If you are in any doubt about the contents of this document, you should consult a person authorised under the Financial Service who specialises in advising on the acquisition of shares or other securities.

A copy of this document, which has been drawn up in accordance with the Public Offers of Securities Regulations 1995, has been delivered to the Registrar of Companies in England and Wales for registration in accordance with Regulation 4(2) of those Regulations.

Application has been made for the whole of the issued ordinary share capital of the Company to be admitted to trading on the Alternative Investment Market of the London Stock Exchange ("AIM"). AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk than that associated with established companies tends to be attached. A prospective investor should be aware of the potential risks in investing in such companies and should make the decision to invest only after careful consideration and consultation with his or her own independent financial adviser.

The rules of AIM are less demanding than those of the Official List of the London Stock Exchange. It is emphasised that no application is being made for admission of these securities to the Official List. Further, the London Stock Exchange has not itself approved the contents of this document.

Persons receiving this document should note that Price Waterhouse Corporate Finance, a division of Price Waterhouse which is authorised by the Institute of Chartered Accountants in England and Wales in the carrying on of investment business, is acting for Gooch & Housego, and no one else, in connection with the proposed Admission to AIM, and will not be responsible to any person other than Gooch & Housego for providing the protections afforded to its customers or for providing advice in relation to Admission.

Persons receiving this document should note that Sutherlands Limited, which is regulated by The Securities and Futures Authority Limited is acting exclusively for Gooch & Housego in connection with the Placing. Sutherlands Limited will not be responsible to anyone other than Gooch & Housego for providing the protections afforded to customers of Sutherlands or for advising any other person on the Placing and the transactions and arrangements described in this document.

GOOCH & HOUSEGO PLC

(incorporated and registered in England and Wales under the Companies Acts with registered number 526832)

Admission to the Alternative Investment Market of the London Stock Exchange

Nominated adviser
Price Waterhouse Corporate Finance

Placing of 5,629,996 Ordinary Shares of 20p each at 105p per share by Sutherlands Limited

Share Capital

Authorised			Immediately following Admission	
Number	Amount		Number	Amount
18,000,000	£3,600,000	Ordinary Shares of 20p each	16,904,162	£3,380,832

Indebtedness

At the close of business on 31 October 1997, the Group had total outstanding borrowings or indebtedness in the nature of borrowings of £720,000, comprising secured loans of £565,000, secured overdrafts of £86,000, and obligations under hire purchase contracts and finance leases of £69,000. At the same date there were contingent liabilities in respect of cheques negotiated amounting to £119,000 in aggregate.

Save as aforesaid, and apart from intra-group indebtedness, no member of the Group had at close of business on 31 October 1997 any loan capital outstanding, or created but unissued, any term loans, outstanding mortgages, debentures or other borrowings or indebtedness in the nature of borrowing, including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits, hire purchase commitments, obligations under finance leases or guarantees or other material contingent liabilities.

At the close of business on 31 October 1997 the Group had bank balances and short term deposits of £94,000.

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DEFINITIONS

The following definitions apply throughout this document unless the context requires otherwise:

"the Act"	the Companies Act 1985 (as amended)
"Admission"	admission of the issued Ordinary Shares (being the entire issued share capital of the Company) to trading on AIM
"AIM"	the Alternative Investment Market of the London Stock Exchange
"Board" or "Directors"	the Directors of the Company
"Company" or "G&H"	Gooch & Housego PLC, which carries out the UK business activities of the Group
"CREST"	the computerised settlement system to facilitate the transfer of title to shares in uncertified form operated by CRESTCo.
"CRESTCo"	CRESTCo Limited
"the Gooch & Housego Group" or "the Group"	the Company and OLI
"London Stock Exchange"	London Stock Exchange Limited
"OLI"	Optronic Laboratories Inc, the subsidiary of G&H
"Ordinary Shares"	ordinary shares of 20p each in G&H
"Placing"	the proposed placing of the Placing Shares at the Placing Price as described in this document
"Placing Agreement"	the agreement dated 4 December 1997 between the Company, the Directors, Sutherlands and Price Waterhouse Corporate Finance and certain vendors as described in paragraph 10(d) of Part III of this document
"Placing Price"	105p per Placing Share
"Placing Shares"	the 5,629,996 Ordinary Shares which are the subject of the Placing
"Price Waterhouse Corporate Finance"	the corporate finance division of Price Waterhouse
"POS Regulations"	the Public Offers of Securities Regulations 1995
"Shareholders"	holders of Ordinary Shares
"Sutherlands"	Sutherlands Limited

DIRECTORS, SECRETARY AND ADVISERS

Directors	AWC Gooch MBE, JP	*Executive Chairman*
	GCW Jones BSc, C.Phys., M.Inst.P.	*Managing Director*
	WE Schneider BSc, MSc.	*President OLI*
	AWM Heals	*Finance Director*
	DE Irish	*Operations Director*
	HC Virgin	*Personnel Director*
	JA Melles BS/EE	*Non-executive Director*
	AJ Davison FCA	*Non-executive Director*
Company Secretary	AWM Heals	
Registered and Head office	The Old Magistrates Court Ilminster Somerset TA19 0AB	
Nominated Adviser	Price Waterhouse Corporate Finance No. 1 London Bridge London SE1 9QL	
Nominated Stockbroker	Sutherlands Limited Dashwood House 69 Old Broad Street London EC2M 1NX	
Solicitors to the Company	Burges Salmon Narrow Quay House Narrow Quay Bristol BS1 4AH	
Solicitors to the Issue	Osborne Clarke 50 Queen Charlotte Street Bristol BS1 4HE	
Registered Auditor and Reporting Accountants	Price Waterhouse 31 Great George Street Bristol BS1 5QD	
Principal Bankers	National Westminster Bank PLC East Street Ilminster Somerset TA19 0AJ	
Registrars	IRG plc Balfour House 390/398 High Road Ilford Essex IG1 1NQ	

KEY INFORMATION

The following information should be read in conjunction with the full text of this document from which it is derived and of which it forms part.

Overview of Activities

The Group is a manufacturer of high quality precision optical components and bespoke glass engineered structures, acousto-optic devices and instruments for measuring optical radiation. Some examples of these products and their applications are as follows:

Precision optics and glass engineering

- polarising prisms (for instruments used to measure distance and angle accurately);
- quartz crystal plates for focusing x-rays (used in analytical instruments); and
- ring laser gyroscope cavities (for navigation systems).

Acousto-optic devices

- Q-Switches transform the output of a laser from a continuous beam to a pulsed beam which is sufficiently powerful to vaporise materials such as steel, plastic, wood and even diamond. These have applications in laser marking, micromachining, electronics, diamond cutting and medicine; and
- Acousto-optic modulators, which are key components in the laser imagesetter used in modern printing.
- In 1994 the Queen's Award for Technological Achievement was conferred on the Company for its work in acousto-optics.

Instruments for measuring optical radiation

- sunlight and lamp hazard assessment instruments;
- lamp and lighting assessment instruments (for measuring the luminosity of light bulbs and the levels of illumination in the workplace and public places); and
- standards used to calibrate optical radiation equipment, with which it performs calibration services on customers' behalf.

Management

The Gooch & Housego Group benefits from an experienced and committed team of directors, managers and highly skilled employees. The executive directors have worked together for almost 20 years.

Financial Record

A summary of the financial record of the Group for the three years ended 30 September 1997 is set out below. The summary is extracted from the Accountants' Report on the Group as set out in Part II of this document.

	Financial year ended		
	30 September 1997 £'000	30 September 1996 £'000	30 September 1995 £'000
Turnover			
G&H	4,000	3,214	2,540
OLI	2,718	2,737	—
Total Group	6,718	5,951	2,540
Operating profit			
G&H	1,179	841	517
OLI	321	337	—
Total Group	1,500	1,178	517
Profit before taxation			
G&H	1,262	772	542
OLI	314	287	—
Total Group	1,576	1,059	542

The profit before taxation in the year ended 30 September 1997 includes an exceptional gain of £148,724.

Key strengths

The Directors believe that the key strengths of the Gooch & Housego Group are as follows:

- skills and experience of employees;
- understanding of materials, including crystals;
- research and development capabilities and willingness to undertake innovative research and development projects;
- extensive knowledge of its markets;
- complementary knowledge and skills of G&H and OLI; and
- cross-fertilisation between the manufacture of precision optics and the manufacture of acousto-optics.

Current trading and prospects

Trading in the current financial year is satisfactory and in accordance with the Directors' expectations. With only two months elapsed, it is too early for the Directors to make judgements about the year as a whole; but the Group's order book is strong and the acousto-optic division, in particular, has had a good start to the year.

Reasons for the Placing

Capital raised from the Placing will finance the Group's immediate development plans which include the construction of the new facility in Orlando for OLI and further investment in computerised machinery. In addition, the Directors believe that the Placing and Admission will provide greater flexibility for financing the future development of the Group, will raise the profile of the Company and will enhance its reputation with its customers and suppliers. The Placing will also permit the Directors to realise some of their interest in the Company.

PLACING STATISTICS

Placing Price	105p
Number of Ordinary Shares in issue immediately following the Placing	16,904,162
Market capitalisation at the Placing Price immediately following the Placing	£17.75 million
Number of Placing Shares being placed	
— on behalf of the Company	1,904,762
— on behalf of existing Shareholders	3,725,234
Value of the Placing Shares being placed at the Placing Price	£5.9 million
Estimated proceeds of the Placing receivable by the Company (net of expenses)	£1.5 million
Percentage of enlarged issued ordinary share capital being placed	33.3 per cent.
Earnings per Ordinary Share for the year ended 30 September 1997 before exceptional gains[1]	6.42p
Price earnings multiple at the Placing Price[1]	16.4

Note

1. Based on profit after taxation of £1,111,051 less the exceptional gains of £148,724 and the number of shares in issue immediately following the capital reconstruction of 14,999,400.

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Admission effective and dealings commence	12 December 1997
Stock credited to CREST accounts	12 December 1997
Definitive share certificates despatched	16 December 1997

PART I

INFORMATION ON THE GOOCH & HOUSEGO GROUP

Introduction

The Gooch & Housego Group is a manufacturer of high quality precision optical components and bespoke glass engineered structures, acousto-optic devices and instruments for measuring optical radiation. The Group has over 40 years' experience manufacturing a wide variety of optical components and over 25 years' manufacturing instruments. As a result, the Directors believe the Group has a comprehensive knowledge of its markets.

The manufacture of precision optical components, glass engineered structures and acousto-optic devices is carried out in Ilminster, Somerset (the head office), while instruments are manufactured at Optronics Laboratories Inc. in Orlando, Florida. The Directors believe that the Ilminster and OLI operations are among the leaders in their respective fields. This is due to the Group's experience in the industry combined with its research and development capabilities and, in the case of the Ilminster operation, the cross-fertilisation between the manufacture of precision optics and the manufacture of acousto-optics.

History and Development

Archie Gooch and Leslie Housego established a manufacturing partnership in 1946 which moved into the manufacture of precision and crystal optics in the late 1940's. The business was incorporated as a limited company in 1953 and has been progressively enhanced by moves into glass engineering and the manufacture of transducers, thin-film coatings and acousto-optics. In 1980 Leslie Housego retired and his interest in the Company was bought out by other Directors.

Research and development work in acousto-optic devices commenced in 1982 and was a significant step for the Company into the fields of opto-electronics, lasers and fibre-optics. This development, supported by the Company's materials and optical manufacturing expertise, resulted in a broad range of acousto-optic products, sales of which now account for more than half of the Company's turnover. In 1994 the Queen's Award for Technological Achievement was conferred on the Company for its work in acousto-optics. In the same year the Company gained accreditation to ISO 9002.

In 1995, the Company acquired OLI for approximately £2 million from Bill Schneider. OLI was established in 1970 as an optical radiation instrumentation, standards and calibration laboratory. This acquisition introduced capabilities in instrumentation, electronics and software, allowing G&H to expand its product range. The first product to be jointly developed was a range of electronic drivers for G&H's acousto-optic Q-switches.

