Gooch & Housego
ENABLING PHOTONIC TECHNOLOGIES

INTERIM REPORT AND ACCOUNTS

MARCH 2017

G&H

the specialist manufacturer
of optical components and systems

NOTES TO EDITORS:

1. Gooch & Housego is a photonics technology business headquartered in Ilminster, Somerset, UK with operations in the USA and Europe. A world leader in its field, the company researches, designs, engineers and manufactures advanced photonic systems, components and instrumentation for applications in the Aerospace & Defence, Industrial, Life Sciences and Scientific Research sectors. World leading design, development and manufacturing expertise is offered across a broad range of complementary technologies.

2. This announcement contains certain forward-looking statements that are based on management's current expectations or beliefs as well as assumptions about future events. These are subject to risk factors associated with, amongst other things, the economic and business circumstances occurring from time to time in the countries and sectors in which G&H operates. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a wide range of variables which could cause actual results, and G&H's plans and objectives, to differ materially from those currently anticipated or implied in the forward-looking statements. Investors should not place undue reliance on any such statements. Nothing in this announcement should be construed as a profit forecast.

FOR FURTHER INFORMATION PLEASE CONTACT:

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INTERIM REPORT FOR THE SIX MONTHS ENDED 31 MARCH 2017

Gooch & Housego PLC (AIM:GHH) ("Gooch & Housego", "G&H", the "Company" or the "Group"), the specialist manufacturer of optical components and systems, today announces its interim results for the six months ended 31 March 2017.

FINANCIAL HIGHLIGHTS

Period ended 31 March	HY 2017	HY 2016	Change (%)
Revenue	£52.2m	£38.4m	36.0%
Adjusted profit before tax[1]	£6.2m	£5.6m	11.8%
Adjusted basic earnings per share[1]	18.7p	17.0p	10.0%
Net cash	£7.8m	£12.3m	(36.9%)
Statutory profit before tax	£4.7m	£3.5m	33.3%
Basic earnings per share	14.1p	10.8p	30.6%
Interim dividend per share	3.7p	3.3p	12.1%

[1] Adjusted for amortisation of acquired intangible assets and non-recurring items.

HIGHLIGHTS

- Strong revenue growth driven by telecoms, precision inspection equipment and microelectronic manufacturing sectors
- Revenue growth of 36.0% compared with the same period last year. Excluding the impact of foreign exchange, an increase of 18.2% over last year
- Completed the acquisition of StingRay Optics in February 2017
- Continued investment in people and infrastructure to drive further growth and take advantage of the positive market conditions
- Targeted investment in R&D of £4.5 million, up 28.6% on the previous year
- Adjusted profit growth of 11.8% compared to same period last year
- Cash flow from operations of £7.9 million, compared with £2.9m last year
- Record order book of £66.6 million, as at 31 March 2017, an increase of 70.5% compared with the same period last year
- Interim dividend increased to 3.7p (2016:3.3p)

MARK WEBSTER, CHIEF EXECUTIVE OFFICER OF GOOCH & HOUSEGO PLC, COMMENTED ON THE RESULTS:

"G&H is well positioned to take advantage of the positive market conditions and has continued to invest in people and infrastructure in order to meet the demands of a strong order book. We remain on track to meet our full year expectations.

"G&H is committed to a strategy of diversification and moving up the value chain. This has been most evident in the A&D sector where our most recent acquisitions, combined with increased investment in R&D have gone some way towards our goal of achieving 'critical mass' in this sector.

"We will continue to invest in our performance improvement programme, which will underpin our future growth."

“

Our order book stood at a record £66.6 million as at 31 March 2017

PERFORMANCE OVERVIEW

Market conditions continue to be positive, driven in large part by the telecommunications and industrial sectors, in particular high reliability fibre couplers for undersea cables, precision inspection equipment and critical components used in microelectronic manufacturing. First half revenue growth has been very good, albeit benefitting from a favourable foreign exchange environment and a relatively weak comparator period. The Company saw an acceleration in growth in the period, with the second quarter delivering 16% more revenue compared to quarter one. We are expecting a good second half trading performance driven by orders for our fibre business and the continued strength of the microelectronics sector.

