that a contract is entered into and are subsequently remeasured at their fair value. The Group documents the relationship between the hedging instrument and the hedged item and, on a periodic basis, assesses whether the hedge is effective.

The fair value of the financial instrument used for hedging purposes is disclosed in Note 32. Movements on the hedging reserve in shareholders equity is disclosed in Note 27.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in equity.

Taxation
Income tax on the profit or loss for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year using rates enacted at the balance sheet date, and any adjustments to tax payable in respect of prior years.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for, if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

NOTES TO FINANCIAL STATEMENTS for the year ended 30 September 2010

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in other comprehensive income and equity, in which case it is recognised in other comprehensive income and equity.

In the UK and US, the Company is entitled to a tax deduction for amounts treated as compensation on exercise of certain employee share options under each jurisdiction's tax rules. As explained under "Share options" below, a compensation expense is recorded in the Company's income statement over the period from the grant date to the vesting date of the relevant options. As there is a temporary difference between the accounting and tax bases, a deferred income tax asset is recorded. The deferred income tax asset arising is calculated by comparing the estimated amount of tax deduction to be obtained in the future (based on the Company's share price at the balance sheet date) with the cumulative amount of the compensation recorded in the income statement. If the amount of estimated future tax deduction exceeds the cumulative amount of the remuneration expense at the statutory rate, the excess is recorded directly in equity, against retained earnings.

Employee benefits

a. Pension obligations

The Group operates money purchase pension schemes for UK employees and Section 401(k) plans for US employees. The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense in the income statement when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

b. Profit share and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Group's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

c. Share options

The Group operates two active share option schemes and one dormant scheme.

In accordance with IFRS 2 the fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest.

Employer's National Insurance in the United Kingdom and equivalent taxes in other jurisdictions are payable on the exercise of certain share options. In accordance with IFRS 2, this is treated as a cash-settled transaction. A provision is made, calculated using the fair value of the Company's shares at the balance sheet date, pro-rated over the vesting period of the options.

At each balance sheet date, for awards with non market vesting conditions, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity. The fair value of the options under the 2004 Gooch & Housego PLC Company Share Option Scheme was determined by using the Black-Scholes option pricing model. The fair value of the options under the Gooch & Housego 2010 Value Creation Plan was determined by using the Monte Carlo option pricing model.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

Leases

Leases which transfer substantially all the risks and rewards of ownership of an asset are treated as a finance lease. Assets held under a finance lease are capitalised at their fair value at the inception of the lease and depreciated over the estimated useful economic life of the asset or lease term if shorter.

Finance charges are associated with the finance lease are expensed in proportion to the capital amount outstanding.

All other leases are classified as operating leases. Operating lease rentals are expensed in equal annual amounts over the lease term.

Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved.

a. Sale of goods

Revenue is recognised when the risks and rewards of the underlying sale have been transferred to the customer, and when collectability of the related receivable is reasonably assured. Depending on the terms of business, this occurs either on the dispatch/delivery of the goods supplied or on acceptance by the customer.

NOTES TO FINANCIAL STATEMENTS for the year ended 30 September 2010

b. Long term contracts
The Cleveland facility has in place a number of long term contracts. Revenue is recognised on these by reference to the stage of completion of the contract activity at the balance sheet date. Revenue and profits are determined by estimating the outcome of the contract and determining the costs and profit attributable to the stage of completion.

Where the outcome of the contract cannot be reliably estimated, contract costs are recognised as an expense when incurred and revenue is recognised to the extent of the costs incurred that are expected to be recoverable. In both cases, any expected contract loss is recognised immediately.

Revenue from long term contracts recognised in the year ended 30 September 2010 was £1,264,000 (2009: £934,000).

c. Interest income
Interest income is recognised on a time-proportion basis using the effective interest method.

Dividend distribution
Dividend distributions to the Company's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

5 FINANCIAL RISK MANAGEMENT
Capital risk management
Management considers capital as equity, as shown in the Group balance sheet, excluding net debt.

The Group's objectives when managing capital are to safeguard the Group's ability
- to continue as a going concern,
- to provide returns for shareholders and benefits for other stakeholders and
- to maintain an optimal capital structure to reduce the cost of capital.

The Board is satisfied that these objectives have been met during the year. Actions taken during the year to achieve these objectives are outlined in the Chief Executive's Review.

In order to maintain or adjust the capital structure, the Group may
- adjust the amount of dividends paid to shareholders,
- return capital to shareholders,
- issue new shares,
- sell assets to reduce debt and
- vary the level of debt financing.

Consistent with others in the industry, the Group monitors capital on the basis of the debt to equity ratio.

A summary of the Company's debt to equity ratio at 30 September is set out below:

	Note	**2010** £000	2009 £000
Total borrowings	23	**13,526**	18,822
Less: cash and cash equivalents	21	**(8,285)**	(6,714)
Net borrowings		**5,241**	12,108
Total equity	28	**36,053**	30,798
Debt to equity ratio		**14.5%**	39.3%

The decrease in the debt to equity ratio during 2010 resulted primarily from the repayment of bank borrowing and the positive cashflow achieved through the Group's strong trading performance and continued control over working capital and capital expenditure.

While the Group's debt to equity ratio is consistently monitored, changes in the Group's need for capital and the selection of the source and funding of capital are assessed against a number of criteria which may have a direct effect on the Group debt to equity ratio.

The Group's capital needs include, but are not solely limited to, its
- investment in fixed assets;
- investment in working capital; and
- acquisition of businesses, technologies and other intangible assets.

The criteria against which the Group's capital needs are assessed include, but are not limited to,
- availability of and cost of debt financing;
- ability to raise equity financing at an acceptable share price; and
- ratio of debt to equity.

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and cash flow interest rate risk), credit risk and liquidity risk.

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Where considered appropriate, will use derivative financial instruments to hedge risk exposures during the year.

i. Market risk
a. Foreign exchange risk
The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro and the US Dollar.

Foreign exchange risk arises from
- future commercial transactions;
- recognised assets and liabilities; and
- net investments in foreign operations.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk.

Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

No financial derivatives have been entered into to manage foreign exchange exposure.

As a significant amount of the Group's profit is earned by its US subsidiaries, the Group's profit is sensitive to movements in the US Dollar exchange rate. If the average US Dollar exchange rate for the year had been consistent with the closing exchange rate at 30 September 2009, with all other variables constant, post tax profits for the year would have been £97,000 lower (2009: £101,000 lower) as a result of the translation in US Dollars.

Equity is more sensitive to movement in the US Dollar exchange rate as a significant amount of the Group's net assets are held in the Group's US subsidiaries. If the US Dollar weakened by 10% against Pound Sterling with all other variables held constant, the net assets of the Group would be £1,363,000 lower. If the US Dollar strengthened by 10% against

NOTES TO FINANCIAL STATEMENTS for the year ended 30 September 2010

Pound Sterling with all other variables held constant, the net assets of the Group would be £1,666,000 higher.

b. Cash flow interest rate risk
The Group has cash balances of £8.3m which are held in interest bearing current accounts. The Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from its long term borrowings and working capital facility. A 1% increase in the cost of borrowing would have resulted in an annualised increase in interest expense of £59,000 had the Group's borrowings been in place throughout the year to 30 September 2010.

Borrowings issued at variable interest rates expose the Group to cash flow interest rate risk. The Group uses an interest rate swap to hedge a proportion of the interest rate risk. During 2009 and 2010, the Group's borrowings at variable interest rates were denominated in Pound Sterling and US Dollars as detailed in Note 31.

ii. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. It arises principally from the Group's trade receivables.

a. Trade and other receivables
The management of credit risk exposure is the responsibility of each business unit which has credit policies in place to mitigate the risk. The credit policies seek to verify a customer's credit worthiness prior to trading and maintain the level of trading within agreed credit limits. Changes to credit limits require authorisation in accordance with internal control policies.

The Group is exposed to concentration of credit risk. The Group's top 10 customers in 2010 accounted for 39% of the Group's revenue (2009: 40%). No individual customer made up more than 7% of revenue (2009: 9%).

The Group's trade receivables are analysed in note 19.

b. Cash
Cash is held in current and deposit accounts with financial institutions which have credit ratings of A+ or greater.

iii. Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group aims to achieve a balance between certainty of funding and a flexible, cost effective borrowing structure.

The Group has a committed three-year $8.0m Working Capital Facility and term borrowings both of which are due to mature in March 2012. These are analysed in Notes 23 and 31.

The Group aims to ensure that there are sufficient funds or credit lines available to supplement cash flows generated from trading to meet known obligations in the next twelve months.

6 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in accordance with generally accepted accounting principles requires the Directors to make critical accounting estimates and judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates and judgments are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will on occasions fail to equal actual results.

The estimates and assumptions that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

Going Concern

The Directors are required to make an assessment of the Group's ability to continue to trade as a going concern. In making this assessment the Directors make critical estimates and judgements in respect of expected future revenues, costs, investment requirements and debt servicing obligations. The Directors have given this matter due consideration and have concluded that it is appropriate to prepare the Group financial statements on a going concern basis. The two main considerations were as follows:

- Group cash flow – During the year ended 30 September 2010, the Group was highly cash generative due to a strong trading performance. This has continued into the next financial year and consequently, the Group expects to continue generating cash from operating activities.
  The Group investment in tangible assets for the year ended 30 September 2010 has increased over the previous financial year. This investment is expected to continue into the next financial year in response to the need for additional production capacity.
- Bank Facilities – The Group maintains a regular and ongoing constructive dialogue with its bankers and keeps them advised of Group developments and progress against its business plan. The Royal Bank of Scotland plc, has committed significant facilities to the Group which is available through March 2012.
  At 30 September 2010, the Group had available cash resources, based on translating the Working Capital Facility at the closing exchange rate for the US Dollar to Pound Sterling, of £12.0m (2009: £7.3m).

Revenue recognition

Revenue from long term contracts is recognised on a percentage-of-completion method basis. Use of this method requires an estimation of the total project resource requirement and also an estimation of the cost to complete and the assessment of potential losses on uncompleted contracts.

Provisions for income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

Impairment of goodwill

The Group tests goodwill for impairment at least annually. This requires an estimation of the value in use of the Cash Generating Units (the "CGUs") to which goodwill is allocated. As set out in Note 17,

NOTES TO FINANCIAL STATEMENTS for the year ended 30 September 2010

estimating the value in use requires the Group to make an estimate of the expected future cash flows from the CGUs and also to choose a suitable discount rate in order to calculate the present values of those cash flows.