The Business

The activities of the Group as a whole fall under the description of photonics. Photonics is the technology of generating and harnessing light and other forms of radiant energy whose quantum unit is the photon. The science includes light emission, transmission, deflection, amplification and detection by optical components and instruments, lasers and other light sources, fibre optics, electro-optical instrumentation, related hardware and electronics, and sophisticated systems. The range of applications of photonics extends from energy generation to detection, communication and information processing. The three separate business areas of the Group are described below.

Precision Optics and Glass Engineering

The Company specialises in the manufacture of high precision optical components, such as polarising prisms, and the provision of bespoke glass engineering solutions, such as ring laser gyroscope cavities for navigation systems.

Historically specialising in optical components such as prisms, optical flats and instrument glasses, in recent years the Company has also established a lens manufacturing facility and developed a capability in optical assembly and testing in order to provide a more complete optical service.

From the beginning, crystals have been fundamental to the development of the Company. They have many properties, that do not exist in glass, which the Company has exploited.

Thin-film optical coatings (e.g. anti-reflection, mirror and beamsplitter coatings) are an increasingly important aspect of the manufacture of optical components. The majority of optics manufactured by the Company require some form of coating. In order to control leadtime, price and quality (particularly important on optics for high powered laser applications), the Company has established a facility which coats optics in-house whenever possible.

"Glass engineering" is the term used by the Company to describe the manufacture of high precision non-optical structures in glass ceramics and is one of the Company's specialisations, developed by combining the Company's diamond-tool machining and materials expertise. Glass-ceramics have nominally zero thermal expansion and are used in the manufacture of systems requiring extreme thermal stability such as cavities for ring-laser gyroscopes, and parts for ultra-high precision measuring equipment.

Applications

The growth of photonics is creating a demand for high precision, coated optical components in a variety of industrial, medical and other applications.

Metrology: This is the science of precision measurement. With the advent of lasers it has become possible to manufacture instruments which use the wavelength of light as a precise measurement unit. A significant market for the Company is optical components for use in laser interferometers for an accurate measurement of distance and angle. The components manufactured for this market by the Company include prisms, polarising prisms and glass ceramic components.

Components for analytical instruments: This is an important sector for the Company. Customers' requirements vary from simple, low cost mirrors for use in ultra-violet and visible wavelength instruments, through to large and expensive quartz crystal plates used for focusing x-rays.

Defence: While the Company is not primarily a defence contractor, recent trends have led to greater out-sourcing by other manufacturers and to increased business for the Company. Products include suites of optics for laser rangefinder/designator systems, prisms for optical fuses carried on missiles, ring laser gyroscope cavities used in aircraft navigation systems and laminated assemblies for night vision compatible instrument glasses used in fighter cockpit displays.

Research applications: Although currently a small proportion of the Company's total turnover, research sales are an important part of its business. For many customers requiring optics and glass engineering for research work, the Directors believe that the Company is one of the few suppliers who are able and willing to provide the advice and service needed. Examples have included parts of instruments that will be used to redefine the international standard kilogram, and optical windows incorporated into automotive research engines.

Markets

The main market for the Company's precision optics and glass engineering is domestic. More than 95 per cent. of the precision optics and glass engineering sales were made to UK companies in the last financial year.

Competition

Customer confidence, continuity of supply, quality and precision are key factors in the sector in which the Company specialises, which tends to favour local sources.

The Directors believe that there is no one UK company which competes in all respects with the Company. Each competitor tends to specialise in particular market sectors. For example, some provide high quality conventional optics and optical coatings, but do not provide crystal optics or glass engineering services. Some specialise in lower accuracy, low cost components offering only a limited product range. Others are heavily biased towards the defence sector, with the bulk of

production used internally in military systems manufacture. The combination of extensive optical manufacturing skills, the ability to work with a wide range of glasses and crystals and a long-established research and development capability has, in the Directors' opinion, frequently given the Company the edge over existing competitors.

Expansion beyond the UK is difficult as overseas markets already have many capable precision optics companies. However, the Company has achieved sales abroad. In the Directors' opinion, this indicates that the Company's products are comparable with the best, particularly in crystal optics and glass engineering.

Acousto-optics

Acousto-optic devices are components in which an optical beam, usually from a laser, interacts with high-frequency sound waves. One effect of this interaction is to deflect the laser beam to one side. This effect can be used to modulate the laser beam (i.e. switch it on or off, or change its intensity), scan it from side to side, or filter its colour. Acousto-optic devices are extremely fast because they have no moving parts. For example, an acousto-optic modulator is several thousand times faster than its mechanical equivalent.

The Company's most important acousto-optic device is the Q-switch which, in the last financial year, accounted for 68 per cent. of acousto-optic sales and approximately 42 per cent. of the Company's turnover. A Q-switch transforms the output of a laser from a continuous beam to a pulsed beam. Whereas the continuous beam has modest power, compressing the energy of the laser in this way results in pulses which are each around one thousand times more powerful. These powers are high enough to vaporise materials such as steel, plastic, wood and even diamond.

Every Q-switch requires an electronic, radio frequency ("RF") driver. Selling an RF driver together with an acousto-optic device represents significant added value. In mid-1997 G&H reached the pre production stage for certain RF drivers at OLI and some initial sales have been made.

Applications

Laser marking: Product coding such as batch numbering is becoming increasingly commonplace in many industries. Q-switched laser marking is fast, clean and permanent, and is suitable for engraving products ranging from bearings to semiconductor chips. Laser marking currently constitutes the most important application of Q-switches.

Micromachining: Because it is a non-contact process, Q-switched lasers can be used to drill, cut or scribe very delicate and/or hard materials.

Electronics: Their high speed and precision make Q-switched lasers well suited for electronic processes such as semiconductor mask repair and resistor trimming.

Diamond Cutting: In the diamond industry Q-switched lasers are replacing saws for cutting diamonds because the amount of wasted material is greatly reduced.

Medical: Q-switched lasers are used in dermatology, urology and for the removal of blockages in veins. Q-switches for medical applications currently account for around 10 per cent. of Q-switch sales.

Prepress: In modern printing technology, data is transferred from a computer to a film or printing plate using a laser imagesetter in which an acousto-optic modulator is a key component. G&H supplies European and Japanese image setter manufacturers with modulators.

Metrology: Velocimeters, vibrometers and interferometers are laser based instruments some of which use acousto-optic frequency shifters to modulate the optical frequency to enable very accurate remote measurements of velocity, vibration and position to be made. Existing markets include Germany and Switzerland.

Markets

Over 90 per cent. of G&H's acousto-optic production is for the overseas market. Approximately 37 per cent. of these sales are made through distributors. The two main markets are the USA (for Q-switches, but not for other acousto-optic devices) and Europe (mainly Germany), followed by Israel and the Far East, which represents an increasing market.

Competition

The directors believe that the Company is one of the world's leading manufacturers of acousto-optic devices, a leadership founded on its research and development capabilities and materials and optical manufacturing skills. These are used to produce the components for all acousto-optic devices.

The Company has an estimated share of approximately 70 per cent. of the world market for Q-switches. In 1996 the Company's main (US) competitor withdrew from the Q-switch market after having previously lost market share to G&H. The Directors are not aware of any potential technological threats to the Q-switch.

Instruments

The instruments business, OLI, is based in Florida and was acquired in 1995. OLI's business may be classfied under three headings: light measurement equipment, calibration standards and light measurement services. These are related, in that all three are necessary to provide coverage of the existing and future customer base.

Primarily, OLI manufactures highly accurate instruments for the measurement of optical radiation. OLI's range of instrumentation may be grouped in three sub-classes: broadband radiometers, which provide specific intensity information over a wide range of wavelengths; spectroradiometers, which measure the intensity of light at different parts of the spectrum; and photometers, which measure visible light as would be perceived by the human eye.

In addition, OLI manufactures "standards" (for example, a radiating source whose radiant output and geometrical properties are known) used to calibrate optical radiation equipment and it performs calibration services on customers' behalf.

The manufacture of standards and the provision of calibration services together account for approximately 35 per cent. of OLI's turnover with instrumentation sales accounting for the balance.

Applications

Sunlight and lamp hazard assessment: to assess, for instance, sunburn and cancer risks from sunlight and tanning booths.

Lamp and lighting assessment: from measuring the luminosity of light bulbs to measuring the levels of illumination in workplaces and public places.

Scientific research: measuring the response of equipment used in satellites and space probes, and the measurement of new light sources or materials.

Characterisation of displays: measuring the optical characteristics of television sets, computer monitors, LCD and LED displays.

Materials: for example, measuring the reflectance of paint to different wavelengths of light (including ultra-violet, visible and infra-red wavelengths).

Markets

The market for OLI's products is international with approximately 30 per cent. of its turnover coming from sales generated outside the United States. OLI makes direct sales outside the US and is represented through distributors in many countries. To its customers, the purchase of OLI's instruments typically represents an item of capital expenditure and therefore OLI has a low level of repeat sales. Customers have included Westinghouse Inc. for the measurement of light emissions in the manufacture of light bulbs, NASA for the calibration of equipment used on satellites and General Electric for monitoring light emissions in jet exhausts.

Competition

OLI is well regarded for precision and accuracy in the measurement of optical radiation. Its position in the market is strengthened by the Company's ability to offer calibration standards and services traceable to internationally accepted standards. Its engineering team enables continuous product improvements to maintain the Company's market position.

Research and Development

The Directors believe that the past and continuing success of the Group is due in part to G&H's willingness to undertake innovative research and development projects.

The Company's R&D department includes four graduate physicists and is responsible for investigating new technologies, designing new acousto-optic and optical products and providing general product support. Its development efforts have been strengthened by collaboration with leading academic and industrial organisations and have benefited from a number of government funded research and development schemes.

At OLI research and development is performed by the engineering department which carries out instrument, electronics and software design and development, in addition to production engineering and product support.

Property

The Group operates from two locations. The Company occupies freehold properties of approximately 25,000 square feet located in the centre of Ilminster, Somerset. OLI currently occupies a freehold property of approximately 11,000 square feet and an adjoining rental property of approximately 4,000 square feet. The Group is currently building a new 25,000 square feet factory in Orlando to replace the existing US premises, which is expected to be completed before January 1998.

Directors, Management and Employees

G&H benefits from an experienced and committed team of directors, managers and highly skilled employees.

Directors

The executive Directors are:

Archie Gooch - Executive Chairman, aged 80. Archie has a lifetime of experience of optical engineering. Having initially trained in optical engineering with Barr & Stroud he left to join Standard Telephones & Cables in the 1940's. During this time he studied crystallography. Following the Second World War, Archie founded the business that constitutes G&H with Leslie Housego and has been largely responsible for the development of the business to date. In 1994 he was awarded the MBE for services to industry and technological achievement.

Gareth Jones - Managing Director, aged 41, BSc (Hons) (Physics), Associate of the Royal College of Science, Member of the Institute of Physics and former member of the SERC Advanced Devices and Materials Committee. He joined the Company in 1978 to work on ultrasonic delay lines and, later, other optical devices. Appointed Technical Director in 1986 with overall responsibility for Research and Development, he has managed a Teaching Company Scheme, three DTI funded LINK projects and other collaborative research and development projects. He was appointed Managing Director in 1995.

William (Bill) E Schneider - President OLI, aged 62, BSc (Physics), MSc (Measurement Science). He joined the US National Institute of Standards and Technology in 1961, and co-founded OLI in 1970. In addition to running OLI, he has published numerous papers relating to the measurement of optical radiation and has been active with the US Council for Optical Radiation Measurements, of which he has been a director for more than 10 years.

Tony Heals - Finance Director, aged 48. He joined the Company in 1967 as assistant company secretary and was appointed company secretary in 1973. In 1977 he was made Finance Director and appointed to the Board.

