GOOCH & HOUSEGO PLC

World leading

optics technology

Annual Report and Accounts 2002

GOOCH & HOUSEGO PLC

The Gooch & Housego Group is a world leader in the design and manufacture of **acousto - optic devices, precision optical components, crystals, and instruments for measuring optical radiation.** Operating within the photonics industry, we serve a diverse range of commercial applications in key technology sectors.

We seek to exploit our leading edge technical expertise, concentrating on applications where our precision products have **market leading positions and global penetration**.

Contents

Year in Brief

The worldwide decline in the electronics and manufacturing industries has been widely reported and this slowdown had an adverse affect upon our profitability in the first six months. However, in the last half of the year, we have seen increased levels of orders which together with the worldwide strength of our products and the skills of our people have led to a marked improvement in profits.

- **Improved** second half trading
- **Strong balance sheet** maintained with gearing **reduced to 8%**
- Appointment of **Gareth Jones** as CEO of the Group, with effect from January 2003
- Recommended **increase** in final dividend making a total of **3.0p** for the year
- Continuing **capital investment** in a new 50,000 sq ft factory and in high tech equipment

Chairman's Statement 2002

In what was a challenging and difficult year, the Group is reporting results in line with its revised expectations. The Group issued a trading statement in March 2002 when it became clear that the downturn in the sales of Q-Switches and the recessionary trend that affected the US economy would adversely impact the Group's growth projections and profit for the year.

Our Focus will continue to be on improving the profitability of our core trading activities.

I am pleased to report that there has been a marked improvement in the second half of the year and this is reflected in the results announced today. This has been brought about by the application of rigid cost controls resulting in increased margins. In addition tight cash controls have been reflected in strong cash generation and a particularly low gearing rate.

Directors

I am delighted to announce that Gareth Jones is returning to the Group in January 2003 to take up the position of Chief Executive Officer. Gareth first joined Gooch & Housego in 1978 and became Group Managing Director in 1995. During his period in office he had overall responsibility for Research and Development and worked extensively to develop the acousto optics business as Gooch & Housego became a world leader in this area. He resigned in December 1999 to take up a new challenge working for a venture capital company. In this position he has gained additional experience in corporate finance, which will be of significant advantage to the Group. I look forward to working with him again.

Financial Results

The Group's turnover for the year was 19% lower at £15.59 million (2001 : £19.15 million). Profit before taxation was £2.02 million (2001 : £4.06 million). Profit before taxation and goodwill amortisation for the year was £2.32 million (2001 : £4.36 million).

Earnings per share for the year was 7.0p as compared with last year, restated at 13.3p.

Throughout the period, the Group generated significant amounts of cash and reduced its net debt by £0.81 million to £0.95 million, reduced gearing from 15% to 8% while interest was covered 13 times (2001 : 16 times).

The strong balance sheet will enable the Group to continue to grow both organically and by acquisition. The new Ilminster factory will facilitate organic growth, while further strategic acquisitions are being considered for the coming year.

Dividends

Following these results and the strong cash position, your Board is proposing to increase the final dividend to 2.0p per ordinary share (2001 : 1.9p) which, together with the interim paid, totals 3.0p (2001 : 2.8p). This represents an increase of 7% on last year.

Subject to approval at the Annual General Meeting the final dividend will be payable on 14th February 2003 to all shareholders on the register on 31st December 2002.

OPERATIONS

United Kingdom

G & H

In the UK sales for Gooch & Housego (G&H) were £5.47 million (2001 : £7.29 million) with operating profits at £1.09 million (2001 : £2.26 million).

The major reasons for the reduction in profit at G&H have already been discussed in both the trading statement of March 2002 and the interim statement in June 2002. The major impact on profits was caused by the rescheduling of Q-Switches, particularly by our customers in the US and Germany, following the effect of the worldwide recession.

The recovery in acousto-optic product sales is now well underway and the final quarter of our year ended 30 September 2002 saw an upturn in both orders and invoiced sales. This, together with the ongoing development of new products, increases our confidence for future growth and improved profitability.

The performance of our scientific optical division has been in line with expectations with sales being maintained despite the effect of the recession. During the year we have benefited from ongoing contracts from major defence customers as they continue to outsource precision optics components. The current levels of the order intake continue to be maintained.

I am pleased to announce that plans have been drawn up for a new 50,000 square foot factory and headquarters building to be located not far from the existing Ilminster facility on land purchased during the last year. Work is expected to start in early 2003 and be completed by the end of the year. This exciting development is a significant milestone in the history of the company, being the first move away from the town centre location that has been home to Gooch & Housego for more than fifty years.

In addition to providing the all important extra space to facilitate the continued growth of the core Gooch & Housego precision optics and acousto-optics activities, the state of the art factory will improve efficiency and enhance quality while providing an attractive and pleasant working environment. This move is a key step in our ongoing plans to develop and grow the business.

United States

CCI

Cleveland Crystals Inc (CCI) has reported sales of £4.15 million an improvement of £0.40 million on last year, with operating profit at £0.44 million (2001 : £0.45 million).

Despite the difficult economic conditions and highly competitive marketplace, sales in the core crystals and electro-optic components business grew 7% year on year. The company believes this improvement is a result of more aggressive sales and marketing, on-time delivery of high quality products, customer support and targeted new product development. The strategy of focussing on laser OEM customers will be continued and increased in scope to include large government and university research laboratories.

Sales of fusion research related products decreased 17% as compared with last year. However, CCI's position as the world's leading supplier of large crystals for fusion research lasers remains unchallenged. The new facility to produce crystals for the Lawrence Livermore National Laboratory's National Ignition Facility laser became operational in February 2002 when pilot production commenced. Full production, made up of both crystal growth and fabrication of the finished parts, is scheduled to commence in 2003 and is projected to continue beyond 2010.

OLI

Optronic Laboratories Inc (OLI) returned a disappointing result in a difficult and reducing market in the US. Total sales were £2.51 million (2001 : £3.03 million) with an operating loss for the year ended 30 September 2002 of £231,000 against a profit in the prior year of £29,000.

