

For immediate release

9 June 2009

Gooch & Housego PLC

INTERIM REPORT FOR THE SIX MONTHS ENDED 31 MARCH 2009

Gooch & Housego PLC ('G&H' or 'Group'), the specialist manufacturer of optical components and systems, today announces its Interim Report for the six months ended 31 March 2009.

Financial highlights

- Group revenue up **20.1%** to **£18.8m** (2008: £15.7m) including contribution from acquisition
- Revenue excluding acquisition and FX benefit down **18.2%**
- Adjusted EBITDA down **11.3%** to £2.6m (2008 : £3.0m)
- Adjusted Group operating profit down **33.3%** to £1.6m (2008: £2.5m)
- Statutory Group operating profit down **56.7%** to £1.0m (2008: £2.2m)
- Finance costs of **£1.0m** relating to acquisition loan
- Group profit before tax at breakeven (2008: £2.2m)
- Adjusted basic EPS down **58.7%** to **3.8p** (2008: 9.2p)
- No interim dividend is proposed (2008: 1.5p)
- Net assets of £29.595m, an increase of £0.555m from 30 September 2008.
- Net debt increased to £17.390m relating to acquisition.
- Good cash management performance. Net cash inflow of £1.223m for the period.

Operational highlights

- Acquired California based ultra-precision optics manufacturer General Optics for US\$21.6m
- Challenging market conditions in the industrial laser market
- Renegotiated banking facilities
- Decisive action to reduce costs resulting in 16% reduction in headcount plus other savings
- Order book of **£20.4** million, up **26%** since 30 September 2008
- Global approach to new product development resulting in two new products launched
- First sales of biomedical hyperspectral imaging system
- Investment in developing new markets delivering exciting medium term opportunities

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Chairman's Statement

The first half of our current financial year has continued to be challenging. On a like for like basis we have seen a decline in our revenues and profits when compared with the first half of last year despite the benefits of the strong dollar.

Trading conditions in our core industrial laser market continue to be subdued and our acousto-optic manufacturing facilities remain on a short time working pattern.

These difficult market conditions in our traditional markets have reinforced our strategy of product and market diversification. The acquisition in 2007 of our fibre optics division continues to add value with a significant contribution to Group revenues and the development of both evolutionary and revolutionary products. Research in nuclear power generation in both the US & Europe have given opportunities to our Cleveland facility. In our Instrumentation and Life Sciences business we have achieved our first commercial sales of our hyperspectral imaging systems. A range of new products continue to be developed and a number are now with potential customers on operational trials. This is tangible evidence that the investment in R&D expenditure in recent years will prove to be of benefit.

Our recent acquisition on the West Coast of America, which is now called Gooch & Housego (California) LLC, has given us entry into the US Defence and Aerospace markets. The financial performance of this business since acquisition has been challenging due to the depressed commercial airline market and the push back of orders from a major customer. However we have a high level of confidence that this facility will add a great deal to the Group in view of its world leading optics capability, which gives access to near term defence sector opportunities.

We are justifiably proud of our new production facility in Ilminster and were honoured by a visit by HRH The Duke of York KG who performed the formal opening ceremony. It was a memorable day for us all. This state of the art facility is giving us new customer opportunities from world class businesses. We are quoting for a number of contracts with potentially significant revenues for the manufacture of components and sub assemblies.

Our exciting prospects are tempered by a degree of caution as we look at the immediate future. It is right that the management team are focussed on containing costs and maximising cash whilst world economic conditions are uncertain. However it is vital that this is not done in such a way as to prevent us taking full advantage of the prospects facing the Group. We now have the resources and facilities to take the Group forward into our chosen markets. We have an expanding product range and engineering and manufacturing capabilities that will secure growth for the medium term.

Dr Julian Blogh
Chairman
9 June 2009

Chief Executive's Review

The first half of the 2009 financial year was characterised by the most difficult trading conditions we have experienced for many years. Despite this challenging economic environment we completed our largest acquisition to date and have continued to implement our strategy of developing new products and markets.

In October we acquired General Optics, the global leader in ultra-precision optics based in Moorpark, California. This acquisition gives us access to the important US aerospace and defence market, is highly complementary to our Ilminster, UK, operations and provides a platform to develop a large optics capability to meet the requirements of the laser nuclear fusion research sector.

