

CHAIRMAN'S STATEMENT

Introduction

This is Gooch & Housego PLC's first Annual Report and Accounts since its flotation on the Alternative Investment Market in December 1997, and follows Interim Results sent to shareholders in June 1998. I am pleased to report on a year that combined successful financial results with significant and ongoing developments aimed at strengthening and expanding the group.

Results for the Year

Overall group results for the year are pleasing with profits in line with our expectations at the time of flotation. Group pre-tax profits for the year ended 30 September 1998 were £1,812,000, including an exceptional profit on the sale of US property of £85,000, representing an increase of 15% relative to the previous financial year. The comparative increase in pre-tax profits before exceptional items was 21%. Turnover increased by 6.5% to £7,154,000.

United Kingdom

The United Kingdom business continued its strong performance with an increase in pre-tax profits of 14.7% to £1,448,000 on a turnover that increased by 14.1% to £4,565,000. Sales of acousto-optics, including RF drivers, increased by 18% on the previous year and now account for 65% of turnover.

During the summer the group invested in an advanced automated lens manufacturing facility, which has significantly increased the lens production capacity and will enable further growth of the traditional optics business.

Worldwide problems in the semiconductor industry have been accompanied by a slackening in demand for Q-switches. However the UK year end total order book stood at a record level of £2,199,000, up to 18% on the 1997 level. Given the prevailing market conditions this is a satisfactory figure.

Implementation of a fully integrated computer system and associated software is continuing and good progress is being made. The system, which will be fully operational during the current financial year, should deliver real production and administrative savings.

United States

The United States business, Optronic Laboratories Inc., has shown improvement in the second half of the year following the management changes referred to in my interim report, and this improvement looks set to continue. Pre-tax profit for the year was up by 19.4% at \$602,000, albeit including profit on the sale of vacated property, on a turnover of \$4,505,000. Steve Denomme, in his new role as President, has introduced several changes including the appointment of a new marketing manager. This will enable Optronic Laboratories to take better advantage of its leading product range.

It is Gooch & Housego's policy to develop the business of Optronic Laboratories to more effectively market the group's leading products in the US market for optics and acousto-optics, as well as extending the core instrumentation product range to address a wider market. The first step in this process was the successful development of a range of RF drivers for use with our acousto-optics Q-switches, and these are now achieving increased market penetration. The completion of the new 25,000 square foot factory in Orlando, opened in February 1998, was the next phase, creating considerable additional space for new projects, including, in particular, the manufacture of precision optics which, until now, had been carried out entirely at the group's Ilminster site.

US Optics Manufacturing

An optics manufacturing facility is being established at the new Orlando facility that will allow G&H to address the large US optics market as a US manufacturer, thereby overcoming any resistance or financial disadvantage that we may have hitherto suffered as a foreign supplier. In particular, this will enable us to compete on even terms for the supply of optics to a major potential US government customer that is forced to pay a 12% surcharge when purchasing goods from non-US companies. Jeff Orton, a specialist in optical manufacturing with previous experience of establishing a new facility, joined G&H in June and, after a period





CHAIRMAN'S STATEMENT (continued)

of familiarisation with the company's products and methods in the UK, moved to Orlando in September to begin the set-up process.

A new range of instrument products targeted at higher volume industrial markets should result from a joint development between the UK and USA companies. These will complement the current range of low volume laboratory instruments.

Directors Two non-executive directors were appointed to the Board in 1997. Jan Melles brings extensive knowledge of the photonics industry and mergers and acquisitions, whilst Andrew Davison has considerable city and finance expertise.

Flotation The group was successfully floated on the Alternative Investment Market on 12 December 1997 with 33.3% of the enlarged issued share capital passing into public hands. Of the funds raised approximately £1,495,000 was for investment in the group, notably for the construction of the new factory in Orlando and additional automated manufacturing equipment in Ilminster.

Dividend The Board has recommended a final dividend of 1.2p per ordinary share. This makes a total for the year of 1.7p. Subject to approval at the Annual General Meeting, the final dividend will be payable on 26 February 1999 to all shareholders registered on 5 February 1999.

Strategy The research and development of 'photonic' devices and systems for our next generation of products continues to be a high priority. Work has commenced on the commercialisation of a fibre-optic re-routing switch that if successful will find applications in the telecommunications market. This project, supported under the Department of Trade and Industry's SMART scheme, has allowed us to strengthen the research and development team through the recruitment of an additional post-doctoral physicist. A number of other research and development projects looking into new devices and instruments are running in parallel and involve collaboration between the UK and US companies and with universities.

Gooch and Housego will continue to concentrate on the manufacture of 'photonic' products for a worldwide market. It is our aim to be a world leader in each of our spheres of activity. Growth will be achieved organically through internal investment and research and development, and by acquisition. Since flotation the Board have investigated several potential acquisitions, both in the UK and the USA, and we hope that we shall be in a position to make an announcement in respect of one such initiative shortly.

