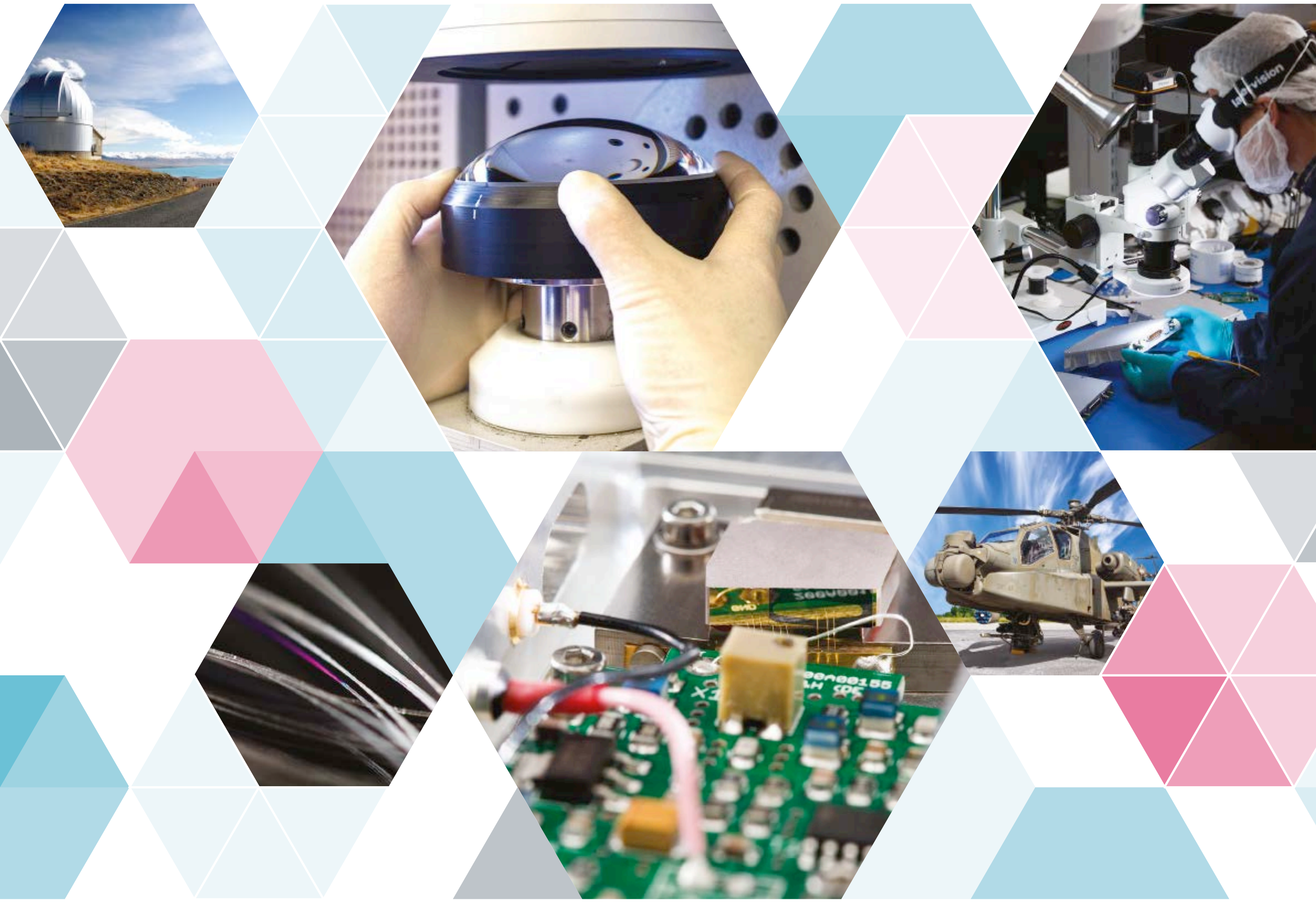
Gooch & Housego
CHANGING THE WORLD WITH PHOTONICS



ANNUAL REPORT SEPTEMBER 2019

From sites across the UK, USA and Asia, our capabilities span a uniquely broad range of photonic technologies:

- Crystal growth
- Optical materials processing
- Acousto-optics and electro-optics
- Active and passive fibre optic components
- Precision optics
- Opto-mechanical
- Medical systems




CONTENTS

HIGHLIGHTS

Revenue
(£m)

129.1
+3.4%
2018 124.9

2019	129.1
2018	124.9
2017	112.0
2016	86.1
2015	78.7

Adjusted basic earnings per share*
(pence)

46.8
-18.2%
2018 57.2

2019	46.8
2018	57.2
2017	49.4
2016	42.5
2015	39.5

Adjusted profit before tax*
(£m)

15.0
-19.9%
2018 18.8

2019	15.0
2018	18.8
2017	16.1
2016	14.2
2015	12.9

Total dividend per share
(pence)

11.5
+1.8%
2018 11.3

2019	11.5
2018	11.3
2017	10.2
2016	9.0
2015	8.2

Statutory profit before tax
(£m)

6.0
-40.6%
2018 10.1

2019	6.0
2018	10.1
2017	12.6
2016	10.1
2015	10.1

Net (debt)/cash
(£m)

14.3
£3.7m
2018 10.6

2019	(14.3)
2018	(10.6)
2017	14.9
2016	11.7
2015	17.3

Basic earnings per share
(pence)

15.1
-48.5%
2018 29.3

2019	15.1
2018	29.3
2017	36.4
2016	29.1
2015	30.9

*adjusted figures exclude the amortisation of acquired intangible assets, impairment of goodwill, adjustments to accrued contingent consideration, non-underlying items being restructuring costs, site closure costs, transaction costs, and interest on deferred consideration.

HIGHLIGHTS

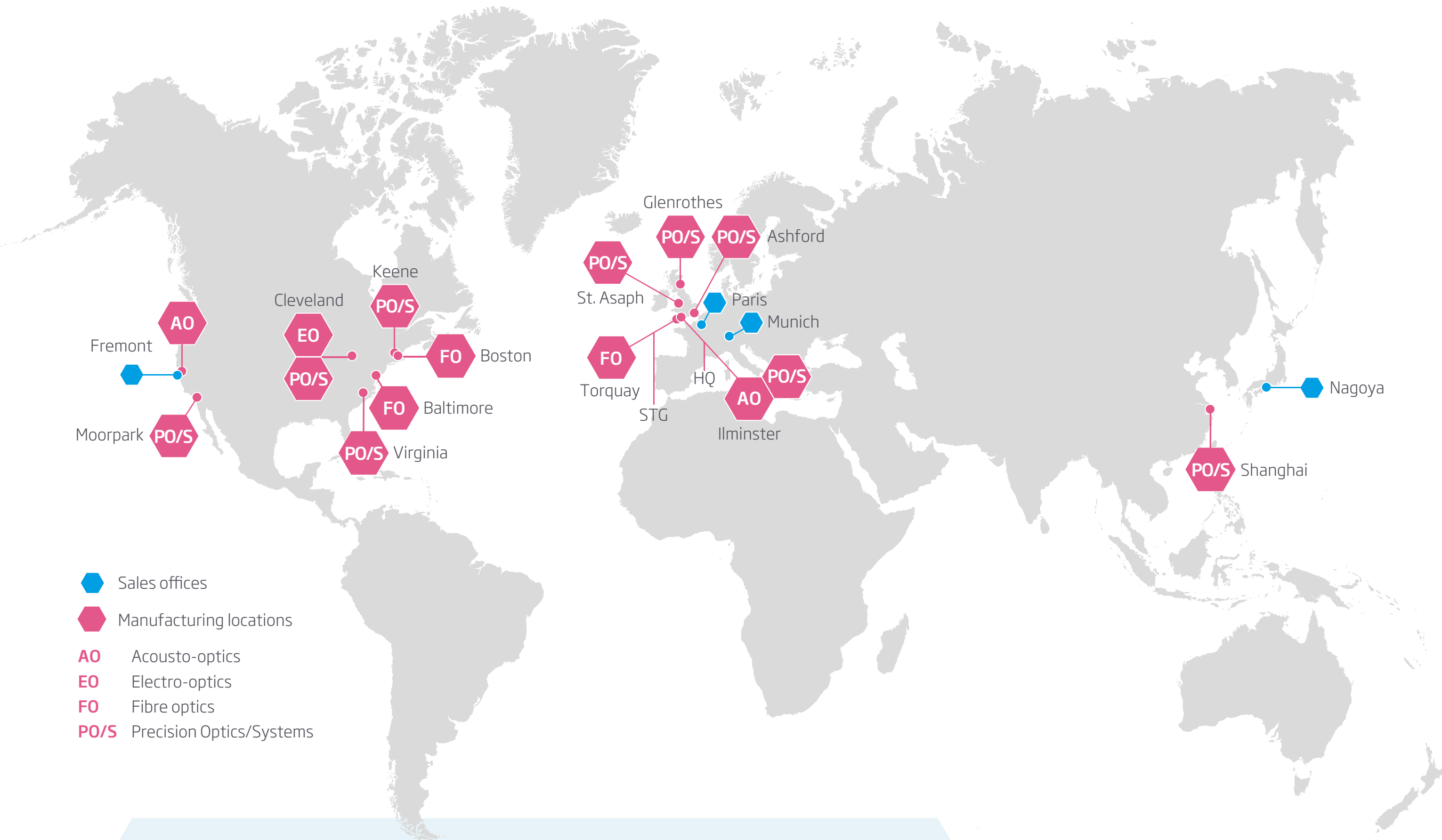
Operating & Strategic Highlights

- **Trading:** as previously disclosed, challenging macro-economic environment in our industrial laser sector, contrasted with record levels of demand for fibre optics, hi-reliability fibre couplers used in undersea cables and life science products.
- **Industrial laser products:** we believe that technical innovation in end markets and new laser based manufacturing techniques combined with our market leading position will ultimately drive improved demand.
- **Strategic investment:** we invested in order to deliver a multi-year growth phase of hi-reliability fibre couplers and new US A&D contracts. Further investment made in R&D projects that represent the highest potential for our photonics technologies.
- **Life science business:** more than doubled in size compared with last year, driven by growth in our existing market areas, strongly supported by the addition of ITL, which has performed ahead of expectations since its acquisition in August 2018.
- **Strategic goals:** we made considerable progress with further diversification and moving up the value chain, in large part due to the continued growth in A&D and Life Science business.

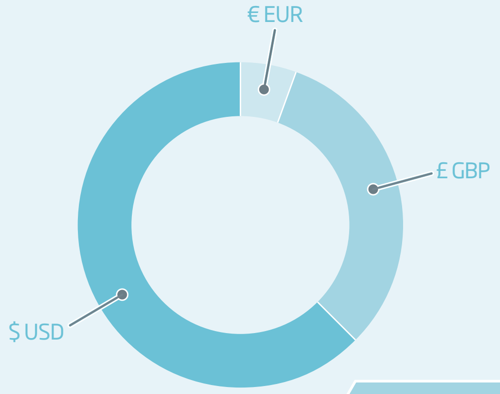
Financial Highlights

- Revenue of £129.1 million, increased by 3.4%.
- Adjusted profit before tax of £15.0 million, down 19.9%. This reflects both lower market demand for relatively higher margin critical components for industrial lasers and the investment required to deliver multi-year growth in hi-reliability fibre couplers and new US A&D contracts.
- Adjusted earnings per share down 18.2%.
- Capital expenditure of £5.9m. Net debt of £14.3m (c.0.7 x Adjusted EBITDA).
- Dividend increased to 11.5p, reflecting the Board's long term confidence in the business.
- Order book of £94.4m, 1.8% lower than the same time last year, reflecting strong demand for fibre optics, hi-reliability fibre couplers and our A&D and Life Science capabilities, with industrial laser demand yet to recover to more "normalised" levels.

HIGHLIGHTS



REVENUE BY CURRENCY



$ USD
62.7%
£81.0m
2018
£82.6m 66.1%

£ GBP
31.9%
£34.7m
2018
£34.7m 27.8%

€ EUR
5.4%
£7.0m
2018
£7.6m 6.1%

HIGHLIGHTS

Mark Webster, Chief Executive Officer, commented

"Trading reflected a challenging macro-economic environment for industrial lasers and in contrast record demand for fibre optics, hi-reliability fibre couplers used in undersea cables and life science products. We believe that ultimately technological innovation in industrial laser end market applications and new laser-based manufacturing techniques will drive improved demand for our industrial laser products.

"During the year we invested in manufacturing capacity for areas of high growth such as hi-reliability fibre couplers and in R&D projects that represent the highest return for our photonic technologies.

"Considerable progress was made on our strategic goals of further diversification and moving up the value chain, with Life Sciences more than doubling compared with last year.

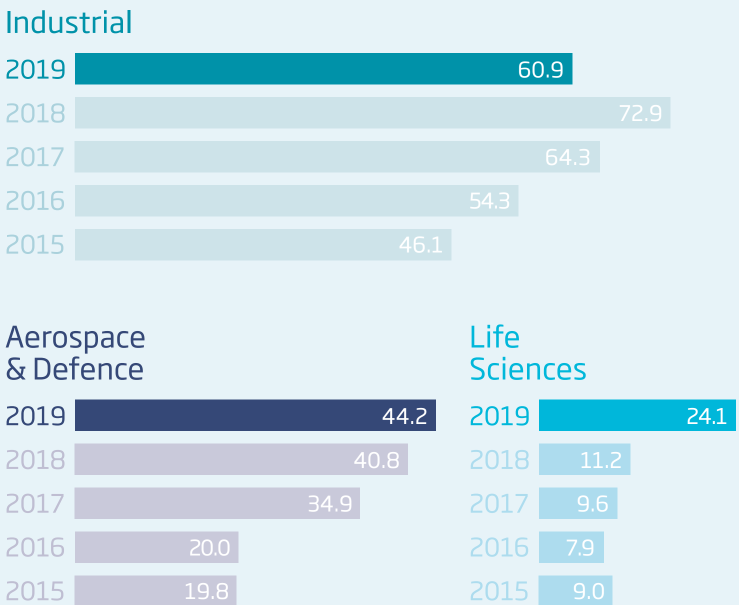
"Our order book reflects strong demand for fibre optics, hi-reliability fibre couplers and our A&D and Life Science capabilities, with industrial laser demand yet to recover to more "normalised' levels. G&H's forecasts and plans are not dependent on an industrial laser recovery. The Board is confident the Company is well positioned to deliver progress in FY20 and beyond."

Industrial & Telecom (£millions)
60.9
47.1%

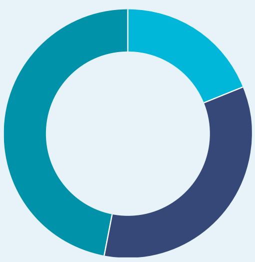
Aerospace & Defence (£millions)
44.2
34.2%

Life Sciences & Biophotonics (£millions)
24.1
18.7%

HISTORICAL REVENUE BY SECTOR
(£ millions)



REVENUE BY SECTOR



OUR SECTORS AND APPLICATIONS

Gooch & Housego's wide range of photonic devices are deployed across a uniquely broad range of applications, often in challenging environments.

Industrial

Photonics play an ever-increasing role in industrial manufacturing. G&H serves these applications and markets with a diverse product portfolio, from components to sub-assemblies and final test and measurement equipment.

Production Technologies

Laser Material Processing

Laser material processing is a broad term which encompasses production processes such as ablating, bending, cutting, curing, forming, fusing, marking, micro-machining, sintering, thermal annealing, via drilling, and welding.

For these applications, we design and manufacture products which are used in laser cavities, to steer and control or to modulate the beam.

Printing

In lithography and micro-lithography, the production process is inherently photonic in nature. Computer-to-plate technologies, flexographic, and offset printing production components utilize laser processing to create the printing tools.
We provide a variety of optical components into these applications where accurate transmitted wavefronts and high energy tolerance provide superior printed image quality and longevity in production.

Test and Measurement

Photonics is used across a wide variety of applications to ascertain quality, damage, motion, chemical composition, temperature, location, distance, and to automate these types of tests.

Sensing

Fibre optics are deployed in a wide variety of sensing applications. These applications may use fibre simply as the communication medium for speed, lack of ignition sources, or weight. They may also integrate fibre gratings as the sensor to leverage the superior resolution.

We supply fibre optic and acousto-optic sub-assemblies and components to equipment manufacturers and installers of these systems.

Telecommunications

We serve the more demanding applications within telecommunications. Our customers deploy our fibre-based products in undersea networks and in space for satellite-to-satellite communications.

In addition we supply specialist crystals into 40G and 100G modulation systems.

Scientific Research

G&H works with some of most prestigious Big Science projects in the world.

We are a primary supplier of many critical optical components such as very large frequency conversion crystals used in the world's most powerful laser system at the National Ignition Facility (NIF) at Lawrence Livermore National Laboratory. We supply similar products to the Commissariat à l'énergie atomique et aux énergies alternatives (CEA) and other inertial confinement fusion (ICF) programs around the world.






OUR SECTORS AND APPLICATIONS

Aerospace & Defence (A&D)

Defence and avionics markets have been important drivers for our investment in operational quality and program management. We continue to invest in our continuous improvement and lean manufacturing programs, as well as production equipment and metrology to better serve our most demanding A&D customers.

Communications

Tactical communications require rugged, hi-reliability components and sub-systems; in some instances light-weight for maximum mobility.

We support a number of C4ISR (command, control, communications, computers, intelligence, surveillance, and reconnaissance) applications including RF over fibre, secure fibre optic networks and surveillance and target acquisition.

Our military-grade components are designed to survive under extreme conditions, manufactured in AS9100C facilities, and qualified to the necessary Telcordia, BSI, DIN, or MIL specifications as required.

Imaging under Extreme Conditions

Sights, telescopes, periscopes, and other imaging systems have long played a role in defence. In recent years photonics has broadened imaging systems to a wide variety of conditions (night, fog and haze, smoke, sand storm, aerial, and space) and adapted to a range of situations. G&H provides an array of photonic components, sub-assemblies, and systems into these applications which include building and asset surveillance, fire-fighting, policing and LIDAR mapping.

Target Designation and Range-Finding used on Land-Based and Airborne Systems

From missiles to guided bombs, photonic targeting and range-finding systems ensure correct deployment of munitions. Extreme conditions require athermalized, instant "on" systems.

G&H designs and delivers a variety of sub-systems and components to prime contractors.

Countermeasures for Ground-Based Systems and Airborne Platforms

Infrared countermeasures protect military assets from missile attacks. These systems require accurate modulation of the infrared energy under extreme environmental conditions. We provide fibre optic, acousto-optic, and nonlinear crystal products which are used in customer-specific countermeasure applications, both ground based and airborne.

Gyroscopes for Navigation

Gyroscopes are used in inertial navigation systems in aircraft, guided missiles, submarines, ships, and spacecraft for rotation sensing to measure or maintain orientation.

We design and produce components for ring laser gyroscopes and fibre optic gyroscopes which are deployed in commercial aircraft as well as missiles, satellites,
and other military vehicles.

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OUR SECTORS AND APPLICATIONS

Image courtesy of ESA

Image courtesy of NASA

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Space

G&H has a proven track record in the design and development of space hardware for European Space Agency (ESA), National Aeronautics and Space Administration (NASA), and other western allied national space agencies, missions and other, commercial projects, with components, modules and systems integrated within operational satellites and on board the probes and rovers.

We maintain a leading role in research and development programs in Europe, the USA and Asia, through multiple projects and contracts centered on optical inter- and intra-satellite communication links. Our work on space projects fuels the company roadmap on a new generation of product lines.

G&H works with major prime contractors and government agencies on ground-breaking scientific and technology development programs for navigation, earth observation and communication.

Our enabling technologies span our core capabilities in Acousto-Optics, Fibre-Optics and Precision Optics.

OUR SECTORS AND APPLICATIONS

Life Sciences and Biophotonics

G&H serves the life sciences markets with photonics engineering solutions from across the company's technology portfolio.

Optical Coherence Tomography (OCT)

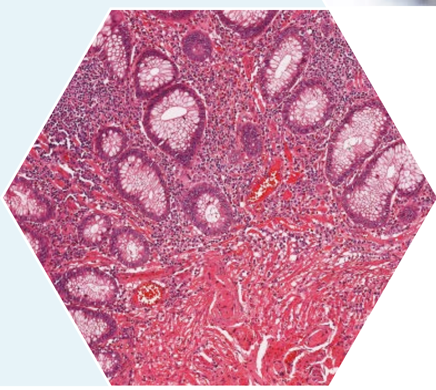
Widely used for ophthalmic imaging, OCT has proven invaluable in improving the diagnosis of glaucoma and macular degeneracy. We serve most of the world's leading manufacturers of OCT retinal imaging systems.

Medical and Cosmetic Laser Systems

G&H is helping develop new laser products which enable less invasive surgical techniques. Applications include cataract replacement, vision correction, prostate surgery, varicose vein treatment, and mole treatment in addition to tattoo removal, teeth whitening, freckle removal, and wrinkle reduction.

Product development and design

We provide full product development, design, manufacturing and after-sale service for the commercialisation of medical diagnostic, analytical, precision electro-mechanical and laboratory instruments.



CHAIRMAN'S STATEMENT

2019 was a challenging year for the business with the industrial laser market declining as a result of a cyclical downturn in that market and the uncertainty that has resulted from trade disputes between the world's two largest economies. Despite this the Group has continued to make progress on its strategic objectives of offering our customers more complex subassemblies and system solutions whilst seeking new market applications for our products and capabilities.

Offsetting the weakness in the industrial laser market the Group succeeded in delivering good growth in its A&D and Life Sciences businesses where our market leading products and capabilities remained highly attractive.

We are seeing unprecedented levels of demand for our hi-reliability fused fibre couplers thanks to major telecommunications infrastructure projects and this will provide an important underpin to the Group's revenue for FY20.

Since its acquisition in August 2018 our ITL business has performed ahead of expectations and we are exploiting the synergies this acquisition provides by demonstrating the Group's broader product capability to our existing customer bases. Gould Fibre Optics ("GFO"), acquired in September 2018, has performed below our expectations at the time of acquisition, but as the earn-out portion of the acquisition price was not paid, we believe the company was acquired at an appropriate price. GFO is helping to consolidate G&H's position as a world leader in the provision of fused fibre technology to the US A&D sector.

The consolidation of our manufacturing facilities into three technology differentiated manufacturing centres has been completed and this has facilitated a more efficient, cross Group approach to the prioritisation of investment in people, plant and processes. We are now in the process of supporting this by bringing together our commercial teams in to a single Group-wide organisation that will allow us to better respond to the broad and complex needs of our customers.

The execution of these changes in the face of a challenging environment in our industrial laser markets would not have been possible without the hard work and dedication of our people across all of our business areas. I am delighted with the contribution made by our staff throughout the Group, particularly in the areas of operational efficiency, supply chain improvement and health and safety management. On behalf of the Board I would like to thank all of our employees who have contributed to our business performance in the financial year.

"Continued progress on strategic objectives."

As previously announced, Andrew Boteler left the business in June 2019 and was replaced as Chief Financial Officer by Chris Jewell who was formerly at TT Electronics plc. I would like to thank Andy for his very significant contribution to the Group and welcome Chris to the Board. Alex Warnock our Chief Operating Officer left the business in November 2019. Alex has put in place a strong and experienced management team to lead the three manufacturing centres and as a result we do not currently intend to replace Alex and the three manufacturing centre heads will report directly to the CEO. I wish Alex well for his future endeavours.

As a Board we are committed to diversity and the need to improve female representation at all levels. We have an active search underway to add an experienced female Non-Executive Director to the Board which we expect to conclude successfully in the New Year. We are also seeking to improve the representation of women in senior leadership positions throughout the Group.