As I reported in my interim statement of 18 June 2002 a full reorganisation of the Group's US business has been undertaken which will result in increased efficiencies and profits. The major cost of this has been absorbed by OLI and this will now have a beneficial effect on profits.

In December 2001 the RF driver business was moved to NEOS Technologies Inc (NEOS) to capitalise on their in house expertise in design and manufacturing which has led to significant cost savings for the Group. In February 2002 the optics business of OLI was closed and all business transferred to G&H Ilminster where overall lower manufacturing costs will result in increased profitability.

To cover these losses OLI has realised a steady increase in metal fabrication work for NEOS, which was previously purchased outside of the Group. This new business, when consolidated with OLI's existing fabrication, will again lead to profit improvement through the resulting production efficiencies.

During the year under review the market for the sale of our Spectroradiometer has been poor due to both the events of 9/11 and the resultant recession in the US. Quote activity has been strong in the second half but it is only recently that we have experienced a sustained increase in orders.

The core business of design, manufacture and supply is now fully focussed on the company's Spectroradiometry devices. The new high-speed light-measuring instrument, designed specifically for the LED market, has been well received by customers and promises to be a good platform for future development. There are three customers expected to place multi-unit purchases next year. A UV-version of the LED-measuring instrument is planned for release in January and an IR-version is planned for release by Q4. Also, several major improvements planned next year for older instruments will enhance future sales. Our continuing expertise in design and performance in Sprectroradiometry has given us a reputation for worldwide leadership, which, together with the changes already undertaken at OLI, are expected to return the company to profit during the current year.

Our world leading technical expertise and our position at the forefront of our chosen markets make us well placed to take advantage of our expanding markets.

NEOS

NEOS performed well in the second half of the year. After reporting an operating profit of £0.52 million in the six months to 31 March 2002 NEOS achieved a full year operating profit of £1.18 million (2001 : £1.79 million) from sales of £3.67 million (2001 : £5.50 million).

The reasons for the downturn in NEOS's first half performance have been well documented during the year and are similar to those experienced by G&H in their acousto-optic division. In addition NEOS has historically sold in excess of 75% of total sales into the US market which, during the year under review, was severely weakened.

NEOS continues to invest in new product development as it moves to reduce it's dependence on Q-switches. New derivatives continue to be researched and developed which together with increased sales in RF drivers will fuel future growth.

Staff

I would like to thank the directors, management and staff, both in the UK and US, for their individual contributions to the results achieved by the Group in difficult trading conditions.

Prospects

In the second half and through into the current year we experienced a greater level of activity in our enquiry and sales order conversion processes. This increased business provides the Group with confidence in regard to our current financial forecasts.

Having recently returned from a five-week visit to our US subsidiaries it is pleasing to observe the ongoing integration of the Group companies and this gives us continuing confidence in the future.

It is likely that, providing the recovery of the global economy continues, the Group can expect to recover its position and return to growth. The strength of our products and the skills of our people combined with the development of our manufacturing capabilities and the strengthening of the organisation will provide the necessary platform for success.

Archie Gooch MBE JP
Executive Chairman
16 December 2002

Directors and Advisers

Directors
Archie W C Gooch
Executive Chairman

David E Irish
Operations Director

Heather C Virgin
Personnel Director

Ian W Bayer
Finance Director

Eugene G Arthurs
Non Executive

Jan A Melles
Non Executive

Secretary and Registered Office
Ian W Bayer
The Old Magistrates Court
Ilminster
Somerset TA19 0AB

Registered Number
526832

Advisers
Corporate Advisers and Stockbrokers
Rowan Dartington
Colston Tower
Colston Street
Bristol
BS1 4RD

Solicitors
Burges Salmon
Narrow Quay House
Narrow Quay
Bristol BS1 4AH

Auditors
PricewaterhouseCoopers
31 Great George Street
Bristol BS1 5QD

Registrars
Capita Registrars
The Registry
390/398 High Road
Ilford
Essex IG1 1NQ

Expected Financial Calendar

Annual General Meeting	12 February 2003
Payment of the Final Dividend for the year ended 30 September 2002 to Shareholders on the register on 31 December 2002	14 February 2003
Interim Results announced	June 2003
Payment of Interim Dividend for the year ending 30 September 2003	July 2003
Financial Year End	30 September 2003
Preliminary announcement of results for the year ending 30 September 2003	December 2003

Directors' Report

The Directors present their report together with the audited financial statements for the year ended 30 September 2002.

Principal Activity

The Company and its subsidiaries are principally engaged in the manufacture of Acousto-Optic devices, highly specialised components for Electro-Optic systems, light measurement instrumentation systems and the manufacture of crystals.

Review of Business and Future Developments

A summary of the results for the year is set out in the profit and loss account on page 10. A further review of the Group's activities and of its future developments are contained in the Chairman's Statement on pages 2 and 3.

Dividends

For the year under review a final dividend of £360,000 (2001 : £342,000) has been proposed and an interim dividend of £180,000 (2001 : £162,000) was paid. The Directors propose that the retained profit for the year of £720,000 (2001 : £1,889,000 restated), be transferred to reserves.

Directors

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

	Ordinary shares of 20p each		
	16 December 2002	30 September 2002	30 September 2001
A W C Gooch	1,658,353	1,658,353	1,658,353
I W Bayer	10,000	10,000	10,000
D E Irish	998,206	998,206	998,206
Mrs H C Virgin	3,403,226	3,403,226	3,403,226
E G Arthurs *	–	–	–
J A Melles *	20,000	20,000	20,000

*Non-executive Directors.

In addition to the above shareholdings, 2,999,800 (2001 : 2,999,880) shares are held in the Gooch / Virgin Discretionary Trust and a further 277,000 (2001 : 240,000) shares are held in a charitable trust of which A W C Gooch and Mrs H C Virgin are trustees. Neither A W C Gooch nor Mrs H C Virgin have a beneficial interest in the trusts.

In accordance with the Company's Articles of Association, Mr D E Irish and Mr I W Bayer 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 Company's policy to comply with the payment terms agreed with suppliers providing it is satisfied that the supplier has provided the goods and services in accordance with agreed terms and conditions.

Trade creditors outstanding at 30 September 2002 represent 36 days as a proportion of the total amount invoiced by suppliers during the year (2001 : 35).

