Gooch & Housego PLC

Company number 00526832

ANNUAL REPORT and ACCOUNTS

for the year ended 30 September 2011

SATURDAY
A13G5S8H
A44 25/02/2012 #71
COMPANIES HOUSE

Contents

Financial Highlights

Year ended 30 September	2011	2010	change
Revenue (£m)	**61 0**	44 7	+37%
Adjusted profit before tax (£m)*	**10.8**	6 0	+78%
Adjusted basic earnings per share (pence)*	**38.0**	23 0	+65%
Dividend per share (pence)	**5 0**	2 0	+150%
Net debt (£m)	**1 9**	5 2	-64%
Statutory profit before tax (£m)	**8.8**	5 1	+73%
Basic earnings per share (pence)	**35.5**	24 4	+45%

'* adjusted figures are stated after excluding the amortisation of acquired intangible assets, the impairment of goodwill and exceptional items being acquisition costs and the write back of the EM4 earn out provision

Operating and Strategic Highlights

- Strong organic and acquisitive growth contributes to record results
- Unprecedented demand in core Industrial market
- Further diversification into Aerospace and Defence and Life Sciences sectors
- Completed two strategically important acquisitions
- Consolidated Gooch & Housego's leadership in key products and technologies
- Gained access to new customers and opportunities in long term defence programmes

Gareth Jones, CEO commented -

"Gooch & Housego has made exceptional progress in 2011 While we expect to face more challenging market conditions in 2012 the Company is well positioned with world leading products and capabilities to weather the current economic climate and deliver on the exciting opportunities we have created"

For further information please contact:

Gooch & Housego PLC	Gareth Jones / Andy Boteler	01460 256 440
Buchanan Communications	Tim Thompson / Nicola Cronk	020 7466 5000
Investec Investment Banking (Nomad)	Patrick Robb	020 7597 5970

Chairman's Statement 2011

"We have continued our strategy of diversifying our markets and expanding our product offerings"

Julian Blogh

The results for 2011 show that your company made good progress in the year Markets were buoyant during most of the year covering all aspects of the business and considerable efforts were made during the first half to ensure that customer demand was satisfied Towards the final months of the year, with the Eurozone difficulties affecting confidence worldwide, some slowdown in markets became apparent

We continued our strategy of diversifying our markets and expanding our product offerings With these objectives, two US acquisitions were made in the year, EM4 in Boston and Crystal Technology in Palo Alto Both these companies are integrating well and are increasing Gooch & Housego's access to the large US military market With these acquisitions, the Board considers that Gooch & Housego is well placed to address its chosen markets and has the appropriate skills and facilities It does not envisage making further major acquisitions in the short to medium term

Revenues showed a significant increase in the year, both organically and as a result of the acquisitions, and this fed through to a corresponding increase in earnings and EPS Focus remained on ensuring that these earnings were turned into cash and on maximising cash flow The combined impact of cash generated by the business coupled with the proceeds of the placing earlier in the year meant that the acquisitions were funded and integrated while leaving the Company with low net debt In April, we renegotiated our banking facilities with the Royal Bank of Scotland which are now committed through to April 2015

With such uncertainty in world markets it is not surprising that 2012 has begun a little slowly as some customers hesitate in placing new orders The Board is watching the situation carefully to ensure that it can take any necessary action in a timely manner However, with a broadened product and customer base, your company has more resilience than in previous downturns In particular, we are seeing good potential in the defence market, where Gooch & Housego is able to satisfy customer requirements for more integrated and higher value solutions We are also continuing to pursue the life sciences market with a range of products and believe that our investment will produce significant rewards in the future With the enlargement of the Company, a management reorganisation is being planned to ensure these larger opportunities, which run across a number of sites, are addressed efficiently and with clear responsibilities

I and the Board would like to thank all our employees for their efforts during the year I would also like to thank Eugene Arthurs, one of our non-executive Directors for his helpful advice and important contribution to Gooch & Housego over the last eleven years Eugene has informed us that he does not intend to offer himself for re-election at the next AGM

Market Overview

Industrial

Revenue	**£36.3m (2010: £23.4m)**
Operating Profit	**£9.6m (2010: £5.3m)**
Percentage of Company Revenue	**60%**

Applications, products and markets

- ***Industrial Lasers*** for materials processing applications Gooch & Housego supplies *Q-Switches* and other *acousto-optic, electro-optic and fibre optic* products The end users for industrial lasers are extensive due to the ubiquitous adoption of this technology in manufacturing The microelectronics industry represents the largest end market

- ***Telecommunications*** specifically for high reliability and high performance applications The products supplied into this market are based upon the Group's *fibre optic, crystal growth and precision optics technologies* The end users of these products are typically global telecommunication systems companies for applications such as undersea telecommunication networks and tuneable lasers

- ***Metrology*** for laser-based, high-precision, non-contact measurement systems The Group principally supplies its *precision optics and acousto-optics* into this market, where its customers are typically blue-chip OEMs

- ***Sensing*** for applications including strain, temperature and pressure sensing Gooch & Housego supplies *fibre optic and acousto-optic components* including the recently developed Fibre-Q Manufacturers of these systems address diverse end markets such as wind energy and oil and gas

- ***Semiconductor*** for lithography and test and measurement applications The products supplied into this market are *precision optics and acousto-optics* Customers are typically global semi-conductor equipment manufacturers This market is closely aligned to the micro-electronics industry

Growth Strategy

- Continued investment in R&D and engineering to bring new products to existing markets and to keep products at the cutting edge of their technology This has been demonstrated through the launch this year of the non-hermetic Fibre-Q
- To focus on niche markets that play to the strengths of Gooch & Housego These are principally those that demand high levels of quality, reliability and survivability in harsh environments
- To expand into and develop, new geographical markets that offer high growth opportunities, through leveraging and expanding the Group's global sales organisation
- To continue to focus energies and investment to make the transition from a components supplier to a manufacturer of sub-assemblies, instruments and systems In the wider industrial space, the sensing market presents opportunities for our instrumentation business
- The Group continues to invest in longer term R&D projects Within the industrial sector there are opportunities in agriculture, food processing and food safety

Market Overview continued

A focus on ..... Undersea Fibre Optic Components *(insert photo)*

Gooch & Housego supplies fibre optic components to many of the world's principal undersea telecommunication system companies These components are used in the systems that transmit telephone calls and internet data around the globe by linking countries and continents together These are the systems that drive the internet They can be found in the world's harshest environments at the bottom of the ocean and are a prime example of Gooch & Housego's strategy of addressing high value, niche markets The fact that the Group has been supplying fibre optic components used in both trans-Atlantic and trans-Pacific submarine telecommunications cables for over 10 years is testament to the trust that the business's customers have in Gooch & Housego

Aerospace and Defence

Revenue	**£15.4m (2010: £11.3m)**
Operating Profit	**£2.6m (2010: £1.8m)**
Percentage of Company Revenue	**25%**

Applications, products and markets

- ***Target designation and range finding*** used on both land-based and airborne systems The products supplied into this market are based upon our *precision optics and electro-optics technologies* Our customers are US and European defence contractors

- ***Guidance and navigation*** components for ring laser gyroscope and fibre optic gyroscope inertial navigation systems The products supplied into this market are based upon our *fibre optic and precision optics technologies* Gooch & Housego navigation components are used in a variety of end markets, including civil and military aircraft, missiles, satellites and space exploration The customers are US and European avionic, defence and space organisations

- ***Countermeasures*** for ground based systems and airborne platforms The products supplied into this market are based upon *fibre optic, acousto-optic and non-linear optics technologies* The customers are US and European defence contractors

- ***Directed energy weapons*** this is an area of considerable research interest, requiring the most sophisticated *precision optics, thin-film coatings and fibre-optic components*

Growth Strategy

- Aerospace and Defence represents a large potential market for Gooch & Housego Following recent investment and acquisitions the Group now has a unique range of world leading photonic products and is beginning to be recognised as a key supplier to the Aerospace and Defence industry
- To continue to focus energies and investment to move from being a components supplier to a sub-systems provider Our Aerospace and Defence customers are moving their own business models away from sub-system manufacture and are looking for companies such as Gooch & Housego that are capable of moving into this space
- The Group continues to invest in the engineering, quality systems and programme management resources required to service the demanding Aerospace and Defence customer base
- Whilst Gooch & Housego is not planning any acquisitions in the short to medium term, the Company is not discounting high quality acquisitions as a route to grow its Aerospace and Defence business should the opportunity arise

A focus on ..... Laser optics for airborne platforms *(insert photo)*

Selex Galileo, the world's leading defence laser producer, has selected Gooch & Housego as one of its key supply partners Gooch & Housego currently supplies high precision optical components and sub-assemblies to Selex Galileo for a number of programmes One of these, the Apache AH-64 attack helicopter is the largest attack helicopter program in the world and will continue in production beyond 2018 It has been successfully exported to 10 overseas forces totalling nearly 1200 helicopters SELEX Galileo was selected in late 2008 by Lockheed Martin Missile Fire and Control for the development and production of a Modernized Laser Rangefinder / Designator (M-LRFD) This just one example of where Gooch & Housego is utilising its unique capabilities and heritage of quality and innovation to partner with major aerospace and defence contractors

Life Sciences

Revenue	**£5.7m (2010: £4.9m)**
Operating Profit	**£0.9m (2010: £0.6m)**
Percentage of Company Revenue	**9%**

Applications, products and markets

- **Optical Coherence Tomography (OCT)** primarily used in retinal imaging for the diagnosis of glaucoma and macular degeneracy Gooch & Housego provides a family of *fibre optic* products into this market, ranging from discrete components to full optical systems The customers are all the world's leading manufacturers of OCT retinal imaging systems

- **Laser surgery** used in a wide range of applications including prostate surgery, scar correction, cataract surgery, freckle, mole and tattoo removal as well as wrinkle reduction and teeth whitening The products supplied into this market are based upon *fibre optic and acousto-optic technologies* The customers in this market include both laser system manufacturers and biomedical equipment manufacturers

- **Microscopy** modern, laser-based techniques are revolutionising the field of microscopy Gooch & Housego's *acousto-optic devices* and *hyperspectral imaging systems* are used to control the multiple laser sources and analyse complex images The end markets are typically medical equipment manufacturers

- **Pathology** as pathology migrates from archiving glass slides into the digital age, Gooch & Housego's *hyperspectral imaging systems* are able to capture the information present on the slide and make it available for sharing and storage for long term reference

Growth Strategy

- The growth strategy for Life Sciences mirrors that for Aerospace and Defence in many respects This is particularly true in terms of the size of the available market and the desire of the customer base to "pull" Gooch & Housego up the value chain
- The Group continues to invest in longer term R&D projects Within the Life Sciences market there is a particular focus in the area of cancer diagnostics Moreover, within this technology sphere Gooch & Housego is not only developing optical technologies, but is also working on a much broader technology front in order to address these particular opportunities
- Whilst Gooch & Housego is not planning any acquisitions in the short to medium term, the Group is not discounting high quality acquisitions as a route to grow its Life Sciences business should the opportunity arise

A focus on . . Optical Coherence Tomography (OCT) *(insert photo)*

Gooch & Housego supplies optical components and sub-systems into several segments of the biomedical market In the field of biomedical imaging, one key market that has experienced rapid growth over the last 10 years is that of Optical Coherence Tomography (OCT) This ground breaking technique has allowed in vivo imaging of the structure of the retina of the eye, enabling doctors, for the first time, to detect a number of major internal eye disorders at a stage prior to visual impairment, when preventative treatment can still be administered The growth of the ageing population in the western world has resulted in an increasing demand in OCT imaging machines, so much so, that they have reached the high street Gooch & Housego fibre optic technology can often be found at the very heart of the machine

The huge impact of OCT technology in ophthalmology has been recognized elsewhere and there are currently extensive activities in dermatological and cardiovascular fields with several US FDA (Food and Drug Administration) trials ongoing to prove the efficacy of OCT Gooch & Housego is working closely with one of these companies, Michelson Diagnostics,, and as well as providing the optical heart of the imaging workstation, Gooch & Housego has designed and now manufactures the fibre optic umbilical cable and handheld probe for this customer

Scientific Research

Revenue	**£3.6m (2010: £5.1m)**
Operating Profit	**£0.2m (2010: £0.6m)**
Percentage of Company Revenue	**6%**

Applications, products and markets

- **Nuclear fusion research and energy** laser technology is being used to recreate the conditions found in the core of the sun At these temperatures and pressures isotopes of hydrogen fuse to form helium and in doing so release huge amounts of energy – the energy that powers the sun and stars One of the most exciting potential applications of this research is using laser fusion to provide limitless quantities of clean, carbon-free energy to meet the world's growing needs The products supplied into this market utilise a wide range of the Group's technologies including *crystal growth, precision optics, thin-film coatings and fibre optics* Gooch & Housego supplies many of the world's leading nuclear fusion energy research facilities Gooch & Housego is sole supplier of many critical optical components used in the world's most powerful laser system at the National Ignition Facility (NIF) at Lawrence Livermore National Laboratory

- **Instrumentation** for applications in agricultural, solar, marine and industrial research An example of an industrial research application is the development of LED illumination systems Instrumentation products are supplied from our Orlando facility and include *photometers, radiometers, spectroradiometers* and their associated *calibration services* The customer base ranges from universities and research institutes to Government agencies and national standards laboratories

Growth Strategy

- To maintain and develop the business's capabilities in crystal growth and ultra precision optics for nuclear fusion research and energy If NIF fulfils its research objectives in the next 12 months it could pave the way for two further facilities in the US (LIFE) and Europe (HiPER) whose objective is to demonstrate the viability of the technology for large scale power generation Gooch & Housego has participated in preparatory analyses and would expect to be a major supplier to these projects

- University research and "Big Science" projects Gooch & Housego is the custodian of some of the world's most advanced optical technologies It is not therefore surprising that there is a constant and significant demand for such products and technologies from some of the world's foremost universities and research institutes The products supplied into this market span the complete breadth of the Group's technology portfolio Many of Gooch & Housego's current products have evolved from early stage collaborations with universities and it is an area the Company continues to focus on
- The Group continues to invest in R&D to develop and commercialise the next generation of Instrumentation products

A focus on . . Star power on earth Laser Inertial Fusion Energy (LIFE) *(insert photo)*