Outlook The developments that are taking place in many of the activities of the group, including potential acquisitions, leave it well positioned for continued growth and profitability. The increasingly broad product spread resulting from these developments will benefit both the UK and the USA operations, and as a result I continue to be optimistic about the future success of Gooch and Housego.

Finally I would like to thank both the UK and USA workforce and directors for the part they have played in achieving yet another good year for the company.

Archie Gooch M.B.E. J.P.
Executive Chairman

Copies of this Statement will be sent to Shareholders on 28 January 1999, and will be available from The Old Magistrates Court, Ilminster, Somerset.



DIRECTORS' REPORT

The Directors present their report together with the audited financial statements for the year ended 30 September 1998. On 3 December 1997 the name of the Company was changed to Gooch & Housego PLC from Gooch & Housego Limited in preparation for the company's flotation on the Alternative Investment Market on 12 December 1997.

Principal Activities	The Company and its subsidiary are principally engaged in the photonics industry, which includes the manufacture of high quality precision optical components and bespoke glass engineered structures, acousto-optic devices and instruments for measuring optical radiation.
Review of Business and Future Developments	A summary of the results for the year are set out in the profit and loss account on page 7. A further review of the Group's activities and of its future developments are contained in the Chairman's Statement on pages 1 and 2.
Dividends	During the year under review a final dividend of £203,000 (1997: £26,000) was proposed and an interim dividend of £85,000 (1997: £25,000) was paid. The Directors propose that the retained profit for the year of £955,000 (1997: £1,060,000), be transferred to reserves.

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

	Ordinary shares of 20p each 30 September 1998	Ordinary shares of £1 each 30 September 1997
A W C Gooch	1,439,408	2,128
G C W Jones	793,900	426
A W M Heals	1,066,796	422
D E Irish	1,073,206	424
W E Schneider (resigned 8 June 1998)	47,619	—
Mrs H C Virgin	3,484,636	1,270
A J Davison * (appointed 18 November 1997)	10,000	—
J A Melles *	10,000	—

*Non-executive directors.

In addition to the above shareholdings, 2,999,800 shares are held in the Gooch/Virgin Discretionary Trust. Neither A W C Gooch nor Mrs H C Virgin have a beneficial interest in the trust.

In accordance with the Company's Articles of Association A W C Gooch and G C W Jones retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Supplier payment policy and practice	It is the Group's policy to comply with the payment terms agreed with suppliers providing it is satisfied that the supplier has provided the goods and services in accordance with agreed terms and conditions.
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Trade creditors outstanding at 30 September 1998 represent 39 days as a proportion of the total amount invoiced by suppliers during the year (1997: 45).

Donations	The Group made donations of £1,223 to various charities during the year.
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Corporate Governance	The Board has been developing procedures during the year regarding corporate governance, taking into account the size and stage of development of the Group.
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The Company has two independent non-executive Directors who advise the Board on business and corporate governance issues.

The Audit Committee which consists of the two non-executive Directors is responsible for ensuring that the financial performance of the Group is properly monitored, controlled and reported on. The committee has met with the auditors on



DIRECTORS' REPORT (continued)

two occasions since it was formed to review issues relating to the accounts and internal financial control systems.

The Remuneration Committee which consists of the two non-executive Directors and the Chairman has met during the year, and a summary of the committee's report is on page 5.

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

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

Year 2000 and the Euro

The directors recognise the potential implications of the year 2000 problem and continue to take steps to ensure the compliance of the Group. A computer system has been implemented during the year, which is year 2000 and Euro compliant. The directors consider that no further material costs are anticipated as regards year 2000 and the Euro. While no company can be entirely sure that its business will not be disrupted by system problems after 31 December 1999, the Board believes that it has taken all reasonable steps to safeguard the Group's business interests.

Directors' responsibilities for the financial statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue to operate; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

Following the merger of Price Waterhouse and Coopers & Lybrand on 1 July 1998, Price Waterhouse resigned as auditors and PricewaterhouseCoopers were appointed to fill the casual vacancy. A resolution to reappoint PricewaterhouseCoopers as auditors to the Company will be proposed at the next Annual General Meeting. PricewaterhouseCoopers have indicated their willingness to continue in office.

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

A W C Gooch M.B.E. J.P.
Director

20 January 1999



REPORT OF THE REMUNERATION COMMITTEE

The Remuneration Committee members are A W C Gooch (Chairman), A J Davison and J A Melles.

Policy on Directors' Remuneration It is an objective of the Group to attract and retain executives of high calibre and reward them in a way which encourages the creation of value for shareholders. The committee undertakes the determination of executive Directors' annual remuneration packages and these are reviewed with effect from 1 September each year. No executive Director plays a part in the discussion about his own remuneration.

