

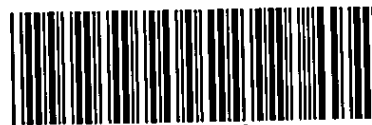
Gooch & Housego PLC

Company number 00526832

ANNUAL REPORT & ACCOUNTS

for the year ended 30 September 2008

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Financial Highlights

	2008	2007 ¹	Increase/ (decrease)
Revenue	£33.37m	£30.68m	8.8%
Operating profit	£5.35m	£6.45m	(17.1%)
Profit after tax	£3.58m	£4.15m	(13.7%)
Basic earnings per share	18.5p	21.9p	(15.5%)
Normalised operating profit ²	£5.66m	£7.00m	(19.2%)
Normalised profit before tax ²	£5.44m	£7.06m	(22.9%)
Normalised earnings per share ²	20.0p	24.8p	(19.4%)
Dividends paid interim and final	1.5p	4.5p	(66.7%)

¹ Restated in accordance with International Financial Reporting Standard 1 "First-time Adoption of International Financial Reporting Standards"

² Normalised operating profit and earnings per share is based on operating profit and profit after tax respectively plus the add back of acquired intangible asset amortisation.

Operational highlights

- Revenue growth despite challenging market conditions
- Profits impacted by a changing product mix and market conditions
- Re-positioned as an integrated global technology business
- Board and management strengthened
- Launched first dedicated Life Sciences products
- Completed investments in Ilminster and Torquay facilities
- Acquired General Optics delivering presence in US Aerospace & Defence market post year end

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

"Our plans to re-position Gooch & Housego as an integrated global technology business were realised in 2008. Our investments in infrastructure, R&D, sales & marketing and strategic acquisitions over the last year provide a solid platform for long term growth. In 2009 our challenge is to weather the economic downturn and emerge strongly when recovery comes."

Chairman's Statement 2008

This year we have experienced a difficult trading environment in our core industrial laser market, which has had a negative impact on profits despite an overall increase in revenues. Largely driven by the downturn in the semiconductor market, we saw a sharp decline in demand for our acousto-optic products during the first quarter followed by a modest recovery as customer inventory levels normalised. Nevertheless demand remained depressed throughout the year. We have experienced a further sharp decrease in demand during the first months of 2009 and we are not expecting to see signs of recovery before the end of the year.

Despite the slowdown in acousto-optics I am encouraged that we have achieved revenue growth in other sectors of our business. Part of our strategy has been to expand our product offering and to provide Gooch & Housego with greater exposure to new and growing markets. This is beginning to show benefits and this year we have seen sales growth in the telecommunications, life sciences, and aerospace and defence sectors. Our fibre optics business unit has been particularly successful in increasing sales this year. We aim to improve margins on this new business in the coming year as we migrate towards more specialised and higher value products.

During the year we completed a major reorganisation and re-positioning of the business that has created a more efficient management structure and enabled us to present a clearer message to our customers. The new framework we have established will facilitate the integration of future acquisitions and permit our strategy to be implemented consistently across the organisation. In parallel we have relocated our Ilminster operations and corporate headquarters to a new state-of-the-art facility and extended our Torquay fibre optics facility. While these were completed according to plan and without any significant problems they inevitably resulted in additional one-off costs and a certain amount of disruption which have compounded the effects of the economic slowdown. However, as an integrated business with a global outlook we are now well placed to deliver sustainable growth while improving the effectiveness and reducing the cost of our operations.

A benefit of the reorganisation is that we are now in a position to offer a more complete service to our customers and to work with them on their next generation products. While this sometimes requires us to extend our capabilities we now have the infrastructure and facilities to make this possible.

Our research & development and mergers & acquisitions strategy has focused on reinforcing our leading position in our core industrial laser market while establishing a stronger presence in the key target markets of life sciences and aerospace & defence. Our recently launched products for microscopy applications have been well received and our work on diagnostics, although long term, continues to make good progress. The acquisition of General Optics significantly enhances our presence in the US aerospace & defence sector and provides Gooch & Housego with a world-leading optical manufacturing capability to complement our Ilminster operations.

Looking forward, we expect trading conditions to remain difficult for some time and so we will be seeking to derive benefits and savings from the investments and changes we have made this year.

I would like to thank all of our employees and my fellow directors for their contribution over the last 12 months.

Dr Julian Blogh
Chairman
6 March 2009

Chief Executive's Review 2008

Overview

This has been a transformational year for Gooch & Housego. We have completed major investments in facilities and infrastructure, strengthened the Board and management team, integrated our operations to create a more effective divisional structure and re-positioned Gooch & Housego as a global technology business. In addition, we have increased investment in Research and Development (R&D), launched several important new products and completed our largest acquisition to date while managing to grow year-on-year revenues by 8.8% despite a challenging economic climate.

We have made further progress in diversifying our product portfolio and developing new markets and applications. A significant proportion of our R&D and Merger and Acquisition (M&A) activity has focused on developing opportunities beyond our traditional markets. While we have been successful in increasing sales into sectors such as life sciences, aerospace & defence and telecommunications the consequent change in product mix, and increased expenditure on R&D, sales and marketing as we establish a presence in these markets, has had an adverse affect on margins. Therefore, while encouraging, the gains from these initiatives are not yet great enough to offset the slowdown that we have experienced in some parts of our traditional business, and overall our profits have declined by 13.7% year on year.

Worst affected has been the industrial laser market. This is currently our most important market and is one into which we sell many products, including our acousto-optic Q-switch, a product in which we are the world leader. Although lasers are progressively replacing conventional machine tools in materials processing applications the well publicised downturn in the semiconductor & microelectronics sector has had an adverse affect on revenues and profits. While the longer term prospects for this market are good, and recent new product releases will strengthen our market leading position, we have seen a further sharp decrease in demand in early 2009 as manufacturing industries are impacted by the economic downturn.

In contrast, other parts of the business have performed well. Most notably our fibre optics business unit, acquired in May 2007, increased its revenues by 40.3% during its first full year as part of Gooch & Housego as a result of strong demand from the industrial, life sciences and telecoms markets. We have also been encouraged by increased sales of precision optics, electro-optics and non-linear materials.

Markets and Applications

Establishing a presence in new markets is difficult and takes time but is essential if we are to achieve sustained growth and reduce our susceptibility to sector volatility. Today we are still dependent on the Industrial & Research market but during the past year we have made good progress in establishing a greater presence in the emerging Aerospace & Defence and Life Sciences markets. The adoption of optical technologies in these markets is accelerating and Gooch & Housego possesses enabling technology that can facilitate this process. As a result we believe these markets offer significant opportunities for growth in the coming years. The acquisition of General Optics after the year end has placed us squarely in the US Aerospace & Defence market. In Life Sciences we have continued to invest heavily in R&D and this year launched our first two entirely new system-level products aimed at applications in microscopy and diagnostics.

Despite our drive to develop new markets we believe there is long term potential in the industrial laser market and we have continued to make substantial investments in this important sector of our business.

Looking at our main market sectors in more detail: -

Industrial & Research - Gooch & Housego is the market leader in acousto-optic Q-switches for industrial lasers, electro-optic Q-switches for research lasers and fibre optic combiners for fibre lasers. We are also the world's leading manufacturer of large aperture crystals for laser inertial confinement fusion research. These are our principal markets today and are likely to remain the primary sources of revenue and profits for the next few years. During the past year we have invested substantial sums in state-of-the-art manufacturing facilities and in R&D in order to maintain our leadership in this sector and to develop complementary new products.

This year we initiated two major R&D projects to develop new product families targeted at the fibre lasers, which is the fastest growing segment of the laser market. We have combined our expertise in acousto-optics, crystal optics and high laser damage threshold coatings with our recently acquired fibre optics capability to develop what we intend to be world leading products. These products, launched after the year end, are receiving positive customer feedback and have the potential to sell in significant numbers alongside our Q-switch.

The research sector, particularly government funded research, has been largely unaffected by the downturn and demand for Gooch & Housego's products remains strong. In contrast, capital equipment expenditure in the industrial sector has decreased sharply and this has led to a corresponding decline in demand for Q-switches and other products with applications in general manufacturing and consumer electronics in particular.

Chief Executive's Review 2008 continued

Aerospace & Defence - The number of applications for optical technology in Aerospace & Defence is growing. In order to position G&H to take advantage of this trend we have sought to expand our capabilities to meet the specific needs of this market. In 2007 we broadened our scope with the acquisition of a fibre optics capability. This year we have extended our capability to include the manufacture and test of optical sub-assemblies through the provision of clean room assembly facilities in our new Ilminster factory and most recently we acquired General Optics, a California based business specialising in ultra-high precision optics. Approximately 70% of the revenue of General Optics is derived from sales of optical components for the US Aerospace & Defence market.

Instrumentation & Life Sciences - We are continuing to invest over \$1.0 million per year in the development of instruments and systems for applications in diagnostics and biomedical research. This work is generating a portfolio of intellectual property and know-how in fields such as hyperspectral imaging and optical coherence tomography. With applications for our products as diverse as early stage diagnosis of cancer, ophthalmic imaging, biomedical and pharmaceutical research, dentistry, and surgery we believe that life sciences will become one of our most important markets, both in terms of size and rate of growth.

Earlier this year we launched two important new system-level products aimed at the microscopy market - the OL490, a spectrally agile light source, and the HSi300, a hyperspectral imaging system. Despite being new to this market these products have been well received and initial uptake has been encouraging, with several systems sold and valuable feedback received from customers.

In parallel with developing products we have been exploring routes to market. We recognise that to realise the full potential of these products in what is a vast and specialised market we will need to work with appropriate partners. I am pleased to be able to report that we have recently partnered with Nikon to bring the benefits of hyperspectral imaging to the widefield microscopy market. Gooch & Housego's HSi300 will be made available through Nikon's distribution network in conjunction with their research grade microscopes and specialist operating software.

Looking beyond the instrument to the applications, we are continuing to investigate the potential of hyperspectral imaging to assist in the diagnosis of disease. Although long term, this work continues to show promise.

Reorganisation

Including the General Optics plant in California, Gooch & Housego now operates from eight manufacturing and R&D facilities (five in the USA, two in the UK and one in Germany) and three sales offices (USA West Coast, Central USA, and the Far East) giving us a presence in all of our major markets. In order to present a clearer message to our customers and to facilitate the management of such a geographically dispersed organisation we have established a divisional structure.

The **Components and Materials Division** encompasses the whole of Gooch & Housego's traditional business and today accounts for more than 90% of revenues and profits. Until earlier this year the five plants that comprise the Components and Materials Division operated as discrete businesses under their separate names. Following the reorganisation the division functions as a single business, branded as Gooch & Housego, under the control of a new management team with global responsibility. General Optics has recently become the sixth member of the division and has also been re-named Gooch & Housego. The result is a "new" business with a superb portfolio of world-leading products and a greatly enhanced market presence, that is able to use our sales, marketing and R&D resources to much greater effect than was previously possible.

The products of the **Instrumentation & Life Sciences Division**, which comprises Optronic Laboratories, Inc. and ChromoDynamics, Inc., are very different in terms of applications, customers, unit value and routes to market, and although small today it is the focus of considerable investment in R&D and has the potential to grow rapidly.

Given that our strategy is to leverage our exceptional components and materials capabilities to create world leading instrumentation products there is a great deal of cross-fertilisation behind the scenes between the divisions.

Summary and Prospects

The progress we have made in the last year has created a stronger Gooch & Housego. Investment in research and development has resulted in new products that have strengthened our leading position in laser materials processing and enabled us to take our first steps into the biomedical instrumentation market. Through the acquisition of General Optics we have gained us a presence in the important US Aerospace & Defence sector. Our integrated structure enables us to develop products that previously would not have been possible and our global sales organisation has given us a better understanding of the needs of our customers.

Chief Executive's Review 2008 continued

In order to reduce the impact of a prolonged slowdown we have continued to drive through improvements in efficiency and effectiveness. The problems affecting the global economy have continued to adversely affect our traditional industrial laser market and in response to the sharp decline in demand for Q-switches that we experienced in the first quarter of 2009 we have implemented a series of cost saving measures on a plant-by-plant basis that regrettably include redundancies and short-time working. We nevertheless believe that this sector continues to offer good medium to long term potential.

While other markets are proving to be more resilient we are not expecting any underlying growth in 2009.

We will continue to seek to increase the diversity of the customers, applications and markets that we serve in order to provide greater resilience and to create a stronger business that is ready for the recovery, when it comes. We have the advantage of excellent people, exceptional capabilities and a strong balance sheet.

Gareth C W Jones
Chief Executive Officer
6 March 2009

Chief Financial Officer's Report

International Financial Reporting Standards

Gooch & Housego PLC and its subsidiaries (the "Group") adopted International Financial Reporting Standards ("IFRS") as adopted in the EU effective for the year to 30 September 2008 and as a result, the comparative figures in respect of the year to 30 September 2007 have been restated in accordance with IFRS requirements.

Financial Results – Headline

For the year to 30 September 2008, the Group returned profit after tax of £3.577m compared to the corresponding period to 30 September 2007 when the Group returned profit after tax of £4.147m.

On an earnings per share basis for the year to 30 September 2008 the Group returned basic and diluted earnings per share of 18.5p (2007: 21.9p) and 18.0p (2007: 21.5p), respectively.

Excluding the impact of the amortisation of acquired intangibles assets relating to the acquisition of the Group's fibre optics business, Gooch & Housego (Torquay) Limited, profit after tax in the year to 30 September 2008 amounted to £3.793m compared to profit after tax in the corresponding period last year of £4.533m.

Financial Performance – Income Statement

Group revenue for the year to 30 September 2008 amounted to £33.369m, an increase of £2.694m or 8.8% over the corresponding period last year.

The increase in revenue in absolute terms, year over year, was predominantly driven by the performance of the Group's Components and Material Division's fibre optics business, acquired in May 2007, which generated revenue of £6.661m in the year to 30 September 2008 and significantly off-set the sales weakness experienced by the Group's Components and Materials Division's acousto-optic business in the supply of its Q-switch product portfolio to the semiconductor and microelectronics industry.

Group gross profit for the year to 30 September 2008 amounted to £15.890m or 47.6% compared to the corresponding period last year when the Group returned gross profit of £16.024m or 52.2%.

Group operating profit for the year to 30 September 2008 amounted to £5.353m compared to the corresponding period last year when the Group returned an operating profit of £6.450m.

Excluding the impact of the amortisation of acquired intangible assets relating to the acquisition of the Group's fibre optics business, Gooch & Housego (Torquay) Limited, operating profit in the year to 30 September 2008 amounted to £5.657m compared to operating profit in the corresponding period last year which amounted to £7.001m.

Group operating expenditures for the year to 30 September 2008 amounted to £10.608m or 31.8% of revenue compared to the corresponding period last year of £9.155m or 29.8% of revenue.

Of significance and impacting on Group operating profit in the year to 30 September 2008 was the Group's commitment to Research & Development, with expenditures incurred amounting to £2.703m (2007: £1.898m) representing 8.1% (2007: 6.2%) of revenue and Sales & Marketing with expenditures incurred amounting to £1.859m (2007: £1.383m) representing 5.6% (2007: 4.5%) of revenue.

The increase in Research & Development expenditures in the year to 30 September 2008 represents investment by the Group in its engineering capabilities and in its strategic objective to increase its revenues through organic growth derived from in-house product development.

The increase in Sales & Marketing expenditures in the year to 30 September 2008 compared to the corresponding period last year results from the establishment and staffing of the Components and Materials Division's integrated world-wide sales force and the establishment of sales offices in Hong Kong and on the West Coast of the USA.

Excluding the impact of the increased operating expenditure on Research & Development and Sales & Marketing the Group incurred expenditure on Administration of £ 6.046m or 18.1% of revenues compared to the corresponding period last year of £5.874m or 19.1% of revenue.

Group profit before tax for the year to 30 September 2008 amounted to £5.135m compared to the corresponding period last year when the Group returned profit before tax of £6.507m.

Group profit after tax for the year to 30 September 2008 amounted to £3.577m after a tax provision of 30.3% of profit before tax compared to the corresponding period last year when the Group returned profit after tax of £4.147m after a tax provision of 36.3% of profit before tax.

Chief Financial Officer's Report continued

The reduction in the tax rate year on year reflects a number of actions including the impact of the establishment of US Federal and State Tax Group structures.

Financial Performance – Balance Sheet

The Group Balance Sheet remains strong with net assets of £29.040m, an increase of £3.045m on the year-end position as at 30 September 2007.

Group non-current assets as at 30 September 2008 amounted to £24.968m a net increase of £3.246m compared to the position at the year-end 30 September 2007.

The increase in non-current assets is predominantly the result of expenditure on the Group's Components and Materials Division's new facility and corporate headquarters at Dowlish Ford, Ilminster, United Kingdom.

Group net current assets as at 30 September 2008 amounted to £5.661m, a decrease of £0.951m compared to the position at the year-end 30 September 2007.

The decrease in net current assets is predominantly the result of a decrease in cash and cash equivalents and an increase in borrowings amounting to £3.052m off-set, to an extent, by an increase in inventories and trade and other receivables amounting to £1.691m.

Shareholders' funds at 30 September 2008 increased by £3.045m, predominantly driven by the financial performance in the year.

Financial Performance – Cash

Total Group net borrowings at 30 September 2008 amounted to £3.295m (2007:£0.980m)

The Group net cash outflow in the year to 30 September 2008 totalled £1.953m (2007:£3.054m).

The Group's working capital requirements are funded under a \$10.0m committed secured Working Capital Facility from its bankers, The Royal Bank of Scotland plc.

The Group's net cash outflow was predominantly the result of expenditure in connection with the Components and Materials Division's new facility and Group corporate headquarters at Dowlish Ford, Ilminster, UK that amounted to £4.102m.

Dividends

The Group paid an interim dividend of 1.5p on 1 August 2008.

The Directors are not proposing a final dividend making a total dividend for the year of 1.5p per share compared to 4.5p per share in the prior year.

Post Balance Sheet Events

On 8 October 2008, the Group completed the acquisition of the business and assets of General Optics from GSI Group following receipt of US governmental regulatory approval.

The acquisition price was \$21m and was subject to a net asset adjustment, on a dollar for dollar basis, should the net assets of the business be either greater or less than \$5.5m.

Financing was provided through two tranches of five-year amortising secured debt from the Group's bankers The Royal Bank of Scotland plc of \$15.875m and £3.562m, respectively which incorporates a number of financial covenants and monthly/quarterly reporting requirements. The debt was drawn on 6 October 2008.

Resulting from the acquisition by the Group of the assets and business of General Optics following the year-end the absolute level of Group borrowings increased to approximately £15.3m based on the conversion of the US Dollar element of the acquisition facilities at the closing exchange rate of the US Dollar to the Pound Sterling at 30 September 2008. At 30 September 2008 the Group's pro forma debt to equity ratio increased from 11.3% to approximately 53.0%. See Note 35 to the Financial Statements for further details.