LIFE is an advanced energy concept under development at Lawrence Livermore National Laboratory Based on physics and technology developed for the National Ignition Facility, a LIFE power plant has the potential to meet future worldwide energy needs in a safe, sustainable manner without carbon dioxide emissions This is a project to focus the intense energy of 192 giant laser beams on a 3mm-sized target filled with hydrogen fuel to fuse or ignite the hydrogen atoms' nuclei

Providing for the world's energy demands is one of the most urgent—and difficult—challenges facing our society Gooch & Housego supply high specification optical components into the world's most powerful laser systems that are used to recreate the forces fuelling the sun These components, which include large laser crystals and fibre optic components, are critical enablers to realise safe, carbon neutral, inexhaustible energy in the form of laser inertial confinement fusion

Financial and Operating Review

Performance Overview

"I am delighted to announce record revenues, profits and cash generation for the year ended 30 September 2011"

Gareth Jones

In 2011 Gooch & Housego achieved record financial results, completed two important acquisitions and reached a milestone in its strategic development The first three quarters of the year were characterised by unprecedented demand in the Company's core Industrial market, while our continued efforts to diversify the business resulted in substantially increased sales into our target sectors of Aerospace and Defence and Life Sciences

Sales of Q-switches to our industrial laser customers hit record levels, driven by the increasing use of lasers in manufacturing, particularly in applications such as microelectronics Precision optics, crystal optics and fibre optics also performed strongly as a result of strong demand from applications such as semiconductor lithography and test equipment, telecommunications and diagnostics This growth was made possible by our investment in recent years in facilities, equipment, people and acquisitions to build a unique portfolio of world-class products and capabilities Gooch & Housego is now well positioned to take on the role of critical partner-supplier to our major customers and has made considerable progress in developing these relationships in 2011

REVENUE			
Year ended 30 September	**2011**	2010	2009
	£'000	£'000	£'000
Industrial	**36,294**	23,383	17,096
Aerospace and Defence	**15,412**	11,304	10,450
Life Sciences	**5,655**	4,890	3,442
Scientific Research	**3,648**	5,106	5,426
Group Revenue	**61,009**	44,683	36,414

Total Company revenue for the year was a record £61 0m (including £10 4m revenue from acquisitions during the year (2010 £nil), 37% ahead of the £44 7m for last year, which itself was a record year Excluding the impact of acquisitions and on a constant currency basis, revenues grew by 16% in 2011

GROUP EARNINGS PERFORMANCE				
All amounts in £'000	**Adjusted**		**Reported**	
Year ended 30 September	**2011**	2010	**2011**	2010
Operating profit	**11,558**	6,863	**9,676**	5,929
Net finance costs	**(804)**	(833)	**(868)**	(833)
Profit before taxation	**10,754**	6,030	**8,808**	5,096
Taxation	**(2,695)**	(1,603)	**(1,285)**	(405)
Profit for the year	**8,059**	4,427	**7,523**	4,691
Basic earnings per share (p)	**38.0p**	23 0p	**35 5p**	24 4p

Adjusted profit before tax for the year was £10 8m (2010 £6 0m) and compares with £7 1m in 2007, being the previous highest adjusted profit before tax in the Company's history

Financial and Operating Review continued

Adjusted basic earnings per share were 38 0p (2010 23 0p) an increase of 65% Reported basic earnings per share were 35 5p (2010 24 4p)

RECONCILIATION OF ADJUSTED PERFORMANCE MEASURES

	Operating Profit		Net finance costs		Taxation		Earnings per share	
Year ended 30 September	**2011 £'000**	2010 £'000	**2011 £'000**	2010 £'000	**2011 £'000**	2010 £'000	**2011 pence**	2010 pence
Reported	**9,676**	5,929	**(868)**	(833)	**(1,285)**	(405)	**35 5p**	24 4p
Amortisation of acquired intangible assets	**1,427**	934	-	-	(344)	(74)	**5.1p**	4 4p
Acquisition costs	**571**	-	-	-	(137)	-	**2.1p**	-
Release of accrued consideration for acquisition	**(2,085)**	-	-	-	-	-	**(9.9p)**	-
Impairment of goodwill	**1,969**	-	-	-	(670)	-	**6.1p**	-
Debt refinancing costs	-	-	64	-	(27)	-	0 2p	-
Recognition of deferred tax assets	-	-	-	-	(232)	(1,124)	**(1.1p)**	(5 8p)
Adjusted	**11,558**	**6,863**	**(804)**	**(833)**	**(2,695)**	**(1,603)**	**38 0p**	**23 0p**

Non GAAP Measures

The Company uses a number of non GAAP measures which are shown in the table above and in the segmental analysis These measures are used to illustrate the impact of non-recurring and non-trading items on the Company's financial results These are the impact of the amortisation of acquired intangible assets, acquisition costs, the one off gain resulting from the write back of the EM4 earn-out provision, the impairment of goodwill and the one off impact associated with the recognition of deferred tax assets In addition, the Company uses the term EBITDA (Earnings before interest, taxation, depreciation and amortisation) This is a commonly used measure of operating performance and cash flow

Segmental analysis

Industrial

Our industrial business performed strongly during the year, with revenues of £36 3m, compared with £23 4m last year, an increase of 55% There was growth across all product lines, with Q-switch and telecommunications products being particularly strong Operating profit for this segment was £9 6m, compared with £5 3m last year, an increase of 81%

Aerospace and Defence

Our Aerospace and Defence business saw revenue growth of 36% in the year The acquisition of EM4 means that Gooch & Housego is now a participant in a number of significant commercial aerospace, defence and space programmes in both the US and Europe

Life Sciences

Gooch & Housego's presence in the Life Sciences sector, which also saw continued revenue growth (16% compared to 2010), has been similarly strengthened by this year's acquisitions Moreover, our development of imaging systems continues to make encouraging progress in applications such as diagnostics as we shift our attention from R&D towards commercialisation

Scientific Research

Our activities in the Scientific Research market are dominated by a small number of large, long term programmes These are progressing well, but this year, as we had anticipated, demand declined as our largest programme reached maturity Combined with the end of stimulus funding in the US, the effect has been a 29% reduction in revenues from the Scientific Research sector when compared to the same period last year However, the year has seen considerable activity in planning and preparing for follow-on programmes from which Gooch & Housego would expect to generate significant revenues

Performance of acquisitions

The acquisitions of EM4 and Crystal Technology continued our strategy, reinforcing Gooch & Housego's leadership in acousto-optics, electro-optics and high-end fibre optics, contributing to our diversification and strengthening our position in our core markets Gooch & Housego now has the products, technologies and people it needs to embark on the next phase of the strategy and execute on the opportunities that have been created

The acquisition of EM4, a Boston, Massachusetts based specialist manufacturer of active fibre optic products, principally for the Aerospace and Defence market, was completed in late January 2011 after regulatory approval was received

The acquisition of Crystal Technology, a manufacturer of acousto-optic and electro-optic devices and a grower of optical crystals, was completed at the end of March The performance of this acquisition has exceeded our expectations both in terms of its revenue generation and profitability

Both acquisitions provide opportunities to access significant new opportunities in our target markets but require a high degree of integration Several ambitious projects to transfer technology and processes were initiated in the second half of the year These have progressed well, and the most challenging project – the transfer of crystal growth from Crystal Technology's facility in Palo Alto, California to Gooch & Housego's Cleveland facility - is now complete The resulting centre of excellence for optical crystal growth will enable Gooch & Housego to benefit from a concentration of expertise and operational economies of scale

As a result of a delay in the award of a major contract, EM4 is unlikely to reach its threshold for its earn-out to be triggered Consequently, the provision for this payment (approximately £2 1m), made under IFRS accounting rules at the half year, has been released to the income statement for the current year Whilst the delay in the award of this contract has affected the anticipated results of EM4 for the earn-out period, the outlook for the business remains positive The first phase of the contract in question was placed in August 2011 for an initial amount of $3 2m The core value of this business remains strong and the opportunities for Gooch & Housego to use this market entry point to sell a wider range of products into the Aerospace and Defence market remains persuasive

As part of its bi-annual review of the carrying value of goodwill, the Board has taken the decision to impair the goodwill of the General Optics acquisition General Optics, now referred to as Gooch & Housego Moorpark, was acquired in October 2008 for a consideration of $21m and, prior to the impairment, the carrying value of the associated goodwill was £7 1m Over the last three years this acquisition has played a vital role in Gooch & Housego's diversification strategy, by providing the systems and critical mass needed for the Company to become a credible player in the Aerospace and Defence market However, on a stand-alone basis, Moorpark has struggled to grow its business during some difficult times in the commercial aerospace sector Recent trends in this market and internal changes are moving Moorpark in the right direction These changes have yet to produce tangible results and as a result, the Board feels it is appropriate to make an impairment of £2 0m to the carrying value of Moorpark

Research and Development (R&D)

Gooch & Housego continues to invest in R&D in all areas of the business and regards this as fundamental to the continued growth of the company During the year under review, Gooch & Housego developed and launched its non-hermetic Fibre-Q, a cost-effective fibre optic coupled Q-switch aimed at medium-volume applications, a range of fibre components operating in the important near infra-red region at wavelengths around 2 microns, as well as a number of significant product upgrades Moreover, the acquisitions made during the year have enhanced the technical capabilities of the Company as a whole, with the introduction of lithium niobate crystal growth and laser welding technologies

Gross expenditure on R&D in the year to 30 September 2011 was £3 7m (2010 £2 8m), which represented 6 1% of revenue and a 32% increase on last year During the year none of these R&D costs met the requirement to be capitalised (2010 £nil)

Key Performance Indicators (KPIs)

The Company's long term aim is to achieve sustainable growth in revenue and profits This is to be achieved through the execution of the Board's strategies of market diversification, the continued investment in R&D to support organic growth, the acquisition of strategically complementary businesses and the on-going drive to move up the value chain

In striving to achieve these strategic objectives, the key financial performance measures monitored by the Board are -

Total revenue growth	**2011**	**2010**	**2009**
At actual exchange rates	37%	23%	9%
At constant exchange rates	40%	23%	-6%

The Board is focused on delivering revenue growth through investment to deliver growth both organically and through acquisitions Strong growth in 2011 reflects the high level of demand experienced during the first three quarters of the year and increased penetration of our target markets

Target market revenue growth	**2011**	**2010**	**2009**
Aerospace and Defence (£m)	15 4	11 3	10 5
Life Sciences (£m)	5 7	4 9	3 4

The Company's target markets of Aerospace and Defence and Life Science provide a route to sustainable growth, and a more diversified revenue base These markets also provide significant opportunities for Gooch & Housego to migrate up the value-chain from materials and components to higher value sub-assemblies, modules and systems in response to the trend for our larger customers to outsource increasingly complex parts of their business 2011 has shown a good progress in this regard Whilst this year's acquisitions have strengthened the Company's presence in these markets, organic growth has also been achieved

Net debt analysis	**2011**	**2010**	**2009**
Net debt (£m)	1 9	5 2	12 1

In order to balance business risk with the investment needs of the Company, Gooch & Housego closely monitors and manages its net debt This year net debt has again fallen significantly, putting the business in a strong position both in terms of headroom for further investment and from the perspective of managing its business risk

Earnings per share	**2011**	**2010**	**2009**
Adjusted basic earnings per share (pence)	38 0	23 0	11 5

Dıvıdends

The Board aıms to provıde a competıtıve return to shareholders whılst retaınıng suffıcıent funds for reınvestment ın the busıness For the fınancıal year ended 30 September 2011, the Dırectors propose a fınal dıvıdend of 3 0p per share makıng the total dıvıdend paıd and proposed ın respect of the year 5 0p (2010 2 0p)

Balance Sheet

The Group spent a total of £2 8m on property, plant and equıpment durıng the year (2010 £0 9m)

Followıng the acquısıtıon of Crystal Technology LLC on 31 March 2011, Gooch & Housego took the strategıc decısıon to consolıdate ıts three crystal growth operatıons ınto a sıngle, state-of–the-art facılıty at the maın Cleveland sıte, thereby establıshıng a centre of excellence for crystal growth and enablıng the Company to benefit from economıes of scale Thıs necessıtated the relocatıon of crystal growth operatıons from the Crystal Technology facılıty ın Palo Alto, Calıfornıa and from the Company's secondary growth facılıty ın Cleveland

As at 30 September 2011, the new facılıty had been substantıally completed and the majorıty of the Crystal Technology crystal growth had been transferred to Cleveland As at 30 September 2011 £1 3m had been capıtalısed on thıs project

A £0 5m ınvestment was also made ın our Ilmınster facılıty on specıalıst coatıng plant whıch wıll drıve both capacıty and capabılıty ın a technology fıeld whıch ıs a key dıfferentıator for Gooch & Housego's precısıon optıcs products Thıs was part of the £1 5m ınvested ın plant and machınery ın the year (2010 £0 8m)

The acquısıtıons of EM4, Inc and Crystal Technology LLC ıncluded property, plant and equıpment wıth a net book value of £3 9m

The Company has ınvested ın workıng capıtal durıng the year Inventorıes have ıncreased by £4 2m, ıncludıng £2 2m relatıng to acquısıtıons, as the Company has sought to ensure adequate ınventory to meet customer requırements for shorter lead tımes and at the same tıme manage the crystal growth transfer from Crystal Technology to Cleveland Thıs element of the ınventory growth ıs expected to reverse ın 2012 At 30 September 2011, ınventorıes were £11 4m compared wıth £7 3m at 30 September 2010

In the year ended 30 September 2011 Gooch & Housego generated net cash from operatıng actıvıtıes of £11 9m, compared to £8 8m ın 2010

On 5 January 2011, Gooch & Housego raısed approxımately £10 1 mıllıon (net of expenses) through a placıng of new 20p Ordınary Shares, and an addıtıonal £5 mıllıon ın debt fundıng, ın order to fund the acquısıtıons of EM4, Inc , and Crystal Technology LLC

Cash, cash equıvalents and bank overdrafts as at 30 September 2011 amounted to a posıtıve cash posıtıon of £11 3m, representıng an ımprovement of £5 6m from a posıtıon of £5 7m as at 30 September 2010

Net debt reduced from £5 2m at 30 September 2010 to £1 9m at 30 September 2011, a reductıon of 65% The movement ın net debt ıs outlıned ın the table below