Our order book stood at a record £66.6 million as at 31 March 2017, which represents an increase of 70.5% compared to the same time last year. Excluding the impact of foreign exchange and acquisitions this represents an increase of 17.2% over last year. Further investment has been necessary to enable us to take advantage of this strong order book, in particular at our Ilminster site, where we have upgraded equipment and trained new operators.

The increase in our interim dividend by 12.1% reflects our confidence in the business going forward and is underpinned by our strong balance sheet.

Revenue

Six months ended 31 March	2017		2016	
	£'000	% of total	£'000	% of total
Industrial	31,336	60%	24,764	65%
Aerospace & Defence	14,578	28%	8,064	21%
Life Sciences	4,751	9%	3,941	10%
Scientific Research	1,488	3%	1,592	4%
Group Revenue	52,153	100%	38,361	100%

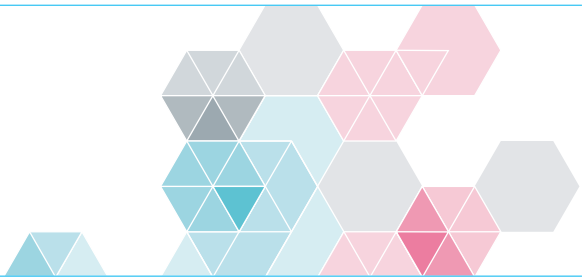
Group revenue for the half year was £52.2 million, an increase of £13.8 million, or 36.0% over the comparative period last year. On a constant currency basis, revenue was 18.2% higher.

Order intake in the first half of the year has been encouraging. The Company has booked £59.5 million in orders since 1 October 2016, compared to £41.1 million in the corresponding period last year. Since March the order book has strengthened further.

Products and Markets – Industrial

Gooch & Housego's principal industrial markets are industrial lasers, telecommunications, metrology, sensing and semiconductor manufacturing. Industrial lasers are used in a diverse range of precision material processing applications ranging from microelectronics to automotive.

Business in our industrial market was good in the first six months of the year. Overall, sales of products into our industrial markets in the six months to 31 March 2017 were 26.5% higher compared with the equivalent period last year.



The industrial laser market was a principal driver of the revenue growth due to the continued high demand for precision lasers used in microelectronic manufacturing. This was a demand trend that emerged in the second half of last year. Demand for these products remains strong.

In telecommunications, the "step change" in demand for fibre optic components for under-sea telecommunications applications, reported throughout last year, has continued. We expect this demand to be maintained throughout this year and into next, as non-traditional, Silicon Valley based companies enter this market and look to lay their own undersea networks. Sales of lithium niobate wafers for modulation applications also continue to be high. The overall telecommunications market segment increased by 68% compared with the equivalent period last year.

Products and Markets – Aerospace & Defence

Product quality, reliability and performance are paramount in this sector and that plays to G&H's strengths, along with our commitment to provide value. We have solid, well established positions in target designation and range finding, ring laser and fibre optic gyroscope navigational systems, infrared and RF countermeasures and space satellite communications.

The market for G&H is characterised by high-value, long-term programmes involving the main US and European defence contractors. Over the last ten months G&H has strengthened its position in this market with the acquisition of three businesses (Kent Periscopes, Alfalight & StingRay) whose focus is either entirely, or largely Aerospace & Defence. This reflects G&H's commitment to this market which continues to represent an attractive growth area as more applications seek optical solutions in this demanding area.

Our Aerospace & Defence business grew by 80.8% during the first six months of FY2017, compared to the equivalent period last year. Excluding the impact of acquisitions, Aerospace & Defence grew organically by 15.0% compared to the same period last year.

Products and Markets – Life Sciences

G&H's three principal Life Sciences revenue streams are derived from diagnostics (fibre-optic modules for optical coherence tomography (OCT) applications), surgery / treatments (electro-optics and acousto-optics for lasers) and biomedical research (acousto-optics for microscopy applications). In each application area the Company is making steady progress in moving up the value chain and is currently selling sub-systems as well as components to several larger customers.

Our Life Sciences business grew by 20.6% in the six months to 31 March 2017, compared with the equivalent period last year, driven mainly by increased demand within our OCT business.

The principal commercial application of OCT systems is retinal imaging, and G&H continues to be the leading provider of fibre optic solutions (products and design services) to this industry. G&H considers OCT to be a growth technology and is investing both in the development of new products and in keeping its current products competitive.