Peter J Quinn
Chief Financial Officer
6 March 2009

Directors and Advisers

Directors

Dr Julian Blagh
Non Executive Chairman

Gareth C W Jones
Chief Executive Officer

Terry Scribbins
Chief Operating Officer

Peter J Quinn
Chief Financial Officer
(appointed with effect from 15 Nov 2007)

Dr Eugene G Arthurs
Non Executive Director

Jan A Melles
Non Executive Director

Paul Heal
Non Executive Director
(appointed with effect from 2 Jan 2008)

Secretary and Registered Office

Peter J Quinn
Dowlish Ford
Ilminster
Somerset TA19 0PF

Registered Number
00526832

Nominated Adviser and Broker

Investec Bank plc
2 Gresham Street
London EC2V 7QP

Legal Advisers

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

Registered Auditors

PricewaterhouseCoopers LLP
31 Great George Street
Bristol BS1 5QD

Registrars

Capita Registrars Limited
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Expected Financial Calendar

Annual General Meeting	31 March 2009
Interim Results announced	June 2009
Financial Year End	30 September 2009
Preliminary announcement of results for the year ending 30 September 2009	November 2009

Directors' Report

The Directors present their report together with the audited financial statements for the year ended 30 September 2008.

Principal Activity

Gooch & Housego is a manufacturer of acousto-optic and electro-optic devices, precision optical components, crystals, optical instruments and imaging systems.

Business Review

A review of the development and performance of the Group during the year is set out in the Financial Highlights on page 2 and in the Chief Executive's Review on pages 4 to 6. A description of the principal risks and uncertainties facing the Group is provided below.

- **Dominance of existing markets** - The Group currently holds a significant share of the market for a number of key products. In response to the risks presented by this position the Group undertakes an extensive level of research and development aimed at developing new products in different markets and new applications for existing products. In addition, it continues to review potential acquisition opportunities which are consistent with the established strategy of the Group.
- **Retention of key personnel** - The Group recognises the importance of retaining and developing its highly skilled management team and workforce in order to achieve its strategic objectives. As a result, the Group has an established development and reward scheme in place to encourage individuals to play a long-term role in the future development of the Group.

Key financial performance indicators ("KPIs")

The Group uses a selection of KPIs to monitor and review the performance of the business. The Group monitors revenue and sales orders by Division and monitors Divisional performance at the revenue and operating profit levels for compliance against the Company's internal financial plan. The Group also monitors a number of manufacturing and quality standards at its manufacturing facilities.

Dividends

During the year under review an interim dividend of £291,000 (2007: £281,000) was paid in addition to the final dividend for the 2007 financial year of £568,000. The Directors do not propose the payment of a final dividend for the 2008 financial year.

Quality - The Group prides itself on the highest standards of product quality and customer satisfaction. In doing this, it recognises that a failure to maintain such standards would be detrimental to its future trading performance. As a result, an ongoing emphasis is placed on quality control and customer communication.

Research and Development

Group policy is to actively develop new technologies and capabilities that will become the mainstay of the Group's future product portfolio and revenues.

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. Trade creditors outstanding at 30 September 2008 represent 50 days as a proportion of the total amount invoiced by suppliers during the year (2007: 73).

Substantial shareholdings

As at 3 March 2009, the under-mentioned had notified the Company that they held an interest in 3% or more of its issued ordinary share capital:

Shareholder	Number	% holding
Gooch/Virgin Family Trusts	5,551,279	28.8
Insight Investment Management	2,154,727	11.2
Rensburg Sheppards Investment Management	1,113,172	5.8
Bluehone Investors	996,960	5.2

Save for these interests, the Directors have not been notified that any person is directly or indirectly interested in 3% or more of the issued ordinary share capital of the Company.

Directors' Report continued

Directors

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

Director	Ordinary shares of 20p each	
	30 September 2008	30 September 2007
Dr Julian Blogh*	-	-
Gareth C W Jones	8,000	8,000
Ian W Bayer (retired 2 Jan 2008)	-	10,000
Dr Eugene G Arthurs*	-	-
Jan A Melles*	20,000	20,000
Terry Scribbins	-	-
Peter J Quinn	-	-
Paul Heal*	7,485	-

* Non Executive Directors

Peter Quinn was appointed as a Director on 15 November 2007 and took up the position of Chief Financial Officer following the retirement of Ian Bayer on 2 January 2008.

Paul Heal was appointed as a Non-Executive Director and Chair of the Audit Committee on 2 January 2008.

On 8 September 2008, Mr Heal purchased 7,485 ordinary shares. On 28 November 2008 Dr J Blogh purchased 10,000 ordinary shares. There were no other changes in Directors' interests between 1 October 2008 and 4 March 2009.

For details of Directors' interests in options to subscribe for shares of the Company, see pages 15 and 16.

In accordance with the Company's Articles of Association Gareth C W Jones and Jan A Melles, who are subject to retirement by rotation, retire at the Annual General Meeting and, being eligible, offer themselves for re-election

Financial Risk Management

The Group's operations expose it to a variety of financial risks that include credit risk, liquidity risk, foreign currency risk and interest rate risk.

The Group operates a central treasury function, headed by the Chief Financial Officer, which is responsible for all debt and liquidity management, foreign exchange and interest rate management. The Group does not undertake speculative financial transactions or utilise off balance sheet financing vehicles.

- **Credit risk** - The Group regularly monitors the credit status of its customers both new and existing and applies, in accordance with Group internal control policies, appropriate credit limits to each customer to ensure that exposure to any particular customer is not excessive.
- **Liquidity risk** - The Group actively maintains a mixture of long-term and short-term debt finance that is designed to ensure the Group has sufficient funds available to fund both its operations and organic growth. The Group's day to day funding is accommodated through its \$10m Working Capital Facility from its bankers, The Royal Bank of Scotland plc.
- **Foreign currency risk** - The Group's principal currency exposure is in respect of the trading results generated in US dollars by its US subsidiaries. To offset the potential currency exposure the Group principally borrows in US Dollars. Investments in its US subsidiaries have been traditionally part financed with US Dollar borrowings, although these borrowings have now been repaid. While each foreign acquisition is viewed on a stand-alone basis from a funding perspective the Group, endeavours to hedge the currency risk associated with its overseas investments by funding the investments in local currencies. The Group consistently monitors its exposure to currency risk with a view to minimising the exposure wherever possible.
- **Interest rate risk** - The Group has both interest bearing assets and interest bearing liabilities. Interest bearing assets comprise cash deposits, all of which earn interest at variable rates. The Group has a policy of

Directors' Report continued

using a mixture of fixed and variable rate debt instruments, which allows it to ensure it is able to consider the most commercially suitable financing options whilst exercising control over future interest payments.

Donations

The Group made donations of £2,901 (2007: £7,466) to various local charities during the year. No political donations have been made during the current or previous year.

Employees

The Group is committed to including all employees in the performance and development of the business. An established employee appraisal and reward scheme is in operation and employees are appraised regularly with relevant development support provided by the Group.

The Group attaches considerable importance to informing and involving its employees on matters which concern them and in the achievement of its business objectives. The Group has a formal employee communication plan involving regular meetings between management and employees and the provision of a comprehensive employee handbook.

Employment of Disabled Individuals

It is the policy of the Group that disabled individuals, whether registered or not, should receive full and fair consideration for all job vacancies for which they are suitable applicants. Employees who become disabled during their working life will be retained in employment wherever possible and will be provided help with any necessary rehabilitation and retraining. The Group is prepared to modify procedures or equipment, wherever this is practicable, so that full use can be made of an individual's abilities.

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 Group currently has a Non Executive Chairman and three Non Executive Directors who advise the Board on business and corporate governance issues.

The Audit Committee, which consists of three Non Executive Directors, is responsible for ensuring that the financial performance of the Group is properly monitored, controlled and reported. The Committee has met with the external auditors on four occasions during the year to review matters relating to the financial statements and internal financial control systems.

The Remuneration Committee consists of all four of the Non Executive Directors and one Executive Director. It has met twice during the year and a summary of the Committee's report is on pages 14 to 16.

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. Financial and operational 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 provides reasonable assurance of the maintenance of proper accounting records and the reliability of financial information used within the business.

The Board is also aware that it is 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.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards and the parent Company financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The Group and parent Company financial statements are required by law to give a true and fair view of the state of affairs of the Company and Group and of the profit or loss of the Group for that period.

Directors' Report continued

In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the Group financial statements comply with IFRSs as adopted by the European Union, and with regard to the parent Company financial statements that the applicable United Kingdom Accounting Standards have been followed subject to any material departures disclosed and explained in the financial statements.
- prepare the Group and parent Company financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business;

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.

So far as each Director is aware, there is no relevant audit information of which the Company's and Group's auditors are unaware. Each Director has taken all the steps that he ought to have taken in his duty as a Director to make himself aware of any relevant audit information and to establish that the Company's and Group's auditors are aware of that information.

The Directors are also responsible for the maintenance and integrity of the Company's web-site.

International Financial Reporting Standards

The consolidated financial statements of the Group for the year ended 30 September 2008 are prepared in accordance with International Financial Reporting Standards. A restatement of the balance sheets as at 30 September 2006 and 30 September 2007, and of the income statement for the year ended 30 September 2007, was issued on 27 May 2008. The key areas of impact were in accounting for business combinations, amortisation of goodwill, research and development expenditure and deferred tax.

Going Concern

In adopting the going concern basis for preparing the financial statements the Directors have considered the deteriorating trading environment which impacted the Group during 2008, the sharp decrease in demand for certain of the Group's products experienced in the current financial year and the impact of the ongoing global recessionary environment.


Based on the Group's operating projections, cash flow forecasts which take into account management's actions on cost control, capital expenditure, dividend suspension, projected compliance with the Group's banking covenants and assuming that trading does not deteriorate considerably from current levels, the Directors believe that the Group will generate sufficient cash and have access to working capital facilities to enable it to meet its funding requirements for at least the next 12 months and comply with its banking covenants

Accordingly, the Directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company and the Group will be proposed at the Annual General Meeting.

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



Garth C W Jones
Director
6 March 2009

Remuneration Committee Report

The Remuneration Committee members at 30 September 2008 were Dr J Blogh, Dr E G Arthurs, Jan Melles, Paul Heal and Gareth Jones.

Policy on Directors' Remuneration

It is an objective of the Group to attract and retain Directors 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 October each year. No Executive Director plays a part in the discussion about his own remuneration.

Executive Directors are paid a basic salary together with annual bonus payments based on the achievement of Group earnings per share related targets. In addition, certain Executive Directors participate in a share option scheme and receive benefits in kind, including medical expenses and insurance.

Non Executive Directors are paid a fee to attend board meetings and to serve as members of the Audit and Remuneration committees. Further payments may be made in respect of additional services provided at the request of the Company, although no such payments have been made during the current or previous year.

Directors' Pension Arrangements

During the year the Company contributed to a money purchase pension scheme on behalf of the Executive Directors. Contributions to a scheme on behalf of continuing Directors amount to 8% of the Director's basic salary.

Directors' Contracts

Gareth Jones currently has a rolling service contract terminable on twelve months' notice. Terry Scribbins and Peter Quinn also have rolling service contracts that are subject to six months' notice. Ian Bayer retired on 2 January 2008. The Chairman and 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 Jan 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. Photonics Investments b.v. is wholly owned by Jan Melles. No such amounts were payable in the current or prior year.

Directors' interest in shares of the Company

The Directors' interests in the shares of the Company are set out in the Directors' Report on page 11.

Directors' Remuneration

	Basic pay £000	Payment on retirement £000	Performance related bonus £000	Share options exercised £000	Benefits in kind £000	Pension contributions £000	Total 2008 £000	Total 2007 £000
Executive								
G C W Jones	180	-	-	186	7	14	387	668
I W Bayer *	30	30	28	413	1	3	505	542
P J Quinn	109	-	-	-	5	9	123	-
T Scribbins	115	-	-	-	1	8	124	201
Non Executive								
Dr J Blogh	60	-	-	-	-	-	60	60
Dr E G Arthurs	15	-	-	-	-	-	15	15
J A Melles	16	-	-	-	-	-	16	15
P Heal	23	-	-	-	-	-	23	-
	548	30	28	599	14	34	1,253	1,501

* Ian Bayer retired as a Director on 2 January 2008

Remuneration Committee Report continued

Share option schemes

Policy

The Board believes that a share based incentive scheme is an important element in promoting closer alignment of the interests of shareholders and Executive Directors. The policy is to make periodic grants of share options under appropriate schemes in place at the time of grant.

The Group currently has two share based incentive schemes. These are detailed below:

Gooch & Housego PLC 2004 Company Share Option Scheme

The Gooch & Housego PLC 2004 Company Share Option Scheme (the "2004 Scheme") has had two grants of share options, on 23 July 2004, and on 8 December 2005. These share option awards were to three Executive Directors and four senior employees. No further awards have been made under the 2004 Scheme

Performance criteria

The share options may be exercised on the achievement of certain financial performance criteria. 50% of each allocation of options may be exercised from the earliest exercise date if the earnings per share figure for the Group, based on the most recent audited annual financial statements, has improved by a rate equivalent to the growth in the UK Retail Prices Index plus 3%. The remaining 50% of each allocation of options may be exercised from the earliest exercise date if the earnings per share figure for the Group, based on the most recent audited financial statements, have improved by a rate equivalent to the growth in the UK Retail Prices Index plus 6%.

Senior employees' share options also have performance criteria attached and can only be exercised if these conditions are met. Details of the performance criteria are given in Note 31 of the financial statements.

Executive Directors' share options are listed below:

	Date of grant	Exercise price	Number of ordinary shares under option			At 30.09.08		Exercise period	
			At 01.10.07	Exercised in year	Lapsed in year			From	to
G C W Jones	23.07.04	133.5p	67,394	65,000	-	2,394	a	23.07.05	22.04.14
	23.07.04	133.5p	118,416	-	-	118,416	a	23.07.06	22.04.14
	23.07.04	133.5p	118,416	-	-	118,416	a	23.07.07	22.04.14
	23.07.04	133.5p	137,142	-	-	137,142	a	23.07.08	22.04.14
			441,368	65,000	-	376,368			
I W Bayer *	23.07.04	133.5p	15,966	15,966	-	-	a	23.07.05	22.04.14
	23.07.04	133.5p	66,988	66,988	-	-	a	23.07.06	22.04.14
	23.07.04	133.5p	66,988	66,988	-	-	a	23.07.07	22.04.14
	23.07.04	133.5p	85,714	85,714	-	-	a	23.07.08	22.04.14
			235,656	235,656	-	-			
T Scribbins	08.12.05	272.5p	31,250	-	-	31,250	a	08.12.06	07.12.15
	08.12.05	272.5p	31,250	-	-	31,250	a	08.12.07	07.12.15
	08.12.05	272.5p	31,250	-	-	31,250	b	08.12.08	07.12.15
	08.12.05	272.5p	31,250	-	-	31,250	b	08.12.09	07.12.15
			125,000	-	-	125,000			
Total			802,024	300,656	-	501,368			

* Ian Bayer retired as a Director on 2 January 2008

a Performance criteria met

b Performance criteria have not yet been met

On 29 November 2007, both Gareth Jones and Ian Bayer exercised and immediately sold 40,000 shares at 425p.

On 19 December 2007, both Gareth Jones and Ian Bayer exercised and immediately sold 25,000 shares at 412p.

On 27 December 2007, Ian Bayer exercised and immediately sold 84,942 shares at 400p.

Ian Bayer exercised his remaining options after resigning as a Director.

Gooch & House 2007 Long-Term Incentive Plan

The Gooch & Housego 2007 Long-Term Incentive Plan (the "2007 LTIP") was set up in 2007 and has had three grants of share options, on 13 August and 6 December 2007, respectively, to three Executive Directors and two senior employees and a further grant of share options on 30 July 2008 to an Executive Director and one senior employee.

Remuneration Committee Report continued

Performance criteria

The share options may be exercised at zero cost on the achievement of certain financial performance criteria after the three-year vesting period has elapsed. Firstly, the Total Shareholder Return ("TSR") over the vesting period needs to exceed that of the FTSE Alternative Investment Market Index. If the TSR criteria are met, then the following determines what percentage of the grant is released:

- If over the vesting period the Return on Capital Employed ("ROCE") exceeds 20% then 25% of each allocation of options may be exercised from the earliest exercise date.
- If ROCE exceeds 35%, 100% of the allocation of options may be exercised from the earliest exercise date.

Senior employee share options have the above performance criteria attached and can only be exercised if these conditions are met; further detail is given in note 30 of the financial statements.

Executive Directors' share options under the 2007 LTIP are listed below:

	Date of Grant	Grant Price	--- Number of ordinary shares under option ---				At 30.09.08	--- Exercise period ---		
			At 30.09.07	Granted In year	Exercised in year	Lapsed in year		From	to	
G C W Jones	14.08.07	432.5p	17,341	-	-	-	17,341	b	14.08.10	13.08.17
	06.12.07	415.0p	-	43,373	-	-	43,373	b	06.12.10	05.12.17
			17,341	43,373	-	-	60,714			
I W Bayer*	14.08.07	432.5p	17,341	-	-	17,341	-	-	-	-
	06.12.07	415.0p	-	28,433	-	28,433	-	-	-	-
			17,341	28,433	-	45,774	-			
T Scribbins	14.08.07	432.5p	23,121	-	-	-	23,121	b	14.08.10	13.08.17
	06.12.07	415.0p	-	27,710	-	-	27,710	b	06.12.10	05.12.17
			23,121	27,710	-	-	50,831			
P Quinn	30.07.08	415.0p	-	28,916	-	-	28,916	b	30.07.11	30.11.18
Total			57,803	128,432	-	45,774	140,461			

* Ian Bayer retired as a director on 2 January 2008

a Performance criteria met

b Performance criteria have not yet been met

The share options granted on 30 July 2008 were based on a share price applied to awards made on 6 December 2007.

The mid-market price of an ordinary share at 30 September 2008 was 208.0p (2007: 492.5p). The mid-market price ranged from a low of 190.0p to a high of 515.0p during the year ended 30 September 2008.

Independent Auditors' Report

to the Members of Gooch & Housego PLC

We have audited the Group financial statements of Gooch & Housego PLC for the year ended 30 September 2008 which comprise the Group Income Statement, the Group Balance Sheet, the Group Cash Flow Statement, the Group Statement of Changes in Equity and the related notes. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Gooch and Housego PLC for the year ended 30 September 2008.

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body 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 into 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 Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Group financial statements. The information given in the Directors' Report includes that specific information presented in the Financial Highlights and the Chief Executive's Review that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements. The other information comprises only the Financial Highlights, the Directors' Report, the Chairman's Statement, the Chief Executive's Review, the Chief Financial Officer's Report and the Remuneration Committee Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

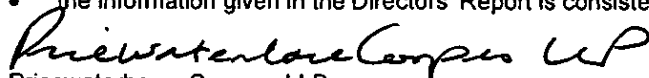
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors' in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group'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 Group 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 Group financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 30 September 2008 and of its profit and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the Group financial statements.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Bristol,
6 March 2009

Group Income Statement

For the year ended 30 September 2008

		2008	2007
	Note	£000	£000
Revenue	7	33,369	30,675
Cost of revenue		(17,479)	(14,651)
Gross profit		15,890	16,024
Research & Development		(2,703)	(1,898)
Sales & Marketing		(1,859)	(1,383)
Administration		(6,046)	(5,874)
Other income	9	375	132
Operating profit before amortisation of acquired intangible assets		5,657	7,001
Amortisation of acquired intangible assets	18	(304)	(551)
Operating profit	12	5,353	6,450
Finance income	13	94	181
Finance costs	13	(312)	(124)
Profit before income tax expense		5,135	6,507
Income tax expense	14	(1,558)	(2,360)
Profit for the period		3,577	4,147
Basic earnings per share	16	18.5p	21.9p
Diluted earnings per share	16	18.0p	21.5p

The notes on pages 24 to 60 form part of these financial statements.