The first quarter started in an air of nervousness and uncertainty with demand progressively softening across most product and market sectors. During the period we experienced a sudden and significant decrease in demand for our core Q-switch products for the industrial laser market, which in recent years has accounted for approximately 40% of revenues and a greater percentage of profits. Although no orders were cancelled, many customers either sharply reduced their monthly requirements or suspended shipments altogether.

With no immediate prospect of a recovery in demand we were forced to reduce our costs to bring them into line with our lower sales forecast. This regrettably included a number of redundancies in addition to other cost saving measures.

At the same time we were experiencing an unprecedented decline in the value of Sterling against the US Dollar, which had the effect of increasing the magnitude of our debt when converted into Sterling. As a result of the combination of a reduced profit forecast and the effect of the decline in the value of Sterling we found it necessary to renegotiate our borrowing facilities with the result that our bankers have provided a US\$10 million, three year committed working capital facility in place of the previous one year facility.

As the second quarter progressed trading conditions stabilised. Demand for Q-switches recovered slightly following a period of de-stocking by our customers, but remained at a level considerably lower than at the start of the year. In general, those sectors of our business serving government funded research, defence and infrastructure projects continued to perform close to their original forecasts, while sectors linked to consumer spending, ranging from electronics to civil aviation, remained depressed and unpredictable. An order intake of £14.6 million in the quarter to 31 March 2009, much of which is scheduled for shipment this calendar year, is encouraging. A significant proportion of these orders are for products that Gooch & Housego was not making two years ago.

Despite the unfavourable economic conditions we have continued to invest in research & development but have focussed our efforts on fewer projects that have the potential to generate revenues in the near to medium term. We have been successful in obtaining funding for several collaborative research projects relevant to our target markets, and are collaborating with some highly relevant industrial and governmental partners.

Recent acquisitions and new product developments have given Gooch & Housego a broader customer and product base in new markets such as life sciences, aerospace & defence and telecommunications. Similarly, our investment in people, facilities and infrastructure has enabled Gooch & Housego to offer a much more comprehensive service to our customers. These initiatives have had the effect of mitigating some of the impact of the economic downturn and they are now beginning to generate some exciting new opportunities, some of which have the potential to make a meaningful contribution as early as 2010.

Divisional Trading Review

Optoelectronic Components and Materials

The industrial laser market has been badly affected by the economic downturn. Lasers are now widely used in industrial and electronic manufacturing, and many of these lasers use Q-switches. While the increasing use of lasers in manufacturing bodes well for the future, as the world's leading supplier of Q-switches Gooch & Housego has suffered significantly as a result of the global downturn in consumer spending and in general manufacturing. This has affected revenues and profitability at our Ilminster and Melbourne facilities. We see the beginnings of slight positive movement in this market as customer inventory levels are depleted and the world economy stabilises.

The Group's precision optics operations, based in Ilminster and Moorpark, whilst also suffering in the industrial and civil aviation sectors, have done well in both the defence and research markets, particularly as they continue to move up the value chain with subassemblies and modules rather than just components.

Our Torquay based fibre optics operation, with its diversified market base, has continued to do well and is expected to consolidate upon its good performance of last year.

Similarly, the supply of large crystals into the research market by our Cleveland based electro-optics and non-linear materials operation has exceeded expectations.

Instrumentation and Life Sciences

The commercial launch and initial sales of the hyperspectral imaging system represent a significant further step in leveraging our components expertise to develop higher value-add products. Alongside encouraging sales of another recently introduced system-level product aimed at microscopy and imaging applications, the Agile Light Source, we are gradually gaining presence in the important life sciences market.

Operational strategy and further integration

An increasing number of the opportunities we are now addressing require a combination of the capabilities and products from across the Group as a whole. In order to facilitate greater cross-fertilisation and respond more effectively we have begun to fully integrate our sales and R&D activities on a Group-wide basis. We will progressively dissolve the boundaries between the divisions and fully integrate the businesses, assimilating and maximising the contribution from Moorpark, eliminating duplication of manufacturing & products, and improving quality and delivery performance.

Responding to challenging market conditions

Given the weakness in the industrial laser market, it was appropriate that Gooch & Housego reviewed its cost base on a global basis. As a result we implemented a Group-wide cost reduction programme which included redundancies, the cancellation of all bonus schemes, short time working in certain areas and salary sacrifices. Overall headcount has been reduced by 16% from the level at the start of the year. Annualised savings amount to approximately £3.4 million.