Products and Markets – Scientific Research

The key application in Scientific Research is laser inertial confinement fusion ("laser fusion"), where lasers are used

to create the conditions found in the core of a star, which are part of long term government funded projects, both in the USA and Europe. In addition to pure research in high energy and plasma physics, these vast laser systems are being used to investigate whether this technology could provide clean, carbon-free energy to reduce dependency on fossil fuels. G&H is continuing to supply crystals, precision optics and fibre components for new system construction and expects ongoing business to continue to service replacement and maintenance requirements.

Strategy

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

R&D: In the first six months of the current financial year, G&H invested £4.5 million in targeted research & development. Our main target areas are fibre based lasers, fibre sensing, precision inspection equipment for microelectronic manufacturing, laser surgery, A&D sub systems, OCT medical diagnostics and space satellite communications. This represents 8.6% of revenue and is 28.6% higher than the same period last year (2016: £3.5m). G&H's continued commitment to investing in targeted R&D programmes is bearing fruit, with a record eighteen new products launched in the period ended 31 March 2017.

Diversification: G&H seeks to develop, through R&D and acquisition, a presence in new markets that offer the potential for significant growth as a result of their adoption of photonic technology, whilst also reducing exposure to cyclicality in any particular sector. We will continue to invest in all of our key sectors in order to ensure we maintain a balanced portfolio and over time achieve a critical mass in Life Sciences and A&D. Our recent acquisitions have greatly improved our position in A&D, which now represents 28.0% of our business (2016: 21.0%).

Moving up the Value Chain: G&H seeks to move up the value chain to more complex sub-assemblies and systems through leveraging its excellence in materials and components, and by providing photonic design and engineering solutions for our customers. This will enable G&H to transition from a components supplier to a solutions provider. A significant proportion of our business in the Aerospace & Defence market now comes from the sale of sub-systems rather than discrete components. Our recent acquisitions are all photonic design and sub-assembly businesses and have helped to increase the proportion of our business derived from non-component revenues from 15.2% in FY2016 to 20.8% in FY2017. G&H now has "world class" capability in opto-mechanical design and this substantially enhances our ability to offer "end to end" design and manufacturing solutions to our customers.

As well as continuing to develop a leadership position in space photonics, the Systems Technology Group is actively engaged in near-market developments in OCT, fibre lasers and fibre optic sensing as the Company leverages its components expertise to move up the value chain in these important areas.

Operations

As reported last year, the Company has committed to upgrading its Cleveland, Ohio facility. This facility, which houses G&H's world leading crystal growth capabilities, is a key contributor to current and future profitability and will benefit from the modernisation that has been taking place. The upgrade is substantially complete and we will have invested in the region of $5 million. The refurbished facility will help drive much needed operational efficiency, provide greater capacity, as well as a more compelling showcase for our capabilities for customers.

Our continuous improvement programme is proceeding well. Operationally the move to a lean manufacturing environment across all of our sites is set to deliver efficiency savings in 2017 and the drive for fewer more productive R&D projects combined with enhanced business development support has started to deliver an increased number of product opportunities.

Acquisitions

G&H will continue to evaluate acquisition opportunities that have the potential to accelerate delivery of the Company's strategic objectives. Having established a presence in its target markets, G&H is now focussing on moving up the value chain in each of those markets. Whilst the business will continue to evaluate bolt on businesses in our core component technologies, continued strong focus is being placed on acquisition opportunities that enhance the Company's ability to wrap electronics and software around core photonic products to yield system-level solutions.

In February 2017 G&H acquired StingRay Optics LLC ("StingRay"), a New Hampshire, USA based specialist designer and manufacturer of high performance optical and opto-mechanical subsystems for demanding defence and commercial applications.

StingRay was founded in 2004 and has established itself as a market leading designer, manufacturer and supplier of world class custom optical assemblies. The business has a proven capability in providing system level optical products for use in harsh environments to key US defence customers. StingRay's product range covers laboratory, ground based, airborne, Unmanned Aerial Vehicles (UAVs) and space applications.

The acquisition of StingRay is aligned with G&H's strategic objectives of moving up the value chain and further diversification into the Aerospace & Defence sector. Potential synergies include leveraging G&H's greater reach through our global sales teams and our expertise in manufacturing infrared precision optics and specialist coatings.

