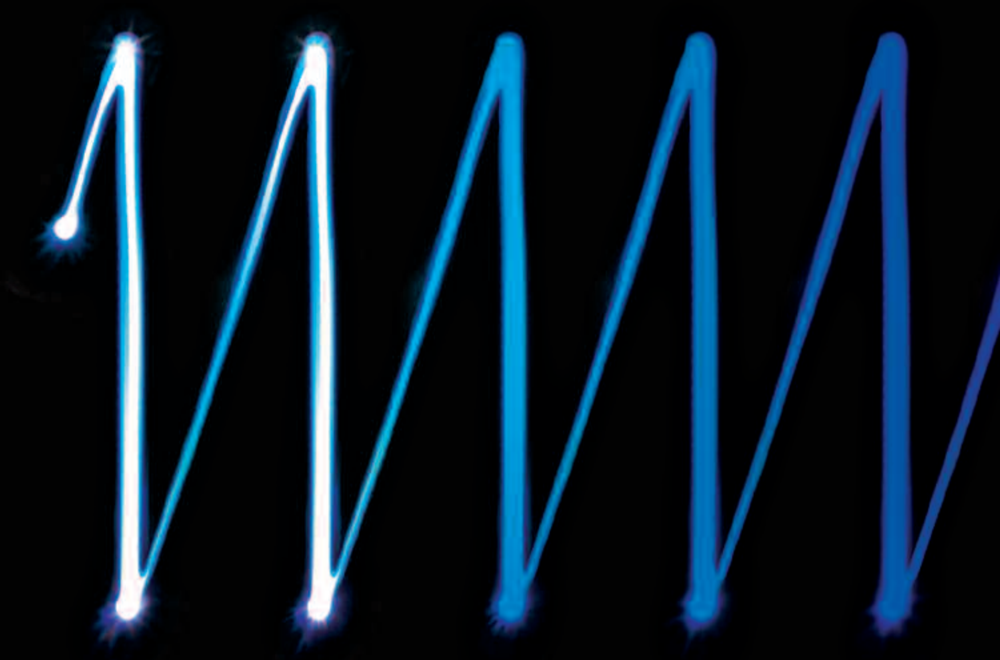
Gooch & Housego

INTERIM REPORT + ACCOUNTS 2011



FINANCIAL HIGHLIGHTS

	H1 2011	H1 2010	Increase/ (decrease)	FY 2010
Revenue	£27.2m	£20.4m	33%	£44.7m
Reported operating profit	£4.3m	£2.1m	101%	£5.9m
Reported profit before tax	£3.9m	£1.7m	130%	£5.1m
Basic earnings per share	13.0p	6.1p	98%	24.4p
Adjusted operating profit[1]	**£5.3m**	**£2.6m**	**102%**	**£6.9m**
Adjusted profit before tax[1]	£5.0m	£2.2m	128%	£6.0m
Adjusted earnings per share[1]	**17.1p**	**7.9p**	**101%**	**23.1p**
Net borrowing at 31 March	£5.5m	£9.3m	(41%)	£5.2m
Net Cash generated from operating activities	£5.5m	£4.0m	36%	£8.8m

[1] Adjusted for amortisation of acquired intangible assets, recognition of deferred tax asset and the cost of acquisitions.

OPERATIONAL HIGHLIGHTS

- Strong demand lifts revenues and profits
- Industrial sector driven by growing use of lasers in manufacturing
- Further diversification into Aerospace & Defence and Life Sciences, enhanced by acquisitions
- Acquisition of EM4, Inc. a specialist manufacturer of active fibre optics
- Acquisition of Crystal Technology, LLC, a manufacturer of acousto-optics and crystals
- Record order book going into the second half of FY2011.
- Interim dividend of 2.0p per share declared.

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

"The work we put in during 2010 has enabled us to meet the continuing strong demand for our products in 2011 and deliver an encouraging set of results for the first half of the year. The acquisitions open up many exciting opportunities for the future while accelerating the diversification of the business and consolidating Gooch & Housego's leading position in high-end photonics solutions."

OPERATING & FINANCIAL REVIEW

ACQUISITIONS ADD SHAREHOLDER VALUE

"Two strategically important acquisitions have strengthened our offerings of active fibre optic, acousto-optic and electro-optic devices and accelerated diversification into new markets."

Dr Julian Blogh, Chairman

PERFORMANCE OVERVIEW

The first six months of the 2011 financial year were characterised by favourable market conditions and strong demand for Gooch & Housego's products from the Industrial, Aerospace & Defence and Life Sciences market sectors. The period was also notable for the completion of two strategically important acquisitions.