David Irish - Operations Director, aged 56. David joined the Company in 1968 as a technical assistant and has since attained an HNC in Mechanical and Electrical Engineering. He became a Director in 1973 and was appointed Managing Director in 1982. In 1995 he decided to focus his expertise in method study by taking responsibility for special projects in the core business and working as Operations Director.

Heather Virgin - Management and Personnel Director, aged 52. Heather is a graduate of the Institute of Personnel Management and holds a diploma in Personnel Management from the University of the West of England. She was appointed to the Board in 1983 and has since had responsibility for the personnel and training functions of the Company. She is also responsible for ISO 9002 implementation. Heather is Archie Gooch's only daughter.

Jan Melles - Non-executive Director, aged 57. A Dutch citizen, he holds a BS/EE from the Higher Maritime College in Amsterdam. Currently he is President and sole owner of Photonics Investments BV. He also holds a number of other directorships in the USA and Europe. Formerly, he was a specialist optical engineer and chairman and chief executive of Melles Griot, a subsidiary of J. Bibby & Sons plc. Jan was appointed in June 1997.

Andrew Davison - Non-Executive Director, aged 55. Andrew qualified as a Chartered Accountant in 1969. He spent fifteen years at County Bank, where he was made a director in 1980. In 1985 he set up County Bank's venture capital arm and was its managing director until 1987. Since that time he has held a number of executive and non-executive directorships of both public and private companies. His current non-executive directorships include Holliday Chemical Holdings PLC, Brooks Service Group Plc and The Emerging Markets Country Investment Trust plc. He was appointed as a non-executive Director of the Group in November 1997.

Employees

As at 30 September 1997 the Group employed 131 staff, organised into functions as shown below:

Function	G&H	OLI	Total number of staff
Operations	62	25	87
Sales	2	5	7
Research & Development	4	9	13
Finance	4	2	6
Management services/administration	14	4	18
	86	45	131

Employee Share Trust

An employee share trust for employees has been established specifically for the flotation. The trust will acquire, outside the Placing, a total of 84,290 Ordinary Shares at the Placing Price and will distribute these shares to employees or sell them at the Placing Price. Further information is set out in paragraph 6 of Part III.

The Directors will consider whether to introduce an employee share option scheme after flotation and will submit any proposals to Shareholders for approval.

Corporate Governance

The Directors intend to comply with the code of Best Practice published by the Committee on the Financial Aspects of Corporate Governance, in so far as this is practicable and appropriate for a relatively small public company. The Company also proposes to follow the recommendations on corporate governance of the City Group for Smaller Companies (CISCO).

The Company intends to hold at least six Board meetings at regular intervals during the year at which reports (including financial reports) for OLI and any other subsidiaries will be considered. The Board is responsible for formulating, reviewing and approving group strategy, budgets, major items of capital expenditure and acquisitions.

The Audit Committee consists of the non-executive Directors of the Company. It will meet whenever there is business to discuss and at least twice each year. The Audit Committee is responsible for ensuring that the financial performance of the Group is properly monitored, controlled and reported on. It will also meet the auditors without executive Board members being present and review reports from the auditors relating to accounts and internal control systems.

The Remuneration Committee, which consists of the two non-executive Directors and the Chairman, will review the performance of executive Directors and set the scale and structure of their remuneration and the basis of their service agreements with due regard to the interests of Shareholders. The Remuneration Committee will also make recommendations to the full Board concerning the allocation of share options to employees. No Director will be permitted to participate in discussions or decisions concerning his own remuneration.

Financial Record

A summary of the financial record of the Group for the three years ended 30 September 1997 is set out below. The summary is extracted from the Accountants' Report on the Group as set out in Part II of this document.

	Financial year ended		
	30 September 1997 £'000	30 September 1996 £'000	30 September 1995 £'000
Turnover			
G&H	4,000	3,214	2,540
OLI	2,718	2,737	—
Total Group	6,718	5,951	2,540
Operating profit			
G&H	1,179	841	517
OLI	321	337	—
Total Group	1,500	1,178	517
Profit before taxation			
G&H	1,262	772	542
OLI	314	287	—
Total Group	1,576	1,059	542

The profit before taxation for the year ended 30 September 1997 includes an exceptional gain of £148,724.

The increase in G&H's turnover and profits in the years ended 30 September 1996 and 1997 is principally due to the increase in the number of sales of Q-switches. The market for OLI's products remained flat during the period under review. OLI nonetheless increased its trading profit margin but this has not been reflected in operating profits because of development costs, which have been written off.

Current Trading and Prospects

Trading in the current financial year is satisfactory and in accordance with the Directors' expectations. With only two months elapsed, it is too early for the Directors to make judgements about the year as a whole; but the Group's order book is strong and the acousto-optic division, in particular, has had a good start to the year.

Precision optics and glass engineering

The Directors expect the market for precision optics and glass engineering to continue to grow and believe that the Company is well-positioned to exploit this growth.

In addition, growth will be assisted by investment in advanced manufacturing equipment, which should increase capacity and improve competitiveness.

Acousto-optics

The value of Q-switch sales increased by over 60 per cent. during the last financial year. This was due in part to the withdrawal from the market of G&H's main competitor, but it was also due to an increase in the use of Q-switched lasers. The Directors believe that, as the installed base of Q-switches grows, so will the ongoing market for spares and replacements.

Increasing sophistication and stringent regulatory requirements on RF emissions have created the demand for a new generation of compact, efficient and compliant RF drivers. OLI has co-licensed a potentially important US patent (the other licensee is the Group's former Q-switch competitor) relating to its drivers which leaves it well placed to satisfy this demand.

Sales of acousto-optic modulators are expected to remain steady, while frequency shifters and deflectors are expected to show more significant growth as the technology becomes more widely adopted.

For the longer term, the Company has a number of acousto-optic devices in development, with potential applications in telecommunications, industrial process monitoring and product coding.

Instruments

The Directors anticipate growth in OLI's business as a result of combining its existing instrumentation business with the manufacture of RF drivers and other products to be developed with the Company, exploiting the complementary knowledge and skills of G&H and OLI.

Dividend Policy

The Directors intend to pursue a progressive dividend policy in line with the Group's achieved rate of growth in earnings over time, and to pay interim and final dividends in July and February respectively. It is currently intended that the first dividend will be payable in July 1998 as an interim dividend.

If the Ordinary Shares had been traded on AIM for the whole of the year ended 30 September 1997, the Directors would have expected to recommend dividends in respect of the year equivalent to 1.47p per share, representing a gross yield of 1.75 per cent. at the Placing Price.

Reasons for Admission to AIM and the Placing

Capital raised from the Placing will finance the Group's immediate development plans which include the construction of the new facility in Orlando for OLI and further investment in computerised machinery. In addition, the Directors believe that the Placing and Admission will provide greater flexibility for financing the future development of the Group, will raise the profile of the Company and will enhance its reputation with its customers and suppliers. The Placing will also permit the Directors to realise some of their interest in the Company.

Details of the Placing and Director's Interests

The Placing Shares are being placed by Sutherlands with institutional or other investors and will represent approximately 33.3 per cent. of the enlarged issued ordinary share capital of the Company following the Placing. In the Placing, the Company will issue 1,904,762 new Ordinary Shares at 105p per share, payable in full, to raise approximately £1.5 million (net of expenses). The new Ordinary Shares will rank *pari passu* in all respects with the existing Ordinary Shares. WE Schneider, AJ Davison and JA Melles will subscribe for 47,619, 10,000 and 10,000 Ordinary Shares respectively in or in connection with the Placing. In addition, certain Directors are selling in aggregate 3,725,234 Ordinary Shares as part of the Placing, realising £3.9 million in total. Further details of the Placing Agreement are set out in paragraph 10(e) of Part III of this document.

Following Admission, the Directors will be interested in 11,257,495 Ordinary Shares, representing approximately 66.6 per cent. of the enlarged issued ordinary share capital of the Company. The Directors have given undertakings, subject to certain limited circumstances, not to dispose of any of those shareholdings prior to the announcement of the Company's preliminary results for the year ending 30 September 1998 without the prior written consent of Sutherlands. These and other undertakings are summarised in paragraph 7(f) of Part III of this document.

All the Ordinary Shares will be in registered form and no temporary documents of title will be issued. The Company has applied for the Ordinary Shares to be admitted to CREST (as described in paragraph 5(r) of Part III of this document) and it is expected that the Ordinary Shares will be so admitted and accordingly enabled for settlement in CREST on the date of Admission. It is expected that Admission will become effective and that dealings in the Ordinary Shares will commence on 12 December 1997.

Price Waterhouse

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The Directors
Gooch & Housego PLC
Cornhill
ILMINSTER
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and

Price Waterhouse Corporate Finance
No1 London Bridge
LONDON
SE1 9QL

5 December 1997

Dear Sirs

GOOCH & HOUSEGO PLC

We have examined the audited financial statements of Gooch & Housego Plc and its subsidiary ("the Group") for the three years ended 30 September 1997. Parker Cavendish & Co were auditors for the years to 30 September 1995 and 1996 and we have acted as auditors for the year ended 30 September 1997. The financial information set out in this report has been prepared from those financial statements to which no adjustments were considered necessary. Our work has been carried out in accordance with the Auditing Guideline 'Prospectuses and the Reporting Accountant'.

In our opinion the financial information set out on pages 18 to 32 gives a true and fair view of the profit and cash flows of the Group for each of the years stated and of the state of affairs of the Group at the dates stated.

CONSOLIDATED PROFIT AND LOSS ACCOUNTS

	Note	Year ended 30 September 1997 £	1996 £	1995 £
Turnover	2	**6,717,958**	5,951,141	2,539,925
Changes in stocks of finished goods and work in progress		50,662	(20,580)	52,209
Other operating income	3	128,102	112,086	82,969
Raw materials and consumables		(1,498,178)	(1,429,882)	(657,648)
Other external charges		(396,048)	(368,295)	(76,721)
Staff costs	4	(2,618,231)	(2,423,160)	(1,105,421)
Depreciation		(240,821)	(165,071)	(113,379)
Other operating charges		(643,567)	(477,847)	(204,735)
Operating profit	6	1,499,877	1,178,392	517,199
Exceptional item:				
Profit on disposal of fixed assets	7	148,724	—	—
Profit on ordinary activities before interest		1,648,601	1,178,392	517,199
Other interest receivable and similar income	9	7,425	11,784	27,268
Interest payable and similar charges	10	(80,150)	(131,044)	(1,976)
Profit on ordinary activities before taxation		1,575,876	1,059,132	542,491
Tax on profit on ordinary activities	11	(464,825)	(355,249)	(154,000)
Profit on ordinary activities after taxation	21	1,111,051	703,883	388,491
Dividends on equity shares	12	(51,480)	(23,400)	(16,380)
Retained profit for the financial year		1,059,571	680,483	372,111
Earnings per £1 ordinary share	13	237	150	83

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Year ended 30 September 1997 £	1996 £	1995 £
Profit for the financial year	1,111,051	703,853	388,491
Currency translation differences on foreign currency net investments	(33,618)	—	—
Total recognised gains and losses for the financial year	1,077,433	703,853	388,491

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

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Year ended 30 September 1997 £	1996 £	1995 £
Profit on ordinary activities after taxation	1,111,051	703,883	388,491
Dividends	(51,480)	(23,400)	(16,380)
	1,059,571	680,483	372,111
Goodwill written off	—	(1,335,011)	—
Other recognised gains and losses	(33,618)	—	—
Net addition to/(reduction in) shareholders' funds	1,025,953	(654,528)	372,111
Opening shareholders' funds	1,847,637	2,502,165	2,130,054
Closing shareholders' funds	2,873,590	1,847,637	2,502,165