Reconciliation of adjusted performance measures

	Operating Profit		Net finance costs		Taxation		Earnings per share	
Half year to 31 March	2017 £000	2016 £000	2017 £000	2016 £000	2017 £000	2016 £000	2017 pence	2016 pence
Reported	4,900	3,560	(197)	(33)	(1,261)	(913)	14.1	10.8
Amortisation of acquired intangible assets	797	733	-	-	(214)	(191)	2.4	2.2
Restructuring costs	351	1,106	-	-	(94)	(288)	1.0	3.4
Transaction fees	287	194	-	-	(77)	(50)	0.3	0.6
Interest on discounted deferred consideration	-	-	80	-	-	-	0.9	-
Adjusted	6,335	5,593	(117)	(33)	(1,646)	(1,442)	18.7	17.0

Adjusted profit before tax was £6.2 million, an increase of 11.8% on the prior year (H1 2016: £5.6 million). This strong profit performance has been delivered at the same time as investing in the increased capacity required to deliver the positive demand conditions we are currently experiencing. This investment is largely now in place for the second half of 2017.

“

Gooch & Housego is well positioned to take advantage of positive market conditions”

Cash Flow and Financing

In the six months to 31 March 2017 G&H generated cash from operations of £7.9 million, compared with £2.9 million in the same period of 2016. In respect of the StingRay acquisition, the consideration payable by G&H will be up to $20 million, on a debt free, cash free basis with a normalised level of working capital remaining in the business. This comprised an initial consideration of $7.5 million in cash which was paid on completion from existing G&H debt facilities and $2.5 million in new G&H ordinary shares, which are 'locked up' for one year from February 2017. There is also a deferred contingent consideration of up to $10 million, payable in cash, based upon the performance of the business for a period of up to three years.

Capital expenditure on property, plant and equipment was £3.6 million in the period (2016: £5.6 million). The main fixed asset additions were in relation to the modernisation of our Cleveland facility. This investment, together with our continued commitment to the principles of lean manufacturing are vital to improved manufacturing performance and providing increased capacity in the medium term.

The Company's net cash position remains robust at £7.8 million, down from £12.3 million at 30 September 2016, following the acquisition of StingRay.

Staff

The Company workforce increased from 755 at 30 September 2016 to 786 at the end of March 2017. This increase comes largely from the acquisition of StingRay, but also reflects our investment in increased capacity, offset by efficiency savings.

Dividends

The Directors have declared an interim dividend of 3.7p per share (2016 : 3.3p per share), a 12.1% increase on the prior period, which is reflective of the Directors' confidence in the business going forward and is underpinned by our strong balance sheet. This will be payable on 17 July 2017 to shareholders on the register as at 23 June 2017.

Prospects and outlook

G&H remains committed to the twin pillars of our strategy, namely diversification and moving up the value chain. Our recent A&D acquisitions, combined with increased investment in R&D have gone some way towards achieving our goal of establishing 'critical mass' in this sector.

The Company is well-positioned to take advantage of positive market conditions and has continued to invest in people and infrastructure to meet the demands of a strong order book. We remain on track to meet our full year expectations.

G&H will continue to pursue its strategy and invest in our continuous improvement programme prioritising further operational excellence, enhanced business development in our key markets and a more focused R&D portfolio; all of which will underpin our future performance.

Gareth Jones	Mark Webster	Andrew Boteler
Chairman	Chief Executive Officer	Chief Financial Officer

6 June 2017

GROUP INCOME STATEMENT

Unaudited interim results for the 6 months ended 31 March 2017

	Note	Half Year to 31 Mar 2017 (Unaudited) £'000	Half Year to 31 Mar 2016 (Unaudited) £'000	Full Year to 30 Sep 2016 (Audited) £'000
Revenue	5	52,153	38,361	86,051
Cost of revenue		(31,944)	(25,252)	(53,752)
Gross profit		20,209	13,109	32,299
Research and Development		(4,096)	(2,889)	(6,697)
Sales and Marketing		(4,706)	(2,976)	(6,469)
Administration		(7,438)	(5,247)	(11,425)
Other income and expenses		931	1,563	2,476
Operating profit	5	4,900	3,560	10,184
Net finance costs		(197)	(33)	(88)
Profit before income tax expense		4,703	3,527	10,096
Income tax expense	6	(1,261)	(913)	(3,048)
Profit for the period		3,442	2,614	7,048
Earnings per share	7	14.1p	10.8p	29.1p