Whilst the macroeconomic environment remains uncertain we enter the new financial year with a solid order book and the continued investment we have made in new technologies, capabilities and business processes mean that the Group remains well positioned to deliver progress in FY20 and beyond.

Gary Bullard
Chairman
3 December 2019

CHIEF EXECUTIVE OFFICER'S STATEMENT

FY19 Performance

In the year ended 30 September 2019 G&H achieved revenue of £129.1 million representing an increase of 3.4% over the previous year or excluding foreign exchange, flat, excluding acquisitions and foreign exchange, a decline of 8.0%. Adjusted profit before tax was £15.0 million, a decline of 19.9%.

Trading during the year reflected a challenging macro-economic environment in our industrial lasers sector, contrasting sharply with significant opportunities across the rest of the business. The cyclical downturn in demand for critical components used in industrial lasers for microelectronic and semiconductor manufacturing has been well documented. In the rest of our business, demand for our fibre optic products, hi-reliability fibre couplers used in undersea networks and our life science products was at record levels.

G&H believes that technical innovation in industrial laser end market applications, such as 5G and the introduction of new laser based manufacturing techniques, combined with our market leading position will ultimately drive improved demand for our industrial laser products.

Our fibre optics business has performed strongly. In particular hi-reliability fibre couplers are experiencing a multi-year growth phase and we have invested accordingly to take advantage of our market leading position in this area.

A&D has performed well and we secured a number of new US A&D contracts in FY19.

Our Life Science business has now established itself as a substantial sector within G&H. This has been driven by growth in our existing life sciences market areas, strongly supported by the addition of ITL, which has performed ahead of our expectations since its acquisition in August 2018.

G&H has entered its new financial year with a good order book which, at 30 September 2019 stood at £94.4 million (30 September 2018: £96.1 million), 1.8% lower than the same time last year, or a reduction of 5.1% excluding the impact of foreign exchange. The order book reflects strong demand for fibre optics, hi-reliability fibre couplers and our A&D and life science capabilities, while industrial laser demand is yet to recover to more 'normalised' levels.

Strategically important investments were made in people, process and capital equipment in order to ensure we are able to deliver on the multi-year growth of hi-reliability fibre couplers and to put in place the enhanced organisational structure required to deliver our new US A&D contracts. Elsewhere we have 'right sized' our organisational structure to ensure that we respond to the current demand levels in the industrial laser sector in a manner that retains core skills, but enables us to sensibly manage the profitability of the affected manufacturing sites.

G&H was able to make further R&D investment in areas we identified as having high growth potential for our photonic technologies, such as the latest industrial laser systems, 'harsh environment' sensing, unmanned aerial vehicles ('UAVs"), novel A&D programmes, space satellite communications, laser surgery and medical diagnostics. This year we were also able to combine our medical photonics capabilities, such as optical coherence tomography ("OCT") with ITL's system capabilities which resulted in the presentation of more complete and compelling medical diagnostic projects for our customers.

Strategic goals

We remain committed to our twin strategic goals of further diversification and moving up the value chain. This enables us to more fully exploit our photonic technologies and to continue to bring greater balance to our business thereby further reducing exposure to industrial lasers and the economic cycle.

A&D and Life Sciences provide a counter balance our industrial laser business. Our customers are typically tier one A&D and multi-national medical diagnostic companies which often prefer us to provide them with subsystem and system solutions, therefore providing a strong impetus to move up the value chain. This coupled with the regulatory and compliance hurdles inherent in these sectors provides a high barrier to entry. The direction of travel in both sectors is towards greater use of photonic technologies, which means we are increasingly well placed to serve these customers. Both of these sectors provide G&H with the opportunity for robust growth going forward.

Our aim is to achieve a "critical mass'" in both the A&D and life science sectors and in an "ideal world" there would be an equal split between the three market sectors across G&H.

This was achieved in large part in A&D, which represented 34.2% of our business in FY19. Historically life sciences has provided

Trading at Gooch and Housego reflected a challenging macro economic environment for industrial lasers and in contrast record demand for fibre optic products, hi-reliability fibre couplers and life science products. We believe that technical innovation in industrial laser end markets and laser based manufacturing techniques will ultimately drive future growth in this sector. The Company made substantial progress, investing in people and equipment in order to deliver the multi-year growth of hi-reliability fibre couplers and new US A&D contracts, 'right sized' our industrial laser manufacturing and invested in R&D projects identified as delivering a high return for our photonics technologies. Life sciences enjoyed a 'watershed' year, more than doubling in size through organic and acquisitive growth. This was a significant part of the considerable progress that was made towards meeting our strategic goals of further diversification and moving up the value chain."

CHIEF EXECUTIVE OFFICER'S STATEMENT

10% or less of our revenue, though this year through a combination of organic growth in our three main life science areas and the performance and full year impact of ITL, it now represents 18.7% (FY18: 8.9%) of the Group's revenue.

Sub systems and systems now represent 35.7% of our revenue, compared with 25.6% last year, the increase in large part due to the increased contribution of our A&D and Life Sciences sectors.

Acquisitions

In August and September 2018 we acquired ITL and Gould Fiber Optics, respectively.

ITL is a UK-based specialist in the design, development and manufacture of high quality medical devices. It has been a significant factor in G&H more than doubling the size of its life sciences business and moving up the value chain, as all of ITL's sales come from system based products.

ITL has exceeded our expectations, has achieved 100% of its first year earn out and has integrated well with the rest of G&H. There are a number of early stage joint photonic and system based projects which have been presented to prospective customers and which we expect will make a significant contribution to life science growth in years to come.

GFO is a US based market leading supplier of key enabling fibre optic components to tier one US A&D customers. We have invested in the manufacturing site to bring it up to G&H standards and good progress has been made by the new management team at the Baltimore location.

GFO did not meet its earn out goals for this year, which meant the earn-out portion of the acquisition price was not paid and as such, we believe the price paid for the business was appropriate. It is a high net margin business which provides G&H with a strategic platform to access tier one US A&D companies with our fibre based product portfolio. The write back of deferred consideration and appropriate impairment of goodwill are considered in the Financial and Operating Review.

Research and Development ("R&D")

There has been continued benefit from concentrating our R&D efforts on fewer higher return projects. During FY19 we introduced 48 new products, with 5 patents granted and we expect the full value of these products to come to fruition over the next three years. Revenue generated from new products this year was £13.5 million (FY18: £12.0 million).

Good progress has been made in the areas which have been identified as offering the highest growth potential for our photonic technologies.

Microelectronic manufacturing is entering a new phase of ultra fast lasers, which allow for improved capabilities in existing areas of use and new areas, such as via drilling techniques and extreme UV lithography, which is utilised in the production of nanoelectronics. The next generation of precision lasers and laser systems are being developed with our laser manufacturer and laser system partners.

We have capitalised on our expertise and knowledge gained on space laser communications to provide solutions for applications such as 'harsh environment' sensing which utilises our 'ruggedised' photonic technologies. Two recent examples are projects in the areas of LIDAR wind detection for wind farms and oil pipeline security systems.

Unmanned aerial vehicles ("UAVs") have a variety of commercial and military uses and this is an area where we see significant potential for G&H. We design, engineer and manufacture bespoke complex optical arrays that form part of the imaging system contained in the UAV's gimbal. They typically provide targeting, surveillance and LIDAR capability.

We have a number of ongoing R&D defence programmes in the US and Europe, which operate under US International Traffic in Arms Regulations ("ITAR") and/or confidentiality agreements, supporting future growth in what is now a substantial A&D business.

Our space communication group has gone from strength to strength with European and UK space agency funded work as well as significant commercial contracts to provide satellite communication systems for near term satellite launches. We believe there is substantial potential to expand this technology into small satellite platforms for constellations and near space UAVs.

Our optical coherence tomography ("OCT") technology dominates the retinal scanning and imaging arena. The partnerships we have with medical diagnostic companies in the areas of cardiovascular disease and cancer detection are now delivering new product revenue for the group.

We have a range of medical diagnostic R&D collaborations through ITL and have been able to combine our photonic capabilities with ITL's system expertise which we believe will result in R&D collaborations with multinational medical diagnostic companies in the near future.

Performance Improvement Programme

Our three manufacturing centre approach remains key to manufacturing efficiency, customer service and greater capacity. Ten of our twelve manufacturing sites are now organised into three manufacturing centres based on their areas of technical excellence, namely Acousto Optic/Electro Optic, Fibre Optics and Precision Optics/Systems. Each manufacturing centre has a leader whose role is to ensure best practice is shared, there is process harmonisation and optimal allocation of resource.

ITL's two manufacturing sites remain outside of the structure for the period of their earn out.

There are three customer facing business units which mirror our traditional market sectors of Industrials, A&D and Life Sciences/ Biophotonics. Each unit is responsible for that sector's strategy and longer term planning. They all come under our newly appointed Chief Commercial Officer (CCO), Adrian Meldrum, who will work closely with our manufacturing heads to ensure our production resources match our strategy and longer term planning goals.

This organisational approach is underpinned by improved business systems. An ongoing process with a phased introduction of new financial and business systems is being implemented over a period of three years.

CHIEF EXECUTIVE OFFICER'S STATEMENT

Markets and Applications

Industrial

47.1% of FY19 Group revenue

Our industrial division declined by £12.0 million or 16.5% compared with the previous year.

Industrial splits into four distinct areas: industrial lasers, optical communications, 'harsh environment' sensing and scientific research. The first two areas represent the majority of the sector's business. The Industrial sector's year on year decline was due to a cyclical downturn in the industrial laser market and a very strong comparator year in FY18.

The cyclical downturn in FY19 for industrial lasers used in microelectronic and semiconductor manufacturing has been well documented by both G&H and external commentators. We believe that the downturn has lasted longer than the last time we had an equivalent event, our FY12, due to the overlay of the US/China tariff dispute and other one-time factors such as the Japan/Korea trade dispute.

G&H believes that technological innovation in end market applications, such as 5G and the introduction of new laser based manufacturing techniques, combined with our market leading position in this area will ultimately drive improved demand for our industrial laser business. We will continue to seek to reduce the cost of producing critical components for industrial lasers to ensure that we remain competitive. It is interesting to note that following the FY12 industrial laser downturn G&H went through a period of strong growth, more than doubling our business through to FY18.

Optical communications is dominated by hi-reliability fibre couplers for undersea cables. Hi-reliability fibre couplers are undergoing a multi-year growth phase. This is driven by well capitalised 'Silicon Valley' companies sponsoring the laying of their own cable networks and a doubling in the number of fibre couplers used per repeater (the repeaters boost the signal every few kilometres of undersea cable). G&H has invested in people and equipment in order to meet an order book which has seen the demand nearly double in FY19, then triple as we move into FY20.

'Harsh environment' sensing has performed well and we have picked up new orders for our laser engines used for directional sensing in wind farms and security related to oil pipelines.

Scientific research covers high profile 'Big Science' projects such as supplying critical components to the world's most powerful laser system at the National Ignition Facility at Lawrence Livermore National Laboratory ("LLNL") in Northern California and to the European equivalent, Commissariat a l'energie atomique et aux energies alternatives ("CEA") in Bordeaux, France. As the primary supplier of critical laser components to these facilities this represents a profitable and prestigious part of our industrials business.

A&D

34.2% of FY19 Group Revenue

A&D grew year on year by £3.4 million or 8.4%, on an organic basis by 5.9%.

G&H is able to bring a wide range of photonic capabilities together that very much represent the "direction of travel" in this sector. These include target designation, range finding, ring laser and fibre optic gyroscopic navigational systems, infra-red and RF counter measures, periscopes and sighting systems for armoured vehicles, opto-mechanical sub-systems for UAVs and long range secure communications.

The acquisition of GFO provides enhanced access for our fibre based business to tier one US A&D companies.

Delivering product quality, reliability and performance in "harsh environments" is essential in the A&D arena and this very much plays to G&H's strengths. Our customers encompass the major US and European A&D companies.

During FY19 we were able to win a number of high profile US A&D contracts and have put in place an enhanced organisational structure in order to deliver these multi-year projects.

Space satellite communication is undergoing a technological revolution. The use of fibre optic lasers to transmit information means satellite communication systems are more efficient and robust, as well as being significantly lighter and more secure. This has changed the economics of the sector and has helped lead to smaller satellites and encouraged the move towards the use of satellite constellations and near space UAVs, as part of a communications network. The investment we have made in this segment is allowing us to contribute at the forefront of these developments globally.

Life Sciences/Biophotonics

18.7% of FY19 Group Revenue

Life Sciences/Biophotonics revenue grew year on year by £12.9 million or 114.7%, on an organic basis by 22.4%.

FY19 was a watershed year for G&H life sciences. Historically it has represented 10% or less of G&H's revenue, but during FY19 was able to more than double in size through a combination of organic and acquisitive growth and now represents 18.7% of Group revenue.

The principal photonic applications are in OCT, laser surgery and microscopy and we had organic growth across all three main areas. OCT is widely used in ophthalmology for 3D retinal scanning and G&H has a leading position in supplying critical components and sub-systems to the main equipment suppliers. The use of the same technology in cardiovascular and cancer disease detection has now started to drive revenue from US based medical diagnostic companies.

Laser surgery is a fast growing segment particularly in ophthalmology, prostate and cosmetic surgery and has significant potential to be exploited beyond these current areas of use.

Microscopy had a good year with an increase in use of laser based microscopy.

ITL, acquired in August 2018, has exceeded our expectations with its business based around the design, development and manufacture of high quality medical diagnostic systems. These range from the supply of antibiotic testing and cancer detection systems through to DNA sequencing. Their electronic, software and mechanical engineering capability greatly enhances our ability to integrate our photonic technology as part of a subsystem or system. During

CHIEF EXECUTIVE OFFICER'S STATEMENT

FY19 this has resulted in us being able to present a number of OCT based systems to new and existing customers. We expect this to be a significant business driver in future years.

There is potential for photonic technology to be used in minimally invasive surgery, endoscopy and robotic surgery. This sector remains an area where G&H will continue to invest in R&D and to look for further strategic acquisitions with the aim of at least bringing the revenue into line with the other sectors.

Board Changes

Chris Jewell joined the Group as Chief Financial Officer on 9 September 2019. He replaced Andy Boteler who after more than ten years as CFO decided to step down as a public company executive. Andy has been an important part of G&H's success over many years and his knowledge of the business, energy and considerable ability will be missed.

Alex Warnock, after five years as Chief Operating Officer decided to step down from the role and the Board after the end of the financial year. He left on 8 November 2019. Alex has been an important part of G&H's success and his hard work, commitment and considerable experience will be missed. Alex has put in place a strong and experienced management team based around the three manufacturing centres, which has been operating successfully in its current structure for the last two years. The three manufacturing heads will report directly into the CEO and there are no plans to recruit a replacement COO.

Summary and Outlook

Trading during the year reflected a challenging macro-economic environment in our industrial lasers sector, which contrasted with record levels of demand for our fibre optics products, hi-reliability fibre couplers used in undersea cables and life science products.

G&H believes that technical innovation in industrial laser end market applications, such as 5G and new laser based manufacturing techniques, combined with our leading position will ultimately drive improved demand for our industrial laser products.

We made strategically important investments in people, process and equipment to ensure we are able to deliver on the multi-year growth phase of hi-reliability fibre couplers and put in place an enhanced organisational structure to deliver our new US A&D contracts.

Elsewhere we have 'right sized' the organisation to ensure that we respond to the current demand levels of the industrial laser sector in a manner that retains core skills, but enables us to sensibly manage the profitability of the impacted manufacturing sites.

We will continue to seek to reduce the cost of producing critical components for industrial lasers. When necessary, we will continue to make considered and proportionate organisational changes in order to ensure we are able to take optimal advantage of the opportunities and challenges we have in the business.

G&H is committed to making further investment in R&D target areas that we believe represent the highest growth potential for our photonic technologies. These include the latest industrial laser systems, "harsh environment" sensing, UAVs, novel A&D programmes, space satellite communications, laser surgery and medical diagnostic systems.

We will continue to actively pursue our strategic goals of further diversification and moving up the value chain. The aim is to achieve "critical mass" in the A&D and Life Science sectors, which means in an "ideal world" each of the three sectors representing one third of our business, through a mixture of investment in R&D and acquisitions.

The order book as at 30 September 2019 reflects strong demand for fibre optics, hi-reliability fibre couplers and our A&D and life science capabilities, whilst industrial laser demand is yet to recover to "normalised" levels. We believe that technical innovation will ultimately drive future growth in the industrial laser sector. Our forecasts and plans are not dependent on a recovery in the industrial laser market.

The "direction of travel" in our main target sectors is very much towards greater use of photonic technologies. This combined with the technological platform and market presence that we have in these target sectors means that the Board is confident that the Company is well positioned to deliver progress in FY20 and beyond.

Mark Webster
Chief Executive Officer
3 December 2019

MARKET OVERVIEW
Industrial and Telecom

Applications, Products and Markets

Industrial Lasers for materials processing applications. G&H 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 high tech manufacturing. Microelectronics materials processing represents the largest end market and has grown strongly over the last few years, except FY19, driven by a move towards new laser enabled production techniques.

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

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

Optical Communications specifically for high reliability and high performance applications. The products supplied into this market are based upon the Group's f*ibre optic, crystal growth* and *precision optics technologies*. The end users of these products are typically global telecommunication equipment companies, and more recently large technology companies, for applications such as undersea and long haul telecommunication networks. The demand for more data from government, industry and particularly the consumer, has driven strong growth in this sector recent years.

Remote Sensing for applications including asset protection, perimeter security, strain, temperature and pressure sensing. G&H supplies *fibre optic* and *acousto-optic components and subassemblies*, including the G&H developed Fibre-Q. Manufacturers of these systems address diverse end markets such as wind energy and oil and gas exploration and production.

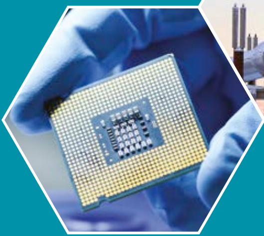
Scientific Research the largest proportion being nuclear fusion research & energy – laser technology is being used to recreate the conditions found in the core of the sun. At these temperatures and pressures isotopes of hydrogen fuse to form helium and in doing so release huge amounts of energy – the energy that powers the sun and stars. One of the most exciting potential applications of this research is using laser fusion to provide very large 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 Company's technologies including crystal growth, precision optics, thin-film coatings and fibre optics. G&H supplies many of the world's leading nuclear fusion and energy research facilities. We are also the primary 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 in Northern California.

Financial Performance

- Our overall Industrial business reduced by 16.5% in absolute terms during the year, with revenues of £60.9 million, compared with £72.9 million last year. Excluding foreign exchange and acquisition/disposals this represented a 17.4% decrease.
- This reduction was driven by a cyclical downturn in demand for critical components used in industrial lasers for microelectronic and semiconductor manufacturing, particularly from China. We believe that the downturn has lasted longer than the last time we had an equivalent event, FY12, due to the overlay of the US/China tariff dispute and other one-time factors such as the Japan/Korea trade dispute.
- Because of the above, demand for the traditional Q switch fell sharply in 2019, albeit against a very strong comparator year and represented just 7.6% of total group revenue (2018: 15.5%).
- In contrast, demand for fibre optic products and hi-reliability fibre couplers used in undersea networks has been strong. Hi-reliability fibre couplers are experiencing a multi-year growth phase and we have invested accordingly to take advantage of our market leading position in this area.
- Our industrial business has also seen growth in the sensing market with contracts for directional sensing at wind farms and pipeline security.
- Adjusted operating profit for the Industrial division was lower at £9.0 million, compared with £12.3 million last year, reflecting the reduced revenue, lower demand for relatively higher margin industrial laser products and investment in capacity for hi-reliability fibre couplers.

Growth Strategy

- To continue to invest in R&D and process engineering in order to develop our existing portfolio, bring to the market new products and to ensure that we remain at the cutting edge of technology in this important area. During FY19 G&H introduced nine new products that address its industrial market.
- To focus on niche markets that play to the strengths of G&H, principally those that demand high levels of quality and reliability, typically requiring complex design and engineering input and for a number of our products survivability in harsh environments.
- To expand into and develop new geographical markets offering high growth opportunities, through leveraging and expanding the Group's global sales organisation.
- To continue to focus our energies and investment on making the transition from a components supplier to a manufacturer of subassemblies, instruments and systems, where appropriate.
- To build strong relationships with our customers' development teams to ensure we are designed in to their next generation products.
- To make strategic acquisitions. The Company will continue to seek high quality acquisition opportunities as a route to grow its industrial business.



Percentage of Revenue

47.1%

2018 58.4%

Revenue (£millions)

60.9

-16.5%

2018 72.9

Adjusted Operating Profit (£millions)

9.0

-26.8%

2018 12.3

MARKET OVERVIEW
A&D

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 *precision optic* and *fibre optic technologies*. G&H navigation components are used in a variety of end markets, including civil and military aircraft, missiles, satellites and space exploration.

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.

Space Photonics G&H is leveraging its heritage of ultra-high reliability components for space applications in order to address the next generation requirement for fibre optics on satellites. We are working with the European Space Agency, UK Space Agency and commercial organisations to develop and deploy subsystems for inter-satellite and satellite to ground communications, radio over fibre and optically inter-connected on-board processors within telecommunications satellites.

Periscopes & Sighting Systems for land based Armoured Fighting Vehicles. G&H provides system level products for harsh environments, to a number of blue chip defence companies.

Opto-mechanical Subsystems for Unmanned Aerial Vehicles. The business provides system level optical products (including in IR and SWIR frequency bands and LIDAR sensors) for use in harsh environments to key US defence and European A&D customers. This is a growing area in both the core defence and commercial markets.

Financial Performance

- A&D revenue was £44.2 million, up 8.4% on last year, driven primarily by organic growth and also benefitting from the full year effect of the Gould acquisition which occurred late in FY18. Excluding foreign exchange and acquisitions/disposals our A&D sector grew by 2.4%.

- The organic growth was driven by increased demand for our components used in guidance and navigation and countermeasures. Our periscopes & sighting systems, opto-mechanical sub systems and target designation & range finding businesses also performed well. These results reinforce our belief that this division represents a growth opportunity for Gooch & Housego, as optical technologies continue to be increasingly deployed in this market.

- Operating margins in this sector reduced due to additional costs incurred as we completed complex development programmes that are now entering their production phase. Furthermore, our Moorpark facility experienced issues with the integration of one of its products into the customer's systems, delaying some revenues

- Our Boston site has a particularly strong order book going into FY20.

Growth Strategy

- To continue to focus energy and investment on moving from being a components supplier to a subsystems provider. Our customers are changing their business models and are looking for companies such as G&H that are capable of providing broader solutions.

- To continue to invest in manufacturing processes and engineering in order to meet the exacting expectations of this sector, which are becoming increasingly demanding in terms of quality and price.

- To make strategic acquisitions that will provide synergies, are complementary to our existing A&D business and will help us move towards our strategic goal of building "critical mass" in this sector.

- To introduce a greater number of new products, including products which look to fill a "market need", in a managed and cost effective way, as well as take on projects with a high technical content initiated by our customers. During 2019 G&H introduced 30 new products that addressed its A&D market.

Revenue
(£millions)

44.2
+8.4%

2018 40.8

Percentage
of Revenue
34.2%

2018 32.7%

Adjusted
Operating Profit
(£millions)

3.5
-38.6%

2018 5.7

MARKET OVERVIEW
Life Sciences and Biophotonics

Applications, Products and Markets

Optical Coherence Tomography (OCT) primarily used in retinal imaging for the diagnosis of glaucoma and macular degeneration, but now including cardiovascular disease and cancer diagnostics. G&H provides a family of fibre optic products in this market, ranging from discrete components to full optical systems. Customers include most of 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 electro-optic, 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. G&H's acousto-optic devices are used to control the multiple laser sources and analyse complex images. The end customers are typically medical equipment manufacturers.

