

For immediate release

Gooch & Housego PLC

PRELIMINARY RESULTS FOR THE YEAR ENDED 30 SEPTEMBER 2010

HIGHLIGHTS

Recovery & Growth

Gooch & Housego PLC, the specialist manufacturer of optical components and systems, today announces preliminary results for the year ended 30 September 2010.

Highlights

- Revenue increased by 23% to a record £44.7m (2009: £36.4m)
- Strong recovery in core Industrial market, up 37% on 2009
- Significant growth in Aerospace & Defence and Life Sciences sectors
- Adjusted profit before tax increased by 94% to £6.0m (£3.1m)
- Reported profit before tax increased by 258% to £5.1m (2009: £1.4m)
- Adjusted¹ operating profit increased by 66% to £6.9m (2009: £4.1m)
- Adjusted¹ basic earnings per share increased by 101% to 23.1p (2009: 11.5p)
- Net debt reduced by 58% to £5.2m since 30 September 2009.
- Year ended with a record order book of £23.5m (2009: £15.1m)
- Expanded production capacity to satisfy increasing demand
- Bolt-on acquisition opportunities under consideration
- Proposed final dividend of 2.0 pence per share

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

Gareth Jones, Chief Executive of Gooch & Housego PLC, commented:

“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.”

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Chairman's Statement

Foundation for continuing growth

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

Julian Blogh: Chairman

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 small 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.

Chief Executive Officer's Report

Foundation for continuing growth

“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 Officer

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, leadtimes 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 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.

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 leadtimes 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 bolt-on acquisition opportunities which have the 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
30 November 2010

Chief Financial Officer's Report

Foundation for continuing growth

"The Company has delivered strong results, grown its key target markets and reduced net debt by 58%. This year has provided a financial foundation on which the business can continue to grow."

Andrew Boteler: Chief Financial Officer

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	Adjusted		Reported	
Year ended 30 September	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 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 £0.7m 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, a lower grant income of £0.1m and a foreign exchange loss 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 58% 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%)

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.

Banking Facilities

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

At the year end the facilities utilised / principals remaining were as follows:

- US dollar acquisition loan \$11.5m
- Sterling acquisition loan £3.2m
- Working capital facility \$4.0m

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.

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Andrew Boteler
Chief Financial Officer
30 November 2010

Group Income Statement

For the year ended 30 September 2010 (unaudited)

	Note	2010 £000	2009 £000
Revenue	2	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		(7,439)	(6,334)
Other income		40	764
Operating profit	2	5,929	2,784
Finance income		2	26
Finance costs		(835)	(1,387)
Profit before income tax expense		5,096	1,423
Income tax expense	3	(405)	(463)
Profit for the period		4,691	960
Basic earnings per share	4	24.4p	5.0p
Diluted earnings per share	4	23.8p	5.0p

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 (unaudited)

	2010	2009
	£000	£000
Non-current assets		
Property, plant & equipment	15,783	16,634
Intangible assets	15,291	16,858
Deferred income tax assets	2,949	1,421
	34,023	34,913
Current assets		
Inventories	7,281	6,691
Trade and other receivables	7,595	6,296
Income tax receivable	168	345
Cash and cash equivalents	8,285	6,714
	23,329	20,046
Current liabilities		
Trade and other payables	(6,912)	(4,184)
Borrowings	(4,981)	(8,071)
Income tax liabilities	-	(77)
Provision for other liabilities and charges	(369)	(351)
	(12,262)	(12,683)
Net current assets	11,067	7,363
Non-current liabilities		
Borrowings	(8,545)	(10,751)
Deferred income tax liabilities	(695)	(534)
Derivative financial instruments	(183)	(193)
	(9,423)	(11,478)
Net assets	35,667	30,798
Shareholders' equity		
Called up share capital	3,853	3,853
Share premium account	4,105	4,105
Merger reserve	2,671	2,671
Hedging reserve	(184)	(186)
Cumulative translation reserve	307	484
Retained earnings	24,915	19,871
Equity Shareholders' Funds	35,667	30,798

Group Statement of Changes in Shareholders' Equity
For the year ended 30 September 2010 (unaudited)

	2010	2009
	£000	£000
Balance at beginning of period	30,798	29,040
Fair value adjustment of interest rate swap	2	(186)
Income tax recognised in reserves	-	533
Currency translation differences	(177)	423
Net (expense) / income recognised directly in equity	(175)	770
Profit for the period	4,691	960
Total recognised income and expense	4,516	1,730
Employee share option schemes:		
- Fair value of employee services	353	28
	353	(28)
Balance at end of the period	35,667	30,798

Consolidated Statement of Comprehensive Income
For the year ended 30 September 2010 (unaudited)

	2010	2009
	£000	£000
Profit for the period	4,691	960
Other comprehensive income		
Fair value adjustment of interest rate swap	2	(186)
Income tax recognised in reserves	-	533
Currency translation differences	(177)	423
Other comprehensive income for the period	(175)	770
Total comprehensive income for the period	4,516	1,730
Total comprehensive income for the period is attributed to:		
Shareholders of Gooch & Housego PLC	4,516	1,730