Directors' Report
continued

Financial and Treasury Policy
The Group finances its operations by a combination of retained profits, management of working capital, bank overdrafts and medium term bank loans, and hire purchase and finance lease contracts. The disclosures in relation to financial instruments are made in note 20 to the financial statements.

Liquidity Risk
As regards liquidity, it is the Group's policy to ensure funding is in place such that trading activities are not impaired. The Group's risk is managed through the preparation of cash flow forecasts and the monthly comparison of actual cash flows against the forecast to ensure that the available banking facilities are adequate to meet the current trading activities.

Currency Risk
The Group's principal currency exposure is in respect of trading results generated in US dollars by its US subsidiaries. The Group has partially hedged its initial investments in its US subsidiaries by part financing them with US dollar loans.

Donations
The Group made donations of £875 (2001 : £675) to various charities during the year.

Corporate Governance
The Board recognises the importance of good corporate governance and has, after taking into account the size and stage of development of the Group, put in place procedures it considers appropriate.

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 during the year 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 the committee's report is on page 8.

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.

The Board are also aware that they are responsible for the Group's systems of internal control, not just those relating to financial controls. The Board regularly assesses the controls in place, taking into account the size and stage of development of the Group.

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 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

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
Director
16 December 2002

Report of the Remuneration Committee

The current Remuneration Committee members are A W C Gooch (Chairman), E G Arthurs 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 contributed to two money purchase pension schemes on behalf of two of the executive Directors. Contributions to the first scheme amount to 8% of the Director's basic salary. Contributions to the second scheme represent 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 during the year was £5,850 to each executive director's scheme.

Directors' Contracts

A W C Gooch, D E Irish and Mrs H C Virgin currently have rolling service contracts terminable on twelve months notice. I W Bayer has a service contract subject to six months notice. Non-Executive Directors do not have contracts of service.

By agreement between Photonics Investments b.v. and the Company, Photonic 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. which is wholly owned by J A Melles. No such amounts were payable in the current year or prior year.

Directors' Remuneration

	Basic Pay £'000	Benefits in Kind £'000	Pension Contributions £'000	Total Emoluments 2002 £'000	Total Emoluments 2001 £'000
Executive					
A W C Gooch	73	14	–	87	112
D E Irish	52	1	9	62	58
Mrs H C Virgin	33	1	8	42	40
I W Bayer	78	–	–	78	77
I Davidson*	175	8	11	194	–
Non-executive					
E G Arthurs	15	–	–	15	15
J A Melles	16	–	–	16	17
	442	24	28	494	319

* I Davidson, who was not formally appointed as a Director but instead acted as a de facto Director, was appointed on 4 January 2002 and resigned on 4 September 2002. His pay includes £65,000 compensation for loss of office.

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 5.

Report of the Independent Auditors

to the members of Gooch & Housego PLC

We have audited the financial statements on pages 10 to 27, which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses and the related notes.

Respective Responsibilities of Directors and Auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities on page 7.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This opinion has been prepared for, and only for, the Company's members in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report and the chairman's statement.

Basis of Audit 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 Company and the Group at 30 September 2002 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS

Chartered Accountants
and Registered Auditors
Bristol

16 December 2002

Group Profit and Loss Account

For the year ended 30 September 2002

	Note	2002 £'000	2001 £'000 Restated
Turnover	2	**15,586**	19,146
Trading expenditure	3	**(13,406)**	(14,834)
Operating profit	7	**2,180**	4,312
Interest receivable and similar income	8	**41**	76
Interest payable and similar charges	9	**(206)**	(332)
Profit on ordinary activities before taxation		**2,015**	4,056
Tax on profit on ordinary activities	10	**(755)**	(1,663)
Profit on ordinary activities after taxation	24	**1,260**	2,393
Dividends on equity shares	11	**(540)**	(504)
Retained profit for the financial year	23	**720**	1,889
Basic earnings per share	12	**7.0p**	13.3p
Earnings per share before goodwill amortisation	12	**8.7p**	15.0p

The notes on pages 14 to 27 form part of these financial statements.

As described in note 1, the 2001 Group profit and loss account has been restated to take account of the adoption of FRS 19 'Deferred Tax'.

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

Group Statement of Total Recognised Gains and Losses

For the year ended 30 September 2002

	2002 £'000	2001 £'000 Restated
Profit for the financial year	**1,260**	2,393
Currency translation differences on foreign currency net investments	**(361)**	(11)
Taxation on retranslation gains/losses on foreign currency loans hedged against foreign currency net investments	**-**	3
Total recognised gains and losses for the financial year	**899**	2,385
Prior year adjustment as set out in note 1	**(179)**	
Total gains and losses recognised since the last annual report	**720**	

The notes on pages 14 to 27 form part of these financial statements.

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

Group Balance Sheet

As at 30 September 2002

	Note	2002 £'000	2002 £'000	2001 £'000 Restated	2001 £'000 Restated
Fixed assets					
Intangible assets	13		**5,161**		5,463
Tangible assets	14		**3,763**		3,710
			8,924		9,173
Current assets					
Stocks	16	**3,507**		3,759	
Debtors	17	**3,215**		3,524	
Cash at bank and in hand		**2,592**		2,481	
		9,314		9,764	
Creditors: amounts falling due within one year	18	**(3,711)**		(4,112)	
Net current assets			**5,603**		5,652
Total assets less current liabilities			**14,527**		14,825
Creditors: amounts falling due after more than one year	19		**(2,197)**		(2,978)
Provisions for liabilities and charges	21		**(188)**		(64)
Net assets			**12,142**		11,783
Capital and reserves					
Called up share capital	22		**3,600**		3,600
Share premium account	23		**3,404**		3,404
Revaluation reserve	23		**308**		308
Profit and loss account	23		**4,830**		4,471
Equity shareholders' funds	24		**12,142**		11,783

Approved by the Board of Directors on 16 December 2002 and signed on its behalf by:

A W C Gooch   I W Bayer

The notes on pages 14 to 27 form part of these financial statements.