Provision for impairment of trade receivables

The Group assesses trade receivables for impairment which requires an estimation of the likelihood of payment forfeiture by customers. In making this assessment, the Directors will consider the payment history of the customer as well as the customer's future viability.

Inventory provision

The Group continually monitors and assesses the provision for old and slow moving inventory. Factors considered by the Directors include the expected future usage and the potential obsolescence and deterioration of the Inventory.

Warranty provision

The Group monitors and assesses its warranty provision requirement on a continuing basis. In addition to considering historic repair and replacement costs, the Directors will also assess expected changes in future costs based on current information.

Share options

The Company has two active share option schemes and one dormant scheme. In accordance with IFRS 2, share options are measured at fair value at the date of grant. The fair value determined is then expensed in the Group income statement on a straight line basis over the vesting period, with a corresponding increase in equity. The fair value of the options under the 2004 Gooch & Housego PLC Company Share Option Scheme was measured by using the Black-Scholes option pricing model. The fair value of the options under the Gooch & Housego 2010 Value Creation Plan was measured by using the Monte Carlo option pricing model. The valuation of share options requires several judgements to be made in respect of the number of options that are expected to be exercised. Details of the assumptions included in the valuation of options are disclosed in Note 29.

NOTES TO FINANCIAL STATEMENTS for the year ended 30 September 2010

7 SEGMENTAL ANALYSIS

Following the adoption of IFRS 8, the Company has modified its segmental reporting to more closely reflect the information that management uses within the business. The business is divided into four market sectors, being Aerospace & Defence, Life Sciences, Industrial and Scientific Research, together with the Corporate cost centre.

The industrial business segment primarily comprises the industrial laser market for use in the semiconductor and microelectronic industries, but also includes other industrial applications such as metrology and telecommunications. Scientific Research covers academic and government funded research including major multi-national projects.

For year ended 30 September 2010	Aerospace & Defence £000	Life Sciences £000	Industrial £000	Scientific Research £000	Corporate £000	Total £000
Revenue						
Total revenue	11,304	4,890	25,897	5,120	–	47,211
Inter and intra-division	–	–	(2,514)	(14)	–	(2,528)
External revenue	**11,304**	**4,890**	**23,383**	**5,106**	**–**	**44,683**
Divisional expenses	(9,061)	(4,163)	(17,526)	(4,309)	(609)	(35,668)
EBITDA[1]	**2,243**	**727**	**5,857**	**797**	**(609)**	**9,015**
EBITDA %	19.8%	14.9%	25.0%	15.6%	–	20.2%
Depreciation and Amortisation	(433)	(139)	(594)	(164)	(822)	(2,152)
Operating profit before amortisation of acquired intangible assets	**1,810**	**588**	**5,263**	**633**	**(1,431)**	**6,863**
Acquired intangible assets amortisation	–	–	–	–	(934)	(934)
Operating profit	**1,810**	**588**	**5,263**	**633**	**(2,365)**	**5,929**
Operating profit margin %	16.0%	12.0%	22.5%	12.4%	–	13.3%

For year ended 30 September 2009	Aerospace & Defence £000	Life Sciences £000	Industrial £000	Scientific Research £000	Corporate £000	Total £000
Revenue						
Total revenue	10,450	3,517	19,150	5,455	–	38,572
Inter and intra-division	–	(75)	(2,054)	(29)	–	(2,158)
External revenue	**10,450**	**3,442**	**17,096**	**5,426**	**–**	**36,414**
Divisional expenses	(8,441)	(3,224)	(14,659)	(4,728)	638	(30,414)
EBITDA[1]	**2,009**	**218**	**2,437**	**698**	**638**	**6,000**
EBITDA %	19.2%	6.3%	14.3%	12.9%	0.0%	16.5%
Depreciation and Amortisation	(545)	(136)	(533)	(147)	(760)	(2,121)
Operating profit before amortisation of acquired intangible assets	**1,464**	**82**	**1,904**	**551**	**(122)**	**3,879**
Acquired intangible assets amortisation	–	–	–	–	**(1,095)**	(1,095)
Operating profit	**1,464**	**82**	**1,904**	**551**	**(1,217)**	**2,784**
Operating profit margin %	14.0%	2.4%	11.1%	10.2%	0.0%	7.6%

[1]EBITDA = Earnings before interest, tax, depreciation and amortisation.

All of the amounts recorded are in respect of continuing operations.

NOTES TO FINANCIAL STATEMENTS for the year ended 30 September 2010

7 SEGMENTAL ANALYSIS continued

Analysis of net assets/(liabilities) by origination:

	2010 Assets £000	2010 Liabilities £000	2010 Net Assets £000	2009 Assets £000	2009 Liabilities £000	2009 Net Assets £000
United Kingdom	**79,747**	**(60,890)**	**18,857**	75,216	(62,958)	12,258
North America	**34,394**	**(17,424)**	**16,970**	36,150	(18,103)	18,047
Continental Europe	**545**	**(319)**	**226**	1,543	(1,050)	493
	114,686	**(78,633)**	**36,053**	112,909	(82,111)	30,798

Analysis of revenue by destination:

	2010 £000	2009 £000
United Kingdom	**6,181**	4,231
North America	**22,275**	21,793
Continental Europe	**7,322**	5,679
Asia Pacific & Other	**8,905**	4,711
Total revenue	**44,683**	36,414

8 EXPENSES BY NATURE

	Note	2010 £000	2009 £000
Raw materials and consumables		**10,249**	8,543
Changes in stocks of finished goods and work in progress		**(447)**	(462)
Employee costs	10	**19,273**	17,817
Other operating charges		**6,962**	5,281
Depreciation		**1,796**	1,805
Amortisation of other intangible assets		**356**	315
Amortisation of acquired intangible assets		**934**	1,095
Other income	9	**(369)**	(764)
		38,754	33,630

9 OTHER INCOME

	2010 £000	2009 £000
Rental income	**–**	7
Grants receivable	**334**	391
Gain on disposal of property, plant & equipment	**2**	337
Other income	**33**	29
	369	764

NOTES TO FINANCIAL STATEMENTS for the year ended 30 September 2010

10 EMPLOYEE COSTS

	2010 £000	2009 £000
Wages and salaries	**15,725**	14,764
Social security costs	**1,279**	1,318
Share options	**353**	28
Medical and other insurance	**1,443**	1,326
Pension costs	**473**	381
	19,273	17,817

The average number of employees during the year was:	2010 No.	2009 No.
Manufacturing	**329**	328
Sales, finance and administration	**127**	125
	456	453

Key management compensation	2010 £000	2009 £000
Salaries and other short-term benefits	**2,964**	2,548
Pension scheme contributions	**109**	231
	3,073	2,779

11 OPERATING PROFIT

	2010 £000	2009 £000
Fees payable to the Company's auditor for the audit of the parent company and consolidated accounts	**36**	32
Fees payable to the Company's auditor and its associates for other services:		
- the audit of the Company's subsidiaries	**104**	88
- tax compliance and advisory	**164**	121
- training services	**2**	–
Net losses/(gains) on foreign exchange	**121**	(43)
Operating lease rentals		
- Land and buildings	**783**	756
- Other	**8**	18

12 FINANCE INCOME AND COSTS

	2010 £000	2009 £000
Finance income comprises:		
Bank interest	**2**	26
Finance costs comprise:		
Bank interest	**754**	1,056
Arrangement fee for acquisition of General optics	**81**	330
Finance lease interest	**–**	1
	835	1,387

NOTES TO FINANCIAL STATEMENTS for the year ended 30 September 2010

13 INCOME TAX EXPENSE

Analysis of tax charge in the year	2010 £000	2009 £000
Current taxation		
UK Corporation tax	**47**	206
Overseas tax	**1,513**	685
Adjustments in respect of prior year tax charge	**(46)**	232
Total current tax	**1,514**	1,123
Deferred tax		
Origination and reversal of timing differences	**(622)**	(553)
Adjustments in respect of prior year deferred tax	**(506)**	(107)
Impact of tax rate change to 27%	**19**	–
Total deferred tax	**(1,109)**	(660)
Income tax expense per income statement	**405**	463
Add back one-off items:		
Losses utilised not previously recognised	**350**	–
Unutilised tax losses to be consumed in future years	**564**	–
Increase in deferred tax on 2004 and 2005 options	**210**	–
Total one-off items	**1,124**	–
Adjusted income tax expense	**1,529**	463

The current taxation for the year is lower (2009: higher) than the standard rate of corporation tax in the UK. Some of the difference is due to one-off items listed in the above table. A full explanation of the differences is explained below:	2010 £000	2009 £000
Profit before income tax expense	**5,096**	1,423
Profit at the effective standard rate of tax of 28% for the year (2009: 28%)	**1,427**	398
Permanent differences	**(209)**	(210)
Share options	**(217)**	150
Utilisation of tax losses not previously recognised	**(966)**	(88)
Adjustments in respect of foreign tax rates	**243**	88
Adjustments in respect of prior year tax charge	**(189)**	232
Impact of tax rate change to 27% on deferred tax	**19**	–
Adjustments in respect of prior year deferred tax	**297**	(107)
Total income tax expense	**405**	463

Factors affecting the future tax charge

Overseas tax losses of £0.5m (2009: £1.2m) are available to offset against future profits of the Group. Tax losses in the UK, which may be utilised against future profits, are £0.5m (2009: £2.9m). The utilisation of these losses is not sufficiently certain to recognise a deferred tax asset.

The Finance (No. 2) Bill 2010 (now Finance (No. 2) Act 2010) contained provisions relating to the reduction in the rate of UK corporation tax from 28% to 27% with effect from 1 April 2011. The rate change was substantively enacted in July 2010 and the Group has reflected the rate change within its deferred tax provision. The change to the corporate tax rate reduced the Group's net deferred tax asset carried forward in the UK in the year to 30 September 2010 by approximately £19,000.

Further reductions of the UK corporation tax rate to 24% by April 2014 were also announced during 2010. These additional reductions had not been substantively enacted at the balance sheet date and have not been reflected in the year to 30 September 2010. The additional reductions are expected to be confirmed a year at a time in future periods

NOTES TO FINANCIAL STATEMENTS for the year ended 30 September 2010

14 DIVIDENDS

No dividends were paid in the year ending 30 September 2010 or the previous financial year.