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

Group Statement of Changes in Equity
For the year ended 30 September 2008

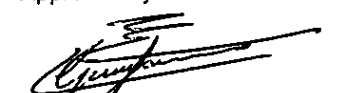
	2008 £000	2007 £000
Balance at 1 October	25,995	19,113
Income tax movement on share options	(848)	717
Currency translation differences	629	(567)
Net (expense)/income recognised directly in equity	(219)	150
Profit for the period	3,577	4,147
Total recognised income and expense	3,358	4,297
Employee share option schemes:		
- Fair value of employee services	92	199
- Proceeds from shares issued	454	371
Dividends	(859)	(785)
Shares issued on the acquisition of a subsidiary	-	2,800
	(313)	2,585
Balance at 30 September	29,040	25,995

Group Balance Sheet

As at 30 September 2008

	Note	2008 £000	2007 £000
Non-current assets			
Property, plant & equipment	17	16,376	12,192
Intangible assets	18	7,440	7,122
Deferred income tax assets	27	1,152	2,408
		<u>24,968</u>	<u>21,722</u>
Current assets			
Inventories	19	5,929	5,081
Trade and other receivables	20	7,470	6,627
Income tax receivable	21	971	227
Cash and cash equivalents	22	3,901	5,428
Non-current assets held for resale	23	-	357
		<u>18,271</u>	<u>17,720</u>
Current liabilities			
Trade and other payables	24	(4,961)	(5,378)
Borrowings	25	(6,720)	(5,195)
Income tax liabilities		(665)	(255)
Provision for other liabilities and charges	26	(264)	(280)
		<u>(12,610)</u>	<u>(11,108)</u>
Net current assets		<u>5,661</u>	<u>6,612</u>
Non-current liabilities			
Borrowings	25	(476)	(1,213)
Deferred income tax liabilities	27	(1,113)	(1,126)
		<u>(1,589)</u>	<u>(2,339)</u>
Net assets		<u>29,040</u>	<u>25,995</u>
Shareholders' equity			
Called up share capital	28	3,853	3,785
Share premium account	29	4,105	3,719
Merger reserve	29	2,671	2,671
Cumulative translation reserve	29	62	(567)
Retained earnings	29	18,349	16,387
Shareholders' equity		<u>29,040</u>	<u>25,995</u>

Approved by the Board of Directors on 6 March 2009 and signed on its behalf by:


Gareth C W Jones


Peter J Quinn

The notes on pages 24 to 60 form part of these financial statements

Group Cash Flow Statement

For the year ended 30 September 2008

	2008	2007
	£000	£000
Cash flows from operating activities		
Cash generated from operations	5,658	6,547
Income tax paid	(1,470)	(2,691)
Net cash generated from operating activities	<u>4,188</u>	<u>3,856</u>
Cash flows from investing activities		
Acquisition of subsidiary, net of cash acquired	-	(1,769)
Purchase of property, plant and equipment	(4,594)	(4,430)
Sale of property, plant and equipment	-	12
Purchase of intangible assets	(421)	-
Interest received	94	183
Net cash used in investing activities	<u>(4,921)</u>	<u>(6,004)</u>
Cash flows from financing activities		
Proceeds from issue of ordinary shares	454	371
Repayment of borrowings	(261)	(229)
Interest paid	(554)	(263)
Dividends paid to ordinary shareholders	(859)	(785)
Net cash used in financing activities	<u>(1,220)</u>	<u>(906)</u>
Net decrease in cash, cash equivalents, working capital facility and bank overdraft	(1,953)	(3,054)
Cash, cash equivalents, working capital facility and bank overdraft at beginning of the period	513	3,791
Exchange losses on cash and bank overdrafts	<u>(557)</u>	<u>(224)</u>
Cash, cash equivalents, working capital facility and bank overdraft at the end of the period	<u>(1,997)</u>	513
Cash, cash equivalents and bank overdrafts at the end of the period comprise of:		
	2008	2007
	£000	£000
Cash and cash equivalents	3,901	5,428
Bank borrowings and overdraft	<u>(5,898)</u>	<u>(4,915)</u>
Cash, cash equivalents, working capital facility and bank overdraft at the end of the period	<u>(1,997)</u>	513

Notes to the Group Cash Flow Statement

For the year ended 30 September 2008

Reconciliation of cash generated from operations

	2008	2007
	£000	£000
Profit before income tax	5,135	6,507
Adjustments for:		
- Amortisation of acquired intangible assets	304	551
- Amortisation of other intangible assets	177	-
- Depreciation	971	708
- Loss on disposal of property, plant and equipment	2	6
- Share option expense	(88)	317
- Finance income	(94)	(181)
- Finance costs	312	124
Total	1,584	1,525
Changes in working capital		
- Inventories	(783)	(812)
- Trade and other receivables	(14)	(1,651)
- Trade and other payables	(387)	1,028
- Provisions for liabilities and charges	123	(50)
Total	(1,061)	(1,485)
Cash generated from operating activities	5,658	6,547

Reconciliation of net cash outflow to movements in net (debt)/funds

	2008	2007
	£000	£000
Decrease in cash in the year	(1,953)	(3,054)
Cash outflow from decrease in debt and lease financing	261	229
Changes in net debt resulting from cash flows	(1,692)	(2,825)
Debt acquired with subsidiary	-	(879)
Translation differences	(623)	(177)
Movement in net funds in the year	(2,315)	(3,881)
Net (debt)/funds at 1 October	(980)	2,901
Net debt at 30 September	(3,295)	(980)

Notes to the Group Cash Flow Statement

For the year ended 30 September 2008

Analysis of net funds/(debt)

	At 1 October 2007 £000	Cash flow £000	Exchange movement £000	Debt acquired with Subsidiary £000	Non-cash movement £000	At 30 September 2008 £000
Cash in hand and at bank	5,428	(1,254)	(273)		-	3,901
Bank overdrafts and working capital facility	(4,915)	(699)	(284)		-	(5,898)
	513	(1,953)	(557)		-	(1,997)
Debt due within 1 year	(148)	134	(4)		(755)	(773)
Debt due after 1 year	(1,169)	-	(62)		755	(476)
Finance leases	(176)	127	-		-	(49)
Net debt	(980)	(1,692)	(623)		-	(3,295)

Notes to the Financial Statements

For the year ended 30 September 2008

1. General information

Gooch & Housego PLC (the "Company") is incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office of the Company is given on page 9.

The consolidated financial statements of the Group for the year ended 30 September 2008 comprise the Company and its subsidiaries (together referred to as the "Group"). A listing of the Company's major subsidiaries is set out on page 65.

The Group is a manufacturer of specialist optoelectronic components, materials and systems and specialist instrumentation and life sciences devices. The Group has manufacturing facilities and offices in the United Kingdom, Germany, Hong Kong and the United States.

The Company is listed on the Alternative Investment Market ("AIM Market") of the London Stock Exchange.

2. Basis of preparation

These financial statements have been prepared under the historical cost convention and in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and interpretations in issue at 30 September 2008, and with those parts of the Companies Act 1985 applicable to companies preparing financial statements in accordance with IFRS. The disclosures required by IFRS 1 'First-time Adoption of International Financial Reporting Standards' ("IFRS 1") concerning the transition from UK GAAP to IFRS are given in notes 3 and 37.

3. Application of IFRS

First time adoption

The rules for first time adoption of IFRS are set out in IFRS 1. IFRS 1 requires use of the same accounting policies in the IFRS transition balance sheet and for all periods presented thereafter. The accounting policies must comply with all IFRS effective at the reporting date for the first financial reporting under IFRS, the period 1 October 2006 to 30 September 2007.

IFRS 1 permits companies adopting IFRS for the first time to take exemptions from the full requirements of IFRS in the transition period. This financial information has been prepared on the basis of taking the following exemptions:

- Business combinations prior to 1 October 2006 have not been restated to comply with IFRS 3 'Business Combinations' ("IFRS 3").
- Cumulative translation differences on foreign operations are deemed to be zero at 1 October 2006. Any gains and losses recognised in the consolidated income statement on subsequent disposals of foreign operations will therefore exclude translation differences arising prior to the transition date.
- Plant, property and equipment has not been revalued as at the date of transition. The depreciated cost has been assumed as the effective carrying value. The property revaluation carried out in 1988 has been reversed on adoption to be consistent across the asset class.

The financial information presented for the year ended 30 September 2007 has been restated in accordance with IFRS, as shown in note 37.

Adoption of new standards

The following standards were issued but application was not mandatory for the year.

- IFRS 2 – Amendment to IFRS 2 Share Based Payment vesting conditions and cancellations.
- IFRS 3 (Revised) – Business combinations
- IFRS 8 – Operating Segments

The Directors anticipate that the adoption of these standards in future years will have no material impact on the net assets or results of the Group other than IFRS 3 (Revised) which may have a material impact on the reporting of future acquisitions.

Notes to the Financial Statements

For the year ended 30 September 2008

4. Accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all of the years presented, unless otherwise stated.

Consolidation

Subsidiaries are entities that are directly or indirectly controlled by the Group. Control exists where the Group has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of a business combination is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the business combination. The excess of the costs of a business combination over the fair value of the identifiable net assets acquired is recorded as goodwill. If the cost of a business combination is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Segment reporting

A business segment is a grouping of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns which are different from those of segments operating in other economic environments.

Foreign currency translation

a. Functional and presentation currency

The consolidated financial statements are presented in Pounds Sterling, which is the Group's presentational currency.

Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

b. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at balance sheet exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

c. Subsidiaries

The results and financial position of subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to

Notes to the Financial Statements

For the year ended 30 September 2008

shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Property, plant & equipment

Property, plant & equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Land is not depreciated. Certain plant used in the manufacturing process which is constructed from precious metals is not depreciated but is reviewed annually for impairment.

Depreciation on other assets is calculated using the straight-line method to allocate their cost over their estimated useful lives, as follows:

• Freehold buildings	2-3%	Straight line
• Short leasehold improvements	over term of lease	Straight line
• Plant & machinery	10-20%	Straight line
• Fixtures, fittings & computer hardware	10-33%	Straight line
• Motor vehicles	25%	Reducing balance

No depreciation is charged on freehold land or capital work in progress.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Intangible assets

a. Goodwill

Goodwill represents the excess of the cost of a business combination over the fair value of the net identifiable assets of the acquired business and costs directly attributable to the business combination at the date of acquisition. Goodwill arising from business combinations is included in 'intangible assets'.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. The impairment testing requires an estimation of the 'value in use' of the Cash-generating unit (the "CGU") to which goodwill is allocated using appropriately discounted cash flow projections.

For the purpose of impairment testing a CGU is defined as either a business segment or an operating entity, as appropriate.

Impairment losses on goodwill are not reversed.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

b. Patents, Trademarks and Licenses

Internally incurred costs associated with the filing and perfection of patents and trademarks are capitalised and carried at cost less accumulated amortisation. Amortisation is calculated using the straight line method to allocate the cost over their useful economic lives.

Acquired patents, trademarks and licences are shown at historical cost. Patents, trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight line method to allocate the cost over their useful economic lives.

c. Computer software

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are capitalised and recognised as intangible assets. Costs include the software development employee costs and an appropriate portion of relevant overheads.

Notes to the Financial Statements

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Computer system development costs capitalised and recognised as assets are amortised using the straight line method over their estimated useful lives of up to 7 years.

Acquired computer software and licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised using the straight line method over their estimated useful lives of up to 5 years.

d. Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised as an expense as incurred.

Development costs incurred after the point at which the commercial and technical feasibility of the product have been proven, and the decision to complete the development has been taken and resources made available, are capitalised. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses. Development costs are amortised using the straight line method over their estimated useful life.

e. Other intangibles

Other acquired intangible assets are stated at fair value less accumulated amortisation and impairment losses.

The useful life of each of these assets is assessed based on the differing natures of each of the intangible assets acquired. Amortisation is charged on a straight-line basis over the estimated useful life of the assets acquired.

- Customer relationships up to 3 years
- Brand names up to 3 years
- Non-compete clauses up to 2 years

Government grants

Government grants are accounted for on an accruals basis. Grants are credited to the income statement over the life of the project. Where grants are used to fund the acquisition of a tangible fixed asset the grant is credited to the income statement over the estimated economic life of the asset.

Impairment of non-financial assets

The Group assesses at each balance sheet date whether an asset may be impaired. If any such indicator exists, the Group tests for impairment by estimating the recoverable amount. If the recoverable amount is less than the carrying value of the asset, the asset is impaired and the carrying value is reduced to its recoverable amount. In addition to this, assets with indefinite lives are tested for impairment annually.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except those with maturities greater than 12 months from the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet.

Non-current assets held for sale

Assets are classified as held for sale if their carrying amount will be recovered by sale rather than by continuing use in the business. Such assets are available for immediate sale in their present condition, management are committed to and have initiated a plan to sell the asset which, when initiated, is expected to result in a completed sale within 12 months.

Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Long-term contract balances included in work in progress comprise costs incurred on long-term contracts, net of any amounts transferred to trading expenditure, after deducting foreseeable losses and related payments on account. Costs include all direct material and labour costs incurred in bringing a contract to its state of

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completion at the year end. Provisions for estimated losses on contracts are made in the period in which such losses are foreseen. Long-term contract balances do not include attributable profit. The amount by which customer billings exceed the revenue recognised on a contract is shown as a payment on account.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable may be impaired.

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'selling and marketing costs'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'selling and marketing costs' in the income statement.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held on call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowing costs which are directly attributable to the acquisition, construction or production of a qualifying asset the borrowing costs are capitalised as part of the cost of that asset.

Borrowing costs are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Taxation

Income tax on the profit or loss for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year using rates enacted at the balance sheet date, and any adjustments to tax payable in respect of prior years.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for, if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Notes to the Financial Statements

For the year ended 30 September 2008

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

In the UK and US, the Company is entitled to a tax deduction for amounts treated as compensation on exercise of certain employee share options under each jurisdiction's tax rules. As explained under "Share options" below, a compensation expense is recorded in the Company's income statement over the period from the grant date to the vesting date of the relevant options. As there is a temporary difference between the accounting and tax bases, a deferred income tax asset is recorded. The deferred income tax asset arising is calculated by comparing the estimated amount of tax deduction to be obtained in the future (based on the Company's share price at the balance sheet date) with the cumulative amount of the compensation recorded in the income statement. If the amount of estimated future tax deduction exceeds the cumulative amount of the remuneration expense at the statutory rate, the excess is recorded directly in equity, against retained earnings.

Employee benefits

a. Pension obligations

The Group operates money purchase pension schemes for UK employees and Section 401(k) plans for US employees. The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense in the income statement when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

b. Profit share and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Group's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

c. Share options

The Group operates two share option schemes.

In accordance with IFRS 2 the fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest.

Employer's National Insurance in the United Kingdom and equivalent taxes in other jurisdictions are payable on the exercise of certain share options. In accordance with IFRS 2, this is treated as a cash-settled transaction. A provision is made, calculated using the fair value of the Company's shares at the balance sheet date, pro-rated over the vesting period of the options.

At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity. The fair value is determined using the Black-Scholes option pricing model.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

Notes to the Financial Statements

For the year ended 30 September 2008

Leases

Leases which transfer substantially all the risks and rewards of ownership of an asset are treated as a finance lease. Assets held under a finance lease are capitalised at their fair value at the inception of the lease and depreciated over the estimated useful economic life of the asset or lease term if shorter.

Finance charges are associated with the finance lease are expensed in proportion to the capital amount outstanding.

All other leases are classified as operating leases. Operating lease rentals are expensed in equal annual amounts over the lease term.

Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved.

a. Sale of goods or services

Revenue is recognised when the risks and rewards of the underlying sale have been transferred to the customer, and when collectability of the related receivable is reasonably assured. Depending on the terms of business, this occurs either on the dispatch/delivery of the goods or services supplied or on acceptance by the customer.

b. Long term contracts

Revenue is recognised by reference to the stage of completion of the contract activity at the balance sheet date. Revenue and profits are determined by estimating the outcome of the contract and determining the costs and profit attributable to the stage of completion.

Where the outcome of the contract cannot be reliably estimated, contract costs are recognised as an expense when incurred and revenue is recognised to the extent of the costs that are expected to be recoverable. In both cases, any expected contract loss is recognised immediately.

c. Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

Dividend distribution

Dividend distributions to the Company's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

5. Financial risk management

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability

- to continue as a going concern;
- to provide returns for shareholders and benefits for other stakeholders; and
- to maintain an optimal capital structure to reduce the cost of capital.

Notes to the Financial Statements

For the year ended 30 September 2008

In order to maintain or adjust the capital structure, the Group may

- adjust the amount of dividends paid to shareholders;
- return capital to shareholders;
- issue new shares;
- sell assets to reduce debt; and
- vary the level of debt financing.

Consistent with others in the industry, the Group monitors capital on the basis of the debt to equity ratio.

During 2008, the Group's strategy was unchanged from 2007.

A summary of the Company's debt to equity ratio as at 30 September 2008 and 30 September 2007 is set out below:

	Note	2008 £000	2007 £000
Total borrowings	25	7,196	6,408
Less: cash and cash equivalents	22	(3,901)	(5,428)
Net borrowings		3,295	980
Total equity	30	29,040	25,995
Debt to equity ratio		11.3%	3.8%

The increase in the debt to equity ratio during 2008 resulted primarily from the increase in bank borrowing to fund the building of the Group's Components and Materials Division's new facility and corporate headquarters at Dowlish Ford, Ilminster, Somerset in the UK.

Post year end, the Group has increased its borrowings to fund the acquisition of General Optics. See note 35 for further details.

While the Group's debt to equity ratio is consistently monitored, changes in the Group's need for capital and the selection of the source and funding of capital are assessed against a number of criteria which may have a direct effect on the Group debt to equity ratio.

The Group's capital needs include, but are not solely limited to, its

- investment in fixed assets;
- investment in working capital; and
- acquisition of businesses, technologies and other intangible assets.

The criteria against which the Group's capital needs are assessed include, but are not limited to,

- availability of and cost of debt financing;
- ability to raise equity financing at an acceptable share price; and
- ratio of debt to equity.

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

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

The Group did not use any derivative financial instruments to hedge risk exposures during the year.

i. Market risk

a. Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro and the US Dollar.

Notes to the Financial Statements

For the year ended 30 September 2008

Foreign exchange risk arises from

- future commercial transactions;
- recognised assets and liabilities; and
- net investments in foreign operations.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk.

Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

No financial derivatives have been entered into to manage foreign exchange exposure.

As a significant amount of the Group's profit is earned by its US subsidiaries, the Group's profit is sensitive to movements in the US Dollar exchange rate. If the average US Dollar exchange rate for the year had been consistent with the closing exchange rate at 30 September 2008, with all other variables constant, post tax profits for the year would have been £323,000 higher (2007: £104,000 lower) as a result of the translation in US Dollars.