Systems G&H has a range of capabilities including full product development, design, manufacturing, certification and after sale service for the commercialisation of high-quality medical diagnostic, in vitro diagnostic (IVD) devices, precision analytical, electro-mechanical and laboratory instruments.

The growth strategy for life sciences/biophotonics mirrors that for A&D in many respects. This is particularly true in terms of the high growth potential of our photonic technologies and the desire of the customer base to "pull" G&H up the value chain.

Financial Performance

- In 2019 life sciences/biophotonics revenue was £24.1m, up by 114.7% compared to the prior year or 18.2% excluding foreign exchange and acquisitions. This was driven by a combination of organic growth, and the better than expected growth and full year effect of ITL, which was acquired in August 2018.

- Organic growth was generated in microscopy, surgical lasers, OCT and ophthalmology, reflecting the success of our strategy of diversification into these markets.

- ITL exceeded our expectations in its first full year as a G&H company, achieving revenue of £12.8m.

Growth Strategy

- To continue to invest in R&D projects in close collaboration with our customers, to develop the existing portfolio of products and to ensure that they remain competitive. During 2019 G&H introduced nine new products that address its life sciences/ biophotonics market.

- Where appropriate to sell the full range of our life sciences/ biophotonics products to a wider range of customers.

- To utilise the considerable improvement in our systems capability with the acquisition of ITL to present our breadth of technologies as part of subsystems or systems.

- To make strategic acquisitions that are synergistic and complementary to our existing life sciences/biophotonics business, to help us build "critical mass" in this sector. G&H will continue to seek acquisition opportunities.

Percentage of Revenue

18.7%

2018 8.9%

Revenue (£millions)

24.1

+114.7%

2018 11.2

Adjusted Operating Profit (£millions)

5.1

218.8%

2018 1.6

FINANCIAL AND OPERATING REVIEW

Performance Overview

Trading performance in the year suffered from a cyclical slowdown in our Industrial laser markets and underlying operating profit fell 14.9% to £16.3m. Revenue and underlying profit before tax were however, in line with revised management expectations for the year reflecting a level of stabilisation in the second half's trading.

Group revenue for the year totalled £129.1 million. This represents an increase of £4.3 million, or 3.4% over the previous year. On an organic basis and measured at constant currency, revenues declined by 8.0%.

The Group adjusted profit before tax amounted to £15.0 million (2018: £18.8 million) and represented a margin of 11.6% (2018: 15.0%). Statutory profit before tax was £6.0 million compared with £10.1 million last year.

During 2019 the Group continued to invest for the future with R&D spend at 6% of revenues, which was in line with last year's proportional spend when measured on an organic basis. G&H invested £5.9m in property, plant and equipment including investment to provide our manufacturing centres with new capabilities that will help us address emerging customer demands. The business finished the year with net debt of £14.3 million compared with a net debt position of £10.6 million as at 30 September 2018. This represents approximately 0.7 x adjusted EBITDA.

In the financial year under review, adjusted operating profits decreased by £2.8 million to £16.3 million (2018: £19.1 million). At a percentage margin level, adjusted operating margins were 12.6%, compared with 15.3% in 2018. This reduction reflects the impact of lower sales of our relatively higher margin industrial laser products and the investment made in capacity for the multi-year growth of the hi-reliability fibre couplers, and additional costs required to deliver new US A&D contracts.

Revenue

	2019		2018	
Year ended 30 September	£'000	%	£'000	%
Industrial	60,854	47.1%	72,881	58.4%
A&D	44,203	34.2%	40,789	32.7%
Life Sciences/Biophotonics	24,076	18.7%	11,213	8.9%
Group Revenue	129,133	100%	124,883	100%

In our Industrial segment, revenue declined by 16.5%, in absolute terms, from £72.9 million last year to £60.9 million this year. On an organic and constant currency basis, the decline totalled 17.4%.

Revenue in our A&D business increased by 8.4% in absolute terms from £40.8 million to £44.2 million. Excluding the impact of acquisitions and measuring at constant currency, revenues in this segment grew 2.4%.

Life Sciences/Biophotonics revenue increased by 114.7% in absolute terms from £11.2 million to £24.1 million. Excluding the effect of foreign exchange and acquisitions, this segment grew by 18.1%.

Group Earnings Performance

All amounts in £'000	Adjusted		Reported	
Year ended 30 September	2019	2018	2019	2018
Operating profit	16,254	19,100	8,408	10,796
Net finance costs	(1,238)	(343)	(2,456)	(683)
Profit before taxation	15,016	18,757	5,952	10,113
Taxation	(3,332)	(4,677)	(2,191)	(2,893)
Profit for the year	11,684	14,080	3,761	7,220
Basic earnings per share (p)	46.8p	57.2p	15.1p	29.3p

Reconciliation of Adjusted Performance Measures

	Operating profit		Net finance costs		Taxation		Earnings per share	
Year ended 30 September	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 pence	2018 pence
Reported	8,408	10,796	(2,456)	(683)	(2,191)	(2,893)	15.1p	29.3p
Amortisation of acquired intangible assets	3,690	2,141	–	–	(676)	(276)	12.1p	7.6p
Site closure	(382)	1,569	–	–	65	(359)	(1.3p)	4.9p
Impairment of goodwill	6,258	2,708	–	–	(921)	–	21.4p	11.0p
(Credit)/charge in respect of accrued contingent consideration	(3,075)	417	–	–	662	–	(9.7p)	1.7p
Restructuring costs	1,355	864	–	–	(271)	(169)	4.3p	2.8p
Transaction fees	–	605	–	–	–	(116)	–	2.0p
Interest on deferred consideration	–	–	1,218	340	–	–	4.9p	1.4p
Tax credit on US deferred tax due to rate change	–	–	–	–	–	(864)	–	(3.5p)
Adjusted	16,254	19,100	(1,238)	(343)	(3,332)	(4,677)	46.8p	57.2p

Adjusted earnings per share (EPS) reduced from 57.2p in FY18 to 46.8p in FY19. Reported basic EPS was 15.1p compared with 29.3p last year.

FINANCIAL AND OPERATING REVIEW

The adjusted effective rate of tax was 22.2% (2018: 24.9%). The reduction in the rate was largely due to a combination of the full year effect of US rate reductions implemented last year and the utilisation of tax losses in the US. The effective rate of tax of 36.8% (2018: 28.6%) was higher than the adjusted effective rate largely because of the effect of the goodwill impairment, which is not deductible in arriving at the Group's tax charge. The rate reflects a combination of the varying tax rates applicable throughout the countries in which the Group operates, principally the UK and the USA.

Adjusted net finance costs increased to £1.2m principally as a result of additional borrowing at the end of FY18 to fund the ITL and Gould Fiber Optics acquisitions.

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-underlying items on the Company's financial results. These are the impact of the amortisation of acquired intangible assets, costs associated with restructuring activities, impairment of goodwill, adjustments to contingent consideration, costs associated with the acquisition and disposal of subsidiary companies, and the interest charge on deferred consideration.

Adjusted Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") is EBITDA excluding site closure costs and restructuring costs identified as non-recurring.

Non-underlying Items

Restructuring costs of £1.4 million (FY2018: £0.9 million) related to expenses arising from the re-organisation of the manufacturing centres, and the Group's commercial and business development teams into a single integrated function.

Site closure costs relate to the profit generated on the sale of the Company's Orlando facility, partially offset by the costs associated with the closure of the Madison office.

As noted above the performance of the Gould Fiber Optic business has not been sufficient to trigger the payment of the contingent consideration provided for in the Purchase Agreement and accrued within the September 2018 balance sheet. As a result the amount of $3.4m was credited to the income statement during the year. Furthermore the excess of contingent consideration compared with that paid in respect of the StingRay acquisition of £0.5m was released in the period.

As part of its annual review of the carrying value of goodwill, the Board has taken the decision to impair the goodwill of the Gould Fiber Optic business. The business was acquired in September 2018 for a consideration of $16.4m including a contingent element of $3.4m and, prior to the impairment, the carrying value of the associated goodwill was £9.2m. Whilst the acquisition has helped provide the Group with further access to the US A&D market the business has not generated the profitable growth required to support the payment of the contingent consideration. The lower than expected performance means that an impairment charge of £3.6m has been recognised in relation to the carrying value of that site's goodwill. Further detail is given in note 17 to the financial statements.

As reported at the half year, the Board took the decision to recognise an impairment of £2.6m in respect of the goodwill relating to the Boston site.

Transaction fees of £0.6m in FY18 related to the acquisitions of ITL and Gould Fiber Optics.

The interest charge on discounted deferred consideration of £1.2m (2018: £0.3m) relates to the unwind of the discount on deferred consideration liabilities.

Research & Development (R&D)

G&H continues to invest in R&D and regards this as fundamental to the continued growth of the Company. There were 48 product releases in FY19, together with five new patents granted.

Excluding the impact of acquisitions and divestments, expenditure on R&D in FY2019 was maintained at 6% of revenue, only marginally lower than the equivalent figures in the previous financial year (6.4%). The Group capitalised £0.7m of development expenditure (2018: £0.5 million).

Operations

The Group has completed the establishment of its three Manufacturing Centres which combine the Group's operational expertise into the three technology areas of Acousto Optic/Electro Optic, Fibre-Optic and Precision Optics/Systems. There are three customer facing business units which mirror our traditional market sectors of industrial, A&D and Life Science/Biophotonics. Each unit is responsible for that sector's strategy and longer term planning. They all come under our newly appointed CCO who will work closely with our manufacturing heads to ensure our production resources match our strategy and longer term planning goals.

We have made further investment in our business systems to better support our operations. We have continued the roll out of our Syspro ERP/MRP system which now forms the core of our sales and operations planning processes enabling us to ensure our in house and supply chain resources are better aligned with our market forecasts.

Following the closure and sale of the Orlando, Florida, light measurement business in the previous year the Group completed the sale of the site for proceeds of £1.5m in FY19. The resultant gain on disposal of the site of £0.8m has been treated as non-underlying income.

As reported in previous years, the Company has been successful in its legal dispute with the landlord of its Fremont facility, as a result of which a Californian court awarded G&H in the region of $2 million in damages plus costs, arising from the landlord's non-performance in respect of the lease. The landlord commenced an appeal against this ruling which is yet to be heard and whilst legal opinion remains confident that the original ruling will be upheld, no recognition of the damages award has been made in this set of financial statements. Any net benefit will be treated as a non-underlying item in a future accounting period.

Acquisitions

G&H continues to evaluate acquisition opportunities that have the potential to accelerate delivery of the Company's strategic objectives.

FINANCIAL AND OPERATING REVIEW

G&H is focused on moving up the value chain in each of the markets it serves. Whilst the business will continue to evaluate bolt on businesses in our core component technologies, we are focused on identifying value enhancing acquisitions that can extend our technical capabilities and help us achieve further penetration into the markets that we serve.

In its first full year of ownership the ITL business has exceeded our expectation contributing £12.8m of revenue and £3.2m of operating profit to the Group result. During the period it has secured some important new design wins with new customers.

The acquisition of Gould Technology LLC, trading as Gould Fiber Optics, in the previous financial year has allowed G&H to strengthen its position as the world leader in fused fibre optic technology and brought G&H access to strategic US A&D customers. During the year Gould contributed £4.4m of revenue and £0.7m of operating profit to the Group results. However, this was a level lower than that required to generate payment of the contingent consideration of $3.4m provided for on acquisition of the business and this was, therefore, released as a non-underlying credit to the income statement in the year. The impact of the avoided earn-out payments on the carrying value of goodwill is considered in note 17 to the financial statements.

As a result of strong trading in 2018 earn out payments were made in the year in respect of the StingRay business (£2.6m) and the Kent Periscopes business (£1.7m). These payments were the final amounts due in respect of those two acquisitions.

Balance Sheet

The Group's total equity at the end of the year was £112.8 million, an increase of £3.8 million over the prior year. This increase comprised £0.9m from retained earnings, £0.5m from issues of share capital and a net increase of £2.4m from foreign exchange and other movements.

Additions to property, plant and equipment totalled £5.9m. The additions included investment to provide our facilities with new capabilities to satisfy our customers' developing needs.

Working capital was 33.9% of revenue in the current year compared with 28.6% in 2018, due to higher inventory levels as a result of inventory built in anticipation of the return of market demand in the industrial lasers market which has been delayed, and inventory held to deliver the strong multi-year growth of hi-reliability fibre couplers. Whilst it was consistent with the prior year, a heavy weighting of shipments towards the end of the financial year kept accounts receivable high.

Inventory at year end was £33.3 million, an increase of £7.4 million over the prior year. Excluding the impact of foreign exchange inventory increased by £6.6 million, or 25.5%, in the year. This movement is expected to partially unwind as trading levels grow in the coming year.

Trade receivables at year end were £31.1 million, a reduction of £1.1 million compared with the prior year. The reduction was due to the lower trading level albeit the weighting of shipments in Q4 remained heavy. There has been good cash collection post year end, albeit we are seeing some overseas customers extending their payment terms.

Cash balances at 30 September 2019 were £17.5 million, compared with £19.4 million in the prior year. Net cash flows from operating activities totalled £11.6 million, compared with £9.2 million last year, reflecting a cash generated from operations to adjusted operating profit rate of 80% (2018: 63%) as a result of a lower investment in working capital year-on-year. During the year net debt increased by £3.7 million, of which £1.8 million was as a result of exchange rate movement on the Group's US$ denominated borrowings.

Movement in Net Debt

All amounts in £m	Gross Cash	Gross Debt	Net Debt
At 1 October2018	19.4	(30.0)	(10.6)
Operating cash flows	19.6	–	19.6
Debt drawdown	–	0.1	0.1
Acquisitions (deferred consideration)	(3.9)	–	(3.9)
Net capital expenditure	(5.9)	–	(5.9)
Working capital	(6.6)	–	(6.6)
Interest, tax and dividends	(5.4)	–	(5.4)
Exchange movements	0.3	(1.9)	(1.6)
At 30 September 2019	17.5	(31.8)	(14.3)

Prior Year Restatement

In support of the establishment of the Group's three manufacturing centres, and to enable a better comparison of operational performance across the Group, the methodology for the inclusion of overhead costs into inventory values was standardised in the year. The effect of this standardisation was to increase inventory values.

In the financial statements for the year the effect of this standardisation has been applied retrospectively to the prior year comparators which have been restated. This adjustment has been made so as not to distort FY19 profitability and is detailed further in note 2 to the financial statements. The effect in FY19 was not material.

Order Book

As at 30 September 2019, the Group order book stood at £94.4 million, compared with £96.1 million at the end of the 2018 financial year. Excluding foreign exchange the order book was 5% lower. The book to bill ratio for the business as a whole was 0.98 (six month rolling average) as at 30 September 2019 (2018: 0.95). This partly reflects the strong shipments in Q4.

Staff

The Group workforce reduced from 1,007 at 30 September 2018 to 984 at the end of September 2019. The reduction reflects the action the business has taken to adjust to the lower levels of market demand in its industrial lasers markets whilst ramping up for increasing levels of demand in particular for its hi-reliability fused fibre coupler products.

Dividends

The Directors propose a final dividend of 7.2p per share making a total dividend per share for the year of 11.5p (2018: 11.3p), an increase of 1.8%. The final dividend, if approved, will be payable on 28 February 2020 to shareholders on the Company's share register as at the close of business on 24 January 2020.

FINANCIAL AND OPERATING REVIEW

Key Performance Indicators (KPIs)

The Group's objective is to deliver sustainable, long-term growth in revenue and profits through the execution of the Board's strategy.

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

Total revenue growth	2019	2018	2017
At actual exchange rates	3%	12%	30%
At constant exchange rates	-	16%	19%

The Board is focused on driving revenue growth by investing both organically and through acquisitions. The Group's revenue at constant exchange rate was flat year on year with the downturn in our key industrial sector offsetting the performance elsewhere in the business, including from last year's acquisitions.

Target market revenue	2019	2018	2017
A&D (£m)	44.2	40.8	34.9
Life Sciences (£m)	24.1	11.2	9.6

The Group's target markets of A&D and Life Sciences provide a route to sustainable growth, and a more diversified revenue base. These markets also provide significant opportunities for G&H to migrate up the value chain from materials and components to higher value subassemblies, modules and systems in response to the trend for our larger customers to outsource increasingly complex parts of their business. The increase in A&D revenue includes the full year effect of last year's acquisition, Gould Fiber Optics in 2018 while the Life Sciences revenue growth includes the full year effect of the ITL acquisition in 2018. Measured on an organic constant currency basis A&D revenues increased by 2.4% and Life Sciences by 18.2%

Net (debt)/cash analysis	2019	2018	2017
Net (debt)/cash (£m)	(14.3)	(10.6)	14.9

In order to balance business risk with the investment needs of the Company, management closely monitors and manages net (debt) /cash. This year, as a result of earn out payments made for the acquisition of the StingRay and Kent Periscopes businesses and the investment in capital equipment and working capital, net debt increased from £10.6m to £14.3m. This represents a Net Debt : Adjusted EBITDA ratio of c. 0.7x.

Earnings per share (EPS)	2019	2018	2017
Adjusted diluted EPS (pence)	46.7p	56.5p	48.5p

As a result of the difficult trading environment in the industrial laser sector, adjusted diluted EPS fell 17.3%, from 56.5p to 46.7p.

STRATEGY OVERVIEW

G&H's strategy is built around the twin pillars of diversification and moving up the value chain. In order to ensure its strategic goals are met management considers investment in R&D, acquisitions and strategic partnerships.

Strategies

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

a) Diversification within the Industrial market. In FY19, G&H grew its business in the areas of:
- Hi-Reliability fibre couplers
- Sensing
- Lidar

b) A&D
- Acquisition of Gould Fiber Optics in the prior year
- Greater programme penetration through focused business development leading to organic growth.

c) Life Sciences
- Very successful first full year for ITL under G&H ownership
- Organic growth across key sub-sectors

Moving up the Value Chain

To leverage our excellence in materials and components to move up the value chain to more complex subassemblies and systems.

Progress

- Further investment in systems based R&D projects, utilising the enhanced systems capability from ITL.

Organic Research & Development

To leverage G&H's world leading products, technologies and capabilities to develop innovative new products

Progress

- In FY19 the company's organic research & development programmes have delivered 48 new products. In addition, five new patents have been awarded.
- The Group continues to invest in R&D projects in all of its key markets.

PRINCIPAL RISKS AND UNCERTAINTIES

G&H adopts a formal risk identification and management process designed to ensure that risks are properly identified, prioritised, evaluated and mitigated to the extent possible.
A formal Group wide risk register is maintained and approved by the Board on an annual basis.
The following represent the significant risks identified in the Group's risk register.

Risk	Mitigation
Competition	
There is an ongoing risk of loss of market share or price erosion due to the activities of competitors in our marketplaces. This could lead to a reduction in revenue and profitability.	This is a key area of focus for the G&H management team. Fundamental to mitigating the effects of our competitors is to maintain our product quality and on-time delivery performance to ensure our customers' expectations are fulfilled. This will help us to counteract the emergence of lower cost competitors in the market. Our significant investment in R&D enabled us to launch 48 new products during FY19. The Group also has a cost reduction roadmap in place including the roll out of lean manufacturing practices across our sites, and the use of lower cost manufacturing partners where it is efficient to do so. Our business development teams maintain a presence in the marketplace and attend key trade shows which enables them to monitor competitor activity and respond accordingly.
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.	Our people are at the heart of our business. We maintain development and reward schemes to encourage individuals to play a long term role in the future development of the Group. Succession planning is reviewed by the senior management team on a regular basis.
Capacity Management	
It is important that we are able to respond to customer demand patterns, particularly where markets are cyclical.	There has been continued management focus on increasing efficiency during FY19 in order to increase capacity. The grouping of our sites into manufacturing centres is driving efficiency gains. We have continued to invest in machinery and people. Significant progress has again been made in increasing capacity at strategically important plants and "right sizing" where appropriate.
Global Economic Trends	
Adverse changes in the major markets in which the Group operates can have a significant impact on the Group's performance.	Through its strategies of market diversification and moving up the value chain, the Group seeks to secure routes to new markets and reduce its dependence on any one market sector. We have a good order book going into FY20.
Brexit	
Various Brexit scenarios could affect the group's financial position, supply chain and people.	Our Brexit steering group continues to monitor the evolving impact of Brexit and oversees our response. We have assessed that our supply chain is not materially exposed to supply from the EU. The majority of our terms with customers are for delivery ex-works. Therefore our exposure to incremental tariffs is also limited.
US/China Tariffs	
Tariffs levied by the US and China could affect our sales and margins in certain markets.	Our US/China tariff steering group continually monitors progress and takes mitigating action where necessary, such as moving some production from our US to UK or other sites.
Information and Cyber Security	
There is a risk of loss of digital intellectual property/data or ability to operate systems due to internal failure or external attack.	Clear ownership of cyber risk and IT controls defined. A risk framework has been established with plans for management, mitigation and resolution of device failures. Data is appropriately stored and backed up with IT system recovery plans in place.

The strategic report has been approved by the Board of Directors and signed on its behalf by:

Mark Webster
Chief Executive Officer
3 December 2019

BOARD OF DIRECTORS
Executive Directors

Mark Webster Chief Executive Officer (Appointed January 2015)

Mark was previously Chief Executive Officer of Bio Products Laboratory Ltd. He has extensive executive experience and has held a number of senior leadership roles, such as Senior Vice President, Bayer Healthcare AG, Head of Global Strategic Marketing and M&A/Business Development, Shire Pharmaceuticals Group PLC and Vice President, Abbott Laboratories Inc.

Mark was a non-executive Director of Gooch & Housego PLC before becoming an Executive Officer. He has also been a non-executive Director at Abcam PLC.

Mark holds an honours degree in Chemistry from the University of Durham.

Chris Jewell Chief Financial Officer (Appointed September 2019)

Chris has twenty five years' experience working in senior finance roles in international engineering and manufacturing businesses, operating in Europe, North America and Asia. Prior to joining Gooch & Housego PLC Chris was Group Director of Financial Control at TT Electronics PLC, Senior Vice President of Finance at Cobham PLC and Finance Director of MBDA UK. He qualified as a Chartered Accountant whilst working with Ernst & Young.

Chris holds masters degrees from Cambridge University and the London School of Economics. He is a Fellow of the Institute of Chartered Accountants in England and Wales.

BOARD OF DIRECTORS
Non-executive Directors

Gary Bullard Non-Executive Chairman (Appointed 21 February 2018)

Gary previously held senior management positions, including sales and marketing roles, at IBM and BT Group plc and was a non-executive director of Chloride Group plc and Rotork plc. Gary most recently held the position of President of Logica UK until October 2012 and was a member of the Executive Committee of Logica plc.

Gary is a non-executive director of Spirent Communications PLC. He is also founder and CEO of Catquin Limited and Chairman of New Model Identity Limited.

Gary is a member of the Nomination and Remuneration Committees of the G&H Board.

Dr Peter Bordui Senior Independent Director (Appointed February 2012)

Peter has thirty years' experience in the photonics industry in senior leadership roles within Bookham, NewFocus, JDSU and Siemens and has held a number of additional non-executive chairman and director roles. He is also currently a governing trustee of a private charitable foundation and a director of the non-profit organisation American Citizens Abroad.

Peter has bachelors, masters and PhD degrees from MIT.

Peter is the Senior Independent Director. He is Chairman of the Nomination Committee and a member of the Remuneration and Audit Committees.

Brian Phillipson (Appointed 1 September 2015)

Brian has extensive experience of the A&D industry in both Strategic and Operational roles across a range of locations. Most recently he has been a Board Member and Business Unit MD at Marshall Aerospace and Defence Group. Previously he held a number of senior roles within BAe Systems PLC, including Director of Strategy; Group Managing Director Major Programme Assurance; Group Managing Director Sea Systems; and first CEO, then later COO, of Eurofighter GmbH based in Munich.