Due to the improved financial position of the company, the Directors propose that a final dividend of 2.0p be paid for the year ended 30 September 2010.

15 EARNINGS PER SHARE

The calculation of earnings per 20p Ordinary Share is based on the profit for the period using as a divisor the weighted average number of Ordinary Shares in issue during the period.

The weighted average number of shares for the year ending 30 September is given below:	**2010**	2009
Number of shares used for basic earnings per share	**19,264,390**	19,264,390
Dilutive shares	**432,834**	–
Number of shares used for dilutive earnings per share	**19,697,224**	19,264,390

A reconciliation of the earnings used in the earnings per share calculation is set out below:	**2010**		2009	
	£000	**p per share**	£000	p per share
Basic earnings per share	**4,691**	**24.4p**	960	5.0p
Amortisation of acquired intangible assets (net of income tax expense)	**860**	**4.5p**	673	3.5p
Restructuring & redundancy costs	**–**	**–**	603	3.1p
Profit on sale of properties	**–**	**–**	(337)	(1.8p)
Costs associated with debt re-financing	**–**	**–**	330	1.7p
Impact of one-off tax adjustments	**(1,124)**	**(5.8p)**	–	–
Total adjustments net of income tax expense	**(264)**	**(1.3p)**	1,269	6.5p
Adjusted basic earnings per share	**4,427**	**23.1p**	2,229	11.5p
Basic diluted earnings per share	**4,691**	**23.8p**	960	5.0p
Adjusted diluted earnings per share	**4,427**	**22.5p**	2,229	11.5p

Basic and diluted earnings per share before amortisation and adjustments has been shown because, in the opinion of the Directors, it provides a useful measure of the trading performance of the Group.

On 5 January 2011 Gooch & Housego raised approximately £10.2 million (net of expenses) through a placement of New 20p Ordinary Shares. The Placing increased Ordinary Share Capital by approximately 12.2%. Further details of the Placing are provided in Note 34.

NOTES TO FINANCIAL STATEMENTS for the year ended 30 September 2010

16 PROPERTY, PLANT AND EQUIPMENT

	Capital work in progress £000	Freehold land & buildings £000	Leasehold property £000	Plant & machinery £000	Fixtures fittings & computers £000	Motor vehicles £000	Total £000
Cost or valuation							
At 1 October 2008	226	8,201	349	11,400	2,434	34	22,644
Acquisitions	–	–	105	1,261	–	–	1,366
Additions	292	66	65	357	5	–	785
Disposals	–	(167)	–	(372)	–	–	(539)
Reclassification	(432)	704	–	(60)	(212)	–	–
Exchange rate differences	–	90	30	243	29	–	392
At 30 September 2009	**86**	**8,894**	**549**	**12,829**	**2,256**	**34**	**24,648**
Additions	6	–	–	763	96	8	873
Disposals	–	–	–	(8)	–	(14)	(22)
Reclassification	(57)	–	–	60	13	–	16
Exchange rate differences	–	13	7	37	2	–	59
At 30 September 2010	**35**	**8,907**	**556**	**13,681**	**2,367**	**28**	**25,574**
Depreciation							
At 1 October 2008	–	517	225	4,955	547	24	6,268
Charge for the year	–	135	128	1,351	188	3	1,805
Disposals	–	(38)	–	(322)	–	–	(360)
Reclassification	–	–	–	(6)	6	–	–
Exchange rate differences	–	69	21	188	23	–	301
At 30 September 2009	**–**	**683**	**374**	**6,166**	**764**	**27**	**8,014**
Charge for the year	–	181	119	1,324	168	4	1,796
Disposals	–	–	–	(4)	–	(14)	(18)
Reclassification	–	–	–	3	5	–	8
Exchange rate differences	–	2	4	14	1	–	21
At 30 September 2010	**–**	**866**	**497**	**7,503**	**938**	**17**	**9,821**
Net book value							
At 1 October 2008	226	7,684	124	6,445	1,887	10	16,376
At 30 September 2009	86	8,211	175	6,663	1,492	7	16,634
At 30 September 2010	**35**	**8,041**	**59**	**6,178**	**1,429**	**11**	**15,753**

At the year ended 30 September 2010, plant and equipment purchased under a hire purchase or finance lease agreement had a cost of £33,000 and net book value of £32,000. At the year ended 30 September 2009, no assets were subject to a hire purchase or finance lease agreement.

No interest was capitalised in the year (2009: Nil).

NOTES TO FINANCIAL STATEMENTS for the year ended 30 September 2010

17 INTANGIBLE ASSETS

	Goodwill £000	Acquired intangible assets £000	Capitalised R & D, Patents and licences £000	Software and other intangibles £000	Total £000
Cost					
At 1 October 2008	8,699	1,039	149	933	10,820
Additions	6,374	2,712	372	105	9,563
Reclassification	–	–	15	(15)	–
Exchange rate differences	969	292	16	27	1,304
At 30 September 2009	**16,042**	**4,043**	**552**	**1,050**	**21,687**
Additions	–	–	49	32	81
Reclassification	–	–	–	(16)	(16)
Exchange rate differences	(183)	45	2	6	(130)
At 30 September 2010	**15,859**	**4,088**	**603**	**1,072**	**21,622**
Amortisation					
At 1 October 2008	2,218	855	40	267	3,380
Charge for the year	–	1,095	104	211	1,410
Reclassification	–	–	2	(2)	–
Exchange rate differences	–	12	3	24	39
At 30 September 2009	**2,218**	**1,962**	**149**	**500**	**4,829**
Charge for the year	–	934	171	185	1,290
Reclassification	–	–	–	(8)	(8)
Exchange rate differences	–	217	2	1	220
At 30 September 2010	**2,218**	**3,113**	**322**	**678**	**6,331**
Net book value					
At 1 October 2008	6,481	184	109	666	7,440
At 30 September 2009	13,824	2,081	403	550	16,858
At 30 September 2010	**13,641**	**975**	**281**	**394**	**15,291**

Goodwill is allocated to the Group's cash generating units (the "CGU") according to the location of the operating segments. Goodwill of £13.6m is allocated to the United Kingdom (£6.4m) and North America (£7.2m).

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. The impairment testing requires an estimation of the 'value in use' of the CGU. The value in use calculations use pre-tax cash flow projections based on the latest projections approved by the Board for year one. For the purposes of the impairment review, the following key assumptions were made in respect of the cash flows beyond year one:

- 42% Projected gross profit margin
- 5% Average growth to 2015, 3% thereafter
- 15% Weighted average cost of capital

The projected gross margin and average growth is based on past performance and the Directors expectations for the foreseeable future. Based on the calculation of the value in use, no impairment of goodwill has arisen.

NOTES TO FINANCIAL STATEMENTS for the year ended 30 September 2010

18 INVENTORIES

	2010 £000	2009 £000
Raw materials	**2,727**	2,584
Work in progress	**3,141**	2,996
Finished goods	**1,413**	1,111
	7,281	6,691

The cost of inventories recognised as an expense and included in Cost of revenue amounted to £25.4m (2009: £22.2m).

The movement in the inventories provision is as follows:	2010 £000	2009 £000
At 1 October	**2,092**	1,199
Increase in provision	**125**	808
Exchange rate movement	**(27)**	85
At 30 September	**2,190**	2,092

19 TRADE AND OTHER RECEIVABLES

	2010 £000	2009 £000
Trade receivables	**7,267**	5,931
Other receivables	**38**	33
Prepayments	**290**	332
	7,595	6,296

The carrying amount of the Group's trade and other receivables is denominated in the following currencies:	2010 £000	2009 £000
Pound Sterling	**1,946**	1,308
US Dollar	**5,241**	4,670
Euro	**408**	318
	7,595	6,296

The aging of Trade receivables by due date is as follows:	2010 £000	2009 £000
Current	**4,483**	3,372
1 to 3 months	**2,648**	1,992
Over 3 months	**320**	688
	7,451	6,052
Less provision for impairment	**(184)**	(121)
Net trade receivables	**7,267**	5,931

Movement on the provision for impairment of trade receivables is as follows:	2010 £000	2009 £000
At 1 October	**121**	92
Utilisation of provision	**–**	(32)
Increase in provision	**66**	64
Release of provision no longer required	**(4)**	(3)
Exchange rate movement	**1**	–
At 30 September	**184**	121

NOTES TO FINANCIAL STATEMENTS for the year ended 30 September 2010

20 INCOME TAX RECEIVABLE

	2010 £000	2009 £000
Income tax receivable	**168**	345

21 CASH AND CASH EQUIVALENTS

	2010 £000	2009 £000
Cash at bank and on hand	**8,285**	6,714

22 TRADE AND OTHER PAYABLES

	2010 £000	2009 £000
Payments on account	**–**	62
Trade creditors	**2,458**	1,655
Other taxation and social security	**31**	169
Accruals	**4,161**	2,298
	6,650	4,184

23 BORROWINGS

	2010 £000	2009 £000
Due within one year or on demand:		
Bank borrowings	**4,969**	8,070
Finance leases	**12**	1
	4,981	8,071
Due after more than one year:		
Bank borrowings	**8,527**	10,751
Finance leases	**18**	–
	8,545	10,751
Total borrowings	**13,526**	18,822

The carrying values of the bank borrowings, overdraft and finance leases are not materially different from their fair values.

At 30 September 2010, the Group had a US Dollar working capital facility of $10.0m. On 7 December 2010, by way of mutual agreement with the Group's bankers, The Royal Bank of Scotland plc, the facility was reduced to $8.0m. The facility is secured by a number of Company debentures, specific charges over the Group's United Kingdom properties, unlimited inter company cross guarantees and share pledge agreements. Interest is payable at 2.0% above US$ LIBOR. The facility is due to be renegotiated in March 2012.

The acquisition of General Optics in October 2008 was financed through two tranches of three-year amortising secured debt from the Group's bankers of $15.9m and £3.6m. The repayment terms of the acquisition facilities are as follows:

- The US Dollar facility to be repaid by one instalment of $575,000, five subsequent instalments of $1,700,000 and a final instalment of $6,800,000. Instalments are payable at six monthly intervals from the date of draw down. Interest is payable at 3.0% above US$ LIBOR.
- The Sterling facility to be repaid by six instalments of £118,700 and a final instalment of £2,849,800. Instalments are payable at six monthly intervals from the date of draw down. Interest is payable at 2.5% above UK£ LIBOR.