MOVEMENT IN NET DEBT

All amounts ın £m	Gross Cash	Gross Debt	Net Debt
At 1 October 2010	**8.3**	**(13.5)**	**(5 2)**
Net cash flow from operatıng actıvıtıes (excludıng workıng capıtal)	14 4	-	14 4
Issue of share capıtal	10 6	-	10 6
Debt fundıng	4 6	(4 6)	-
Debt repayment	(2 7)	2 7	-
Acquısıtıons	(14 5)	(0 1)	(14 6)
Net capıtal expendıture	(2 9)	-	(2 9)
Workıng capıtal	(1 2)	-	(1 2)
Interest, tax and dıvıdends	(3 0)	-	(3 0)
Exchange movement	0 2	(0 2)	-
At 30 September 2011	**13.8**	**(15 7)**	**(1 9)**

On 1 Aprıl 2011, Gooch & Housego renegotıated ıts bankıng facılıtıes wıth ıts current bankers, the Royal Bank of Scotland These facılıtıes now comprıse an $18 mıllıon US Dollar denomınated term loan (fully drawn), a £3 1 mıllıon Sterlıng denomınated term loan (fully drawn), an $8 mıllıon revolvıng credıt facılıty (drawn to $4 mıllıon as at 30 September 2011) and an undrawn capıtal expendıture facılıty of $8 mıllıon All facılıtıes are commıtted untıl Aprıl 2015, subject to certaın covenant provısıons

Order book

As at 30 September 2011, the Company order book stood at £28 5m, compared to £23 5m at the end of the 2010 fınancıal year On a lıke for lıke basıs, excludıng the ımpact of thıs year's acquısıtıons the order book ıs 16% lower Thıs ıs a functıon of the long lead tımes beıng experıenced ın 2010 and the recent slow-down ın some of the ındustrıal markets Book to bıll ratıos for the busıness as a whole were 0 90 tımes (sıx month rollıng average) as at 30 September 2011, compared to 1 2 tımes for the same perıod last year

Staff

The Company workforce grew from 459 at 30 September 2010 to 623 at the end of September 2011, an ıncrease of 164 The Company added 113 staff through the acquısıtıons of EM4 and Crystal Technology A partıcular benefıt of the acquısıtıons has been the ınflux of hıghly skılled and capable people across all functıons of the busıness, ıncludıng at senıor management level We would lıke to welcome them all to Gooch & Housego

Prospects

The global economıc headwınds cause obvıous uncertaınty for the busıness as we move ınto 2012 Whılst not ımmune to the overall global economy, the Board belıeve that the Company ıs ın robust health and, wıth a strong cash posıtıon, approprıate commıtted bankıng facılıtıes and a broader spread of revenues, has ıncreased ıts abılıty to wıthstand a potentıal downturn

In the context of the current economıc condıtıons, Gooch & Housego's strategy of focussıng on organıc growth ın 2012 ıs consıdered to be approprıate We aım to delıver growth through the commercıalısatıon of long term research and development projects, through the launch of ınnovatıve new products and by leveragıng the posıtıon we have now establıshed ın the Aerospace and Defence sector to ıncrease our partıcıpatıon ın long term programmes

Strategy Overview

Gooch & Housego has developed and measures itself on a set of strategies to deliver long term sustainable growth to its shareholders These fall into two broad categories, market strategies and product strategies In seeking to achieve its strategic goals Gooch & Housego has in the past, and will continue to use a variety of tools, including investment in R&D, acquisitions and strategic partnerships

MARKET STRATEGIES

SPECIALISATION *To be the market leader in the technology and product niches in which we operate – a specialist not a commodity player*

Progress: EM4 and Crystal Technology are recognised as world leaders in their fields They enhance Gooch & Housego's ability to provide world-class solutions for customers whose applications demand the best

CONSOLIDATION *To maintain and strengthen our leading position in our traditional Industrial and Scientific Research market sectors*

Progress: The acquisition of Crystal Technology has firmly positioned Gooch & Housego as the world's leading manufacturer of acousto- and electro-optic products

DIVERSIFICATION *To develop, through R&D and acquisition, a presence in new markets that offer the potential for significant growth as a result of their adoption of photonic technology, while also reducing our exposure to cyclicality in any particular sector*

Progress: The acquisitions of EM4 and Crystal Technology have enhanced diversification into our target markets of *Aerospace and Defence* and *Life Sciences* EM4 is well positioned on a number of significant long term avionic, defence and space programmes, and is also expected to facilitate access for other Gooch & Housego technologies

INTEGRATION *To operate as a single, integrated business serving a global customer base*

Progress: Our most exciting opportunities today require the integration of technologies from several G&H operating sites to deliver innovative solutions Post this year's acquisitions Gooch & Housego is a larger and more complex organisation with new skills and capabilities To reflect the enlarged organisation and to facilitate the realisation of these opportunities, a new management structure is being put in place

PRODUCT STRATEGIES

INNOVATION: *To leverage Gooch & Housego's exceptional materials and component capabilities to develop innovative new products*

Progress: Products under development range from complex imaging and sensor systems for diagnostic, security, agriculture and food applications to components for fibre lasers The non-hermetic Fibre-Q aimed at the industrial laser and sensing market was launched in 2011

Strategy Overview continued

DIFFERENTIATION	*With a uniquely broad portfolio of world-class photonics products and capabilities, Gooch & Housego aims to stand out in an otherwise fragmented supply-chain*
Progress	Gooch & Housego is increasingly differentiated by its ability to provide vertically integrated solutions, thereby reducing dependency on outside suppliers and providing control over all critical aspects of the product As a result of this year's acquisitions Gooch & Housego has become self-sufficient in the critical acousto-optic and electro-optic crystals, and is able to provide complete fibre optic systems incorporating passive and active components
PROGRESSION	*To leverage our excellence in materials and components to move up the value-chain to more complex sub-assemblies and systems*
Progress	In the Aerospace and Defence and Life Sciences sectors there is a trend for the larger players to seek to reduce their costs by decreasing supplier numbers and outsourcing increasingly complex functions to a small number of trusted suppliers In the past year we have strengthened our position as a strategic partner to such customers by investing in new capabilities in manufacturing, assembly and testing, and by putting in place the necessary quality systems and management infrastructure The additional products and skills gained through the acquisitions of EM4 and Crystal Technology will further enhance Gooch & Housego's ability to benefit from this trend

Board of Directors

Non-executive Directors.	Dr Julian Blogh Chairman	Dr Eugene G Arthurs (retiring February 2012)
	Jan A Melles	Paul Heal
Executive Directors.	Gareth C W Jones Chief Executive Officer	Terry Scribbins Chief Operating Officer
	Andrew N Boteler Chief Financial Officer	

The Directors' board committee membership are detailed in the Directors Report on page 23

Director Biographies

Non-executive Directors

Julian Blogh CBE PhD CEng **Chairman**
(Appointed October 2006)
Dr Julian Blogh has spent most of his working life in the electronics industry working with Ferranti Radar, Plessey Radar and Dowty Electronic Systems He was Managing Director of Sonar & Communication Systems from 1987 to 1992, when he was appointed Managing Director of Dowty Avionics

He led the management buy-out of seven Dowty defence and aerospace electronics businesses from the TI Group to form Ultra Electronics Holdings plc and became Chief Executive when it began trading in October 1993 Dr Blogh was appointed Deputy Chairman in April 2004 and became Chairman in April 2005 He retired as Chairman for Ultra Electronics in April 2011

Jan Melles
(Appointed 1997)
Jan Melles was born in Utrecht, The Netherlands in 1940 He has been an entrepreneur in the global optics and laser industries for over 40 years having founded or co-founded 12 companies in these fields As sole owner and CEO of Photonics Investments BV he has been involved in mergers and acquisitions of photonics companies and arranged the sale or acquisition of 37 companies around the world

Mr Melles has served as both executive and non-executive Director in over 20 companies both privately and publicly, varying in size of turnover from $5 million to over $200 million, and currently serves as non-executive director in five companies, including Gooch & Housego PLC
He graduated from the Netherlands Maritime Academy, Amsterdam in 1961 with a BSc E E degree

Eugene Arthurs PhD
(Appointed 1999 – Retiring February 2012)
Dr Eugene Arthurs is executive Director of The International Society for Optical Engineering (SPIE) He graduated from Queens University/Belfast in 1969 with a BS in physics with first-class honours, and in 1972 with a PhD in Applied Physics

Dr Arthurs is a member of the Optical Society of America (OSA) and serves as the chair of the OSA Corporate Associates Activities Committee He is also a member of the Advisory Board, Photo-chemical Research Center, and Bowling Green State University

Director Biographies (continued)

Paul Heal
(Appointed January 2008)
Paul Heal retired from his position as a client service Partner with PricewaterhouseCoopers at the end of 2007, leaving a role he had held for 20 years Based in its Bristol office, he was primarily responsible for middle market clients ranging from smaller listed companies (market cap <£250m) to venture capital backed and privately owned businesses Gooch & Housego PLC was a client of Mr Heal prior to September 2003 and he advised the company through the preparation for IPO, and acted as reporting accountant for the flotation in 1997

Mr Heal is a non-executive Director of a number of other organisations including The Theatre Royal, Bath, The Bristol Old Vic Theatre School and The Andrews Charitable Trust He also acts as a consultant to a number of privately owned businesses

Executive Directors

Gareth Jones **Chief Executive Officer**
(Appointed January 2003)
Gareth Jones has an honours degree in Physics from Imperial College and is a Fellow of the Institute of Physics He joined Gooch & Housego in 1978 and was instrumental in the development of new products and capabilities that helped transform the business from a craft-based optical engineering company into today's global technology business

Mr Jones became Technical Director in 1985 and Managing Director in 1995 In 1997 he was a member of the team that led Gooch & Housego's IPO on the Alternative Investment Market In 2000, he left Gooch & Housego to become a Partner in a leading UK venture capital firm He re-joined Gooch & Housego in 2003 as Chief Executive

Terry Scribbins **Chief Operating Officer**
(Appointed November 2006)
Terry Scribbins originally joined Gooch & Housego in 1971 and rose to the position of Works Manager before leaving in 1985 to set up his own business He re-joined Gooch & Housego in 2004 to lead a new management team, and has played a key role in the integration and reorganisation of the Group's optoelectronic components and materials operations

Andrew Boteler **Chief Financial Officer**
(Appointed August 2009)
Andrew Boteler is a Chartered Accountant, having trained with Ernst & Young and qualified in 1993 He has an honours degree from Exeter University

In 2002 Mr Boteler was part of the team that bought out the US telecommunications components group JDSU's UK fibre optics business, to establish SIFAM Fibre Optics Ltd There, he held the position of Finance Director until the company was acquired by Gooch & Housego in May 2007

Between 2007 and 2009 Andrew held the positions of Head of Finance EMEA and Acting Chief Financial Officer for Gooch & Housego, before joining the Board in August 2009

Advisers

Nominated Adviser and Broker
Investec Bank plc
2 Gresham Street
London
EC2V 7QP

Independent Auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
31 Great George Street
Bristol
BS1 5QD

Legal Advisers
Burges Salmon LLP
One Glass Wharf
Bristol
BS2 0ZX

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

Financial Communication Advisers
Buchanan Communications
45 Moorfields
London
EC2Y 9AE

Secretary and Registered Office

Secretary	Andrew N Boteler
Register Office	Dowlish Ford Ilminster Somerset TA19 0PF United Kingdom
Company Registration Number	00526832

Expected Financial Calendar

Annual General Meeting	22 February 2012
Final dividend for the year ended 30 September 2011 to shareholders on the register at close of business 27 January 2012 Subject to approval by shareholders at the Annual General Meeting	2 March 2012
Interim Results announced	12 June 2012
Financial Year End	30 September 2012
Preliminary announcement of results for the year ended 30 September 2012	27 November 2012

Directors' Report

The Directors present their report together with the audited consolidated financial statements for the year ended 30 September 2011

Principal Activities and Review of the Business
Gooch & Housego is a manufacturer of acousto-optic, electro-optic and fibre-optic devices, precision optical components, crystals, optical instruments and imaging systems

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 Financial and Operating Review on pages 9 to 14

An outline of the business's strategy and the Company's progress in the year towards these strategies, is given on pages 15 to 16

Finally an analysis of the segmental information by market sector is given on pages 4 to 8

Risks and Uncertainties

- **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

- **Future trading levels and order book** - Gooch & Housego PLC has seen a rapid growth in its business over the last two years Through its strategy of market diversification, the Company seeks to provide routes to new markets and reduce the dependence on any one market sector However, the continued growth in the business is difficult to predict Orders on hand at 30 September 2011 have increased by 18 5% in absolute terms from 2010 This is however no guarantee of growth as orders can be cancelled and deferred

- **Financing** – As at 30 September 2011 gearing was 3 4% (2010 14 5%) The level of debt is considered to be appropriate and serviceable The Group operates within certain banking covenants which it has reported under and complied with during the financial year The Group undertakes detailed and regular financial planning and forecasting reviews to minimise any financial risk due to changing market conditions

- **Research and Development** – The Group invests heavily in research and development, to develop new products and maintain the long term growth of Gooch & Housego The development of new processes and products involves risks such as development timescales, which may take longer than originally forecast and hence involve more cost There are also technical risks associated with development programmes that mean original expected results are not delivered Expenditure is only capitalised once the commercial and technical feasibility of a product is proven These risks are minimised by operating managed research and development programmes which are reviewed against cost and technical progress expectations

Key financial performance indicators ("KPIs")
The Group uses a selection of KPIs to monitor and review the performance of the business These are detailed on page 12 of the Financial and Operating Review

Dividends
During the year ended 30 September 2011 a final dividend of 2 0p per share was paid for the previous financial year A further interim dividend of 2 0p per share was paid for the half year ended 31 March 2011
For the year ended 30 September 2011, the Directors propose that a final dividend of 3 0p per share be paid

Substantial shareholdings
As at 15 December 2011, the following shareholders had notified the Company that they held an interest in 3% or more of its issued ordinary share capital

Shareholder	Number	% holding
BlackRock Investment Management	3,259,549	14 92%
Gooch & Virgin Family Trust	2,647,869	12 12%
Standard Life Investments	2,183,238	9 99%
Investec Wealth & Investment	848,635	3 88%
Deutsche Bank	655,409	3 00%