CONSOLIDATED BALANCE SHEETS

	Note	30 September 1997 £	1996 £	1995 £
FIXED ASSETS				
Intangible assets	14	5,380	6,452	—
Tangible assets	15	2,174,624	1,608,192	1,305,269
		2,180,004	1,614,644	1,305,269
CURRENT ASSETS				
Stocks	16	834,747	727,325	245,856
Debtors	17	1,659,489	1,245,111	781,254
Cash at bank and in hand		277,992	109,653	634,230
TOTAL CURRENT ASSETS		2,772,228	2,082,089	1,661,340
CREDITORS: amounts falling due within one year	18	(1,530,900)	(1,117,252)	(464,444)
NET CURRENT ASSETS		1,241,328	964,837	1,196,896
TOTAL ASSETS LESS CURRENT LIABILITIES		3,421,332	2,579,481	2,502,165
CREDITORS: Amounts falling due after more than one year	19	(547,742)	(731,844)	—
NET ASSETS		2,873,590	1,847,637	2,502,165
CAPITAL AND RESERVES				
Called up share capital	20	4,680	4,680	4,680
Revaluation reserve	21	307,710	307,710	307,710
Goodwill reserve	21	(1,335,011)	(1,335,011)	—
Profit and loss account	21	3,896,211	2,870,258	2,189,775
EQUITY SHAREHOLDERS' FUNDS		2,873,590	1,847,637	2,502,165

CONSOLIDATED CASH FLOW STATEMENTS

	Note	Year ended 30 September 1997 £	1996 £	1995 £
Cash flow from operating activities	i	1,639,907	901,761	534,288
Returns on investments and servicing of finance				
Interest received		7,425	11,784	27,268
Interest paid		(70,944)	(129,215)	(1,976)
Interest element of hire purchase contracts		(7,320)	(1,829)	—
Net cash (outflow)/inflow from returns on investments and servicing of finance		(70,839)	(119,260)	25,292
Taxation				
UK tax paid		(252,340)	(154,284)	(155,910)
Overseas tax paid		(128,389)	(90,580)	—
Cash outflow from taxation		(380,729)	(244,864)	(155,910)
Capital expenditure and financial investment				
Acquisition of subsidiary	v	—	(1,869,196)	—
Purchase of tangible fixed assets		(898,831)	(144,562)	(152,000)
Sale of tangible fixed assets		—	36,542	8,605
Net cash outflow from capital expenditure and financial investment		(898,831)	(1,977,216)	(143,395)
Equity dividends paid		(25,740)	(23,400)	(16,380)
Net cash inflow/(outflow) before financing		263,768	(1,462,979)	243,895
Financing				
Secured bank loan		—	1,019,355	—
Inception of hire purchase contracts		76,210	22,774	—
Repayment of bank loan		(232,802)	(101,935)	—
Hire purchase repayment		(27,207)	(1,792)	—
Net cash (outflow)/inflow from financing		(183,799)	938,402	—
Increase/(decrease) in cash in the year	iii	79,969	(524,577)	243,895

i Reconciliation of operating profit to operating cash flows

	Year ended 30 September		
	1997	1996	1995
	£	£	£
Operating profit	1,499,877	1,178,392	517,199
Exceptional item (note 7)	148,724	—	—
Depreciation	262,391	165,071	113,379
Profit on sale of fixed assets	—	(7,111)	(2,034)
Loss on disposal of assets damaged in fire	39,513	—	—
(Increase)/decrease in stock	(122,431)	14,556	(41,970)
(Increase)/decrease in debtors	(281,722)	(92,989)	(155,645)
Increase/(decrease) in creditors	93,555	(356,158)	103,359
Net cash inflow from operating activities	1,639,907	901,761	534,288

ii Cash flow relating to exceptional items

The operating cash inflows in the year ended 30 September 1997 include a cash inflow of £231,855 received from the Company's insurers following a fire in the Ilminster factory (note 7).

iii Reconciliation of net cash flow to movement in net debt

	Year ended 30 September		
	1997	1996	1995
	£	£	£
Increase/(decrease) in cash in the year	79,969	(524,577)	243,895
Cash outflow from decrease in debt and lease financing	260,009	(915,628)	—
Changes in net debt resulting from cashflow	339,978	(1,440,205)	243,895
New finance leases	(76,210)	(22,774)	—
Translation difference	(3,470)	—	—
Movement in net debt in the year	260,298	(1,462,979)	243,895
Net debt at 1 October 1996	(828,749)	634,230	390,335
Net debt at 30 September 1997	(568,451)	(828,749)	634,230

NOTES TO THE CASH FLOW STATEMENTS (continued)

iv Analysis of net debt

(a) Year ended 30 September 1997

	At 1 October 1996	Cash flow	Other non cash changes	Exchange movement	At 30 September 1997
Cash in hand at bank	109,653	171,809	—	(3,470)	277,992
Overdrafts	—	(91,840)	—	—	(91,840)
		79,969			
Debt due after 1 year	(713,550)	224,537	—	—	(489,013)
Debt due within 1 year	(203,870)	8,265	—	—	(195,605)
Hire purchase	(20,982)	27,207	(76,210)	—	(69,985)
		260,009			
Total	(828,749)	339,978	(76,210)	(3,470)	(568,451)

(b) Year ended 30 September 1996

	At 1 October 1995	Cash flow	Other non cash changes	Exchange movement	At 30 September 1996
Cash in hand at bank	634,230	(524,577)	—	—	109,653
Debt due after 1 year	—	(713,550)		—	(713,550)
Debt due within 1 year	—	(203,870)		—	(203,870)
Hire purchase	—	1,792	(22,774)	—	(20,982)
		(915,628)			
Total	634,230	(1,440,205)	(22,774)	—	(828,749)

(c) Year ended 30 September 1995

	At 1 October 1994	Cash flow	Other non cash changes	Exchange movement	At 30 September 1995
Cash in hand at bank	390,335	243,895	—	—	634,230

v Acquisition of subsidiary undertaking

	Year ended 30 September		
	1997 £	1996 £	1995 £
Cost of acquisition (note 25)			
Tangible fixed assets	—	374,441	—
Investments	—	24,387	—
Stocks	—	496,025	—
Debtors	—	331,355	—
Cash and cash equivalents	—	75,903	—
Creditors	—	(692,023)	—
	—	610,088	—
Goodwill	—	1,335,011	—
Cost of acquisition	—	1,945,099	—
Consideration			
Cash outflow on acquisition	—	1,869,196	—
Cash and cash equivalents acquired	—	75,903	—
	—	1,945,099	—

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

Accounting Convention

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

Consolidation

The consolidated financial statements deal with the results and the state of affairs of the Group. The profits of the subsidiary company are included from the date of acquisition. Goodwill arising on consolidation, being the excess of the purchase price over the fair value of the net assets at the date of acquisition, is written off against reserves.

Turnover

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

Fixed assets

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

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

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

No depreciation is charged on freehold land.

From 1 October 1996 certain of the depreciation rates were revised from reducing balance to straight line (note 8).

Stocks and Work in Progress

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

Deferred Taxation

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

Pension Schemes

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

Research and Development

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

Grants Receivable

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

Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates ruling at the balance sheet date. The results of the overseas subsidiary are translated into sterling at the average rates of exchange prevailing during the year. Exchange differences arising on consolidation are taken to reserves. Exchange differences which arise on the settlement of other transactions and on the translation of other monetary assets and liabilities are dealt with in the profit and loss account.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Leased Assets

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

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

Intangible assets

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

2 TURNOVER AND SEGMENTAL ANALYSIS

The turnover and profit before taxation is attributable to the principal activity of the group. The analysis of turnover by destination is as follows:—

	Year ended 30 September		
	1997	1996	1995
	£	£	£
United Kingdom	1,950,141	1,856,477	1,513,340
North America	3,129,448	2,737,336	408,320
Continental Europe	853,119	808,562	394,418
Other	785,250	548,766	223,847
	6,717,958	5,951,141	2,539,925

United Kingdom sales include indirect exports sold through UK based European agents amounting to £445,649 (1996: £402,928, 1995: £200,578).

An analysis of the Group's financial performance is as follows:

	Year ended 30 September		
	1997	1996	1995
	£	£	£
Turnover			
G&H	4,000,248	3,214,497	2,539,925
OLI	2,717,710	2,736,644	—
	6,717,958	5,951,141	2,539,925
Operating profit			
G&H	1,178,907	841,234	517,199
OLI	320,970	337,158	—
	1,499,877	1,178,392	517,199
Profit before taxation			
G&H	1,261,998	772,271	542,491
OLI	313,878	286,861	—
	1,575,876	1,059,132	542,491

3 OTHER OPERATING INCOME

	Year ended 30 September		
	1997	1996	1995
	£	£	£
Grants receivable	84,363	88,890	68,111
Profit on sales of assets	—	7,111	2,034
Exchange rate gains	23,828	1,252	—
Other income	19,911	14,833	12,824
	128,102	112,086	82,969

4 STAFF COSTS

	Year ended 30 September		
	1997	1996	1995
	£	£	£
Wages and salaries	2,368,705	2,164,751	960,581
Social security costs	200,270	184,664	89,663
Other pension costs	77,879	73,745	55,177
	2,646,854	2,423,160	1,105,421
Charged to:			
— Exceptional item (note 7)	(28,623)	—	—
— Staff costs	2,618,231	2,423,160	1,105,421

The average number of employees during each year were:

	Year ended 30 September		
	1997	1996	1995
	£	£	£
Manufacturing	90	83	48
Administration	35	36	20
	125	119	68

5 DIRECTORS' EMOLUMENTS

	Year ended 30 September		
	1997	1996	1995
	£	£	£
Directors' remuneration	279,708	225,407	157,284
Directors' pension scheme	30,150	28,379	25,888

The number of directors who are accruing retirement benefits under a money purchase pension scheme is 5 (1996: 5, 1995: 5).

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

The remuneration of the highest paid director was £89,973 (1996: £81,088, 1995: £51,336) and pension contributions made on behalf of that director by the Group to the money purchase scheme amounted to £1,148 (1996: £1,083, 1995: £Nil).

NOTES TO THE FINANCIAL STATEMENTS (continued)

6 OPERATING PROFIT

	Year ended 30 September		
	1997	1996	1995
	£	£	£
Is stated after charging:			
Amortisation of licences	810	—	—
Depreciation (notes 8 & 15)	240,011	165,071	113,379
Auditors' remuneration - audit of the Group	23,000	24,667	15,000
- non-audit services	6,426	6,808	—
Research and development costs	544,122	643,300	214,104
Operating lease rental of plant and machinery	7,105	3,355	3,111

Included within auditors remuneration for the audit of the Group are fees for the audit of the Company of £15,000, (1996 £15,000, 1995 £15,000).

In addition to the above, fees amounting to £75,000 were paid to the auditors in the year ended 30 September 1997 in connection with the flotation of the Company. These fees have not been charged in the profit and loss account.

7 EXCEPTIONAL ITEM

A fire occurred in the Ilminster factory on 10 September 1996. Fixed assets with a book value of £39,513 were destroyed or badly damaged, and were transferred to current assets as at 30 September 1996.

The exceptional item, which is the profit arising from the disposal of the fixed assets, after charging incremental costs, is as follows:

	£
Proceeds from insurance company for the replacement of fixed assets destroyed or badly damaged and incremental cost of disruption	231,855
Net book value of fixed assets destroyed	(39,513)
Staff costs (note 4)	(28,623)
Costs of replacing tools	(14,995)
	148,724

8 DEPRECIATION CHARGE

As required by SSAP 12, the Directors regularly review the estimated useful lives of fixed assets. In the year ended 30 September 1997 the Directors have changed the depreciation method from the start of that financial year from a reducing balance basis to a straight line basis for certain classes of assets. The directors consider that this will result in a fairer spread of the depreciation charge over the life of the asset. A comparison of the depreciation rates is listed below:

	Old basis	New basis
Plant and machinery	15% reducing balance	10% straight line
Computer equipment (included in plant and machinery)	15% reducing balance	25% straight line
Fixtures and fittings	15% reducing balance	10% straight line

The effect of this change is not material to the profit and loss account. Under the previous method of calculation the charge for depreciation for the year ended 30 September 1997 would have been £5,233 lower.