Revenue	**2011**		**2010**		**2009**	
Six months to 31 March	£,000	% of total	£,000	% of total	£,000	% of total
Industrial	15,555	57%	10,918	53%	10,770	57%
Aerospace & Defence	7,017	26%	5,257	26%	4,746	25%
Life Sciences	2,648	10%	1,752	9%	1,030	6%
Scientific Research	1,972	7%	2,446	12%	2,290	12%
Group Revenue	**27,192**	**100%**	**20,373**	**100%**	**18,836**	**100%**

The acquisition of EM4, Inc., a Boston, Massachusetts based specialist manufacturer of active fibre optic products, was completed and announced on 25 January 2011 after the receipt of US regulatory approval. The acquisition of Crystal Technology, a manufacturer of acousto-optic and electro-optic devices and a grower of optical crystals, was completed on 31 March 2011. These acquisitions were funded by a combination of cash (the Company raised £10.6 million, gross, via a share placing in early January 2011) and bank debt provided under a new, four-year banking facility.

Group Earnings Performance All amounts in £'000 Six months ended 31 March	**Adjusted** **2011**	 2010	**Reported** **2011**	 2010
Operating profit	**5,322**	2,633	**4,297**	2,142
Net finance costs	**(297)**	(429)	**(361)**	(429)
Profit before taxation	**5,025**	2,204	**3,936**	1,713
Earnings per share	**17.1p**	7.9p	**13.0p**	6.1p

OPERATING & FINANCIAL REVIEW continued

OPERATIONS UPDATE

"Continuing investment in equipment, training and recruitment has allowed us to raise output and reduce lead times. As a result, Company revenues were up 33% on last year."

Gareth CW Jones, Chief Executive Officer

The trends established in 2010, of recovery followed by real growth in the Industrial sector (which generated an 89% increase in operating profits compared to the same period last year), combined with increasing traction in the Aerospace & Defence and Life Sciences markets (where operating profits increased by 127%), continued into 2011. The challenge of increasing production capacity to meet the demand also carried over into 2011, but thanks to the groundwork done the previous year in recruitment, training and investment in new manufacturing equipment we were able to raise output and reduce lead times. As a result Company revenues were up 33% to £27.2 million, when compared with the equivalent period last year. This included £1.0 million for two months trading in respect of our EM4 acquisition. Excluding the impact of acquisitions and on a constant currency basis, revenue grew by 29% compared to the same period last year. Adjusted profit before tax was up 128% to £5.0 million. Despite the reduction in lead times, the order book at the period end was up by 11% on a like-for-like basis, and by 41% including acquisitions, compared to 30 September 2010. At the end of March 2011 the order book stood at the record level of £32.7 million.

Both acquisitions are settling in and are performing well as the integration process progresses. The acquisitions have been well received by customers and their order intake levels since completion have been encouraging.

OPERATIONAL & STRATEGY REVIEW

Products and Markets – Industrial

The increase in the use of lasers in manufacturing, particularly in fields of microelectronics and flat panel displays, combined with the world's continuing appetite for smart phones and tablet computers, continues to be the main driver behind the demand for Gooch & Housego's acousto-optic products. It is also a significant factor in the growth in sales of electro-optics, fibre optics and precision optics. In parallel, other industrial sectors that use lasers in manufacturing, such as the automotive industry, are also experiencing growth and are contributing to the overall demand for laser components. As a result revenue in this sector increased by 42% on a like-for-like basis when compared to the same period last year. The rate of growth has stabilised in recent months to what appears to be a sustainable level, which combined with our success in increasing output, has enhanced our responsiveness.

OPERATING & FINANCIAL REVIEW continued

Other industrial markets, ranging from semiconductor manufacturing & test equipment to undersea fibre optic telecommunications, also performed well in the first half of the year, driving increased sales across all product types.

Products and Markets – Aerospace & Defence

In addition to continued organic growth in this sector (18% on a like-for-like basis compared to the first six months of 2010), the acquisition of EM4 means that Gooch & Housego is now a participant in a number of significant commercial aerospace, defence and space programmes in both the US and Europe. The combination of passive fibre optic technology from Gooch & Housego's Torquay facility and EM4's active fibre optics expertise is unique, and addresses the market's stated desire to source high-level sub-assemblies in preference to low-level components. The integration of EM4 into Gooch & Housego to create a fibre optics business unit encompassing the Torquay and Boston operations is central to delivering this capability, and is already well advanced. The acquisition, and our plans to be able to provide a complete "actives & passives" capability, has been particularly well received by customers.

Products and Markets – Life Sciences

Gooch & Housego's presence in the Life Sciences sector, which also saw continued organic, like-for-like growth of 51% compared to the first six months of 2010, has similarly been strengthened by this year's acquisitions. EM4 has enhanced Gooch & Housego's capabilities in the important optical coherence tomography (OCT) market, while Crystal Technology is active in microscopy. Our development of imaging systems continues to make encouraging progress in applications such as digital pathology and diagnostics as we shift our attention from R&D towards commercialisation.

Products and Markets – Scientific

Our activities in the Scientific market are dominated by a small number of large, long term programmes. These are progressing well, but this year, as expected, we have entered a phase of lower demand. Combined with the end of stimulus funding and the continuing resolution in the US, the effect has been a 19% reduction in revenues from the Scientific sector when compared to the same period last year.

OPERATING & FINANCIAL REVIEW continued

CONSOLIDATING OUR POSITION

"The acquisition of Crystal Technology consolidates our market leadership position in acousto-optics and, in turn, is opening up new opportunities in defence, telecommunications and consumer applications."