Company Balance Sheet

As at 30 September 2002

	Note	2002 £'000	2002 £'000	2001 £'000 Restated	2001 £'000 Restated
Fixed assets					
Tangible assets	14		**2,787**		2,567
Investments	15		**10,710**		11,439
			13,497		14,006
Current assets					
Stocks	16	**779**		869	
Debtors	17	**1,077**		1,647	
Cash at bank and in hand		**–**		300	
		1,856		2,816	
Creditors: amounts falling due within one year	18	**(3,021)**		(3,264)	
Net current liabilities			**(1,165)**		(448)
Total assets less current liabilities			**12,332**		13,558
Creditors: amounts falling due after more than one year	19		**(2,150)**		(2,978)
Provisions for liabilities and charges	21		**(174)**		(120)
Net assets			**10,008**		10,460
Capital and reserves					
Called up share capital	22		**3,600**		3,600
Share premium account	23		**3,404**		3,404
Revaluation reserve	23		**308**		308
Profit and loss account	23		**2,696**		3,148
Equity shareholders' funds	24		**10,008**		10,460

Approved by the Board of Directors on 16 December 2002 and signed on its behalf by:

A W C Gooch I W Bayer

The notes on pages 14 to 27 form part of these financial statements.

Group Cash Flow Statement

For the year ended 30 September 2002

	Note	2002 £'000	2002 £'000	2001 £'000	2001 £'000
Net cash inflow from operating activities	(i)		**3,091**		4,352
Returns on investments and servicing of finance					
Interest received		**33**		76	
Interest paid		**(198)**		(327)	
Interest element of hire purchase contracts		**(12)**		(5)	
Net cash outflow from returns on investments and servicing of finance			**(177)**		(256)
Taxation					
UK tax paid		**(444)**		(434)	
Overseas tax paid		**(336)**		(1,092)	
Cash outflow from taxation			**(780)**		(1,526)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		**(612)**		(597)	
Sale of tangible fixed assets		**4**		29	
Net cash outflow from capital expenditure and financial investment			**(608)**		(568)
Acquisitions					
Acquisition of subsidiary		**-**		(266)	
Net cash outflow from acquisitions			**-**		(266)
Equity dividends paid			**(522)**		(441)
Cash inflow before financing			**1,004**		1,295
Financing					
Repayment of bank loan		**(1,017)**		(744)	
Capital element of hire purchase contracts		**(78)**		(50)	
Net cash outflow from financing			**(1,095)**		(794)
(Decrease)/increase in cash in the year	(iii)		**(91)**		501

Notes to the Cash Flow Statement

(i) Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

	2002 £'000	2001 £'000
Operating profit	**2,180**	4,312
Amortisation of goodwill and licences	**302**	301
Amortisation of debt issue costs	**24**	15
Depreciation	**464**	496
Decrease/(increase) in stock	**(55)**	(508)
Decrease/(increase) in debtors	**349**	(69)
(Decrease) in creditors	**(173)**	(195)
Net cash inflow from operating activities	**3,091**	4,352

(ii) Reconciliation of Net Cash (outflow)/inflow to Movement in Net Debt

	2002 £'000	2001 £'000
(Decrease)/increase in cash in the year	**(91)**	501
Cash outflow from decrease in debt and lease financing	**1,095**	794
Changes in net debt resulting from cash flows	**1,004**	1,295
New hire purchase contracts	**(477)**	–
Movement in debt issue costs	**(24)**	(15)
Translation difference	**311**	26
Movement in net debt in the year	**814**	1,306
Net debt at 1 October 2001	**(1,761)**	(3,067)
Net debt at 30 September 2002	**(947)**	(1,761)

(iii) Analysis of Net Debt

	At 1 October 2001 £'000	Cash flow £'000	Exchange movement £'000	Non-cash Movement £'000	**At 30 September 2002 £'000**
Cash at bank and in hand	2,481	(91)	202	–	**2,592**
Debt due after 1 year	(2,978)	–	103	993	**(1,882)**
Debt due within 1 year	(1,236)	1,017	24	(1,017)	**(1,212)**
Hire purchase	(28)	78	(18)	(477)	**(445)**
		1,095			
	(1,761)	1,004	311	(501)	**(947)**

Notes to the Financial Statements

1 Accounting Policies

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

Following the introduction of Financial Reporting Standard 19, 'Deferred Taxation' in 2002, the Group has changed its accounting policy with respect to deferred taxation. Under the previous policy, provision was made for deferred taxation using the liability method, on all material timing differences, to the extent that it is probable that a liability or asset will crystallise. Under the revised accounting policy, liabilities will be recognised for most types of timing differences regardless of whether they are anticipated to reverse in the foreseeable future. Deferred taxation assets will be recognised to the extent that it is more likely than not that they will reverse.

A review of the deferred tax position of the Group was undertaken and a prior year adjustment was made which decreased reserves by £122,000 at 1 October 2000. Retained profit for the year to 30 September 2001 was reduced by £57,000, resulting in reserves brought forward at 1 October 2001 decreasing by £179,000. The impact of the change on the retained profit for the year ended 30 September 2002 is a reduction of £83,000.

Consolidation
The consolidated financial statements deal with the results and the state of affairs of the Group. The results of acquired subsidiaries are included from the date of acquisition.

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.

Turnover on long term contracts reflects costs incurred to date plus an estimate of profits attributable to the work performed to date. For this purpose the estimate of attributable profits will include a proportion of the total profits anticipated to be made on the contract.

Goodwill
Goodwill arising on the acquisition of subsidiaries is capitalised and amortised on a straight line basis over the directors estimate of the useful economic life of the goodwill. This is individually assessed for each acquisition, but does not exceed twenty years.

Goodwill arising on acquisitions prior to the implementation of FRS 10 has been written off against the profit and loss reserve. On disposal of such businesses, goodwill previously written off against reserves is charged in the calculation of the profit or loss on disposal.

Fixed assets
Depreciation is calculated so as to write down the cost or valuation 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
Licenses	12.5%	Straight line

No depreciation is charged on freehold land.

Notes to the Financial Statements

1 Accounting Policies (continued)

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

Pension Schemes
The Group operates three money purchase schemes for directors and staff. The assets of the schemes are held separately from those of the Group in separately administered funds.The pension charge represents contributions payable to the funds during the year. A 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.