Brian has also undertaken a number of interim/consultancy roles and recently joined Munich based Lilium GmbH as Deputy CTO and Head of Design.

Brian holds an MA (Hons) in Engineering from Cambridge University.

Brian is Chairman of the Remuneration Committee and a member of the Audit and Nomination Committees.

David Bauernfeind (Appointed 1 May 2017)

David is Chief Financial Officer of Domino's Pizza Group PLC, a company listed on the London Stock Exchange. He was previously Chief Financial Officer of Connect Group PLC, a specialist distribution company listed on the London Stock Exchange. Prior to that role, David was Chief Financial Officer and Executive Director at Xchanging PLC, a position he held from 2011 until its takeover and delisting in 2016. David was also a director of Xchanging Solutions Limited (formerly Cambridge Solutions Limited), a subsidiary of Xchanging PLC with a dual listing on the National Stock Exchange of India and the Bombay Stock Exchange. Before joining Xchanging in 2001, David held management roles in BAE Systems PLC and Johnson Matthey PLC.

David is Chairman of the Audit Committee and a member of the Remuneration and Nomination Committees of the G&H Board.

CORPORATE GOVERNANCE

Introduction

The Board is accountable to shareholders and is committed to the highest standards of corporate governance. To this end, the company has adopted the UK Corporate Governance Code (2016). The Code is available to download at www.frc.org.uk. The UK Corporate Governance Code (2018), issued in July 2018, will apply for the first time to our year ending 30 September 2020.

Gooch & Housego PLC has complied with the Code during the year ended 30 September 2019, save that it was not in compliance with the following provision:

Code Provision E1.1 states that the senior independent director should attend sufficient meetings with a range of major shareholders to listen to their views in order to help develop a balanced understanding of the issues and concerns of major shareholders. The senior independent director has not met with shareholders during the year, although the board believe the level of dialogue with shareholders during the year has been appropriate. The Chief Executive and Chief Financial Officers have regular meetings with the shareholders. All of the Non-executive Directors receive a report prepared by our brokers summarising the shareholder feedback from the half and full year investor roadshows. The senior independent director was available at the annual general meeting.

How we govern the company

The Board leads the Group's governance framework. It is responsible for setting the strategic targets for the Group, monitoring progress made, approving proposed actions and for ensuring that the appropriate internal controls are in place and that they are operating effectively.

The Board is assisted by three principal committees (Audit, Nomination and Remuneration) each of which is responsible for dealing with matters within its own terms of reference, which are available on the company's web site.

The Board

The Board currently comprises two Executive and four Non-executive Directors. The directors holding office during the period of this report and their biographies are detailed from page 28 and are also available on our website; www.gandh.com. As disclosed in the Nomination Committee Report, we are currently in the process of recruiting a female Non-executive Director who we expect to be appointed early in the new calendar year.

The Executive Directors have rolling service contracts that are subject to either six or twelve months' notice. The Chairman and non-executive Directors do not have contracts of service. The terms of appointment of the Directors are available for inspection during business hours at the registered office of Gooch & Housego PLC and are also available at the AGM.

All the Non-executive Directors are considered by the Board to be independent of management and free of any relationship which could materially interfere with the exercise of their independent judgement.

The Nomination Committee is responsible for approving appointments to the Board. The Board's policy is to appoint the highest calibre individuals regardless of an individual's background, race or gender. The Board has not set any specific objectives in relation to diversity, but understands and recognises the benefits that diversity can bring. To this end, the Board has recently appointed Warren Partners to lead a search for a female Non-executive Director who is expected to be appointed early in the new calendar year.

Roles and Responsibilities

There is a documented clear division of responsibilities between the Chairman and the Chief Executive Officer to ensure that there is a balance of power and authority between leadership of the Board and executive leadership.

All Directors are entitled to seek independent, professional advice at the Company's expense in order to discharge their responsibilities as Directors. Gooch & Housego PLC maintains appropriate directors' and officers' insurance cover.

Board Activities

Day to day responsibility for the running of the Company is delegated to executive management. However, there are a number of matters where, because of their importance to the Group, it is not considered appropriate to do this. The Board therefore has a documented schedule of matters reserved for its decision. This schedule is available on the company's web site.

There are typically eight board meetings a year. At least once annually, the Board meets at one of G&H's locations other than its head office in Ilminster. This allows the Non-executive Directors the opportunity to gain a deeper understanding of other G&H businesses and to meet local staff. During FY19, board meetings were held in our Fremont and Ashford sites, in addition to those held at our head office. Furthermore, our Non-executive Directors have visited other sites individually during the course of the year.

Meetings between the Non-executive Directors, without the Executive Directors present are scheduled in the Board's annual programme. These meetings are encouraged by the Chairman and provide the Non-executive Directors with a forum in which to share experiences and to discuss wider business topics, fostering debate in Board and committee meetings and strengthening working relationships.

The Board has established a procedure for directors, if deemed necessary, to take independent professional advice at the Company's expense in the furtherance of their duties. The Chairman ensures that the Board is kept properly informed and is consulted on all matters reserved to it. Board papers and other information are distributed in a timely fashion to allow directors to be properly briefed in advance of meetings.

In accordance with best practice, the Chairman addresses the developmental needs of the Board as a whole, with a view to further developing its effectiveness as a team, and ensures that each director refreshes and updates his or her individuals skills, knowledge and expertise.

A formal, comprehensive and tailored induction is given to all Non-executive Directors following their appointment, including access to external training courses, visits to key locations within the Group and meetings with members of the senior management team.

Peter Bordui is the Senior Independent Director. His role includes providing a sounding board for the Chairman and acting as an

CORPORATE GOVERNANCE

intermediary for the Non-executive Directors, where necessary. The Board believes that Peter has the appropriate experience, knowledge and independence to continue this role.

Board meeting attendance is presented in the following table.

Executive Directors		
Mark Webster	8/8	
Chris Jewell	1/1	Appointed 9 September 2019
Alex Warnock	8/8	Resigned 8 November 2019
Andrew Boteler	6/6	Resigned 14 June 2019
Non-executive Directors		
Gary Bullard	8/8	
Peter Bordui	8/8	
Brian Phillipson	8/8	
David Bauernfeind	8/8	

Maintaining a Dialogue with Shareholders

The Chairman ensures that the Board maintains an appropriate dialogue with shareholders. The Chief Executive Officer and the Chief Financial Officer regularly meet with institutional investors to discuss strategic issues and to make presentations on the Company's results.

In addition to the full and half year results, the company publishes Regulatory News Service announcements through the London Stock Exchange.

The Company's web site contains an archive of information on the Company's history, leadership, governance, financial results, dividend history and up to date share price information.

Although the Non-executive Directors are not formally required to meet the shareholders of the Company, their attendance at the Annual General Meeting and at presentations of the interim and annual results is encouraged.

Board Effectiveness

The Chairman is responsible, with assistance from the Nomination Committee, for ensuring that the Company has an effective Board with a suitable range of skills, expertise and experience. Every year, a performance evaluation of the Board is carried out. This year, the evaluation took place in October 2018, and was led by the Senior Independent Director, Peter Bordui.

The Senior Independent Director leads an annual appraisal of the Chairman's performance. This review took place during August and September 2019. Peter Bordui met with each of the Directors and the Company Secretary to obtain feedback on the Chairman's performance. This feedback was collated and fed back to the Chairman by Peter Bordui. The Chairman summarised the key aspects of the feedback at the September board meeting.

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, strategic forecasting 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 for the Board.

Board Committees

The Board has established a number of committees to assist in the discharge of its duties. The formal terms of reference for the principal committees can be found on the company's web site.

The Board has three formally constituted committees, the Audit committee, the Remuneration committee and the Nomination committee. A report on the activities of each committee follows later in this report.

Accountability

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.

G&H adopts a formal risk identification and management process designed to ensure that risks are properly identified, prioritised, evaluated and mitigated to the extent possible. A formal group wide risk register is maintained and approved by the Board on an annual basis.

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 Audit Committee is responsible for reviewing the effectiveness of the Company's financial reporting, internal control policies and procedures for the identification, assessment and reporting of risk. It is also responsible for advising the Board on whether the Committee believes the Annual Report taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

The Group does not have an internal audit department, but senior finance staff visit the sites to perform reviews of controls and processes in place. Additional recruitment was completed early in the new financial year in the Group finance team, which will enable the frequency of these visits to be increased.

Annual budgets and strategic plans are prepared for each company. Financial and operational reports enable the Board to compare performance against budget and to take action where appropriate.

Remuneration

The Remuneration Committee is responsible for setting remuneration packages of the Executive Directors which are designed to promote the long term success of the Company and take account of current corporate governance practice. The committee ensures that performance related components of Executive Director remuneration are transparent, stretching and rigorously applied. The committee also monitors the level and structure of remuneration for other senior management.

No director is involved in deciding his or her own remuneration.

DIRECTORS' REPORT

The Directors present their report together with the audited consolidated financial statements for the year ended 30 September 2019. The Directors who held office during the year are shown on page 39.

A review of the development and performance of the Group during the year and its future prospects is set out in the Financial Highlights on page 2 and in the Financial and Operating Review on pages 22 to 25. An outline of the business's principal activities, strategy and the Group's progress in the year towards these strategies is given in the Strategic Report on pages 10 to 27. An analysis of the segmental information by market sector is given on pages 16 to 21.

Key Financial Performance Indicators ("KPIs")

The Group uses a selection of KPIs to monitor and review the performance of the business. These are detailed from page 25 of the Financial and Operating Review.

Dividends

During the year ended 30 September 2019 a final dividend of 7.1p per share was paid for the previous financial year. A further interim dividend of 4.3p per share was paid for the half year ended 31 March 2019 (2018: 4.2p).

For the year ended 30 September 2019, the Directors propose that a final dividend of 7.2p per share be paid.

Substantial Shareholdings

As at 15 November 2019, 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
Octopus Investments	3,511,834	14.03%
Invesco	2,000,000	7.99%
Investec Group	1,993,173	7.96%
Standard Life Aberdeen	1,776,064	7.09%
Canaccord Genuity Wealth Management	1,549,089	6.19%
Black Rock Inc	1,208,185	4.83%
Franklin Resources	1,027,000	4.10%
Rathbone plc	820,059	3.28%
Charles Stanley Group	786,245	3.14%

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.

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.

The Group's bank borrowings are denominated in US Dollars, which acts as a partial hedge of a net investment against its US Dollar denominated companies within the Group. Further information on financial risks is given in note 5 to the Financial Statements.

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 revenue.

Directors' Indemnities

The Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

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.

Statement on Equal Employment Opportunities

The Group is committed to providing equal employment opportunities for all employees and applicants for employment. The company does not discriminate in employment opportunity or practices on the grounds of gender, race, religion or belief, age, disability, sexual orientation, or any other characteristic protected by national laws under which the Group operates. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the group. If members of staff become disabled the group continues employment, either in the same or an alternative position, with appropriate retraining being given if necessary.

Our employees have diverse backgrounds, skills, and ideas that collectively contribute to the Company's success. The Group operates to national standards of diversity in employment including the Affirmative Action Program (AAP) in the United States which

DIRECTORS' REPORT

is designed to attract, retain and develop a diverse pool of talent and which operates to an audit and reporting system.

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 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 parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 parent 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;
- state whether applicable IFRSs as adopted by the European Union have been followed for the group financial statements and IFRSs as adopted by the European Union have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and parent company will continue in business.

The directors are also responsible for safeguarding the assets of the group and parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and parent company's transactions and disclose with reasonable accuracy at any time the financial position of the group and parent company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

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

Directors' Confirmations

The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group and parent company's performance, business model and strategy.

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the group and company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the group and parent company'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 will continue to comply with its banking covenants.

For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

Viability Statement

Business planning processes within G&H require the preparation of detailed financial plans. The CEO leads an annual review of the ongoing plan, a process in which all functions are involved. The Group's strategy is developed, and capital investment decisions are made, based on cash flow forecasts over a medium term horizon.

The Group's strategy is key to understanding its prospects. Further details of the strategy can be found in the Strategic Report. Key to the strategy is moving up the value chain and diversification, which will reduce the exposure the Group has to global economic trends affecting the industrial laser market.

There are many factors which could affect the growth of G&H going forward. There are discussed regularly by the Executive management team and the board. The principal risk factors which the board concluded could affect business performance over the medium term are set out on page 27.

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 at least a three year period.

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:

Mark Webster
Director
3 December 2019

AUDIT COMMITTEE REPORT

Membership

The Audit Committee is chaired by David Bauernfeind, a Chartered Accountant, who is currently Chief Financial Officer of Domino's Pizza Group PLC, a company listed on the London Stock Exchange. The Committee comprises David Bauernfeind, Peter Bordui and Brian Phillipson and is considered to have had an appropriate balance between those individuals with finance or accounting training and those from a general business background.

How the Committee Operates

The Committee met three times during the year as part of its standard schedule to consider matters planned around the Group's financial calendar. Attendance at those meetings is summarised below:

Non-executive Directors	
David Bauernfeind	3/3
Dr Peter Bordui	3/3
Brian Phillipson	3/3

At the invitation of the Committee, representatives of the external auditors, PricewaterhouseCoopers LLP, attended meetings together with the Chairman, Chief Executive Officer, Chief Financial Officer, and the Company Secretary. The Committee also seeks to meet regularly with the external auditor without the Executive Directors in attendance. In the year, the Committee met twice with representatives from PwC LLP without others being present.

Responsibilities

The role and responsibilities of the Committee are set out in its terms of reference, which are available on the Company's web site and from the Company Secretary on request. The terms of reference are reviewed annually by the Committee.

The principal responsibilities of the Committee are:

- Reviewing the effectiveness of the Company's financial reporting, internal control policies and procedures for the identification, assessment and reporting of risk;
- Advising the Board on whether the Committee believes the Annual Report taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy;
- Considering and making recommendations to the Board as to the appointment, reappointment or removal of the external auditors and the approval of their remuneration and terms of engagement;
- Assessing the external auditors' independence and objectivity and the effectiveness of the audit process;
- Reviewing the policy on the engagement of the external auditors to supply non-audit services.

Financial Reporting

During the year, the Audit Committee reviewed the appropriateness of the Group's interim and full year financial statements, including the consideration of significant financial reporting judgements made by management taking into account reports from management and the external auditors. The main area of focus considered by the Committee during the year were as follows:

Area of Focus	Conclusion
Adoption of IFRS15	
IFRS15 applied to the Group's financial statements for the first time in the year ended 30 September 2019. This is a complex standard and has potential implications for our sites which have programme revenues.	The Audit Committee has reviewed the assessment made in respect of IFRS15, together with the conclusions of the work performed by the external auditors. This work included assessing the judgements applied in accounting for the Group's long term contracts. Based on the work done, the audit committee is satisfied that revenue has been recognised appropriately.
Long Term Contract Accounting	
Some of the Group's sites are engaged in long term development contracts. These contracts must be traded based upon an estimate of the contracts' outturn profitability which requires estimation and judgement.	The Committee considered the procedures in place to monitor both the stage of completion and the outturn profitability of long term contracts within the Group. It also reviewed the procedures in place for the correct segregation of costs between contracts. After careful consideration the Committee concluded that the judgements and estimates made in this regard were reasonable.
Goodwill Impairment Reviews	
Management perform annual impairment reviews of the carrying value of goodwill. These impairment reviews are based on future projected cash flows and are therefore inherently judgmental. The Audit Committee reviewed the key judgements underpinning the impairment reviews performed.	The Committee is satisfied that the impairments recognised in the year are appropriate and that the remaining carrying value of goodwill is supportable. The Committee has reviewed the sensitivity disclosures in note 17 and concluded that they are appropriate. The Committee reviewed changes to the business a result of the reorganization and concluded that at present the CGUs remain unchanged from prior years (i.e. Site based), but that this was likely to change in the future.

AUDIT COMMITTEE REPORT

Area of Focus	Conclusion
Inventories	
The Committee reviewed management's estimates in relation to inventory valuation and obsolescence.	The Committee reviewed the level of inventory at the year end, which has increased in the period. The Committee was satisfied that the provisions made adequately reflected the risk of impairment. During the year, work was completed to standardise the Group's methodology with respect to the costs of the business that are absorbed into our inventory values. The effect of this change has been reflected in a restatement of prior year comparative figures so as not to distort current year profitability. The Audit Committee has reviewed the work done in this regard and is satisfied that the accounting treatment and related disclosures in the financial statements are appropriate.
Non-Underlying Items	
The Committee reviewed management's estimates in relation to inventory ageing and obsolescence.	The Committee was satisfied that the presentation of normalised profit before tax provides a reasonable view of the underlying performance of the Group and that there was transparent and consistent disclosure of items shown separately as non-underlying items. This was based on a review of the items added back in arriving at underlying profit.
Fair, Balanced Understandable and Comprehensive Reporting	
	The Audit Committee has provided advice to the Board on whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's financial position and performance, business model and strategy. Each Director was also asked to provide this confirmation.
Internal Audit	
The Group has not historically had an internal audit function. Senior finance staff members performed periodic reviews at each site.	Following the adoption of the UK Governance Code in 2018, and in recognition of the growing size of the group, the Audit Committee decided to recruit a new senior finance team member in FY19. Given the change of Chief Financial Officer in the year, it was decided that the incoming CFO should manage the recruitment of this new role. Since the year end, this role has been filled and we expect this appointment to support a programme of site visits to review the financial controls environment.

External Auditors

Under its terms of reference the Committee is responsible for assessing the scope, fee, objectivity and effectiveness of external audits and for making a recommendation to the Board regarding the appointment, reappointment or removal of the auditors on an annual basis.

The Committee also regularly reviews the nature, extent, objectivity and cost of non-audit services provided by the auditors. In doing this the Committee does not approve additional services which would compromise the auditors' independence. The auditors are required to make a formal report to the Audit Committee on an annual basis

on the safeguards that are in place to maintain their independence and the internal safeguards in place to ensure their objectivity. To ensure compliance with this policy, the Audit Committee reviewed and approved the remuneration received by PricewaterhouseCoopers LLP for the audit service, audit-related services and non-audit work.

Approval

David Bauernfeind
Chairman of the Audit Committee
3 December 2019

NOMINATION COMMITTEE REPORT

The Nomination Committee, which consists of the Chief Executive Officer and all four Non-Executive Directors, is responsible for the composition of the Board.

Role of the Committee

- Reviews the composition of the Board and its committees.
- Identifies and recommends for Board approval suitable candidates to be appointed to the Board.
- Considers succession planning for Directors and other senior executives and in doing this considers diversity, experience, knowledge and skills.

Areas of focus for the Nomination Committee during FY19

- Appointment of a new Chief Financial Officer in preparation for the departure of Andrew Boteler in June 2019.
- Succession planning for other members of the Board

Advisors

During FY19, the Committee appointed Warren Partners, an external search agency, to assist with the identification of suitable Chief Financial Officer candidates.

Appointment Process

As part of the appointments process, the Committee determined the selection criteria for the Chief Financial Officer role. The Committee worked with Warren Partners who drew up a list of internal and external candidates from a range of industries and backgrounds for initial appraisal by the Committee. From this, a shortlist of suitable candidates that met the search and selection criteria was prepared and these candidates were interviewed by the Board.

Following these interviews, the Nomination Committee recommended to the Board, which duly approved, the appointment of Chris Jewell as Chief Financial Officer as announced on 30 April 2019. Chris Jewell joined the board on 9 September 2019.

Board Composition

The Board is cognisant of the importance of gender diversity and has recently appointed Warren Partners to lead a search for a female Non-Executive Director who is expected to be appointed early in the new calendar year.

Membership and Attendance at Meetings Held in 2019

Non-executive Directors	
Dr Peter Bordui	4/4
Gary Bullard	4/4
Brian Phillipson	3/4
David Bauernfeind	4/4
Executive Directors	
Mark Webster	4/4

Approval

Peter Bordui
Chairman of the Nomination Committee
3 December 2019

REMUNERATION COMMITTEE REPORT

Introduction

It is an objective of the Group to attract and retain high calibre Directors and employees and reward them in a way which encourages the creation of value for shareholders.

Following the review of the remuneration schemes conducted in FY17, the Remuneration Committee remain satisfied that the schemes are appropriate.

A minimum shareholding requirement is in place for Executive Directors. This is unchanged from previous years. Executive Directors are required through company share award schemes to build and hold a shareholding equivalent in value to 100% of salary.

In recognition of the new Corporate Governance guidance, LTIPs granted in FY19 were subject to the usual three year performance period, but a further two year holding period applied to any shares which vest, after disposals to fulfil tax obligations. The recipients will be permitted to dispose of shares required to fulfil tax obligations at the time of vesting. 50% of the remaining shares may be sold one year after vesting with the balance available for sale two years after vesting, subject to minimum shareholding requirements being satisfied.

During FY19, the rate of company pension contributions for new executive directors was reduced from 10% to 6%. This brings the company's policy in line with the UK Corporate Governance Code 2018 which recommends that contribution rates for executive directors, or payments in lieu thereof, should be aligned with those available to the workforce.

The Remuneration Committee has reviewed the remuneration of the senior management team directly below board level.

The Committee values all feedback from shareholders and hopes to receive your support at the forthcoming AGM.

Operation of the Remuneration Committee

The Remuneration Committee is chaired by Brian Phillipson and comprises all the non-executive directors. Although not a member of the committee, the Chief Executive Officer submits a report outlining proposals 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.

The Committee has three scheduled meetings each year to deal with ordinary business. In addition to these, the Committee meets on an ad hoc basis when there are additional matters to deal with. Brian Phillipson gives an update on the Remuneration Committee's activities at each Board meeting.

Attendance at meetings held in 2019	
Brian Phillipson (Chairman)	4/4
Gary Bullard	4/4
Dr Peter Bordui	4/4
David Bauernfeind	4/4

REMUNERATION COMMITTEE REPORT

Remuneration Policy Table

The table below summarises our policy for FY19 and the planned changes for FY20:

Element of remuneration	Purpose and link to strategy	FY19 Policy and approach	Opportunity	FY20 Policy and approach
Base Salary	Takes into account experience and personal contribution to the company's strategy Attracts and retains executives of the quality required to deliver the company's strategy	• Reviewed annually with changes effective from 1 October if applicable • Consideration given to individual and company performance • General pay increases across the wider workforce are also taken into consideration • Where the company considers it appropriate and necessary, larger increases may be awarded in exceptional circumstances	Base salary increases are applied in line with the outcome of the annual review	• The Remuneration Committee approved a 2.5% increase to Mark Webster's salary, which is in line with the increase given to the wider workforce. • Chris Jewell is entitled to a Director's fee of £10,000 per annum in addition to his basic salary.
Annual Bonus	Incentivise achievement of short-term financial targets that the Committee considers to be critical drivers of business growth	• Awarded annually • Introduction of broader performance measures • Up to 60% payable for exceeding target EPS by 10%. • 20% of bonus payable for achieving target operating cash flow. Nil if not met. • 0-20% of bonus payable for achievement of personal objectives linked to operational performance and major initiatives.	Maximum of 100% of base salary	• No changes proposed
Pension	Provide employees with market competitive pension scheme	• Defined contribution personal pension plan • Company contributes 10% of salary for Directors appointed prior to 1 October 2018. For Directors appointed thereafter, the Company contributes 6% of salary.	6 - 10% of base salary. The Committee keeps the benefit policy and benefit levels under regular review	• The 6% contribution was introduced in response to the Corporate Governance code which requires Director Pension contributions to be no higher than those of the wider workforce.
Benefits	Provide employees with market competitive benefits	• Executive Directors receive private health insurance, life assurance and long term disability insurance	The Committee keeps the benefit policy and benefit levels under regular review	• No changes proposed
Long Term Incentive Plan (LTIP)	Incentivise executive performance over the longer term Performance measures linked to the long-term strategy of the business and the creation of shareholder value over the longer term	• Awards vest after three years subject to achievement of targets, and are then subject to a two year holding period. • Absolute TSR retained for 60% of awards, with full vesting at 15% TSR per annum. • EPS target for remaining 40% of awards. Full vesting at 15% EPS growth per annum. • 15% growth per annum target is in line with the Board's objective of doubling the size of the company over a period of 5 years. • Awards may vest pro rata on retirement.	Award levels are determined by reference to an individual's position and performance. Annual awards of 120% of base salary for the CEO and 110% for the CFO. Maximum award of 300% of base salary.	• A proportion of Chris Jewell's LTIPs to be granted in FY20 will be eligible to vest after two years. This was agreed by the Remuneration Committee to compensate for LTIPs forfeited when Chris left his former employer.