Equity is more sensitive to movement in the US Dollar exchange rate as a significant amount of the Group's net assets are held in the Group's US subsidiaries. If the US Dollar weakened by 10% against Pound Sterling with all other variables held constant, the net assets of the Group would be £1,593,000 lower. If the US Dollar strengthened by 10% against Pound Sterling with all other variables held constant, the net assets of the Group would be £1,948,000 higher.

b. Cash flow interest rate risk

As the Group has no significant interest-bearing assets as at the reporting date, apart from £3.9m in cash, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from its long-term borrowings and working capital facility. A 1% increase in the cost of borrowing would have resulted in an annualised increase in interest expense of £171,000 had the Group's borrowings been in place through out the year to September 2008.

Borrowings issued at variable interest rates expose the Group to cash flow interest rate risk. As at 30 September 2008, the Group had not used any financial instruments to hedge the cash flow interest rate risk. During 2007 and 2008, the Group's borrowings at variable interest rates were denominated in Pound Sterling and US Dollars.

ii. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. It arises principally from the Group's trade receivables.

a. Cash

Cash is held in current and deposit accounts with financial institutions which have credit ratings of A+ or greater.

b. Trade and other receivables

The management of credit risk exposure is the responsibility of each business unit which has credit policies in place to mitigate the risk. The credit policies seek to verify a customer's credit worthiness prior to trading and maintain the level of trading within agreed credit limits. Changes to credit limits require authorisation in accordance with internal control policies.

The Group is exposed to concentration of credit risk. The Group's top 10 customers in 2008 accounted for approximately 32% of the Group's revenue; however, no individual customer made up more than 8% of revenue.

The Group's trade receivables are analysed in note 20.

iii. Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group aims to achieve a balance between certainty of funding and a flexible, cost effective borrowing structure.

The Group has a committed three-year \$10.0m Working Capital Facility which is due to mature in April 2012 and this is supplemented by hire purchase and finance lease facilities.

Notes to the Financial Statements

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The Group aims to ensure that there are sufficient funds or credit lines available to supplement cash flows generated from trading to meet known obligations in the next twelve months.

The Group's financial liabilities are analysed in note 33.

6. Critical accounting estimates and judgments

The preparation of financial statements in accordance with generally accepted accounting principles requires the Directors to make critical accounting estimates and judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates and judgments are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will on occasions fail to equal actual results.

The estimates and assumptions that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

Going Concern

The Directors are required to make an assessment of the Group's ability to continue to trade as a going concern. Because of the difficult market conditions prevailing this assessment has been subject to more uncertainties than are usual. The Directors have given this matter due consideration and have concluded that it is appropriate to prepare the Group financial statements on a going concern basis. The two main considerations were as follows:

Group cash flow

The Group traditionally has been profitable and cash generative. Group investment in tangible assets with the exception of the investments in the Components and Materials Division's new facility and Group corporate headquarters at Dowlsh Ford, Ilminster, UK and the extension to the Division's fibre optics facility at Bloomhill, Torquay, UK has been relative low. The Group is not capital intensive and with the completion of the investments in facilities undertaken over the two most recent financial years, the Group does not anticipate significant further investment of the magnitude of the last two financial years in the current financial year and into 2010.

Bank Facilities

As part of its relationship with its bankers the Group maintains a regular and ongoing constructive dialogue with its bankers and keeps them advised of Group developments and progress against its business plan. The Group's bankers, The Royal Bank of Scotland plc, has committed significant facilities to the Group including, post the Group's year-end, acquisition finance of \$15.875m and £3.562m, respectively, and has committed to the Group a three-year secured \$10.0m Working Capital Facility which is available through March 2012.

At 30 September 2008 the Group had headroom, based on the closing exchange rate of the US Dollar to the Pound Sterling at 30 September 2008, of £3.619m or 64.5% on its Working Capital Facility.

Revenue recognition

Revenue from long term contracts is recognised on a percentage-of-completion method basis. Use of this method requires an estimation of the total project resource requirement and also an estimation of the cost to complete and the assessment of potential losses on uncompleted contracts.

Provisions for income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

Impairment of goodwill

The Group tests goodwill for impairment at least annually. This requires an estimation of the value in use of the Cash-generating units (the "CGUs") to which goodwill is allocated. As set out in Note 18, estimating the value in use requires the Group to make an estimate of the expected future cash flows from the CGUs and also to choose a suitable discount rate in order to calculate the present values of those cash flows.

Notes to the Financial Statements

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Provision for impairment of trade receivables

The Group assesses trade receivables for impairment which requires an estimation of the likelihood of payment forfeiture by customers.

Share options

The Company has two share option schemes. In accordance with IFRS 2, share options are measured at fair value at the date of grant. The fair value determined is then expensed in the Group income statement on a straight line basis over the vesting period, with a corresponding increase in equity. The fair value of the options is measured by use of the Black-Scholes option pricing model. The valuation of share options requires several judgements to be made in respect of the number of options that are expected to be exercised. Details of the assumptions included in the valuation of options are disclosed in Note 31.

Notes to the Financial Statements

For the year ended 30 September 2008

7. Segmental analysis

For year ended 30 September 2008	Components & Materials	Instrumentation & Life Sciences	Corporate	Total
	£000	£000	£000	£000
Revenue				
Total revenue	33,654	3,317	-	36,971
Inter and intra-division	(3,461)	(141)	-	(3,602)
External revenue	30,193	3,176	-	33,369
Divisional expenses	(21,363)	(3,059)	(2,142)	(26,564)
EBITDA¹	8,830	117	(2,142)	6,805
EBITDA %	29.2%	3.7%	n/a	20.4%
Depreciation and amortisation	(927)	(1)	(220)	(1,148)
Operating profit before amortisation of acquired intangible assets	7,903	116	(2,362)	5,657
Amortisation of acquired intangible assets	(304)	-	-	(304)
Operating profit	7,599	116	(2,362)	5,353
Operating profit margin %	25.2%	3.7%	n/a	16.0%
Net assets employed	22,429	1,941	4,670	29,040
For year ended 30 September 2007	Components & Materials	Instrumentation & Life Sciences	Corporate	Total
	£000	£000	£000	£000
Revenue				
Total revenue	30,900	3,326	-	34,226
Inter and intra-division	(3,359)	(192)	-	(3,551)
External revenue	27,541	3,134	-	30,675
Divisional expenses	(18,740)	(3,092)	(1,134)	(22,966)
EBITDA¹	8,801	42	(1,134)	7,709
EBITDA %	32.0%	1.3%	n/a	25.1%
Depreciation and amortisation	(558)	(71)	(79)	(708)
Operating profit before amortisation of acquired intangible assets	8,243	(29)	(1,213)	7,001
Amortisation of acquired intangible assets	(551)	-	-	(551)
Operating profit	7,692	(29)	(1,213)	6,450
Operating profit margin %	27.9%	(0.9%)	n/a	21.0%
Net assets employed	19,574	2,252	4,169	25,995

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

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

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For the year ended 30 September 2008

7. Segmental analysis (continued)

Analysis of turnover by destination for year ended 30 September 2008:

	Components & Materials	Instrumentation & Life Sciences	Corporate	Total
	£000	£000	£000	£000
United Kingdom	4,036	1	-	4,037
North America	14,071	2,052	-	16,123
Continental Europe	6,975	526	-	7,501
Other	5,111	597	-	5,708
	30,193	3,176	-	33,369

Analysis of turnover by destination for year ended 30 September 2007:

	Components & Materials	Instrumentation & Life Sciences	Corporate	Total
	£000	£000	£000	£000
United Kingdom	2,975	48	-	3,023
North America	13,268	2,019	-	15,287
Continental Europe	6,016	535	-	6,551
Other	5,282	532	-	5,814
	27,541	3,134	-	30,675

Sales between segments are made on normal commercial terms.

Analysis of net assets by Division and region as at 30 September 2008:

	Components & Materials	Instrumentation & Life Sciences	Corporate	Total
	£000	£000	£000	£000
United Kingdom	17,037	-	4,670	21,707
North America	4,830	1,941	-	6,771
Continental Europe	562	-	-	562
	22,429	1,941	4,670	29,040

Analysis of net assets by Division and region as at 30 September 2007:

	Components & Materials	Instrumentation & Life Sciences	Corporate	Total
	£000	£000	£000	£000
United Kingdom	7,754	-	4,169	11,923
North America	11,655	2,252	-	13,907
Continental Europe	165	-	-	165
	19,574	2,252	4,169	25,995

Notes to the Financial Statements

For the year ended 30 September 2008

7. Segmental analysis (continued)

Analysis of capital expenditure by Division for year ended 30 September 2008:

	Components & Materials £000	Instrumentation & Life Sciences £000	Corporate £000	Total £000
Property, plant and equipment				
Capital work in progress ¹	43	-	3,577	3,620
Freehold land & buildings	-	1	628	629
Leasehold property	34	5	-	39
Plant & machinery	524	22	246	792
Fixtures, fittings & computers	32	5	90	127
	633	33	4,541	5,207
Intangible assets				
Capitalised R & D and licences	1	76	-	77
Computer software	5	6	324	335
	6	82	324	412
	639	115	4,865	5,619

Analysis of capital expenditure by Division for year ended 30 September 2007:

	Components & Materials £000	Instrumentation & Life Sciences £000	Corporate £000	Total £000
Property, plant and equipment				
Capital work in progress ¹	39	-	4,122	4,161
Freehold land & buildings	4	-	-	4
Leasehold property	126	3	-	129
Plant & machinery	550	58	-	608
Fixtures, fittings & computers	20	5	44	69
Motor vehicles	7	-	-	7
	746	66	4,166	4,978
Intangible assets				
Capitalised R & D and licences	-	-	-	-
Computer software	-	-	-	-
	-	-	-	-
	746	66	4,166	4,978

¹ An amount of £7,699,000 included under "Capital work in progress" in respect of expenditure on the Components and Materials Division's new facility and Group corporate headquarters at Dowlish Ford, Ilminster, UK was reclassified in the year to 30 September 2008 to "Freehold land & buildings" £3,008,000, "Plant & machinery" £3,245,000 and "Fixtures & fittings" £1,446,000.

Notes to the Financial Statements

For the year ended 30 September 2008

8. Expenses by nature

	2008 £000	2007 £000
Raw materials and consumables	7,620	7,915
Changes in stocks of finished goods and work in progress	224	(474)
Employee costs	14,551	12,460
Other operating charges	4,544	3,197
Depreciation	971	708
Amortisation ¹	177	-
Other income	(375)	(132)
	<u>27,712</u>	<u>23,674</u>

¹Amortisation excludes amortisation of acquired intangible assets

9. Other income

	2008 £000	2007 £000
Rental income	17	14
Grants receivable	192	100
Deposit on Cornhill (net of costs)	67	-
Other	99	18
	<u>375</u>	<u>132</u>

10. Employee costs

	2008 £000	2007 £000
Wages and salaries	12,876	10,601
Social security costs	1,068	1,092
Share options	88	317
Pension costs	519	450
	<u>14,551</u>	<u>12,460</u>

The average numbers of employees during the year was:

	2008 No.	2007 No.
Manufacturing	304	238
Sales, finance and administration	122	116
	<u>426</u>	<u>354</u>

Notes to the Financial Statements

For the year ended 30 September 2008

11. Remuneration

Directors' emoluments

	2008 £000	2007 £000
Directors' remuneration	620	857
Gain on exercise of share options	599	614
Directors' pension scheme contributions	34	30
	<u>1,253</u>	<u>1,501</u>

The number of Directors who are accruing retirement benefits under a money purchase pension scheme is 3 (2007: 3).

Details of the remuneration and pension contributions of the Directors are shown in the Remuneration Committee Report on page 14.

Key management compensation

	2008 £000	2007 £000
Salaries and other short-term benefits	1,909	1,490
Gain on exercise of share options	157	315
Pension scheme contributions	115	95
	<u>2,181</u>	<u>1,900</u>

12. Operating profit

	2008 £000	2007 £000
Amortisation of acquired intangible assets	304	551
Fees payable to the Company's auditor for the audit of the parent company and consolidated accounts	92	100
Fees payable to the Company's auditor and its associates for other services:		
- the audit of the Company's subsidiaries	84	43
- tax compliance and advisory	95	80
- training services	2	5
Research and development costs	2,703	1,898
(Gains)/losses on foreign exchange	(462)	351
Operating lease rentals		
- Land and buildings	321	303
- Other	3	17
Loss on disposal of property, plant & equipment	2	6

Company audit fees included within fees payable to the Company auditor for the audit of the parent Company and Group financial statements are £12,500 (2007: £10,000). In addition to the audit fees, the Company paid £64,000 for due diligence work in relation to the acquisition of General Optics. This amount has been recorded in the balance sheet as a prepayment and will be included in the acquisition costs when the transaction is finalised.

Notes to the Financial Statements

For the year ended 30 September 2008

13. Finance income and costs

	2008 £000	2007 £000
Finance income is made up of:		
Bank interest	94	181
Finance costs are made up of:		
Bank interest	312	108
Finance lease interest	-	16
	<u>312</u>	<u>124</u>

14. Income tax expense

Analysis of tax charge in the year

	2008 £000	2007 £000
Current taxation		
UK Corporation tax	(15)	212
Overseas tax	1,488	2,016
Adjustments in respect of prior year tax charge	(91)	(135)
Total current tax	<u>1,382</u>	<u>2,093</u>
Deferred tax		
Origination and reversal of timing differences	176	267
Total deferred tax	<u>176</u>	<u>267</u>
Total income tax expense	<u>1,558</u>	<u>2,360</u>

The current taxation for the year is lower (2007: higher) than the standard rate of corporation tax in the UK. The differences are explained below:

	2008 £000	2007 £000
Profit before income tax expense	<u>5,135</u>	<u>6,507</u>
Profit at the effective standard rate of tax of 29% for the year (2007: 30%)	1,489	1,952
Permanent differences	(75)	(55)
Short term timing differences	6	48
Share options	(26)	(120)
Tax losses not utilised	-	160
Amortisation of acquired intangible assets	3	182
Adjustments in respect of foreign tax rates	252	328
Adjustments in respect of prior year tax charge	(91)	(135)
Total income tax expense	<u>1,558</u>	<u>2,360</u>

Notes to the Financial Statements

For the year ended 30 September 2008

Factors affecting the future tax charge

The Finance Bill 2007 contained provisions relating to the reduction in the rate of corporation tax from 30% to 28% with effect from 1 April 2008. It was also announced that Industrial Building Allowances would be phased out over three years commencing 1 April 2008. The rate change was substantively enacted in June 2007 and the Group has reflected the rate change within its deferred tax provision. The change to the corporate tax rate reduced the Group's deferred tax assets carried forward in the UK in the year to 30 September 2007 by approximately £27,000. There was no impact in the year to 30 September 2008.

The abolition of Industrial Building Allowances ("IBA") will affect the tax relief available for expenditure incurred at the Group's Components and Materials Division's new facility and Group corporate headquarters at Dowlish Ford, Ilminster, UK. Based on the expenditure incurred to 30 September 2008 and the level of IBA's claimable in respect of the financial year the change would increase future tax liabilities by approximately £52,000 per annum (2007: £38,000 per annum), once fully phased out.

Overseas tax losses of £606,000 are available to offset against future profits of the Group. Tax losses in the UK, which may be utilised against future profits, are £3,225,000 (2007: £2,243,000). No deferred tax asset has been recognised in respect of these tax losses. The UK tax losses became available on the acquisition of the Group's Fibre Optics Business in 2007. These losses have not been recognised as a deferred tax asset because significant accelerated capital allowances are available before the trading losses can be utilised.

15. Dividends

	2008 £000	2007 £000
Interim dividend paid: 1.5p per share (2007:1.5p)	291	281
Final 2007 dividend paid in 2008: 3.0p per share (2007:2.8p)	568	504
	859	785

16. Earnings per share

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

	2008	2007
Number of shares used for basic earnings per share	19,383,631	18,971,775
Dilutive shares	493,106	295,482
Number of shares used for dilutive earnings per share	19,876,737	19,267,257

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

	2008		2007	
	£000	p per share	£000	p per share
Basic earnings per share	3,577	18.5p	4,147	21.9p
Amortisation of acquired intangible assets (net of income tax expense)	219	1.1p	397	2.1p
Adjusted basic earnings per share	3,796	19.6p	4,544	24.0p
Diluted earnings per share	3,577	18.0p	4,147	21.5p
Amortisation of acquired intangible assets (net of income tax expense)	219	1.1p	397	2.1p
Adjusted diluted earnings per share	3,796	19.1p	4,544	23.6p

Basic and diluted earnings per share before amortisation have been shown because, in the opinion of the Directors, they more accurately reflect the trading performance of the Group.

Notes to the Financial Statements

For the year ended 30 September 2008

17. Property, plant and equipment

	Capital work in progress £000	Freehold land & buildings £000	Leasehold property £000	Plant & machinery £000	Fixtures, fittings & computers £000	Motor vehicles £000	Total £000
Cost or valuation							
At 1 October 2006	1,707	2,468	267	5,680	571	29	10,722
Acquisition	-	1,393	7	808	20	-	2,228
Additions	4,161	138	129	608	64	7	5,107
Disposals	-	(5)	-	(120)	(37)	(2)	(164)
Transfer to assets held for resale	-	(512)	-	-	-	-	(512)
Reclassification	(47)	(109)	89	67	-	-	-
Exchange rate differences	-	(71)	(28)	(148)	(25)	-	(272)
At 30 September 2007	5,821	3,302	464	6,895	593	34	17,109
Additions	3,620	629	39	792	127	-	5,207
Disposals	(5)	(33)	(153)	-	-	-	(191)
Transfer to intangible assets	(514)	-	-	(15)	52	-	(477)
Transfer from assets held for resale	-	512	-	-	-	-	512
Reclassification	(8,696)	3,688	(44)	3,425	1,627	-	-
Exchange rate differences	-	103	43	303	35	-	484
At 30 September 2008	226	8,201	349	11,400	2,434	34	22,644
Depreciation							
At 1 October 2006	-	412	142	3,573	400	18	4,545
Charge for the year	-	46	31	526	100	5	708
Disposals	-	(3)	-	(78)	(37)	(2)	(120)
Transfer to assets held for resale	-	(158)	-	-	-	-	(158)
Reclassification	-	(50)	34	16	-	-	-
Exchange rate differences	-	-	(14)	(23)	(21)	-	(58)
At 30 September 2007	-	247	193	4,014	442	21	4,917
Charge for the year	-	140	19	660	149	3	971
Disposals	-	(21)	-	-	-	-	(21)
Transfer to intangible assets	-	-	-	(3)	(68)	-	(71)
Transfer from assets held for resale	-	158	-	-	-	-	158
Reclassification	-	(20)	(14)	37	(3)	-	-
Exchange rate differences	-	13	27	247	27	-	314
At 30 September 2008	-	517	225	4,955	547	24	6,268
Net book value							
At 30 September 2006	1,707	2,056	125	2,107	171	11	6,177
At 30 September 2007	5,821	3,055	271	2,881	151	13	12,192
At 30 September 2008	226	7,684	124	6,445	1,887	10	16,376

Notes to the Financial Statements

For the year ended 30 September 2008

17. Property, plant and equipment (continued)

During the year, property was transferred from assets held for resale. More details are given in note 23.

Plant & machinery purchased under hire purchase and finance lease agreements had a cost of £483,000 (2007: £480,000) and a net book value of £310,000 (2007: £350,000).

Interest capitalised in the year amounted to £208,000 (2007: £134,000).