Gareth CW Jones, Chief Executive Officer

Acquisitions and Diversification

Through the acquisitions of EM4 and Crystal Technology, Gooch & Housego has been able to further its objective of diversification while at the same time strengthening its core capabilities in materials and materials processing. With Aerospace & Defence now likely to account for approaching one third of revenues on an annualised basis, Gooch & Housego has broadened its customer and applications base resulting in less exposure to cyclical trends. Similarly, in terms of product and technology diversification, fibre optic products now account for approximately one quarter of total revenues on an annualised basis, up from zero four years ago.

The acquisition of Crystal Technology consolidates Gooch & Housego's market leadership position in acousto-optics and brings self-sufficiency in the strategically important crystals tellurium dioxide and lithium niobate. These materials in turn open up new opportunities in defence, telecommunications and consumer applications. As well as ensuring adequate supply, self-sufficiency in these materials supports our objective to control all critical aspects of the product that affect performance, quality and price, which is key to maintaining our leadership in the market.

CASH FLOW AND FINANCING

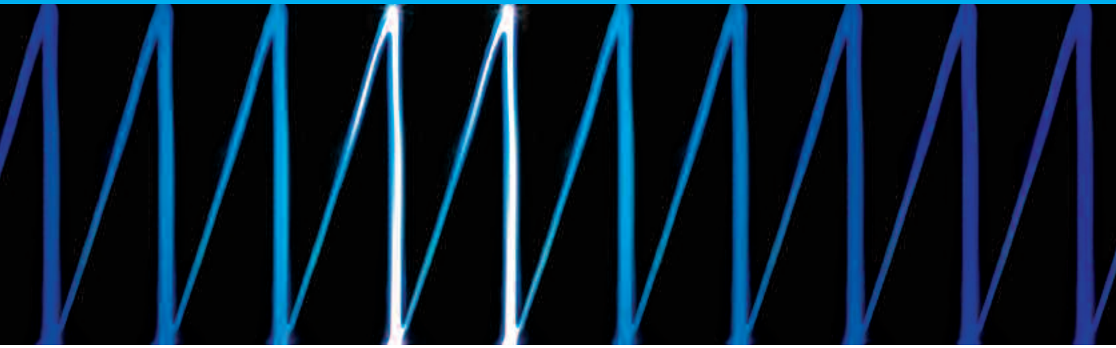
In the six months to 31 March 2011 Gooch & Housego generated net cash from operations of £5.5 million, compared to £4.0 million in the same period of 2010. Working capital increased by £0.1 million in the six month period to 31 March 2010 (2010: reduction of £0.7 million). Tax payments during the first six months of 2011 were £1.0 million compared to £0.5 million in 2010.

The ratio of operating cash flows to EBITDA was 95%. (2010: 109%)

Capital expenditure on property, plant and equipment increased to £1.2 million (2010: £0.2 million).

On 5 January 2011, Gooch & Housego raised approximately £10.2 million (net of expenses) through a placing of new 20p Ordinary Shares, and an additional £5 million in debt, in order to fund the acquisitions of EM4 Inc., and Crystal Technology LLC.

OPERATING & FINANCIAL REVIEW continued



Acquisition Summary	EM4 Inc. £'ms	Crystal Technology LLC. £'ms
Initial purchase price	7.3	6.6
Expected earn out – payable 31 March 2012	2.0	–
Deferred consideration – payable 31 March 2012	–	2.0
Total purchase price	**9.3**	**8.6**

Cash, cash equivalents and bank overdrafts as at 31 March 2011 amounted to a positive cash position of £9.0 million, compared to £5.7 million at 30 September 2010, an improvement of £3.3 million.

Net debt reduced from £9.3 million at 31 March 2010 to £5.5 million at 31 March 2011, a reduction of 41% in absolute terms and 35% if measured on a constant currency basis. Since 30 September 2010, net debt has increased by 6%. The movement in net debt is outlined in the table below.

Movement in Net Debt All amounts in £'ms	Gross cash	Gross debt	Net debt
At 1 October 2010	**8.3**	**(13.5)**	**(5.2)**
Net cash flows from trading	5.5	–	5.5
Share placing	10.6	–	10.6
Debt funding	4.7	(4.7)	–
Debt repayments	(1.2)	1.2	–
Acquisitions	(14.4)	–	(14.4)
Capital Expenditure	(1.2)	–	(1.2)
Working capital	(0.1)	–	(0.1)
Interest & Dividends	(0.7)	–	(0.7)
At 31 March 2011	**11.5**	**(17.0)**	**(5.5)**

OPERATING & FINANCIAL REVIEW continued

IMPROVING FINANCIAL PERFORMANCE

"In the six months to 31 March 2011 Gooch & Housego generated net cash from operations of £5.5 million."