Whilst we believe that these steps were appropriate and necessary, it was essential that these cost reductions were achieved in a carefully planned manner in order that the Group's future capabilities were not jeopardised. In particular, we are confident that we will be able to respond to an upturn in demand for our core products and meet the requirements of the sizeable new opportunities that we are currently bidding on.

Strategic overview

Over the last five years the Group has followed a strategy of developing new markets, broadening our range of products, capabilities and technologies and building a strong intellectual property portfolio. The acquisitions of a fibre optics business in 2007 and an aerospace and defence focussed precision optics business in 2008 are two examples of this. This strategy has established Gooch & Housego in a good defensive position in today's market place. Although the industrial laser market has suffered, the biomedical, research, high-reliability telecommunications and defence markets have remained resilient.

Going forward the defence and biomedical markets offer considerable potential in the near to medium term. The Group's broad offering of optical solutions, together with state of the art facilities and its heritage of innovation and quality, has positioned the company well with many of the key players in these market.

In the longer term opportunities in nuclear fusion energy applications are hugely exciting, with Gooch & Housego being extremely well placed to contribute to what is expected to be a high profile and high value industry.

The global sales organisation is now fully in place, with additional sales offices in Denver, Colorado and Munich Germany. The Group is now seeing the benefits of a global and holistic approach to the projection of its products and capabilities to both new and existing customers.

Product strategy

Over the past few years we have established Gooch & Housego as a global technology business. An important part of our continued success is the investment in research & development, both organically and through acquisition. Whilst the Group does not anticipate any significant further acquisitions in the near term, investment in in-house R&D will be maintained broadly at current levels.

Our investment in research & development has been evident over the last six months with the launch of two new products at Photonics West, our industry's leading trade fair, in January 2009. The Fibre Q-Switch and Isolator are already generating interest and initial orders and reinforcing our position as the market leader in components for both solid-state and fibre lasers.

Gooch & Housego continues to follow a strategy of moving its products up the value chain. The Group is now successfully partnering with its customers to provide complete optical solutions that not only support the customer but also provide additional value to Gooch & Housego.

Prospects

Whilst we have reason to be cautiously optimistic about our medium to long term prospects, we do not expect to see a near term recovery in the industrial laser market, nor do we anticipate meaningful additional business from new products and initiatives before 2010. We therefore expect trading conditions to remain very challenging throughout the second half of the year. During that time we will continue to manage our costs and seek further efficiencies while ensuring that we are able to respond to opportunities as they arise.

Our employees

I would like to thank our employees for their support and understanding during a period which has been difficult for them as individuals. Our people have experienced redundancy, salary sacrifice and short time working. I give my commitment to them all that when better times return the Board are totally committed to resuming normal working and remuneration levels as soon as it is prudent to do so.

Gareth Jones
Chief Executive Officer
9 June 2009

Finance Director's Report

Financial Performance – Income Statement

Group revenue for the six month period to 31 March 2009 amounted to £18.84m, an increase of £3.15m or 20.1% over the corresponding period last year. After taking account of the Gooch & Housego Moorpark acquisition and foreign exchange, group revenue was down 18.2% over the same period.

Adjusted earnings before interest, taxation, depreciation and amortisation (EBITDA) for the six month period to 31 March 2009, amounted to £2.65m (2008: £2.99m), a reduction of 11.3%.

Adjusted Group operating profit for the six month period to 31 March 2009 amounted to £1.64m (2008: £2.46m). A reduction of 33.3%.

The Group has incurred non recurring costs in the period amounting to £0.76m. These are in respect of redundancy and other costs associated with the cost reduction programme and the write off of finance costs following the Group's renegotiation of its banking facilities in March. There has also been a one off gain of £0.27m in respect of profit on the sale of part of the old Ilminster facility.

The acquisition of the Gooch & Housego Moorpark facility on the 7 October 2008 has contributed £3.27m in revenue and £0.15m in operating profit to the Group's results in the period to 31 March 2009. These results reflect lower than expected sales volumes due to delays in the placement of orders from a key customer. Intangible assets arising from the acquisition are being amortised over three years.

The Group continued its investment in Research & Development, with total expenditures incurred amounting to £1.84m (2008: £1.18m) representing 9.7% of revenue. Of this amount £0.29m (2008: £0.07m) has been capitalised in the period.