18. Intangible assets

	Goodwill £000	Acquired intangible assets £000	Capitalised R & D, Patents and licences £000	Software and other intangibles £000	Total £000
Cost					
At 1 October 2006	7,391	-	58	120	7,569
Additions	-	-	18	5	23
Acquisitions	1,308	1,039	-	-	2,347
At 30 September 2007	8,699	1,039	76	125	9,939
Additions	-	-	77	335	412
Disposals	-	-	(21)	(16)	(37)
Transfer from property, plant and equipment	-	-	-	477	477
Exchange rate differences	-	-	17	12	29
At 30 September 2008	8,699	1,039	149	933	10,820
Amortisation					
At 1 October 2006	2,218	-	6	37	2,261
Charge for the year	-	551	5	-	556
At 30 September 2007	2,218	551	11	37	2,817
Charge for the year	-	304	25	152	481
Transfer from property, plant and equipment	-	-	-	71	71
Exchange rate differences	-	-	4	7	11
At 30 September 2008	2,218	855	40	267	3,380
Net book value					
At 30 September 2006	5,173	-	52	83	5,308
At 30 September 2007	6,481	488	65	88	7,122
At 30 September 2008	6,481	184	109	666	7,440

Carrying value of goodwill

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. The impairment testing requires an estimation of the 'value in use' of the Cash-generating unit (the "CGU"). The value in use calculations use pre-tax cash flow projections based on the latest projections approved by the Board for year one. Cash flows beyond year one are extrapolated using the growth rates stated below.

Notes to the Financial Statements

For the year ended 30 September 2008

The key assumptions used for the value in use calculations are as follows:

	Components & Materials	Instrumentation & Life Sciences
Projected gross profit margin	42.3%	54.5%
Average growth beyond year one	2.0%	2.0%
Weighted average cost of capital	8.1%	8.1%

Based on the calculation of the value in use, no impairment of goodwill has arisen.

19. Inventories

	2008 £000	2007 £000
Raw materials	2,740	2,525
Work in progress	2,088	1,466
Finished goods	1,101	1,090
	5,929	5,081

The movement in the inventories provision is as follows:

	2008 £000	2007 £000
At 1 October	912	976
Increase in provision	225	(66)
Exchange rate movement	62	2
At 30 September	1,199	912

20. Trade and other receivables

	2008 £000	2007 £000
Trade receivables	6,785	5,778
Other receivables	162	719
Prepayments	523	130
	7,470	6,627

The carrying amount of the Group's trade and other receivables is denominated in the following currencies:

	2008 £000	2007 £000
Pound Sterling	2,069	1,637
US Dollar	4,735	4,439
Euro	666	551
	7,470	6,627

Notes to the Financial Statements

For the year ended 30 September 2008

The aging of Trade receivables by due date is as follows:

	2008 £000	2007 £000
Up to 3 months	6,522	5,771
3 to 6 months	261	120
6 to 12 months	94	36
	<u>6,877</u>	<u>5,927</u>

Movement on the provision for impairment of trade receivables is as follows:

At 1 October	149	138
Utilisation of provision	(5)	(6)
Increase in provision	52	24
Release of provision not required	(108)	-
Exchange rate movement	4	(7)
At 30 September	<u>92</u>	<u>149</u>
Net trade receivables	<u>6,785</u>	<u>5,778</u>

21. Income tax receivable

	2008 £000	2007 £000
Income tax receivable	<u>971</u>	<u>227</u>

22. Cash and cash equivalents

	2008 £000	2007 £000
Cash at bank and on hand	3,022	4,181
Short-term bank deposits	879	1,247
	<u>3,901</u>	<u>5,428</u>

23. Assets held for resale

In December 2006, the Group exchanged contracts and received a deposit of £75,000 for the sale of its Cornhill property in Ilminster. In April 2008 the prospective buyer forfeited their interest in the contract and the deposit has been recognised as other income.

Even though the property is being actively marketed for sale, it has been reclassified in the balance sheet within property, plant & equipment due to the uncertainty regarding the timing of any future sale.

Notes to the Financial Statements

For the year ended 30 September 2008

24. Trade and other payables

	2008 £000	2007 £000
Payments on account	-	17
Trade creditors	1,682	2,211
Other taxation and social security	204	255
Accruals	3,075	2,895
	<u>4,961</u>	<u>5,378</u>

25. Borrowings

	2008 £000	2007 £000
Due within one year or on demand:		
Bank overdraft	-	4,915
Bank borrowings	6,671	148
Finance leases	49	132
	<u>6,720</u>	<u>5,195</u>
Due after more than one year:		
Bank borrowings	476	1,169
Finance leases	-	44
	<u>476</u>	<u>1,213</u>
Total borrowings	<u>7,196</u>	<u>6,408</u>

The carrying values of the bank borrowings, overdraft and the finance leases are not materially different from their fair values.

The Group has a 3 year US Dollar working capital facility of US\$10.0 million which replaced a Pound Sterling overdraft facility of £7.5 million that was in place at September 2007. The facility is secured by a number of Company debentures, specific charges over the Company's United Kingdom properties, unlimited inter company cross guarantees and share pledge agreements. Interest is payable at 1.25% above US\$ LIBOR.

The Group's Fibre Optics business had a bank loan of £743,000 (2007: £757,000) secured by a fixed and floating charge over its facility in Torquay, United Kingdom. Interest was payable at 1.69% above the Sterling base rate. In October 2008, the bank loan was repaid in full.

Gooch & Housego (Florida) LLC, a US subsidiary, has a US\$ denominated loan of £507,000 (US\$903,000) (2007: £469,000; US\$958,000) which is secured by a charge over the facility it occupies. Interest is payable at 1.6% above 30 day US \$ LIBOR.

Maturity profile of bank and other borrowings

	Bank borrowings £000	Finance leases £000	Total 2008 £000	Total 2007 £000
Within one year	6,671	49	6,720	5,195
Between two and five years	123	-	123	273
More than five years	353	-	353	940
	<u>7,147</u>	<u>49</u>	<u>7,196</u>	<u>6,408</u>

Notes to the Financial Statements

For the year ended 30 September 2008

26. Provision for other liabilities and charges

The movements in the Group provision for other liabilities and charges during the year are as follows:

Warranty reserve

	2008 £000	2007 £000
At 1 October	280	212
(Credit)/Charge to the income statement	(16)	68
At 30 September	264	280

27. Deferred tax assets and liabilities

The movements in the Group's deferred tax assets and liabilities during the year are as follows:

	2008 £000	2007 £000
At 1 October	1,282	815
Charge to the income statement	(176)	(267)
(Charge)/credit directly to equity	(1,069)	717
Exchange movement	2	17
At 30 September	39	1,282

The deferred tax provided for in the financial statements can be analysed as follows:

	2008 £000	2007 £000
Deferred income tax assets		
Property, plant and equipment	251	210
Intangible assets	-	440
Share options	150	1,233
Provisions	525	446
Other timing differences	226	79
	1,152	2,408
Deferred income tax liabilities		
Property, plant and equipment	(941)	(491)
Intangible assets	(64)	(577)
Other timing differences	(108)	(58)
	(1,113)	(1,126)

The deferred tax balances are disclosed under the following balance sheet headings:

	2008 £000	2007 £000
Deferred income tax assets	1,152	2,408
Deferred income tax liabilities	(1,113)	(1,126)
	39	1,282

Notes to the Financial Statements

For the year ended 30 September 2008

28. Called up share capital

	2008 No.	2007 No.	2008 £000	2007 £000
Authorised				
Ordinary shares of 20p each	24,000,000	24,000,000	4,800	4,800
Allotted, issued and fully paid				
Ordinary shares of 20p each				
At 1 October	18,924,453	17,999,162	3,785	3,600
Allotted under share option schemes	339,937	277,892	68	56
Allotted on acquisition of subsidiary	-	647,399	-	129
At 30 September	19,264,390	18,924,453	3,853	3,785

Consideration received for the shares allotted under share option schemes during 2008 was £453,816 (2007: £370,985).

Included in the allotment under share option schemes are 300,655 20p ordinary shares allotted to Directors.

29. Reserves

	Share premium account £000	Merger reserve £000	Cumulative translation reserve £000	Retained earnings £000
At 1 October 2007	3,719	2,671	(567)	16,387
Profit for the financial year	-	-	-	3,577
Dividends	-	-	-	(859)
Share options	-	-	-	92
Shares issued under share option plans	386	-	-	-
Deferred income tax movement on share options	-	-	-	(848)
Currency translation differences	-	-	629	-
At 30 September 2008	4,105	2,671	62	18,349

The net foreign exchange gain on foreign currency borrowings for the period was £1,488,000 (2007: £367,000), all of which has been offset against the loss on foreign currency net investments.

30. Reconciliation of movements in shareholders' equity

	2008 £000	2007 £000
Profit for the period	3,577	4,147
Dividends in the year	(859)	(785)
	2,718	3,362
Share-based payments	92	199
Shares issued under share option schemes	454	371
Deferred income tax movement on share options	(848)	717
Shares issued on the acquisition of subsidiary	-	2,800
Currency translation movement	629	(567)

Notes to the Financial Statements

For the year ended 30 September 2008

30. Reconciliation of movements in shareholders' equity (continued)

Net addition to shareholders' equity	3,045	6,882
Opening shareholders' equity as restated	25,995	19,113
Closing shareholders' equity	29,040	25,995

31. Share options

The Company operates two share option schemes, which grant share options to certain employees. The Company has ceased granting share options under the Gooch & Housego PLC 2004 Company Share Option Scheme (the "2004 Scheme") and now only grants share options in the Gooch & Housego 2007 Long Term Incentive Plan (the "2007 LTIP"). Currently, the three Executive Directors and six senior employees of the Group have options over the ordinary share capital of the Company.

Options are granted at market price on the date of grant with a fixed exercise price equal to the market price of the shares under option at the date of the grant. The contractual life of an option is 10 years and is subject to continued employment.

The remuneration report details the Executive Directors share options and the performance criteria which are needed to be met for them to exercise their options.

Four senior employees within the Group have 444,077 share options outstanding relating to the 2004 Scheme. These options are subject to specific performance criteria, namely that their subsidiary audited pre-tax profits for the relevant year will be at least US\$500,000 and the subsidiary pre-tax profits will be not less than 95% of the agreed budget.

Three senior employees within the Group have 23,851 2007 LTIP share options outstanding. The performance criteria attached to these options is the same as the 2007 LTIP share options granted to Executive Directors.

Options are valued when there is a degree of certainty that the options will meet the performance criteria attaching to the options and will vest. Options granted in 2007 and 2008, respectively, under the 2007 LTIP have not been valued as it is not considered that the options will meet the performance criteria and will vest. Options that are considered likely to meet the performance criteria attaching to the options and will vest are valued using the Black-Scholes option-pricing model. No performance conditions were included in the fair value calculations. The fair value per option of the options granted under the 2004 Scheme and the assumptions in the calculations are as follows:

Grant date	8 Dec 2005	23 Jul 2004
Share price at grant date	272.5p	133.5p
Exercise price	272.5p	133.5p
Number of employees	2	5
Shares under option	250,000	1,313,275
Vesting period (years)	1-4	1-4
Expected volatility	38.1%	56.7%
Option life (years)	10	10
Expected life (years)	5.5	5.5
Risk free rate	4.23%	4.99%
Expected dividends expressed as dividend yield	1.49%	1.49%
Fair value per option	98.4p	66.1p

The expected volatility is based on historical volatility over the last three years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK Government bonds of a term consistent with the assumed option life.

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A reconciliation of share option movements is shown below:

	2008		2007	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at 1 October	1,359,369	145.4p	1,563,274	155.7p
Granted	157,346	415.0p	73,987	432.5p
Exercised	(339,937)	133.5p	(277,892)	133.5p
Lapsed	(45,774)	421.6p	-	-
Outstanding at 30 September	1,131,004	175.3p	1,359,369	175.3p
Exercisable at 30 September	741,883	156.9p	769,563	145.4p

The weighted average fair value of options granted in the year was £nil (2007: £107,000).

Share option exercise and sale:

- On 29 November 2007, both Gareth Jones and Ian Bayer exercised and immediately sold 40,000 shares at 425p.
- On 19 December 2007, both Gareth Jones and Ian Bayer exercised and immediately sold 25,000 shares at 412p.
- On 27 December 2007, Ian Bayer exercised and immediately sold 84,942 shares at 400p.
- In February 2008 a senior employee of the Group exercised and subsequently sold 39,281 shares at varying dates to June 2008.
- In August 2008, Ian Bayer exercised and subsequently sold 85,714 shares as follows – 10,000 shares at 225p, 65,714 at 220p and 10,000 at 232p.

Share options information by exercise price

Range of exercise prices	2008			
	Number of options	Weighted average exercise price	Weighted average remaining life (years)	
			Expected	Contractual
£0-£1.50	695,445	133.5p	1.8	5.8
£1.50-£3.00	250,000	272.5p	1.8	7.2
£3.00-£4.50	185,559	420.3p	4.0	9.1

Range of exercise prices	2007			
	Number of options	Weighted average exercise price	Weighted average remaining life (years)	
			Expected	Contractual
£0-£1.50	1,035,382	133.5p	1.8	6.8
£1.50-£3.00	250,000	272.5p	2.8	8.2
£3.00-£4.50	73,987	432.5p	4.9	9.9

The total charge for the year relating to share options was £92,000 (2007: £199,000), all of which related to equity-settled share based payment transactions.

Notes to the Financial Statements

For the year ended 30 September 2008

32. Capital commitments

	2008 £000	2007 £000
Authorised and contracted but not provided for	283	3,347

33. Financial instruments

The Group's financial instruments comprise bank borrowings, cash at bank, finance leases and various items such as trade receivables and trade payables that directly arise from its operations. The Group has not entered into derivative transactions, nor does it trade in financial instruments as a matter of policy. The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and foreign currency risk.

The Board's policy on these risks is set out in the Directors' Report.

Operations are financed through a mixture of retained profits, cash reserves, bank borrowings and finance leases. Other than finance leases the Board's policy is to use whenever possible variable rate borrowings. Short-term funding flexibility is achieved through the Group's \$10.0m Working Capital Facility.

Financial assets

The currency and interest rate profile for the Group's financial assets are set out below:

	Fixed rate £000	Fixed rate weighted average interest rate %	Fixed rate average period Years	Floating rate £000	2008 Total £000	2007 Total £000
Pound Sterling	-	-	-	1,373	1,373	545
US Dollars	-	-	-	2,346	2,346	4,353
Euro	-	-	-	182	182	530
	-	-	-	3,901	3,901	5,428

The above table includes cash at bank but excludes short-term receivables, prepayments and other receivables.

Financial liabilities

The currency and interest rate profile for the Group's financial liabilities are set out below:

	Fixed rate borrowings £000	Fixed rate weighted average interest rate %	Fixed rate average period Years	Floating rate borrowings £000	2008 Total £000	2007 Total £000
Pound Sterling	3	6.51	0.42	743	746	6,396
US Dollars	46	6.20	0.23	6,404	6,450	12
	49	6.49	0.41	7,147	7,196	6,408

The above table includes bank borrowings and finance leases. Other short-term payables are excluded from this disclosure.

Notes to the Financial Statements

For the year ended 30 September 2008

34. Operating leases

As at the 30 September 2008, the Group had the following annual commitments under operating leases which expire as follows:

	Land & buildings		Other	
	2008	2007	2008	2007
	£000	£000	£000	£000
Within one year	349	-	7	7
Between two to five years	541	301	9	10
	890	301	16	17

35. Post balance sheet events

On 8 October 2008, the Group completed the acquisition of the business and assets of General Optics from GSI Group following receipt of US governmental regulatory approval. The acquisition price was \$21m and was subject to a net asset adjustment. The Directors are in the process of allocating the acquired purchase price plus associated transaction costs to the business and acquired assets.

For the 12 months ended 31 December 2007 General Optics, located in California, USA and a key supplier to the aerospace & defence sector, telecommunications, semiconductor, metrology, biomedical and research markets had revenues of US\$11.7 million and adjusted operating profits of US\$2.1 million.

Financing was provided through two tranches of five-year amortising secured debt from the Group's bankers The Royal Bank of Scotland plc of \$15.875m and £3.562m, respectively. The debt was drawn on 6 October 2008.

The facility agreements provided for:

- The US Dollar facility to be repaid by one installment of US\$575,000 and nine subsequent installments of US\$1,700,000. The first installment due six months after the debt is drawn with subsequent installments being paid in six monthly intervals until the debt is repaid in full.
- The Sterling facility to be repaid by nine installments of £118,700 and a final installment of £2,493,700. The first installment due six months after the debt is drawn with subsequent installments being paid in six monthly intervals until the debt has been repaid in full.
- The interest rate on the debt to be based on the London Inter Bank Offered Rate ('LIBOR') relating to the appropriate debt currency for the selected interest period of either one, three or six months duration plus an applicable margin. Subsequent to the draw down of the facilities the Group entered into a five-year interest rate swap agreement with its bankers under which \$12.0m of the US Dollar facility was swapped into a fixed interest rate.
- In connection with the facility agreements the company is required to report, on a quarterly basis, against a number of rolling twelve month financial covenants which include
 - Debt Servicing - Adjusted net cash flows to total borrowings paid (principal and borrowing costs)
 - Debt Ceiling - Adjusted net debt to earnings before Interest, tax, depreciation and amortisation
 - Interest Cover - Earnings before interest, tax and amortisation to borrowing costs, and,
 - Capital Expenditure (annual report only) - Annual capital spend

As a consequence of the fall in Sterling's value against the US Dollar in the second half of 2008 and early 2009, and the impact on the Group's US Dollar borrowings and associated trading results and profits the Group entered into discussions with its bankers to amend its financial covenants.

Following these discussions the Group has entered into an amended facility agreement which extends the term of the working capital facility to a three-year term, clarifies the definitions of certain financial covenants and provides additional headroom on certain of the required financial ratios

Notes to the Financial Statements

For the year ended 30 September 2008

35. Post balance sheet events (continued)

The amended facility agreement provides for:

- The repayment of the acquisition facilities is reduced from a five-year term to a three-year term as follows:
 - The US Dollar facility to be repaid by one installment of US\$575,000, five subsequent installments of US\$1,700,000 and a final installment of \$6,800,000. The first installment due six months after the debt is drawn with subsequent installments being paid in six monthly intervals until the debt is repaid in full.
 - The Sterling facility to be repaid by six installments of £118,700 and a final installment of £2,849,800. The first installment due six months after the debt is drawn with subsequent installments being paid in six monthly intervals until the debt has been repaid in full.
- Revisions to applicable facility margins, including a re-negotiation fee, to reflect both the changes to the facilities and the three year facilities term.

36. Related party transactions

Other than the agreement referred to on page 14, no material contracts or arrangements have been entered into during the year, nor existed at the end of the year, in which a director or key manager had a material interest.