Andrew Boteler, Chief Financial Officer

On 1 April 2011, Gooch & Housego renegotiated its banking facilities with its current bankers, the Royal Bank of Scotland. These facilities now comprise of an $18 million dollar denominated term loan (fully drawn down), a £3.1 million sterling denominated term loan (fully drawn down), an $8 million revolving credit facility (drawn to $4 million as at 31 March 2011) and an undrawn capital expenditure facility of $8 million. All facilities are committed until April 2015.

The Company has reported compliance with banking covenants since January 2009. 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.

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

PEOPLE

As a result of our recruitment efforts and the recent acquisitions Gooch & Housego's headcount has increased by 25% to 576 since 1 October 2010. A particular benefit of the acquisitions has been the influx of highly skilled and capable people across all functions of the business, including at senior management level. We would like to welcome them to Gooch & Housego and thank all employees for their help in delivering a positive start to the year.

DIVIDENDS

The Directors have declared an interim dividend of 2.0p per share. This will be payable on 15 July 2011 to shareholders on the register as at 17 June 2011.

OPERATING & FINANCIAL REVIEW continued

SUMMARY & OUTLOOK

Favourable trading conditions combined with success in increasing output and developing new markets has helped us to achieve encouraging results for the first six months of the year. The acquisitions of EM4 and Crystal Technology have enhanced Gooch & Housego's leading position in acousto-optics and high-end fibre optics, accelerated our diversification into new markets, decreased our exposure to cyclicality and reduced risk by securing our supply chain. Our priorities in the second half of the year are to integrate and consolidate the new acquisitions in order to deliver the considerable upside potential that they provide, while continuing to execute existing opportunities in a trading environment that remains favourable.

Julian Blogh
Chairman
8 June 2011

Gareth CW Jones
Chief Executive Officer
8 June 2011

Andrew Boteler
Chief Financial Officer
8 June 2011

GROUP INCOME STATEMENT

Unaudited interim results for the 6 months ended 31 March 2011	Note	Half Year to 31 Mar 2011 (Unaudited) £000	Half Year to 31 Mar 2010 (Unaudited) £000	Full Year to 30 Sep 2010 (Audited) £000
Revenue	5	27,192	20,373	44,683
Cost of revenue		(15,252)	(12,725)	(25,992)
Gross profit		11,940	7,648	18,691
Research & Development		(1,654)	(1,255)	(2,834)
Sales & Marketing		(1,623)	(1,083)	(2,529)
Administration and other expenses		(4,602)	(3,397)	(7,768)
Other income		236	229	369
Operating profit	5	4,297	2,142	5,929
Net finance costs		(361)	(429)	(833)
Profit before income tax expense		3,936	1,713	5,096
Income tax expense	6	(1,283)	(544)	(405)
Profit for the period		2,653	1,169	4,691
Earnings per share	7	13.0p	6.1p	24.4p

Reconciliation of operating profit to adjusted operating profit:

	Half Year to 31 Mar 2011 (Unaudited) £000	Half Year to 31 Mar 2010 (Unaudited) £000	Full Year to 30 Sep 2010 (Audited) £000
Operating profit	4,297	2,142	5,929
Amortisation of acquired intangible assets	530	491	934
Acquisition costs	495	–	–
Adjusted operating profit	5,322	2,633	6,863

Reconciliation of net finance costs to adjusted net finance costs:

	Half Year to 31 Mar 2011 (Unaudited) £000	Half Year to 31 Mar 2010 (Unaudited) £000	Full Year to 30 Sep 2010 (Audited) £000
Net finance costs	(361)	(429)	(833)
Costs associated with debt re-financing	64	–	–
Adjusted net finance costs	(297)	(429)	(833)

GROUP BALANCE SHEET

Unaudited interim results for the 6 months ended 31 March 2011	Half Year to 31 Mar 2011 (Unaudited) £000	Half Year to 31 Mar 2010 (Unaudited) £000	Full Year to 30 Sep 2010 (Unaudited) £000
Non-current assets			
Property, plant & equipment	19,713	16,163	15,753
Intangible assets	24,643	16,793	15,291
Deferred income tax assets	4,512	1,560	3,092
	48,868	**34,516**	**34,136**
Current assets			
Trade and other receivables	10,440	7,703	7,595
Inventories	9,557	6,412	7,281
Income tax receivable	364	449	168
Cash and cash equivalents	11,520	7,137	8,285
	31,881	**21,701**	**23,329**
Current liabilities			
Borrowings	(4,951)	(6,471)	(4,981)
Trade and other payables	(11,845)	(5,817)	(6,650)
Income tax liabilities	(553)	(205)	–
Provision for other liabilities and charges	(373)	(348)	(369)
	(17,722)	**(12,841)**	**(12,000)**
Net current assets	**14,159**	**8,860**	**11,329**
Non-current liabilities			
Borrowings	(12,044)	(9,975)	(8,545)
Deferred income tax liabilities	(1,214)	(568)	(696)
Provision for other liabilities and charges	(104)	(180)	(171)
	(13,362)	**(10,723)**	**(9,412)**
Net assets	**49,665**	**32,653**	**36,053**
Shareholders' equity			
Called up share capital	4,370	3,853	3,853
Share premium account	14,200	4,105	4,105
Merger reserve	2,671	2,671	2,671
Hedging reserve	(125)	(182)	(184)
Cumulative translation reserve	55	1,033	276
Retained earnings	28,494	21,173	25,332
Equity Shareholders' Funds	**49,665**	**32,653**	**36,053**