REMUNERATION COMMITTEE REPORT

Directors' Remuneration

2019	Basic pay £'000	Performance related bonus £'000	Benefits in kind £'000	Pension contribution £'000	Subtotal 2019 £'000	LTIPs exercised £'000	Total 2019 £'000
Executive							
M Webster	342	–	14	–	356	353	709
C Jewell*	16	–	1	1	18	–	18
A Warnock	247	–	9	10	266	263	529
A Boteler**	168	–	8	8	184	218	402
Non-executive							
G Bullard***	78	–	–	–	78	–	78
Dr P Bordui	42	–	–	–	42	–	42
B Phillipson	42	–	–	–	42	–	42
D Bauernfeind	42	–	–	–	42	–	42
	977	–	32	19	1,028	834	1,862

2018	Basic pay £'000	Performance related bonus £'000	Benefits in kind £'000	Pension contribution £'000	Subtotal 2018 £'000	LTIPs exercised £'000	Total 2018 £'000
Executive							
M Webster	326	190	13	–	529	1,272	1,801
A Boteler	213	128	7	10	358	392	750
A Warnock	241	137	15	10	403	964	1,367
Non-executive							
G Bullard***	45	–	–	–	45	–	45
Dr P Bordui	40	–	–	–	40	–	40
B Phillipson	40	–	–	–	40	–	40
D Bauernfeind	40	–	–	–	40	–	40
G Jones ****	32	–	2	–	34	–	34
	977	455	37	20	1,489	2,628	4,117

The above disclosure has been audited.

* Chris Jewell was appointed on 9 September 2019
** Andrew Boteler resigned on 14 June 2019
*** Gary Bullard was appointed on 21 February 2018
**** Gareth Jones resigned on 21 February 2018

REMUNERATION COMMITTEE REPORT

Basic Pay

Executive Directors are paid a basic salary together with annual bonus payments based on the achievement of Group profitability and cash targets. In addition, Executive Directors participate in a long term incentive 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. No such payments were made in FY19.

Director's Fee

In addition to his basic salary, Chris Jewell is paid a Director's fee of £10,000 per annum. This is included in the basic pay disclosure above, and is neither pensionable nor subject to bonus.

2019 Performance Related Bonuses

Bonuses in 2019 were based 60% on EPS, 20% on operating cash flow and 20% on personal strategic objectives. The element related to personal objectives is not eligible for payment unless the budgeted EPS target is achieved. Details of the performance achieved against the EPS and cash flow targets are shown in the table below:

Financial targets	Performance required to trigger bonus payment	Performance required at maximum	% Payable at maximum performance	Performance outcome	% Bonus awarded
EPS target (adjusted diluted)	63.7p	70.1p	60%	46.7p	–
Operating cash flow target	£18.2m	£18.2m	20%	£13.1m	–

The EPS and cash flow targets for the year were not achieved so no bonuses have been earned in respect of FY19.

Personal strategic objectives, which accounted for 20% of the bonus opportunity, were set at the start of the year. These were subject to review and approval by the Remuneration Committee. They are focused on a range of activities which are key to enabling our strategic objectives.

Details of the objectives set are summarised in the table below:

Mark Webster, CEO	Alex Warnock, COO	Andrew Boteler, CFO (resigned 14 June 2019)
• Achieve quarterly turnover at or above phased budget levels • Drive synergistic gains from recent acquisitions • Deliver necessary changes to business systems and processes • Implement the next phase of organisational change to support the FY19 business plan and progress organisational change to meet longer term growth objectives • Manage the investor community	• Achieve quarterly turnover at or above phased budget levels • Achieve specific on-time delivery and product lead time targets • Develop strategic plans for the manufacturing centres to drive performance improvement across a number of key areas • Implement organisational and business system changes necessary to facilitate the above	• Achieve quarterly turnover at or above phased budget levels • Introduce an internal audit function • Define and implement the finance organisation and strategic plan required to support the next stage of G&H's growth. • Implement required business system changes

The view of the Remuneration Committee is that excellent progress was made against the objectives set. However, because the EPS target was not met, the part of the bonus related to personal objectives was not eligible for payment.

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 currently accruing benefits under a pension scheme is 1 (2018: 2). Mark Webster is entitled to company pension contributions of 10% of his basic salary, although he sacrificed this entitlement for an increase in salary of the same amount. Chris Jewell is entitled to company pension contributions of 6% of his basic salary, although he has sacrificed part of that entitlement for an increase in salary of the same amount. Both Alex Warnock and Andrew Boteler were entitled to company pension contributions of 10% of salary and both sacrificed part of their pension entitlement for an increase in salary of the same amount.

Directors' Contracts

The Executive Directors have rolling service contracts that are subject to either six or twelve months' notice. The Chairman and Non-executive Directors do not have contracts of service.

REMUNERATION COMMITTEE REPORT

Long Term Incentive Plan

Exercises under the Long Term Incentive Scheme by the Directors are summarised below.

The exercises in FY18 for Mark Webster and Alex Warnock were exceptional awards granted by the Remuneration Committee on appointment.

2019	Scheme	Number of Share Options No.	Market Price p	Exercise Price p	Exercise Date	Total Gain £'000
Director						
M Webster	LTIP	28,437	1,240	0.0	28/03/19	353
A Boteler	LTIP	17,601	1,240	0.0	28/03/19	218
A Warnock	LTIP	21,240	1,240	0.0	28/03/19	263

2018	Scheme	Number of Share Options No.	Market Price p	Exercise Price p	Exercise Date	Total Gain £'000
Director						
M Webster	LTIP	90,866	1,400	0.0	19/01/18	1,272
A Boteler	LTIP	28,032	1,400	0.0	19/01/18	392
A Warnock	LTIP	68,878	1,400	0.0	19/01/18	964

Director Shareholdings

The Directors' beneficial interests in the issued ordinary share capital of the Company were as follows:

	Number of shares at 30 September 2019	% of salary as at 30 September 2019	Number of shares at 30 September 2018	% of salary as at 30 September 2018
Executive Directors				
Mark Webster	36,366	137%	21,249	127%
Chris Jewell	1,278	6%	N/A	N/A
Alex Warnock	28,403	143%	16,430	127%
Non-executive Directors				
Gary Bullard	7,024	N/A	3,172	N/A
Dr Peter Bordui	–	–	–	–
Brian Phillipson	1,954	N/A	–	–
David Bauernfeind	3,000	N/A	–	–

Shareholding Guidelines

Executive Directors are required to maintain a qualifying interest in the ordinary shares of the company equivalent to 100% of base salary from shares vesting under the LTIP. The Directors will not be permitted to sell shares vesting in the future under the LTIP unless the specified shareholding has been achieved, other than sale of shares to satisfy tax obligations.

REMUNERATION COMMITTEE REPORT

The Gooch & Housego 2013 Long Term Incentive Plan

The Gooch & Housego 2013 LTIP was adopted on 9 April 2013. Under the plan, awards will be made annually to key employees based on a percentage of salary or management grade. Subject to the satisfaction of the required TSR performance criteria and EPS financial performance, these grants will vest upon publication of the results of the Company three years after the grant date. For any awards vested in relation to FY19 grants, after sales to satisfy tax obligations, 50% must be held for a further year and 50% must be held for a further two years. The exercise price of all awards is nil.

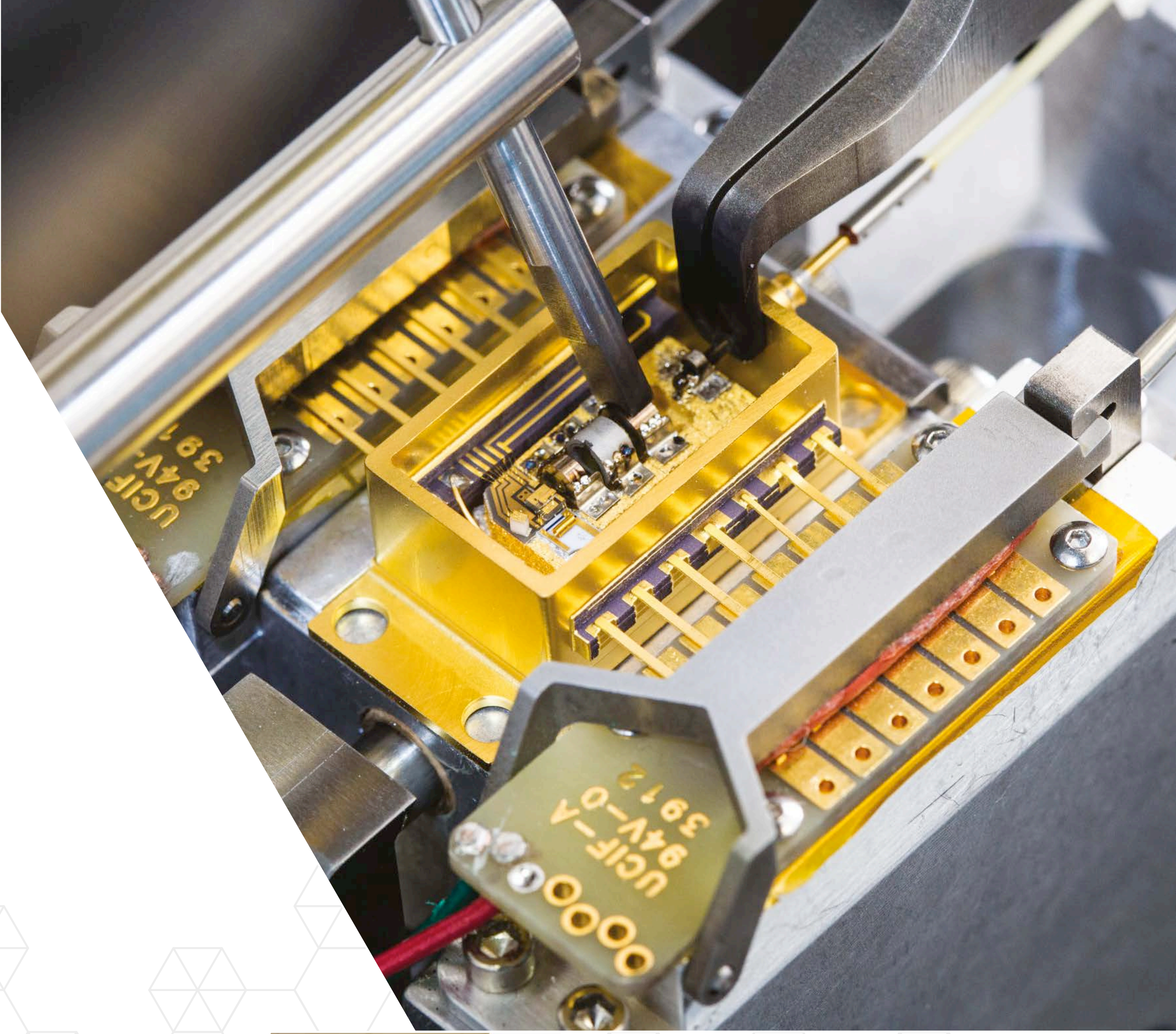
	– Number of ordinary shares under option –						
	Date of grant	At 01.10.2018	Awarded in year	Exercised in year	Lapsed	At 30.09.2019	Expiry Date
Executive							
M Webster	23.12.2015	36,080	–	(28,437)	(7,643)	–	23.12.2019
M Webster	10.03.2017	34,606	–	–	–	34,606	26.03.2021
M Webster	21.12.2017	24,145	–	–	–	24,145	21.12.2021
M Webster	08.01.2019	–	26,676	–	–	26,676	08.01.2023
A Warnock	23.12.2015	26,949	–	(21,240)	(5,709)	–	23.12.2019
A Warnock	10.03.2017	25,674	–	–	–	25,674	26.03.2021
A Warnock	21.12.2017	16,968	–	–	–	16,968	21.12.2021
A Warnock	08.01.2019	–	18,301	–	–	18,301	08.01.2023
A Boteler	23.12.2015	22,661	–	(17,601)	(5,060)	–	23.12.2019
A Boteler	10.03.2017	21,680	–	–	(21,680)	–	26.03.2021
A Boteler	21.12.2017	15,050	–	–	(15,050)	–	21.12.2021

Alex Warnock's remaining options lapsed when he left the company on 8 November 2019.

The Gooch & Housego 2013 Long Term Incentive Plan specifies that the Company will operate within the standard dilution limit of 10% of the Company's issued share capital over a 10 year period, but excluding the dilution arising from the 2010 Value Creation Plan.

During the year ended 30 September 2019, £191,000 (2018: £675,000) was charged to the income statement in respect of the IFRS 2 share based payments charge on all share option schemes (valued using the Monte Carlo option pricing model) and a credit of £106,000 (2018: charge £185,000) in respect of employer's national insurance contributions, based on a year end share price of £11.88 (2018: £17.73).

Brian Phillipson
Chairman of the Remuneration Committee
3 December 2019




Edging
Gooch & Housego

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS
to the Members of Gooch & Housego PLC

Report on the audit of the financial statements

Opinion
In our opinion, Gooch & Housego plc's group financial statements and parent company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 30 September 2019 and of the group's profit and the group's and the company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the group and company balance sheets as at 30 September 2019; the group income statement and group statement of comprehensive income, the group and company cash flow statements, the notes to the group and company cash flow statements, the group and company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for Opinion
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS
to the Members of Gooch & Housego PLC

Our Audit Approach
Overview

- Overall group materiality: £525,000 (2018: £667,000), based on 5% of profit before tax, after adding back an impairment of goodwill of £6.3m, less a £3.1m release of accrued contingent consideration and adding interest on discounted deferred consideration of £1.2m.
- Overall company materiality: £49,000 (2018: £92,500), based on 5% of profit before tax.

- The UK audit team performed an audit of the complete financial information of two operating units in the USA (Gooch & Housego (Palo Alto) LLC, and Gooch & Housego (Ohio) LLC) and three operating units in the UK (Gooch & Housego (UK) Limited, Integrated Technologies Limited and Gooch & Housego (Torquay) Limited) as well as the Parent company based in the UK (Gooch & Housego Plc).
- Additional procedures were also performed at a Group level over centralised processes and functions, including the audit of consolidation journals.
- Specific audit procedures were also performed by the UK audit team on certain other balances and transactions on the remaining sixteen reporting units. In particular, additional detailed testing was performed on revenue at one reporting unit in the US (EM4 Inc)
- Taken together, the six reporting units in full scope and the specified procedures at EM4 Inc (post consolidation entries) account for 70% of Group's revenue.

- Valuation of goodwill and intangibles (group) and investments (parent company) (Group and parent).
- Risk of fraud in revenue recognition, particularly in respect of long term contract accounting (Group).
- Valuation of inventory (Group).

The Scope of Our Audit
As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key Audit Matters
Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS
to the Members of Gooch & Housego PLC

Key Audit Matter	How Our Audit Addressed the Key Audit Matter
Valuation of goodwill and intangibles (Group) and investments (company) The assessment of the carrying value of goodwill and intangibles involves judgment and any impairment of the carrying value of such assets could have a material impact on the Group's financial statements. Similarly, the assessment of the carrying value of investments held involves judgment and any impairment of the carrying value of such assets could have a material impact on the parent company's financial statements. These are areas of continued focus for the audit to ensure that assets are valued correctly and not overstated in the context of the trading performance of the relevant cash generating units. Group and parent	We examined management's impairment assessment, auditing in detail the key underlying assumptions in the discounted cash flow models. We noted that impairments of £3.7m and £2.6m had been taken against the goodwill in respect of Baltimore and Boston respectively, being the result of poorer than expected performance. We met with management and key operational personnel to update our understanding of the various sites and considered the discounted cash flow models with reference to current performance. We assessed each of the key assumptions in turn and sensitised management's model, which itself built in an element of sensitivity against budget, to reflect uncertainty in the future cash flows. We also compared key assumptions such as discount rate and long-term growth with market data in the UK and the US for reasonableness. We concluded that the judgment that impairment was not required at any site, with the exception of Baltimore and Boston, was reasonable. We note however that goodwill and intangibles held remain sensitive to changes in key assumptions. In particular, a failure to achieve growth objectives for certain sites could give rise to an impairment in the future. Given this management has disclosed relevant sensitivities (see note 17). From our review of the impairment assessments, we note no impairment is required for intangibles and investments in subsidiary companies held by the parent company. We assessed the appropriateness of the accounting and related disclosures included in the financial statements. These are deemed reasonable.
Risk of fraud in revenue recognition, particularly in respect of long term contract accounting We determined that the most likely risk of fraud in revenue recognition would be due to overstatement of revenue, particularly in respect of posting journals to revenue and the judgements surrounding long-term contract accounting, rather than the normal transactional point in time revenue. Long term contract accounting has also been assessed by management as the main area of the group's activities affected by the adoption of IFRS 15 'Revenue from contracts with customers'. Revenue of £5.9m was generated by the group from long-term contracts in the year, and we have focused our audit work in this area. Group	We performed testing over journals in the year using CAATs (computer aided audit techniques) by specifically identifying any unusual journal combinations impacting revenue and testing them by agreeing them to valid supporting documentation. No issues were noted from our testing. We reviewed management's assessment of contracts with customers to determine the appropriateness of transaction price and identification of performance obligations. We tested management's assessment by reviewing a sample of contracts with customers to determine the impact of IFRS15 and whether we agree with management's assessment. We tested a sample of costs incurred in the year to assess whether they have been allocated appropriately to either a long-term contract or a normal point in time sale. For a sample of contracts, we agreed the total contract value to the contract and re-calculated the revenue to be recognised under a percentage of completion basis in accordance with IFRS 15 and assessed the costs to complete by obtaining progress information from the customer to challenge the reasonableness of the costs to complete. From our testing performed we did not identify any material misstatements in revenue recognition.
Valuation of inventory During the year the level of inventory has increased from £25.9m to £33.3m and management have re-assessed their standard costing methodology to ensure alignment across the whole of the group. As a result of the group's re-assessment of their standard costing methodology and re-alignment throughout the group a prior year adjustment of £1.5m has been booked to reflect the uplift in the inventory valuation in prior years. This uplift is due to the alignment of overheads absorbed into inventory throughout the group. The assessment of the valuation of inventory, both in the amount of overheads absorbed into inventory and in the level of inventory provisions required, involves judgement and due to the levels of inventory held could have a material impact on the Group's financial statements. Group	We have obtained management's revised standard costing alignment calculations and ensured that they are in accordance with IAS 2. We have tested the valuation of raw materials by agreeing a sample to supporting documentation such as purchase invoices at each of the in-scope entities. We have tested the absorption of labour and overheads by agreeing the calculations to supporting documentation and ensured that only directly attributable overheads have been absorbed in the calculations. We have agreed management's calculation of the prior year adjustment impact of the change in standard costing methodology to supporting documentation, which includes agreeing the inventory values to the inventory records held at the sites subject to a full scope audit and assessing the impact of the uplift in overheads absorbed on a site by site basis on the prior year inventory value. We obtained an understanding of the inventory provisioning policy and tested that it has been applied at each of the sites in full scope in the year, which included testing the aging of the stock held and re-performing the provision calculations in accordance with the group inventory provisioning policy.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS
to the Members of Gooch & Housego PLC

How We Tailored the Audit Scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

The UK audit team performed an audit of the complete financial information of two operating units in the USA (Gooch & Housego (Palo Alto) LLC, and Gooch & Housego (Ohio) LLC) and three operating units in the UK (Gooch & Housego (UK) Limited, Integrated Technologies Limited and Gooch & Housego (Torquay) Limited) as well as the Parent company based in the UK (Gooch & Housego Plc).

Additional procedures were also performed at a Group level over centralised processes and functions, including the audit of consolidation journals.

Taken together, these six reporting units (post consolidation entries) account for 70% of Group's revenue.

Specific audit procedures were also performed by the UK audit team on certain other balances and transactions and the remaining sixteen reporting units. In particular, additional detailed testing was performed on revenue at one reporting unit in the US (EM4 Inc).

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group Financial Statements	Company Financial Statements
Overall materiality	£525,000 (2018: £667,000).	£49,000 (2018: £92,500).
How we determined it	% of profit before tax, after adding back an impairment of goodwill of £6.3m, less a £3.1m release of accrued contingent consideration and adding interest on discounted deferred consideration of £1.2m.	5% of profit before tax.
Rationale for benchmark applied	Based on the benchmarks used in the annual report and our understanding of the business, profit before tax is the primary measure used by the shareholders in assessing the performance of the group, and is a generally acceptable auditing benchmark. These one-off costs/income have been excluded from the determination of overall materiality, because in our view the users of the financial statements will focus on the underlying profit of the business rather than the generally accepted benchmark of profit before tax, which is not impacted by these one-off costs.	We believe that profit before tax is the primary measure used by the shareholders in assessing the performance of the entity, and is a generally accepted auditing benchmark.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £49,000 and £495,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £26,000 (Group audit) (2018: £33,000) and £2,450 (Company audit) (2018: £4,500) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going Concern

In accordance with ISAs (UK) we report as follows:

Reporting Obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's and the company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS
to the Members of Gooch & Housego PLC

Reporting on Other Information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report, Directors' Report and Corporate Governance Statement, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06) and ISAs (UK) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 September 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group

As a result of the directors' voluntary reporting on how they have applied the UK Corporate Governance Code (the "Code"), we are required to report to you if we have anything material to add or draw attention to regarding:

- The directors' confirmation on page 33 of the Annual Report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 33 of the Annual Report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report in respect of this responsibility.

Other Code Provisions

As a result of the directors' voluntary reporting on how they have applied the Code, we are required to report to you if, in our opinion:

- The statement given by the directors, on page 33, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position and performance, business model and strategy is materially inconsistent with our knowledge of the group and company obtained in the course of performing our audit.
- The section of the Annual Report on pages 34 and 35 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have nothing to report in respect of this responsibility.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS
to the Members of Gooch & Housego PLC

Responsibilities for the Financial Statements and the Audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 33, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities.
This description forms part of our auditors' report.

Use of this report

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.