9 OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	Year ended 30 September		
	1997	1996	1995
	£	£	£
Bank deposit interest	7,425	11,784	27,268

10 INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 30 September		
	1997	1996	1995
	£	£	£
Bank loans and overdraft interest	72,830	92,159	1,976
Hire purchase interest	7,320	1,829	—
Other interest	—	37,056	—
	80,150	131,044	1,976

11 TAXATION

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

	Year ended 30 September		
	1997	1996	1995
	£	£	£
Current year			
UK corporation tax	346,426	250,000	154,000
Overseas taxation	112,484	105,249	—
	458,910	355,249	154,000
Prior year			
UK corporation tax	3,829	—	—
Overseas taxation	2,086	—	—
	464,825	355,249	154,000

Due to the planned level of capital expenditure the directors do not consider it necessary to provide for deferred taxation. The maximum possible liability calculated at 31 per cent. (1996: 33 per cent., 1995: 33 per cent.) is:

	Year ended 30 September		
	1997	1996	1995
	Potential Liability	Potential Liability	Potential Liability
Accelerated Capital allowances	102,894	102,000	94,500
Other	29,846	—	—
	132,740	102,000	94,500

12 DIVIDENDS

	Year ended 30 September		
	1997	1996	1995
	£	£	£
Interim dividend paid	25,740	23,400	16,380
Final dividend proposed	25,740	—	—
	51,480	23,400	16,380
Total dividend per ordinary share	11.00	5.00	3.50

13 EARNINGS PER SHARE

The calculation of earnings per £1 Ordinary Share is based on the profit on ordinary activities after taxation for each period using as a divisor the weighted average number of Ordinary Shares in issue during the period.

NOTES TO THE FINANCIAL STATEMENTS (continued)

14 INTANGIBLE ASSETS

Licences

	30 September		
	1997	1996	1995
	£	£	£
Cost			
At the start of the year	6,452	—	—
Acquisition of subsidiary	—	6,452	—
Exchange rate variations	(262)	—	—
At 30 September	6,190	6,452	—
Amortisation			
At the start of the year	—	—	—
Charge for year	810	—	—
At 30 September	810	—	—
Net Book value			
At 30 September	5,380	6,452	—

15 TANGIBLE FIXED ASSETS

	Plant and machinery £	Fixtures & fittings £	Assets in the course of construction £	Freehold land and buildings £	Motor vehicles £	Total £
Cost or valuation						
At 1 October 1994	1,010,954	61,372	—	820,428	85,434	1,978,188
Additions	102,021	21,919	—	—	28,060	152,000
Disposals	—	—	—	—	(23,829)	(23,829)
At 1 October 1995	1,112,975	83,291	—	820,428	89,665	2,106,359
Acquisition of subsidiary	318,622	244,149	—	286,927	—	849,698
Additions	76,149	14,127	—	—	47,834	138,110
Disposals	—	—	—	—	(31,704)	(31,704)
Assets awaiting disposal	(118,956)	—	—	—	—	(118,956)
At 1 October 1996	1,388,790	341,567	—	1,107,355	105,795	2,943,507
Additions	522,652	26,301	443,031	433	41,828	1,034,245
Disposals	—	—	—	—	(34,834)	(34,834)
Transferred to current assets	—	—	—	(232,041)	—	(232,041)
Exchange rate variation	(15,184)	(10,074)	—	(11,632)	—	(36,890)
At 30 September 1997	1,896,258	357,794	443,031	864,115	112,789	3,673,987
Depreciation						
At 1 October 1994	570,999	40,396	—	36,409	57,165	704,969
Charge for the year	81,296	6,434	—	13,209	12,440	113,379
Disposals	—	—	—	—	(17,258)	(17,258)
At 1 October 1995	652,295	46,830	—	49,618	52,347	801,090
Acquisition of subsidiary	198,941	220,594	—	55,722	—	475,257
Charge for the year	112,162	16,665	—	20,205	16,039	165,071
Disposals	—	—	—	—	(26,660)	(26,660)
Assets awaiting disposal	(79,443)	—	—	—	—	(79,443)
At 1 October 1996	883,955	284,089	—	125,545	41,726	1,335,315
Charge for the year	183,208	17,315	—	20,534	18,954	240,011
Disposals	—	—	—	—	(6,411)	(6,411)
Transferred to current assets	—	—	—	(47,982)	—	(47,982)
Exchange rate variation	(9,689)	(9,338)	—	(2,543)	—	(21,570)
At 30 September 1997	1,057,474	292,066	—	95,554	54,269	1,499,363
Net book value						
At 30 September 1997	838,784	65,728	443,031	768,561	58,520	2,174,624
At 30 September 1996	504,835	57,478	—	981,810	64,069	1,608,192
At 30 September 1995	460,680	36,461	—	770,810	37,318	1,305,269

A factory is currently under the course of construction in Orlando, Florida in the USA. On completion, OLI will occupy the premises. The present premises which OLI occupies will then be sold, and have been shown in current assets as property held for resale as management believe the property will be sold within twelve months.

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

There is no material difference between the annual depreciation charge on the revalued property from what would have been the historical depreciation charge.

NOTES TO THE FINANCIAL STATEMENTS (continued)

15 TANGIBLE FIXED ASSETS (continued)

Included below are assets purchased under hire purchase agreements as follows:—

Motor vehicles

	30 September		
	1997	1996	1995
	£	£	£
Cost	41,828	34,835	—
Depreciation	(9,586)	(5,805)	—
Net book value	32,242	29,030	—

Plant and machinery

	30 September		
	1997	1996	1995
	£	£	£
Cost	46,787	—	—
Depreciation	(6,689)	—	—
Net book value	40,098	—	—

16 STOCK

	30 September		
	1997	1996	1995
	£	£	£
Raw material	503,944	415,550	124,260
Work in progress	175,221	112,582	79,341
Finished goods	155,582	199,193	42,255
	834,747	727,325	245,856

17 DEBTORS

	30 September		
	1997	1996	1995
	£	£	£
Trade debtors	1,347,654	1,141,739	729,345
Property held for resale (note 15)	184,059	—	—
Other debtors	16,205	89,493	34,725
Prepayments	111,571	13,879	17,184
	1,659,489	1,245,111	781,254

Included in other debtors at 30 September 1996 is an amount of £39,513 in respect of amounts due for an insurance claim made (note 7).

18 CREDITORS: amounts falling due within one year

	30 September		
	1997	1996	1995
	£	£	£
Bank loans and overdrafts	287,445	203,870	—
Trade creditors	313,592	221,091	165,123
Hire purchase creditor	11,256	2,688	—
Other creditors	142,607	61,800	69,722
Taxation	350,674	260,993	150,608
Social security	48,720	44,811	37,175
Accruals	350,866	321,999	41,816
Dividend proposed (note 12)	25,740	—	—
	1,530,900	1,117,252	464,444

19 CREDITORS: amounts falling due after more than one year

	30 September		
	1997	1996	1995
	£	£	£
Bank loan (US dollar loan)	489,013	713,550	—
Hire purchase creditor	58,729	18,294	—
	547,742	731,844	—

(i) The bank loan is secured by a fixed and floating charge over the group's assets. The amount outstanding at 30 September 1997 of £684,618 (1996: £917,420, 1995: £Nil) is repayable in half yearly instalments, plus interest, as follows:—

	30 September		
	1997	1996	1995
	£	£	£
Within 1 year (included in current liabilities)	195,605	203,870	—
Within 2 to 5 years	489,013	713,550	—

(ii) The hire purchase creditor is secured on the asset concerned and subordinated by the bank loan. The hire purchase creditor is payable as follows:—

	30 September		
	1997	1996	1995
	£	£	£
Within one year	11,256	2,688	—
Within 2 to 5 years	58,729	18,294	—

20 CALLED UP SHARE CAPITAL

	30 September		
	1997	1996	1995
	£	£	£
Authorised			
5,000 Ordinary Shares of £1 each	5,000	5,000	5,000
Allotted, issued and fully paid			
4,680 Ordinary Shares of £1 each	4,680	4,680	4,680

21 RESERVES

	Revaluation reserve	Goodwill reserve	Profit & loss reserve
	£	£	£
At 1 October 1994	307,710	—	1,817,664
Profit on ordinary activities after taxation	—	—	388,491
Dividends paid in year	—	—	(16,380)
At 1 October 1995	307,710	—	2,189,775
Goodwill arising on the acquisition of Optronic Laboratories	—	(1,335,011)	—
Profit on ordinary activities after taxation	—	—	703,883
Dividends paid in year	—	—	(23,400)
At 1 October 1996	307,710	(1,335,011)	2,870,258
Profit on ordinary activities after taxation	—	—	1,111,051
Other recognised gains and losses	—	—	(33,618)
Dividends in year	—	—	(51,480)
At 30 September 1997	307,710	(1,335,011)	3,896,211

NOTES TO THE FINANCIAL STATEMENTS (continued)

22 CAPITAL COMMITMENTS

	30 September		
	1997	1996	1995
	£	£	£
Authorised and contracted for but not provided	545,000	277,201	—

Included in Capital Commitments at 30 September 1996 were replacement machines, valued at approximately £200,000 the purchase of which was being funded by the company's insurers.

23 OPERATING LEASES

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

	30 September		
	1997	1996	1995
	Other	Other	Other
	£	£	£
Within one year	312	—	—
Between one and two years	2,024	—	—
Between two and five years	3,833	7,226	1,022
	6,169	7,226	1,022

24 POST BALANCE SHEET EVENTS

On 1 December 1997, the Company was re-registered as a public company.

25 ACQUISITIONS

On 28 October 1995 the Company acquired the whole of the issued share capital of OLI. This transaction has been accounted for as an acquisition. The net assets acquired and the goodwill arising on consolidation was as follows:

	Fair value of assets acquired 1996
	£
Tangible fixed assets	374,441
Investments	24,387
Stocks	496,025
Debtors	331,355
Cash and cash equivalents	75,903
Creditors	(692,023)
	610,088
Goodwill (written off to reserves in the year ended 30 September 1996)	1,335,011
Cost of acquisition	1,945,099

Prior to acquisition, OLI reported operating profits before taxation (under US "S" corporation tax accounting principles) for the period 1 January 1995 to 27 October 1995 of $130,385 on net sales of $3,405,490. Following the acquisition, the investments were sold at a loss of $7,828.

Yours faithfully

Price Waterhouse
Chartered Accountants

PART III ADDITIONAL INFORMATION

1. The Company

(a) The Company was incorporated in England and Wales on 12 December 1953 under the Companies Act 1948 as a private company limited by shares under the name Gooch and Housego Limited, and with registered number 526832. The Company was re-registered as a public company limited by shares on 1 December 1997. The Company operates under the Companies Act 1985 (as amended).

(b) The Company's registered and head office is The Old Magistrates Court, Ilminster, Somerset TA19 0AB.

(c) The liability of the Company is limited.

2. The Directors and responsibility statement

The Directors of the Company are:

Archibald William Charles Gooch	*Executive Chairman*
Gareth Colin Watson Jones	*Managing Director*
William Emil Schneider	*President OLI*
Anthony William Mark Heals	*Finance Director*
David Edwin Irish	*Operations Director*
Heather Cameron Virgin	*Personnel Director*
Jan Anne Melles	*Non-executive Director*
Andrew John Davison	*Non-executive Director*

all of The Old Magistrates Court, Ilminster, Somerset, TA19 0AB

To the best of the knowledge and belief of the Directors of Gooch & Housego PLC, whose names appear above (and who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information. The Directors accept responsibility accordingly.

3. Share capital

(a) On incorporation, the authorised share capital of the Company was £5,000 divided into 5,000 Ordinary Shares of £1 each.