Executive Directors are paid a basic salary. In addition, certain executive Directors receive benefits in kind, including the provision of a car and fuel, home telephone and medical expenses insurance.

Non-executive Directors are paid a salary to attend board meetings and to serve as members of the Audit and Remuneration committees. Further payments may be made in respect of further services provided at the request of the Company.

Directors' pension arrangements The Company contributes to two money purchase pension schemes on behalf of G C W Jones, A W M Heals, Mrs H C Virgin and D E Irish. The first is an amount equal to 8% of the Director's basic salary. The second is a fixed contribution revised annually by a percentage figure equivalent to the percentage increase of the basic wage of all of the Company's employees in the previous financial year. The amount payable under the second scheme this year was £4,975 each.

W E Schneider prior to his resignation was a member of the Optronic Laboratories Inc 401(k) profit sharing plan.

Directors' contracts Executive Directors currently have rolling service contracts of twelve months with the exception of W E Schneider. W E Schneider's contract was for a three year period starting on 27 October 1995. During the year the contract, under the agreement of both parties, was terminated. No compensation for loss of office in respect of the termination has been paid.

By agreement between Photonics Investments B.V. and the Company, Photonics Investments B.V. has contracted to provide certain consultancy and other services of J A Melles in connection with the identification of businesses for possible purchase by the Company and, if appropriate, to negotiate purchase arrangements. The Company is liable to pay consultancy fees and, on successful conclusion, commission to Photonics Investments B.V. No fees have been paid under this agreement during the year.

Directors' remuneration

	Basic Pay £'000	Benefits in Kind £'000	Pension Contributions £'000	Total remuneration 1998 £'000	1997 £'000
Executive					
A W C Gooch	57	12	—	69	56
G C W Jones	36	5	8	49	42
A W M Heals	33	5	8	46	43
D E Irish	33	5	8	46	43
W E Schneider	86	1	1	88	91
Mrs H C Virgin	21	5	7	33	33
Non-executive					
A J Davison	8	—	—	8	—
J A Melles	9	—	—	9	2
	283	33	32	348	310

Directors' interests in shares of the company

The directors' interests in the shares of the Company are set out in the Directors' Report on page 3.



REPORT OF THE AUDITORS TO THE MEMBERS OF GOOCH & HOUSEGO PLC

We have audited the financial statements on pages 7 to 22, which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and on the basis of accounting policies set out on pages 12 and 13.

Respective responsibilities of directors and auditors

As described on page 4 the Company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Group and of the Company as at 30 September 1998 and of the profit and cashflows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PRICEWATERHOUSECOOPERS 

Chartered Accountants
and Registered Auditors
Bristol



20 January 1999



GROUP PROFIT AND LOSS ACCOUNT

	Note	Year ended 30 September	
		1998 £'000	1997 £'000
Turnover	2	7,154	6,718
Changes in stocks of finished goods and work in progress		321	51
Own work capitalised		19	—
Other operating income	3	35	128
Raw materials and consumables		(1,575)	(1,498)
Other external charges		(430)	(396)
Staff costs	4	(2,765)	(2,618)
Depreciation		(257)	(241)
Other operating charges		(801)	(644)
Operating profit	6	1,701	1,500
Exceptional item:			
Profit on disposal of fixed assets	7	85	149
Profit on ordinary activities before interest		1,786	1,649
Other interest receivable and similar income	8	88	7
Interest payable and similar charges	9	(62)	(80)
Profit on ordinary activities before taxation		1,812	1,576
Tax on profit on ordinary activities	10	(569)	(465)
Profit on ordinary activities after taxation	22	1,243	1,111
Dividends on equity shares	11	(288)	(51)
Retained profit for the financial year	21	955	1,060
Earnings per 20p ordinary share	12	7.5p	7.4p

The notes on pages 12 to 22 form part of these financial statements.

The movement on reserves is set out in note 21 to the financial statements.

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

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Year ended 30 September	
	1998 £'000	1997 £'000
Profit for the financial year	1,243	1,111
Currency translation differences on foreign currency net investments	(55)	(34)
Total recognised gains and losses for the financial year	1,188	1,077

The notes on pages 12 to 22 form part of these financial statements.

No note of historical cost profit for the group or the company has been presented as the difference between the reported profit and the historical cost profit is immaterial.