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 ordinary share capital of the Company were as follows

	Number of shares at 30 September 2011	Number of shares at 30 September 2010
Non-executive Directors		
Dr Julian Blogh	10,000	10,000
Dr Eugene G Arthurs	-	-
Jan A Melles	20,000	20,000
Paul Heal	21,485	21,485
Executive Directors		
Gareth C W Jones	8,000	8,000
Terry Scribbins	-	-
Andrew N Boteler	16,065	31,065

On 27 January 2011 Andrew Boteler sold 13,000 shares On the same day his spouse Mrs Lindsay Boteler sold 2,000 shares There were no changes in Directors' interests between 1 October 2011 and 12 January 2012

For details of Directors' interests in options to subscribe for shares of the Company, see pages 25 and 26

Treasury Policies
The Group's treasury policies are designed to manage financial risk to the Group that arises from operating in a number of foreign currencies and to maximise interest income on cash deposits, whilst maintaining the security of these deposits As an international group of companies, the main exposure is in respect of foreign currency risk on the trading transactions undertaken by group companies and on the translation of the net assets of overseas subsidiaries This exposure is principally to the US dollar

Monthly cash management reporting and forecasting is in place to facilitate management of this currency risk The operations of group treasury take place at head office

All balances not immediately required for group operations are placed on short-term deposit with leading international highly rated financial institutions

At a transactional level, the Group seeks to offset its exposure to foreign exchange movements by contracting with significant supply partners in US Dollars and undertakes regular financial reviews to assess whether it would be appropriate for the Group to enter into currency hedging contracts to mitigate the currency risk During the year there were no forward contracts in place

At a translational level, the Group has structured the majority of its borrowings in US Dollars, which acts as a hedge of a net investment against its US Dollar denominated companies within the Group

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
The Group has a continuing commitment to a high level of research and development This commitment is to actively develop new technologies and capabilities that will become a key part 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 2011 represent 53 days as a proportion of the total amount invoiced by suppliers during the year (2010 56)

Employee Involvement
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
The Group is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of sex, race, colour, disability or marital status Full and fair consideration is given to applications for employment from disabled persons, having regard to their particular aptitudes and abilities 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 put in place procedures it considers appropriate

The Board comprises three executive and four non-executive Directors The directors holding office during the period of this report and full biographies are detailed in page 15 of this report and are also available on our website, www goochandhousego com

The Board focuses on formulation of strategy, management of effective business controls and review of business performance The Board is specifically responsible for the approval of annual and interim results and interim management statements, acquisitions and disposals, major capital expenditure, borrowings, director and company secretary appointments and removals, any material litigation, forecast and major development projects

A framework of delegated authorities is in place that details the structure of delegation below Board level and includes matters reserved to the Board

All the non-executive Directors are considered by the Board to be independent in character and judgement Two non-executive Directors (Dr Eugene Arthurs and Jan Melles) have served as non-executive Directors for more than nine years In accordance with the Company's Articles of Association, they must retire at the Annual General Meeting and, being eligible, offer themselves for re-election Dr Eugene Arthurs has indicated that he will not be seeking re-election at the AGM on 22 February 2012 The Board is planning to appoint two new independent non-executive Directors this year and expects to announce these appointments shortly after this year's AGM

In accordance with the Company's Articles of Association Gareth Jones, who is subject to retirement by reason of having been in office for three years since his last re-election, retires at the Annual General Meeting and, being eligible, offers himself for re-election

The Board has three formally constituted committees, the Audit committee, the Remuneration committee and the Nomination committee

The Audit Committee, which consists of all four non-executive Directors, is responsible for ensuring that the financial performance of the Group is properly monitored, controlled and reported This committee is chaired by Paul Heal, who in the opinion of the Directors has recent and relevant experience to fulfil this role, having been a partner with the audit firm, PwC until the end of 2007 The Committee has met with the external auditors on three occasions during the year, together with the Chief Financial Officer and the Chief Executive Officer, to review matters relating to the financial statements and internal financial control systems

The Audit Committee has primary responsibility for making the recommendation on the appointment, reappointment and removal of external auditors, which the Board puts to the shareholders for approval at the AGM It keeps under review the scope and results of the audit, its cost effectiveness and the independence and objectivity of the auditors The committee regards it most cost effective to use the auditors for tax advice and compliance since this requires an in-depth knowledge and understanding of the Group's business

The Remuneration Committee consists of all four of the non-executive Directors This committee is chaired by Paul Heal It has met twice during the year and a summary of the Committee's report is on pages 25 and 26

The Nomination Committee comprises all four non-executive Directors and the Chief Executive Officer This committee is chaired by Dr Julian Blogh The Nomination Committee meets as required during the year The

Nomination Committee determines the structure and members of the Board and plans for the orderly succession of new directors to the Board

Board and committee membership and attendance record is presented in the following table

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Non-executive Directors				
Dr Julian Blogh	10/10	3/3	2/2	1/1
Dr Eugene G Arthurs	9/10	2/3	2/2	1/1
Jan A Melles	10/10	3/3	2/2	1/1
Paul Heal	10/10	3/3	2/2	1/1
Executive Directors				
Gareth C W Jones	10/10	-	-	-
Terry Scribbins	8/10	-	-	-
Andrew N Boteler	10/10	-	-	-

Risk management and internal control
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

There are defined lines of responsibility and delegation of authorities There are also internal financial controls in existence which are centrally maintained and documented and provide reasonable assurance of the maintenance of proper accounting records and the reliability of financial information used within the business

The Group does not have an internal audit department, but senior finance staff perform a formal, annual review of all the sites' internal controls

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

During the year the Group implemented a new risk management policy, which is reviewed on a regular basis Gooch & Housego has also developed and published its policies in relation to the Bribery Act and fraud

Environmental Policy
The policy of the Group is to meet the statutory environmental requirements placed upon it and to apply good environmental practice in its operations while recognising that it is contractually obliged to meet its customer requirements

Statement of Directors' responsibilities
The directors are responsible for preparing the Annual Report and the 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 (IFRSs) as adopted by the European Union, and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the group and parent company financial statements respectively,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 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

The directors are responsible for the maintenance and integrity of the company's website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

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

Going Concern
Based on Management's operating projections and cash flow forecasts, 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

Independent 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

Gareth C W Jones
Director
25 January 2012

Remuneration Committee Report

The Remuneration Committee members at 30 September 2011 were Paul Heal, Dr J Blogh, Dr E G Arthurs and Jan Melles Although not a member of the committee, Gareth Jones submits a report and is usually requested to present the report to the committee After presenting the report he withdraws from the meeting and does not participate in the decision making or voting processes

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 their remuneration

Executive Directors are paid a basic salary together with annual bonus payments based on the achievement of Group profitability targets In addition, 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, Nomination 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 The number of Directors who are accruing benefits under a pension scheme is 3 (2010 3) 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 six months' notice Terry Scribbins and Andrew Boteler also have rolling service contracts that are subject to six months' notice The Chairman and non-executive Directors do not have contracts of service

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 21

Directors' Remuneration

	Basic pay £000	Performance Related Bonus £000	Benefits in kind £000	Pension contribution £000	Exercise of Share Options £000	**Total 2011 £000**	Total 2010 £000
Executive							
G C W Jones	205	78	7	16	-	**306**	364
T Scribbins	145	55	2	12	145	**359**	231
A N Boteler	130	49	2	11	-	**192**	196
Non-executive							
Dr J Blogh	60	-	-	-	-	**60**	59
Dr E G Arthurs	15	-	-	-	-	**15**	15
J A Melles	19	-	-	-	-	**19**	19
P Heal	30	-	-	-	-	**30**	30
	604	182	11	39	145	**981**	914

Terry Scribbins exercised 62,500 share options at a market price of 505 00p each and an exercise price of 272 50p on 13 January 2011

For the year to 30 September 2011 the Chief Executive's basic pay plus performance related bonus represented 9 6 times (2010 10 4 times) the average salary of the employees of Gooch & Housego PLC

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

At 30 September 2011 Gooch & Housego had two active share based incentive schemes and one other which is dormant These are detailed below

Gooch & Housego PLC 2004 Company Share Option Scheme
The Gooch & Housego PLC 2004 Company Share Option Scheme (the "2004 Scheme") 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 28 of the financial statements

Executive Directors' share options are listed below

			Number of ordinary shares under option					Exercise period	
	Date of grant	Exercise price	At 01 10 10	Exercised in year	Lapsed in year	At 30 09 11		From	to
G C W Jones	23 07 04	133 5p	2,394	-	-	**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
			376,368	-	-	**376,368**			
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**	a	08 12 08	07 12 15
	08 12 05	272 5p	31,250	-	-	**31,250**	a	08 12 09	07 12 15
			125,000	(62,500)	-	**62,500**			
Total			501,368	(62,500)	-	**438,868**			

a Performance criteria met

Gooch & Housego 2010 Value Creation Plan
On 7 January 2010, the Company introduced a Value Creation Plan (the "2010 VCP") as a replacement to the 2007 Long Term Incentive Plan (the "2007 LTIP) The 2010 VCP has become the primary equity incentive vehicle to retain and incentivise key employees in the company and align their interests with those of shareholders

Under the 2010 VCP, key employees were granted a one-off award of units from an agreed total These units have no intrinsic value on grant but give participants an opportunity to be awarded Company shares proportionate to the value created for shareholders above the threshold value at the third anniversary of the plan

Performance will be measured once only at the end of the plan's three year period At that time, if the market share price exceeds the threshold value of £2 00, the participants in the plan will be awarded a share of the value created above the threshold value in accordance with a pre-determined formula as nil cost options The participants' share of the value created will start at 7 5% at the hurdle share price of £2 00 and rise to 15% for value gains achieved at a share price of £6 00 and above

Should nil cost options be awarded under the plan, participants will be entitled to exercise half of the share options immediately and the remainder can be exercised after a further year to encourage continued focus on maintaining the value gains achieved

Participants in the 2010 VCP that already participate in the 2007 LTIP have waived any awards made to them under the 2007 LTIP None of the participants in the VCP will receive any other share-based incentives during the life of the VCP Out of a total of 64 units, executive Directors' were awarded 44 units under the 2010 VCP allocated as follows, Gareth C W Jones (20), Terry Scribbins (12), Andrew N Boteler (12)

During the year to 30 September 2011 £471,000 (2010 £353,000) was charged to the income statement in respect of the IFRS2 share based payments charge (valued using the Monte Carlo option pricing model) and £150,000 (2010 £202,000) in respect of accrued employers national insurance contributions, based on a year end share price of £3 70 (2010 £3 55)

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 2011 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group Balance Sheet, the Group Statement of Changes in Shareholders' Equity, the Group Cash Flow Statement and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

Respective responsibilities of directors and auditors
As explained more fully in the Directors' Responsibilities Statement set out on pages 23 and 24, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, 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

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements
In our opinion the group financial statements

- give a true and fair view of the state of the group's affairs as at 30 September 2011 and of its profit and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the group financial statements are prepared is consistent with the group financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Other matter
We have reported separately on the parent company financial statements of Gooch & Housego PLC for the year ended 30 September 2011

David L Charles (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
25 January 2012

Group Income Statement
For the year ended 30 September 2011

	Note	2011 £000	2010 £000
Revenue	7	61,009	44,683
Cost of revenue		(34,815)	(25,992)
Gross profit		26,194	18,691
Research & Development		(3,746)	(2,834)
Sales & Marketing		(3,733)	(2,529)
Administration		(9,826)	(7,768)
Other income and expenses	9	787	369
Operating profit	11	9,676	5,929
Finance income	12	30	2
Finance costs	12	(898)	(835)
Profit before income tax expense		8,808	5,096
Income tax expense	13	(1,285)	(405)
Profit for the year		7,523	4,691
Basic earnings per share	15	35 5p	24 4p
Diluted earnings per share	15	33 6p	23 8p

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

Reconciliation of operating profit to adjusted operating profit.

	2011 £000	2010 £000
Operating profit	9,676	5,929
Amortisation of acquired intangible assets	1,427	934
Acquisition costs	571	-
Impairment of goodwill	1,969	-
Release of accrued contingent consideration	(2,085)	-
Adjusted operating profit	11,558	6,863

Reconciliation of net finance costs to adjusted net finance costs

	2011 £000	2010 £000
Net finance costs	(868)	(833)
Costs associated with debt re-financing	64	-
Adjusted net finance costs	(804)	(833)

Group Statement of Comprehensive Income

For the year ended 30 September 2011

	2011 £000	2010 £000
Profit for the year	**7,523**	4,691
Other comprehensive income		
Fair value adjustment of interest rate swap net of tax	**(80)**	2
Currency translation differences	**312**	(208)
Other comprehensive income/(expense) for the year net of tax	**232**	(206)
Total comprehensive income for the year	**7,755**	4,485

Group Balance Sheet
As at 30 September 2011

	Note	2011 £000	2010 £000
Non-current assets			
Property, plant and equipment	16	**20,440**	15,753
Intangible assets	17	**22,081**	15,291
Deferred income tax assets	26	**4,045**	3,092
		46,566	34,136
Current assets			
Inventories	18	**11,264**	7,281
Trade and other receivables	19	**12,596**	7,595
Income tax receivable		**-**	168
Cash and cash equivalents	20	**13,844**	8,285
		37,704	23,329
Current liabilities			
Trade and other payables	21	**(12,726)**	(6,650)
Borrowings	22	**(6,001)**	(4,981)
Income tax liabilities		**(424)**	-
Provision for other liabilities and charges	23	**(505)**	(369)
		(19,656)	(12,000)
Net current assets		**18,048**	11,329
Non-current liabilities			
Borrowings	21	**(9,696)**	(8,545)
Deferred income tax liabilities	24	**(563)**	(696)
Derivative financial instruments	33	**(255)**	(171)
		(10,514)	(9,412)
Net assets		**54,100**	36,053
Shareholders' equity			
Called up share capital	25	**4,370**	3,853
Share premium account	26	**14,200**	4,105
Merger reserve	26	**2,671**	2,671
Hedging reserve	26	**(264)**	(184)
Cumulative translation reserve	26	**588**	276
Retained earnings	26	**32,535**	25,332
Shareholders' equity	27	**54,100**	36,053