Reporting on Other Information

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Mark Ellis (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
3 December 2019

GROUP INCOME STATEMENT
For the year ended 30 September 2019

	Note	2019 £'000	2018 £'000
Revenue	7	129,133	124,883
Cost of revenue		(84,231)	(74,811)
Gross profit		44,902	50,072
Research and Development		(7,074)	(8,229)
Sales and Marketing		(8,545)	(9,237)
Administration		(21,526)	(22,317)
Other income and expenses	9	651	507
Operating profit	11	8,408	10,796
Finance income	12	21	16
Finance costs	12	(2,477)	(699)
Profit before income tax expense		5,952	10,113
Income tax expense	13	(2,191)	(2,893)
Profit for the year		3,761	7,220
Basic earnings per share	15	15.1p	29.3p
Diluted earnings per share	15	15.0p	29.0p

Reconciliation of profit before tax to adjusted profit before tax:

	Note	2019 £'000	2018 £'000
Profit before tax		5,952	10,113
Amortisation of acquired intangible assets	17	3,690	2,141
Adjustment to accrued contingent consideration	11	(3,075)	417
Impairment of goodwill	17	6,258	2,708
Site closure costs	11	(382)	1,569
Restructuring costs	11	1,355	864
Transaction fees	11	-	605
Interest on discounted deferred consideration	12	1,218	340
Adjusted profit before tax		15,016	18,757

GROUP STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 September 2019

	Note	2019 £'000	2018 £'000
Profit for the year		3,761	7,220
Other comprehensive income – items that may be reclassified subsequently to profit or loss			
Currency translation differences	26	2,549	1,657
Other comprehensive income for the year net of tax		2,549	1,657
Total comprehensive income for the year attributable to the shareholders of Gooch & Housego PLC		6,310	8,877

GROUP BALANCE SHEET
For the year ended 30 September 2019

	Note	2019 £'000	Restated 2018 [1] £'000	Restated 2017 [1] £'000
Non-current assets				
Property, plant and equipment	16	39,621	38,320	33,890
Intangible assets	17	58,598	65,734	40,250
Deferred income tax assets	24	1,539	1,944	2,703
		99,758	105,998	76,843
Current assets				
Inventories	18	33,313	25,910	22,543
Income tax assets		–	–	267
Trade and other receivables	19	33,190	35,028	24,723
Cash and cash equivalents	20	17,512	19,433	26,425
		84,015	80,371	73,958
Current liabilities				
Trade and other payables	21	(22,668)	(25,262)	(23,758)
Borrowings	22	(77)	(75)	(6)
Income tax liabilities		(1,114)	(603)	(873)
Provision for other liabilities and charges	23	(1,243)	(988)	(888)
Deferred consideration		(4,750)	(5,774)	(4,286)
		(29,852)	(32,702)	(29,811)
Net current assets		54,163	47,669	44,147
Non-current liabilities				
Borrowings	22	(31,722)	(29,964)	(11,492)
Deferred income tax liabilities	24	(6,409)	(6,322)	(5,938)
Deferred consideration		(2,947)	(8,363)	(4,253)
		(41,078)	(44,649)	(21,683)
Net assets		112,843	109,018	99,307
Shareholders' equity				
Called up share capital	25	5,008	4,982	4,903
Share premium account	26	16,000	15,530	15,530
Merger reserve	26	7,262	7,262	4,640
Cumulative translation reserve	26	9,780	7,231	5,574
Retained earnings	26	74,793	74,013	68,660
Total equity		112,843	109,018	99,307

The financial statements for Gooch & Housego PLC, registered number 00526832, on pages 50 to 76 were approved by the Board of Directors on 3 December 2019 and signed on its behalf by:

Mark Webster
Director

Chris Jewell
Director

[1] Restated. See note 2 for details.

GROUP STATEMENT OF CHANGES IN EQUITY
For the year ended 30 September 2019

	Note	Called up share capital £'000	Share premium account £'000	Merger reserve £'000	Retained Earnings £'000	Cumulative translation reserve £'000	Total equity £'000
At 1 October 2017		4,903	15,530	4,640	67,489	5,574	98,136
Restatement	2	–	–	–	1,171	–	1,171
As restated		4,903	15,530	4,640	68,660	5,574	99,307
Profit for the financial year		–	–	–	7,220	–	7,220
Other comprehensive income for the year		–	–	–	–	1,657	1,657
Total comprehensive income for the year		–	–	–	7,220	1,657	8,877
Dividends	14	–	–	–	(2,647)	–	(2,647)
Shares issued		79	–	2,622	(45)	–	2,656
Fair value of employee services		–	–	–	675	–	675
Tax credit relating to share option schemes		–	–	–	150	–	150
Total contributions by and distributions to owners of the parent recognised directly in equity		79	–	2,622	(1,867)	–	834
At 30 September 2018		4,982	15,530	7,262	74,013	7,231	109,018
At 1 October 2018		4,982	15,530	7,262	74,013	7,231	109,018
Profit for the financial year		–	–	–	3,761	–	3,761
Other comprehensive expense for the year		–	–	–	–	2,549	2,549
Total comprehensive income for the year		–	–	–	3,761	2,549	6,310
Dividends	14	–	–	–	(2,849)	–	(2,849)
Shares issued	25	26	470	–	(19)	–	477
Fair value of employee services		–	–	–	191	–	191
Tax credit relating to share option schemes		–	–	–	(304)	–	(304)
Total contributions by and distributions to owners of the parent recognised directly in equity		26	470	–	(2,981)	–	(2,485)
At 30 September 2019		5,008	16,000	7,262	74,793	9,780	112,843

GROUP CASH FLOW STATEMENT
For the year ended 30 September 2019

	2019 £'000	2018 £'000
Cash flows from operating activities		
Cash generated from operations	12,967	11,949
Income tax paid	(1,321)	(2,779)
Net cash generated from operating activities	11,646	9,170
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	(3,940)	(24,029)
Disposal of trade and assets	-	384
Purchase of property, plant and equipment	(5,792)	(5,849)
Sale of property, plant and equipment	1,480	-
Purchase of intangible assets	(1,620)	(1,377)
Interest received	21	9
Interest paid	(1,116)	(304)
Net cash used in investing activities	(10,967)	(31,166)
Cash flows from financing activities		
Drawdown of borrowings	-	17,272
Repayment of borrowings	(74)	(16)
Dividends paid to ordinary shareholders	(2,849)	(2,647)
Net cash (used by)/ generated from financing activities	(2,923)	14,609
Net decrease in cash	(2,244)	(7,387)
Cash at beginning of the year	19,433	26,425
Exchange gains on cash	323	395
Cash at the end of the year	17,512	19,433

NOTES TO THE GROUP CASH FLOW STATEMENT
For the year ended 30 September 2019

Reconciliation of cash generated from operations

	2019 £'000	2018 £'000
Profit before income tax	5,952	10,113
Adjustments for:		
– Amortisation of acquired intangible assets	3,690	2,141
– Amortisation of other intangible assets	672	683
– Profit/loss on disposal	(741)	(384)
– Impairment of goodwill	6,258	2,708
– Adjustment to accrued contingent consideration	(3,075)	417
– Depreciation	4,548	4,009
– Share based payment charge	191	675
– Amounts claimed under the RDEC	(350)	(370)
– Finance income	(21)	(16)
– Finance costs	2,477	699
Total	13,649	10,562
Changes in working capital		
– Inventories	(6,646)	(1,295)
– Trade and other receivables	2,729	(7,847)
– Trade and other payables	(2,717)	416
Total	(6,634)	(8,726)
Cash generated from operating activities	12,967	11,949

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

	2019 £'000	2018 £'000
Decrease in cash in the year	(2,244)	(7,387)
Drawdown of borrowings	–	(17,272)
Repayment of borrowings	74	16
Changes in net cash resulting from cash flows	(2,170)	(24,643)
Finance leases and borrowings acquired	–	(355)
Translation differences	(1,511)	(535)
Movement in net cash in the year	(3,681)	(25,533)
Net (debt)/cash at 1 October	(10,606)	14,927
Net debt at 30 September	(14,287)	(10,606)

Analysis of net cash

	At 1 Oct 2018 £'000	Cash flow £'000	Exchange movement £'000	Acquired £'000	At 30 Sep 2019 £'000
Cash at bank and in hand	19,433	(2,244)	323	–	17,512
Debt due within 1 year	(60)	60	–	(60)	(60)
Debt due after 1 year	(29,947)	–	(1,834)	60	(31,721)
Finance leases	(32)	14	–	–	(18)
Net debt	(10,606)	(2,170)	(1,511)	–	(14,287)

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 30 September 2019

1. General Information
Gooch & Housego PLC (the "Company") is a public limited company 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 89.

The consolidated financial statements of the Group for the year ended 30 September 2019 comprise the Company, Gooch & Housego PLC, and its subsidiaries (together referred to as the "Group"). A listing of the Company's subsidiaries is set out on page 84.

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, the United States and China.

2. Basis of Preparation
These financial statements have been prepared under the historical cost convention as modified by financial assets and financial liabilities at fair value and in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and IFRIC Interpretations in issue at 30 September 2019, and with those parts of the Companies Act 2006 applicable to companies preparing financial statements in accordance with IFRS. The financial statements have been prepared on a going concern basis.

Prior year restatement
During the year, in order to support the better operation of the Group's newly formed manufacturing centres, work was completed to standardise the Group's methodology with respect to the costs of the business that are absorbed into our inventory values. The effect of this change has been reflected in a restatement of prior year comparative figures so as not to distort FY19 profitability. The effect was to increase inventory by £1.5m, tax liabilities by £0.3m and retained earnings by £1.2m at both 30 September 2017 and 30 September 2018.

3. Application of IFRS
Adoption of new standards
The following two new standard standards were effective for the financial year ended 30 September 2019:

IFRS 15 'Revenue from Contracts with Customers' includes new regulations for the recognition of revenue that are independent of a specific industry or transaction. The new standard replaced the old risk and reward approach of IAS 18: Revenue with a contract-based five- step model. In addition to substantially more extensive application guidance for the accounting treatment of revenue from contracts with customers, there are more detailed disclosure note requirements.

The Group has elected to apply the fully retrospective method for initial application, applying IFRS 15 retrospectively (and restating comparatives if necessary) from the period beginning 1 October 2017. Following a detailed review of material revenue streams, no material impact arose from adopting this standard on either the current or the prior year.

IFRS 9 Financial Instruments
This standard applied for the first time in the year ending 30 September 2019. No material effect arose on the financial statements as a result of adopting the standard.

The following standards will apply to the Group in future accounting periods:

IFRS16 leases
IFRS 16 will apply to the group for the first time in the year ending 30 September 2020. The standard provides a single lease accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The group will apply the modified retrospective approach to transition. Our initial estimated impact on recognition is a right of use asset of between £8.25m and £9.25m and associated lease liabilities of between £8.25m and £9.25m.

The estimated impact of the new standard on profit before tax for the coming year is a reduction of £0.2m – £0.3m.

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.

Where deferred consideration is payable in cash, the amount is discounted to present value at the date of acquisition, using the Group's weighted average cost of capital. The financing charge which arises on the discounted consideration between the acquisition date and the date of payment is included within finance costs, and treated as a non-underlying item.

Transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 30 September 2019

asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Subsidiary audit exemptions
Gooch & Housego (UK) Limited, Gooch & Housego (Torquay) Limited, Spanoptic Limited, Kent Periscopes Limited, G&H US Holdings Limited, G&H Property Holdings Limited, Integrated Technologies Limited, Integrated Technologies (Holdings) Limited, VITL Limited and ORF Limited are exempt from the requirement to file audited financial statements by virtue of Section 479A of the Companies Act 2006.

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 presentation currency
The consolidated financial statements are presented in Pounds Sterling, which is the Group's presentation 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 presentation currency are translated into the presentation currency as follows:
- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised 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 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 computers	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 in the income statement.

Acquired patents, trademarks and licences are shown at historical cost. Patents, trademarks and licences have a finite useful life and

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 30 September 2019

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 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 5 years, and are charged to Research and Development 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 and charged to administration in the Income Statement.

- Customer relationships — up to 10 years
- Brand names — up to 10 years
- Acquired patents, trademarks and licences — up to 3 years

Government grants
Government grants are accounted for on an accruals basis. Grants are credited to the income statement over the life of the project. Where grants are used to fund the acquisition of 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. Non-financial assets other than goodwill which have suffered an impairment are reviewed for possible reversal of the impairment at each balance sheet date.

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.

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 for the purpose of the cash flow statement includes cash in hand and deposits held on call with banks with original maturities of three months or less.

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

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 30 September 2019

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 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.

Current and deferred income tax
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.

Amounts claimed under the Research and Development Expenditure Credit scheme have been recognised within operating profit.

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.

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 a number of share option schemes. In accordance with IFRS 2 the fair value of the employee services received in exchange for the grant of the options is recognised as an expense 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 Gooch & Housego 2013 Long Term Incentive Plan are determined by using the Monte Carlo option pricing model.

NOTES TO THE GROUP FINANCIAL STATEMENTS
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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.

The Group monitors and assesses its warranty provision requirement on a continuing basis. The provision for other liabilities and charges provides for the anticipated cost of repair and rectification of products under warranty, based on historical repair and replacement costs. In addition the Directors will also assess expected changes in future costs based on current information.

Non underlying items
Transactions are classified as non underlying where they relate to an event that falls outside the ordinary activities of the business and where individually or in aggregate they have a material impact on the financial statements.

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.

Revenue is recognised to depict the transfer of control over promised goods or services to customers in an amount that reflects the amount of consideration specified in a contract with a customer, to which the Group expects to be entitled in exchange for those goods or services. Revenue represents sales, net of discounts, and excluding value added tax and other sales related taxes. Performance obligations are unbundled in each contractual arrangement if they are distinct from one another. The contract price is allocated to the distinct performance obligations based on the relative standalone selling prices of the goods or services. The way in which the Group satisfies its performance obligations varies by business and may be on shipment, delivery, as services are rendered or on completion of services depending on the nature of the product/service and terms of the contract which govern how control passes to the customer. Revenue is recognised at a point in time or over time as appropriate.

A contract asset is recognised when the Group's right to consideration is conditional on something other than the passage of time, for example the completion of future performance obligations under the terms of the contract with the customer. In some instances, the Group receives payments from customers based on a billing schedule, as established in the contract, which may not match the pattern of performance under the contract. In this instance, a contract asset or contract liability is recognised depending on the phasing of payment in relation to the performance.

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 Officer'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.

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.

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 30 September 2019

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.

Financial risks
The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange 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, although no such arrangements were in place during the year ended 30 September 2019 or 2018.

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;
- ecognised 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 2018, with all other variables constant, post tax profits for the year would have been £145,000 lower (2018: unchanged) 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 £2,747,000 lower (2018: £738,000 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 £2,747,000 higher (2018: £901,000 higher).

b. Cash flow interest rate risk
The Group has cash balances of £17.5m 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 revolving credit facility. A 1% increase in the cost of borrowing would have resulted in an annualised increase in interest expense of £306,000 (2018: £299,000) 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. During 2018 and 2019, the Group's borrowings at variable interest rates were denominated in Pound Sterling and US Dollars as detailed in Note 22.

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 ten customers in 2019 accounted for 25% of the Group's revenue (2018: 25%). No individual customer made up more than 6% of revenue in either the current or prior year.

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 Company's facilities comprise a committed revolving credit facility of $40m of which $39m is drawn and an uncommitted flexible acquisition facility of $20m which is undrawn. Both are available until 31 August 2021. These are analysed in Notes 22 and 29. We are in the early stages of reviewing options for renewing these facilities.

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 International Financial Reporting Standards (IFRS) 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.

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 30 September 2019

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.

Critical accounting estimates
Carrying value 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. The value in use calculations are based on forecast cash flows of the CGU discounted at the Group's weighted average cost of capital. These calculations have a number of significant variables including forecast revenue and margins, working capital movements and maintenance capital expenditure levels. The calculations are also sensitive to the discount rate used. Further details are given in note 17.

Carrying value of accounts receivable
The Group reviews the carrying value of accounts receivable on a regular basis. We have seen some overseas customers extending their payment terms during the current cyclical downturn in our industrial laser market. Appropriate provision for impairment has been recorded where appropriate.

Accounting for acquisitions
An assessment of the fair value of the purchase consideration and net assets acquired is undertaken in respect of acquisitions when made.

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.

Management do not consider there to be any key sources of accounting judgement uncertainty.

Long term contract accounting
Some of the Group's sites are engaged in long term development contracts. These contracts must be traded based upon an estimate of the contracts' outturn profitability which requires estimation and judgement.

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 30 September 2019

7. Segmental Analysis
The Company's segmental reporting reflects the information that management uses within the business. The business is divided into three market sectors, being A&D, Life Sciences/Biophotonics and Industrial, 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, telecommunications and scientific research.

For the year ended 30 September 2019	Aerospace & Defence £'000	Life Sciences/ Biophotonics £'000	Industrial £'000	Corporate £'000	Total £'000
Revenue					
Total revenue	44,222	25,130	67,931	-	137,283
Inter and intra-division	(19)	(1,054)	(7,077)	-	(8,150)
External revenue	44,203	24,076	60,854	-	129,133
Divisional expenses	(40,505)	(18,538)	(49,905)	3,391	(105,557)
EBITDA[1]	3,698	5,538	10,949	3,391	23,576
EBITDA%	8.4%	23.0%	18.0%	-	18.3%
Depreciation and amortisation	(1,076)	(649)	(2,517)	(978)	(5,220)
Operating profit before amortisation of acquired intangible assets and goodwill impairment	2,622	4,889	8,432	2,413	18,356
Amortisation of acquired intangible assets and goodwill impairment	-	-	-	(9,948)	(9,948)
Operating profit	2,622	4,889	8,432	(7,535)	8,408
Operating profit margin %	5.9%	20.3%	13.9%	-	6.5%
Add back non-recurring items, amortisation of acquired intangible assets and goodwill impairment	902	194	540	6,210	7,846
Adjusted operating profit	3,524	5,083	8,972	(1,325)	16,254
Adjusted profit margin %	8.0%	21,1%	14.7%	-	12.6%
Finance costs	-	-	-	(2,456)	(2,456)
Profit before income tax expense	2,622	4,889	8,432	(9,991)	5,592

For the year ended 30 September 2018	Aerospace & Defence £'000	Life Sciences/ Biophotonics £'000	Industrial £'000	Corporate £'000	Total £'000
Revenue					
Total revenue	41,023	11,440	80,363	-	132,826
Inter and intra-division	(234)	(227)	(7,482)	-	(7,943)
External revenue	40,789	11,213	72,881	-	124,883
Divisional expenses	(34,454)	(9,189)	(59,146)	(1,757)	(104,546)
EBITDA[1]	6,335	2,024	13,735	(1,757)	20,337
EBITDA%	15.5%	18.1%	18.8%	-	16.3%
Depreciation and amortisation	(758)	(399)	(2,450)	(1,085)	(4,692)
Operating profit before amortisation of acquired intangible assets and goodwill impairment	5,577	1,625	11,285	(2,842)	15,645
Amortisation of acquired intangible assets and goodwill impairment	-	-	-	(4,849)	(4,849)
Operating profit	5,577	1,625	11,285	(7,691)	10,796
Operating profit margin %	13.7%	14.5%	15.5%	-	8.6%
Add back non-recurring items, amortisation of acquired intangible assets and goodwill impairment	116	17	1,030	7,141	8,304
Adjusted operating profit	5,693	1,642	12,315	(550)	19,100
Adjusted profit margin %	14.0%	14.6%	16.9%	-	15.3%
Finance costs	-	-	-	(683)	(683)
Profit before income tax expense	5,577	1,625	11,285	(8,374)	10,113

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

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 30 September 2019

Management have added back the amortisation of intangibles, impairment of goodwill, restructuring costs, site closure costs, charge/release in respect of contingent consideration and transaction fees in the above analysis. This has been shown because the Directors consider the analysis to be more meaningful excluding the impact of these non-underlying expenses.

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

Analysis of revenue by type:

	2019 £'000	2018 £'000
Revenue from sale of products	123,245	117,261
Revenue from long term contracts	5,888	7,622
Total revenue	129,133	124,883

Analysis of net assets by location:

	2019 Assets £'000	2019 Liabilities £'000	2019 Net Assets £'000	2018 Assets £'000	2018 Liabilities £'000	2018 Net Assets £'000
United Kingdom	98,624	(57,859)	40,765	93,636	(57,207)	36,429
USA	84,196	(12,933)	71,263	91,522	(20,041)	71,481
Continental Europe	260	(37)	223	495	(42)	453
Asia Pacific	693	(101)	592	716	(61)	655
	183,773	(70,930)	112,843	186,369	(77,351)	109,018

For the year to 30 September 2019 non-current asset additions were £5.8m (2018: £3.8m) for the UK and for the USA £1.7m (2018: £3.6m). There were no additions to non-current assets in respect of Europe (2018: £nil) or the Asia Pacific region (2018: £nil). The value of non-current assets in the USA was £58.3m (2018: £62.4m), the United Kingdom £41.4m (2018: £45.7m) and Europe £nil (2018: £nil). There were no non-current assets in the Asia-Pacific region.

Analysis of revenue by destination:

	2019 £'000	2018 £'000
United Kingdom	32,054	21,081
North America	50,097	44,899
Continental Europe	25,816	29,788
Asia Pacific and Other	21,166	29,115
	129,133	124,883

8. Expenses by Nature

	Note	2019 £'000	2018 £'000
Raw materials and consumables		45,294	42,794
Changes in inventory		(6,646)	(1,005)
Employee costs	10	58,707	49,989
Other operating charges		11,928	12,858
Depreciation		4,548	4,009
Amortisation of acquired intangible assets		3,690	2,141
Amortisation of other intangible assets		672	683
Impairment of goodwill		6,258	2,708
Adjustment to accrued contingent consideration		(3,075)	417
Other income and expenses	9	(651)	(507)
		120,725	114,087

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 30 September 2019

9. Other Income and Expenses

	2019 £'000	2018 £'000
Grants receivable	622	1,002
Amounts claimed under the RDEC	350	370
Other expense	(321)	(865)
	651	507

The other expense in 2019 largely relates to the costs of closing our facility in Madison, Wisconsin.

10. Employee Benefit Expense

	2019 £'000	2018 £'000
Wages and salaries	48,950	40,898
Social security costs	4,077	3,499
Share based payment charge	191	675
Medical and other insurance	3,314	3,323
Other pension costs	2,175	1,594
	58,707	49,989

The average number of employees during the year was:

	2019 Number	2018 Number
Manufacturing	696	574
Sales, finance and administration	268	292
	964	866

The average number of employees during the year was:

	2019 £'000	2018 £'000
Salaries and other short-term benefits	6,880	7,025
Share based payments	191	675
Other pension costs	313	651
	7,384	8,351

Key management comprise the Executive Board and the senior operational staff.

Directors' remuneration, including the highest paid Director, has been included on page 39 of the Remuneration Committee Report. These disclosures have been audited.

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 30 September 2019

11. Operating Profit
Operating profit is stated after charging/(crediting):

	2019 £'000	2018 £'000
Fees payable to the Company's auditors for the audit of the parent company and consolidated financial statements	46	46
Fees payable to the Company's auditors and its associates for other services:		
– audit of the Company's subsidiaries pursuant to legislation	128	140
– taxation compliance services	130	25
– taxation advisory services	7	14
– taxation advisory services related to completed acquisitions	–	33
– due diligence services	–	65
Net gains on foreign exchange	(322)	(145)
Operating lease rentals	2,479	1,714
Transaction fees	–	605
Impairment of goodwill	6,258	2,708
(Credit)/charge in relation to accrued contingent consideration on acquisitions	(3,075)	417

Non-underlying items
Restructuring costs of £1,355,000 were incurred in the year (2018: £864,000) These related to expenses arising from the re-organisation of the manufacturing centres, and the Group's commercial and business development teams into a single integrated function.

Site closure costs
Site closure costs relate to the profit generated on sale of the Company's Orlando facility (£0.8m), partially offset by the costs associated with the closure of the Madison office (£0.4m).

Adjustment to accrued contingent consideration
The credit in respect of accrued contingent consideration related to StingRay (£0.5m). The final tranche of the earn out was paid in FY19 but the maximum potential was not achieved. In addition to this, the full amount of the deferred consideration in respect of Gould Fiber Optics was written back during FY19 (£2.6m).