CONSOLIDATED BALANCE SHEET

	Note	30 September		
		1998	1997	
		£'000	£'000	£'000
FIXED ASSETS				
Intangible assets	13		4	5
Tangible assets	14		2,955	2,175
			2,959	2,180
CURRENT ASSETS				
Stocks	16	1,178		835
Debtors	17	1,591		1,659
Cash at bank and in hand		1,416		278
		4,185		2,772
CREDITORS: amounts falling due within one year	18	(1,571)		(1,531)
NET CURRENT ASSETS			2,614	1,241
TOTAL ASSETS LESS CURRENT LIABILITIES			5,573	3,421
CREDITORS: amounts falling due after more than one year	19		(305)	(547)
			5,268	2,874
CAPITAL AND RESERVES				
Called up share capital	20		3,381	5
Share premium account	20		1,113	—
Revaluation reserve	21		308	308
Goodwill reserve	21		(1,335)	(1,335)
Profit and loss account	21		1,801	3,896
EQUITY SHAREHOLDERS' FUNDS	22		5,268	2,874

Approved by the Board of Directors on 20 January 1999 and signed on its behalf by:

A W C Gooch

A W M Heals

The notes on pages 12 to 22 form part of these financial statements.



COMPANY BALANCE SHEET

		30 September			
	Note	1998	1997		
		£'000	£'000	£'000	£'000
FIXED ASSETS					
Tangible assets	14		2,834		2,009
Investments	15		1,945		1,945
			4,779		3,954
CURRENT ASSETS					
Stocks	16	694		431	
Debtors	17	1,115		1,068	
Cash at bank and in hand		1,088		—	
		2,897		1,499	
CREDITORS: amounts falling due within one year	18	(1,321)		(1,078)	
NET CURRENT ASSETS			1,576		421
TOTAL ASSETS LESS CURRENT LIABILITIES			6,355		4,375
CREDITORS: amounts falling due after more than one year	19		(280)		(513)
			6,075		3,862
CAPITAL AND RESERVES					
Called up share capital	20		3,381		5
Share premium account	20		1,113		—
Revaluation reserve	21		308		308
Profit and loss account	21		1,273		3,549
EQUITY SHAREHOLDERS' FUNDS	22		6,075		3,862

Approved by the Board of Directors on 20 January 1999 and signed on its behalf by:

A W C Gooch

A W M Heals

The notes on pages 12 to 22 form part of these financial statements.



CONSOLIDATED CASH FLOW STATEMENT

	Note	Year ended 30 September		
		1998	1997	1996
		£'000	£'000	£'000
Cash flow from operating activities	i		1,423	1,451
Returns on investments and servicing of finance				
Interest received		88	7	
Interest paid		(67)	(71)	
Interest element of hire purchase contracts		(7)	(7)	
Net cash inflow/(outflow) from returns on investments and servicing of finance			14	(71)
Taxation				
UK tax paid		(374)	(252)	
Overseas tax paid		(68)	(128)	
Cash outflow from taxation			(442)	(380)
Capital expenditure and financial investment				
Purchase of tangible fixed assets		(1,193)	(899)	
Sale of tangible fixed assets		286	189	
Net cash outflow from capital expenditure and financial investment			(907)	(710)
Equity dividends paid			(111)	(26)
Cash (outflow)/inflow before financing			(23)	264
Financing				
Cash inflow from flotation		1,495	—	
Inception of hire purchase contracts		—	76	
Repayment of bank loan		(219)	(233)	
Capital element of hire purchase contracts		(11)	(27)	
Net cash inflow/(outflow) from financing			1,265	(184)
Increase in cash in the year	iii		1,242	80



NOTES TO THE CASH FLOW STATEMENT

i Reconciliation of operating profit to operating cash flows

	Year ended 30 September	
	1998	1997
	£'000	£'000
Operating profit	1,701	1,500
Depreciation	258	262
(Increase) in stock	(362)	(122)
(Increase) in debtors	(95)	(282)
(Decrease)/increase in creditors	(79)	93
	1,423	1,451

ii Cash flow relating to exceptional items

The cash inflows in the year ended 30 September 1998 include a net cash inflow of £286,000 from the proceeds of selling the Orlando factory (note 7). The prior year's inflow includes £189,000 from the net proceeds of an insurance claim arising from a fire in the Ilminster factory.

iii Reconciliation of net cash inflow to movement in net funds/(debt)

	Year ended 30 September	
	1998	1997
	£'000	£'000
Increase in cash in the year	1,242	80
Cash outflow from decrease in debt and lease financing	230	260
Changes in net debt resulting from cash flows	1,472	340
New finance leases	—	(76)
Translation difference	(12)	(4)
Movement in net debt in the year	1,460	260
Net debt at 1 October 1997	(567)	(827)
Net funds/(debt) at 30 September 1998	893	(567)

iv Analysis of net funds/(debt)

	At		Exchange movement	At	
	1 October 1997	Cash flow		30 September 1998	
	£'000	£'000	£'000	£'000	
Cash in hand at bank	278	1,151	(13)	1,416	
Overdrafts	(91)	91	—	—	
		1,242			
Debt due after 1 year	(489)	209	—	(280)	
Debt due within 1 year	(196)	10	—	(186)	
Hire purchase	(69)	11	1	(57)	
		230			
	(567)	1,472	(12)	893	



NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

Accounting Convention

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets, and have been prepared in accordance with applicable accounting standards.