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 transactions and on the translation of other monetary assets and liabilities are dealt with in the profit and loss account.

The results of the overseas subsidiaries are translated into sterling at the average rates of exchange prevailing during the year.The balance sheets of the overseas subsidiaries are translated into sterling at the rate ruling at the balance sheet date. Exchange gains and losses arising from foreign currency loans taken out to finance overseas investments are offset against the gains and losses arising on the retranslation of the subsidiaries opening net assets.The net exchange difference is 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 Group. 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.

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

Investments
Investments are stated at cost less provision for any permanent diminution in value. Investments in overseas subsidiaries are retranslated at the rates of exchange ruling at the balance sheet date.

2 Segmental Reporting

The analysis of turnover by destination is as follows:	2002 £'000	2001 £'000
United Kingdom	**2,769**	2,937
North America	**9,334**	10,827
Continental Europe	**1,688**	2,241
Other	**1,795**	3,141
	15,586	19,146

United Kingdom sales include indirect exports sold through UK based European agents amounting to £596,000 (2001 : £860,000).

The directors are of the opinion that the principal activity of the Group as described on page 5 is the only class of business.

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

	United Kingdom		North America		Group	
	2002 £'000	2001 £'000	**2002 £'000**	2001 £'000	**2002 £'000**	2001 £'000
Turnover						
– Continuing	**5,465**	7,288	**10,433**	12,250	**15,898**	19,538
Inter-segment sales	**(46)**	(19)	**(266)**	(373)	**(312)**	(392)
Sales to third parties	**5,419**	7,269	**10,167**	11,877	**15,586**	19,146
Operating profit before interest and taxation						
– Continuing	**1,091**	2,263	**1,089**	2,049	**2,180**	4,312
Net interest					**(165)**	(256)
Group profit before taxation					**2,015**	4,056
Segment net assets						
– Continuing (restated)	**2,844**	3,591	**10,245**	9,953	**13,089**	13,544
Net debt					**(947)**	(1,761)
Total net assets					**12,142**	11,783

3 Trading Expenditure

	Note	2002 £'000	2001 £'000
Changes in stocks of finished goods and work in progress		**(28)**	(474)
Other operating income	4	**17**	35
Raw materials and consumables		**(2,892)**	(3,263)
Other external charges		**(1,681)**	(2,301)
Staff costs	5	**(7,135)**	(6,805)
Amortisation and depreciation		**(766)**	(797)
Other operating charges		**(921)**	(1,229)
		(13,406)	(14,834)

Notes to the Financial Statements

4 Other Operating Income

	2002 £'000	2001 £'000
Other income	**17**	35

5 Staff Costs

	2002 £'000	2001 £'000
Wages and salaries	**6,356**	6,037
Social security costs	**498**	497
Other pension costs	**281**	271
	7,135	6,805

The average number of employees during the year was:	2002 No.	2001 No.
Manufacturing	**148**	163
Administration	**90**	85
	238	248

6 Directors' Emoluments

	2002 £'000	2001 £'000
Directors' remuneration	**466**	303
Directors' pension scheme contributions	**28**	16

The number of Directors who are accruing retirement benefits under a money purchase pension scheme is 2 (2001 : 2).

There are no long-term incentive schemes or share options in place for any Director.

Details of the remuneration and pension contributions of all the Directors are shown in the Remuneration Committee Report on page 8 and form part of these financial statements.

7 Operating Profit

	2002 £'000	2001 £'000
Operating profit is stated after charging:		
Amortisation of licences	**-**	1
Amortisation of goodwill	**302**	300
Auditors' remuneration – audit of the Group	**72**	70
– non-audit services	**40**	43
Research and development costs	**988**	891
Operating lease rental of equipment	**12**	25
Operating lease rental of land and buildings	**271**	276

Included within auditors' remuneration for the audit of the Group are fees for the audit of the Company of £21,000 (2001 : £21,000).

8 Interest Receivable and Similar Income

	2002 £'000	2001 £'000
Bank deposit interest	**41**	76

9 Interest Payable and Similar Charges

	2002 £'000	2001 £'000
Bank loans and overdraft interest	**193**	326
Hire purchase interest	**13**	6
	206	332

10 Taxation on Profit on Ordinary Activities

The charge for taxation on the profit for the year is made up as follows:	2002 £'000	2001 £'000 Restated
Current year		
UK Corporation Tax	**258**	609
Overseas taxation	**587**	997
Adjustment in respect of previous periods	**(75)**	–
Double tax relief	**(29)**	–
Total current tax	**741**	1,606
Deferred tax		
Origination and reversal of timing differences	**14**	57
Tax on profit on ordinary activities	**755**	1,663

The charge for deferred tax for the year of £14,000 is net of a credit of £110,000 arising from the recognition of a deferred tax asset.

The factors affecting the current tax charge are set out below:	2002 £'000	2001 £'000 Restated
Profit on ordinary activities before tax	**2,015**	4,056
Profit on ordinary activities at standard rate of tax of 30% (2001: 30%)	**605**	1,217
(Non-taxable income)/non deductible expenditure	**(13)**	18
Capital allowances for period (less than)/in excess of depreciation	**(7)**	24
Other timing differences	**42**	(4)
Goodwill amortisation	**91**	91
Adjustment in respect of overseas tax rates	**98**	244
Adjustment to tax charge in respect of previous periods	**(75)**	16
Corporation tax charge for period	**741**	1,606

Notes to the Financial Statements

11 Dividends

	2002 £'000	2001 £'000
Interim dividend paid	**180**	162
Final dividend proposed	**360**	342
	540	504
Total dividend per ordinary share	**3.0p**	2.8p

12 Earnings Per Share

The calculation of earnings per 20p Ordinary Share is based on the profit on ordinary activities after taxation using as a divisor the weighted average number of Ordinary Shares in issue during the year. For 2002 the actual number of Ordinary Shares in issue throughout the year was 17,999,162 (2001 : 17,999,162).