The financial statements, including the notes on pages 35 to 63, were approved by the Board of Directors on 25 January 2012 and signed on its behalf by

Gareth C W Jones
Director

Andrew N Boteler
Director

Group Statement of Changes in Shareholders' Equity
For the year ended 30 September 2011

	2011 £000	2010 £000
Balance at 1 October	**36,053**	30,798
Profit for the year	**7,523**	4,691
Movement in the fair value of derivative financial instruments	**(80)**	2
Currency translation differences	**312**	(208)
Total comprehensive income for the year	**7,755**	4,485
Fair value of employee services	**471**	353
Tax credit relating to share option schemes	**80**	417
Proceeds from shares issued net of costs	**10,612**	-
Dividends to equity holders of the company	**(871)**	-
Total contributions by and distributions to owners of the company recognised directly to equity	**18,047**	5,255
Balance at 30 September	**54,100**	36,053

Group Cash Flow Statement

For the year ended 30 September 2011

	2011 £000	2010 £000
Cash flows from operating activities		
Cash generated from operations	13,238	10,141
Income tax paid	(1,386)	(1,307)
Net cash generated from operating activities	11,852	8,834
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	(14,484)	-
Purchase of property, plant and equipment	(2,813)	(873)
Sale of property, plant and equipment	93	8
Purchase of intangible assets	(153)	(81)
Interest received	29	2
Net cash used in investing activities	(17,328)	(944)
Cash flows from financing activities		
Proceeds from new borrowings	4,643	38
Repayment of borrowings	(2,702)	(2,447)
Proceeds from issues of share capital	10,612	-
Dividends paid to ordinary shareholders	(871)	-
Interest paid	(748)	(750)
Net cash generated from/(used in) financing activities	10,934	(3,159)
Net increase in cash, cash equivalents, working capital facility and bank overdraft	5,458	4,731
Cash, cash equivalents, working capital facility and bank overdraft at beginning of the year	5,746	1,087
Exchange losses on cash and bank overdrafts	72	(72)
Cash, cash equivalents, working capital facility and bank overdraft at the end of the year	11,276	5,746

Cash, cash equivalents, working capital facility and bank overdrafts at the end of the year comprise

	2011 £000	2010 £000
Cash and cash equivalents	13,844	8,285
Bank borrowings and overdraft	(2,568)	(2,539)
Cash, cash equivalents, working capital facility and bank overdraft at the end of the year	11,276	5,746

Notes to the Group Cash Flow Statement
For the year ended 30 September 2011

Reconciliation of cash generated from operations

	2011 £000	2010 £000
Profit before income tax	**8,808**	5,096
Adjustments for		
- Amortisation of acquired intangible assets	**1,427**	934
- Amortisation of other intangible assets	**323**	356
- Depreciation	**2,063**	1,796
- Profit on disposal of property, plant and equipment	**(20)**	(3)
- Share based payment obligations	**471**	353
- Acquisition costs	**571**	-
- Impairment of goodwill	**1,969**	-
- Non cash release of accrued contingent consideration	**(2,085)**	-
- Finance income	**(30)**	(2)
- Finance costs	**898**	835
Total	**5,587**	4,269
Changes in working capital		
- Inventories	**(2,613)**	(484)
- Trade and other receivables	**(945)**	(1,333)
- Trade and other payables	**1,537**	923
- Movement in working capital provisions	**864**	1,670
Total	**(1,157)**	776
Cash generated from operating activities	**13,238**	10,141

Reconciliation of net cash inflow to movements in net debt

	2011 £000	2010 £000
Increase in cash in the year	**5,458**	4,731
Repayment of borrowings	**2,702**	2,447
New borrowings	**(4,643)**	(38)
Changes in net debt resulting from cash flows	**3,517**	7,140
Debt acquired upon acquisition	**(104)**	-
Translation differences	**(25)**	(273)
Movement in net debt in the year	**3,388**	6,867
Net debt at 1 October	**(5,241)**	(12,108)
Net debt at 30 September	**(1,853)**	(5,241)

Notes to the Group Cash Flow Statement
For the year ended 30 September 2011

Analysis of net debt

	At 1 Oct 2010 £000	Cash flow £000	Exchange movement £000	Non-cash movement £000	At 30 Sep 2011 £000
Cash at bank and in hand	**8,285**	5,458	101	-	**13,844**
Bank overdrafts & RCF[1]	**(2,539)**	-	(29)	-	**(2,568)**
	5,746	5,458	72	-	**11,276**
Debt due within 1 year	**(2,430)**	2,662	(22)	(3,576)	**(3,366)**
Debt due after 1 year	**(8,527)**	(4,643)	(69)	3,576	**(9,663)**
Finance leases	**(30)**	40	(6)	(104)	**(100)**
Net debt	**(5,241)**	3,517	(25)	(104)	**(1,853)**

[1] RCF = Revolving Credit Facility

Notes to the Financial Statements
For the year ended 30 September 2011

1 General information

Gooch & Housego PLC (the "Company") is incorporated and domiciled in the United Kingdom The Company is listed on the Alternative Investment Market ("AIM Market") of the London Stock Exchange The address of the registered office of the Company is given on page 19

The consolidated financial statements of the Group for the year ended 30 September 2011 comprise the Company, Gooch & Housego PLC, and its subsidiaries (together referred to as the "Group") A listing of the Company's major subsidiaries is set out on page 68

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

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 2011, and with those parts of the Companies Act 2006 applicable to companies preparing financial statements in accordance with IFRS

3 Application of IFRS

Adoption of new standards

During the current reporting period there were no new standards or amendments which had a material impact on the net assets of the Group

In addition, standards or amendments issued but not yet effective are not expected to have a material impact on the net assets of the Group However, the Group is closely monitoring the IASB projects on Contract Revenue recognition and the Lease accounting overhaul as they could potentially have a material impact on the Group's results

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, the fair value of contingent or deferred consideration and liabilities incurred or assumed at the date of exchange Costs directly attributable to the business combination are charged to the income statement 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 Should the fair value of contingent or deferred consideration vary from the actual value on settlement date, 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 operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments A market 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

The chief operating decision maker in determining a business or operating segment is the Board of Directors

Foreign currency translation

a Functional and presentational 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 an entity's 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 presentational currency are translated into the presentational 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 in other comprehensive income and 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 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 and equipment

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

No depreciation is charged on freehold land or capital work in progress Certain plant used in the manufacturing process which is constructed from precious metals is not depreciated

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
• Leasehold property	over term of lease	Straight line
• Plant and machinery	10-20%	Straight line
• Fixtures, fittings and computer hardware	10-33%	Straight line
• Motor vehicles	25%	Reducing balance

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date Where an asset's carrying amount is greater than its estimated recoverable amount, the asset's carrying amount is written down immediately to its recoverable amount The recoverable amount is the higher of an asset's fair value less costs to sell or an asset's value in use

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 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 Any impairment is recognised immediately as an expense to the income statement and is not subsequently reversed

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

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 and are charged to Research and Development costs in the income statement

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

Acquired computer software and licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software

Capitalised software costs are amortised using the straight line method over their estimated useful lives of up to 5 years and charged to Administration costs in the income statement

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 lives, which is typically 7 years, and are charged to Research and Development costs in the income statement

e Acquired 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

Notes to the Financial Statements
For the year ended 30 September 2011

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 property, plant and equipment, the grant is initially credited to deferred income then 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 which is the higher of the value in use and the fair value less costs to sell 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

Inventories

Inventories are stated at the lower of weighted average 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 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 'Administration 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 'Administration 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 the drawn down balance of the $8m Revolving Credit Facility The drawn down balance of the $8m Revolving Credit Facility is 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

Financial instruments

Financial instruments are initially recognised at fair value on the date that a contract is entered into and are subsequently remeasured at their fair value The Group documents the relationship between the hedging instrument and the hedged item and, on a periodic basis, assesses whether the hedge is effective

The fair value of the financial instrument used for hedging purposes is disclosed in Note 33 Movements on the hedging reserve in shareholders' equity is disclosed in Note 27

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity

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

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 other comprehensive income and equity, in which case it is recognised in other comprehensive income and 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 active share option schemes and one dormant scheme 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 in the income statement 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, for awards with non market vesting conditions, 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 of the options under the 2004 Gooch & Housego PLC Company Share Option Scheme was determined by using the Black-Scholes option pricing model The fair value of the options under the Gooch & Housego 2010 Value Creation Plan was determined by using the Monte Carlo 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

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
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 supplied or on acceptance by the customer

b Long term contracts
Two companies within the Group (Cleveland and EM4) have a number of long term contracts in place Revenue is recognised on these 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 incurred that are expected to be recoverable In both cases, any expected contract loss is recognised immediately

Revenue from long term contracts recognised in the year ended 30 September 2011 was £1,779,000 (2010 £1,264,000)

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

Management considers capital as equity, as shown in the Group balance sheet, excluding net debt

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

The Board is satisfied that these objectives have been met during the year Actions taken during the year to achieve these objectives are outlined in the Chief Executive's Review

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

Notes to the Financial Statements
For the year ended 30 September 2011

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

A summary of the Company's debt to equity ratio at 30 September is set out below

	Note	2011 £000	2010 £000
Total borrowings	22	**15,697**	13,526
Less cash and cash equivalents	20	**(13,844)**	(8,285)
Net borrowings		**1,853**	5,241
Total equity	27	**54,100**	36,053
Debt to equity ratio		**3 4%**	14 5%

The decrease in the debt to equity ratio during 2011 resulted primarily from the £10 1m increase in equity from shares placed in January 2011, the repayment of bank borrowings and the positive cashflow achieved through the Group's strong trading performance

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 non-current 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 Where considered appropriate, the Company will use 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 US Dollar

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 2010, with all other variables constant, post tax profits for the year would have been £167,000 higher (2010 £97,000 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 £3,334,000 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 £4,074,000 higher

b Cash flow interest rate risk
The Group has cash balances of £13 8m which are held in interest bearing current accounts 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 £43,000 (2010 £59,000) had the Group's borrowings been in place throughout the year

Borrowings issued at variable interest rates expose the Group to cash flow interest rate risk The Group uses an interest rate swap to hedge a proportion of the interest rate risk During 2010 and 2011, the Group's borrowings at variable interest rates were denominated in Pound Sterling and US Dollars as detailed in Note 34

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 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 2011 accounted for 33% of the Group's revenue (2010 39%) No individual customer made up more than 6% of revenue (2010 7%)

The Group's trade receivables are analysed in note 19

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

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's banking facilities comprise an $18 million US Dollar denominated term loan (fully drawn), a £3 1 million Sterling denominated term loan (fully drawn), a $8 million revolving credit facility (drawn to $4 million as at 30 September 2011) and an undrawn capital expenditure facility of $8 million These are analysed in Notes 23 and 34 All facilities are committed until April 2015, subject to certain covenant provisions

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

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 In making this assessment the Directors make critical estimates and judgements in respect of expected future revenues, costs, investment requirements and debt servicing obligations 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** – During the year ended 30 September 2011, the Group was highly cash generative due to a strong trading performance The Group expects to continue generating cash from operating activities

  The Group investment in property, plant and equipment for the year ended 30 September 2011 has increased over the previous financial year This investment is expected to continue into the next financial year

- **Bank Facilities** – 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 Royal Bank of Scotland plc, has committed significant facilities to the Group which is available through April 2015

  At 30 September 2011, the Group had available cash resources, based on translating the Working Capital Facility at the closing exchange rate for the US Dollar to Pound Sterling, of £16 4m (2010 £12 0m)

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 17, 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

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 In making this assessment, the Directors will consider the payment history of the customer as well as the customer's future viability

Inventory provision

The Group continually monitors and assesses the provision for old and slow moving inventory Factors considered by the Directors include the expected future usage and the potential obsolescence and deterioration of the Inventory

Warranty provision

The Group monitors and assesses its warranty provision requirement on a continuing basis In addition to considering historical repair and replacement costs, the Directors will also assess expected changes in future costs based on current information

Share options

The Company has two active share option schemes and one dormant scheme 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 under the 2004 Gooch & Housego PLC Company Share Option Scheme was measured by using the Black-Scholes option pricing model The fair value of the options under the Gooch & Housego 2010 Value Creation Plan was measured by using the Monte Carlo 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 30

7 Segmental analysis

The Company's segmental reporting reflects the information that management uses within the business The business is divided into four market sectors, being Aerospace and Defence, Life Sciences, Industrial and Scientific Research, together with the Corporate cost centre

The industrial business segment primarily comprises the industrial laser market for use in the semiconductor and microelectronic industries, but also includes other industrial applications such as metrology and telecommunications Scientific Research covers academic and government funded research including major multi-national projects

For year ended 30 September 2011	Aerospace & Defence £000	Life Sciences £000	Industrial £000	Scientific Research £000	Corporate £000	Total £000
Revenue						
Total revenue	15,412	5,655	38,596	3,648	-	63,311
Inter and intra-division	-	-	(2,302)	-	-	(2,302)
External revenue	15,412	5,655	36,294	3,648	-	61,009
Divisional expenses	(12,349)	(4,654)	(25,816)	(3,319)	(1,382)	(47,520)
EBITDA[1]	3,063	1,001	10,478	329	(1,382)	13,489
EBITDA %	19 9%	17 7%	28 9%	9 0%	-	22 1%
Depreciation and Amortisation	(496)	(122)	(858)	(86)	(824)	(2,386)
Operating profit before amortisation of acquired intangible assets	2,567	879	9,620	243	(2,206)	11,103
Acquired intangible assets amortisation	-	-	-	-	(1,427)	(1,427)
Operating profit	2,567	879	9,620	243	(3,633)	9,676
Operating profit margin %	16 7%	15 5%	26 5%	6 7%	-	15 9%