Consolidation

The consolidated financial statements deal with the results and the state of affairs of the Group. Goodwill arising on consolidation, being the excess of the purchase price over the fair value of the net assets at the date of acquisition, has been written off to a goodwill reserve.

A separate profit and loss account dealing with the results of the Company has not been presented as the Company has taken advantage of the exemption in section 230 of the Companies Act 1985.

Turnover

Turnover is the total receivable by the Group in the ordinary course of business for goods supplied as a principal and for services provided, exclusive of Value Added Tax.

Fixed assets

Fixed assets other than those in the course of construction are stated at purchase price plus incidental costs of acquisition. Assets in the course of construction are stated at the value of stage payments payable at the balance sheet date and no depreciation is charged as the assets have not been brought into use.

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

Freehold buildings	2-3%	Straight line
Computer equipment	25-33%	Straight line
Plant and machinery	10-20%	Straight line
Furniture and fittings	10-33%	Straight line
Motor vehicles	25%	Reducing balance

No depreciation is charged on freehold land.

Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value.

Deferred taxation

Deferred taxation is the taxation attributable to timing differences between profits computed for taxation purposes and profits as stated in the financial statements. Provision for deferred tax is only provided to the extent that there is a reasonable probability of the tax falling due for payment in the foreseeable future.

Pension schemes

The Company operates three defined contribution schemes for directors and staff. The assets of the schemes are held separately from those of the Company in separately administered funds. The pension charge represents contributions payable to the funds during the year. The subsidiary Company operates a 401(k) profit sharing plan covering substantially all employees. Expenses under the plan are charged to the profit and loss account as incurred.

Research and development

Expenditure on research and development is written off in the year in which it is incurred.

Grants receivable

Grants receivable in respect of product and process innovation are credited to other operating income in the profit and loss account in the year the grants are receivable.

Foreign currencies

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



NOTES TO THE FINANCIAL STATEMENTS (continued)

1 ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

The results of the overseas subsidiary are translated into sterling at the average rates of exchange prevailing during the year. The balance sheet of the overseas subsidiary is translated into sterling at the rate ruling at the balance sheet date. Exchange differences arising on consolidation are taken to reserves.

Leased assets

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible fixed assets. Assets acquired by finance lease are depreciated over the shorter of the lease term and their useful lives. Assets acquired by hire purchase are depreciated over their useful lives. Finance leases are those where substantially all of the benefits and risks of ownership are assumed by the Company. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the profit and loss account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

Rentals payable under operating leases are charged to the profit and loss account as incurred.

Intangible assets

The intangible asset relates to a licensing agreement and is stated at cost. The cost of the licence is amortised on a straight line basis over the term of the agreement.

Investments

Investments are stated at cost less provision for any permanent diminution in value.

2 SEGMENTAL REPORTING

The analysis of turnover by destination is as follows:-

	Year ended 30 September	
	1998 £'000	1997 £'000
United Kingdom	2,180	1,950
North America	3,049	3,130
Continental Europe	996	853
Other	929	785
	<hr/> 7,154	<hr/> 6,718

United Kingdom sales include indirect exports sold through UK based European agents amounting to £607,000 (1997: £445,000).

The directors are of the opinion that the principal activity of the Group as described on page 3 is the only class of business.



NOTES TO THE FINANCIAL STATEMENTS (continued)

SEGMENTAL REPORTING (continued)

The results and net assets by geographical origin are as follows:

	United Kingdom		Year ended 30 September North America		Group	
	1998	1997	1998	1997	1998	1997
	£'000	£'000	£'000	£'000	£'000	£'000
Total sales	4,565	4,000	2,723	2,726	7,288	6,726
Inter-segment sales	(7)	—	(127)	(8)	(134)	(8)
Sales to third parties	4,558	4,000	2,596	2,718	7,154	6,718
Operating profit	1,424	1,179	277	321	1,701	1,500
Exceptional items	—	149	85	—	85	149
Segment profit before interest and taxation	1,424	1,328	362	321	1,786	1,649
Net interest					26	(73)
Group profit before taxation					1,812	1,576
NET ASSETS						
Segment net assets	3,570	2,596	805	845	4,375	3,441
Net funds / (debt)					893	(567)
Total net assets					5,268	2,874

3 OTHER OPERATING INCOME

	Year ended 30 September	
	1998	1997
	£'000	£'000
Grants receivable	18	84
Exchange gains	—	24
Other income	17	20
	35	128

4 STAFF COSTS

	Year ended 30 September	
	1998	1997
	£'000	£'000
Wages and salaries	2,472	2,340
Social security costs	213	200
Other pension costs	80	78
	2,765	2,618

The average number of employees during the year were:

	Year ended 30 September	
	1998	1997
	No	No
Manufacturing	86	90
Administration	41	35
	127	125



NOTES TO THE FINANCIAL STATEMENTS (continued)