At 30 September 2010, the balance outstanding for the US Dollar facility was $11.5m (2009: $14.9m) and for the Sterling facility £3.2m (2009: £3.3m).

Gooch & Housego (Florida) LLC, a US subsidiary, has a US Dollar loan of $793,000 (2009: $848,000) which is secured by a charge over the property it occupies. The loan is repaid in monthly instalments totalling $55,000 per annum. Interest is payable at 1.6% above 30 day US$ LIBOR.

NOTES TO FINANCIAL STATEMENTS for the year ended 30 September 2010

23 BORROWINGS continued

Maturity profile of bank and other borrowings	Bank borrowings £000	Finance leases £000	Total 2010 £000	Total 2009 £000
Within one year	4,969	12	4,981	8,071
Between two and five years	8,198	18	8,216	10,393
More than five years	329	–	329	358
	13,496	30	13,526	18,822

24 PROVISION FOR OTHER LIABILITIES AND CHARGES

The movements in the Group provision for other liabilities and charges during the year are as follows:

Warranty reserve	2010 £000	2009 £000
At 1 October	351	264
Utilised during year	(251)	(264)
Charge to the income statement	268	381
Exchange movement	1	(30)
At 30 September	369	351

25 DEFERRED TAX ASSETS AND LIABILITIES

The movements in the Group's deferred tax assets and liabilities during the year are as follows:	2010 £000	2009 £000
At 1 October	887	39
Deferred tax relating to acquisition	–	162
Credit to the income statement	1,109	660
Credit directly to equity	417	–
Exchange movement	(17)	26
At 30 September	2,396	887

The deferred tax provided for in the financial statements is disclosed under the following balance sheet headings and can be analysed as follows:	2010 £000	2009 £000
Deferred income tax assets		
Intangible assets	272	220
Share options	727	–
Provisions	692	513
Unutilised losses	1,184	399
Other timing differences	217	289
	3,092	1,421
Deferred income tax liabilities		
Property, plant and equipment	(614)	(336)
Intangible assets	–	(19)
Other timing differences	(82)	(179)
	(696)	(534)
Deferred tax balance at 30 September	2,396	887

NOTES TO FINANCIAL STATEMENTS for the year ended 30 September 2010

25 DEFERRED TAX ASSETS AND LIABILITIES continued

The Group has recognised a deferred tax asset of £0.6m on overseas losses of £1.8m and £0.6m on UK losses of £2.2m as it is more likely than not that they will be utilised in the near future.

However, the Group did not recognise deferred income tax assets of £0.3m (2009: £1.2m) in respect of losses amounting to £1.0m (2009: £4.1m) due to uncertainty as to whether they would be utilised within the foreseeable future.

No deferred tax has been provided in relation to unremitted earnings from overseas subsidiaries on the basis that no incremental tax charge is currently anticipated to arise upon remittance of these earnings to the UK.

26 CALLED UP SHARE CAPITAL

	2010 No.	2009 No.	2010 £000	2009 £000
Authorised				
Ordinary shares of 20p each	**24,000,000**	24,000,000	**4,800**	4,800
Allotted, issued and fully paid				
Ordinary shares of 20p each	**19,264,390**	19,264,390	**3,853**	3,853

27 RESERVES

	Share Premium account £000	Merger reserve £000	Hedging reserve £000	Cumulative translation reserve £000	Retained earnings £000
At 1 October 2009	4,105	2,671	(186)	484	19,871
Profit for the financial year	–	–	–	–	4,691
Fair value of share options	–	–	–	–	353
Deferred tax on share options	–	–	–	–	417
Change in fair value of interest rate swap	–	–	2	–	–
Currency translation differences	–	–	–	(208)	–
At 30 September 2010	**4,105**	**2,671**	**(184)**	**276**	**25,332**

28 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' EQUITY

	2010 £000	2009 £000
Profit for the year	**4,691**	960
Share-based payments	**353**	28
Deferred income tax movement on share options	**417**	–
Value of interest rate swap	**2**	(186)
Income tax recognised in reserves	**–**	533
Currency translation movement	**(208)**	423
Net addition to shareholders' equity	**5,255**	1,758
Opening shareholders' equity	**30,798**	29,040
Closing shareholders' equity	**36,053**	30,798

NOTES TO FINANCIAL STATEMENTS for the year ended 30 September 2010

29 SHARE OPTIONS

The Company operates two active share option schemes, the Gooch & Housego PLC 2004 Company Share Option Scheme (the "2004 Scheme") and the Gooch & Housego 2010 Value Creation Plan (the "2010 VCP"), which grant share options to certain employees. A third scheme, the Gooch & Housego 2007 Long Term Incentive Plan (the "2007 LTIP"), is dormant

The Gooch & Housego PLC 2004 Company Share Option Scheme
Under the 2004 Scheme, the Company has ceased granting share options. Options under this scheme are granted at market price on the date of grant with a fixed exercise price equal to the market price of the shares under option at the date of the grant. The contractual life of an option is 10 years and is subject to continued employment.

At 30 September 2010, four senior employees within the Group have 444,077 share options outstanding relating to the 2004 Scheme. These options are subject to specific performance criteria, namely that their subsidiary audited pre-tax profits for the relevant year will be at least US$500,000 and the subsidiary pre-tax profits will be not less than 95% of the agreed budget. The remuneration report details the Executive Directors' share options and the performance criteria which are needed to be met for them to exercise their options.

The options under the 2004 Scheme was valued using the Black-Scholes option pricing model. The fair value per option and the assumptions used in the calculations are as follows:

Grant date	8 Dec 2005	23 Jul 2004
Share price at grant date	272.5p	133.5p
Exercise price	272.5p	133.5p
Number of employees	2	5
Shares under option	250,000	1,313,275
Vesting period (years)	1-4	1-4
Expected volatility	38.1%	56.7%
Option life (years)	10	10
Expected life (years)	5.5	5.5
Risk free rate	4.23%	4.99%
Expected dividends expressed as dividend yield	1.49%	1.49%
Fair value per option	98.4p	66.1p

No performance conditions were included in the fair value calculations. The expected volatility is based on historical volatility over the last three years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK Government bonds of a term consistent with the assumed option life.

The Gooch & Housego 2010 Value Creation Plan
Under the 2010 VCP, the amount of options granted won't be determined until the end of the plan's three year term and meeting the performance criteria. The remuneration report details the performance criteria. Under the plan, key employees are granted a one-off award of units from an agreed total. Three Executive Directors have been awarded 44 units out of the total pool of 64 units and eight key employees hold the remaining 20 units.

The 2010 VCP was valued using the Monte Carlo option pricing model. The expected volatility of 73.5% used in the model is based on the historic volatility of the Company's share price over the three years prior to 7 January 2010. The total fair value of all the units granted to the participants in the 2010 VCP was £1,614,640.

The Gooch & Housego 2007 Long Term Incentive Plan
The 2007 LTIP has been replaced by the 2010 VCP. The share options granted under the 2007 LTIP have been surrendered by the participants and the scheme is now dormant.

A reconciliation of share option movements is shown below:

	2010		2009	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at 1 October	**1,118,413**	**143.9p**	1,168,576	137.8p
Granted	**–**	**–**	–	–
Exercised	**–**	**–**	–	–
Surrendered or lapsed	**(172,968)**	**0.0p**	(50,163)	0.0p
Outstanding at 30 September	**945,445**	**170.3p**	1,118,413	143.9p
Exercisable at 30 September	**866,883**	**173.6p**	804,383	165.9p

The weighted average fair value of options granted in the year was £nil (2009: £nil).

NOTES TO FINANCIAL STATEMENTS for the year ended 30 September 2010

29 SHARE OPTIONS continued

Share options information by exercise price

Range of exercise prices – 30 September 2010		Number of options	Weighted average excercise price	Weighted average remaining life (years) Expected	Weighted average remaining life (years) Contractual
£0-£1.50	2004 Scheme	**695,445**	**133.5p**	**0.0**	**3.8**
£1.50-£3.00	2004 Scheme	**250,000**	**272.5p**	**0.0**	**5.2**

Range of exercise prices – 30 September 2009		Number of options	Weighted average excercise price	Weighted average remaining life (years) Expected	Weighted average remaining life (years) Contractual
£0-£1.50	2004 Scheme	695,445	133.5p	0.8	4.8
	2007 LTIP Scheme	172,968	0.0p	3.0	9.0
£1.50-£3.00	2004 Scheme	250,000	272.5p	0.8	6.2

The total charge for the year relating to share options was £353,000 (2009: £28,000), all of which related to equity-settled share based payment transactions.

30 CAPITAL COMMITMENTS

	2010 £000	2009 £000
Authorised and contracted but not provided for	**175**	52

NOTES TO FINANCIAL STATEMENTS for the year ended 30 September 2010

31 FINANCIAL INSTRUMENTS

The Group's financial instruments comprise an interest rate swap, bank borrowings, cash at bank, finance leases and various items such as trade receivables and trade payables that directly arise from its operations. The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and foreign currency risk.

The Board's policy on these risks is set out in the Directors' Report.

Operations are financed through a mixture of retained profits, cash reserves, bank borrowings and finance leases. Other than finance leases the Board's policy is to use variable rate borrowings whenever possible. Short-term funding flexibility is achieved through the Group's $8.0m Working Capital Facility.

The currency profile for the Group's financial assets and liabilities are set out below.	Financial assets		Financial liabilities	
	2010 £000	2009 £000	**2010 £000**	2009 £000
Pound Sterling	**2,165**	1,376	**3,205**	3,443
US Dollars	**5,386**	5,022	**10,321**	15,379
Euro	**734**	316	**–**	–
	8,285	6,714	**13,526**	18,822

The financial assets listed in the above table are subject to floating rates of interest. The Interest rates on the financial liabilities are provided in Note 23. The financial assets include cash at bank but exclude short-term receivables, prepayments and other receivables. The financial liabilities includes bank borrowings and finance leases. Other short-term payables are excluded from this disclosure.