A reconciliation of the earnings and weighted average number of shares used in the calculations are set out below:

	2002		2001 Restated	
	£'000	p per share	£'000	p per share
Basic earnings per share	**1,260**	**7.0**	2,393	13.3
Amortisation of goodwill and licences	**302**	**1.7**	301	1.7
Earnings per share before goodwill amortisation	**1,562**	**8.7**	2,694	15.0

Earnings per share before goodwill amortisation has been shown because, in the opinion of the directors, it reflects the underlying performance of the Group.

13 Intangible Assets

	Goodwill £'000	Licences £'000	Group Total £'000
Cost			
At 1 October 2001 and at 30 September 2002	**6,049**	**6**	**6,055**
Amortisation			
At 1 October 2001	587	5	592
Charge for year	302	–	302
At 30 September 2002	**889**	**5**	**894**
Net Book value			
At 30 September 2002	**5,160**	**1**	**5,161**
At 30 September 2001	5,462	1	5,463

Goodwill arising on the acquisition of NEOS Technologies Inc. and Cleveland Crystals Inc. is being amortised over twenty years. This is the period over which the directors estimate that the value of the underlying businesses acquired is expected to exceed the value of identifiable net assets acquired.

14 Tangible Fixed Assets

Group	Freehold land and buildings £'000	Short leasehold property £'000	Plant and machinery £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Cost or valuation						
At 1 October 2001	1,944	277	4,529	587	63	7,400
Additions	81	–	516	15	–	612
Disposals	–	–	(106)	(172)	(10)	(288)
Exchange rate differences	(6)	(18)	(141)	(21)	–	(186)
At 30 September 2002	**2,019**	**259**	**4,798**	**409**	**53**	**7,538**
Depreciation						
At 1 October 2001	196	43	2,967	451	33	3,690
Charge for the year	40	27	343	47	7	464
Disposals	–	–	(110)	(165)	(9)	(284)
Exchange rate differences	(1)	(4)	(75)	(15)	–	(95)
At 30 September 2002	**235**	**66**	**3,125**	**318**	**31**	**3,775**
Net book value						
At 30 September 2002	**1,784**	**193**	**1,673**	**91**	**22**	**3,763**
At 30 September 2001	1,748	234	1,562	136	30	3,710

Freehold land and buildings, included within the Group and the Company, includes a property which was revalued to £360,000 from an historical cost of £52,290. The accumulated depreciation, based on the historic cost, of the freehold land and buildings would be £11,000 (2001: £10,000). The revaluation was as at 30 September 1988 by qualified valuers on an open market basis for existing use. Under the transitional rules of FRS 15 "Tangible fixed assets" the revaluation has not been updated.

Assets purchased under hire purchase agreements are as follows:

	Plant and machinery		Motor vehicles	
	2002 £'000	2001 £'000	**2002 £'000**	2001 £'000
Cost	**463**	67	**36**	36
Depreciation	**(60)**	(33)	**(18)**	(9)
Net book value at 30 September	**403**	34	**18**	27

Notes to the Financial Statements

14 Tangible Fixed Assets (continued)

Company	Freehold land and buildings £'000	Plant and machinery £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Cost or valuation					
At 1 October 2001	1,885	2,340	115	63	4,403
Additions	–	454	5	–	459
Disposals	–	–	–	(10)	(10)
At 30 September 2002	**1,885**	**2,794**	**120**	**53**	**4,852**
Depreciation					
At 1 October 2001	191	1,520	92	33	1,836
Charge for the year	30	193	8	7	238
Disposals	–	–	–	(9)	(9)
At 30 September 2002	**221**	**1,713**	**100**	**31**	**2,065**
Net book value					
At 30 September 2002	**1,664**	**1,081**	**20**	**22**	**2,787**
At 30 September 2001	1,694	820	23	30	2,567

Assets purchased under hire purchase agreements are as follows:

	Plant and Machinery		Motor vehicles	
	2002 £'000	2001 £'000	**2002 £'000**	2001 £'000
Cost	**396**	–	**36**	36
Depreciation	**(20)**	–	**(18)**	(9)
Net book value at 30 September	**376**	–	**18**	27

15 Fixed Asset Investments

Company	**2002 £'000**	2001 £'000
At 1 October	**11,439**	11,343
Additions	**–**	27
Current year exchange movement	**(729)**	69
At 30 September	**10,710**	**11,439**

Particulars of trading subsidiary companies, all of which are wholly owned and which are incorporated and operate in the United States of America, are as follows:

Name of Company	**Location**	**Activity**
Optronic Laboratories Inc.	Florida	Manufacture of instruments for measuring optical radiation.
Cleveland Crystals Inc.	Ohio	Specialist manufacture of crystals.
NEOS Technologies Inc.	Florida	Manufacture of acousto-optic devices.

16 Stocks

	2002		2001	
	Group	**Company**	Group	Company
	£'000	**£'000**	£'000	£'000
Raw materials	**1,539**	**361**	1,819	455
Work in progress	**1,288**	**292**	1,392	343
Finished goods	**680**	**126**	548	71
	3,507	**779**	3,759	869

17 Debtors

	2002		2001	
	Group	**Company**	Group	Company
	£'000	**£'000**	£'000	£'000
Trade debtors	**2,907**	**1,025**	3,339	1,600
Other debtors	**90**	**21**	31	–
Overseas corporation tax recoverable	**46**	**–**	–	–
Prepayments	**62**	**31**	154	47
Deferred tax asset	**110**	–	–	–
	3,215	**1,077**	3,524	1,647

An element of deferred tax asset will be recoverable in more than one year.