10 TAXATION

The charge for taxation on the profit for the year is made up as follows:

	Year ended 30 September	
	1998	1997
	£'000	£'000
Current year		
UK corporation tax	443	347
Overseas taxation	139	112
Double taxation relief	(4)	—
	578	459
Prior year		
UK corporation tax	—	4
Overseas taxation	(9)	2
	569	465

Due to the planned level of future capital expenditure the directors do not consider it necessary to provide for deferred taxation. The maximum potential liability, calculated at 31% (1997: 31%) is:

	Year ended 30 September	
	1998	1997
	Potential liability	Potential liability
	£'000	£'000
Accelerated capital allowances	142	103
Other	15	30
	157	133

11 DIVIDENDS

	Year ended 30 September	
	1998	1997
	£'000	£'000
Interim dividend paid	85	25
Final dividend proposed	203	26
	288	51
Total dividend per ordinary share	1.7p	£11.00

After adjusting for the capitalisation of the profit and loss reserve (Note 20) the 1997 dividend per ordinary share would have been 0.3p on a comparable basis.

12 EARNINGS PER SHARE

The calculations of earnings per 20p Ordinary Share is based on the profit on ordinary activities after taxation using as a denominator the weighted average number of Ordinary Shares in issue during the year. For 1998 the weighted average number of Ordinary Shares in issue is 16,528,428 (1997: 14,999,400 after re-stating for capitalisation of profit and loss reserve (Note 20)).



NOTES TO THE FINANCIAL STATEMENTS (continued)

13 INTANGIBLE ASSETS

Licences

	Group £'000
Cost	
At 1 October 1997	6
Exchange rate variations	—
At 30 September 1998	6
Amortisation	
At 1 October 1997	1
Charge for year	1
At 30 September 1998	2
Net Book value	
At 30 September 1998	4
At 30 September 1997	5

14 TANGIBLE FIXED ASSETS

Group

	Plant and machinery £'000	Fixtures & fittings £'000	Assets in the course of construction £'000	Freehold land and buildings £'000	Motor vehicles £'000	Total £'000
Cost or valuation						
At 1 October 1997	1,896	358	443	864	113	3,674
Additions	409	25	622	4	8	1,068
Disposals	(1)	—	—	(38)	(4)	(43)
Transfers	—	—	(1,065)	1,065	—	—
Exchange rate variation	(20)	(12)	—	(2)	—	(34)
At 30 September 1998	2,284	371	—	1,893	117	4,665
Depreciation						
At 1 October 1997	1,057	292	—	96	54	1,499
Charge for the year	195	20	—	25	17	257
Disposals	—	—	—	(18)	(3)	(21)
Exchange rate variation	(13)	(11)	—	(1)	—	(25)
At 30 September 1998	1,239	301	—	102	68	1,710
Net book value						
At 30 September 1998	1,045	70	—	1,791	49	2,955
At 30 September 1997	839	66	443	768	59	2,175



NOTES TO THE FINANCIAL STATEMENTS (continued)

14 TANGIBLE FIXED ASSETS (continued)

Group (continued)

Assets purchased under hire purchase agreements are as follows:

	Plant and machinery		Motor vehicles	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
Cost	47	47	42	42
Depreciation	(20)	(7)	(18)	(10)
Net book value at 30 September	27	40	24	32

Company

	Plant and machinery £'000	Fixtures & fittings £'000	Assets in the course of construction £'000	Freehold land and buildings £'000	Motor vehicles £'000	Total £'000
Cost or valuation						
At 1 October 1997	1,496	106	443	820	113	2,978
Additions	395	4	622	—	8	1,029
Disposals	—	—	—	—	(4)	(4)
Transfers	—	—	(1,065)	1,065	—	—
At 30 September 1998	1,891	110	—	1,885	117	4,003
Depreciation						
At 1 October 1997	777	62	—	76	54	969
Charge for the year	152	9	—	25	17	203
Disposals	—	—	—	—	(3)	(3)
At 30 September 1998	929	71	—	101	68	1,169
Net book value						
At 30 September 1998	962	39	—	1,784	49	2,834
At 30 September 1997	719	44	443	744	59	2,009

Assets purchased under hire purchase agreements are as follows:

	Motor vehicles	
	1998 £'000	1997 £'000
Cost	42	42
Depreciation	(18)	(10)
Net book value at 30 September	24	32

Freehold land and buildings includes a property which was revalued to £360,000 from an historical cost of £52,290. The revaluation was as at 30 September 1988 on an open market basis for existing use. In the directors' opinion the net book value of the freehold property as disclosed is a fair approximation of the current market value.