32 DERIVATIVE FINANCIAL INSTRUMENTS

	2010 £000	2009 £000
Interest rate swap	**256**	258
Current portion	**85**	65
Non-current portion	**171**	193
Authorised and contracted but not provided for	**256**	258

The notional principal amount of the outstanding interest swap contract at 30 September 2010 was $9 million (2009: $12 million). The end date for the interest swap is 15 October 2013. At 30 September 2010, the fixed rate of the interest rate swap was 3.19% and the floating rate was US dollar LIBOR. The fair value of the swap is a mark to market calculation based on future interest rate expectations over the life of the swap. This is the level 2 method of determining fair value as defined by IFRS7.

33 OPERATING LEASES

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:	Land & Buildings		Other	
	2010 £000	2009 £000	**2010 £000**	2009 £000
Within one year	**443**	718	**4**	5
Between two to five years	**1,010**	103	**3**	3
	1,453	821	**7**	8

The increase in operating lease payments for Land & Buildings is due to a number of leases coming to an end during the 2010 financial year and being subsequently re-negotiated.

NOTES TO FINANCIAL STATEMENTS for the year ended 30 September 2010

34 POST BALANCE SHEET EVENTS

On 16 December 2010 the Board proposed to acquire the entire share capital of EM4, a US based manufacturer of fibre optics, based near Boston, Massachusetts. On 5 January 2011, following an EGM, Gooch & Housego PLC confirmed that it had raised approximately £10.2 million (net of expenses) through a Placing of New 20p Ordinary Shares at 450 pence per New Ordinary Share, in order to fund the proposed acquisition of EM4.

EM4 designs and manufactures fibre optic products that incorporate "active" components such as lasers, detectors and high frequency receivers or transmitter electronics. EM4's products are utilised in aerospace and defence, telecommunication, industrial and life sciences applications.

In the year ended 31 December 2009, EM4 had revenues of $4.5 million and EBITDA of $(1.4) million and in the 10 months to 31 October 2010, had revenues of $6.5 million and EBITDA of $1.1 million. The results for EM4 are prepared under US-GAAP and unaudited.

The consideration has been capped at $19 million and is expected to be settled in two instalments:

a. Initial consideration payable in cash on completion of the acquisition. This will be calculated at six times EM4's EBITDA in its financial year to 31 December 2010 and is expected to be around $10 million. The initial consideration is capped at $12 million.
b. An earnout based on EM4's EBITDA in its financial year to 31 December 2011. This will be payable in cash in March 2012 and has been capped at $7 million.

The Placing increased Ordinary Share Capital by approximately 12.2 per cent of the Existing Issued Ordinary Share Capital and approximately 10.9 per cent of the Enlarged Issued Ordinary Share Capital.

35 RELATED PARTY TRANSACTIONS

No material contracts or arrangements have been entered into during the year, nor existed at the end of the year, in which a director or key manager had a material interest.

INDEPENDENT AUDITORS' REPORT to the Members of Gooch & Housego PLC

We have audited the parent company financial statements of Gooch & Housego PLC for the year ended 30 September 2010 which comprise the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Directors' Responsibilities Statement set out on page 12, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

OPINION ON FINANCIAL STATEMENTS

In our opinion the parent company financial statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2010;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Directors' Report for the financial year for which the parent company financial statements are prepared is consistent with the parent company financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

OTHER MATTER

We have reported separately on the group financial statements of Gooch & Housego PLC for the year ended 30 September 2010.

David Charles (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
21 January 2011

COMPANY BALANCE SHEET as at 30 September 2010

	Note	2010 £000	2010 £000	2009 £000	2009 £000
Fixed assets					
Investments	6		**12,003**		12,003
Tangible assets	7		**10,326**		11,012
			22,329		23,015
Current assets					
Debtors	8	**6,524**		5,445	
Cash at bank and in hand		**2,103**		1,464	
		8,627		6,909	
Creditors: amounts falling due within one year	10	**(14,071)**		(15,685)	
Net current liabilities			**(5,444)**		(8,776)
Creditors: amounts falling due after more than one year	11		**(4,472)**		(5,281)
Net assets			**12,413**		8,958
Capital and reserves					
Called up share capital	13		**3,853**		3,853
Share premium account	14		**4,105**		4,105
Revaluation reserve	14		**258**		258
Profit and loss account	14		**4,197**		742
Shareholders' Funds	15		**12,413**		8,958

Approved by the Board of Directors on 21 January 2011 and signed on its behalf by:

....

Gareth C W Jones Andrew N Boteler

The notes on pages 46 to 52 form part of these financial statements

NOTES TO THE COMPANY BALANCE SHEET for the year ended 30 September 2010

1 COMPANY ACCOUNTING POLICIES

Basis of preparation
The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and have been prepared in accordance with applicable United Kingdom Accounting Standards and the Companies Act 2006.

Pension schemes
The Company operates a money purchase pension scheme for Directors and staff. The assets of the scheme are held in separately administered funds. The pension charge represents contributions payable to the funds during the year. Expenses under the plan are charged to the profit and loss account as incurred.

Share options
The Company operates two active share option plans which grant share options to key employees and one dormant scheme. These plans are subject to both market and non-market related vesting conditions. Option grants are measured at fair value which is then charged to the profit and loss account on a straight line basis over the vesting period. Adjustments are made to reflect expected and actual forfeiture during the vesting period due to failure to satisfy service conditions or non-market performance conditions. The fair value is determined using the Black-Scholes option pricing model for the Gooch & Housego PLC 2004 Share Option Scheme and the Monte Carlo option pricing model for the Gooch & Housego 2010 Value Creation Plan.

Foreign currencies
Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates ruling at the balance sheet date. Exchange differences which arise on the settlement of transactions and on the translation of other monetary assets and liabilities are dealt with in the profit and loss account.

Tangible fixed assets
Depreciation is calculated to write down the cost or valuation of the fixed assets, over their useful lives, at the following annual rates:

Freehold buildings	2-3%	Straight line
Plant & machinery	10-20%	Straight line
Fixtures, fittings & computers	10-33%	Straight line

No depreciation is charged on freehold land or capital work in progress.

Investments
Investments are stated at cost less provision for any permanent diminution in value. Where overseas borrowing is required to finance the investment in overseas subsidiaries, the investment is retranslated at the exchange rate ruling at the balance sheet date.

Deferred taxation
Deferred taxation is provided in full on all material timing differences. Deferred tax assets are recognised where their recovery is more likely than not. Deferred tax assets and liabilities have not been discounted.

Financial liabilities
Finance costs associated with financial liabilities are charged to the profit and loss account over the life of the instrument. Issue costs are accounted for as a deduction against the gross borrowings received and are amortised over the life of the instrument.

Financial instruments
The Company has not used derivative financial instruments to hedge its exposure to currency risk.

It has entered into an interest rate swap to hedge its exposure to interest rate movements. The Company does not apply hedge accounting to this swap. Amounts receivable or payable in respect of this derivative are recognised to interest expense over the period of the contract. Changes in the derivative's fair value are not recognised. Further details are given in Note 12.

Leases
Leases which transfer substantially all the risks and rewards of ownership of an asset are treated as a finance lease. Assets held under a finance lease are capitalised at their fair value at the inception of the lease and depreciated over the estimated useful economic life of the asset or lease term if shorter.

Finance charges are associated with the finance lease are expensed in proportion to the capital amount outstanding.

All other leases are classified as operating leases. Operating lease rentals are expensed in equal annual amounts over the lease term.

2 COMPANY PROFIT AND LOSS ACCOUNT

Gooch & Housego PLC has taken advantage of section 408(3) of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The Company's profit after tax was £3,102,000 (2009: £835,000 profit).

Fees payable to the Company auditor for the year amounted to £15,000 (2009: £14,500).

3 EMPLOYEE COSTS

	2010 £000	2009 £000
Wages and salaries	**1,100**	667
Social security costs	**109**	59
Share-based payments	**353**	11
Pension and other costs	**50**	50
	1,612	787

NOTES TO THE COMPANY BALANCE SHEET for the year ended 30 September 2010

3 EMPLOYEE COSTS continued

The average numbers of employees during the year were:	**2010 No.**	2009 No.
Finance and administration	**6**	6

4 DIRECTORS' EMOLUMENTS

	2010 £000	2009 £000
Directors' remuneration	**540**	532
Performance related bonus	**329**	–
Severance pay	**–**	115
Medical and other insurances	**11**	–
Directors' pension scheme contributions	**34**	29
	914	676

The number of Directors who are accruing retirement benefits under a money purchase pension scheme is 3 (2009: 3).

Details of the remuneration and pension contributions of the highest paid Directors are shown in the Remuneration Committee Report on page 13 and form part of these financial statements.

5 DIVIDENDS

No dividends were paid in the year ending 30 September 2010 and the previous financial year.

Due to the improved financial position of the company, the Directors propose that a final dividend of 2.0p be paid for the year ended 30 September 2010.

6 INVESTMENTS

Shares in subsidiary undertakings	**2010 £000**	2009 £000
At 1 October 2009	**12,003**	12,290
Additions	**–**	10
Transfer to subsidiary undertakings	**–**	(297)
At 30 September 2010	**12,003**	12,003

On 7 October 2009, G&H Holdings (Delaware), Inc, a subsidiary of the Company, acquired 100% of Gooch & Housego (California) LLC. The acquisition costs incurred by the Company of £297,000 were transferred to G&H Holdings (Delaware), Inc when the transaction completed.

The major subsidiary companies at 30 September 2010, all of which are wholly owned, are listed below:

Division	Location and country of incorporation	Activity
Gooch & Housego (UK) Limited	Ilminster, UK	Manufacturer of acousto-optic products and precision optics
Gooch & Housego (Torquay) Limited	Torquay, UK	Manufacturer of fibre-optic products
Gooch & Housego (Deutschland) GmbH	Norderstedt, Germany	Manufacturer of radio frequency electronic products
Gooch & Housego (Ohio) LLC	Cleveland, USA	Manufacturer of electro-optic products and crystals
Gooch & Housego (California) LLC	Moorpark, USA	Manufacturer of precision optics
Gooch & Housego (Florida) LLC	Melbourne, USA	Manufacturer of acousto-optic products
Optronic Laboratories LLC	Orlando, USA	Manufacturer of instruments for measuring optical radiation
ChromoDynamics, Inc.	Lakewood, USA	Developer of hyperspectral imaging systems

NOTES TO THE COMPANY BALANCE SHEET for the year ended 30 September 2010

7 TANGIBLE ASSETS

	Freehold land & buildings £000	Plant & machinery £000	Fixtures fittings & computers £000	Capitalised Computer Software & licences £000	Total £000
Cost or valuation					
At 1 October 2009	6,126	3,473	2,678	386	12,663
Additions	–	–	86	11	97
At 30 September 2010	**6,126**	**3,473**	**2,764**	**397**	**12,760**
Depreciation					
At 1 October 2009	500	346	740	65	1,651
Charge for the year	105	232	315	131	783
At 30 September 2010	**605**	**578**	**1,055**	**196**	**2,434**
Net book value					
At 30 September 2009	5,626	3,127	1,938	321	11,012
At 30 September 2010	**5,521**	**2,895**	**1,709**	**201**	**10,326**

At the year ended 30 September 2010, plant and equipment purchased under a hire purchase or finance lease agreement had a cost of £33,000 and net book value of £32,000. At the year ended 30 September 2009, no assets were subject to a hire purchase or finance lease agreement.