18 Creditors: Amounts falling due within one year

	2002		2001	
	Group	**Company**	Group	Company
	£'000	**£'000**	£'000	£'000
			Restated	Restated
Bank loans and overdraft (see note 19)	**1,212**	**1,342**	1,236	1,236
Amounts owed to subsidiary undertakings	**–**	**539**	–	563
Trade creditors	**676**	**384**	680	437
Hire purchase creditor	**129**	**109**	28	22
Dividend proposed	**360**	**360**	342	342
Other creditors	**171**	**38**	43	42
Corporation tax	**269**	**156**	502	440
Other taxation and social security	**107**	**74**	68	47
Accruals	**787**	**19**	1,213	135
	3,711	**3,021**	4,112	3,264

19 Creditors: Amounts falling due after more than one year

	2002		2001	
	Group	**Company**	Group	Company
	£'000	**£'000**	£'000	£'000
Bank loan	**1,882**	**1,882**	2,978	2,978
Hire purchase creditor	**315**	**268**	–	–
	2,197	**2,150**	2,978	2,978

The bank loans and overdraft are secured by a fixed and floating charge over the Group's assets. Interest is charged at variable rates from 1.5% to 2% above LIBOR depending on the Group's performance against a range of covenants. The amounts outstanding at 30 September 2002 of £3,094,000 (2001 : £4,214,000) are payable as follows:-

Notes to the Financial Statements

19 Creditors: Amounts falling due after more than one year (continued)

	2002		2001	
	Group £'000	**Company £'000**	Group £'000	Company £'000
Within 1 year	**1,212**	**1,342**	1,236	1,236
Between 1 to 2 years	**941**	**941**	984	984
Between 2 to 5 years	**941**	**941**	1,994	1,994
	3,094	**3,224**	4,214	4,214

The hire purchase creditor is secured on the assets concerned and is payable as follows:

	2002		2001	
	Group £'000	**Company £'000**	Group £'000	Company £'000
Within 1 year	**129**	**109**	28	22
Within 2 to 5 years	**315**	**268**	–	–
	444	**377**	28	22

20 Financial Instruments

The Group's risks and policies regarding financial instruments are disclosed in the Directors' Report.

	Fixed rate borrowings £'000	Fixed rate weighted average interest rate %	Fixed rate weighted average period Years	Floating rate borrowings £'000	**2002 Total £'000**	2001 Total £'000
Sterling	377	5	5	659	**1,036**	876
US Dollars	67	7	3	2,435	**2,502**	3,366
Total	444			3,094	**3,538**	4,242

In accordance with its policy of managing its interest rate risk, the Group had previously capped interest rates on its floating rate bank loans as follows:

	2002			2001		
Currency	**Total £'000**	**Capped interest rate %**	**Average years to maturity of cap**	Total £'000	Capped interest rate %	Average years to maturity of cap
Sterling	–	–	–	854	9.0	1
US dollars	–	–	–	1,580	6.5	1
	–			2,434		

The element of bank loans that is uncapped is £3,094,000 (2001 : £1,780,000).

The Group at 30 September 2002 had £850,000 (2001 : £850,000) available of undrawn overdraft facilities. The facility is due for review in August 2003.

The market value of the loans, interest rate caps and hire purchase obligations is not significantly different to the carrying value.

Short-term debtors and creditors, except for the bank overdraft and hire purchase contracts, have been excluded from the above disclosures.

21 Provisions for liabilities and charges

The movement in the Group and Company deferred tax balances during the period are as follows:

	Group £'000	Company £'000
Balance at 1 October 2001 as restated	(64)	(120)
Charge to profit and loss account	(124)	(54)
Balance at 30 September 2002	**(188)**	**(174)**

In addition to the above a Group deferred tax asset of £110,000 is included within debtors (see note 17).

Deferred taxation provided for in the financial statements is calculated as follows:

	Group		Company	
	2002 £'000	2001 £'000 Restated	**2002 £'000**	2001 £'000 Restated
Accelerated capital allowances	**(229)**	(83)	**(202)**	(139)
Other timing differences	**41**	19	**28**	19
Total deferred taxation	**(188)**	(64)	**(174)**	(120)

22 Called Up Share Capital

	2002 £'000	2001 £'000
Authorised		
24,000,000 Ordinary shares of 20p each	**4,800**	4,800
Allotted, issued and fully paid		
17,999,162 Ordinary shares of 20p each	**3,600**	3,600

23 Reserves

Group	Share Premium Account £'000	Revaluation reserve £'000	Profit and loss account £'000
At 1 October 2001 as previously reported	3,404	308	4,650
Prior year adjustment	–	–	(179)
At 1 October 2001 restated	3,404	308	4,471
Retained profit for the year	–	–	720
Currency translation differences on foreign currency net investments	–	–	(361)
At 30 September 2002	**3,404**	**308**	**4,830**

Prior to the implementation of FRS 10: Goodwill and Intangible Assets, the Group's policy was to write off Goodwill directly against reserves. A cumulative total of £1,335,000 has been taken to reserves under this policy.

23 Reserves (continued)

Company

	Share Premium Account £'000	Revaluation reserve £'000	Profit and loss account £'000
At 1 October 2001 as previously reported	3,404	308	3,283
Prior year adjustment	–	–	(135)
At 1 October 2001 restated	3,404	308	3,148
Retained profit for the year	–	–	40
Currency translation differences on foreign currency net investments	–	–	(492)
At 30 September 2002	**3,404**	**308**	**2,696**

As permitted by Section 230 of the Companies Act 1985, the Company's profit and loss account has not been included in the financial statements. The Company profit after taxation for the year is £580,000 (2001 : £1,343,000 restated).

24 Reconciliation of Movements in Equity Shareholders' Funds

	2002		2001	
	Group £'000	**Company £'000**	Group £'000	Company £'000
Profit on ordinary activities after taxation	**1,260**	**580**	2,393	1,343
Dividends in year	**(540)**	**(540)**	(504)	(504)
	720	**40**	1,889	839
Other recognised gains and losses	**(361)**	**(492)**	(11)	56
Taxation on retranslation gains on foreign currency loans	**-**	**-**	3	(17)
Net addition to shareholders' funds	**359**	**(452)**	1,881	878
Opening shareholders' funds as previously reported	**11,783**	**10,460**	10,024	9,741
Prior year adjustment	**-**	**-**	(122)	(159)
Opening shareholders' funds restated	**-**	**-**	9,902	9,582
Closing shareholders' funds	**12,142**	**10,008**	11,783	10,460

25 Capital Commitments

	2002 £'000	2001 £'000
Authorised and contracted for but not provided – new factory site	**556**	443

26 Operating Leases

At 30 September 2002 the Group had the following annual commitments under operating leases which expire as follows:

	Land and buildings		Other	
	2002	2001	**2002**	2001
	£'000	£'000	**£'000**	£'000
Less than one year	**30**	30	**-**	9
2-5 years	**35**	35	**8**	7
Expiring thereafter	**206**	206	**-**	–
	271	271	**8**	16

27 Related Party Transactions

Other than the agreement referred to on page 8, 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.