NOTES TO THE FINANCIAL STATEMENTS (continued)

15 FIXED ASSET INVESTMENTS

	Year ended 30 September	
	1998	1997
	£'000	£'000
Investment in ordinary share capital of Optronic Laboratories Inc at cost	1,945	1,945

Gooch & Housego PLC owns the entire share capital of Optronic Laboratories Inc a Company incorporated in the USA. The subsidiary undertaking manufactures light measuring instruments and RF drivers from its premises in Orlando, Florida, USA.

16 STOCKS

	Year ended 30 September			
	1998		1997	
	Group £'000	Company £'000	Group £'000	Company £'000
Raw materials	536	266	504	249
Work in progress	191	176	175	150
Finished goods	451	252	156	32
	1,178	694	835	431

17 DEBTORS

	Year ended 30 September			
	1998		1997	
	Group £'000	Company £'000	Group £'000	Company £'000
Trade debtors	1,491	987	1,348	839
Property held for resale	—	—	184	—
Other debtors	69	69	16	16
Amounts owed by subsidiary undertaking	—	31	—	124
Prepayments	31	28	111	89
	1,591	1,115	1,659	1,068

18 CREDITORS: amounts falling due within one year

	Year ended 30 September			
	1998		1997	
	Group £'000	Company £'000	Group £'000	Company £'000
Bank loans and overdraft	186	186	287	287
Amounts owed to subsidiary undertaking	—	73	—	—
Trade creditors	295	235	314	258
Hire purchase creditor	32	24	11	3
Dividend proposed	203	203	26	26
Other creditors	51	49	142	50
Taxation	499	460	351	351
Social security	37	37	49	33
Accruals	268	54	351	70
	1,571	1,321	1,531	1,078



NOTES TO THE FINANCIAL STATEMENTS (continued)

19 CREDITORS: amounts falling due after more than one year

	Year ended 30 September			
	1998		1997	
	Group £'000	Company £'000	Group £'000	Company £'000
Bank loan (US dollar loan)	280	280	489	489
Hire purchase creditor	25	—	58	24
	305	280	547	513

The bank loan is secured by a fixed and floating charge over the Group's assets. The amount outstanding at 30 September 1998 of £466,000 (1997: £685,000) is payable in half yearly instalments, plus interest, as follows:

	Year ended 30 September	
	1998 £'000	1997 £'000
Within 1 year	186	196
Between 1 to 2 years	187	196
Between 2 to 5 years	93	293
	466	685

The hire purchase creditor is secured on the assets concerned and subordinated to the bank loan. The hire purchase creditor is payable as follows:

	Year ended 30 September			
	1998		1997	
	Group £'000	Company £'000	Group £'000	Company £'000
Within one year	32	24	11	3
Within 2 to 5 years	25	—	58	24

20 CALLED UP SHARE CAPITAL AND SHARE PREMIUM ACCOUNT

	Year ended 30 September	
	1998 £'000	1997 £'000
Authorised		
18,000,000 Ordinary shares of 20p each	3,600	—
5,000 Ordinary Shares of £1 each	—	5
Allotted, issued and fully paid		
16,904,162 Ordinary shares of 20p each	3,381	—
4,680 Ordinary Shares of £1 each	—	5
Share premium account	1,113	—



NOTES TO THE FINANCIAL STATEMENTS (continued)

20 CALLED UP SHARE CAPITAL AND SHARE PREMIUM ACCOUNT (continued)

Prior to the Company's flotation onto the Alternative Investment Market the Company restructured its share capital.

	Number of shares	Share capital £'000	Share premium £'000
At 1 October 1997	4,680	5	—
Capitalisation of profit and loss reserves	2,995,200	2,995	—
£1 ordinary shares	2,999,880	3,000	—
1 ordinary shares converted into 20p ordinary shares	14,999,400	3,000	—
New issue on flotation at £1.05 less costs of flotation	1,904,762	381	1,113
	16,904,162	3,381	1,113

21 RESERVES

Group

	Revaluation reserve	Goodwill reserve £'000	Profit and loss account £'000
At 1 October 1997	308	(1,335)	3,896
Retained profit for the year	—	—	955
Other recognised gains and losses	—	—	(55)
Capitalised in the year	—	—	(2,995)
At 30 September 1998	308	(1,335)	1,801

The cumulative value of goodwill at 30 September 1998 which has been written off to reserves is £1,335,000 (1997: £1,335,000).

Company

	Revaluation reserve £'000	Profit and loss account £'000
At 1 October 1997	308	3,549
Retained profit for the year	—	719
Capitalised in the year	—	(2,995)
At 30 September 1998	308	1,273

As permitted by Section 230 of the Companies Act 1985, the holding Company's profit and loss account has not been included in the financial statements. The holding Company profit after taxation for the financial year is £1,007,000 (1997: £912,000). There are no other recognised gains or losses in the Company.