12. Finance Income and Costs

	2019 £'000	2018 £'000
Finance income comprises:		
– Bank interest	21	16
Finance costs comprise:		
– Bank interest	(1,258)	(358)
– Finance lease interest	(1)	(1)
– Interest on discounted deferred consideration	(1,218)	(340)
	(2,477)	(699)

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 30 September 2019

13. Income Tax Expense
Analysis of tax charge in the year

	2019 £'000	2018 £'000
Current taxation		
UK Corporation tax	1,756	1,895
Overseas tax	653	1,381
Total current tax	2,409	3,276
Deferred tax		
Origination and reversal of temporary differences	(218)	481
Impact of change in the US tax rate	–	(864)
Total deferred tax	(218)	(383)
Income tax expense per income statement	2,191	2,893

The taxation expense for the year is higher (2018: higher) than the standard rate of corporation tax in the UK. An explanation of the differences is detailed below:

	2019 £'000	2018 £'000
Profit before income tax	5,952	10,113
Profit at the effective standard rate of tax of 19.0% for the year (2018: 19.0%)	1,131	1,921
Utilisation of losses	(106)	–
Permanent differences	721	233
Adjustments in respect of foreign tax rates	376	739
Other timing differences	69	–
Total tax expense	2,191	2,893

Factors affecting the future tax charge

Overseas tax losses of £4.1m (2018: £3.8m) and UK tax losses of £0.8m (2018: £0.8m) are available against future profits of the Group. The utilisation of these losses is not sufficiently certain to recognise a deferred tax asset.

Changes to the UK corporation tax rates were substantively enacted as part of the Finance Act 2016 in September 2016. These included the replacement of the 19% rate from 1 April 2020 with a lower rate of 17%. To date, no further changes have been announced.

The Group operates internationally; as a result, it is subject to various overseas tax rules and regulations. A change in the assessment of their implementation could result in an increase in G&H's liability, though no such change is currently considered necessary.

14. Dividends

	2019 £'000	2018 £'000
Final 2018 dividend paid in 2019: 7.1p per share (Final 2017 dividend paid in 2018: 6.5p per share)	1,772	1,608
2019 Interim dividend paid: 4.3p per share (2018: 4.2p)	1,077	1,039
	2,849	2,647

The Directors propose a final dividend of 7.2p per share making the total dividend paid and proposed in respect of the 2019 financial year 11.5p (2018: 11.3p).

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 30 September 2019

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:

	2019 Number	2018 Number
Number of shares used for basic earnings per share	24,936,438	24,629,591
Dilutive shares	141,696	265,817
Number of shares used for dilutive earnings per share	25,078,134	24,895,408

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

	2019		2018	
	£'000	pence per share	£'000	pence per share
Basic earnings per share	3,761	15.1p	7,220	29.3p
Amortisation of acquired intangible assets (net of tax)	3,014	12.1p	1,865	7.6p
Goodwill impairment (net of tax)	5,337	21.4p	2,708	11.0p
(Release)/charge accrued contingent consideration (net of tax)	(2,413)	(9.7p)	417	1.7p
Site closure costs (net of tax)	(317)	(1.3p)	1,210	4.9p
Restructuring costs (net of tax)	1,084	4.3p	695	2.8p
Transaction fees (net of tax)	-	-	489	2.0p
Interest on deferred consideration	1,218	4.9p	340	1.4p
One off credit due to US tax rate change	-	-	(864)	(3.5p)
Total adjustments net of income tax expense	7,923	31.7p	6,860	27.9p
Adjusted basic earnings per share	11,684	46.8p	14,080	57.2p
Basic diluted earnings per share	3,761	15.0p	7,220	29.0p
Adjusted diluted earnings per share	11,684	46.7p	14,080	56.5p

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

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 30 September 2019

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 2017	5,353	9,010	11,828	30,854	3,706	43	60,794
Additions	1,151	14	243	4,273	265	12	5,958
Acquired	–	1,650	–	326	99	12	2,087
Disposals	–	–	(201)	(974)	(213)	(16)	(1,404)
Reclassification	(3,805)	–	3,445	323	61	–	24
Exchange rate differences	5	2	428	441	30	–	906
At 30 September 2018	2,704	10,676	15,743	35,243	3,948	51	68,365
Additions	1,232	25	609	3,350	656	–	5,872
Disposals	–	(1,064)	(214)	(1,464)	(813)	(8)	(3,563)
Reclassification	(375)	–	17	299	59	–	–
Exchange rate differences	27	5	885	903	61	1	1,882
At 30 September 2019	3,588	9,642	17,040	38,331	3,911	44	72,556
Accumulated depreciation							
At 1 October 2017	–	1,817	2,606	20,027	2,417	37	26,904
Charge for the year	–	174	889	2,522	421	3	4,009
Disposals	–	–	(97)	(925)	(199)	(8)	(1,229)
Exchange rate differences	–	2	94	240	24	1	361
At 30 September 2018	–	1,993	3,492	21,864	2,663	33	30,045
Charge for the year	–	202	1,020	2,858	463	5	4,548
Disposals	–	(348)	(16)	(1,449)	(588)	(8)	(2,409)
Exchange rate differences	–	5	216	482	47	1	751
At 30 September 2019	–	1,852	4,712	23,755	2,585	31	32,935
Net book value							
At 1 October 2017	5,353	7,193	9,222	10,827	1,289	6	33,890
At 1 October2018	2,704	8,683	12,251	13,379	1,285	18	38,320
At 30 September 2019	3,588	7,790	12,328	14,576	1,326	13	39,621

At 30 September 2019, plant and machinery purchased under a hire purchase or finance lease agreement had a cost of £77,000 (2018: £77,000) and net book value of £16,000 (2018: £40,000).

No interest was capitalised in the year (2018: £Nil).

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 30 September 2019

17. Intangible Assets

	Goodwill £'000	Acquired intangible assets £'000	Capitalised R&D, Patents and licences £'000	Software and other intangibles £'000	Total £'000
Cost or valuation					
At 1 October 2017	33,886	24,273	3,657	1,898	63,714
Additions	–	–	497	958	1,455
Acquired	18,885	9,943	–	–	28,828
Disposals	–	–	(3)	(114)	(117)
Reclassifications	–	–	(24)	–	(24)
Exchange rate differences	544	408	19	6	977
At 30 September 2018	53,315	34,624	4,146	2,748	94,833
Additions	–	–	776	844	1,620
Disposals	–	–	(276)	(136)	(412)
Exchange rate differences	1,641	1,068	29	10	2,748
At 30 September 2019	54,956	35,692	4,675	3,466	98,789
Accumulated amortisation and impairment					
At 1 October 2017	7,040	13,665	1,051	1,708	23,464
Charge for the year	2,708	2,141	618	65	5,532
Disposals	–	–	(3)	(105)	(108)
Exchange rate differences	–	226	(19)	4	211
At 30 September 2018	9,748	16,032	1,647	1,672	29,099
Charge for the year	6,258	3,690	562	110	10,620
Disposals	–	–	–	(136)	(136)
Exchange rate differences	–	600	1	7	608
At 30 September 2019	16,006	20,322	2,210	1,653	40,191
Net book value					
At 1 October 2017	26,846	10,608	2,606	190	40,250
At 30 September 2018	43,567	18,592	2,499	1,076	65,734
At 30 September 2019	38,950	15,370	2,465	1,813	58,598

Goodwill is allocated according to each operating site as follows: Cleveland (£2.1m), Ilminster (£1.5m), Torquay (£1.6m), Moorpark (£4.0m), Boston (£2.9m), Fremont (£0.9m), St Asaph (£4.0m), Keene (£6.2m), Baltimore (£5.5m) and Ashford (£10.2m).

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 post-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:
- Projected gross profit margins of 19% to 37%
- Average growth in EBITDA to 2023 of up to 10%, and 2% thereafter
- 9.2% post tax discount rate 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.

The Board has taken the decision to impair the goodwill relating to the Boston cash generating unit. This goodwill arose on the acquisition of EM4, now referred to as G&H Boston, in January 2011 for consideration of $11.6 million and, prior to the impairment, the carrying value of the associated goodwill was £5.1m. Over the last eight years this acquisition has played a vital role in G&H's diversification strategy, by providing the systems and critical mass needed for the Company to become a credible player in the A&D market. The duplication of Boston's technology in our Torquay facility has also been a key factor in allowing G&H to address the European space market. However, on a stand-alone basis, Boston has struggled to grow its engineering services business. Whilst recent contract awards for this business are encouraging signs for the future the Board, nevertheless, feels it is appropriate to make an impairment of £2.6m to the carrying value of Boston. An increase in the discount rate to 10.5%, or a reduction in average annual EBITDA in 2020 – 2025 of 15% would reduce the headroom on the impairment calculation to zero.

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 30 September 2019

As part of its annual review of the carrying value of goodwill, the Board has also taken the decision to impair the goodwill of the Gould Fiber Optic business ("Baltimore"). The Baltimore business was acquired in September 2018 for a consideration of $16.4m including a contingent element of $3.4m and, prior to the impairment, the carrying value of the associated goodwill was £9.2m. Whilst the acquisition has helped provide the Group with further access to the US A&D market the business has not generated the profitable growth required to support the payment of the contingent consideration. The lower than expected performance has also meant that an impairment charge of £3.6m has been recognised in relation to the carrying value of that site's goodwill. Further impairment charges arise if the business's results fall short of these forecasts. An increase in the discount rate of 0.5%, or a 5% reduction in forecast EBITDA, would trigger a further impairment of £0.6m.

The Moorpark goodwill was impaired in the year ended 30 September 2018. The remaining goodwill continues to be supported based on management's latest forecasts. An increase in the discount rate of 0.5% or a 5% reduction in forecast EBITDA would lead to an impairment of £0.5m and £0.7m respectively.

18. Inventories

	2019 £'000	2018 £'000
Raw materials	12,271	9,043
Work in progress	13,204	11,725
Finished goods	7,838	5,142
	33,313	25,910

The cost of inventories recognised as an expense and included in cost of revenue amounted to £82.9m (2018: £74.8m).
The movement in the inventories provision is as follows:

	2019 £'000	2018 £'000
At 1 October	5,730	5,260
Acquired	–	868
Increase in/(utilisation of) in provision	375	(459)
Exchange rate movement	131	61
At 30 September	6,236	5,730

The 2018 inventory balance has been restated. For further details, see note 2 to the financial statements.

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 30 September 2019

19. Trade and Other Receivables

	2019 £'000	2018 £'000
Trade receivables	31,089	32,231
Other receivables	928	1,344
Grant funding held in trust account	1	484
Prepayments	1,172	969
	33,190	35,028

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

	2019 £'000	2018 £'000
Pound Sterling	12,324	14,172
US Dollar	19,227	19,370
Euro	1,460	1,245
Other	179	241
	33,190	35,028

The ageing of trade receivables by due date is as follows:

	2019 £'000	2018 £'000
Current	20,756	23,190
1 to 3 months	7,334	6,980
Over 3 months	3,471	2,453
	31,561	32,623
Less provision for impairment	(472)	(392)
Net trade receivables	31,089	32,231

None of the trade receivables are with customers where we have had any history of default.

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

	2019 £'000	2018 £'000
At 1 October	392	379
Acquired	–	7
Utilisation of provision	–	(113)
Increase in provision	66	117
Exchange rate movement	14	2
At 30 September	472	392

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 30 September 2019

20. Cash and Cash Equivalents

	2019 £'000	2018 £'000
Cash at bank and on hand	17,512	19,433

21. Trade and Other Payables

	2019 £'000	2018 £'000
Trade payables	10,045	9,188
Other taxation and social security	1,040	864
Grant funding held in trust account	1	484
Accruals	11,582	14,726
	22,668	25,262

22. Borrowings

	2019 £'000	2018 £'000
Current:		
Bank borrowings	62	61
Finance leases	15	14
	77	75
Non-current:		
Bank borrowings	31,719	29,947
Finance leases	3	17
	31,722	29,964
Total borrowings	31,799	30,039

The carrying values of the bank borrowings and finance leases are not materially different from their fair values and are included as part of the fair value disclosure for all financial instruments in note 29.

G&H's primary lending bank is NatWest Bank. The Group's facilities comprise a $40m dollar revolving credit facility and a $20m flexible acquisition facility. At 30 September 2019, the balance drawn on the revolving credit facility was $39m (2018: $39m) and on the flexible acquisition facility nil (2018: nil).

The facilities above are committed until 31 August 2021 and attract an interest rate of between 1.2% and 1.7% above US LIBOR dependent upon the Company's leverage ratio, payable on rollover dates, typically quarterly. We are in the early stages of reviewing options for renewing these facilities.

Maturity Profile of Bank and Other Borrowings

	2019 £'000	2018 £'000
Within one year	77	75
Between one and five years	31,722	29,964
	31,799	30,039

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 30 September 2019

23. Provision for Other Liabilities and Charges

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

	2019 £'000	2018 £'000
At 1 October	988	888
Acquired	–	50
Utilised during year	(135)	–
Reclassified	383	46
Exchange movements	7	4
At 30 September	1,243	988

The Group provision for other liabilities and charges includes amounts provided for the anticipated cost of repair and rectification of products under warranty, based on known exposures and historical occurrences.

24. Deferred Tax Assets and Liabilities

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

	2019 £'000	2018 £'000
At 1 October	(4,378)	(3,235)
Credited to the income statement	218	383
Acquired	–	67
Arising on acquired intangible assets	–	(1,231)
Debited directly to equity	(453)	(268)
Exchange movements	(257)	(94)
Net liability at 30 September	(4,870)	(4,378)

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

	2019 £'000	2018 £'000
Deferred income tax assets		
Intangible assets	548	587
Share options	–	453
Provisions	991	888
Other timing differences	–	16
	1,539	1,944
Deferred income tax liabilities		
Property, plant and equipment	(4,116)	(3,641)
Intangible assets	(2,265)	(2,681)
Other timing differences	(28)	–
	(6,409)	(6,322)
Deferred tax balance at 30 September	(4,870)	(4,378)

Overseas tax losses of £4.1m (2018: £3.8m) and UK tax losses of £0.8m (2018: £0.8m) are available to offset against future profits of the Group. The Group has not recognised a deferred income tax asset of £0.9m (2018: £0.8m) 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.

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 30 September 2019

25. Called Up Share Capital

	2019 Number	2018 Number	2019 £'000	2018 £'000
Issued and fully paid				
At 1 October	24,907,831	24,514,561	4,982	4,903
Shares issued and fully paid	131,241	393,270	26	79
At 30 September	25,039,072	24,907,831	5,008	4,982

During the year 98,486 shares (2018: 227,403 shares) were allotted under share option schemes, plus 32,755 shares were issued as part of the deferred consideration of the Kent Periscopes business.

26. Reserves

	Share premium account £'000	Merger reserve £'000	Cumulative translation reserve £'000	Retained earnings £'000
At 1 October 2018	15,530	7,262	7,231	72,842
Restatement (note 2)	-	-	-	1,171
At 1 October 2018 as restated	15,530	7,262	7,231	74,013
Profit for the financial year	-	-	-	3,761
Dividends paid	-	-	-	(2,849)
Shares issued	470	-	-	(19)
Fair value of share options	-	-	-	191
Tax credit relating to share options	-	-	-	(304)
Currency translation differences	-	-	2,549	-
At 30 September 2019	16,000	7,262	9,780	74,793

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 30 September 2019

27. Share Options
The Company operates the Gooch & Housego 2013 Long Term Incentive Plan (the "2013 LTIP").

The Gooch & Housego 2013 Long Term Incentive Plan
The Gooch & Housego 2013 Long Term Incentive Plan was adopted on 9 April 2013. Under the plan, awards are made annually to key employees based on a percentage of salary. Subject to the satisfaction of the required TSR performance criteria and EPS financial performance, these grants will vest upon publication of the results of the Company three years after the grant date.

There have been seven grants of options under the 2013 Long Term Incentive Plan. The remuneration report provides further details on the share options awarded and exercised during the financial year.

The 2013 Long Term Incentive Plan Awards were valued using the Monte Carlo option pricing model. The expected volatility used in the model was based on the historical volatility of the Company's share price over the three years prior to the grant date.

The details of awards extant as at 30 September 2019 are summarised below:

	Grant date		
	8 Jan 2019	21 Dec 2017	10 Mar 2017
No. of options granted	99,228	96,123	133,146
Expected volatility	30%	29%	26%
Risk free rate	0.76%	0.56%	0.9%
Fair value (£)	1,010,655	914,164	784,041

A reconciliation of total share option movements is shown below:

	2019		2018	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at 1 October	342,267	–	486,008	–
Awarded	99,228	–	96,123	–
Exercised	(98,486)	–	(227,403)	–
Lapsed	(91,098)	–	(12,461)	–
Outstanding at 30 September	251,911	–	342,267	–
Exercisable at 30 September	–	–	–	–

The weighted average fair value of options granted in the year was 786.0p per option (2018: 589.0p per option). For the options exercised, the average market price was 1,254p per share (2018: 1,400p per share).

Share options outstanding at the end of the year expire one year after their respective vesting dates and have the following exercise prices:

	Weighted average exercise price	Number of share options	
		2019	2018
2013 LTIP	0.0p	251,911	342,267

The total charge for the year relating to share options was £191,000 (2018: £675,000), all of which related to equity-settled share based payment transactions.

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 30 September 2019

28. Operating Leases
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2019 £'000	2018 £'000
Within one year	1,891	1,804
Between one to five years	3,766	4,319
	5,657	6,123

29. Financial Instruments
The Group's financial instruments comprise bank borrowings, cash at bank, finance leases and various items such as trade receivables and trade payables that directly arise from its operations. The 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 note 5.

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.

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

	Financial assets		Financial liabilities	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Pound Sterling	8,274	4,927	281	356
US Dollars	8,650	12,202	31,518	29,683
Euro	500	2,233	–	–
Yen	88	71	–	–
	17,512	19,433	31,799	30,039

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 22. 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.

30. Capital Commitments

	2019 £'000	2018 £'000
Authorised and contracted but not provided for	1,715	325

All capital commitments relate to property, plant and equipment.

31. Related Party Transactions
No 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.

Details of key management compensation are given in note 10.

COMPANY BALANCE SHEET
As at 30 September 2019

	Note	2019 £'000	2019 £'000	2018 £'000	2018 £'000
Non-current assets					
Investments	5		51,411		51,045
Property, plant and equipment	6		5,491		6,641
Intangible assets	7		1,598		892
Deferred income tax assets	9		153		666
			58,653		59,244
Current assets					
Other receivables	8	3,812	–	3,934	–
Cash and cash equivalents		3,116	–	2,605	–
		6,928	–	6,539	–
Current liabilities					
Trade and other payables	10	(12,365)	–	(9,692)	–
Net current liabilities			(5,437)		(3,153)
Non-current liabilities					
Deferred income tax liabilities	9		–		(11)
Deferred consideration			(2,947)		(6,978)
Net assets			50,269		49,102
Shareholders' equity					
Called up share capital	11		5,008		4,982
Share premium account			16,000		15,530
Merger reserve			4,591		4,591
Retained earnings			24,670		23,999
Total equity			50,269		49,102

The Company's profit after tax for the year ended 30 September 2019 was £3,663,000 (2018: £4,157,000)

The financial statements on pages 77 to 88, were approved by the Board of Directors on 3 December 2019 and signed on its behalf by:

Mark Webster
Director

Chris Jewell
Director

COMPANY STATEMENT OF CHANGES IN EQUITY
For the year ended 30 September 2019

	Note	Called up Share capital £'000	Share premium account £'000	Merger Reserve £'000	Retained earnings £'000	Total equity £'000
At 1 October 2017		4,903	15,530	1,969	21,622	44,024
Profit for the financial year		–	–	–	4,157	4,157
Total comprehensive income for the year		–	–	–	4,157	4,157
Dividends	4	–	–	–	(2,647)	(2,647)
Proceeds from shares issued		79	–	2,622	(45)	2,656
Fair value of employee services		–	–	–	675	675
Tax credit relating to share option schemes		–	–	–	237	237
Total contributions by and distributions to owners of the parent recognised directly in equity		79	–	2,622	(1,780)	921
At 30 September 2018		4,982	15,530	4,591	23,999	49,102
At 1 October 2018		4,982	15,530	4,591	23,999	49,102
Profit for the financial year		–	–	–	3,663	3,663
Total comprehensive income for the year		–	–	–	3,663	3,663
Dividends	4	–	–	–	(2,849)	(2,849)
Proceeds from shares issued	11	26	470	–	(19)	477
Fair value of employee services		–	–	–	191	191
Tax credit relating to share option schemes		–	–	–	(315)	(315)
Total contributions by and distributions to owners of the parent recognised directly in equity		26	470	–	(2,992)	(2,496)
At 30 September 2019		5,008	16,000	4,591	24,670	50,269

COMPANY CASH FLOW STATEMENT
For the year ended 30 September 2019

	2019 £'000	2018 £'000
Cash flows from operating activities		
Cash generated from operations	1,433	2,374
Income tax paid	–	–
Net cash generated from operating activities	1,433	2,374
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	(2,086)	(12,602)
Purchase of property, plant and equipment	(178)	(41)
Proceeds on disposal of property, plant and equipment	1,477	–
Purchase of intangible assets	(617)	(896)
Interest received	6	7
Net cash used in investing activities	(1,398)	(13,532)
Cash flows from financing activities		
Dividends received from subsidiary companies	3,325	6,112
Dividends paid to ordinary shareholders	(2,849)	(2,647)
Net cash generated from financing activities	476	3,465
Net increase/(decrease) in cash	511	(7,693)
Cash at beginning of the year	2,605	10,298
Cash at the end of the year	3,116	2,605

NOTES TO THE COMPANY CASH FLOW STATEMENT
For the year ended 30 September 2019

Reconciliation of cash generated from operations

	2019 £'000	2018 £'000
Profit before income tax	3,980	4,116
Adjustments for:		
- Dividends received from subsidiaries	(3,325)	(6,112)
- Amortisation of other intangible assets	29	51
- Depreciation	495	504
- Share based payment charge	191	675
- Profit on disposal of property, plant and equipment	(761)	-
- Finance income	(6)	(7)
- Finance expense	719	-
Total	(2,658)	(4,889)
Changes in working capital		
- Trade and other receivables	1,318	2,455
- Trade and other payables	(1,207)	692
Total	111	3,147
Cash generated from operating activities	1,433	2,374

Analysis of net cash

	At 1 Oct 2018 £'000	Cash flow £'000	At 30 Sep 2019 £'000
Cash at bank and in hand	2,605	511	3,116
Net cash	2,605	511	3,116

NOTES TO THE COMPANY FINANCIAL STATEMENTS
For the year ended 30 September 2019

1. Company Accounting Policies

Basis of preparation

These financial statements have been prepared under the historical cost convention as modified by financial assets and liabilities at fair value and in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and IFRIC interpretations in issue at 30 September 2019, and with those parts of the Companies Act 2006 applicable to companies preparing financial statements in accordance with IFRS. The financial statements have been prepared on a going concern basis.

Adoption of new standards

The accounting policies have been consistently applied over the period reported.

There have been no new standards, amendments or interpretations issued and made effective for the financial year ended 30 September 2019 that have had a material impact on the financial statements of the company.

The company does not have any leases so there will be no effect of adopting IFRS16 in the year ending 30 September 2020.

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. 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.

Share options

The Company operates a number of share option schemes. In accordance with IFRS 2 the fair value of the employee services received in exchange for the grant of the options is recognised as an expense 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 Gooch & Housego 2013 Long Term Incentive Plan are 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.

Foreign currency translation

a. Functional and presentation currency

The financial statements are presented in Pounds Sterling, which is the Company's presentation currency.

b. Transactions and balances

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

Property, plant and equipment

Property, plant and equipment is stated at historical purchase cost less accumulated depreciation. 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. Depreciation on other assets is calculated to allocate their cost over their estimated useful lives, as follows:

• 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

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.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
For the year ended 30 September 2019

Deferred tax
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" on the previous page, 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.