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

Notes to the Financial Statements
For the year ended 30 September 2011

7 **Segmental analysis (continued)**

For year ended 30 September 2010	Aerospace & Defence £000	Life Sciences £000	Industrial £000	Scientific Research £000	Corporate £000	Total £000
Revenue						
Total revenue	11,304	4,890	25,897	5,120	-	47,211
Inter and intra-division	-	-	(2,514)	(14)	-	(2,528)
External revenue	11,304	4,890	23,383	5,106	-	44,683
Divisional expenses	(9,061)	(4,163)	(17,526)	(4,309)	(609)	(35,668)
EBITDA[1]	2,243	727	5,857	797	(609)	9,015
EBITDA %	19 8%	14 9%	25 0%	15 6%	-	20 2%
Depreciation and Amortisation	(433)	(139)	(594)	(164)	(822)	(2,152)
Operating profit before amortisation of acquired intangible assets	1,810	588	5,263	633	(1,431)	6,863
Acquired intangible assets amortisation	-	-	-	-	(934)	(934)
Operating profit	1,810	588	5,263	633	(2,365)	5,929
Operating profit margin %	16 0%	12 0%	22 5%	12 4%	-	13 3%

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

All of the amounts recorded are in respect of continuing operations

Analysis of net assets/(liabilities) by location

	2011 Assets £000	**2011 Liabilities £000**	**2011 Net Assets £000**	2010 Assets £000	2010 Liabilities £000	2010 Net Assets £000
United Kingdom	35,031	(11,608)	23,423	40,264	(11,789)	28,475
North America	48,975	(18,467)	30,508	16,970	(9,541)	7,429
Continental Europe	264	(95)	169	231	(82)	149
	84,270	**(30,170)**	**54,100**	57,465	(21,412)	36,053

Analysis of revenue by destination

	2011 £000	2010 £000
United Kingdom	**8,055**	6,181
North America	**26,278**	22,275
Continental Europe	**13,654**	7,322
Asia Pacific and Other	**13,022**	8,905
Total revenue	**61,009**	44,683

Notes to the Financial Statements
For the year ended 30 September 2011

8 Expenses by nature

	Note	2011 £000	2010 £000
Raw materials and consumables		**17,165**	10,249
Changes in stocks of finished goods and work in progress		**(3,002)**	(447)
Employee costs	10	**25,009**	19,273
Other operating charges		**9,135**	6,962
Depreciation		**2,063**	1,796
Amortisation of other intangible assets		**323**	356
Amortisation of acquired intangible assets		**1,427**	934
Other income and expenses	9	**(787)**	(369)
		51,333	38,754

9 Other income and expenses

	2011 £000	2010 £000
Grants receivable	**443**	334
Gain on disposal of property, plant and equipment	**20**	2
Change in fair value of contingent consideration on acquisition	**2,085**	-
Impairment of goodwill	**(1,969)**	-
Other income	**208**	33
	787	369

10 Employee costs

	2011 £000	2010 £000
Wages and salaries	**19,949**	15,725
Social security costs	**1,841**	1,279
Share options	**471**	353
Medical and other insurance	**2,044**	1,443
Pension costs	**704**	473
	25,009	19,273

The average number of employees during the year was

	2011 Number	2010 Number
Manufacturing	**371**	329
Sales, finance and administration	**151**	127
	522	456

Key management compensation

	2011 £000	2010 £000
Wages and salaries	**2,696**	2,291
Social security costs	**432**	232
Share options	**471**	353
Medical and other insurances	**109**	89
Pension scheme contributions	**199**	108
	3,907	3,073

11 Operating profit

Operating profit is stated after charging

	2011 £000	2010 £000
Fees payable to the Company's auditor for the audit of the parent company and consolidated accounts	**38**	36
Fees payable to the Company's auditor and its associates for other services		
- the audit of the Company's subsidiaries pursuant to legislation	**170**	104
- tax services	**55**	164
- other services	**8**	2
Net losses on foreign exchange	**96**	121
Operating lease rentals	**716**	791

12 Finance income and costs

	2011 £000	2010 £000
Finance income comprises		
Bank interest	**30**	2
Finance costs comprise		
Bank interest	**756**	754
Refinancing costs	**49**	81
Finance lease interest	**1**	-
Imputed interest on contingent consideration on acquisitions	**92**	-
	898	835

13 Income tax expense

Analysis of tax charge in the year

	2011 £000	2010 £000
Current taxation		
UK Corporation tax	**1,018**	47
Overseas tax	**1,273**	1,656
Adjustments in respect of prior year tax charge	**(181)**	(189)
Total current tax	**2,110**	1,514
Deferred tax		
Origination and reversal of timing differences	**(592)**	(622)
Adjustments in respect of prior year deferred tax	**(298)**	(506)
Impact of UK tax rate change to 25% (2010 27%)	**65**	19
Total deferred tax	**(825)**	(1,109)
Income tax expense per income statement	**1,285**	405

Adjusted income tax workings	2011 £000	2010 £000
Income tax expense per income statement	**1,285**	405
Add back one-off items		
Losses utilised not previously recognised	**232**	350
Unutilised tax losses to be consumed in future years	**-**	564
Increase in deferred tax on 2004 and 2005 options	**-**	210
Total one-off items	**232**	1,124
Adjusted income tax expense	**1,517**	1,529

Notes to the Financial Statements
For the year ended 30 September 2011

The current taxation for the year is lower (2010 lower) than the standard rate of corporation tax in the UK Some of the difference is due to one-off items listed in the above table A full explanation of the differences is explained below

	2011 £000	2010 £000
Profit before income tax expense	**8,808**	5,096
Profit at the effective standard rate of tax of 27% for the year (2010 28%)	**2,378**	1,427
Permanent differences		
- Change in fair value of contingent consideration for acquisition	**(693)**	-
- Other permanent differences	**(130)**	(209)
Share options	-	(217)
Utilisation of tax losses not previously recognised	-	(966)
Adjustments in respect of foreign tax rates	**144**	243
Adjustments in respect of prior year tax charge	**(181)**	(189)
Impact of UK tax rate change to 25% on deferred tax	**65**	19
Adjustments in respect of prior year deferred tax	**(298)**	297
Total income tax expense	**1,285**	405

Factors affecting the future tax charge

Overseas tax losses of £2 2m (2010 £0 5m) and UK tax losses of £0 9m (2010 £0 5m) are available to offset against future profits of the Group The utilisation of these losses is not sufficiently certain to recognise a deferred tax asset

The Finance (No 2) Act 2010 included legislation to reduce the main rate of corporation tax from 28% to 27% with effect from 1 April 2011 Subsequently, in his Budget speech on 23 March 2011 the Chancellor announced a further reduction in the rate of corporation tax to 26% with effect from 1 April 2011 This further reduction was enacted under the Provisional Collection of Taxes Act 1968 on 29 March 2011

Legislation to reduce the main rate of corporation tax from 26% to 25% from 1 April 2012 has been included in the Finance Act 2011 and substantively enacted on 5 July 2011 Accordingly, the net deferred tax asset has been recognised at 25% resulting in a decrease in the Group's net deferred tax asset and a charge to the statement of comprehensive income of £65,000

The proposed further reductions in the rate of corporation tax by 1% per annum to 23% from 1 April 2014 are expected to be enacted separately each year

14 Dividends

	2011 £000	2010 £000
Interim dividend paid 2 0p per share	**437**	-
Final 2010 dividend paid in 2011 2 0p per share	**434**	-
	871	-

The Directors propose a final dividend of 3 0p per share making the total dividend paid and proposed in respect of the year 5 0p (2010 2 0p) Should the final dividend be approved at the Company Annual General Meeting, cut-off dates for payment are

- Record date 27 January 2012
- Payment date 02 March 2012

Notes to the Financial Statements
For the year ended 30 September 2011

15 Earnings per share

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

	2011	2010
Number of shares used for basic earnings per share	**21,162,500**	19,264,390
Dilutive shares	**1,194,768**	432,834
Number of shares used for dilutive earnings per share	**22,357,268**	19,697,224

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

	2011		2010	
	£000	**pence per share**	£000	pence per share
Basic earnings per share	**7,523**	**35 5p**	4,691	24 4p
Amortisation of acquired intangible assets (net of tax)	**1,083**	**5 1p**	860	4 4p
Acquisition costs	**434**	**2.1p**	-	-
Goodwill impairment of investment (net of tax)	**1,299**	**6 1p**	-	-
Change in value of contingent consideration for acquisition	**(2,085)**	**(9 9)p**		
Costs associated with debt re-financing (net of tax)	**37**	**0 2p**	-	-
Impact of one off tax adjustments	**(232)**	**(1 1)p**	(1,124)	(5 8)p
Total adjustments net of income tax expense	**536**	**2.5p**	(264)	(1 4)p
Adjusted basic earnings per share	**8,059**	**38 0p**	4,427	23 0p
Basic diluted earnings per share	**7,523**	**33 6p**	4,691	23 8p
Adjusted diluted earnings per share	**8,059**	**36.0p**	4,427	22 5p

Basic and diluted earnings per share before amortisation and adjustments has been shown because, in the opinion of the Directors, it provides a useful measure of the trading performance of the Group

16 Property, plant and equipment

	Capital work in progress £000	Freehold land and buildings £000	Leasehold property £000	Plant and machinery £000	Fixtures, fittings and computers £000	Motor vehicles £000	Total £000
Cost or valuation							
At 1 October 2009	86	8,894	549	12,829	2,256	34	24,648
Additions	6	-	-	763	96	8	873
Disposals	-	-	-	(8)	-	(14)	(22)
Reclassification	(57)	-	-	60	13	-	16
Exchange rate differences	-	13	7	37	2	-	59
At 30 September 2010	**35**	**8,907**	**556**	**13,681**	**2,367**	**28**	**25,574**
Acquisition	48	-	-	3,763	99	-	3,910
Additions	373	31	908	1,460	107	-	2,879
Disposals	(39)	-	-	(276)	(58)	-	(373)
Reclassification	(102)	31	5	64	2	-	-
Exchange rate differences	3	11	30	48	6	-	98
At 30 September 2011	**318**	**8,980**	**1,499**	**18,740**	**2,523**	**28**	**32,088**
Depreciation							
At 1 October 2009	-	683	374	6,166	764	27	8,014
Charge for the year	-	181	119	1,324	168	4	1,796
Disposals	-	-	-	(4)	-	(14)	(18)
Reclassification	-	-	-	3	5	-	8
Exchange rate differences	-	2	4	14	1	-	21
At 30 September 2010	-	**866**	**497**	**7,503**	**938**	**17**	**9,821**
Charge for the year	-	179	30	1,646	205	3	2,063
Disposals	-	-	-	(267)	(33)	-	(300)
Exchange rate differences	-	3	4	52	5	-	64
At 30 September 2011	-	**1,048**	**531**	**8,934**	**1,115**	**20**	**11,648**
Net book value							
At 1 October 2009	86	8,211	175	6,663	1,492	7	16,634
At 30 September 2010	35	8,041	59	6,178	1,429	11	15,753
At 30 September 2011	**318**	**7,932**	**968**	**9,806**	**1,408**	**8**	**20,440**

At 30 September 2011, plant and equipment purchased under a hire purchase or finance lease agreement had a cost of £137,000 and net book value of £109,000 At 30 September 2010, plant and equipment purchased under a hire purchase or finance lease agreement had a cost of £33,000 and net book value of £32,000

No interest was capitalised in the year (2010 £Nil)

17 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 2009	16,042	4,043	552	1,050	21,687
Additions	-	-	49	32	81
Reclassification	-	-	-	(16)	(16)
Exchange rate differences	(183)	45	2	6	(130)
At 30 September 2010	**15,859**	**4,088**	**603**	**1,072**	**21,622**
Acquired	5,870	4,302	-	-	10,172
Additions	-	-	40	56	96
Disposals	-	-	-	(2)	(2)
Exchange rate differences	238	156	6	5	405
At 30 September 2011	**21,967**	**8,546**	**649**	**1,131**	**32,293**
Amortisation					
At 1 October 2009	2,218	1,962	149	500	4,829
Charge for the year	-	934	171	185	1,290
Reclassification	-	-	-	(8)	(8)
Exchange rate differences	-	217	2	1	220
At 30 September 2010	**2,218**	**3,113**	**322**	**678**	**6,331**
Charge for the year	-	1,427	145	178	1,750
Disposals	-	-	-	(1)	(1)
Impairment	1,969	-	-	-	1,969
Exchange rate differences	-	159	2	2	163
At 30 September 2011	**4,187**	**4,699**	**469**	**857**	**10,212**
Net book value					
At 1 October 2009	13,824	2,081	403	550	16,858
At 30 September 2010	13,641	975	281	394	15,291
At 30 September 2011	**17,780**	**3,847**	**180**	**274**	**22,081**

Goodwill is allocated according to each operating entity as follows, Cleveland (£2,1m), Melbourne (£1 8m), Norderstedt (£0 1m), Ilminster (£0,6m), New Jersey (£0 6m), Torquay (£1 3m), Moorpark (£5 3m) and EM4 (£6 0m)

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 CGU The value in use calculations use pre-tax cash flow projections based on the latest projections approved by the Board for year one For the purposes of the impairment review, the following key assumptions were made in respect of the cash flows beyond year one

- 42% Projected gross profit margin
- 5% Average growth to 2015, 3% thereafter
- 15% Weighted average cost of capital used to discount cash flows

The projected gross profit margin and average growth is based on past performance and the Directors' expectations for the foreseeable future

As part of its bi-annual review of the carrying value of goodwill, the Board has taken the decision to impair the goodwill of the General Optics acquisition General Optics, now referred to as Gooch & Housego Moorpark, was acquired in October 2008 for a consideration of $21m and, prior to the impairment, the carrying value of the associated goodwill was £7 1m

Over the last three years this acquisition has played a vital role in Gooch & Housego's diversification strategy, by providing the systems and critical mass needed for the Company to become a credible player in the Aerospace and Defence market However, on a stand-alone basis, Moorpark has struggled to grow its business during some difficult times in the commercial aerospace sector Recent trends in this market and internal changes are moving Moorpark in the right direction but these changes have yet to produce tangible results Consequently, the Company has evaluated the fair value of the CGU based on value in use and determined that the carrying value exceeds the value in use by £2 0m and therefore an impairment has been recognised

Following this impairment, the Moorpark cash generating unit has a "value in use" of £507k A reduction in the forecast earnings before interest and taxation of 24%, a fall in the growth rate to 1% for the next five years, or a rise in the discount rate to 16% would remove the remaining headroom

18 Inventories

	2011 £000	2010 £000
Raw materials	**3,991**	2,727
Work in progress	**4,852**	3,141
Finished goods	**2,421**	1,413
	11,264	7,281