NOTES TO THE FINANCIAL STATEMENTS (continued)

22 RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	Year ended 30 September			
	1998		1997	
	Group £'000	Company £'000	Group £'000	Company £'000
Profit on ordinary activities after taxation	1,243	1,007	1,111	912
Dividends in year	(288)	(288)	(51)	(51)
	955	719	1,060	861
Other recognised gains and losses	(55)	—	(34)	—
New share capital subscribed	1,494	1,494	—	—
Net addition to shareholders' funds	2,394	2,213	1,026	861
Opening shareholders' funds	2,874	3,862	1,848	3,001
Closing shareholders' funds	5,268	6,075	2,874	3,862

23 CAPITAL COMMITMENTS

	1998 £'000	1997 £'000
Authorised and contracted for but not provided	—	545

24 OPERATING LEASES

At 30 September 1998 the Group had the following annual commitments under other operating leases which expire as follows:

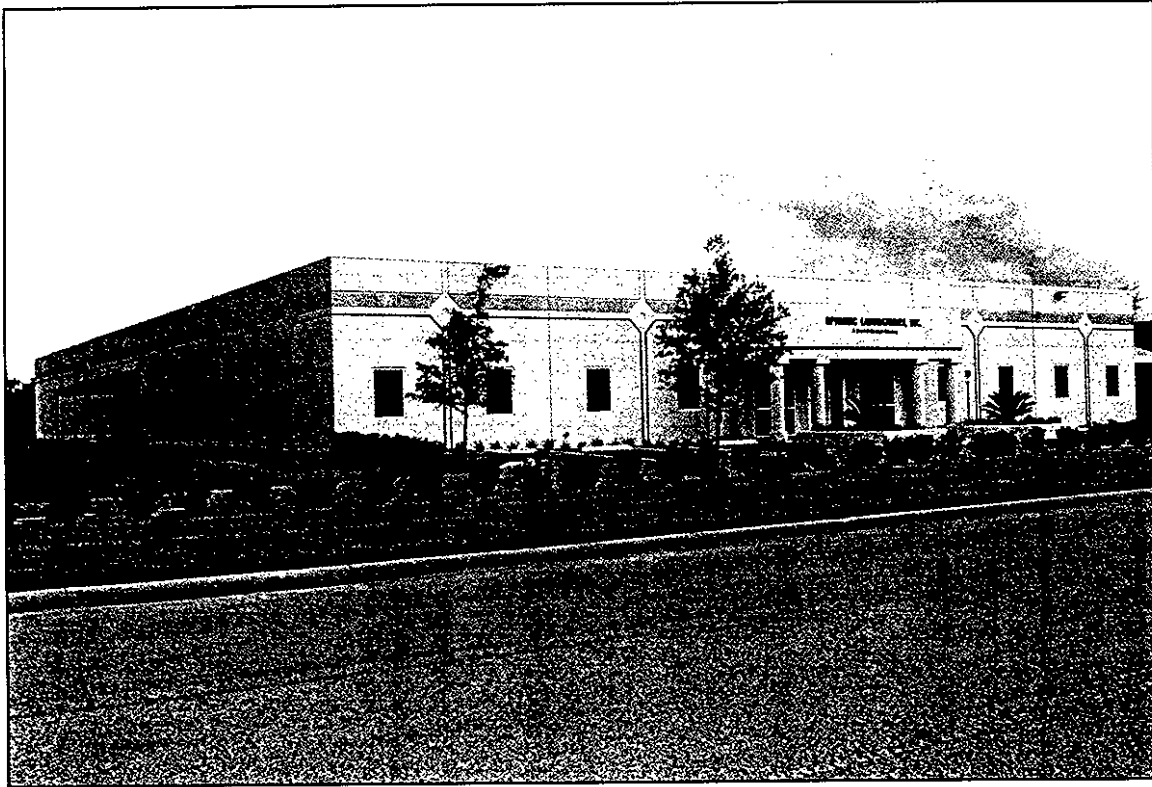
	1998 £'000	1997 £'000
1-2 years	—	2
2-5 years	4	4
	4	6

25 RELATED PARTY TRANSACTIONS

Other than the agreement referred to on page 5, no material contracts or arrangements have been entered into during the year, nor subsisted at the end of the year, in which a director or key manager had a material interest.

GOOCH & HOUSEGO PLC





The new 25,000 sq. ft. Orlando factory which was opened by the Chairman in February 1998.

Company Information

Registered and Head Office	The Old Magistrates Court Ilminster Somerset TA19 0AB England
Registered Number	526832 (England)
Nominated Adviser	PricewaterhouseCoopers Corporate Finance No. 1 London Bridge London SE1 9QL
Nominated Stockbroker	Sutherlands Limited Dashwood House 69 Old Broad Street London EC2M 1NX
Solicitors	Burges Salmon Narrow Quay House Narrow Quay Bristol BS1 4AH
Auditors	PricewaterhouseCoopers 31 Great George Street Bristol BS1 5QD
Registrars	IRG plc Balfour House 390/398 High Road Ilford Essex IG1 1NQ