Notes to the Financial Statements

For the year ended 30 September 2008

37. Restatement of comparative figures under IFRS

Group Income Statement for the year ended 30 September 2007

	As previously reported under UK GAAP	IFRS 3 - 'Business combinations' Note 1	IAS 38 - 'Intangible assets' Note 2	IAS 23 - 'Borrowing costs' Note 3	IFRS 2 - 'Share based payment' Note 4	IAS 12 - 'Income tax' Note 5	IAS 16 - 'Property, plant & equipment' Note 6	IAS 8 - 'Accounting policies, estimates and errors' Note 7	IFRS 1- Exemptions Note 8	As restated under IFRS
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Revenue	30,675	-	-	-	-	-	-	-	-	30,675
Cost of revenue	(14,584)	-	-	-	-	-	-	(67)	-	(14,651)
Gross profit	16,091	-	-	-	-	-	-	(67)	-	16,024
Research & Development	(1,898)	-	-	-	-	-	-	-	-	(1,898)
Sales & Marketing	(1,383)	-	-	-	-	-	-	-	-	(1,383)
Administration	(5,758)	-	-	-	(118)	-	2	-	-	(5,874)
Other income	132	-	-	-	-	-	-	-	-	132
Operating profit before amortisation of goodwill and acquired intangibles	7,184	-	-	-	(118)	-	2	(67)	-	7,001
Goodwill amortisation	(466)	-	466	-	-	-	-	-	-	-
Amortisation of acquired intangibles	-	-	(551)	-	-	-	-	-	-	(551)
Operating profit	6,718	-	(85)	-	(118)	-	2	(67)	-	6,450
Finance income	181	-	-	-	-	-	-	-	-	181
Finance costs	(258)	-	-	134	-	-	-	-	-	(124)
Profit before income tax	6,641	-	(85)	134	(118)	-	2	(67)	-	6,507
Income tax expense	(2,179)	-	154	(37)	31	(346)	-	17	-	(2,360)
Profit for the year	4,462	-	69	97	(87)	(346)	2	(50)	-	4,147
Earnings per share	24.3p	-	0.4p	0.5p	(0.5p)	(1.8p)	-	(0.3p)	-	22.6p
Diluted earnings per share	23.3p	-	0.4p	0.5p	(0.5p)	(1.8p)	-	(0.3p)	-	21.6p

Notes to the Financial Statements

For the year ended 30 September 2008

37. Restatement of comparative figures under IFRS (continued)

Group Balance Sheet as at 30 September 2007

	As previously reported under UK GAAP	IFRS 3 - 'Business combinations' Note 1	IAS 38 - 'Intangible assets' Note 2	IAS 23 - 'Borrowing costs' Note 3	IFRS 2 - 'Share based payments' Note 4	IAS 12 - 'Income tax' Note 5	IAS 16 - 'Property, plant & equipment' Note 6	IAS 8 - 'Accounting policies, estimates and errors' Note 7	IFRS 1- Exemptions Note 8	As restated under IFRS
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Non-current assets										
Property, plant & equipment	12,134	-	(88)	134	-	-	12	-	-	12,192
Intangible assets	6,679	440	3	-	-	-	-	-	-	7,122
Deferred income tax assets	-	(440)	154	(37)	62	2,112	36	81	-	1,968
	18,813	-	69	97	62	2,112	48	81	-	21,282
Current assets										
Inventories	5,081	-	-	-	-	-	-	-	-	5,081
Trade and other receivables	7,237	-	-	-	-	(610)	-	-	-	6,627
Income tax receivable	167	-	-	-	-	60	-	-	-	227
Cash and cash equivalents	5,428	-	-	-	-	-	-	-	-	5,428
	17,913	-	-	-	-	(550)	-	-	-	17,363
Non-current assets held for resale	548	-	-	-	-	-	(191)	-	-	357
	18,461	-	-	-	-	(550)	(191)	-	-	17,720
Current liabilities										
Trade and other payables	(5,081)	-	-	-	(222)	-	-	-	-	(5,303)
Borrowings	(5,195)	-	-	-	-	-	-	-	-	(5,195)
Income tax liabilities	(255)	-	-	-	-	-	-	-	-	(255)
Provision for other liabilities and charges	-	-	-	-	-	-	-	(280)	-	(280)
	(10,531)	-	-	-	(222)	-	-	(280)	-	(11,033)
Liabilities directly associated with non-current assets held for resale	-	-	-	-	-	-	(75)	-	-	(75)
	(10,531)	-	-	-	(222)	-	(75)	(280)	-	(11,108)
Net current assets	7,930	-	-	-	(222)	(550)	(266)	(280)	-	6,612
Non-current liabilities										
Borrowings	(1,213)	-	-	-	-	-	-	-	-	(1,213)
Deferred income tax liabilities	-	-	-	-	-	(686)	-	-	-	(686)
Provision for other liabilities and charges	-	-	-	-	-	-	-	-	-	-
	(1,213)	-	-	-	-	(686)	-	-	-	(1,899)
Net assets	25,530	-	69	97	(160)	876	(218)	(199)	-	25,995
Capital and reserves attributable to equity shareholders										
Called up share capital	3,785	-	-	-	-	-	-	-	-	3,785
Share premium account	3,719	-	-	-	-	-	-	-	-	3,719
Merger reserve	2,671	-	-	-	-	-	-	-	-	2,671
Revaluation reserve	308	-	-	-	-	-	(308)	-	-	-
Retained earnings	15,047	-	69	97	(160)	876	90	(199)	(567)	15,253
Cumulative translation reserve	-	-	-	-	-	-	-	-	567	567
Shareholders equity	25,530	-	69	97	(160)	876	(218)	(199)	-	25,995

Notes to the Financial Statements

For the year ended 30 September 2008

37. Restatement of comparative figures under IFRS (continued)

Group Balance Sheet as at 30 September 2006

	As previously reported under UK GAAP	IFRS 3 - 'Business combinations' Note 1	IAS 38 - 'Intangible assets' Note 2	IAS 23 - 'Borrowing costs' Note 3	IFRS 2 - 'Share based payment' Note 4	IAS 12 - 'Income tax' Note 5	IAS 16 - 'Property, plant & equipment' Note 6	IAS 8 - 'Accounting policies, estimates and errors' Note 7	IFRS 1- Exemptions Note 8	As restated under IFRS
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Non-current assets										
Property, plant & equipment	6,516	-	(83)	-	-	-	(256)	-	-	6,177
Intangible assets	5,225	-	83	-	-	-	-	-	-	5,308
Deferred income tax assets	-	-	-	-	32	1,044	36	63	-	1,175
	11,741	-	-	-	32	1,044	(220)	63	-	12,660
Current assets										
Inventories	3,875	-	-	-	-	-	-	-	-	3,875
Trade and other receivables	4,473	-	-	-	-	(203)	-	-	-	4,270
Cash and cash equivalents	4,060	-	-	-	-	-	-	-	-	4,060
	12,408	-	-	-	-	(203)	-	-	-	12,205
Current liabilities										
Trade and other payables	(3,213)	-	-	-	(105)	-	-	-	-	(3,318)
Borrowings	(480)	-	-	-	-	-	-	-	-	(480)
Current income tax liabilities	(703)	-	-	-	-	-	-	-	-	(703)
Provision for other liabilities and charges	-	-	-	-	-	-	-	(212)	-	(212)
	(4,396)	-	-	-	(105)	-	-	(212)	-	(4,713)
Net current assets	8,012	-	-	-	(105)	(203)	-	(212)	-	7,492
Non-current liabilities										
Borrowings	(679)	-	-	-	-	-	-	-	-	(679)
Deferred income tax liabilities	(24)	-	-	-	-	(336)	-	-	-	(360)
Provision for other liabilities and charges	-	-	-	-	-	-	-	-	-	-
	(703)	-	-	-	-	(336)	-	-	-	(1,039)
Net assets	19,050	-	-	-	(73)	505	(220)	(149)	-	19,113
Capital and reserves attributable to equity shareholders										
Called up share capital	3,600	-	-	-	-	-	-	-	-	3,600
Share premium account	3,404	-	-	-	-	-	-	-	-	3,404
Revaluation reserve	308	-	-	-	-	-	(308)	-	-	-
Retained earnings	11,738	-	-	-	(73)	505	88	(149)	-	12,109
Cumulative translation reserve	-	-	-	-	-	-	-	-	-	-
Shareholders equity	19,050	-	-	-	(73)	505	(220)	(149)	-	19,113

Notes to the Financial Statements

For the year ended 30 September 2008

37. Restatement of comparative figures under IFRS (continued)

Principal differences to UK GAAP

- Note 1 – Business combinations**

Resulting from the Group's move to reporting under IFRS, business combinations undertaken by the Group since 30 September 2006 are required to be restated in accordance with the requirements of IFRS 3. This has necessitated a comprehensive review of the assets and liabilities acquired in respect of the business combination of SIFAM in May 2007 and consequent restatement of Goodwill.

The main impact of IFRS 3 on the Group's previously reported accounting in respect of the SIFAM business combination is the requirement to separately identify certain intangible assets previously included within Goodwill under UK GAAP.

The intangible assets identified, valued and recognised in accordance with the requirements of IFRS 3, as it relates to the SIFAM acquisition, are as follows:

1. SIFAM brand and trademarks,
2. Customer relationships; and
3. Senior management non-compete agreements.

Note that SIFAM refers to the acquisition of SIFAM Fibre Optics Ltd and its subsidiaries. SIFAM has been subsequently renamed as Gooch & Housego (Torquay) Ltd. See note 43 for more information.

The table shows the restatement of the business combination in accordance with IFRS 3.

	Note	As restated under IFRS £'000	As previously reported under UK GAAP £'000
Net tangible assets acquired		3,243	3,243
Deferred income tax liability	(a)	(150)	-
Sub total		3,093	3,243
Brand and trademarks		247	-
Customer relationships		471	-
Senior management non-compete agreements		321	-
Deferred income tax liabilities arising on intangible assets		(290)	-
Net assets acquired		3,842	3,243
Goodwill		1,308	1,907
Cost of acquisition		5,150	5,150

(a) The deferred income tax arose on the property held by SIFAM Limited.

As a result of the restatement of the SIFAM business combination above, 'Intangible assets' increased by £1,039,000, 'Deferred income tax liabilities' increased by £440,000 and 'Goodwill' reduced by £599,000.

- Note 2 – Intangible assets**

International Accounting Standard ("IAS") 38 'Intangible assets' requires Goodwill acquired in a business combination to be recognised as an asset and carried in the Group's balance sheet at cost.

IAS 36 'Impairment of assets' requires an annual impairment review of Goodwill to be undertaken, or more frequently if events or changes in circumstances indicate that it might be impaired to ensure that the carrying value is not impaired. If such a review determines that goodwill arising from a business combination is impaired then the carrying value of the goodwill is required to be reduced by the impaired amount.

Effective from the date of transition to IFRS the Group will no longer amortise Goodwill on an annual basis. Consequently, the Goodwill amortisation of £466,000 in the Group's income statement for the year to 30 September 2007 and £201,000 in the 6 months to 31 March 2007 has been reversed.

Notes to the Financial Statements

For the year ended 30 September 2008

37. Restatement of comparative figures under IFRS (continued)

The intangible assets recognised as a result of the restatement of the SIFAM acquisition (see Note 1 above) are required to be amortised over their useful economic lives in accordance with the Group's accounting policy.

The amortisation of these intangible assets results in an amortisation expense of £551,000 and a tax credit of £154,000 for the reversal of associated deferred income tax.

The net effect of the above changes results in a £69,000 credit to the income statement in the year to 30 September 2007 and a £201,000 credit to the income statement in the 6 months to 31 March 2007.

IAS 38 also requires computer software to be classified as an 'Intangible asset'.

This results in a balance sheet reclassification from 'Property, plant and equipment' to 'Intangible assets' at 1 October 2006 of £82,000, at 31 March 2007 of £83,000 and at 30 September 2007 of £88,000.

There is no impact of the reclassification on the Group's income statement.

- **Note 3 – Borrowing costs**

Borrowing costs associated with qualifying assets were previously expensed under UK GAAP.

The construction of the Components and Materials Division's new facility and corporate headquarters at Dowlish Ford, Ilminster, Somerset, England ('Dowlish Ford') resulted in the Group incurring financing costs which under IAS 23 'Borrowing costs' are capitalised and included in the cost of the asset.

As a result, interest of £134,000 in the Group's income statement for the year to 30 September 2007 has been capitalised and included in the cost of the asset under 'Property, plant and equipment' within the Group's balance sheet at 30 September 2007. In the 6 months to 31 March 2007, £24,000 has been capitalised and included in the cost of the asset under 'Property, plant and equipment' within the Group's balance sheet.

On completion of the construction of Dowlish Ford interest costs associated with the financing of the construction will cease to be capitalised.

- **Note 4 – Share options**

IFRS 2 'Share based payment' requires that a liability is recognised in respect of Employer National Insurance ("NI") contributions payable in connection with a grant of share options which will be payable in the future when the share options are exercised.

Accordingly, an expense is required to be recognised and provided for over the period from the date of grant of the share option to the end of the vesting period. This expense is based on the fair value of share options outstanding and likely to vest at the balance sheet date.

Based on the requirements of IFRS 2, the effect on the Group's balance sheet at 30 September 2006 is to reduce 'Retained earnings' by £73,000 comprising an increase in liabilities of £105,000 off-set by an increase in 'Deferred income tax assets' of £32,000.

The impact on the Group's income statement for the year to 30 September 2007 results in an expense of £118,000 off-set by a 'Deferred income tax' credit of £31,000. At 31 March 2007, the impact on the income statement was an additional expense of £51,000 off-set by a 'Deferred income tax' credit of £15,000.

At 30 September 2007 the balance sheet implications comprise an increase in liabilities of £222,000 off-set by an increase in 'Deferred income tax assets' of £62,000.

At 31 March 2007 the balance sheet liabilities increased by £156,000 off-set by an increase in 'Deferred income tax assets' of £47,000.

Notes to the Financial Statements

For the year ended 30 September 2008

37. Restatement of comparative figures under IFRS (continued)

Note 5 – Income tax

In accordance with IAS 12 'Income taxes' deferred income tax is required to be recognised on all temporary differences between the accounting book value and the tax book value of assets and liabilities.

In addition to deferred income tax arising on other adjustments, a comprehensive evaluation of the Group's tax position resulted in an increase in net 'Deferred income tax assets' by £876,000. The additional tax charge of £346,000 in the year to 30 September 2007 occurred as a result of the change in tax legislation which affected deferred income tax and the requirement by IFRS to recognise the majority of current tax benefits from the exercise of employee share options directly in equity.

The Group's net 'Deferred income tax asset' has been restated to £1,282,000 at 30 September 2007 and the detail is set out below:

	As restated under IFRS £000	As previously reported under UK GAAP £000
Share options	1,233	167
Acquired intangible assets	(137)	-
Accruals	172	135
Provisions	81	-
Property, plant & equipment	(301)	213
Inventory	234	95
Total deferred income tax	1,282	610
Split as:		
Deferred income tax asset	1,968	610
Deferred income tax liability	(686)	-
	1,282	610

As a result of the changes referred to above a tax credit of £63,000 was recognised in the income statement in the 6 month period to 31 March 2007 and the net 'Deferred income tax asset' in the balance sheet increased by £1,310,000 to £1,350,000.

- **Note 6 – Property, plant & equipment**

All property and land which had previously been the subject of revaluation have been restated at historic cost.

As a result, at the 30 September 2006 the balance sheet 'Revaluation reserve' of £308,000 has been reduced to zero with a corresponding reduction in the carrying value of 'Property, plant and equipment'. Accumulated depreciation of £52,000 which arose as a result of the upward revaluation which was previously expensed through the income statement has been written back to retained earnings and property, plant and equipment.

The 'Deferred income tax liabilities' of £36,000 associated with the revaluation have also been written back to retained earnings.

At 31 March 2007 and 30 September 2007, the impact of the elimination of the 'Revaluation reserve' have been reflected in the balance sheet item 'Assets held for resale' rather than 'Property, plant and equipment' as the revalued property was offered for sale in the 6 months to 31 March 2007.

Liabilities associated with the 'Assets held for resale' have been reclassified as a current liability.

- **Note 7 – Accounting policies, accounting estimates and errors**

The Group offers a one year warranty on product sales and previously did not hold a reserve for prospective warranty claims. Consequently, all claims against the Group's product warranty policy were expensed as incurred in the Group's income statement.

Notes to the Financial Statements

For the year ended 30 September 2008

37. Restatement of comparative figures under IFRS (continued)

As part of the Group's IFRS review a 'Warranty reserve' has been established to reflect the estimated cost to the Group of future warranty claims calculated based on historical statistical data of claim costs.

The 'Warranty reserve' at the date of transition on 30 September 2006 amounted to £212,000 with a related 'Deferred income tax asset' of £63,000.

At 31 March 2007, the 'Warranty reserve' amounted to £247,000 with a related 'Deferred income tax asset' of £74,000. The impact on the Group's income statement in the 6 months to 31 March 2007 is an increase in cost of revenue of £35,000 and a reduction in the tax expense by £10,000.

At 30 September 2007, the 'Warranty reserve' amounted to £280,000 with a related 'Deferred income tax asset' of £81,000. The impact on the Group's income statement for the year to 31 March 2007 is an increase in cost of revenue of £67,000 and a reduction in the tax expense by £17,000.

- **Note 8 – First time adoption of IFRS**

In applying IFRS1 'First time adoption of IFRS' foreign exchange differences which arose prior to the transition date have been reset to zero in accordance with the exemption provided by IFRS 1.

At 30 September 2007, £567,000 which arose on the retranslation of the Group's assets and liabilities held by its overseas subsidiaries has been reclassified from 'Retained earnings' to the 'Cumulative translation reserve'.

Independent Auditors' Report

to the Members of Gooch & Housego PLC

We have audited the parent Company financial statements of Gooch and Housego PLC for the year ended 30 September 2008 which comprise the Balance Sheet and the related notes. These parent Company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group financial statements of Gooch and Housego PLC for the year ended 30 September 2008.

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the Annual Report and the parent Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent Company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body 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 into 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 parent Company financial statements give a true and fair view and whether the parent Company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the parent Company financial statements. The information given in the Directors' Report includes that specific information presented in the Financial Highlights and the Chief Executive's Review that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent Company financial statements. The other information comprises only the Financial Highlights, the Directors' Report, the Chairman's Statement, the Chief Executive's Review, the Chief Financial Officer's Report and the Remuneration Committee Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent Company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

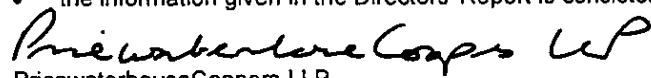
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent Company financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors' in the preparation of the parent Company 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 parent Company 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 parent Company financial statements.

Opinion

In our opinion:

- the parent Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 September 2008;
- the parent Company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the parent Company financial statements.



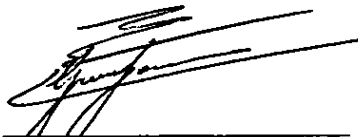
PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Bristol,
6 March 2009

Company Balance Sheet

As at 30 September 2008

		2008		2007	
	Note	£000	£000	£000	£000
FIXED ASSETS					
Investments	43		12,290		12,601
Tangible assets	44		11,208		6,771
			23,498		19,372
CURRENT ASSETS					
Debtors	45	2,150		3,993	
Asset held for resale	47	-		548	
Cash at bank and in hand		145		243	
		2,295		4,784	
CREDITORS: amounts falling due within one year	48	(17,648)		(12,203)	
NET CURRENT LIABILITIES			(15,353)		(7,419)
NET ASSETS			8,145		11,953
CAPITAL AND RESERVES					
Called up share capital	49		3,853		3,785
Share premium account	50		4,105		3,719
Revaluation reserve	50		308		308
Profit and loss account	50		(121)		4,141
SHAREHOLDERS' FUNDS	51		8,145		11,953

Approved by the Board of Directors on 6 March 2009 and signed on its behalf by:


Gareth C W Jones


Peter J Quinn

The notes on pages 63 to 72 form part of these financial statements.