GROUP STATEMENT OF CHANGES IN EQUITY

Unaudited interim results for the 6 months ended 31 March 2011	Half Year to 31 Mar 2011 (Unaudited) £000	Half Year to 31 Mar 2010 (Unaudited) £000	Full Year to 30 Sep 2010 (Audited) £000
Balance at beginning of period	**36,053**	**30,798**	**30,798**
Dividends paid	(434)	–	–
Post dividend opening balance	**35,619**	**30,798**	**30,798**
Fair value adjustment of interest rate swap	60	4	2
Exchange difference on translation of foreign operations	(222)	549	(208)
Net income recognised directly in equity	(162)	553	(206)
Profit for the period	2,653	1,169	4,691
Total comprehensive income for the period	**2,491**	**1,722**	**4,485**
Shares issued (net of costs)	**10,611**	**–**	**–**
Employee share option schemes:			
- Deferred tax on share based payment charges	709	–	417
- Share based payment accounting charge	235	133	353
Total Employee share option scheme charges	**944**	**133**	**770**
Balance at end of the period	**49,665**	**32,653**	**36,053**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Unaudited interim results for the 6 months ended 31 March 2011	Half Year to 31 Mar 2011 (Unaudited) £000	Half Year to 31 Mar 2010 (Unaudited) £000	Full Year to 30 Sep 2010 (Audited) £000
Profit for the period	2,653	1,169	4,691
Other comprehensive income			
Exchange difference on translation of foreign operations	(222)	549	(208)
Fair value adjustment of interest rate swap	60	4	2
Other comprehensive income/(expense) for the period	(162)	553	(206)
Total comprehensive income for the period	**2,491**	**1,722**	**4,485**
Total comprehensive income for the period is attributed to:			
Shareholders of Gooch & Housego PLC	2,491	1,722	4,485

GROUP CASH FLOW STATEMENT

Unaudited interim results for the 6 months ended 31 March 2011	Note	Half Year to 31 Mar 2011 (Unaudited) £000	Half Year to 31 Mar 2010 (Unaudited) £000	Full Year to 30 Sep 2010 (Audited) £000
Cash flows from operating activities				
Cash generated from operations	10	6,512	4,508	10,142
Income tax paid		(976)	(495)	(1,307)
Net cash generated from operating activities		**5,536**	**4,013**	**8,835**
Cash flows from investing activities				
Acquisition of subsidiaries		(14,408)	–	–
Purchase of property, plant and equipment		(1,207)	(280)	(873)
Sale of property, plant and equipment		4	–	7
Purchase of intangible assets		(65)	(27)	(81)
Interest received		5	–	2
Net cash used in investing activities		**(15,671)**	**(307)**	**(945)**
Cash flows from financing activities				
Proceeds from borrowings		4,676	–	38
Repayment of borrowings		(1,218)	(1,200)	(2,447)
Issuance of share capital		10,611	–	–
Dividends paid to ordinary shareholders		(434)	–	–
Interest paid		(247)	(334)	(750)
Net cash generated from/(used in) financing activities		**13,388**	**(1,534)**	**(3,159)**
Net increase in cash, cash equivalents and bank overdraft		**3,253**	**2,172**	**4,731**
Cash, cash equivalents and bank overdraft at beginning of the period		**5,746**	**1,087**	**1,087**
Exchange gains/(losses) on cash and bank overdrafts		26	(78)	(72)
Cash, cash equivalents and bank overdrafts at the end of the period		**9,025**	**3,181**	**5,746**

Cash, cash equivalents and bank overdrafts at the end of the period are made up of:	Half Year to 31 Mar 2011 (Unaudited) £000	Half Year to 31 Mar 2010 (Unaudited) £000	Full Year to 30 Sep 2010 (Audited) £000
Cash and cash equivalents	11,520	7,137	8,285
Bank overdraft	(2,495)	(3,956)	(2,539)
Cash, cash equivalents and bank overdrafts at the end of the period	**9,025**	**3,181**	**5,746**

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"), as adopted by the European Union.

The Interim Report was approved by the Board of Directors and the Audit Committee on 7 June 2011. The Interim Report does not constitute statutory financial statements within the meaning of the Companies Act 2006 and has not been audited.

Comparative figures in the Interim Report for the year ended 30 September 2010 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 2010 are unaudited.

The Interim Report will be announced to all shareholders on the London Stock Exchange and published on the Group's website on 8 June 2011. 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 2010, as described in those financial statements, save for the adoption of the new standards referred to below.

2 Recent Accounting Developments

The following standards and amendments became effective for the current reporting period:

IFRS 2 (amendment)	Group Cash-Settled Share-Based Payments
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

Application of these standards and interpretations has not had a material impact on the net assets of the Group. The following standards and interpretations were issued but application was not mandatory for the period:

IFRS 9	Prepayment of Minimum Funding Requirement

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.