By a resolution passed on 4 July 1955, 1000 Ordinary Shares of the Company were redesignated as 1000 6½ per cent Redeemable Cumulative Participating Preference Shares of £1 each.

By a resolution passed on 1 December 1962 the 1000 6½ per cent Redeemable Cumulative Participating Preference Shares were redesignated as "A" Ordinary Shares to rank *pari passu* in all respects with the existing ordinary shares of the Company.

By a resolution passed on 10 February 1971 the "A" Ordinary Shares were redesignated as Ordinary Shares.

(b) By resolutions passed at Extraordinary General Meetings of the Company held on 28 November 1997 and 3 December 1997:

(i) the Company resolved to re-register as a public limited company (and a certificate of re-registration as a public limited company was issued the same day);

(ii) the Company adopted conditionally on Admission new Articles of Association and amended its Memorandum of Association;

(iii) the authorised share capital of the Company was increased from £5000 to £3,600,000.

(iv) the Directors were generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 (as amended) (the "Act") to allot any authorised but unissued share capital of the Company for a period of up to 5 years from the date of such resolution;

(v) the Directors were empowered, pursuant to section 95 of the Act, to allot shares pursuant to the authority referred to in (iv) above at any time prior to the annual general meeting of the Company to be held in 1998 as if section 89(1) of the Act did not apply to such allotment provided the allotment is confined to the allotment of shares:

(a) for the purpose of the Placing;

(b) to existing members by way of rights, open offer, scrip or bonus issue;

(c) otherwise than above up to an aggregate nominal amount equal to 5 per cent. of the issued share capital of the Company following the Placing.

(vi) the sum of £2,995,200 out of the undistributed profits of the Company was capitalised and was appropriated to the holders of Ordinary Shares in the Company as 2,995,200 Ordinary shares of £1 each, rateably according to their holdings.

(vii) the 2,999,880 Ordinary Shares of £1 each in the Company were sub-divided into 14,999,400 Ordinary shares of £0.20 each.

(c) Immediately prior to the date of this document the issued share capital was £2,999,880 represented by 14,999,400 Ordinary Shares, all fully paid.

(d) After completion of the Placing, the authorised share capital of the Company will be £3,600,000 represented by 18,000,000 Ordinary Shares of which 16,904,162 will have been issued fully paid, or credited as fully paid and 1,095,838 Ordinary Shares will be unissued (representing 6.1 per cent. of the authorised share capital). The rights attached to the Ordinary Shares are summarised in paragraph 5 below.

(e) No share or loan capital of the Company or any of its subsidiaries which is proposed to be issued is under option or is agreed to be put under option. As set down in the Articles, there is no restriction on the free transferability of the Company's share capital or loan capital and no person has any preferential subscription rights for any authorised but unissued shares.

(f) The Company has no outstanding convertible debt securities or exchangeable debt securities with warrants.

(g) Save in respect of the persons listed in paragraph 7(b) below, following the Placing, there are no persons known to the Company who, directly or indirectly, jointly or severally, exercise or could exercise control over the Company.

(h) Save in respect of those persons listed in paragraph 7(b) below, the Directors are not aware of any person who is interested in 3 per cent. or more of the issued Ordinary Share capital of the Company.

4. The Subsidiary

(a) The Company is the ultimate holding company of the Group.

(b) The Company has one wholly owned subsidiary company, OLI, a company incorporated in the State of Florida, in the United States of America.

OLI has an authorised share capital of 1000 shares of $1 each and an issued and outstanding (but fully paid up) share capital of $200 comprising 200 shares of $1.

5. Memorandum and articles of association

The Memorandum of Association of the Company (as altered conditionally on Admission) provides that the Company's principal objects are to carry on business as a general commercial company and to act as a holding company. The objects of the Company are set out in full in clause 4 of the Company's Memorandum of Association (as altered conditionally on Admission), which is available for inspection at the locations specified in paragraph 16 below.

The Articles of Association of the Company (the "Articles") were adopted pursuant to a special resolution of the Company passed on 28 November, 1997 conditionally on Admission and include provisions to the following effect:

(a) Voting rights

Subject to any special terms as to voting at a general meeting of the Company on which any shares may have been issued or may from time to time be held every member who is present in person (including any corporation present by its duly authorised representative) shall on a show of hands have one vote and every member present in person or by proxy shall on a poll have one vote for each share of which he is a holder. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders.

Unless the Board otherwise determines, no member is entitled to vote at a general meeting or at a separate meeting of the holders of any class of shares, either in person or by proxy, or to exercise any other right or privilege as a

member in respect of any share held by him unless all calls presently payable by him in respect of that share, whether alone or jointly with any other person, together with interest and expenses (if any) have been paid to the Company or if he, or any other person appearing to be interested in such shares, has been issued with a notice pursuant to section 212 of the Companies Act 1985 ("the Act") (requiring disclosure of interests in shares) and has failed in relation to any such shares to give the Company the information required by such notice within 14 days.

(b) Dividends

Subject to the provisions of the Act and of the Articles, the Company may by ordinary resolution declare dividends to be paid to members according to their respective rights and interests in the profits of the Company. However, no dividend shall exceed the amount recommended by the Board.

Subject to the provisions of the Act, the Board may declare and pay such interim dividends (including any dividend payable at a fixed rate) as appears to the Board to be justified by the profits of the Company available for distribution.

Except as otherwise provided by the rights attached to shares, all dividends shall be declared and paid according to the amounts paid up (otherwise than in advance of calls) on the shares on which the dividend is paid. All dividends unclaimed for a period of 12 years after having been declared or become due for payment shall (if the Board so resolves) be forfeited and shall cease to remain owing by the Company.

The Board may, with the authority of an ordinary resolution of the Company, direct that payment of any dividend declared may be satisfied wholly or partly by the distribution of assets, and in particular of paid up shares or debentures of any other company, or in any one or more of such ways.

The Board may also, with the prior authority of an ordinary resolution of the Company and subject to such conditions as the Board may determine, offer to Shareholders the right to elect to receive Ordinary Shares, credited as fully paid, instead of the whole (or some part, to be determined by the Board) of any dividend specified by the ordinary resolution.

Unless the Board otherwise determines, the payment of any dividend or other money that would otherwise be payable in respect of Ordinary Shares will be withheld if such shares represent at least 0.25 per cent. of their class and the holder, or any other person appearing to be interested in those shares, has been duly served with a notice under section 212 of the Act and has failed to supply the information required by such notice within 14 days. Furthermore such a holder shall not be entitled to elect to receive ordinary shares instead of a dividend.

(c) Distribution of assets on a winding-up

If the Company is wound up, the liquidator may, with the sanction of a special resolution of the Company and any other sanction required by law, divide among the members in specie the whole or any part of the assets of the Company and may, for that purpose, value any assets and determine how the dividend shall be carried out as between the members or vest the whole or any part of the assets in trustees on such trusts for the benefit of the members as he with the like sanction shall determine, but no member shall be compelled to accept any assets on which there is a liability.

(d) Transfer of shares

Every member may transfer all or any of his shares by instrument of transfer in writing in any usual form or in any form approved by the Board. Such instrument must be executed by or on behalf of the transferor and (in the case of a transfer of a share which is not fully paid up) by or on behalf of the transferee. The transferor is deemed to remain the holder until the transferee's name is entered in the register of members.

The Board may, in its absolute discretion and without giving any reason, refuse to register any transfer of a share or renunciation of a renounceable letter of allotment unless:

(i) it is in respect of a share which is fully paid up;

(ii) it is in respect of only one class of shares;

(iii) it is in favour of a single transferee or not more than four joint transferees;

(iv) it is duly stamped (if so required); and

(v) it is delivered for registration to the registered office for the time being of the Company or such other place as the Board may from time to time determine, accompanied (except in the case of a transfer by a recognised person (as defined in the Articles) where a certificate has not been issued or in the case of a renunciation) by

the certificate for the shares to which it relates and such other evidence as the Board may reasonably require to prove the title of the transferor or person renouncing and the due execution of the transfer or renunciation by him or, if the transfer or renunciation is executed by some other person on his behalf, the authority of that person to do so;

provided that the Board shall not refuse to register any transfer of partly paid shares which are listed on the grounds they are partly paid shares in circumstances where such refusal would prevent dealings in such shares from taking place on an open and proper basis.

Unless the Board otherwise determines, a transfer of shares will not be registered if the transferor or any other person appearing to be interested in the transferor's shares has been duly served with a notice under section 212 of the Act, has failed to supply the information required by such notice within 14 days and the shares in respect of which such notice has been served represent at least 0.25 per cent. of their class, unless the member is not himself in default as regards supplying the information required and proves to the satisfaction of the Board that no person in default as regards supplying such information is interested in any of the shares the subject of the transfer, or unless such transfer is by way of acceptance of a takeover offer, in consequence of a sale on a recognised stock exchange or a sale to an unconnected party.

(e) Variation of rights

If at any time the share capital of the Company is divided into shares of different classes, any of the rights for the time being attached to any share or class of shares in the Company may be varied or abrogated in such manner (if any) as may be provided by such rights or, in the absence of any such provision, either with the consent in writing of the holders of not less than three-quarters in nominal value of the issued shares of the class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of shares of the class. The quorum at any such meeting shall be not less than two persons holding or representing by proxy at least one-third of the nominal amount paid up on the issued shares of the class in question and at an adjourned meeting not less than one person holding shares of the class in question or his proxy.

Subject to the terms of issue of or rights attached to any shares, the rights or privileges attached to any class of shares shall be deemed not to be varied or abrogated by the creation or issue of any new shares ranking *pari passu* in all respects (save as to the date from which such new shares shall rank for dividend) with or subsequent to those already issued or by the reduction of the capital paid up on such shares or by the purchase or redemption by the Company of its own shares in accordance with the provisions of the Act and the Articles.

(f) Borrowing powers

The Board may exercise all the powers of the Company to borrow money and to mortgage or charge all or any part of its undertaking, property and assets (present and future) and uncalled capital and, subject to the provisions of the Act, to create and issue debenture and other loan stock and debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. The Board shall restrict the borrowings of the Company, and shall exercise all voting and other rights and powers of control exercisable by the Company in relation to its subsidiary undertakings, so as to procure (as far as it can in relation to its subsidiary undertakings) that the aggregate principal amount outstanding in respect of moneys borrowed by the Group does not at any time, without the previous sanction of an ordinary resolution of the Company, exceed a sum equal to three times the adjusted total of capital and reserves.

(g) Changes in capital

Subject to the provisions of the Act, the Company in general meeting may from time to time by ordinary resolution increase its share capital, consolidate and divide all or any of its share capital into shares of larger amount, cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled and sub-divide all or any of its shares into shares of smaller amount. The Company may also, subject to the provisions of the Act and to any rights for the time being attached to any shares, purchase its own shares and, by special resolution, reduce its share capital or any capital redemption reserve or any share premium account in any way.

(h) Issue of shares

Subject to the provisions of the Act and to any special rights for the time being attached to any shares, any shares may be allotted or issued with or have attached to them such preferred, deferred or other special rights or restrictions, whether in regard to dividend, voting, transfer, return of capital or otherwise, as the Company may from time to time by ordinary resolution determine or, if no such resolution has been passed or so far as the resolution does not make specific provision, as the Board may determine, and any share may be issued which is, or is liable to be, redeemed at the option of the Company or the holder in accordance with the Articles. Subject to the Act and to

any relevant authority of the Company in general meeting required by the provisions of the Act, the unissued shares at the date of adoption of the Articles and any shares created thereafter shall be at the disposal of the Board.

(i) Remuneration of Directors

The Directors (other than alternate Directors) shall be entitled to receive by way of fees for their services as Directors such sum as the Board may from time to time determine (not exceeding in aggregate £150,000 per annum or such other sum as the Company in general meeting shall from time to time determine). Such sum (unless otherwise directed by the resolution of the Company by which it is voted) shall be divided among the Directors in such proportions and in such manner as the Board may determine or, in default of such determination, equally.