Under the provisions of FRS 8 "Related Party Disclosures" transactions and balances with subsidiary companies which are more than 90% owned by the Group are not separately disclosed.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the Company will be held at the offices of Burges Salmon, Narrow Quay House, Narrow Quay, Bristol BS1 4AH on 12 February 2003 at 11.00 a.m. for the following purposes.

To be transacted as ordinary business

1 To receive and adopt the Report of the Directors and the Financial Statements for the year ended 30 September 2002 together with the Report of the Independent Auditors thereon.

2 To confirm and declare a final dividend for the year ended 30 September 2002 of 2p per share.

3 To re-elect Mr D E Irish as a Director.

4 To re-elect Mr I W Bayer as a Director.

5 To re-appoint Messrs PricewaterhouseCoopers as Auditors.

6 To authorise the Directors to fix the remuneration of the Auditors.

To be transacted as special business

To consider and, if thought fit, to pass the following resolutions, in the case of resolution 7 as an Ordinary Resolution and in the case of resolution 8 as a Special Resolution.

Ordinary Resolutions

7 THAT, the Directors of the Company be, and they are hereby, generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 ("the Act"), in substitution for any existing authority, to allot, grant options over, or otherwise deal with or dispose of any relevant securities of the Company (within the meaning of section 80 of the Act) on, and subject to, such terms as the Directors may determine. The authority hereby conferred shall, subject to section 80 of the Act, be for a period commencing on the date of the passing of this Resolution and expiring on the date of the next Annual General Meeting of the Company unless renewed, varied or revoked by the Company in General Meeting and the maximum nominal amount of relevant securities which may be allotted pursuant to such authority shall be £1,200,168. The Directors shall be entitled under such authority or any renewal thereof to make at any time prior to the expiry of such authority and any offer or agreement which would or might require relevant securities of the Company to be allotted after the expiry of such authority and the Directors may allot relevant securities in pursuance of such offer or agreements as if such authority had not expired.

Special Resolution

8 THAT the Directors of the Company be, and they are hereby, generally and unconditionally empowered pursuant to section 95 of the Act, in substitution for any existing authority, to allot equity securities (as defined in section 94(2) of the Act) pursuant to the authority referred to in Resolution 7 above as if section 89(1) of the Act did not apply to such allotment, provided that the power hereby conferred shall be limited to the allotment of equity securities:

(a) in connection with an offer of securities, open for acceptance for a period fixed by the Directors, by way of rights to the holders of Ordinary Shares in proportion (as nearly as may be) to the respective numbers of Ordinary Shares held by them on a record date fixed by the Directors and subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with problems under the laws of any territory or the requirements of any regulatory body or any stock exchange in any territory or in connection with fractional elements or otherwise howsoever; and

(b) otherwise than pursuant in sub-paragraph (a) above of equity securities up to an aggregate nominal value of £179,991, representing 5% of the total ordinary share capital in issue at 16 January 2003.

and shall expire on the date of the next Annual General Meeting of the Company after the passing of this Resolution or 31 March 2004 (whichever is the earlier), save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

By order of the Board

I W Bayer
Secretary 16 December 2002

Registered Office:
The Old Magistrates Court
Ilminster
Somerset
TA19 0AB

Notes:

1 A member is entitled to appoint a proxy or proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company. A form of proxy is enclosed. Proxies must be deposited at the registered office of the Company not less than 48 hours before the time for holding the meeting.

2 Copies of Directors' service agreements, the register of Directors' Interests and the rules of the proposed Gooch & Housego Company Share Option Scheme will be available for inspection at the registered office of the Company from now until the date of the meeting during normal business hours, and at the place of the meeting from 10.45 a.m. until its conclusion.

Shareholders' Notes

Gooch & Housego PLC

(The "Company")

Proxy form for use by ordinary shareholders at the Annual General Meeting to be held on 12 February 2003.

I/We ....

of...

being (a) member(s) of the Company hereby appoint the chairman of the meeting or .... as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on 12 February 2003 and at every adjournment thereof. I/We request such proxy to vote on the following resolutions as indicated below:

Resolution	**For**	**Against**
1 To receive and adopt the Directors Report and Accounts		
2 To declare a final dividend		
3 To re-elect Mr D E Irish as a Director		
4 To re-elect Mr I W Bayer as a Director		
5 To re-appoint PricewaterhouseCoopers		
6 To authorise the Directors to fix the Auditors' remuneration		
7 Authorisation to allot shares		
8 Partial disapplication of pre-emption on allotment		

Please sign below:

Signature.. Names of joint holders (if any) ....

Date 2003

Completed Proxies should be returned to Capita IRG plc, Balfour House 390-398 High Road, Ilford, Essex IG1 1NQ.

Notes:

1 Please indicate with an "x" in the appropriate boxes how you wish the proxy to vote. The proxy will exercise his discretion as to how he votes or whether he abstains from voting:
   (a) on any resolution referred to above if no instruction is given in respect of that resolution and
   (b) on any business or resolution considered at the meeting other than the resolutions referred to above.

2 If you wish to appoint someone other than the Chairman of the meeting as your proxy please delete the words "the chairman of the meeting" and insert the name of the person you wish to appoint. A proxy need not be a member of the Company.

3 To be effective this form, and any power of attorney under which it is executed (or duly certified copy if any such power of authority), must be deposited at the Company's Registrars, Capita IRG Plc of Balfour House, 390/398 High Road, Ilford, Essex IG1 1NQ not less than 48 hours before the time for holding the meeting.

4 Where the member is a corporation this form must be under its common seal or signed by an officer, attorney or other person duly authorised by the corporation.

5 In the case of joint holders only one need sign this form, but the names of the other joint holders should be shown in the space provided. The vote of the senior holder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holders. Seniority will be determined by the order in which the names of the holders appear in the register of members in respect of the joint holding.

6 Deposit of a form of proxy does not preclude you from attending and voting in person at the meeting or at any adjournment thereof.