3 Estimates

The preparation of interim financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 30 September 2010, with the exception of changes in estimates that are required in determining the provision for income taxes.

NOTES TO THE INTERIM REPORT continued

4 Financial risk management

4.1 Financial risk factors

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

The interim condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements and should be read in conjunction with the Company's annual financial statements as at 30 September 2010.

There have been no changes in the risk management policies since the year end.

4.2 Liquidity risk

Since 30 September 2010, Gooch & Housego has raised £10.2 million (net of expenses) through a share placing and increased its debt facility by £5.0 million in order to fund two acquisitions. Under deferred and conditional consideration arrangements associated with the acquisition of Crystal Technology LLC and EM4 Inc, the Company is obliged to pay the former owners of these companies an estimated $6.6 million on the 31 March 2012.

Except as above there have been no material changes in contractual undiscounted cash flows for financial liabilities.

5 Segmental analysis

Half Year to 31 March 2011	Aerospace & Defence £000	Life Sciences £000	Industrial £000	Scientific Research £000	Corporate £000	Total £000
Revenue						
Total revenue	7,017	2,648	16,776	1,972	–	28,413
Inter and intra-division	–	–	(1,221)	–	–	(1,221)
External revenue	**7,017**	**2,648**	**15,555**	**1,972**	**–**	**27,192**
Divisional expenses	(5,318)	(1,985)	(10,934)	(1,738)	(1,370)	(21,345)
EBITDA[1]	**1,699**	**663**	**4,621**	**234**	**(1,370)**	**5,847**
EBITDA %	24.2%	25.0%	29.7%	11.9%	–	21.5%
Depreciation & Amortisation	(225)	(55)	(285)	(44)	(411)	(1,020)
Operating profit before amortisation of acquired intangible assets	**1,474**	**608**	**4,336**	**190**	**(1,781)**	**4,827**
Acquired intangible assets amortisation	–	–	–	–	(530)	(530)
Operating profit	**1,474**	**608**	**4,336**	**190**	**(2,311)**	**4,297**
Operating profit margin %	21.0%	23.0%	27.9%	9.6%	–	15.8%

NOTES TO THE INTERIM REPORT continued

5 Segmental analysis continued

Half Year to 31 March 2010	Aerospace & Defence £000	Life Sciences £000	Industrial £000	Scientific Research £000	Corporate £000	Total £000
Revenue						
Total revenue	5,257	1,752	12,273	2,489	–	21,771
Inter and intra-division	–	–	(1,355)	(43)	–	(1,398)
External revenue	**5,257**	**1,752**	**10,918**	**2,446**	**–**	**20,373**
Divisional expenses	(4,289)	(1,519)	(8,329)	(2,100)	(438)	(16,675)
EBITDA[1]	**968**	**232**	**2,589**	**346**	**(438)**	**3,698**
EBITDA %	18.4%	13.3%	23.7%	14.1%	–	18.2%
Depreciation & Amortisation	(215)	(69)	(298)	(76)	(407)	(1,065)
Operating profit before amortisation of acquired intangible assets	**753**	**164**	**2,291**	**270**	**(845)**	**2,633**
Acquired intangible assets amortisation	–	–	–	–	(491)	(491)
Operating profit	**753**	**164**	**2,291**	**270**	**(1,336)**	**2,142**
Operating profit margin %	14.3%	9.4%	21.0%	11.0%	–	10.5%

[1]EBITDA = Earnings before interest, tax, depreciation and amortisation.
All of the amounts recorded are in respect of continuing operations.

Analysis of revenue by destination

	Half Year to 31 Mar 2011 (Unaudited) £000	Half Year to 31 Mar 2010 (Unaudited) £000
United Kingdom	**4,212**	2,816
America	**11,490**	10,063
Continental Europe	**5,350**	3,354
Asia/Pacific	**6,034**	4,095
Other	**106**	45
	27,192	**20,373**

Sales between segments are made on normal commercial terms.

NOTES TO THE INTERIM REPORT continued

6 Income tax expense

Analysis of tax charge in the year to date

	Half Year to 31 Mar 2011 (Unaudited) £000	Half Year to 31 Mar 2010 (Unaudited) £000	Full Year to 30 Sep 2010 (Audited) £000
Current taxation			
UK Corporation tax	617	–	47
Overseas tax	793	685	1,513
Adjustments in respect of prior year tax charge	60	–	(46)
Total current tax	1,470	685	1,514
Deferred tax			
Origination and reversal of timing differences	(301)	(86)	(622)
Adjustments in respect of prior year deferred tax	84	(55)	(506)
Impact of tax rate change to 26% (2010: 27%)	30	–	19
Total deferred tax	(187)	(141)	(1,109)
Income tax expense per income statement	**1,283**	544	405

Adjusted income tax workings	**Half Year to 31 Mar 2011 (Unaudited) £000**	Half Year to 31 Mar 2010 (Unaudited) £000	Full Year to 30 Sep 2010 (Audited) £000
Income tax expense per income statement	**1,283**	544	405
Add back one-off items:			
Losses utilised not previously recognised	–	10	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	–	10	1,124
Adjusted income tax expense	**1,283**	554	1,529

Income tax expense for the six months ended 31 March 2011 and 31 March 2010, respectively, has been estimated at prevailing rates. Taxation for the year ended 30 September 2010 is the actual provision for the year.