8 DEBTORS

	Note	2010 £000	2009 £000
Amounts due from subsidiary undertakings		**5,190**	4,368
Prepayments		**61**	90
Corporation tax receivable		**58**	–
Group tax relief receivable		**928**	987
Deferred tax asset	9	**287**	–
		6,524	5,445

Amounts due from subsidiary undertakings are unsecured and due within one year.

9 DEFERRED TAX

The movement in the Company deferred tax asset during the year is as follows:

Deferred tax asset/(liability)	2010 £000	2009 £000
At 1 October	**(303)**	98
Credit/(charge) to profit and loss account	**595**	(401)
Impact of tax rate change to 27%	**(5)**	–
At 30 September	**287**	(303)

The deferred tax provided for in the financial statements can be analysed as follows:	2010 £000	2009 £000
Property, plant and equipment	**(257)**	(303)
Share options	**309**	–
Other timing differences	**235**	–
	287	(303)

NOTES TO THE COMPANY BALANCE SHEET for the year ended 30 September 2010

10 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Note	2010 £000	2009 £000
Trade creditors		**85**	212
Amounts owed to subsidiary undertakings		**12,063**	13,978
Accruals		**1,049**	323
Other Tax and Social Security		**3**	19
Deferred tax liability	9	**–**	303
Finance leases falling due within one year		**12**	–
Bank borrowings falling due within one year	12	**859**	850
		14,071	15,685

Amounts owed to subsidiary undertakings are unsecured and due within one year.

11 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Note	2010 £000	2009 £000
Finance leases falling due after more than one year		**18**	–
Bank borrowings falling due after more than one year	12	**4,454**	5,281
		4,472	5,281

12 BANK BORROWINGS

The bank borrowings arise from the acquisition of General Optics. The sterling funding and part of the US dollar funding has been incurred by the Company and the balance of US dollar funding incurred by the Company's subsidiary, G&H Holdings (Delaware), Inc.

At 30 September 2010, the US Dollar facility is to be repaid by three instalments of US$490,000 and a final instalment of $1,850,000 in March 2012. Instalments are payable at six monthly intervals and interest is payable at 3.0% above US$ LIBOR.

At 30 September 2010, the Sterling facility is to be repaid by three instalments of £118,700 and a final instalment of £2,849,800 in March 2012. Instalments are payable at six monthly intervals and interest is payable at 2.5% above UK£ LIBOR.

Maturity profile of bank borrowings	2010 £000	2009 £000
Within one year	**859**	850
Between two and five years	**4,454**	5,281
	5,313	6,131
Currency profile of bank borrowings		
Pound sterling	**3,206**	3,443
US dollar	**2,107**	2,688
	5,313	6,131

The Company entered into an interest rate swap with an end date of 15 October 2013. At 30 September 2010, the notional principal amount of the outstanding interest swap contract was $9 million (2009: $12 million) and the fair value £256,000 (2009: £258,000). The fixed rate of the interest rate swap was 3.19% and the floating rate was US dollar LIBOR.

NOTES TO THE COMPANY BALANCE SHEET for the year ended 30 September 2010

13 CALLED UP SHARE CAPITAL

	2010 No.	2009 No.	2010 No.	2009 No.
Authorised				
Ordinary shares of 20p each	**24,000,000**	24,000,000	**4,800**	4,800
Allotted, issued and fully paid				
Ordinary shares of 20p each	**19,264,390**	19,264,390	**3,853**	3,853

No shares were allotted under share option schemes during the year ending 30 September 2010 and the previous financial year. On 5 January 2011, there was a placement of New 20p Ordinary Shares. Additional details can be found in note 17.

14 RESERVES

	Share Premium account £000	Revaluation reserve £000	Profit and loss account £000
At 1 October 2009	4,105	258	742
Profit for the financial year	–	–	3,102
Share options	–	–	353
At 30 September 2010	**4,105**	**258**	**4,197**

15 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2010 £000	2009 £000
Profit on ordinary activities after tax	**3,102**	835
Share options	**353**	28
Disposal of revalued asset	**–**	(50)
Net addition to shareholders' funds	**3,455**	813
Opening shareholders' funds	**8,958**	8,145
Closing shareholders' funds	**12,413**	8,958

NOTES TO THE COMPANY BALANCE SHEET for the year ended 30 September 2010

16 SHARE OPTIONS

The Company operates two active share option schemes, the Gooch & Housego PLC 2004 Company Share Option Scheme (the "2004 Scheme") and the Gooch & Housego 2010 Value Creation Plan (the "2010 VCP"), which grant share options to certain employees. A third scheme, the Gooch & Housego 2007 Long Term Incentive Plan (the "2007 LTIP"), is dormant.

The Gooch & Housego PLC 2004 Company Share Option Scheme
Under the 2004 Scheme, the Company has ceased granting share options. Options under this scheme are granted at market price on the date of grant with a fixed exercise price equal to the market price of the shares under option at the date of the grant. The contractual life of an option is 10 years and is subject to continued employment.

At 30 September 2010, four senior employees within the Group have 444,077 share options outstanding relating to the 2004 Scheme. These options are subject to specific performance criteria, namely that their subsidiary audited pre-tax profits for the relevant year will be at least US$500,000 and the subsidiary pre-tax profits will be not less than 95% of the agreed budget. The remuneration report details the Executive Directors' share options and the performance criteria which are needed to be met for them to exercise their options.

The options under the 2004 Scheme was valued using the Black-Scholes option pricing model. The fair value per option and the assumptions used in the calculations are as follows:

Grant date	8 Dec 2005	23 Jul 2004
Share price at grant date	272.5p	133.5p
Exercise price	272.5p	133.5p
Number of employees	2	5
Shares under option	250,000	1,313,275
Vesting period (years)	1-4	1-4
Expected volatility	38.1%	56.7%
Option life (years)	10	10
Expected life (years)	5.5	5.5
Risk free rate	4.23%	4.99%
Expected dividends expressed as dividend yield	1.49%	1.49%
Fair value per option	98.4p	66.1p

No performance conditions were included in the fair value calculations. The expected volatility is based on historical volatility over the last three years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK Government bonds of a term consistent with the assumed option life.

The Gooch & Housego 2010 Value Creation Plan
Under the 2010 VCP, the amount of options granted won't be determined until the end of the plan's three year term and meeting the performance criteria. The remuneration report details the performance criteria. Under the plan, key employees are granted a one-off award of units from an agreed total. Three Executive Directors have been awarded 44 units out of the total pool of 64 units and eight key employees hold the remaining 20 units.

The 2010 VCP was valued using the Monte Carlo option pricing model. The expected volatility of 73.5% used in the model is based on the historic volatility of the Company's share price over the three years prior to 7 January 2010. The total fair value of all the units granted to the participants in the 2010 VCP was £1,614,640.

The Gooch & Housego 2007 Long Term Incentive Plan
The 2007 LTIP has been replaced by the 2010 VCP. The share options granted under the 2007 LTIP have been surrendered by the participants and the scheme is now dormant.

A reconciliation of share option movements is shown below:

	2010		2009	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
Outstanding at 1 October	**1,118,413**	**143.9p**	1,168,576	137.8p
Granted	**–**	**–**	–	–
Exercised	**–**	**–**	–	–
Surrendered or Lapsed	**(172,968)**	**0.0p**	(50,163)	0.0p
Outstanding at 30 September	**945,445**	**170.3p**	1,118,413	143.9p
Exercisable at 30 September	**866,883**	**173.6p**	804,383	165.9p

The weighted average fair value of options granted in the year was £nil (2009: £nil).

NOTES TO THE COMPANY BALANCE SHEET for the year ended 30 September 2010

16 SHARE OPTIONS continued

Share options information by exercise price

Range of exercise prices – 30 September 2010		Number of options	Weighted average excercise price	Weighted average remaining life (years)	
				Expected	Contractual
£0-£1.50	2004 Scheme	**695,445**	**133.5p**	**0.0**	**3.8**
£1.50-£3.00	2004 Scheme	**250,000**	**272.5p**	**0.0**	**5.2**

Range of exercise prices – 30 September 2009		Number of options	Weighted average excercise price	Weighted average remaining life (years)	
				Expected	Contractual
£0-£1.50	2004 Scheme	695,445	133.5p	0.8	4.8
	2007 LTIP Scheme	172,968	0.0p	3.0	9.0
£1.50-£3.00	2004 Scheme	250,000	272.5p	0.8	6.2

The total charge for the year relating to share options was £353,000 (2009: £28,000), all of which related to equity-settled share based payment transactions.

17 POST BALANCE SHEET EVENTS

On 16 December 2010 the Board proposed to acquire EM4, a US based manufacturer of fibre optics, based near Boston, Massachusetts. On 5 January 2011, following an EGM, Gooch & Housego PLC confirmed that it had raised approximately £10.2 million (net of expenses) through a Placing of New Ordinary Shares of 450 pence per New Ordinary Share, in order to fund the proposed acquisition of EM4.

EM4 designs and manufactures fibre optic products that incorporate "active" components such as lasers, detectors and high frequency receivers or transmitter electronics. EM4's products are utilised in aerospace and defence, telecommunication, industrial and life sciences applications.

In the year ended 31 December 2009, EM4 had revenues of $4.5 million and EBITDA of $(1.4) million and in the 10 months to 31 October 2010, had revenues of $6.5 million and EBITDA of $1.1 million. The results for EM4 are prepared under US-GAAP and unaudited.