Group Cash Flow Statement

For the year ended 30 September 2010 (unaudited)

	Note	2010	2009
		£000	£000
Cash flows from operating activities			
Cash generated from operations	6	10,142	7,944
Income tax payment		(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 borrowings		-	12,168
Repayment of borrowings		(2,409)	(2,554)
Interest paid		(750)	(912)
Net cash (used in) / generated from in financing activities		(3,159)	8,702
Net increase in cash, cash equivalents, working capital facility and bank overdraft		4,731	3,258
Cash, cash equivalents and bank overdraft at beginning of the period		1,087	(1,997)
Exchange losses on cash and bank overdrafts		(72)	(174)
Cash, cash equivalents and bank overdrafts at the end of the period		5,746	1,087

Cash, cash equivalents and bank overdrafts at the end of the period are made up of:

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

Notes to the Preliminary Report

1 Basis of Preparation

The unaudited Preliminary Report has 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.

The Preliminary Report was approved by the Board of Directors and the Audit Committee on 24 November 2010. The Preliminary Report does not constitute statutory financial statements within the meaning of section 434 of the Companies Act 2006 and has not been audited.

Comparative figures in the Preliminary Report for the year ended 30 September 2009 have been taken from the Group's audited statutory financial statements on which the Group's auditors, PricewaterhouseCoopers LLP, expressed an unqualified opinion.

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 30 September 2009, as described in those financial statements.

The Preliminary Report will be announced to all shareholders on the London Stock Exchange and published on the Group's website on 30 November 2010. Copies will be available to members of the public upon application to the Company Secretary at Dowlish Ford, Ilminster, Somerset, TA19 0PF.

2. Divisional 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.

2. Divisional analysis – continued

	Aerospace & Defence	Life Sciences	Industrial	Scientific Research	Corporate	Total
	£000	£000	£000	£000	£000	£000
For year ended 30 September 2010						
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)
EBITDA¹	2,243	727	5,857	797	(609)	9,015
EBITDA %	19.8%	14.9%	25.0%	15.6%	0.0%	20.2%
Depreciation & 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%	0.0%	13.3%

	Aerospace & Defence	Life Sciences	Industrial	Scientific Research	Corporate	Total
	£000	£000	£000	£000	£000	£000
For year ended 30 September 2009						
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)
EBITDA¹	2,009	218	2,437	698	638	6,000
EBITDA %	19.2%	6.2%	12.7%	12.8%	0.0%	16.5%
Depreciation & 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%

¹EBITDA = Earnings before interest, tax, depreciation and amortisation

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

2. Divisional analysis - continued

Analysis of revenue by destination and net assets/(liabilities) by origination:
for year ended 30 September

	Revenue		Net Assets	
	2010 £000	2009 £000	2010 £000	2009 £000
United Kingdom	6,181	4,231	25,661	19,948
North America	22,275	21,793	9,780	10,857
Continental Europe	7,322	5,679	226	(7)
Asia Pacific & Other	8,905	4,711	-	-
Total revenue	44,683	36,414	35,667	30,798

3. Income tax expense

Income tax expense for the year to 30 September 2010 and the corresponding period to 30 September 2009 is set out below.

Analysis of tax charge for 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	(189)	232
Total current tax	1,371	1,123
Deferred tax		
Origination and reversal of timing differences	(985)	(660)
Impact of tax rate change to 27%	19	-
Total deferred tax	(966)	(660)
Total 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	564	-
Increase in deferred tax on 2004 and 2005 options	210	-
Total one-off items	1,124	-
Adjusted income tax expense	1,529	463

4. Earnings per share

The calculation of earnings per 20p Ordinary Share is based on the profit for the period using the weighted average number of Ordinary Shares in issue during the period as a divisor. The weighted average number of shares for the year ending 30 September is given below:

	2010	2009
	No.	No.
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	pence per share	£000	pence per share
Basic earnings per share	4,691	24.4p	960	5.0p
Acquired intangible assets amortisation (net of income tax expense)	860	4.5p	673	3.5p
Restructuring & redundancy costs	-	-	603	3.1p
Profit on sale of properties	-	-	(337)	(1.8)p
Cost associated with debt re-financing	-	-	330	1.7p
Impact of one off tax adjustments	(1,124)	(5.8)p	-	-
Total adjustments net of income tax expense:	(264)	(1.3)p	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.

5. Dividend

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 ending 30 September 2010.

6. Cash generated from operating activities

	2010	2009
	£000	£000
Profit before income tax	5,096	1,423
Adjustments for:		
- Amortisation of acquired intangible assets	934	1,095
- Amortisation of other intangible assets	363	315
- Depreciation	1,789	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	1,670	760
Total	717	2,290
Cash generated from operating activities	10,142	7,944

7. Called up share capital

	2010	2009	2010	2009
	No.	No.	£000	£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

No shares were allotted under share option schemes during the year ending 30 September 2010 and the previous financial year.