Notes to the Company Balance Sheet

For the year ended 30 September 2008

38. Company 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 United Kingdom Accounting Standards and the Companies Act 1985.

Pension schemes

The Company operates three money purchase pension schemes for Directors and staff. The assets of the schemes are held in separately administered funds. The pension charge represents contributions payable to the funds during the year. Expenses under the plan are charged to the profit and loss account as incurred.

Share options

The Company operates two share option plans which grants share options to certain employees. These plans are subject to both market and non-market related vesting conditions. Option grants are measured at fair value which is then charged to the profit and loss account on a straight line basis over the vesting period. Adjustments are made to reflect expected and actual forfeiture during the vesting period due to failure to satisfy service conditions or non-market performance conditions. The fair value is determined using the Black-Scholes option pricing model.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at 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.

Tangible fixed assets

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

Freehold buildings	2-3%	Straight line
Plant & machinery	10-20%	Straight line
Fixtures, fittings & computers	10-33%	Straight line

No depreciation is charged on freehold land or capital work in progress.

Investments

Investments are stated at cost less provision for any permanent diminution in value. Where overseas borrowing is required to finance the investment in overseas subsidiaries, the investment is retranslated at the exchange rate ruling at the balance sheet date.

Deferred taxation

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

Financial liabilities

Finance costs associated with financial liabilities are charged to the profit and loss account over the life of the instrument. Issue costs are accounted for as a deduction against the gross borrowings received and are amortised over the life of the instrument.

Financial instruments

The Company had not used derivative financial instruments to hedge its exposure to interest rate risk or currency risk at balance sheet date.

Assets held for sale

Assets are classified as held for sale if their carrying amount will be recovered by sale rather than by continuing use in the business. Such assets are classified as held for sale only if management are committed to and have initiated a course of action to sell the asset which, when initiated, was expected to result in a completed sale within 12 months.

Notes to the Company Balance Sheet

For the year ended 30 September 2008

39. Company profit and loss account

Gooch & Housego PLC has taken advantage of section 230(3) of the Companies Act 2005 and has not included its own profit and loss account in these financial statements. The Company's loss after tax was £1,866,000 (2007: £1,227,000 loss).

Fees payable to the Company auditor for the year amounted to £12,500 (2007: £10,000)

40. Employee costs

	2008 £000	2007 £000
Wages and salaries	700	578
Social security costs ¹	(58)	79
Share-based payments	92	133
Other pension costs	36	25
	<u>770</u>	<u>815</u>

¹The £58,000 gain in Social security costs is due to the partial release of the National insurance provision for share options (£180,000)

The average numbers of employees during the year were:

	2008 No.	2007 No.
Finance and administration	<u>5</u>	<u>5</u>

41. Directors' emoluments

	2008 £000	2007 £000
Directors' remuneration	620	857
Gain on exercise of share options	599	614
Directors' pension scheme contributions	34	30
	<u>1,253</u>	<u>1,501</u>

The number of Directors who are accruing retirement benefits under a money purchase pension scheme is 3 (2007: 3).

Details of the remuneration and pension contributions of the highest paid Directors are shown in the Remuneration Committee Report on page 14 and form part of these financial statements.

42. Dividends

	2008 £000	2007 £000
Interim dividend paid: 1.5p per share (2007:1.5p)	291	281
Final 2007 dividend paid in 2008: 3.0p per share (2007:2.8p)	568	504
	<u>859</u>	<u>785</u>

Notes to the Company Balance Sheet

For the year ended 30 September 2008

43. Investments

	2008 £000	2007 £000
Shares in subsidiary undertakings		
At 1 October 2007	11,993	9,854
Additions	297	2,786
Other	-	67
Exchange rate movements	-	(714)
At 30 September 2008	12,290	11,993
Loans to subsidiary undertakings		
At 1 October 2007	608	690
Decrease	(608)	-
Exchange rate movements	-	(82)
At 30 September 2008	-	608
Total financial investments	12,290	12,601

On 4 May 2007, the Company acquired 100% of Gooch & Housego (Torquay) Ltd (formerly SIFAM Fibre Optics Limited) and its subsidiary G&H Property Holdings Ltd (formerly SIFAM Limited) for £5,150,000. Merger relief exemptions available under Section 131 of the Companies Act 1985 applied to this transaction and as a result the investment value recorded by the Company was £2,479,000, being the cash consideration of £2,350,000 and share capital issued of £129,000.

On 10 August 2007, the investment in G&H Property Holdings Ltd was transferred to the Company from Gooch & Housego (Torquay) Ltd at its book value of £307,000.

During 2008, a number of the subsidiary companies were renamed as part of the creation of the Group's global Components and Materials Division which includes those Companies involved in photonics. Particulars of the major subsidiary Companies at 30 September 2008, all of which are wholly owned, along with their change of name follow:

<u>Division</u>	<u>Formerly</u>	<u>Location</u>	<u>Activity</u>
Components & Materials			
Gooch & Housego (UK) Limited	Gooch & Housego UK Limited	Ilminster, UK	Manufacturer of acousto-optic products and precision optics
Gooch & Housego (Torquay) Limited	SIFAM Fibre Optics Limited	Torquay, UK	Manufacturer of fibre-optic products
Gooch & Housego (Deutschland) GmbH	Landwehr Electronic GmbH	Norderstedt, Germany	Manufacturer of radio frequency electronic products
Gooch & Housego (Ohio) LLC	Cleveland Crystals, Inc.	Cleveland, USA	Manufacturer of electro-optic products and crystals
Gooch & Housego Sales LLC	N/A	Cleveland, USA	
Gooch & Housego (California) LLC	N/A	Moorpark, USA	Manufacturer of precision optics
Gooch & Housego (Florida) LLC	NEOS Technologies, Inc.	Melbourne, USA	Manufacturer of acousto-optic products
Instrumentation & Life Sciences			
Optronic Laboratories LLC	Optronic Laboratories, Inc.	Orlando, USA	Manufacturer of instruments for measuring optical radiation
ChromoDynamics, Inc.	N/A	Lakewood, USA	Developer of hyperspectral imaging systems

Notes to the Company Balance Sheet

For the year ended 30 September 2008

44. Tangible assets

	Capital work in progress	Freehold land & buildings	Plant & machinery	Fixtures, fittings & computers	Total
	£000	£000	£000	£000	£000
Cost or valuation					
At 1 October 2007	5,729	1,064	-	269	7,062
Additions	3,576	25	246	416	4,263
Disposals	-	-	(6)	(16)	(22)
Transfer from assets held for resale	-	820	-	-	820
Reclassification	(9,196)	3,664	3,381	2,151	-
At 30 September 2008	109	5,573	3,621	2,820	12,123
Depreciation					
At 1 October 2007	-	166	-	125	291
Charge for the year	-	84	82	276	442
Disposals	-	-	-	(16)	(16)
Transfer from assets held for resale	-	198	-	-	198
Reclassification	-	(35)	38	(3)	-
At 30 September 2008	-	413	120	382	915
Net book value					
At 30 September 2007	5,729	898	-	144	6,771
At 30 September 2008	109	5,160	3,501	2,438	11,208

45. Debtors

	Note	2008 £000	2007 £000
Amounts due from subsidiary undertakings		1,229	3,341
Other debtors		-	47
Prepayments		75	424
Taxation		748	95
Deferred tax assets	46	98	86
		2,150	3,993

Amounts due from subsidiary undertakings are due within one year.

46. Deferred tax

The deferred tax balance is disclosed under Debtors (note 45). The movement in the Company deferred tax liabilities/(assets) during the year is as follows:

	2008 £000	2007 £000
At 1 October	86	(24)
Credit to profit and loss account	12	110
At 30 September	98	86

Notes to the Company Balance Sheet

For the year ended 30 September 2008

The deferred tax provided for in the financial statements can be analysed as follows:

	2008 £000	2007 £000
Property, plant and equipment	(92)	(92)
Share options	190	178
	<u>98</u>	<u>86</u>

47. Assets held for resale

In December 2006, the Company exchanged contracts and received a deposit of £75,000 for the sale of its Cornhill property in Ilminster. In April 2008 the prospective buyer forfeited their interest in the contract and the deposit has been recognised as other income.

Even though the property is being actively marketed for sale, it has been reclassified in the balance sheet within tangible fixed assets due to the uncertainty regarding the timing of any future sale.

48. Creditors: Amounts falling due within one year

	2008 £000	2007 £000
Trade creditors	574	1,054
Amounts owed to subsidiary undertakings	16,780	10,804
Accruals	294	345
	<u>17,648</u>	<u>12,203</u>

49. Called up share capital

	2008 No.	2007 No.	2008 £000	2007 £000
Authorised				
Ordinary shares of 20p each	<u>24,000,000</u>	<u>24,000,000</u>	<u>4,800</u>	<u>4,800</u>
Allotted, issued and fully paid				
Ordinary shares of 20p each				
At 1 October	18,924,453	17,999,162	3,785	3,600
Allotted under share option schemes	339,937	277,892	68	56
Allotted on acquisition of subsidiary	-	647,399	-	129
At 30 September	<u>19,264,390</u>	<u>18,924,453</u>	<u>3,853</u>	<u>3,785</u>

Consideration received for the shares allotted under share option schemes during 2008 was £453,816 (2007: £370,985).

Included in the allotment under share option schemes are 300,655 20p ordinary shares allotted to Directors.

Notes to the Company Balance Sheet

For the year ended 30 September 2008

50. Reserves

	Share Premium account £000	Revaluation reserve £000	Profit and loss reserve £000
At 1 October 2007	3,719	308	4,141
Loss for the financial year	-	-	(1,866)
Dividends	-	-	(859)
Share options	-	-	(68)
Shares issued under share option plans	386	-	-
Other recognised gains and losses	-	-	(1,469)
At 30 September 2008	4,105	308	(121)

51. Reconciliation of movements in shareholders' funds

	2008 £000	2007 £000
Loss on ordinary activities after tax	(1,866)	(1,227)
Dividends in the year	(859)	(785)
	(2,725)	(2,012)
Share options	(68)	199
Shares issued under share option plans	454	371
Shares issued on the acquisition of subsidiary	-	129
Other recognised gains and losses	(1,469)	(344)
Net reduction of shareholders' funds	(3,808)	(1,657)
Opening shareholders' funds	11,953	13,610
Closing shareholders' funds	8,145	11,953

52. Share options

The Company operates two share option schemes, which grants share options to certain employees. The Company has ceased granting share options under the Gooch & Housego PLC 2004 Company Share Option Scheme (the "2004 Scheme") and now only grants share options in the Gooch & Housego 2007 Long Term Incentive Plan (the "2007 LTIP"). Currently, the three Executive Directors and six senior employees of the Group have options over the ordinary share capital of the company.

Options are granted at market price on the date of grant with a fixed exercise price equal to the market price of the shares under option at the date of the grant. The contractual life of an option is 10 years and is subject to continued employment.

The remuneration report details the Executive Directors' share options and the performance criteria which are needed to be met for them to exercise their option.

Four senior employees within the Group have 444,077 share options outstanding relating to the 2004 Scheme. These options are subject to specific performance criteria, namely that their subsidiary audited pre-tax profits for the relevant year will be at least US\$500,000 and the subsidiary pre-tax profits will be not less than 95% of the agreed budget.

Three senior employees within the Group have 23,851 2007 LTIP share options outstanding. The performance criteria attached to these options is the same as the 2007 LTIP share options granted to Executive Directors.

Notes to the Company Balance Sheet

For the year ended 30 September 2008

Options are valued when there is a degree of certainty that the options will meet the performance criteria attaching to the options and will vest. Options granted in 2007 and 2008, respectively, under the 2007 LTIP have not been valued as it is not considered that the options will meet the performance criteria and will vest. Options that are considered likely to meet the performance criteria attaching to the options and will vest are valued using the Black-Scholes option-pricing model. No performance conditions were included in the fair value calculations. The fair value per option of the options granted under the 2004 Scheme and the assumptions in the calculations are as follows:

Grant date	8 Dec 2005	23 Jul 2004
Share price at grant date	272.5p	133.5p
Exercise price	272.5p	133.5p
Number of employees	2	5
Shares under option	250,000	1,313,275
Vesting period (years)	1-4	1-4
Expected volatility	38.1%	56.7%
Option life (years)	10	10
Expected life (years)	5.5	5.5
Risk free rate	4.23%	4.99%
Expected dividends expressed as dividend yield	1.49%	1.49%
Fair value per option	98.4p	66.1p

The expected volatility is based on historical volatility over the last three years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK Government bonds of a term consistent with the assumed option life.

A reconciliation of share option movements is shown below:

	2008		2007	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at 1 October	1,359,369	145.4p	1,563,274	155.7p
Granted	157,346	415.0p	73,987	432.5p
Exercised	(339,937)	133.5p	(277,892)	133.5p
Lapsed	(45,774)	421.6p	-	-
Outstanding at 30 September	1,131,004	175.3p	1,359,369	175.3p
Exercisable at 30 September	741,883	156.9p	769,563	145.4p

The weighted average fair value of options granted in the year was £nil (2007: £107,000).

Share option exercise and sale:

- On 29 November 2007, both Gareth Jones and Ian Bayer exercised and immediately sold 40,000 shares at 425p.
- On 19 December 2007, both Gareth Jones and Ian Bayer exercised and immediately sold 25,000 shares at 412p.
- On 27 December 2007, Ian Bayer exercised and immediately sold 84,942 shares at 400p.
- In February 2008 a senior employee of the Group exercised and subsequently sold 39,281 shares at varying dates to June 2008.
- In August 2008, Ian Bayer exercised and subsequently sold 85,714 shares as follows – 10,000 shares at 225p, 65,714 at 220p and 10,000 at 232p.

Notes to the Company Balance Sheet

For the year ended 30 September 2008

Share options information by exercise price

Range of exercise prices	2008			
	Number of options	Weighted average exercise price	Weighted average remaining life (years)	
			Expected	Contractual
£0-£1.50	695,445	133.5p	1.8	5.8
£1.50-£3.00	250,000	272.5p	1.8	7.2
£3.00-£4.50	185,559	420.3p	4.0	9.1

Range of exercise prices	2007			
	Number of options	Weighted average exercise price	Weighted average remaining life (years)	
			Expected	Contractual
£0-£1.50	1,035,382	133.5p	1.8	6.8
£1.50-£3.00	250,000	272.5p	2.8	8.2
£3.00-£4.50	73,987	432.5p	4.9	9.9

The total charge for the year relating to share options was £92,000 (2007: £199,000), all of which related to equity-settled share based payment transactions.

53. Post balance sheet events

On 8 October 2008, the Group completed the acquisition of the business and assets of General Optics from GSI Group following receipt of US governmental regulatory approval. The acquisition price was \$21m and was subject to a net asset adjustment. The Directors are in the process of allocating the acquired purchase price plus associated transaction costs to the business and acquired assets.

For the 12 months ended 31 December 2007 General Optics, located in California, USA and a key supplier to the aerospace & defence sector, telecommunications, semiconductor, metrology, biomedical and research markets had revenues of US\$11.7 million and adjusted operating profits of US\$2.1 million.

Financing was provided through two tranches of five-year amortising secured debt from the Group's bankers The Royal Bank of Scotland plc of \$15.875m and £3.562m, respectively. The debt was drawn on 6 October 2008.

The facility agreements provided for:

- The US Dollar facility to be repaid by one installment of US\$575,000 and nine subsequent installments of US\$1,700,000. The first installment due six months after the debt is drawn with subsequent installments being paid in six monthly intervals until the debt is repaid in full.
- The Sterling facility to be repaid by nine installments of £118,700 and a final installment of £2,493,700. The first installment due six months after the debt is drawn with subsequent installments being paid in six monthly intervals until the debt has been repaid in full.
- The interest rate on the debt to be based on the London Inter Bank Offered Rate ('LIBOR') relating to the appropriate debt currency for the selected interest period of either one, three or six months duration plus an applicable margin. Subsequent to the draw down of the facilities the Group entered into a five-year interest rate swap agreement with its bankers under which \$12.0m of the US Dollar facility was swapped into a fixed interest rate.
- In connection with the facility agreements the company is required to report, on a quarterly basis, against a number of rolling twelve month financial covenants which include
 - Debt Servicing - Adjusted net cash flows to total borrowings paid (principal and borrowing costs)
 - Debt Ceiling - Adjusted net debt to earnings before Interest, tax, depreciation and amortisation
 - Interest Cover - Earnings before interest, tax and amortisation to borrowing costs, and,
 - Capital Expenditure (annual report only) - Annual capital spend

Notes to the Company Balance Sheet

For the year ended 30 September 2008

As a consequence of the fall in Sterling's value against the US Dollar in the second half of 2008 and early 2009, and the impact on the Group's US Dollar borrowings and associated trading results and profits the Group entered into discussions with its bankers to amend its financial covenants.

Following these discussions the Group has entered into an amended facility agreement, which extends the term of the working capital facility to a three-year term, clarifies the definitions of certain financial covenants and provides additional headroom on certain of the required financial ratios

The amended facility agreement provides for:

- The repayment of the acquisition facilities is reduced from a five-year term to a three-year term as follows:
 - The US Dollar facility to be repaid by one installment of US\$575,000, five subsequent installments of US\$1,700,000 and a final installment of \$6,800,000. The first installment due six months after the debt is drawn with subsequent installments being paid in six monthly intervals until the debt is repaid in full.
 - The Sterling facility to be repaid by six installments of £118,700 and a final installment of £2,849,800. The first installment due six months after the debt is drawn with subsequent installments being paid in six monthly intervals until the debt has been repaid in full.
- Revisions to applicable facility margins, including a re-negotiation fee, to reflect both the changes to the facilities and the three-year facilities term.

NOTICE OF ANNUAL GENERAL MEETING OF GOOCH & HOUSEGO PLC (THE "COMPANY")

Notice is hereby given that the Annual General Meeting of the Company will be held at the offices of Burges Salmon LLP, Narrow Quay House, Narrow Quay, Bristol BS1 4AH on 31 March 2009 at 11.00 a.m. for the following purposes.

To be transacted as ordinary business

To consider and, if thought fit, to pass the following resolutions as Ordinary Resolutions.

- 1 To receive and adopt the Annual Report and Accounts for the financial year ended 30 September 2008 together with the Auditors Report thereon.
- 2 To re-elect GCW Jones as a Director.
- 3 To re-elect JA Melles as a Director.
- 4 To re-appoint Messrs PricewaterhouseCoopers LLP as Auditors.
- 5 To authorise the Directors to fix the remuneration of the Auditors.

To consider and, if thought fit, to pass the following resolutions, in the case of resolution 6 as an Ordinary Resolution and in the case of resolution 7 as a Special Resolution.