The consideration has been capped at $19 million and is expected to be settled in two instalments:

a. Initial consideration payable in cash on completion of the acquisition. This will be calculated at six times EM4's EBITDA in its financial year to 31 December 2010 and is expected to be around $10 million dollars. The initial consideration is capped at $12 million.
b. An earnout based on EM4's EBITDA in its financial year to 31 December 2011. This will be payable in cash in March 2012 and has been capped at $7 million.

The Placing increased Ordinary Share Capital by approximately 12.2 per cent. of the Existing Issued Ordinary Share Capital and approximately 10.9 per cent of the Enlarged Issued Ordinary Share Capital.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of the Company will be held at Dowlish Ford, Ilminster, Somerset TA19 0PF on 23 February 2011 at 11.00 a.m. for the following purposes:

To consider and, if thought fit, to pass the following resolutions as Ordinary Resolutions.

1 To receive and adopt the Annual Report and Accounts for the financial year ended 30 September 2010 together with the Auditor's Report thereon.
2 To declare a final dividend, as recommended by the directors, of 2.0 pence per ordinary share for the financial year ended 30 September 2010.
3 To re-elect Eugene Arthurs as a Director.
4 To re-elect Jan Melles as a Director.
5 To re-elect Paul Heal as a Director.
6 To re-appoint Messrs PricewaterhouseCoopers LLP as Auditors.
7 To authorise the Directors to fix the remuneration of the Auditors.

To consider and, if thought fit, to pass the following resolutions, in the case of resolution 8 as an Ordinary Resolution and in the case of resolution 9 as a Special Resolution.

8 THAT the Directors of the Company be, and they are hereby, generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 (the "Act"), in substitution for any existing authority to the extent unused, to exercise all the powers of the Company to allot shares in the Company or grant rights to subscribe for or to convert any security into shares in the Company on, and subject to, such terms as the Directors may determine. The authority hereby conferred shall, subject to section 551 of the Act, be for a period commencing on the date of the passing of this Resolution and expiring at the conclusion of the next Annual General Meeting of the Company or 23 May 2012 (whichever is the earlier) unless reviewed, varied or revoked by the Company in General Meeting and the maximum nominal amount of shares which may be allotted pursuant to such authority shall be £429,840.40 (representing the lower of one third of the total ordinary share capital of the Company in issue and the total authorised but unissued share capital of the Company at 20 January 2011). The Directors shall be entitled under such authority or any renewal thereof to make at any time prior to the expiry of such authority any offer or agreement which would or might require shares in the Company to be allotted after the expiry of such authority and the Directors may allot shares in pursuance of such offer or agreement as if such authority had not expired.
9 THAT the Directors of the Company be, and they are hereby, generally and unconditionally empowered pursuant to section 570 of the Companies Act 2006 ("the Act"), in substitution for any existing authority to the extent unused, to allot equity securities (as defined in section 560 of the Act) for cash pursuant to the authority conferred by Resolution 8 above as if section 561 of the Act did not apply to such allotment, provided that the power hereby conferred shall be limited to:
   (i) the allotment of equity securities in connection with an offer of securities, open for acceptance for a period fixed by the Directors, by way of rights to the holders of ordinary shares in proportion (as nearly as may be) to the respective numbers of ordinary shares held by them on a record date fixed by the Directors and subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with legal or practical problems under the laws of any overseas territory or the requirements of any regulatory body or any stock exchange in any territory or in connection with fractional elements or otherwise howsoever; and
   (ii) otherwise than pursuant to sub-paragraph (i) above, the allotment of equity securities up to an aggregate nominal amount of £218,507.98 (representing 5 per cent. of the total ordinary share capital of the Company in issue at 20 January 2011), and the power hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company or 23 May 2012 (whichever is the earlier), save that the Company may before such expiry make an offer or agreement which would or might require equity securities in the Company to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

To consider and, if thought fit, to pass the following resolutions as Special Resolutions:

10 THAT the Company be and is hereby generally and unconditionally authorised for the purposes of section 701 of the Companies Act 2006 (the "Act") to make one or more market purchases (within the meaning of section 693(4) of the Act) of fully paid ordinary shares of £0.20 each in the capital of the Company on such terms and in such manner as the Directors may determine, provided that:
   (a) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 2,185,079 (representing 10 per cent. of the total ordinary share capital of the Company in issue at 20 January 2011);
   (b) the minimum price (exclusive of expenses) which may be paid for each ordinary share is 20 pence per share;
   (c) the maximum price (exclusive of expenses) which may be paid for each ordinary share shall not be more than 5 per cent. above the average of the middle market quotations for an ordinary share as derived from the AIM section of the London Stock Exchange Daily Official List for the five business days immediately preceding the date on which the ordinary share is contracted to be purchased;
   (d) unless previously renewed, varied or revoked, the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company or 23 August 2012 (whichever is the earlier);
   (e) the Company may, pursuant to the authority hereby conferred, enter into a contract to purchase ordinary shares which would, will or might be executed wholly or partly after the expiry of such authority and the Company may make a purchase of ordinary shares in pursuance of such contract as if the authority conferred hereby had not expired.
11 THAT:
   (a) the Articles of Association of the Company be amended by deleting all the provisions of the Company's Memorandum of Association which, by virtue of section 28 of the Companies Act 2006, are treated as provisions of the Company's Articles of Association; and
   (b) the Articles of Association produced to the meeting and initialled by the Chairman of the meeting for the purposes of identification be and are hereby adopted as the Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association.

By order of the Board
Andrew Boteler
Director and Company Secretary 21 January 2011

Registered Office: Dowlish Ford, Ilminster, Somerset TA19 0PF
Registered Number: 526832

NOTICE OF ANNUAL GENERAL MEETING continued

Notes:

1 Resolutions 1 to 7 (inclusive) and 8 are proposed as Ordinary Resolutions. This means that for those resolutions to be passed, more than half of the votes cast on such resolutions must be in favour of such resolutions. Resolutions 9, 10 and 11 are proposed as Special Resolutions. This means that for those resolutions to be passed, at least three-quarters of the votes cast on such resolutions must be in favour of such resolutions.

2 A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to exercise all or any of the member's rights to attend, speak and vote at the meeting. A proxy need not be a member of the Company. If a member appoints more than one proxy in relation to the meeting, each proxy must be appointed to exercise the rights attached to a different share or shares held by that member.

3 To appoint as a proxy a person other than the Chairman of the meeting, a member must insert the proxy's full name in the box on the proxy form. If a member signs and returns a proxy form with no name in the box, the Chairman of the meeting will be deemed to be the member's proxy. Where a member appoints as a proxy someone other than the Chairman, the member is responsible for ensuring that the proxy attends the meeting and is aware of the member's voting intentions. If a member wishes a proxy to make any comments on the member's behalf, the member will need to appoint someone other than the Chairman and give them the relevant instructions directly.

4 A member which is a corporation is entitled to appoint one or more corporate representatives to exercise the same powers on behalf of the corporation as the corporation could exercise if it were an individual member. If a member which is a corporation appoints more than one corporate representative in relation to the meeting, each representative must exercise the rights attached to a different share or shares held by that member. In the case of a member which is a corporation, the proxy form must be executed under the corporation's common seal or signed on its behalf by a duly authorised officer of the corporation or an attorney for the corporation.

5 A form of proxy is enclosed. To be valid, the form of proxy (and any power of attorney or other authority (if any) under which it is signed) must by duly completed and signed and deposited at the office of the Company's registrars, Capita Registrars Limited, Freepost RSBH-UXKS-LRBC, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU not less than 48 hours before the time for holding the meeting (or any adjourned meeting). Completion of a form of proxy does not preclude a member from attending and voting in person at the meeting if (s)he so wishes.

6 Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those members entered in the Company's register of members at 6.00 pm on 21 February 2011 shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their names at that time. Changes in the Company's register of members after that time shall be disregarded in determining the rights of any person to attend and vote at the meeting. If the meeting is adjourned, the time which is 48 hours (disregarding any part of a day which is not a working day) before the time fixed for the adjourned meeting shall apply for the purpose of determining the entitlement of members to attend and vote at the adjourned meeting.

7 To appoint a proxy or to give or amend an instruction to a previously appointed proxy via the CREST system, the CREST message must be received by the issuer’s agent by 11.00 a.m. on 21 February 2011. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer’s agent is able to retrieve the message. After this time any change of instructions to a proxy appointed through CREST should be communicated to the proxy by other means. CREST Personal Members or other CREST sponsored members, and those CREST Members who have appointed voting service provider(s) should contact their CREST sponsor or voting service provider(s) for assistance with appointing proxies via CREST. For further information on CREST procedures, limitations and system timings please refer to the CREST Manual. The Company or its Registrars may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5) (a) of the Uncertificated Securities Regulations 2001. In any case your Form of Proxy must be received by the Company’s Registrars by no later than 11.00 a.m. on 21 February 2011.

8 Copies of Directors’ service agreements and letters of appointment and the rules of the Company Share Option Schemes will be available for inspection at the registered office of the Company from the date of this Notice of AGM until the date of the meeting during normal business hours, and at the place of the meeting from 10.45 a.m. until its conclusion.

9 Copies of the Articles of Association of the Company, as proposed to be adopted pursuant to Resolution 11 as set out in this Notice of AGM, will be available for inspection at the registered office of the Company from the date of this Notice of AGM until the date of the meeting during normal business hours, and at the place of the meeting from 10.45 a.m. until its conclusion. A copy of the Articles of Association of the Company proposed to be adopted pursuant to Resolution 11 is also available on the Company's website at www.goochandhousego.com.

10 The effect of the resolutions proposed as Resolutions 8 to 10 (inclusive), as set out in this Notice of AGM, are explained in the Appendix to this Notice of AGM.

11 The principal changes proposed to be made to the Articles of Association of the Company, by virtue of the removal of provisions of the Memorandum of Association and the adoption of new Articles of Association of the Company pursuant to Resolution 11 as set out in this Notice of AGM, are also summarised in the Appendix to this Notice of AGM.

APPENDIX – EXPLANATORY NOTES

Resolutions 8 and 9 – Authority to Allot Securities and to Disapply Pre-emption Rights

Resolution 8 is being proposed to renew the authority of the directors of the Company to allot shares (or rights in respect thereof), up to an aggregate nominal amount of £429,840.40 (being the lower of one third of the total ordinary share capital of the Company in issue and the total authorised but unissued share capital of the Company at 20 January 2011), and until the earlier of the conclusion of the next annual general meeting of the Company or 22 May 2012.