The Directors are entitled to be repaid all travelling, hotel and other expenses properly incurred by them in or about the performance of their duties as Directors.

The salary or remuneration of any Director appointed to hold any employment or executive office may be either a fixed sum of money, or may altogether or in part be governed by business done or profits made or otherwise determined by the Board, and may be in addition to or in lieu of any fee payable to him for his services as Director.

(j) Pensions and gratuities for Directors

The Board may exercise all the powers of the Company to provide and maintain pensions, other retirement or superannuation benefits, death or disability benefits or other allowances or gratuities for persons who are or were directors of any company in the Group and their relatives or dependants.

(k) Directors' interests in contracts

Subject to the provisions of the Act and provided that his interest is disclosed at a meeting of the Board in accordance with the Articles, a Director, notwithstanding his office, may enter into or otherwise be interested in any contract, arrangement, transaction or proposal with the Company or in which the Company is otherwise interested, may hold any other office or place of profit under the Company (except that of auditor of the Company or of a subsidiary of the Company) in conjunction with the office of Director and may act by himself or through his firm in a professional capacity for the Company, and in any such case on such terms as to remuneration and otherwise as the Board may arrange, and may be a director or other officer of, or employed by, or a party to any transaction or arrangement with, or otherwise interested in, any company promoted by the Company or in which the Company is otherwise interested and shall not be liable to account to the Company for any profit, remuneration or other benefit realised by any such office, employment, contract, arrangement, transaction or proposal. No such contract, arrangement, transaction or proposal shall be avoided on the grounds of any such interest or benefit.

(l) Restrictions on Directors' voting

Save as provided in the Articles, a Director shall not vote on, or be counted in the quorum in relation to, any resolution of the Board or of a committee of the Board concerning any contract, arrangement, transaction or any other proposal whatsoever to which the Company is or is to be a party and in which he has an interest which (together with any interest of any person connected with him within the meaning of section 346 of the Act) is to his knowledge a material interest otherwise than by virtue of his interests in shares or debentures or other securities of or otherwise in or through the Company, unless the resolution concerns any of the following matters:

(i) the giving of any guarantee, security or indemnity in respect of money lent or obligations incurred by him or any other person at the request of or for the benefit of the Company or any of its subsidiary undertakings;

(ii) the giving of any guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;

(iii) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any of its subsidiary undertakings in which offer he is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which he is to participate;

(iv) any proposal concerning any other body corporate in which he (together with persons connected with him) does not to his knowledge have an interest (as the term is used in Part VI of the Act) in one per cent. or more of the issued equity share capital of any class of such body corporate or of the voting rights available to members of such body corporate;

(v) any proposal relating to an arrangement for the benefit of the employees of the Company or any of its subsidiary undertakings which does not award him any privilege or benefit not generally awarded to the employees to whom such arrangement relates; or

(vi) any proposal concerning insurance which the Company proposes to maintain or purchase for the benefit of Directors or for the benefit of persons who include Directors.

A Director shall not vote or be counted in the quorum on any resolution of the Board or committee of the Board concerning his own appointment (including fixing or varying the terms of his appointment or its termination) as the holder of any office or place of profit with the Company or any company in which the Company is interested.

(m) Age of Directors
The Articles do not require a Director to vacate his office on or by reason of his attaining or having attained the age of 70 and accordingly no special notice is required of any resolution appointing or approving the appointment of such a Director.

(n) Number of Directors
Unless and until otherwise determined by an ordinary resolution of the Company, the number of Directors shall be not less than 2 nor more than 12.

(o) Directors' appointment and retirement by rotation
Directors may be appointed by the Company by ordinary resolution or by the Board. If appointed by the Board, a Director holds office only until the next annual general meeting and shall not be taken into account in determining the number of Directors who are to retire by rotation. A director shall not be required to hold any shares in the Company.

At each annual general meeting of the Company one-third of the Directors who are subject to retirement by rotation will retire by rotation and be eligible for re-election. Subject to the Act and to the Articles, the Directors to retire will, first, be any Director who wishes to retire and not offer himself for re-election and secondly, will be those who have been longest in office since their last appointment or re-appointment, but as between those who have been in office an equal length of time, those to retire shall (unless they otherwise agree) be determined by lot.

(p) Untraced shareholders
Subject to the Articles, the Company may sell any shares in the Company registered in the name of a member remaining untraced for 12 years who fails to communicate with the Company following advertisement of an intention to make such a disposal. Until the Company can account to the member, the net proceeds of sale will be available for use in the business of the Company or for investment, in either case at the discretion of the Board. The proceeds will not carry interest.

(q) Non-United Kingdom shareholders
There are no limitations in the Articles on the rights of non-United Kingdom shareholders to hold, or to exercise voting rights attached to, the ordinary shares. However, non-United Kingdom shareholders are not entitled to receive notices of general meetings unless they have given an address in the United Kingdom to which such notices may be sent.

(r) CREST
CREST is a paperless settlement system enabling securities to be evidenced otherwise than by certificate and transferred otherwise than by a written instrument. The Articles are consistent with CREST membership and, amongst other things, allow for the holding and transfer of shares in uncertificated form. The Company currently anticipates entering the CREST system on Admission.

6. Employee Share Trust

By a Trust Deed dated 28 November 1997, the Company set up a discretionary trust (the "Trust") for the benefit of employees of the Gooch & Housego Group and their spouses and dependents. The Trustees of the Trust are A. Gooch and A. Heals.

The purpose of the Trust is to facilitate and encourage ownership of shares in the Company by employees, achieved by enabling the employees to acquire shares in the Company. Simultaneously with, but outside and separate from, the Placing the Trustees will purchase 84,290 Ordinary Shares from AWM Heals at the Placing Price and will distribute 100 Ordinary Shares to each employee of the Company (but not Directors of the Company nor employees of OLI) immediately following the Placing, a total of 8,100 Ordinary Shares. The Trust will be funded by gift by the Company for this purpose. Certain employees of OLI (including WE Schneider) will purchase 76,190 Ordinary Shares at the Placing Price from the Trust.

7. Directors' Interests

(a) The names of the Directors and their functions are set out in paragraph 2 of this Part III of this document.

(b) The interests of the Directors and (so far as is known to the Directors or could, with reasonable diligence, be ascertained by them), persons connected with the Directors within the meaning of section 346 of the Act, in the

share capital of the Company, as required to be notified to the Company pursuant to sections 324 and 328 of the Act or as required by section 325 of the Act to be entered into the register referred to therein, are and will be as follows:

	At the date of this document		Following the Placing	
	Number of Shares	Percentage of issued ordinary share capital	Number of Shares	Percentage of issued ordinary share capital
AWC Gooch	6,820,240*	45.5%	4,439,288*	26.3%
GCW Jones	1,365,330	9.1%	793,900	4.7%
WE Schneider	—	—	47,619	0.3%
AWM Heals	1,352,510	9.0%	1,066,796	6.3%
DE Irish	1,358,920	9.1%	1,073,206	6.3%
HC Virgin	8,570,170*	57.1%	6,784,516*	40.1%
JA Melles	—	—	10,000	0.1%
AJ Davison	—	—	10,000	0.1%

* The number of Ordinary Shares attributed above to AWC Gooch and to HC Virgin include holdings of 2,999,880 Ordinary Shares which belong to the Gooch/Virgin Discretionary Trust, in which neither has a beneficial interest, and (at the date of this document, but not following the Placing) 1,499,940 Ordinary Shares which belong to the Virgin/Gooch Life Trust, in which AWC Gooch has a beneficial interest.

(c) Save as disclosed herein, no Director, nor any member of their immediate families, nor (so far as is known to the Directors or could reasonably be ascertained by them) any person connected with a Director (within the meaning of Section 346 of the Companies Act 1985) has any interest, beneficial or non-beneficial, in the share capital of the Company.

(d) Other than directorships of the Company, the Directors' current directorships and directorships held during the five previous years are set out below:

Director	Current Directorships	Past Directorships
AWC Gooch	None	None
GCW Jones	None	None
WE Schneider	OLI	None
AWM Heals	OLI	None
DE Irish	None	None
HC Virgin	None	None
JA Melles	Dynasil Corporation (USA) Excel Technology, Inc. (USA) Inphora, Inc. (USA) Mikropack GmbH. (Germany) Nanophotonics AG. (Germany) Synrad, Inc. (USA) Top Sensor Systems B.V. (Holland) Photonics Investments b.v. (Holland)	None
AJ Davison	Frank Bruce & Co. A.M.B. Investments Ltd. Holliday Chemical Holdings PLC Pucklechurch Development Ltd. Ludgate Twenty Three Ltd. The Emerging Markets Country Investment Trust PLC Logical Water Ltd. Brooks Service Group Plc Wakebourne Plc	Mosaic Investments Plc Mosaic Group Plc Hollywood Mews Ltd. NLC (Holdings) Ltd. Aynsley Group PLC Pepe Group PLC

AJ Davison was appointed to the board of Wakebourne Plc, on 15 May 1996, to help resolve its financial difficulties. An administrative receiver to Wakebourne Plc was appointed on 22 May 1997.

(e) None of the Directors has any unspent convictions (other than road traffic offences subject to summary conviction) nor has any of them been publicly criticised by any statutory or regulatory authority. Save as disclosed above, there have been no bankruptcies, receiverships or liquidations of companies where the Directors were directors at the time of, or within 12 months before, such bankruptcies, receiverships or liquidations.

(f) The Directors have undertaken to Price Waterhouse Corporate Finance and Sutherlands not to dispose of any Ordinary Shares held by them, subject to certain exemptions, until the publication by the Company of its results for the year ending 30 September 1998.

8. Directors' service contracts

(a) On 3 December 1997 the Company entered into service agreements with the following Directors:

Director	Annual Salary
AWC Gooch	£55,475
GCW Jones	£34,490
AWM Heals	£32,250
DE Irish	£32,250
HC Virgin	£22,885

(b) The service agreements for the executive Directors are rolling contracts terminable on 12 months' notice. GCW Jones, AWM Heals, DE Irish and HC Virgin are required to devote the whole of their working time to their duties and none of these is permitted to have any outside business interests without the prior consent of the Board. AWC Gooch is required to devote no less than 3 days (or equivalent number of hours) per week to his duties. As from 1 August 1998 HC Virgin will be required to devote no less than 8 days per calendar month to her duties. Each is permitted outside business interests to the extent that such activities do not conflict with the business of the Company.

(c) The salaries of the executive Directors referred to above are subject to annual review by the Remuneration Committee of the Board, the first such review to take effect from 1 September 1998. Each of the executive Directors undertakes not to disclose or use any confidential information of the Company at any time. Each of AWC Gooch, GCW Jones and DE Irish undertake that during his employment by the Company and for 12 months thereafter he will not, without the consent of the Company, be involved in any business or undertaking which is competitive with the business of the Company immediately preceding the date of termination of his employment, solicit customers of the Company with whom he has had dealings or solicit the employment of any key employee of the Company. AWM Heals (as Finance Director) and HC Virgin (as Personnel Director) are subject to the above non-solicitation obligation but not the above non-competition restriction.

(d) The service agreements provide for the executive Directors to receive the benefit of contributions to pension schemes by way of contribution on behalf of each executive Director to two money purchase schemes, the first being in an amount equal to 8 per cent. of the Director's basic salary, the second being a fixed contribution revised annually by a percentage figure equivalent to the percentage increase of the basic wage of all of the Company's employees in the previous financial year. The current fixed figures for GCW Jones, AWM Heals, Ms. HC Virgin and DE Irish are £4,784 each. Each executive Director is entitled to a company car appropriate to his or her respective position, the costs of which will be borne by the Company, including limited private use.

(e) JA Melles and AJ Davison have each, through their service companies, entered into agreements to provide services to the Company as a non-executive director.