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

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.

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.

Financial instruments
The Company has not used derivative financial instruments to hedge its exposure to currency risk.

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.

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 profit after tax was £3,663,000 (2018: £4,157,000 profit).

Fees payable to the Company auditors for the statutory audit for the year amounted to £16,000 (2018: £16,000).

NOTES TO THE COMPANY FINANCIAL STATEMENTS
For the year ended 30 September 2019

3. Employee Benefit Expense

	2019 £'000	2018 £'000
Wages and salaries	2,713	2,611
Social security costs	304	304
Medical and other insurances	35	30
Share based payments	191	675
Pension costs	70	43
	3,313	3,663

The average number of employees during the year was 12 (2018: 13), all of whom were administrative.

Directors' remuneration

	2019 £'000	2018 £'000
Directors' remuneration	977	1,432
Medical and other insurances	32	37
Directors' pension scheme contributions	19	20
	1,028	1,489

The aggregate emoluments of the highest paid Director including gain on exercise of share options were £709,000 (2018: £1,801,000). Further information is included in the Remuneration Committee report on page 39.

The aggregate gain on Directors' share option exercises in the year was £834,000 (2018: £2,628,000).

The number of Directors who are accruing retirement benefits under a money purchase pension scheme is 1 (2018: 2).

4. Dividends

	2019 £'000	2018 £'000
Final 2018 dividend paid in 2019: 7.1p per share. (Final 2017 dividend paid in 2018: 6.5p per share)	1,772	1,608
2019 Interim dividend paid: 4.3p per share (2018: 4.2p)	1,077	1,039
	2,849	2,647

The Directors propose a final dividend of 7.2p per share making the total dividend paid and proposed in respect of the 2019 financial year 11.5p (2018: 11.3p). Should the final dividend be approved at the Company Annual General Meeting, cut-off dates for payment are:
- Record date 24 January 2020 - Payment date 28 February 2020

5. Investments

	2019 £'000	2018 £'000
Cost and net book value at 1 October	51,045	28,811
Additions	366	22,234
Cost and net book value at 30 September	51,411	51,045

NOTES TO THE COMPANY FINANCIAL STATEMENTS
For the year ended 30 September 2019

The subsidiary companies at 30 September 2019, all of which are wholly owned either directly or indirectly, are listed below:

Company Name	% ownership of ordinary shares	Registered Office	Activity
Gooch & Housego (UK) Limited*	100%	Dowlish Ford, Ilminster, Somerset, TA19 0PF	Manufacturer of acousto-optic products and precision optics
Gooch & Housego (Torquay) Limited*	100%	Dowlish Ford, Ilminster, Somerset, TA19 0PF	Manufacturer of fibre-optic products
Spanoptic Limited*	100%	Telford Road, Glenrothes, KY7 4NX	Manufacturer of precision optics
Kent Periscopes Limited*	100%	6 Ffordd Richard Davies St Asaph, LL17 0LJ	Manufacturer of periscopes and vehicle sights
Gooch & Housego (Deutschland) GmbH*	100%	Berliner Allee 55, 22850 Norderstedt, Germany	Provider of sales and customer service functions
Constelex Technology Enablers Limited*	100%	Sarou 12, Athens 15125, Greece	Designer and manufacturer of advanced photonic systems
Gooch & Housego (Ohio) LLC	100%	676 Alpha Drive, Highland Heights, OH44143, USA	Manufacturer of electro-optic products and crystals
Gooch & Housego (California) LLC	100%	5390 Kazuko Court, Moorpark, CA93021, USA	Manufacturer of precision optics
Gooch & Housego (Florida) LLC	100%	676 Alpha Drive, Highland Heights, OH44143, USA	Non-trading
Optronic Laboratories LLC	100%	4632 36th St, Orlando, FL32811,USA	Manufacturer of instruments for measuring optical radiation
EM4 Inc.	100%	7 Oak Park Drive, Bedford, MA 01730, USA	Manufacturer of fibre optics products
Gooch & Housego (Palo Alto) LLC	100%	44247 Nobel Dr, Fremont, CA94538, USA	Manufacturer of acousto-optic, electro-optic and fibre optic components and systems
StingRay Optics LLC	100%	17A Bradco Street, Keene, NH 03431 USA	Designer and manufacturer of optical and opto-mechanical subsystems
Gooch & Housego Japan KK*	100%	Level 4, Nikko Shiken Building, 3-2-3 Sakae, Nagoya, Japan	Provider of sales and customer service functions
G&H (Property) Holdings Limited*	100%	Dowlish Ford, Ilminster, Somerset, TA19 0PF	Property holding company
G&H (US Holdings) Limited*	100%	Dowlish Ford, Ilminster, Somerset, TA19 0PF	Holding company
G&H Holdings (Delaware) Inc.	100%	676 Alpha Drive, Highland Heights, OH44143, USA	Holding company
G&H Capital Holdings (Florida) Inc.	100%	676 Alpha Drive, Highland Heights, OH44143, USA	Non-trading company
Integrated Technologies Limited	100%	Viking House, Ellingham Way, Ashford, TN23 6NF	Development and manufacture of high quality medical and in vitro diagnostic devices
Integrated Technologies (Holdings) Limited*	100%	Viking House, Ellingham Way, Ashford, TN23 6NF	Non-trading company
ORF Limited	100%	Viking House, Ellingham Way, Ashford, TN23 6NF	Non-trading company
VITL Limited	100%	Viking House, Ellingham Way, Ashford, TN23 6NF	Holding company
ITL (Virginia) Inc.	100%	305 Ashcake Rd, VA23005, USA	Development and manufacture of high quality medical and in vitro diagnostic devices
Integrated Electronic Systems (Shanghai) Ltd	100%	T3-11 Factory Building Unit 201, 5001 Huadong Road, Shanghai 201201 China	Development and manufacture of high quality medical and in vitro diagnostic devices

The directors believe that the carrying value of the investments is supported by their underlying net assets.

*these investments are held directly by Gooch & Housego PLC

NOTES TO THE COMPANY FINANCIAL STATEMENTS
For the year ended 30 September 2019

6. Property, Plant and Equipment

	Freehold land and buildings £'000	Plant and machinery £'000	Fixtures and fittings £'000	Computer equipment £'000	Total £'000
Cost or valuation					
At 1 October 2017	6,183	3,987	1,392	603	12,165
Additions	14	–	–	27	41
At 30 September 2018	6,197	3,987	1,392	630	12,206
Additions	–	–	–	61	61
Disposals	(1,064)	–	–	(381)	(1,445)
At 30 September 2019	5,133	3,987	1,392	310	10,822
Accumulated depreciation					
At 1 October2017	1,355	2,320	890	496	5,061
Charge for the year	109	265	93	37	504
At 30 September 2018	1,464	2,585	983	533	5,565
Charge for the year	98	265	93	39	495
Disposals	(348)	–	–	(381)	(729)
At 30 September 2019	1,214	2,850	1,076	191	5,331
Net book value					
At 1 October 2017	4,828	1,667	502	107	7,104
At 30 September 2018	4,733	1,402	409	97	6,641
At 30 September 2019	3,919	1,137	316	119	5,491

7. Intangible Assets

	Assets in the course of construction £'000	Computer software £'000	Other £'000	Total £'000
Cost or valuation				
At 1 October 2017	–	1,216	465	1,681
Additions	842	–	54	896
At 30 September 2018	842	1,216	519	2,577
Additions	630	94	11	735
Disposals	–	–	(207)	(207)
At 30 September 2019	1,472	1,310	323	3,105
Accumulated amortisation				
At 1 October2017	–	1,204	430	1,634
Charge for the year	–	12	39	51
At 30 September 2018	–	1,216	469	1,685
Charge for the year	–	9	20	29
Disposals	–	–	(207)	(207)
At 30 September 2019	–	1,225	282	1,507
Net book value				
At 1 October 2017	–	12	35	47
At 30 September 2018	842	–	50	892
At 30 September 2019	1,472	85	41	1,598

NOTES TO THE COMPANY FINANCIAL STATEMENTS
For the year ended 30 September 2019

8. Other Receivables

	2019 £'000	2018 £'000
Prepayments and accrued income	125	119
Group tax relief receivable	3,687	3,815
	3,812	3,934

9. Deferred Tax

The movement in the deferred tax asset during the year was as follows:

	2019 £'000	2018 £'000
At 1 October	655	732
Credited to the income statement	(187)	(102)
(Credited)/debited directly to reserves	(315)	25
At 30 September	153	655

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

	2019 £'000	2018 £'000
Property, plant and equipment	55	(11)
Share options	-	453
Other timing differences	98	213
	153	655

Factors affecting the future tax charge

UK tax losses of £0.8m (2018: £0.8m) are available against future profits of the Group. The utilisation of these losses is not sufficiently certain to recognise a deferred tax asset.

Changes to the UK corporation tax rates were substantively enacted as part of the Finance Act 2016 in September 2016. These included the replacement of the 19% rate from 1 April 2020 with a lower rate of 17%. To date, no further changes have been announced.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
For the year ended 30 September 2019

10. Trade and Other Payables

	2019 £'000	2018 £'000
Trade payables	377	686
Amounts owed to Group undertakings	5,506	4,165
Taxation and Social Security	1,045	518
Accruals and deferred income	687	2,186
Deferred consideration payable	4,750	2,137
	12,365	9,692

Amounts owed to group undertakings are unsecured and due within one year. Non-trading amounts owed to US group undertakings are charged interest at the US LIBOR rate applicable for the year. Non-trading amounts owed to UK group undertakings are charged interest at the UK LIBOR rate applicable for the year.

11. Called up Share Capital

	2019 Number	2018 Number	2019 £'000	2018 £'000
Allotted, issued and fully paid				
At 1 October	24,907,831	24,514,561	4,982	4,903
Shares issued and fully paid	131,241	393,270	26	79
At 30 September	25,039,072	24,907,831	5,008	4,982

During the year 98,486 shares (2018: 227,403 shares) were allotted under share option schemes, plus 32,755 shares were issued as part of the deferred consideration of the Kent Periscopes business.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
For the year ended 30 September 2019

12. Share Options
The Company operates the Gooch & Housego 2013 Long Term Incentive Plan (the "2013 LTIP").

The Gooch & Housego 2013 Long Term Incentive Plan
The Gooch & Housego 2013 Long Term Incentive Plan was adopted on 9 April 2013. Under the plan, awards are made annually to key employees based on a percentage of salary or management grade. Subject to the satisfaction of the required TSR performance criteria and EPS financial performance, these grants will vest upon publication of the results of the Company three years after the grant date.

There have been seven grants of options under the 2013 Long Term Incentive Plan. The remuneration report provides further details on the share options awarded and exercised during the financial year.

The 2013 Long Term Incentive Plan Awards were valued using the Monte Carlo option pricing model. The expected volatility used in the model was based on the historical volatility of the Company's share price over the three years prior to the grant date.

Details of awards extant as at 30 September 2019 are summarised below:

	Grant date		
	8 Jan 2019	21 Dec 2017	10 Mar 2017
No. of options granted	99,228	96,123	133,146
Expected volatility	30%	29%	26%
Risk free rate	0.76%	0.56%	0.9%
Fair value (£)	1,010,655	914,164	784,041

A reconciliation of total share option movements is shown below:

	2019		2018	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at 1 October	342,267	–	486,008	–
Awarded	99,228	–	96,123	–
Exercised	(98,486)	–	(227,403)	–
Lapsed	(91,098)	–	(12,461)	–
Outstanding at 30 September	251,911	–	342,267	–
Exercisable at 30 September	–	–	–	–

The weighted average fair value of options granted in the year was 786.0p (2018: 589.0p). For the options exercised, the average market price was 1,254.0p per share.

Share options outstanding at the end of the year expire one year after their respective vesting dates and have the following exercise prices:

	Weighted average exercise price	Number of share options	
		2019	2018
2013 LTIP	0.0p	251,911	342,267

The total charge for the year relating to share options was £191,000 (2018: £675,000), all of which related to equity-settled share based payment transactions.

13. Related Party Disclosures
The company recharges certain costs and provides financing to its subsidiaries in the ordinary course of business. The closing balances due from and to the subsidiary companies are shown in notes 8 and 10 respectively.

No other 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.

COMPANY INFORMATION

Nominated Adviser and Broker

Investec Bank plc
2 Gresham Street
London
EC2V 7QP

Legal Advisers

Burges Salmon LLP
One Glass Wharf
Bristol
BS2 0ZX

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
2 Glass Wharf
Bristol
BS2 0FR

Registrars

Link Asset Services
65 Gresham Street
London
EC2V 7NQ

Company Secretary and Registered Office

COMPANY SECRETARY
Gareth J Crowe

REGISTERED OFFICE
Dowlish Ford
Ilminster
Somerset
TA19 0PF
United Kingdom

COMPANY NUMBER
00526832

Expected Financial Calendar

Annual General Meeting	19 February 2020
Payment date for final dividend for the year ended 30 September 2019 to shareholders on the register at close of business 24 January 2020. Subject to approval by shareholders at the Annual General Meeting.	28 February 2020
Interim Results announcement	June 2020
Financial Year End	30 September 2020
Preliminary announcement of results for the year ending 30 September 2020	December 2020

For further information please contact:

Gooch & Housego PLC	Mark Webster/Chris Jewell	01460 256440
Investec Bank plc (Nomad & Broker)	Chris Baird/Patrick Robb/David Anderson	020 7597 5970
Buchanan	Mark Court/Charlotte Slater	020 7466 5000

NOTICE OF ANNUAL GENERAL MEETING

Form of proxy

You will not receive a form of proxy for the 2020 AGM in the post. Instead, you can vote online at www.signalshares.com. To register you will need your Investor Code, which can be found on your share certificate. You will still be able to vote in person at the AGM, and may request a hard copy proxy form directly from our Registrars, Link Asset Services on 0871 664 0391. Calls cost 12p per minute plus your phone company's access charge. If you are outside the United Kingdom, please call +44 371 664 0391. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 9.00 am – 5.30 pm, Monday to Friday excluding public holidays in England and Wales.

Notice is hereby given that the Annual General Meeting of the Company will be held at Dowlish Ford, Ilminster, Somerset, TA19 0PF on 19 February 2020 at 11.00 a.m. for the following purposes:

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

1 To receive the Annual Report and Financial Statements for the financial year ended 30 September 2019 together with the Directors' Report and Auditors' Report thereon.

2 To receive and approve the Remuneration Committee Report set out on pages 37 to 42 (excluding page 38) of the Annual Report and Financial Statements for the financial year ended 30 September 2019.

3 To declare a final dividend, as recommended by the Directors, of 7.2 pence per ordinary share for the financial year ended 30 September 2019.

4 To re-elect Gary Bullard as a Director.

5 To re-elect Mark Webster as a Director.

6 To elect Chris Jewell as a Director.

7 To re-elect Peter Bordui as a Director.

8 To re-elect Brian Phillipson as a Director.

9 To re-elect David Bauernfeind as a Director.

10 To re-appoint Messrs PricewaterhouseCoopers LLP as Auditors.

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

12 THAT the Directors of the Company be, and they are hereby, generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 (the "Act"), in substitution for any existing authority to the extent unused, to exercise all the powers of the Company to allot shares in the Company or grant rights to subscribe for or to convert any security into shares in the Company on, and subject to, such terms as the Directors may determine. The authority hereby conferred shall, subject to section 551 of the Act, be for a period commencing on the date of the passing of this Resolution and expiring at the conclusion of the next Annual General Meeting of the Company or 19 May 2021 (whichever is the earlier) unless reviewed, varied or revoked by the Company in General Meeting and the maximum nominal amount of shares which may be allotted pursuant to such authority shall be £1,669,271 (representing approximately one third of the total ordinary share capital of the Company in issue at 3 December 2019). The Directors shall be entitled under such authority to make at any time prior to the expiry of such authority any offer or agreement which would or might require shares in the Company to be allotted after the expiry of such authority and the Directors may allot shares in pursuance of such offer or agreement as if such authority had not expired.

To consider and, if thought fit, to pass the following resolutions as Special Resolutions:

13 (a) THAT the Directors of the Company be, and they are hereby, generally and unconditionally empowered pursuant to section 570 of the Companies Act 2006 (the "Act"), in substitution for any existing authority to the extent unused, to allot equity securities (as defined in section 560 of the Act) for cash pursuant to the authority conferred by Resolution 12 above as if section 561 of the Act did not apply to such allotment, provided that the power hereby conferred shall be limited to:

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

(ii) otherwise than pursuant to sub-paragraph (i) above, the allotment of equity securities up to an aggregate nominal amount of £250,391 (representing approximately 5 per cent. of the total ordinary share capital of the Company in issue at 3 December 2019); and

(b) THAT the Directors of the Company be authorised in addition to any authority granted under Resolution 13(a) to allot equity securities (as defined in section 560 of the Act) for cash under the authority conferred by resolution 13 above as if section 561 of the Act did not apply to any such allotment, provided that the power hereby conferred shall be:

(i) limited to the allotment of equity securities up to an aggregate nominal amount of £250,391 (representing approximately 5 per cent. of the total ordinary share capital of the Company in issue at 3 December 2019); and

NOTICE OF ANNUAL GENERAL MEETING

(ii) used only for the purpose of financing (or refinancing, if the authority is to be used within 6 months after the original transaction) a transaction which the Directors determine to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this notice.

The powers hereby conferred in this Resolution 13 shall expire at the conclusion of the next Annual General Meeting of the Company or 19 May 2021 (whichever is the earlier), save that the Company may before such expiry make an offer or agreement which would or might require equity securities in the Company to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

14 THAT the Company be and is hereby generally and unconditionally authorised for the purposes of section 701 of the Companies Act 2006 (the "Act") to make one or more market purchases (within the meaning of section 693(4) of the Act) of fully paid ordinary shares of £0.20 each in the capital of the Company on such terms and in such manner as the Directors may determine, provided that:

(a) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 2,503,907 (representing approximately 10 per cent. of the total ordinary share capital of the Company in issue at 3 December 2019);

(b) the minimum price (exclusive of expenses) which may be paid for each ordinary share is 20 pence per share;

(c) the maximum price (exclusive of expenses) which may be paid for each ordinary share shall not be more than 5 per cent. above the average of the middle market quotations for an ordinary share as derived from the AIM section of the London Stock Exchange Daily Official List for the five business days immediately preceding the date on which the ordinary share is contracted to be purchased;

(d) unless previously renewed, varied or revoked, the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company or 19 May 2021 (whichever is the earlier); and

(e) the Company may, pursuant to the authority hereby conferred, enter into a contract to purchase ordinary shares which would, will or might be executed wholly or partly after the expiry of such authority and the Company may make a purchase of ordinary shares in pursuance of such contract as if the authority conferred hereby had not expired.

By order of the Board

Gareth J Crowe
Company Secretary
3 December 2019

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

NOTES

1 Shareholders can vote online by logging on to www.signalshares.com and following the instructions. Alternatively shareholders can request a hard copy proxy form by contacting our registrars, Link Asset Services, on 0871 664 0391 from the UK (calls cost 12p per minute plus network extras) or +44371 664 0391 from outside the UK (calls chargeable at the applicable international rate) and returning it in accordance with note 5 below.

2 Resolution 2 is an advisory vote only. The Remuneration Committee Report is set out on pages 37 to 43 of the Annual Report and Financial Statements for the financial year ended 30 September 2019. Pages 37, 39, 40, 41 and 42 of the Remuneration Committee Report set out the pay and benefits received by each of the directors for the year ended 30 September 2019. The Company's policy on remuneration and potential pay outs to directors in the future, which is set out on page 38 of the Annual Report and Financial Statements for the financial year ended 30 September 2019, is specifically excluded from this Resolution.

3 Resolutions 1 to 12 (inclusive) are proposed as Ordinary Resolutions. This means that for those resolutions to be passed, more than half of the votes cast on such resolutions must be in favour of such resolutions. Resolutions 13 and 14 are proposed as Special Resolutions. This means that for those resolutions to be passed, at least three-quarters of the votes cast on such resolutions must be in favour of such resolutions.

4 A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to exercise all or any of the member's rights to attend, speak and vote at the meeting (or any adjournment of the meeting). A proxy need not be a member of the Company. If a member appoints more than one proxy in relation to the meeting, each proxy must be appointed to exercise the rights attached to a different share or shares held by that member. If a member submits more than one valid proxy appointment in relation to the same share, the appointment received last before the latest time for receipt of proxies will take precedence. A member may only appoint a proxy in accordance with the procedures described in notes 5,6 and 7.

5 To vote by proxy outside of the CREST system, you can do so online via www.signalshares.com, or you can request a proxy form from our Registrars (see Note 1). To be valid, this form of proxy (and any power of attorney or other authority (if any) under which it is signed) must by duly completed and signed and sent to or deposited at the office of the Company's registrars, Link Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU so as to be received not less than 48 hours before the time for holding the meeting (or any adjournment of the meeting). Completion of a form of proxy does not preclude a member from attending and voting in person at the meeting if that member so wishes.

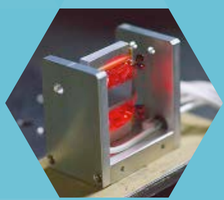
6 To appoint as a proxy a person other than the Chairman of the meeting, a member must insert the proxy's full name in the box on the proxy form. If a member signs and returns a proxy form with no name in the box, the Chairman of the meeting will be deemed to be the member's proxy. Where a member appoints as a proxy someone other than the Chairman, the member is responsible for ensuring that the proxy attends the meeting and is aware of the member's voting intentions. If a member wishes a proxy to make any comments on the member's behalf, the member will need to appoint someone other than the Chairman and give them the relevant instructions directly.

7 To appoint a proxy or to give or amend an instruction to a previously appointed proxy via the CREST system (Link ID: RA10), the CREST message must be received by the issuer's agent by 11.00 a.m. on 17 February 2020. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message. After this time any change of instructions to a proxy appointed through CREST should be communicated to the proxy by other means. CREST Personal Members or other CREST sponsored members, and those CREST Members who have appointed voting service provider(s) should contact their CREST sponsor or voting service provider(s) for assistance with appointing proxies via CREST. For further information on CREST procedures, limitations and system timings please refer to the CREST Manual. The Company or its Registrars may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5) (a) of the Uncertificated Securities Regulations 2001. In any case your Form of Proxy must be received by the Company's Registrars by no later than 11.00 a.m. on 17 February 2020.

8 A member which is a corporation is entitled to appoint one or more corporate representatives to exercise the same powers on behalf of the corporation as the corporation could exercise if it were an individual member. If a member which is a corporation appoints more than one corporate representative in relation to the meeting (or any adjournment of the meeting), each such corporate representative shall be entitled to exercise the same powers on behalf of that corporation as that corporation could exercise if it were an individual member, provided that if such persons purport to exercise those powers the same way, those powers shall be treated as exercised in that way, but if those persons purport to exercise those powers in different ways, those powers shall be treated as not exercised. In the case of a member which is a corporation, the proxy form must be executed under the corporation's common seal or signed on its behalf by a duly authorised officer of the corporation or an attorney for the corporation.

9 Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those members entered in the Company's register of members at close of business on 17 February 2020 shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their names at that time. Changes in the Company's register of members after that time shall be disregarded in determining the rights of any person to attend and vote at the meeting. If the meeting is adjourned, the time which is 48 hours (disregarding any part of a day which is not a working day) before the time fixed for the adjourned meeting shall apply for the purpose of determining the entitlement of members to attend and vote at the adjourned meeting.

10 Copies of Directors' service agreements and letters of appointment and the rules of the Company's share option schemes will be available for inspection at the registered office of the Company from the date of this Notice of AGM until the date of the meeting during normal business hours, and at the place of the meeting from 10.45 a.m



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