Resolution 9 is being proposed to renew the power of the directors of the Company to allot equity securities (or rights in respect thereof) for cash without first offering them to the existing shareholders in proportion to their existing holdings of shares, either in connection with a rights issue or otherwise up to an aggregate nominal amount of £218,507.98 (being 5 per cent. of the total ordinary share capital of the Company in issue at 20 January 2011), and until the earlier of the conclusion of the next annual general meeting of the Company or 23 May 2012.

Whereas the Company has no present intention, other than in respect of the Company's share option schemes, to issue or allot any new ordinary shares (or rights in respect of such ordinary shares), whether on a non pre-emptive basis or otherwise, it is best practice for the Company to seek its shareholders' approval of the renewal of these authorities at each successive annual general meeting of the Company.

Resolution 10 – Authority to Purchase Own Shares

Resolution 10 is being proposed to renew the authority of the Company to make market purchases of its own ordinary shares on AIM up to a maximum aggregate number of 2,185,079 ordinary shares (being 10 per cent. of the total ordinary share capital of the Company in issue at 20 January 2011), at a minimum price of 20 pence per share and a maximum price of 105 per cent. of the average of the market value for an ordinary share as derived from the AIM section of the London Stock Exchange Daily Official List for the 5 business days preceding the date of purchase, and until the earlier of the conclusion of the next annual general meeting of the Company or 23 August 2012. Any ordinary shares purchased by the Company pursuant to this authority would either be cancelled or held in treasury.

The Company has no present intention to purchase any of its own ordinary shares, and the directors of the Company will only consider making purchases if they believe it would be in the best interests of the shareholders. However, it is also best practice for the Company to seek its shareholders' approval of the renewal of this authority at successive annual general meetings of the Company.

Resolution 11 – Removal of Objects and Adoption of New Articles of Association

The Company is seeking its shareholders' approval to the removal of a number of provisions of its memorandum of association and the adoption of new articles of association of the Company, which reflects the further changes made to company law as a result of the final provisions of the Companies Act 1985 ("CA 1985") being repealed and the final provisions of the Companies Act 2006 ("CA 2006") coming into force on 1 October 2009.

The new articles of association proposed to be adopted pursuant to Resolution 11 also reflect amendments to CA 2006 made by virtue of The Companies (Shareholders' Rights) Regulations 2009 (the "Shareholders' Rights Regulations"), which came into force on 3 August 2009, and certain minor amendments made to the Uncertificated Securities Regulations 2001 (the "Uncertificated Securities Regulations"), by virtue of The Companies Act 2006 (Consequential Amendments) (Uncertificated Securities) Order 2009, which came into force on 1 October 2009. The principal changes which are proposed to be made to the Company's existing articles of association by the adoption of the new articles of association are explained below, and a copy of the proposed new articles of association of the Company (both in clean form and in a form marked to show all changes from the existing articles of association of the Company) are available for inspection as noted above.

1. Company's Objects

The provisions regulating the operations of the Company are currently set out in the Company's memorandum and articles of association. The Company's memorandum contains, among other things, the objects clause which sets out the scope of the activities which the Company is authorised to undertake.

CA 2006 significantly reduces the constitutional significance of a company's memorandum. CA 2006 provides that the memorandum will now record only the names of the subscribers and the number of shares each subscriber has agreed to take in the company. Under CA 2006, the objects clause and all other provisions which are contained in the memorandum are deemed, for companies incorporated prior to 1 October 2009, to be contained in the Company's articles of association, but the Company can remove these provisions by special resolution.

Further, CA 2006 states that, unless a company's articles provide otherwise, a company's objects are unrestricted. This effectively removes the requirement for a company to have an objects clause. For this reason, the Company is proposing to remove its objects clause, together with all other provisions of its memorandum which, by virtue of CA 2006, are now treated as forming part of its articles of association. Resolution 11 confirms the removal of these provisions.

As the effect of Resolution 11 will also be to remove the statement currently contained in the Company's memorandum regarding the limited liability of its members, the new articles of association to be adopted pursuant to Resolution 11 now contain an express statement regarding the limited liability of the members.

2. Authorised Share Capital

CA 2006 abolishes the requirement for a company to have an authorised share capital. The new articles of association to be adopted pursuant to Resolution 11 reflect this.

It should be noted that the directors will still be limited as to the number and nominal value of shares in the Company they can allot at any time as CA 2006 continues to require the directors to either have authority in the Company's articles of association or to have authority by a resolution of the shareholders to allot shares, save in respect of shares allotted pursuant to employee share schemes.

3. Alterations to Share Capital

Under CA 1985, a company required both specific enabling provisions in its articles of association and authority by a resolution of its shareholders to increase its share capital, consolidate or sub-divide its shares, cancel any unissued shares, to reduce its share capital or other undistributable reserves and to purchase its own shares.

Under CA 2006, a company will only require authority by a resolution of its shareholders to carry out these alterations to its share capital and it is no longer necessary for the articles of association to contain enabling provisions. Accordingly, the enabling provisions contained in the Company's existing articles of association have been removed in the new articles of association to be adopted pursuant to Resolution 11.

APPENDIX – EXPLANATORY NOTES continued

4. Issue of Redeemable Shares
Under CA 1985, if a company wished to issue redeemable shares, it had to include in its articles of association the terms and manner of redemption of those shares.

Under CA 2006, the directors are able to determine the terms and manner of redemption of shares, if authorised by the articles of association to do so. Accordingly, the new articles of association to be adopted pursuant to Resolution 11 contain such an authorisation.

It should be noted that the directors have no current plans to issue redeemable shares and any such issue of redeemable shares would require authority by a resolution of the shareholders in the usual way.

5. Registration of Share Transfers
The existing articles of association of the Company permit the directors to refuse to register transfers of shares in certain circumstances and to give the reasons for such refusal. The new articles of association of the Company to be adopted pursuant to Resolution 11 now provide for the board to provide such other information regarding the reasons for such a refusal as the transferee reasonably requests.

The existing articles of association of the Company permit the directors to suspend the registration of transfers of shares for up to 30 days. Under CA 2006, share transfers are required to be registered as soon as practicable.

Accordingly, to ensure the new articles of association of the Company to be adopted pursuant to Resolution 11 are consistent with CA 2006 and the Uncertificated Securities Regulations, the power of the directors to suspend the registration of share transfers has been preserved, but the time period during which such registration may be suspended is limited to a maximum of 10 working days in any calendar year, and remains subject in any event to the consent of the operator of the CREST system for so long as any of the Company's shares areheld in CREST.

Any decision by the directors to suspend the registration of share transfers would be taken only in exceptional circumstances, after due and careful consultation with its nominated adviser and with the consent of the operator of the CREST system for so long as any of the Company's shares are held in CREST.

6. Change of Company Name
Under CA 1985, a company could only change its name by special resolution of the members. Under CA 2006, a company is able to change its name by other means provided for by its articles of association. To take advantage of this provision, the new articles of association to be adopted pursuant to Resolution 11 enable the directors to pass a resolution to change the Company's name.

It should be noted that the directors have no present intention to change the Company's name, and any future decision of the directors to change the Company's name would be taken carefully having due regard to the expectations of the Company's members and any goodwill attaching to that name.

7. Voting by Proxies
The Shareholders' Rights Regulations have amended CA 2006 so that it now provides that multiple proxies appointed by a member each have one vote on a show of hands, unless any proxy is appointed by more than one member and has been instructed by such different members to vote in different ways, in which case that proxy has one vote for and one vote against. The new articles of association to be adopted pursuant to Resolution 11 reflect these changes in the law.

8. Voting by Corporate Representatives
The Shareholders' Rights Regulations have also amended CA 2006 so that it now provides that multiple representatives may be appointed by the same corporate member and provided they vote the shares held by that corporate member in the same way, whether on a show of hands or a poll, those votes will be taken into account, but where they vote the shares of that corporate member in different ways, those votes will not be counted. The new articles of association to be adopted pursuant to Resolution 12 also reflect these changes in the law.

9. Other Voting Matters
Under CA 2006, as amended by the Shareholders' Rights Regulations, there is now a requirement for a proxy or corporate representative of a member to vote in accordance with the instructions given by that member. The new articles of association to be adopted pursuant to Resolution 11 clarify that the Company is not obliged to verify whether a proxy or corporate representative has voted in accordance with instructions and that the vote will not be invalidated by any failure by a proxy or corporate representative to vote in accordance with instructions.

10. Vacation of Office by Directors
The existing articles of association of the Company specify certain circumstances in which a director must vacate his office with the Company. The new articles of association to be adopted pursuant to Resolution 11 update these provisions to reflect the approach taken on incapacity caused by both mental and physical illness in the model articles for public companies produced by the Department for Business, Innovation and Skills.

11. Use of Company Seals
Under CA 1985, a company required authority in its articles of association to have an official seal for use abroad. Under CA 2006, such authority is no longer required. Accordingly, the relevant authorisation has been removed in the new articles of association to be adopted pursuant to Resolution 11.

CA 2006 also now permits any document (other than share certificates) to which a company's seal is affixed to be signed by a single director in the presence of a witness, rather than just a director and the secretary or two directors. This alternative method of execution of documents by a company is reflected in the new articles of association to be adopted pursuant to Resolution 11.

12. Provision for Employees on Cessation or Transfer of Business
CA 2006 provides that the powers of directors of a company to make provision for employees or former employees of the company or any of its subsidiaries, in connection with the cessation or transfer to any person of the whole or part of the undertaking of the company or that subsidiary, may only be exercised by the directors if they are so authorised by the articles of association or by authority of a resolution of the shareholders.

The new articles of association to be adopted pursuant to Resolution 11 grant this power to the directors, but any decision of the directors to exercise this power will be taken carefully with all due regard to the circumstances.

13. Other Miscellaneous Matters
A number of other amendments have been made to the new articles of association to be adopted pursuant to Resolution 11 which are either consequential to the principal amendments to the articles of association explained above, supplemental to the amendments made to the articles of association at the 2009 Annual General Meeting or are intended to ensure that the new articles of association are in accordance with the law and use clear and consistent language throughout.

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