NOTES TO THE INTERIM REPORT continued

7 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 2011 (Unaudited) No.	Half Year to 31 Mar 2010 (Unaudited) No.	Full Year to 30 Sep 2010 (Audited) No.
Number of shares used for basic earnings per share	**20,477,083**	19,264,390	19,264,390
Dilutive shares	**409,444**	88,408	432,834
Number of shares used for dilutive earnings per share	**20,886,527**	19,352,798	19,697,224

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

	Half Year to 31 Mar 2011 (Unaudited)		Half Year to 31 Mar 2010 (Unaudited)		Full Year to 30 Sep 2010 (Audited)	
	£000	**p per share**	£000	p per share	£000	p per share
Basic earnings per share	**2,653**	**13.0p**	1,169	6.1p	4,691	24.4p
Adjustments net of income tax expense:						
Amortisation of acquired intangible assets	407	2.0p	354	1.8p	860	4.5p
Acquisition costs	380	1.9p	–	–	–	–
Cost associated with debt re-financing	49	0.2p	–	–	–	–
Impact of one-off tax adjustments	–	–	–	–	(1,124)	(5.8p)
Total adjustments net of income tax expense	836	4.1p	354	1.8p	(264)	(1.3p)
Adjusted basic earnings per share	**3,489**	**17.1p**	1,523	7.9p	4,427	23.1p

Adjusted 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.

8 Dividend

The Directors have declared an interim dividend of 2.0 per share for the half year ending 31 March 2011, this dividend has not been accounted for within the six month period to 31 March 2011 as it is yet to be paid.

No dividends were paid in the comparative periods.

	Half Year to 31 Mar 2011 (Unaudited) £000	Half Year to 31 Mar 2010 (Unaudited) £000	Full Year to 30 Sep 2010 (Audited) £000
Final 2010 dividend paid	**434**	–	–

NOTES TO THE INTERIM REPORT continued

9 Borrowings

On 1 April 2011, Gooch and Housego renegotiated its banking facilities with its current bankers, the Royal Bank of Scotland. These facilities now comprise of an $18m dollar denominated term loan (fully drawn down) and a £3.1m sterling denominated term loan (fully drawn down).

The Company has a working capital facility of US$8.0m of which US$4.0m is drawn down.

In addition the Group has been granted a capital expenditure facility of US$8.0m, which has not been drawn down.

All facilities are committed until April 2015 and attract an interest rate of between 2.25% and 3.00% above LIBOR dependent upon the Company's leverage ratio.

10 Cash generated from operating activities

	Half Year to 31 Mar 2011 (Unaudited) £000	Half Year to 31 Mar 2010 (Unaudited) £000	Full Year to 30 Sep 2010 (Audited) £000
Profit before income tax	**3,936**	1,713	5,096
Adjustments for:			
- Amortisation of acquired intangible assets	530	491	934
- Amortisation of other intangible assets	167	167	356
- Depreciation	854	895	1,796
- Loss/(Profit) on disposal of property, plant and equipment	15	–	(2)
- Share based payments	235	133	412
- Acquisition costs	495	–	–
- Finance income	(5)	(1)	(2)
- Finance costs	366	430	835
Total	**2,657**	2,115	4,329
Changes in working capital			
- Inventories	(622)	809	(484)
- Trade and other receivables	(597)	(1,015)	(1,333)
- Trade and other payables	732	804	864
- Provisions for liabilities and charges	406	82	1,670
Total	**(81)**	680	717
Cash generated from operating activities	**6,512**	**4,508**	**10,142**

NOTES TO THE INTERIM REPORT continued

11 Acquisition of EM4, Inc.

On 25 January 2011, the company acquired the entire share capital of EM4, Inc. a US based manufacturer of active fibre optics components and subassemblies, based near Boston, Massachusetts for an initial consideration of $11.6 million (approximately £7.3 million). To fund this acquisition, the Company raised approximately £10.6 million (approximately £10.2 million net of expenses) through a placing of new ordinary shares at 450 pence per new ordinary share, on 5 January 2011.

The following table summarises the consideration paid for EM4 Inc., and the provisional fair values of the assets and liabilities at the acquisition date.

	Provisional fair value £000
Property, plant and equipment	138
Intangible assets	1,546
Cash	489
Trade and other receivables	891
Inventory	560
Trade and other payables	(1,010)
Deferred tax	864
Net assets acquired	**3,478**
Consideration paid:	
Cash	7,274
Contingent consideration	2,001
Total consideration	**9,275**
Goodwill	**5,797**

The goodwill in respect of this acquisition arises from a number of sources including well established customer relationships with many of the major US defence contractors, world leading technology, and a well-respected brand.