The cost of inventories recognised as an expense and included in Cost of revenue amounted to £30 6m (2010 £25 4m)

The movement in the inventories provision is as follows

	2011 £000	2010 £000
At 1 October	**2,190**	2,092
Increase in provision	**54**	125
Acquired	**853**	-
Exchange rate movement	**18**	(27)
At 30 September	**3,115**	2,190

19 Trade and other receivables

	2011 £000	2010 £000
Trade receivables	**10,118**	7,267
Other receivables	**332**	38
Grant funding held in trust account	**1,598**	-
Prepayments	**548**	290
	12,596	7,595

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

	2011 £000	2010 £000
Pound Sterling	**2,559**	1,946
US Dollar	**7,989**	5,241
Euro	**2,048**	408
	12,596	7,595

Notes to the Financial Statements
For the year ended 30 September 2011

The ageing of Trade receivables by due date is as follows

	2011 £000	2010 £000
Current	**8,807**	4,483
1 to 3 months	**1,409**	2,648
Over 3 months	**224**	320
	10,440	7,451
Less provision for impairment	**(322)**	(184)
Net trade receivables	**10,118**	7,267

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

	2011 £000	2010 £000
At 1 October	**184**	121
Acquired	**104**	-
Utilisation of provision	**(60)**	-
Increase in provision	**108**	66
Release of provision no longer required	**(15)**	(4)
Exchange rate movement	**1**	1
At 30 September	**322**	184

20 Cash and cash equivalents

	2011 £000	2010 £000
Cash at bank and on hand	**13,844**	8,285

21 Trade and other payables

	2011 £000	2010 £000
Payments on account	**72**	-
Trade payables	**3,149**	2,458
Other taxation and social security	**167**	31
Grant funding held in trust account	**1,598**	-
Accruals	**7,740**	4,161
	12,726	6,650

22 Borrowings

	2011 £000	2010 £000
Due within one year or on demand		
Bank borrowings	5,934	4,969
Finance leases	67	12
	6,001	4,981
Due after more than one year		
Bank borrowings	9,663	8,527
Finance leases	33	18
	9,696	8,545
Total borrowings	15,697	13,526

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

On 1 April 2011, Gooch & Housego renegotiated its banking facilities with its current bankers, the Royal Bank of Scotland These facilities now comprise of an $18m dollar denominated term loan (fully drawn down) and a £3 1m sterling denominated term loan (fully drawn down)

In addition, the Group has a working capital facility of US$8 0m of which US$4 0m is drawn down and a capital expenditure facility of US$8 0m, which has not been drawn down

All facilities are committed until April 2015 and attract an interest rate of between 2 25% and 3 00% above LIBOR dependent upon the Company's leverage ratio

At 30 September 2011, the balance outstanding for the US Dollar facility was $15 8m (2010 $11 5m) and for the Sterling facility £2 9m (2010 £3 2m)

Gooch & Housego (Florida) LLC, a US subsidiary, has a US Dollar loan of $738,000 (2010 $793,000) which is secured by a charge over the property it occupies The loan is repaid in monthly instalments totalling $55,000 per annum Interest is payable at 1 6% above 30 day US$ LIBOR

Maturity profile of bank and other borrowings

	Bank borrowings £000	Finance leases £000	Total 2011 £000	Total 2010 £000
Within one year	5,934	67	6,001	4,981
Between two and five years	9,365	33	9,398	8,216
More than five years	298	-	298	329
	15,597	100	15,697	13,526

23 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

	2011 £000	2010 £000
At 1 October	**369**	351
Utilised during year	**(286)**	(251)
Charge to the income statement	**420**	268
Exchange movement	**2**	1
At 30 September	**505**	369

24 Deferred tax assets and liabilities

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

	2011 £000	2010 £000
At 1 October	**2,396**	887
Deferred tax arising from acquisitions	**180**	-
Credit to the income statement	**825**	1,109
Credit directly to equity	**80**	417
Exchange movement	**1**	(17)
At 30 September	**3,482**	2,396

The deferred tax provided for in the financial statements is disclosed under the following balance sheet headings and can be analysed as follows

	2011 £000	2010 £000
Deferred income tax assets		
Intangible assets	**299**	272
Share options	**902**	727
Provisions	**1,399**	692
Unutilised losses	**1,271**	1,184
Other timing differences	**174**	217
	4,045	3,092
Deferred income tax liabilities		
Property, plant and equipment	**(446)**	(614)
Other timing differences	**(117)**	(82)
	(563)	(696)
Deferred tax balance at 30 September	**3,482**	2,396

Overseas tax losses of £2 2m (2010 £0 5m) and UK tax losses of £0 9m (2010 £0 5m) are available to offset against future profits of the Group The Group has not recognised a deferred income tax asset of £0 9m (2010 £0 3m) in respect of these losses due to uncertainty as to whether they would be utilised within the foreseeable future

No deferred tax has been provided in relation to unremitted earnings from overseas subsidiaries on the basis that no incremental tax charge is currently anticipated to arise upon remittance of these earnings to the UK

25 Called up share capital

	2011 Number	2010 Number	2011 £000	2010 £000
Authorised				
Ordinary share of 20p each	**24,000,000**	24,000,000	**4,800**	4,800
Allotted, issued and fully paid				
At 1 October	**19,264,390**	19,264,390	**3,853**	3,853
Shares issued and fully paid	**2,586,408**	-	**517**	-
At 30 September	**21,850,798**	19,264,390	**4,370**	3,853

Of the shares issued in the year ended 30 September 2011, 219,742 were allotted under share option schemes No shares were allotted under share option schemes in the previous financial year On 5 January 2011, Gooch & Housego raised approximately £10 1 million (net of expenses) through a placing of 2,366,666 new 20p Ordinary Shares

26 Reserves

	Share premium account £000	Merger reserve £000	Hedging reserve £000	Cumulative translation reserve £000	Retained earnings £000
At 1 October 2010	4,105	2,671	(184)	276	25,332
Profit for the financial year	-	-	-	-	7,523
Dividends paid	-	-	-	-	(871)
Shares placed	10,095	-	-	-	-
Fair value of share options	-	-	-	-	471
Deferred tax on share options	-	-	-	-	80
Change in fair value of interest rate swap	-	-	(80)	-	-
Currency translation differences	-	-	-	312	-
At 30 September 2011	**14,200**	**2,671**	**(264)**	**588**	**32,535**

27 Reconciliation of movements in shareholders' equity

	2011 £000	2010 £000
Profit for the year	**7,523**	4,691
Dividends paid	**(871)**	-
Share placement	**10,101**	-
Shares issued under share option schemes	**511**	-
Share-based payments	**471**	353
Deferred income tax movement on share options	**80**	417
Value of interest rate swap	**(80)**	2
Currency translation movement	**312**	(208)
Net addition to shareholders' equity	**18,047**	5,255
Opening shareholders' equity	**36,053**	30,798
Closing shareholders' equity	**54,100**	36,053

28 Share options

The Company operates two active share option schemes, the Gooch & Housego PLC 2004 Company Share Option Scheme (the "2004 Scheme") and the Gooch & Housego 2010 Value Creation Plan (the "2010 VCP"), which grant share options to certain employees A third scheme, the Gooch & Housego 2007 Long Term Incentive Plan (the "2007 LTIP"), is dormant

The Gooch & Housego PLC 2004 Company Share Option Scheme
Under the 2004 Scheme, the Company has ceased granting share options Options under this scheme 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

At 30 September 2011, 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 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

The options under the 2004 Scheme were valued using the Black-Scholes option pricing model The fair value per option and the assumptions used 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

No performance conditions were included in the fair value calculations 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

The Gooch & Housego 2010 Value Creation Plan
Under the 2010 VCP, the amount of options granted will not be determined until the end of the plan's three year term and meeting the performance criteria The remuneration report details the performance criteria Under the plan, key employees are granted a one-off award of units from an agreed total Three executive Directors have been awarded 44 units out of the total pool of 64 units and eight key employees hold the remaining 20 units

The 2010 VCP was valued using the Monte Carlo option pricing model The expected volatility of 73 5% used in the model is based on the historical volatility of the Company's share price over the three years prior to 7 January 2010 The risk free rate of 2 1% was used The total fair value of all the units granted to the participants in the 2010 VCP was £1,614,640

The Gooch & Housego 2007 Long Term Incentive Plan
The 2007 LTIP has been replaced by the 2010 VCP The share options granted under the 2007 LTIP have been surrendered by the participants and the scheme is now dormant

Notes to the Financial Statements
For the year ended 30 September 2011

A reconciliation of share option movements is shown below

	2011		2010	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
Outstanding at 1 October	**945,445**	**170 3p**	1,118,413	143 9p
Exercised	**(188,492)**	**225 7p**	-	-
Surrendered or Lapsed	**-**	**-**	(172,968)	0 0p
Outstanding at 30 September	**756,953**	**156 5p**	945,445	170 3p
Exercisable at 30 September	**678,391**	**159 1p**	866,883	173 6p

The weighted average fair value of options granted in the year was £nil (2010 £nil) For the options exercised, the average market price was 493 4p per share

Share options information by exercise price

Range of exercise prices 30 September 2011		**Number of options**	**Weighted average exercise price**	**Weighted average remaining life (years)**	
				Expected	**Contractual**
£0-£1 50	2004 Scheme	631,953	133 5p	0 0	2 8
£1 50-£3 00	2004 Scheme	125,000	272 5p	0 0	4 2

Range of exercise prices 30 September 2010		Number of options	Weighted average exercise price	Weighted average remaining life (years)	
				Expected	Contractual
£0-£1 50	2004 Scheme	695,445	133 5p	0 0	3 8
£1 50-£3 00	2004 Scheme	250,000	272 5p	0 0	5 2

The total charge for the year relating to share options was £471,000 (2010 £353,000), all of which related to equity-settled share based payment transactions

29. Acquisition of EM4 Inc

On 25 January 2011, the company acquired the entire share capital of EM4 Inc a US based manufacturer of active fibre optics components and subassemblies, based near Boston, Massachusetts for an initial consideration of $11 6 million (approximately £7 3 million) To fund this acquisition, the Company raised approximately £10 6 million (approximately £10 1 million net of expenses) through a placing of new ordinary shares at 450 pence per new ordinary share, on 5 January 2011

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

	Fair value
	£'000
Property, plant and equipment	138
Intangible assets	2,479
Cash	489
Trade and other receivables	891
Inventory	560
Trade and other payables	(996)
Deferred tax	(69)
Net assets acquired	**3,492**
Consideration paid	
Cash	7,274
Contingent consideration	2,085
Total consideration	**9,359**
Goodwill	**5,867**

The intangible assets in respect of this acquisition arise from a number of sources including well established customer relationships with many of the major US defence contractors, world leading technology, and a well-respected brand The fair values of the net assets acquired are provisional pending finalisation of the fair value exercise in relation to those assets

The contingent consideration arrangement required Gooch & Housego to pay the sum of 1 2 times the EBITDA generated by EM4 Inc in the 2011 calendar year The potential undiscounted amount of all future payments that Gooch & Housego could be required to make under this arrangement is between nil and $7 0 million The fair value of the contingent consideration arrangement of £2 0 million was estimated by reference to latest business forecasts

The revenue included in the consolidated income statement from 23 January 2011 to 30 September 2011 contributed by EM4 Inc was £3 95 million EM4 Inc also contributed profit of £0 34 million over the same period

As a result of delay in a major contract, EM4 has not reached its threshold for the contingent consideration to be paid Consequently, the reduction in the fair value of the contingent consideration, previously provided for at the date of acquisition, has been recognised in the income statement Whilst the aforementioned contract delay has affected the anticipated results for 2011, the first phase of the contract in question was placed in August 2011 and consequently no impairment of goodwill is considered necessary

30. Acquisition of Crystal Technology LLC.

On 31 March 2011, the company acquired the entire share capital of Crystal Technology LLC, a Palo Alto, California, based manufacturer of acousto-optic, electro-optic and fibre optic components and systems, and oxide single crystal materials for optical applications The total consideration of $13 75 million (approximately £8 6 million) comprises $9 625 million for the business and $4 125 million in respect of precious metal left in the business at acquisition A deferred consideration arrangement requires Gooch & Housego to pay $3 25 million of the purchase price on 31 March 2012

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

	Fair value £'000
Property, plant and equipment	3,773
Intangible assets	1,823
Trade and other receivables	1,659
Inventory	1,632
Trade and other payables	(576)
Deferred tax	249
Net assets acquired	**8,560**
Consideration paid	
Cash	6,586
Deferred consideration	1,977
Total consideration	**8,563**
Goodwill	**3**

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

A deferred consideration arrangement requires Gooch & Housego to pay $3 25 million of the purchase price on 31 March 2012

The revenue included in the consolidated income statement from 1 April 2011 to 30 September 2011 contributed by Crystal Technology LLC was £6 40 million Crystal Technology LLC also contributed profit of £1 25 million over the same period

31 Operating leases

The future aggregate minimum lease payments under non-cancellable operating leases are as follows

	Land and Buildings		Other	
	2011 £000	2010 £000	**2011 £000**	2010 £000
Within one year	**863**	443	**27**	4
Between two to five years	**5,051**	1,010	**15**	3
	5,914	1,453	**42**	7

The increase in operating lease payments for Land and Buildings is due to additional premises required for the Crystal Growth facility in Cleveland and leases on EM4 and Crystal Technology premises

32 Financial instruments

The Group's financial instruments comprise an interest rate swap, bank borrowings, cash at bank, finance leases and various items such as trade receivables and trade payables that directly arise from its operations 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 variable rate borrowings whenever possible Short-term funding flexibility is achieved through the Group's $8 0m Working Capital Facility

The currency profile for the Group's financial assets and liabilities are set out below

	Financial assets		Financial liabilities	
	2011 £000	2010 £000	**2011 £000**	2010 £000
Pound Sterling	**7,034**	2,165	**2,813**	3,205
US Dollars	**6,087**	5,386	**12,884**	10,321
Euro	**723**	734	**-**	-
	13,844	8,285	**15,697**	13,526

The financial assets listed in the above table are subject to floating rates of interest The Interest rates on the financial liabilities are provided in Note 23 The financial assets include cash at bank but exclude short-term receivables, prepayments and other receivables The financial liabilities includes bank borrowings and finance leases Other short-term payables are excluded from this disclosure