Reconciliation of operating profit to adjusted operating profit:

	Half Year to 31 Mar 2017 (Unaudited) £'000	Half Year to 31 Mar 2016 (Unaudited) £'000	Full Year to 30 Sep 2016 (Audited) £'000
Operating profit	4,900	3,560	10,184
Amortisation of acquired intangible assets	797	733	1,263
Gain on bargain purchase	-	-	(578)
Impairment of goodwill	-	-	771
Provision for regulatory compliance risk	-	-	500
Restructuring costs	351	1,106	1,652
Transaction fees	287	194	466
Adjusted operating profit	6,335	5,593	14,258

GROUP STATEMENT OF COMPREHENSIVE INCOME

	Half Year to 31 Mar 2017 (Unaudited) £'000	Half Year to 31 Mar 2016 (Unaudited) £'000	Full Year to 30 Sep 2016 (Audited) £'000
Profit for the period	3,442	2,614	7,048
Other comprehensive income			
Currency translation difference	1,801	2,289	5,954
Other comprehensive income for the period	1,801	2,289	5,954
Total comprehensive income for the period	**5,243**	**4,903**	**13,002**

GROUP BALANCE SHEET

Unaudited interim results for the 6 months ended 31 March 2017

	31 Mar 2017 (Unaudited) £'000	31 Mar 2016 (Unaudited) £'000	30 Sep 2016 (Audited) £'000
Non-current assets			
Property, plant and equipment	34,935	29,645	32,384
Intangible assets	44,418	21,074	29,916
Deferred income tax assets	2,785	2,382	2,674
	82,138	53,101	64,974
Current assets			
Inventories	21,025	16,269	18,973
Income tax assets	-	800	394
Trade and other receivables	21,852	15,532	22,679
Cash and cash equivalents	25,686	17,810	23,167
	68,563	50,411	65,213
Current liabilities			
Trade and other payables	(20,547)	(11,675)	(19,624)
Borrowings	(3)	(10)	(4)
Income tax liabilities	(594)	(312)	(891)
Provision for other liabilities and charges	(803)	(380)	(940)
	(21,947)	(12,377)	(21,459)
Net current assets	46,616	38,034	43,754
Non-current liabilities			
Borrowings	(17,913)	(5,482)	(11,494)
Deferred income tax liabilities	(4,951)	(3,169)	(4,806)
Deferred consideration	(9,437)	-	(2,256)
	(32,301)	(8,651)	(18,556)
Net assets	96,453	82,484	90,172
Shareholders' equity			
Called up share capital	4,895	4,852	4,852
Share premium account	15,530	15,530	15,530
Merger reserve	4,640	2,671	2,671
Cumulative translation reserve	8,785	3,319	6,984
Retained earnings	62,603	56,112	60,135
Equity Shareholders' Funds	96,453	82,484	90,172

STATEMENT OF CHANGES IN EQUITY

Unaudited interim results for the 6 months ended 31 March 2017

	Share capital account £'000	Share premium account £'000	Merger reserve £'000	Retained earnings £'000	Total equity £'000
At 1 October 2015	4,818	15,530	2,671	55,348	78,367
Profit for the period	–	–	–	2,614	2,614
Other comprehensive income for the period	–	–	–	2,289	2,289
Total comprehensive income for the period	–	–	–	4,903	4,903
Dividends	–	–	–	(1,254)	(1,254)
Proceeds from shares issued	34	–	–	(34)	–
Fair value of employee services	–	–	–	319	319
Tax credit relating to share option schemes	–	–	–	149	149
At 31 March 2016 (unaudited)	4,852	15,530	2,671	59,431	82,484
At 1 October 2016	4,852	15,530	2,671	67,119	90,172
Profit for the period	–	–	–	3,442	3,442
Other comprehensive income for the period	–	–	–	1,801	1,801
Total comprehensive income for the period	–	–	–	5,243	5,243
Dividends	–	–	–	(1,383)	(1,383)
Proceeds from shares issued	43	–	1,969	(7)	2,005
Fair value of employee services	–	–	–	329	329
Tax credit relating to share option schemes	–	–	–	87	87
At 31 March 2017 (unaudited)	4,895	15,530	4,640	71,388	96,453