Sales & Marketing expenditure amounted to £1.32m (2008: £0.88m) representing 7.0% of revenue, due to the continued development of the Group's integrated world-wide sales force.

Adjusted basic earnings per share for the six months ended 31 March 2009 was 3.8p compared to 9.2p for the corresponding period last year.

Financial Performance - Balance Sheet

The Group Balance Sheet shows net assets of £29.60m, an increase of £0.56m on the year-end position as at 30 September 2008.

The biggest impact on the balance sheet in this period has been the acquisition of Gooch & Housego Moorpark. Intangible assets have increased to £19.88m (£7.44m as at 30 September 2008). This acquisition was funded through secured debt facilities and consequently total borrowings have increased by £14.56m since 30 September 2008 to £21.75m. Debt facilities were provided under three and a half year multi-currency loan agreements commencing 7 October 2008. In addition there is a three year US\$10 million working capital facility.

Financial Performance – Cash

The Group net cash inflow in the six month period to 31 March 2009 totalled £1.22m, compared to a net outflow for the equivalent period last year of £4.07m. The Group has generated cash in spite of difficult trading conditions and increased interest payments. This has been achieved by focusing throughout the Group on the collection of receivables and the minimisation of inventories. This focus will continue.

Cash, cash equivalents and bank overdrafts as at 31 March 2009 amounted to a negative cash position of £2.26m, representing a movement of £0.26m from £2.00m as at 30 September 2008.

Net debt as at 31 March 2009 amounted to £17.39m (2008: £3.30m). The increase is primarily due to the funding provided by the Group's bankers for the acquisition of Gooch & Housego Moorpark, although this has also been impacted by fluctuations in foreign exchange and successful cash management.

Dividends

No interim dividend will be paid.

Paul Heal
Interim Finance Director
9 June 2009

Unaudited interim results for the 6 months ended 31 March 2009

Group Income Statement

	Note	Half Year to 31 Mar 2009 (Unaudited)	Half Year to 31 Mar 2008 (Unaudited)	Full Year to 30 Sep 2008 (Audited)
		£000	£000	£000
Revenue	4	18,841	15,693	33,369
Cost of revenue		(11,559)	(8,041)	(17,479)
Gross profit		7,282	7,652	15,890
Research & Development		(1,548)	(1,110)	(2,703)
Sales & Marketing		(1,321)	(879)	(1,859)
Administration and other expenses		(4,206)	(3,696)	(6,350)
Other income		765	278	375
Operating profit	4	972	2,245	5,353
Net finance costs		(933)	(2)	(218)
Profit before income tax expense		39	2,243	5,135
Income tax expense	3	(13)	(647)	(1,558)
Profit for the period		26	1,596	3,577
Earnings per share - basic	5	0.1p	8.4p	18.5p

Reconciliation of operating profit to adjusted operating profit:

	Half Year to 31 Mar 2009 (Unaudited)	Half Year to 31 Mar 2008 (Unaudited)	Full Year to 30 Sep 2008 (Audited)
	£000	£000	£000
Operating profit	972	2,245	5,353
Amortisation of acquired intangible assets	510	218	304
Restructuring and redundancy costs	425	-	-
Profit from sale of Cornhill shops	(265)	-	-
Adjusted operating profit	1,642	2,463	5,657

Reconciliation of net finance costs to adjusted net finance costs:

	Half Year to 31 Mar 2009 (Unaudited)	Half Year to 31 Mar 2008 (Unaudited)	Full Year to 30 Sep 2008 (Audited)
	£000	£000	£000
Net finance costs	(933)	(2)	(218)
Costs associated with debt financing costs	330	-	-
Adjusted net finance costs	(603)	(2)	(218)

Unaudited interim results for the 6 months ended 31 March 2009
Group Balance Sheet