33 Derivative financial instruments

	2011 £000	2010 £000
Interest rate swap	**357**	256
Current portion	**102**	85
Non-current portion	**255**	171
	357	256

The notional principal amount of the outstanding interest swap contract at 30 September 2011 was $18 million (2010 $9 million) The end date for the interest swap is 1 April 2015 At 30 September 2011, the fixed rate of the interest rate swap was 2 14% and the floating rate was US dollar LIBOR The fair value of the swap is a mark to market calculation based on future interest rate expectations over the life of the swap This is the level 2 method of determining fair value as defined by IFRS 7

34 Capital commitments

	2011 £000	2010 £000
Authorised and contracted but not provided for	**1,444**	175

35 Related party transactions

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

Independent Auditors' Report
to the Members of Gooch & Housego PLC

We have audited the parent company financial statements of Gooch & Housego PLC for the year ended 30 September 2011 which comprise the balance sheet and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Respective responsibilities of directors and auditors
As explained more fully in the Directors' Responsibilities Statement set out on pages 23 and 24, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, 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

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements
In our opinion the parent company financial statements

- give a true and fair view of the state of the company's affairs as at 30 September 2011,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the parent company financial statements are prepared is consistent with the parent company financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Other matter
We have reported separately on the group financial statements of Gooch & Housego PLC for the year ended 30 September 2011

David L Charles (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
25 January 2012

Gooch & Housego PLC
Company number 00526832

Company Balance Sheet
As at 30 September 2011

	Note	2011 £000	2011 £000	2010 £000	2010 £000
FIXED ASSETS					
Investments	6		**12,003**		12,003
Tangible assets	7		**9,851**		10,326
			21,854		22,329
CURRENT ASSETS					
Debtors	8	**3,935**		6,524	
Cash at bank and in hand		**6,644**		2,103	
		10,579		8,627	
CREDITORS amounts falling due within one year	10	**(9,812)**		(14,071)	
NET CURRENT ASSETS/(LIABILITIES)			**767**		(5,444)
CREDITORS amounts falling due after more than one year	11		**(2,355)**		(4,472)
NET ASSETS			**20,266**		12,413
CAPITAL AND RESERVES					
Called up share capital	13		**4,370**		3,853
Share premium account	14		**14,200**		4,105
Revaluation reserve	14		**253**		258
Profit and loss account	14		**1,443**		4,197
SHAREHOLDERS' FUNDS	15		**20,266**		12,413

Approved by the Board of Directors on 25 January 2012 and signed on its behalf by

Gareth C W Jones
Director

Andrew N Boteler
Director

The notes on pages 66 to 72 form part of these financial statements

Notes to the Company Balance Sheet
For the year ended 30 September 2011

1 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 2006

Pension schemes
The Company operates a money purchase pension scheme for Directors and staff The assets of the scheme 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 active share option plans which grant share options to key employees and one dormant scheme 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 for the Gooch & Housego PLC 2004 Share Option Scheme and the Monte Carlo option pricing model for the Gooch & Housego 2010 Value Creation Plan

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

Tangible fixed assets are stated at historic purchase cost less accumulated depreciation 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 and machinery	10-20%	Straight line
Fixtures, fittings and computers	10-33%	Straight line
Capitalised software and licences	25-33%	Straight line

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

Investments
Investments are stated at cost less provision for any impairment 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 has not used derivative financial instruments to hedge its exposure to currency risk It has entered into an interest rate swap to hedge its exposure to interest rate movements The Company does not apply hedge accounting to this swap Amounts receivable or payable in respect of this derivative are recognised to interest expense over the period of the contract Changes in the derivative's fair value are not recognised Further details are given in Note 12

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 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

Notes to the Company Balance Sheet
For the year ended 30 September 2011

2 Company profit and loss account

Gooch & Housego PLC has taken advantage of section 408(3) of the Companies Act 2006 and has not included its own profit and loss account in these financial statements The Company's loss after tax was £2,590,000 (2010 £3,102,000 profit)

Fees payable to the Company auditor for the year amounted to £15,400 (2010 £15,000)

3 Employee costs

	2011 £000	2010 £000
Wages and salaries	**1,178**	1,100
Social security costs	**311**	109
Share-based payments	**471**	353
Pension and other costs	**52**	50
	2,012	1,612

The average number of employees during the year was

	2011 Number	2010 Number
Finance and administration	**6**	6

4 Directors' emoluments

	2011 £000	2010 £000
Directors' remuneration	**604**	540
Performance related bonus	**182**	329
Medical and other insurances	**11**	11
Directors' pension scheme contributions	**39**	34
	836	914

The number of Directors who are accruing retirement benefits under a money purchase pension scheme is 3 (2010 3)

Details of the remuneration and pension contributions of the highest paid Director is shown in the Remuneration Committee Report on page 25 and form part of these financial statements

5 Dividends

	2011 £000	2010 £000
Interim dividend paid 2 0p per share	**437**	-
Final 2010 dividend paid in 2011 2 0p per share	**434**	-
	871	-

The Directors propose a final dividend of 3 0p per share making the total dividend paid and proposed in respect of the year 5 0p (2010 2 0p) Should the final dividend be approved at the Company Annual General Meeting, cut-off dates for payment are

- Record date 27 January 2012
- Payment date 02 March 2012

Notes to the Company Balance Sheet
For the year ended 30 September 2011

6. Investments

The major subsidiary companies at 30 September 2011, all of which are wholly owned either directly or indirectly, are listed below

Company Name	Location and country of incorporation	Activity
Gooch & Housego (UK) Limited	Ilminster, UK	Manufacturer of acousto-optic products and precision optics
Gooch & Housego (Torquay) Limited	Torquay, UK	Manufacturer of fibre-optic products
Gooch & Housego (Deutschland) GmbH	Norderstedt, Germany	Developer of radio frequency electronic products
Gooch & Housego (Ohio) LLC	Cleveland, USA	Manufacturer of electro-optic products and crystals
Gooch & Housego (California) LLC	Moorpark, USA	Manufacturer of precision optics
Gooch & Housego (Florida) LLC	Melbourne, USA	Manufacturer of acousto-optic products
Optronic Laboratories LLC	Orlando, USA	Manufacturer of instruments for measuring optical radiation
ChromoDynamics, Inc	Lakewood, USA	Developer of hyperspectral imaging systems
EM4 Inc	Boston, USA	Manufacturer of fibre optics products
Crystal Technology LLC	Palo Alto, USA	Manufacturer of acousto-optic, electro-optic and fibre optic components and systems, and oxide single crystal materials for optical applications

7 Tangible assets

	Freehold land and buildings	Plant and machinery	Fixtures, fittings and computers	Capitalised Computer Software and licences	Total
	£000	£000	£000	£000	£000
Cost or valuation					
At 1 October 2010	6,126	3,473	2,764	397	12,760
Additions	-	281	32	5	318
At 30 September 2011	**6,126**	**3,754**	**2,796**	**402**	**13,078**
Accumulated depreciation					
At 1 October 2010	605	578	1,055	196	2,434
Charge for the year	106	237	318	132	793
At 30 September 2011	**711**	**815**	**1373**	**328**	**3,227**
Net book value					
At 30 September 2010	5,521	2,895	1,709	201	10,326
At 30 September 2011	**5,415**	**2,939**	**1,423**	**74**	**9,851**

At 30 September 2011, plant and equipment purchased under a hire purchase or finance lease agreement had a cost of £33,000 and net book value of £24,000 At 30 September 2010, plant and equipment purchased under a hire purchase or finance lease agreement had a cost of £33,000 and net book value of £32,000

Notes to the Company Balance Sheet
For the year ended 30 September 2011

8 Debtors

	Note	2011 £000	2010 £000
Amounts owed by group undertakings		2,278	5,190
Prepayments		65	61
Corporation tax receivable		58	58
Group tax relief receivable		739	928
Deferred tax asset	9	795	287
		3,935	6,524

Amounts owed by group undertakings are unsecured and due within one year

9 Deferred tax

The movement in the Company deferred tax asset during the year is as follows

	2011 £000	2010 £000
At 1 October	287	(303)
Credit/(charge) to profit and loss account	565	595
Impact of tax rate change to 25%	(57)	(5)
At 30 September	795	287

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

	2011 £000	2010 £000
Property, plant and equipment	(4)	(257)
Share options	404	309
Other timing differences	395	235
	795	287

10 Creditors Amounts falling due within one year

	Note	2011 £000	2010 £000
Trade creditors		155	85
Amounts owed to subsidiary undertakings		7,835	12,063
Accruals		1,319	1,041
Other Tax and Social Security		48	11
Finance leases falling due within one year		12	12
Bank loans	12	443	859
		9,812	14,071

Amounts owed to subsidiary undertakings are unsecured and due within one year

11 Creditors Amounts falling due after more than one year

	Note	2011 £000	2010 £000
Finance leases falling due after more than one year		8	18
Bank borrowings falling due after more than one year	12	2,347	4,454
		2,355	4,472

Notes to the Company Balance Sheet
For the year ended 30 September 2011

12 Bank borrowings

At 30 September 2011, the Sterling facility is to be repaid by six instalments of £221,000 and a final instalment of £1,550,000 in April 2015 Instalments are payable at six monthly intervals and interest is payable at 2 5% above UK£ LIBOR

	2011 £000	2010 £000
Maturity profile of bank borrowings		
Within one year	443	859
Between two and five years	2,347	4,454
	2,790	5,313
Currency profile of bank borrowings		
Pound sterling	2,790	3,206
US dollar	-	2,107
	2,790	5,313

The refinancing resulted in the interest swap being removed from the company's books At 30 September 2010, the notional principal amount of the outstanding interest swap contract was $9 million and the fair value £256,000 The fixed rate of the interest rate swap was 3 19% and the floating rate was US dollar LIBOR

13 Called up share capital

	2011 Number	2010 Number	2011 £000	2010 £000
Allotted, issued and fully paid				
At 1 October	19,264,390	19,264,390	3,853	3,853
Shares issued and fully paid	2,586,408	-	517	-
At 30 September	21,850,798	19,264,390	4,370	3,853

Of the shares issued in the year ended 30 September 2011, 219,742 were allotted under share option schemes No shares were allotted under share option schemes in the previous financial year On 5 January 2011, Gooch & Housego raised approximately £10 1 million (net of expenses) through a placing of 2,366,666 new 20p Ordinary Shares

14 Reserves

	Share Premium account £000	Revaluation reserve £000	Profit and loss account £000
At 1 October 2010	4,105	258	4,197
Loss for the financial year	-	-	(2,590)
Transferred to profit & loss	-	(5)	5
Shares issued and fully paid	10,095	-	-
Share options	-	-	471
Dividends paid	-	-	(871)
Exchange movement taken to reserves	-	-	231
At 30 September 2011	14,200	253	1,443

Notes to the Company Balance Sheet
For the year ended 30 September 2011

15 Reconciliation of movements in shareholders' funds

	2011 £000	2010 £000
(Loss)/Profit on ordinary activities after tax	(2,590)	3,102
Shares issued and fully paid	10,612	-
Share options	471	353
Dividends paid	(871)	-
Exchange movement taken to reserves	231	-
Net addition to shareholders' funds	7,853	3,455
Opening shareholders' funds	12,413	8,958
Closing shareholders' funds	20,266	12,413

16 Share options

The Company operates two active share option schemes, the Gooch & Housego PLC 2004 Company Share Option Scheme (the "2004 Scheme") and the Gooch & Housego 2010 Value Creation Plan (the "2010 VCP"), which grant share options to certain employees A third scheme, the Gooch & Housego 2007 Long Term Incentive Plan (the "2007 LTIP"), is dormant

The Gooch & Housego PLC 2004 Company Share Option Scheme
Under the 2004 Scheme, the Company has ceased granting share options Options under this scheme 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

At 30 September 2011, 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 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

The options under the 2004 Scheme were valued using the Black-Scholes option pricing model The fair value per option and the assumptions used 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

No performance conditions were included in the fair value calculations 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

Notes to the Company Balance Sheet
For the year ended 30 September 2011

The Gooch & Housego 2010 Value Creation Plan
Under the 2010 VCP, the amount of options granted will not be determined until the end of the plan's three year term and meeting the performance criteria The remuneration report details the performance criteria Under the plan, key employees are granted a one-off award of units from an agreed total Three executive Directors have been awarded 44 units out of the total pool of 64 units and eight key employees hold the remaining 20 units

The 2010 VCP was valued using the Monte Carlo option pricing model The expected volatility of 73 5% used in the model is based on the historic volatility of the Company's share price over the three years prior to 7 January 2010 The risk free rate of 2 1% was used The total fair value of all the units granted to the participants in the 2010 VCP was £1,614,640

The Gooch & Housego 2007 Long Term Incentive Plan
The 2007 LTIP has been replaced by the 2010 VCP The share options granted under the 2007 LTIP have been surrendered by the participants and the scheme is now dormant

A reconciliation of share option movements is shown below

	2011		2010	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
Outstanding at 1 October	**945,445**	**170 3p**	1,118,413	143 9p
Exercised	**(188,492)**	**225 7p**	-	-
Surrendered or Lapsed	**-**	**-**	(172,968)	0 0p
Outstanding at 30 September	**756,953**	**156 5p**	945,445	170 3p
Exercisable at 30 September	**678,391**	**159 1p**	866,883	173 6p

The weighted average fair value of options granted in the year was £nil (2010 £nil) For the options exercised, the average market price was 493 4p per share

Share options information by exercise price

Range of exercise prices 30 September 2011		**Number of options**	**Weighted average exercise price**	**Weighted average remaining life (years)**	
				Expected	**Contractual**
£0-£1 50	2004 Scheme	631,953	133 5p	0 0	2 8
£1 50-£3 00	2004 Scheme	125,000	272 5p	0 0	4 2

Range of exercise prices 30 September 20110		Number of options	Weighted average exercise price	Weighted average remaining life (years)	
				Expected	Contractual
£0-£1 50	2004 Scheme	695,445	133 5p	0 0	3 8
£1 50-£3 00	2004 Scheme	250,000	272 5p	0 0	5 2

The total charge for the year relating to share options was £471,000 (2010 £353,000), all of which related to equity-settled share based payment transactions