The appointment of each of the above is for an initial period of one year, terminable thereafter by three months notice by the individual or the Company. The agreements specify no set hours of work, but each of JA Melles and AJ Davison are required to attend board meetings and will serve as members of the Audit Committee and the Remuneration Committee. The services of JA Melles and AJ Davison are provided to the Company for a fee in each case of £10,000 per annum together with any additional fees payable in respect of further services provided by the relevant individual at the request of the Company.

(f) WE Schneider entered into a service agreement with OLI, on 27 October 1995. This service agreement was for an initial three year period terminable thereafter on 180 days notice. WE Schneider was appointed as President and a Director of OLI, with responsibility for management of the day to day business affairs of OLI and is required to devote the whole of his working time to such duties. The agreement contains an undertaking on the part of WE Schneider not to disclose or use any confidential information of the Group at any time, together with further undertakings that he will not during the two year period following termination of his employment directly or indirectly engage in any activity in the south-eastern United States in competition with the business of OLI as at the date of the

service agreement. WE Schneider further undertakes for the same period not to solicit customers of OLI or to solicit the employment of any officer or employee or consultant of OLI. The service agreement provides for payment of a base salary which is subject to review on or before 15 September in each year, together with a bonus calculated by reference to return on sales. His current base salary is $145,000. OLI also operates a 401(k) profit sharing plan in which WE Schneider is a participant.

(g) The aggregate emoluments (including pension contributions) payable by the Group to the Directors in the financial year ended 30 September 1997 amounted to £309,858. It is estimated that the aggregate emoluments (including pension contributions) to the Directors by the Company or OLI will not exceed £400,000 in the year ending 30 September 1998.

(h) There are no arrangements under which any Director has waived or agreed to waive future emoluments and no Director has waived or agreed to waive any such emoluments.

(i) No Director has or has had any interest in a transaction which is or was unusual in its nature or conditions or significant to the business of the Group and which was affected by the Group during the current financial year or during the year ended 30 September 1997 or was effected during an earlier financial year and remains in any way outstanding or unperformed.

(j) By a separate Business Purchase Agreement between Photonics Investments b.v. and the Company, Photonics Investments b.v. has contracted to provide certain consultancy and other services of JA Melles in connection with the identification of businesses for possible purchase by the Company, and, if appropriate, to negotiate purchase arrangements. The Company is liable to pay consultancy fees, and, on successful conclusion, commission to Photonics Investments b.v.

(k) No loan has been granted by the Group to any Director and no guarantee has been provided by the Group to any Director.

9. Properties

The Group has the following properties:

(a)	The Old Magistrates Court East Street Ilminster Somerset TA19 0AB	Freehold
(b)	The Cornhill Factory Cornhill Ilminster Somerset TA19 0AB	Freehold
(c)	1 Cornhill Ilminster Somerset TA19 0AB	Freehold
(d)	4470 35th Street Orlando Florida 32811	Freehold
(e)	4399 36th Street Orlando Florida	Lease dated 30 November 1994 between JW Hembree II (1) and OLI (2) for a fixed three year term expiring ending on 31 December 1997. The current rental is $24,000
(f)	To be developed 4632 36th Street Orlando Florida 32811	Freehold
(g)	To be developed 4630 36th Street Orlando Florida 32811	Freehold

10. Material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Group in the 2 years immediately prior to the date of this document and are or may be material:

(a) By an agreement dated 27 October 1995 between the Company and WE Schneider, the Company agreed to purchase the entire issued share capital of OLI from WE Schneider in consideration of the payment of US$2,930,000 under the terms of such agreement WE Schneider undertook not to compete with the business of OLI as carried on at that date in terms equivalent to those contained in his service agreement referred to in paragraph 8(f) above.

(b) an Agreement dated 18 October 1995 between National Westminster Bank plc and the Company pursuant to which the following facilities were made available to the Company.

(i) a US$790,000 fixed rate term loan; and

(ii) a £500,000 variable rate loan.

(c) By an agreement dated 20 November 1996 between the Company and Air Products and Chemicals, Inc. a Delaware Corporation, the Company acquired freehold title to the freehold property at the addresses in Orlando referred to in paragraph 9(f) and (g) above in consideration for $350,000. Real estate title insurance was taken out by the Company at the date of acquisition for the amount of US$350,000.

By an agreement dated 13 March1997 between the Company and Lamm & Co., Inc., Lamm & Co., Inc. agreed to undertake and manage construction of the premises on the land referred to above. The form of agreement is in the standard form published by the American Institute of Architects and was for a fixed price of US$1,149,749.

(d) An agreement dated 4 December 1997 between the Company, the Directors, (the "Vendors"), Price Waterhouse Corporate Finance and Sutherlands ("the Placing Agreement") pursuant to which and conditionally upon Admission taking place, Sutherlands has, *inter alia*, undertaken to subscribe or to procure subscribers for the Placing Shares at the Placing Price. The Placing Agreement contains provisions relating to the payment of fees as follows:

(i) a fee to Sutherlands of £40,000 (plus any applicable VAT) payable by the Company;

(ii) a commission to Sutherlands equal to 1.5 per cent. on the amount raised by the Placing payable by the Vendors in respect of those Placing Shares being sold by them and by the Company in respect of the Placing Shares being allotted by it; and

(iii) a fee to Price Waterhouse Corporate Finance of £135,000 (plus any applicable VAT) payable by the Company.

The Placing Agreement contains representations, warranties and indemnities given by the Company and the Directors to Sutherlands and also contains provisions entitling Sutherlands to terminate its obligations thereunder in certain circumstances prior to Admission. Subscription monies for the Placing Shares are payable to Sutherlands by cheque or telegraphic transfer by 10 December 1997. If the conditions of the Placing are not satisfied by 12 December 1997 (or such later date as the Company and Sutherlands may agree but in any event no later than 23 December 1997) Sutherlands will forthwith return the subscription monies without interest to the applicants.

(e) A Nominated Advisers' Agreement dated 4 December 1997 between the Company and Price Waterhouse Corporate Finance pursuant to which Price Waterhouse Corporate Finance agreed to act as Nominated Advisers to the Company in consideration of £15,000.

The Nominated Advisers' Agreement contains certain undertakings given by the Company in favour of Price Waterhouse Corporate Finance in relation to the continuing obligations under the AIM Rules.

11. Litigation

No member of the Group is or has been involved in any legal or arbitration proceedings and no such proceedings are pending or threatened which may have or has had during the twelve months preceding the date of this document a significant effect on the Group's financial position nor, so far as the Company is aware, are any such proceedings pending or threatened against either member of the Group.

12. Working Capital

The Company is of the opinion, having made due and careful enquiry and having regard to bank facilities, the net proceeds of the Placing and existing cash resources, that the Group has sufficient working capital available to satisfy its present requirements.

13. Consents

Price Waterhouse has given and has not withdrawn its written consent to the inclusion herein of its report set out in Part II of this document and its name in the form and context in which they appear and accepts responsibility for such reports in accordance with paragraphs 45(1)(b)(i) and (iii) respectively of Schedule 1 to the POS Regulations.

14. Taxation

(a) The following statements are intended as a general guide to the current UK law and Inland Revenue practice and may not apply to certain classes of shareholders. Any person who is in any doubt as to his tax position or who is subject to tax in a jurisdiction other than the UK should consult his professional adviser.

(i) *Stamp Duty and Stamp Duty Reserve Tax*
The Company has been advised that the transfer of Ordinary Shares will, in general, be liable to ad valorem stamp duty at the rate of 50 pence per £100 or part thereof of the consideration paid, but the Ordinary Shares being placed on behalf of the Existing Shareholders will be placed free of Stamp Duty.

(ii) *Taxation of Dividends*
When paying a dividend to shareholders, the Company has to account to the Inland Revenue for advance corporation tax ("ACT") at a rate which, for the year commencing 5 April 1997, is equal to 20 per cent. of the gross dividend (i.e. the sum of the dividend and the ACT payable on it, which is equivalent to 25 per cent. of the dividend paid).

For individual shareholders resident in the United Kingdom for tax purposes, an amount equal to 20 per cent. of the gross dividend is available as a tax credit which may be set off against their total income tax liability or, in appropriate cases, reclaimed in cash. There will be no further tax liability on such dividend for a lower or basic rate taxpayer. Higher rate taxpayers will have a further tax liability to pay on any dividend received equal to 40 per cent. of the gross dividend less the amount of the tax credit.

It is proposed to withdraw the ability to reclaim the tax credit in relation to dividends paid on or after 6 April 1999 and to reduce the tax credit to 10 per cent. of the gross dividend. Lower or basic rate taxpayers will, however, only be subject to tax on dividend income at a rate of 10 per cent. However, the tax credit will continue to discharge such taxpayers' liability to UK income tax on the dividend. Higher rate taxpayers will have a tax liability to pay on any dividend received equal to 32.5 per cent. of the gross dividend, less the amount of the tax credit.

Corporate shareholders resident in the United Kingdom for tax purposes will not be liable to United Kingdom corporation tax on any dividend received and will be able to treat any dividend received and the related tax credit as franked investment income.

Persons who are not resident in the United Kingdom for tax purposes should consult their own tax advisers on the possible application of such provisions and what relief or credit may be claimed in the jurisdiction of which they are resident. Such persons may also be subject to foreign taxation on dividend income under local law.

(iii) *Close Companies*
The Directors have been advised that the Company is a close company as defined by section 414 of the Income and Corporation Taxes Act 1988.

(iv) *Inheritance Tax ("IHT") Relief*
From 6 April 1996 unquoted ordinary shares in companies such as the Company qualify for 100 per cent. IHT Business Property Relief provided they have been held for two years prior to the event giving rise to IHT. Shares quoted on AIM are treated as unquoted for this purpose and therefore qualify in principle for Business Property Relief.

15. General

(a) There has been no significant change in the financial or trading position (or any significant recent trends concerning the development of the business) of the Company or its subsidiary since 30 September 1997, the date being at which the last audited statements of the Group were made up.

(b) The costs, charges and expenses, including all fees and commissions (exclusive of VAT) relating to the Placing and to the application for Admission, which are payable by the Company, are estimated to amount to £500,000.

(c) All shares are in registered form. Share certificates are expected to be issued by 16 December 1997. No temporary documents of title will be issued and in the meantime transfers will be certified against the register.

(d) The nominal value of the Ordinary Shares is 20p and they are being placed at a premium of 85p.

(e) For the purposes of the POS Regulations the minimum amount which must be raised by the Placing is £2,000,000 ("the Minimum Subscription") which will be applied as follows:

(i) as to £1,000,000, in the repayment of debt incurred for, or the payment for, land and building works referred to in 10(c) above;

(ii) as to £500,000, for working capital;

(iii) as to £500,000, for the expenses of the Placing and Admission.

No amounts are to be provided in respect of the matters mentioned in this paragraph otherwise than out of the proceeds of the issue of Ordinary Shares. No Ordinary Shares will be allotted and issued unless the Minimum Subscription is achieved.

(f) The Placing is being made by Sutherlands on behalf of the Company. Sutherlands is regulated by the Securities and Futures Authority Limited and is registered in Scotland with company number 115136 and its registered office is at Saltire Court, 20 Castle Terrace, Edinburgh EH1 2FY.

16. Documents available for inspection

Copies of this document, which are available free of charge, and the following documents may be inspected at the registered office of the Company at The Old Magistrates Court, Ilminster, Somerset TA19 0AB and at the offices of Burges Salmon, Narrow Quay House, Narrow Quay, Bristol BS1 4AH during usual business hours on weekdays (except Saturdays and public holidays) from the date of Admission and for a period of 14 days thereafter:

(a) the Memorandum and Articles of Association of the Company;

(b) the audited accounts of the Company for the three years ended 30 September 1997;

(c) the Accountants' Report set out in Part II of this document;

(d) the Directors' service agreements and letters of appointment and Business Purchase Agreement referred to in paragraph 8 above;

(e) the material contracts referred to in paragraph 10 above;

(f) the written letter of consent referred to in paragraph 13 above.

5 December 1997

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