The contingent consideration arrangement requires Gooch & Housego to pay the sum of 1.2 times the EBITDA generated by EM4 Inc. in calendar year 2011.

The potential undiscounted amount of all future payments that Gooch & Housego could be required to make under this arrangement is between nil and $7.0 million.

The fair value of the contingent consideration arrangement of £2.0 million was estimated by reference to latest business forecasts.

The fair values of the net assets acquired are provisional pending finalisation of the fair value exercise in relation to those assets.

The revenue included in the consolidated income statement from 25 January 2011 to 31 March 2011 contributed by EM4 Inc. was £1.0 million. EM4 Inc. also contributed profit of £0.1 million over the same period.

NOTES TO THE INTERIM REPORT continued

12 Acquisition of Crystal Technology LLC

On 31 March 2011, the company acquired the entire share capital of Crystal Technology LLC, a manufacturer of acousto-optic, electro-optic and fibre optic components and systems, and oxide single crystal materials for optical applications. Crystal Technology LLC is based in Palo Alto, California. The total consideration of $13.75 million (approximately £8.6 million) comprises $9.625 million for the business and $4.125 million in respect of near cash equivalents being left in the business at acquisition.

The following table summarises the consideration paid for Crystal Technology LLC, and the provisional fair values of the assets and liabilities at the acquisition date.

	Provisional fair value £000
Property, plant and equipment	3,764
Intangible assets	1,832
Trade and other receivables	1,659
Inventory	1,632
Trade and other payables	(576)
Deferred tax	249
Net assets acquired	**8,560**
Consideration paid:	
Cash	6,586
Contingent consideration	1,977
Total consideration	**8,563**
Goodwill	**3**

The goodwill in respect of this acquisition arises from a number of sources including technology in key crystal growth capabilities and a well-respected brand.

The deferred consideration arrangement requires Gooch & Housego to pay the sum of $3.25 million on 31 March 2011.

The fair values of the net assets acquired are provisional pending finalisation of the fair value exercise in relation to those assets.

As Crystal Technology was acquired on 31 March 2011 it contributed no revenue or profits to the current period.

NOTES TO THE INTERIM REPORT continued

13 Called Up Share Capital

	2011 No.	2010 No.	**2011 No.**	2010 No.
Authorised				
Ordinary share of 20p each	24,000,000	24,000,000	4,800	4,800
Alloted, issued and fully paid				
Ordinary share of 20p each	21,850,798	19,264,390	4,370	3,853

14 Derivative financial instruments

	Half Year to 31 Mar 2011 (Unaudited) £000	Half Year to 31 Mar 2010 (Unaudited) £000	Full Year to 30 Sep 2010 (Audited) £000
Interest rate swap	**173**	252	**256**
Current portion	69	72	85
Non-current portion	104	180	171
	173	252	256

The notional principal amount of the outstanding interest swap contract at 31 March 2011 was $7.7 million (2010: $10.3 million). The end date for the interest rate swap is 14 October 2013.

At 31 March 2011, the fixed rate of the interest rate swap was 3.19% and the floating rate was US dollar LIBOR.

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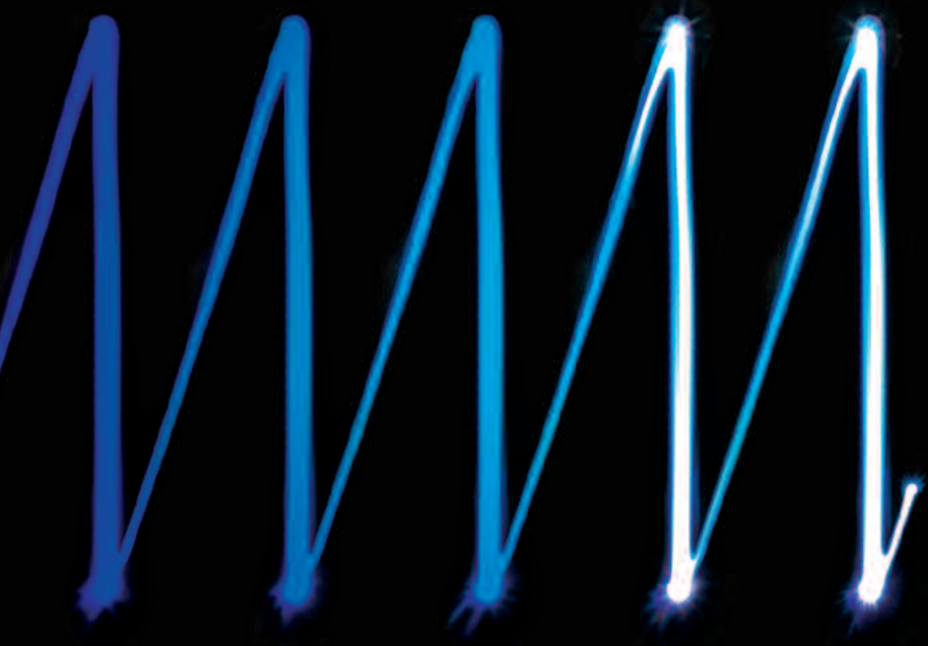

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