GROUP CASH FLOW STATEMENT

Unaudited interim results for the 6 months ended 31 March 2017

	Half Year to 31 Mar 2017 (Unaudited) £'000	Half Year to 31 Mar 2016 (Unaudited) £'000	Full Year to 30 Sep 2016 (Audited) £'000
Cash flows from operating activities			
Cash generated from operations	7,871	2,911	13,897
Income tax paid	(802)	(465)	(1,324)
Net cash generated from operating activities	**7,069**	**2,446**	**12,573**
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	(5,549)	–	(5,687)
Purchase of property, plant and equipment	(3,568)	(5,639)	(9,710)
Sale of property, plant and equipment	26	–	–
Purchase of intangible assets	(348)	(654)	(629)
Interest received	18	20	39
Interest paid	(109)	(50)	(111)
Net cash used in investing activities	**(9,530)**	**(6,323)**	**(16,098)**
Cash flows from financing activities			
Drawdown of acquisition borrowing facility	6,045	–	5,426
Repayment of borrowings	–	(29)	(39)
Dividends paid to ordinary shareholders	(1,383)	(1,254)	(2,055)
Net cash generated from / (used in) financing activities	**4,662**	**(1,283)**	**3,332**
Net increase / (decrease) in cash	**2,201**	**(5,160)**	**(193)**
Cash at beginning of the period	**23,167**	**22,556**	**22,556**
Exchange gains	318	414	804
Cash at the end of the period	**25,686**	**17,810**	**23,167**

NOTES TO THE GROUP CASH FLOW STATEMENT

	Half Year to 31 Mar 2017 (Unaudited) £'000	Half Year to 31 Mar 2016 (Unaudited) £'000	Full Year to 30 Sep 2016 (Audited) £'000
Profit before income tax	4,703	3,527	10,096
Adjustments for:			
- Amortisation of acquired intangible assets	797	733	1,263
- Amortisation of other intangible assets	98	110	355
- Gain on bargain purchase of Alfalight	–	–	(578)
- Impairment of goodwill	–	–	771
- Depreciation	1,750	1,428	3,042
- Share based payment obligations	329	319	638
- Finance income	(17)	(20)	(39)
- Finance costs	214	53	127
Total adjustments	3,171	2,623	5,579
Changes in working capital			
- Inventories	(605)	220	223
- Trade and other receivables	1,578	(811)	(4,706)
- Trade and other payables	(976)	(2,648)	2,705
Total changes in working capital	(3)	(3,239)	(1,778)
Cash generated from operating activities	7,871	2,911	13,897

Reconciliation of net cash flow to movements in net cash

	Half Year to 31 Mar 2017 (Unaudited) £'000	Half Year to 31 Mar 2016 (Unaudited) £'000	Full Year to 30 Sep 2016 (Audited) £'000
Increase / (decrease) in cash in the period	2,201	(5,160)	(193)
Borrowings	(6,045)	–	(5,426)
Repayment of borrowings	–	29	39
Changes in net cash resulting from cash flows	(3,844)	(5,131)	(5,580)
Finance leases acquired	–	–	(25)
Translation differences	(54)	121	(55)
Movement in net cash in the period / year	(3,898)	(5,010)	(5,660)
Net cash at start of period	11,668	17,328	17,328
Net cash at end of period	7,770	12,318	11,668

Analysis of net cash

	At 1 Oct 2016 £'000	Cash flow £'000	Exchange movement £'000	At 31 Mar 2017 £'000
Cash at bank and in hand	23,167	2,201	318	25,686
Debt due after 1 year	(11,474)	(6,045)	(371)	(17,890)
Finance leases	(25)	–	(1)	(26)
Net cash	11,668	(3,844)	(54)	7,770

NOTES TO THE INTERIM REPORT

1. Basis of Preparation

The unaudited Interim Report has been prepared under the historical cost convention and in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union.

The Interim Report was approved by the Board of Directors and the Audit Committee on 6 June 2017. The Interim Report does not constitute statutory financial statements within the meaning of the Companies Act 2006 and has not been audited.