	Half Year to 31 Mar 2009 (Unaudited) £000	Half Year to 31 Mar 2008 (Unaudited) £000	Full Year to 30 Sep 2008 (Audited) £000
Non-current assets			
Property, plant & equipment	17,744	15,965	16,376
Intangible assets	19,878	6,983	7,440
Deferred income tax assets	1,259	908	1,152
	38,881	23,856	24,968
Current assets			
Cash and cash equivalents	4,361	3,577	3,901
Trade and other receivables	7,468	5,791	7,470
Inventories	7,778	5,719	5,929
Income tax receivable	2,082	442	971
Non-current assets held for resale	-	345	-
	21,689	15,874	18,271
Current liabilities			
Borrowings	(8,472)	(7,111)	(6,720)
Trade and other payables	(5,075)	(3,584)	(4,961)
Income tax liabilities	(1,637)	(215)	(665)
Provision for other liabilities and charges	(252)	(236)	(264)
	(15,436)	(11,146)	(12,610)
Net current assets	6,253	4,728	5,661
Non-current liabilities			
Borrowings	(13,279)	(1,181)	(476)
Deferred income tax liabilities	(2,010)	(658)	(1,113)
Provision for other liabilities and charges	(250)	-	-
	(15,539)	(1,839)	(1,589)
Net assets	29,595	26,745	29,040
Shareholders' equity			
Called up share capital	3,853	3,828	3,853
Share premium account	4,105	3,963	4,105
Merger reserve	2,671	2,671	2,671
Hedging Reserve	(240)	-	-
Cumulative translation reserve	823	(459)	62
Retained earnings	18,383	16,742	18,349
Equity Shareholders' Funds	29,595	26,745	29,040

Unaudited interim results for the 6 months ended 31 March 2009

Group Statement of Changes in Equity

	Half Year to 31 Mar 2009 (Unaudited)	Half Year to 31 Mar 2008 (Unaudited)	Full Year to 30 Sep 2008 (Audited)
	£000	£000	£000
Balance at beginning of period	29,040	25,995	25,995
Income tax movement on share options	-	(719)	(848)
Currency translation differences	761	108	629
Net income/(expense) recognised directly in equity	761	(611)	(219)
Profit for the period	26	1,596	3,577
Total recognised income and expense	787	985	3,358
Employee share option schemes:			
- Fair value of employee services	8	46	92
- Proceeds from shares issued	-	287	454
Dividends	-	(568)	(859)
Hedging reserve movement	(240)		
	(232)	(235)	(313)
Balance at end of the period	29,595	26,745	29,040

Unaudited interim results for the 6 months ended 31 March 2009
Group Cash Flow Statement

	Note	Half Year to 31 Mar 2009 (Unaudited)	Half Year to 31 Mar 2008 (Unaudited)	Full Year to 30 Sep 2008 (Audited)
		£000	£000	£000
Cash flows from operating activities				
Cash generated from operations	7	4,103	1,914	5,658
Income tax paid		(40)	(592)	(1,470)
Net cash generated from operating activities		4,063	1,322	4,188
Cash flows from investing activities				
Acquisition of subsidiary, net of cash acquired		(12,335)	-	-
Purchase of property, plant and equipment		(374)	(4,648)	(4,594)
Sale of property, plant and equipment		285	-	-
Purchase of intangible assets		(389)	(79)	(421)
Interest received		29	47	94
Net cash generated from / (used in) financing activities		(12,784)	(4,680)	(4,921)
Cash flows from financing activities				
Proceeds from borrowings		12,192	-	-
Proceeds from issue of ordinary shares		-	287	454
Repayment of borrowings		(1,798)	(173)	(261)
Interest paid		(450)	(262)	(554)
Dividends paid to ordinary shareholders		-	(568)	(859)
Net cash used in financing activities		9,944	(716)	(1,220)
Net increase/(decrease) in cash, cash equivalents and bank overdraft		1,223	(4,074)	(1,953)
Cash, cash equivalents and bank overdraft at beginning of the period		(1,997)	513	513
Exchange (losses) / gains on cash and bank overdrafts		(1,485)	188	(557)
Cash, cash equivalents and bank overdrafts at the end of the period		(2,259)	(3,373)	(1,997)

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

	Half Year to 31 Mar 2009 (Unaudited)	Half Year to 31 Mar 2008 (Unaudited)	Full Year to 30 Sep 2008 (Audited)
	£000	£000	£000
Cash and cash equivalents	4,361	3,577	3,901
Bank overdraft	(6,620)	(6,950)	(5,898)
Cash, cash equivalents and bank overdrafts at the end of the period	(2,259)	(3,373)	(1,997)

Notes to the Interim Report

1 Basis of Preparation

The unaudited Interim Report has been prepared under the historical cost convention and in accordance with International Financial Reporting Standards ("IFRS").

The Interim Report was approved by the Board of Directors and the Audit Committee on 5 June 2009. The Interim Report does not constitute statutory financial statements within the meaning of the Companies Act 1985 and has not been audited.