- 6 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 the extent unused, to exercise all the powers of the Company 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 at the conclusion of the next Annual General Meeting of the Company or 30 June 2010 (whichever is the earlier) unless reviewed, 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 £947,122 (representing the lower of one third of the total ordinary share capital of the Company in issue and the total authorised but unissued share capital of the Company at 6 March 2009). The Directors shall be entitled under such authority or any renewal thereof to make at any time prior to the expiry of such authority 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 agreement as if such authority had not expired.
- 7 THAT the Directors of the Company be, and they are hereby, generally and unconditionally empowered pursuant to section 95 of the Companies Act 1985 ('the Act'), in substitution for any existing authority to the extent unused, to allot equity securities (as defined in section 94(2) of the Act) pursuant to the authority conferred by Resolution 6 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:
 - (i) the allotment of equity securities 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 legal or practical problems under the laws of any overseas 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
 - (ii) otherwise than pursuant to sub-paragraph (i) above, the allotment of equity securities up to an aggregate nominal amount of £192,643 (representing 5 per cent. of the total ordinary share capital of the Company in issue at 6 March 2009),

and the power hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company or 30 June 2010 (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.

To be transacted as special business

To consider and, if thought fit, to pass the following resolutions, in the case of resolutions 8 and 10 as Special Resolutions and, in the case of resolution 9, as an Ordinary Resolution.

- 8 THAT the Company be and is hereby generally and unconditionally authorised for the purposes of section 166 of the Companies Act 1985 (the "Act") to make one or more market purchases (within the meaning of section 163(3) of the Act) of fully paid ordinary shares of 20 pence each in the capital of the Company provided that:
 - (a) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 1,926,439 (representing 10 per cent. of the total ordinary share capital of the Company in issue at 6 March 2009);

NOTICE OF ANNUAL GENERAL MEETING OF GOOCH & HOUSEGO PLC (THE "COMPANY")

- (b) the minimum price (exclusive of expenses) which may be paid for each ordinary share is 20 pence per share;
 - (c) the maximum price (exclusive of expenses) which may be paid for each ordinary share shall not be more than 5 per cent. above the average of the middle market quotations for an ordinary share as derived from the AIM section of the London Stock Exchange Daily Official List for the five business days immediately preceding the date on which the ordinary share is contracted to be purchased;
 - (d) unless previously renewed, varied or revoked, the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company or 30 June 2010 (whichever is the earlier);
 - (e) the Company may, pursuant to the authority hereby conferred, enter into a contract to purchase ordinary shares which would, will or might be executed wholly or partly after the expiry of such authority.
- 9 That the Company be and is hereby authorised, subject to and in accordance with the provisions of the Companies Act 2006, to send, convey and supply all types of notices, documents and information to the members of the Company by means of electronic equipment for the processing, storage and transmission of data, using wires, radio optical technologies, or any other electromagnetic means, including without limitation by making such notices, documents or information available on a website.
- 10 THAT the Articles of Association produced to the meeting and initialled by the Chairman of the meeting for the purposes of identification be adopted as the Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association.

By order of the Board

P J Quinn
Company Secretary

6 March 2009

Registered Office: Dowlish Ford, Ilminster, Somerset TA19 0PF
Registered Number: 526832

Notes:

1 Resolutions 1 to 5, 6 and 9 are proposed as Ordinary Resolutions. This means that for each of those resolutions to be passed, more than half of the votes cast must be in favour of the resolutions. Resolutions 7, 8 and 10 are proposed as Special Resolutions. This means that for each of those resolutions to be passed, at least three-quarters of the votes cast must be in favour of the resolutions.

2 A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to exercise all or any of the member's rights to attend, speak and vote at the meeting. A proxy need not be a member of the Company. If a member appoints more than one proxy in relation to the meeting, each proxy must be appointed to exercise the rights attached to a different share or shares held by that member.

3 A member which is a corporation is entitled to appoint one or more persons to act as its corporate representative or representatives at the meeting and to exercise the same powers on behalf of the corporation as the corporation could exercise if it were an individual member. If a member which is a corporation appoints more than one person as its corporate representative in relation to the meeting, such persons must exercise their voting powers in the same way at the meeting for such powers to be treated as exercised.

4 A form of proxy is enclosed. To be effective, the form of proxy (and any power of attorney or other authority (if any) under which it is signed) must be duly completed and signed and either posted to the Company's registrars, Capita Registrars, Proxy Department, PO Box 25, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4BR or deposited in person at the office of the Company's registrars, Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not less than 48 hours before the time for holding the meeting (or any adjourned meeting). Completion of a form of proxy does not preclude a member from attending and voting at the meeting if he so wishes.

5 Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, only those shareholders entered in the Company's register of members at 6.00 pm on 29 March 2009 shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their names at that time. Changes in the Company's register of members after that time shall be disregarded in determining the rights of any person to attend and vote at the meeting. If the meeting is adjourned, the time which is 48 hours before the time fixed for the adjourned meeting shall apply for the purpose of determining the entitlement of members to attend and vote at the adjourned meeting.

6 Copies of Directors' service agreements and letters of appointment and the rules of the Company Share Option Schemes will be available for inspection at the registered office of the Company from the date of this notice 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.

7 Copies of the Articles of Association of the Company, as proposed to be adopted pursuant to Resolution No. 10 as set out in this Notice of AGM, will be available for inspection at the registered office of the Company and at the offices of the Company's solicitors, Burges Salmon LLP, Narrow Quay House, Narrow Quay, Bristol BS1 4AH, from the date of this notice 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. A copy of the Articles of Association of the Company proposed to be adopted pursuant to Resolution No. 10 is also available on the Company's website at www.goochandhousego.com.

8 The effect of the resolutions proposed as Resolutions 6, 7, 8 and 9, as set out in this Notice of AGM, are explained in the Appendix to this Notice of AGM.

9 The principal changes proposed to be made to the Articles of Association of the Company, by virtue of the adoption of new Articles of Association of the Company pursuant to Resolution 10 as set out in this Notice of AGM, are also summarised in the Appendix to this Notice of AGM.

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Appendix – Explanatory Notes

Resolutions 6 and 7 – Authority to Allot Securities and to Disapply Pre-emption Rights

Resolution 6 is being proposed to renew the authority of the directors of the Company to allot relevant securities (or rights in respect thereof), up to a maximum nominal amount of £947,122 (being one third of the total ordinary share capital of the Company in issue at 6 March 2009), and until the earlier of the conclusion of the next annual general meeting of the Company or 30 June 2010.

Resolution 7 is being proposed to renew the power of the directors of the Company to allot equity securities (or rights in respect thereof) for cash without first offering them to the existing shareholders in proportion to their existing holdings of shares, either in connection with a rights issue or otherwise up to an aggregate nominal amount of £192,643 (being 5 per cent. of the total ordinary share capital of the Company in issue at 6 March 2009), and until the earlier of the conclusion of the next annual general meeting of the Company or 30 June 2010.

Whereas the Company has no present intention, other than in respect of the Company's share option schemes, to issue or allot any new ordinary shares (or rights in respect of such ordinary shares), whether on a non pre-emptive basis or otherwise, it is best practice for the Company to seek its shareholders' approval of the renewal of these authorities at each successive annual general meeting of the Company.

Resolution 8 – Authority to Purchase Own Shares

Resolution 8 is being proposed to renew the authority of the Company to make market purchases of its own ordinary shares on AIM up to a maximum aggregate number of 1,926,439 ordinary shares (being 10 per cent. of the total ordinary share capital of the Company in issue at 6 March 2009), at a minimum price of 20 pence per share and a maximum price of 105 per cent. of the average of the market value for an ordinary share as derived from the AIM section of the London Stock Exchange Daily Official List for the 5 business days preceding the date of purchase, and until the earlier of the conclusion of the next annual general meeting of the Company or 30 June 2010. Any ordinary shares purchased by the Company pursuant to this authority would either be cancelled or held in treasury.

The Company has no present intention to purchase any of its own ordinary shares, and the directors of the Company will only consider making purchases if they believe it would be in the best interests of the shareholders. However, it is also best practice for the Company to seek its shareholders' approval of the renewal of this authority at successive annual general meetings of the Company.

Resolution 9 – Implementation of Electronic Communications

The Companies Act 2006 has brought into force new provisions relating to electronic communications by and with a company. However, shareholder approval is required in order for the Company to fully implement such provisions and so Resolution 9 is being proposed to seek that shareholder approval.

The passing of Resolution 9 would, provided a person has agreed, generally or specifically, that documents or information may be sent or supplied to him in electronic form, enable the Company to send or supply documents or information to that person in electronic form and, likewise, provided the Company has agreed, documents and information may be sent or supplied to the Company in electronic form.

The passing of Resolution 9 would also allow the Company to take advantage of the deemed consent provisions in relation to the use of a website for the supply of notices, documents and other information, such that the Company would be able to treat a shareholder as having consented to the supply of documents and other information by making them available on the Company's website, provided that the Company has asked that shareholder individually to agree to the supply of notices, documents and other information in this manner and that shareholder has not responded to the Company's request within 28 days. The Company must still notify a shareholder, by any permitted means, when a relevant document or information is placed on the website.

It should be noted, however, that the Company cannot begin to communicate with shareholders by electronic means or by the use of a website unless and until shareholders have given their individual consent (or, in the case of use of a website, do not respond to a request by the Company within the 28 day period referred to above). Shareholders may, if they do not give their individual consent (or, in the case of use of a website, do respond to a request by the Company within the 28 day period referred to above in the negative) continue to receive communications from the Company in hard copy form. Moreover, a shareholder may, in relation to a particular communication, request a hard copy of that communication or, at any time by serving written notice on the Company, revoke his general agreement to be provided with communications in electronic form or by means of a website.

Resolution 10 – Adoption of New Articles of Association

The Company is seeking its shareholders' approval to the adoption of new articles of association of the Company, which new articles of association reflect changes to English company law brought into force by the Companies Act 2006 (the 'CA 2006'), and other legislation enacted and changes made to corporate governance and best practice since the date on which the existing articles of association of the Company were adopted.

The principal changes which will be made to the Company's existing articles of association by the adoption of the new articles of association are explained below, and a copy of the proposed new articles of association of the Company (both in clean form and in a form marked to show all changes from the existing articles of association of the Company) are available for inspection as noted above.

1. Authorised Share Capital

The authorised share capital provisions of the Company's articles of association have been updated to reflect the current authorised share capital of the Company.

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2. Transfer of Shares

An amendment has been made to the Company's articles to reflect a new provision of CA 2006 which provides that, if the Board refuses to register the transfer of any share, it must give its reasons for such refusal to the proposed transferee of that share.

3. Treasury Shares

Certain minor amendments have been made to the Company's articles of association to reflect the ability of the Company, following the introduction of the Company (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 which have now been incorporated into CA 2006, to hold its own shares in treasury. The Company does not currently hold any of its ordinary shares in treasury, and does not have any current plans to do so, but it is prudent to amend its articles of association to reflect its ability to do so.

4. Uncertificated Securities

As the Company's ordinary shares may be held in uncertificated form through the CREST System, various amendments have been made to the Company's articles of association to reflect the provisions of The Uncertificated Securities Regulations 2001 (the "Regulations"). For example, certain new definitions, including of "certificated shares" and "uncertificated shares" have been included and the provisions of the articles relating to the transfer of shares in the Company and the closure of the Company's register of members have been amended to reflect the fact that the Regulations do not permit the Company to restrict the transfer of shares settled through the CREST System. A new article has also been added to allow the Company to assume that the register of uncertificated shares held by the operator of the CREST System is appropriately maintained.

5. Electronic Proxy Voting

The Company's articles of association have been amended to give the Company the flexibility to offer its shareholders the ability to vote their ordinary shares electronically through the CREST System. This electronic proxy voting facility has not been available to the Company's shareholders historically and, once the new articles are adopted, it will remain at the discretion of the Company's board of directors as to whether such a facility will be made available, whether in relation to voting at the Company's annual general meetings and/or at other general meetings.

6. Electronic Communications

A number of other amendments have been made to the Company's articles of association to enable the Company to communicate with its shareholders by electronic means. For example, new definitions of "hard copy" and "electronic copy" have been introduced and a new definition of "address" and a revised definition of "in writing" are intended to clarify the different types of communication that can be used.

In particular, the notices provisions of the Company's articles of association have been amended to enable the Company and its members to communicate with each other either by sending hard copy documents or information by post, or by sending or supplying such documents and information by electronic means, including by means of a website.

Furthermore, in various specific provisions of the articles dealing with the service of certain documents, it is now stated that such documents may be given either in hard copy form or in electronic form. For example, members may now lodge proposed amendments to resolutions in hard copy form or in electronic form at any address specified for that purpose by the Company and appointments of proxies (and revocations thereof) may also be submitted in hard copy form or in electronic form if the Company agrees or is deemed by CA 2006 to so agree.

Similarly, notice of directors' meetings may now be given orally or in hard copy form or electronic form to such address as may be specified by a director for that purpose. The provisions of the Company's articles of association relating to directors' written resolutions have also been amended to take advantage of the provisions of CA 2006 for authenticating documents and for sending documents in hard copy form or in electronic form to a particular place specified for the purpose.

The proposed amendments to the Company's articles of association in relation to electronic communications are in addition to the proposal to enable the Company to communicate with its shareholders via electronic means, which is the subject of Resolution 9 in the Notice of AGM. It should be noted, however, that provided Resolution 9 is passed, the use by the Company of electronic communications is not conditional on the adoption of the new articles of association of the Company but, if Resolution 9 is not passed and Resolution 10 is passed, the Company will not be able to take full advantage of all the new provisions of its articles of association relating to electronic communications.

7. Annual and other General Meetings

The majority of changes made to the provisions of the Company's articles of association regarding annual general meetings, extraordinary general meetings and class meetings have been made to reflect the changes introduced by Part 13 of CA 2006.

The provisions of the Company's articles regarding annual general meetings have been amended to reflect that CA 2006 now requires public companies to hold an annual general meeting in each period of 6 months following their accounting reference date. The provisions of the Company's articles relating to extraordinary general meetings have been amended to reflect that CA 2006 now refers to all general meetings, other than annual general meetings, simply as general meetings and that such general meetings may, if permitted by a company's articles of association, be convened on 14 clear day's notice, even where convened to consider a special resolution.

The Company is also proposing to remove, in its articles of association, the distinction between ordinary and special business conducted at its annual general meetings, as such a distinction is historic and no longer necessary.

Various additions have also been made to the Company's articles of association to enable the Company to make appropriate arrangements to facilitate the holding of its general meetings, including arrangements to simultaneously participate in meetings from two or more places and to impose security restrictions on entry to meetings. The new articles also give the Company additional flexibility to

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change the time and/or the place for holding general meetings where for reasons outside its control the Board decides it is unreasonable or impractical to hold the meeting at the time and/or the place notified to the shareholders.

8. Resolutions, Quorum and Voting

Amendments to the Company's articles of association have been made to reflect the fact that CA 2006 no longer recognises the concept of an extraordinary resolution, and accordingly references to extraordinary resolutions have been changed to special resolutions.

The Company's articles of association have also been amended to remove references to the members being able to pass a resolution by way of written resolution, as CA 2006 no longer permits public companies to pass written resolutions.

It is also proposed to amend the articles to change the quorum requirements for general meetings of the Company, such that two qualifying persons will now constitute a quorum, where a qualifying person is either a member, a proxy for a member or a corporate representative of a member which is a corporation, provided that two proxies for the same member or two corporate representatives of the same corporation cannot constitute a quorum.

The provisions of the Company's articles regarding class meetings have also been amended to reflect the quorum requirements imposed by CA 2006 on class meetings which involve a variation or abrogation of class rights.

9. Proxies and Corporate Representatives

The Company's articles of association have been amended to reflect the provisions of CA 2006 which give proxies greater powers at general meetings of the Company.

For example, proxies are now permitted by CA 2006 to vote, both on a poll and on a show of hands, on behalf of the member appointing them, at annual and other general meetings of a company, and to speak at such meetings.

The Company's articles of association have also been amended to reflect the provisions of CA 2006 which enable members which are corporations to appoint more than one person to act as their representative at annual and other general meetings of the Company.

However, it should be noted that CA 2006 requires that multiple proxies vote different shares at general meetings of the Company and that multiple corporate representatives appointed by the same member exercise their voting rights in the same way at general meetings to avoid confusion and double counting.

10. Directors Appointment, Retirement and Removal

The provisions of the Company's articles of association relating to the retirement of its directors by rotation have been amended to reflect the more up-to-date corporate governance guidelines such that, rather than at least one third of the Board retiring at each annual general meeting, each director who has served in office for three years or more retire and be eligible for re-election at each annual general meeting of the Company.

The new articles of association of the Company also remove the requirement for directors who have reached the age of 70 or more to retire and for special notice of their re-election to be given, which provisions could be contrary to the Employment Equality (Age) Regulations 2006.

11. Directors' Proceedings

An amendment to the Company's articles of association has been made to remove the caveat that notice of meetings of directors need not be given to directors who are absent from the United Kingdom, unless they have given the Company an address within the UK at which notices may be served on them, as such a provision is no longer considered appropriate in view of modern communication facilities.

The provisions of the Company's articles of association which relate to directors holding meetings by means of electronic communication equipment have also been amended to encompass all the different types of modern communication facilities which may be used for this purpose.

The concept of a president of the board of directors, being a person who is not a director but who has rendered outstanding services to the board, has also been removed from the Company's articles of association, as the Company does not currently have a person occupying such a position on its board and does not have any current plans to do so.

12. Directors' Interests

CA 2006 sets out directors' general duties towards a company, which largely codify the existing common law, but with certain changes. One of the principal changes is that a director now has a positive duty to avoid a situation in which he has, or can have, a direct or indirect interest that conflicts, or may possibly conflict, with the interests of the company. This duty is particularly wide, and may prevent a director having an interest which would not otherwise prejudice his ability to comply with his other duties to act in the best interests of the company and the like.

CA 2006 therefore allows the directors of public companies, other than those with the relevant interest or any similar interest, to authorise a conflict of interest where the articles of association of the company contain provision to this effect. CA 2006 also allows the articles of association of public companies to contain other provisions for dealing with directors' conflicts of interest.

The new articles of association of the Company contain provisions which purport to allow the directors to authorise conflicts of interest and to impose terms and conditions for managing those conflicts of interest. It should be noted that directors with a relevant interest or a similar interest will not be entitled to count in the quorum towards or to vote at any meeting convened to consider the authorisation of

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such interest and the directors who are entitled to vote must exercise their voting powers in a way which they consider, in good faith, is most likely to promote the success of the Company.

The new articles of association also confirm the other requirements of CA 2006 for directors to disclose their interests, whether in relation to situations or transactions with the Company, and specify those situations and transactions with the Company in which a director, subject to disclosing his interest, may be interested.

13. Directors' indemnities and insurance

The provisions of the Company's articles of association relating to directors' indemnities and insurance have also been extended in certain respects as permitted by CA 2006. In particular, a company may now provide a director with funds to meet expenditure incurred by such director in defending any regulatory proceedings brought in relation to the company and its associated companies. As the provision to directors of indemnities, insurance and funds to meet certain expenditure remains at the discretion of the board, it is considered appropriate to ensure the board has full discretion to do as much as the law permits in this respect.

14. Miscellaneous

A number of amendments made throughout the Company's articles of association are consequential changes relating to each of the matters set out above.

Many amendments have also been made to the Company's articles of association to make appropriate reference to the new provisions of CA 2006 and/or to refer to the Companies Acts (as defined), rather than simply the provisions of the Companies Act 1985.

Certain other amendments made to the Company's articles of association are as a result of the desire to simplify the language used in the articles and/or to clarify the procedures prescribed by the articles.