Comparative figures in the Interim Report for the year ended 30 September 2008 have been taken from the Group's audited statutory financial statements on which the Group's auditors, PricewaterhouseCoopers LLP, expressed an unqualified opinion. The comparative figures to 31 March 2008 are unaudited.

The Interim Report will be announced to all shareholders on the London Stock Exchange and published on the Group's website on 9 June 2008. Copies will be available to members of the public upon application to the Company Secretary at Dowlish Ford, Ilminster, Somerset, TA19 0PF.

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 30 September 2008, as described in those financial statements.

2 Recent Accounting Developments

The following standards and amendments have been issued but application is not mandatory for the financial year ending September 2009. The Company's approach to their adoption is described below.

- IAS 23 (amendment), "Borrowing costs", effective for annual periods commencing 1 January 2009 removes the discretion for the capitalisation of borrowing costs. No impact, as consistent with existing Company policy.
- IFRS 2 (amendment) "Share-based payment", effective for annual periods commencing 1 January 2009. Management is assessing the impact of changes to vesting conditions and cancellations.
- IFRS 3 (amendment), "Business combinations", effective prospectively to business combinations where the acquisition date is on or after the beginning of the first annual reporting period commencing 1 July 2009. Has no impact on the General Optics acquisition but may have an impact on future acquisitions. Management will assess the implications as and when there is a new acquisition.
- IAS 1 (amendment), "Presentation of financial statements", effective for annual periods commencing 1 January 2009. Management is assessing the implications of adopting the new standard with a view to possible early adoption at the year ending 30 September 2009.
- IFRS 8, "Operating segments", effective for annual periods commencing 1 January 2009. This standard requires segment reporting to be presented on the same basis as that used for internal reporting purposes. Management is assessing the implications of adopting the new standard with a view to possible early adoption at the year ending 30 September 2009.

3 Income tax expense

Income tax expense for the six months ended 31 March 2009 and 31 March 2008, respectively, has been estimated at prevailing rates. Taxation for the year ended 30 September 2008 is the actual provision for the year.

4 Segmental analysis

Half Year to 31 March 2009	Components & Materials	Instrumentation & Life Sciences	Corporate	Total
	£000	£000	£000	£000
Revenue				
Total Revenue	18,246	1,951	-	20,197
Inter and intra-division	(1,236)	(120)	-	(1,356)
External Revenue	17,010	1,831	-	18,841
Divisional expenses	(13,299)	(1,755)	(1,139)	(16,193)
Adjusted EBITDA¹	3,711	76	(1,139)	2,648
Adjusted EBITDA %	21.8%	4.2%	0.0%	14.1%
Restructuring and redundancy costs	(325)	-	(100)	(425)
Profit from sale of Cornhill shops	-	-	265	265
EBITDA¹	3,386	76	(974)	2,488
Depreciation and amortisation	(837)	(68)	(101)	(1,006)
Operating profit before amortisation of acquired intangible assets	2,549	8	(1,075)	1,482
Amortisation of acquired intangible assets	(510)	-	-	(510)
Operating profit	2,039	8	(1,075)	972

Half Year to 31 March 2008	Components & Materials	Instrumentation & Life Sciences	Corporate	Total
	£000	£000	£000	£000
Revenue				
Total Revenue	15,694	1,699	-	17,393
Inter and intra-division	(1,628)	(72)	-	(1,700)
External Revenue	14,066	1,627	-	15,693
Divisional expenses	(10,164)	(1,546)	(998)	(12,708)
EBITDA¹	3,902	81	(998)	2,985
EBITDA %	24.9%	5.0%	0.0%	19.0%
Depreciation and amortisation	(348)	(26)	(148)	(522)
Operating profit before amortisation of acquired intangible assets	3,554	55	(1,146)	2,463
Amortisation of acquired intangible assets	(218)	-	-	(218)
Operating profit	3,336	55	(1,146)	2,245

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

All of the amounts recorded in this Interim Report are in respect of continuing operations.

5 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 is given below.

	Half Year to 31 Mar 2009 (Unaudited)	Half Year to 31 Mar 2008 (Unaudited)	Full Year to 30 Sep 2008 (Audited)
	£000	£000	£000
Number of shares used for basic earnings per share	19,264,390	19,050,734	19,383,631
Dilutive shares	385,485	581,463	493,106
Number of shares used for dilutive earnings per share	19,650,075	19,632,197	19,876,737

A reconciliation of the earnings used in the earnings per share calculation is set out below:

	Half Year to 31 Mar 2009 (Unaudited)		Half Year to 31 Mar 2008 (Unaudited)		Full Year to 30 Sep 2008 (Audited)	
	£000	p per share	£000	p per share	£000	p per share
Basic earnings per share	26	0.1p	1,596	8.4p	3,577	18.5p
Adjustments net of income tax expense:						
Amortisation of acquired intangible assets	367		157		219	
Restructuring and redundancy costs	306		-		-	
Profit from sale of Cornhill shops	(191)		-		-	
Costs associated with debt re-financing	237		-		-	
Total adjustments net of income tax expense:	719	3.7p	157	0.8p	219	1.1p
Adjusted basic earnings per share	745	3.8p	1,753	9.2p	3,796	19.6p

Basic and diluted earnings per share before amortisation and adjustments has been shown because, in the opinion of the Directors, it more accurately reflects the trading performance of the Group.

The diluted earnings per share has not been shown as the difference between basic and diluted earnings per share is immaterial.

6 Dividend

The Directors are proposing that no interim dividend is paid for the half year ending 31 March 2009.

Comparative dividend payments are shown below.

	Half Year to 31 Mar 2009 (Unaudited)	Half Year to 31 Mar 2008 (Unaudited)	Full Year to 30 Sep 2008 (Audited)
	£000	£000	£000
Interim dividend paid: 1.5p per share	-	-	291
No final dividend proposed nor paid for 2008. (2007: 3.0p)	-	568	568
	-	568	859

7 Cash generated from operating activities

	Half Year to 31 Mar 2009 (Unaudited)	Half Year to 31 Mar 2008 (Unaudited)	Full Year to 30 Sep 2008 (Audited)
Profit before income tax	39	2,243	5,135
Adjustments for:			
- Amortisation of acquired intangible assets	510	218	304
- Amortisation of other intangible assets	113	1	177
- Depreciation	893	521	971
- Profit/(loss) on disposal of property, plant and equipment	(265)	15	2
- Share option expense	(21)	46	(88)
- Finance income	(29)	(50)	(94)
- Finance costs	962	52	312
Total	2,163	803	1,584
Changes in working capital			
- Inventories	(337)	(250)	(783)
- Trade and other receivables	2,678	956	(14)
- Trade and other payables	(444)	(1,838)	(387)
- Provisions for liabilities and charges	4	-	123
Total	1,901	(1,132)	(1,061)
Cash generated from operating activities	4,103	1,914	5,658

8 Acquisition of General Optics

On 7 October 2008, the company acquired the trade and assets of General Optics from GSI Group for cash consideration of US\$21.6 million. General Optics is located in Moorpark, California and is the world leader in the manufacture of ultra-high quality optical components and coatings.

The net tangible assets acquired per the net asset statement were US\$6.1 million. The cash consideration of US\$21.6 million was funded by the Company's bankers through a secured multi-currency debt facility. The table below sets out the net assets acquired:

	Net Asset Statement £000	Fair Value Adjustments £000	Fair Value £000
Property, plant and equipment	1,447	(81)	1,366
Intangible Assets	-	2,712	2,712
Cash	1	-	1
Trade and other receivables	1,415	(10)	1,405
Inventory	746	(232)	514
Trade and other payables	(175)	(30)	(205)
Deferred tax	-	(997)	(997)
Net assets acquired	3,434	1,362	4,796

Consideration paid:

Cash	12,184
Costs of acquisition	275
Total consideration	12,459
Goodwill	7,663

9 Derivative financial instruments

	Half Year to 31 Mar 2009 (Unaudited) £000	Half Year to 31 Mar 2008 (Unaudited) £000	Full Year to 30 Sep 2008 (Audited) £000
Interest rate swap	334	-	-
Current portion	84	-	-
Non-current portion	250	-	-
	334	-	-

The notional principal amount of the outstanding interest swap contract at 31 March 2009 was \$12 million.

At 31 March 2009, the fixed rate of the interest rate swap was 3.19% and the floating rate was US dollar LIBOR. Gains and losses recognized on interest rate swap contracts in the hedging reserve will be released to the income statement as the borrowings are repaid.