Comparative figures in the Interim Report for the year ended 30 September 2016 have been taken from the Group's audited statutory financial statements on which the Group's auditors, PricewaterhouseCoopers LLP, expressed an unqualified opinion. The comparative figures to 31 March 2016 are unaudited.

The Interim Report will be announced to all shareholders on the London Stock Exchange and published on the Group's website on 6 June 2017. Copies will be available to members of the public upon application to the Company Secretary at Dowlish Ford, Ilminster, Somerset, TA19 0PF.

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 30 September 2016, as described in those financial statements.

2. Application of IFRS

Adoption of new standards

During the current reporting period there were no new standards or amendments which had a material impact on the net assets of the Group. In addition, standards or amendments issued but not yet effective are not expected to have a material impact on the net assets of the Group. However, the Group is closely monitoring the IASB projects on Contract Revenue recognition and the Lease accounting overhaul as they could potentially have a material impact on the Group's results.

3. Estimates

The preparation of interim financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 30 September 2016

4. Financial risk management

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

The interim condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements and should be read in conjunction with the Company's annual financial statements as at 30 September 2016.

There have been no changes to the risk management policies since the year end.

5. Segmental analysis

For half year to 31 March 2017	Aerospace & Defence £'000	Life Sciences £'000	Industrial £'000	Scientific Research £'000	Corporate £'000	Total £'000
Revenue						
Total revenue	14,578	4,751	34,463	1,488	–	55,280
Inter and intra-division	–	–	(3,127)	–	–	(3,127)
External revenue	**14,578**	**4,751**	**31,336**	**1,488**	**–**	**52,153**
Divisional expenses	(13,178)	(4,216)	(25,121)	(1,415)	(677)	(44,607)
EBITDA[1]	**1,400**	**535**	**6,215**	**73**	**(677)**	**7,546**
EBITDA %	9.6%	11.3%	19.8%	4.9%	–	14.5%
Depreciation and Amortisation	(334)	(192)	(942)	(57)	(324)	(1,849)
Operating profit before amortisation of acquired intangible assets	**1,066**	**343**	**5,273**	**16**	**(1,001)**	**5,697**
Amortisation of acquired intangible assets	–	–	–	–	(797)	(797)
Operating profit	**1,066**	**343**	**5,273**	**16**	**(1,798)**	**4,900**
Operating profit margin	7.3%	7.2%	16.8%	1.1%	–	9.4%
Add back non-recurring items	–	–	–	–	638	638
Operating profit excluding non-recurring items	1,066	343	5,273	16	(1,160)	5,538
Adjusted profit margin %	7.3%	7.2%	16.8%	1.1%	–	10.6%

For half year to 31 March 2016	Aerospace & Defence £'000	Life Sciences £'000	Industrial £'000	Scientific Research £'000	Corporate £'000	Total £'000
Revenue						
Total revenue	8,064	3,941	27,365	1,592	–	40,962
Inter and intra-division	–	–	(2,601)	–	–	(2,601)
External revenue	**8,064**	**3,941**	**24,764**	**1,592**	**–**	**38,361**
Divisional expenses	(7,364)	(3,271)	(20,059)	(1,375)	(462)	(32,531)
EBITDA[1]	**700**	**670**	**4,705**	**217**	**(462)**	**5,830**
EBITDA %	8.7%	17.0%	19.0%	13.6%	–	15.2%
Depreciation and Amortisation	(248)	(178)	(985)	(66)	(60)	(1,537)
Operating profit before amortisation of acquired intangible assets	**452**	**492**	**3,720**	**151**	**(522)**	**4,293**
Amortisation of acquired intangible assets	–	–	–	–	(733)	(733)
Operating profit	**452**	**492**	**3,720**	**151**	**(1,255)**	**3,560**
Operating profit margin	5.6%	12.5%	15.0%	9.5%	–	9.3%
Add back non-recurring items	21	23	1,055	7	194	1,300
Operating profit excluding non-recurring items	473	515	4,775	158	(1,061)	4,860
Adjusted profit margin %	5.9%	13.1%	19.3%	9.9%	–	12.7%

[1]EBITDA = Earnings before interest, tax, depreciation and amortisation.
All of the amounts recorded are in respect of continuing operations.

5. Segmental analysis (continued)

Analysis of revenue by destination

	Half year to 31 Mar 2017 (Unaudited) £'000	Half year to 31 Mar 2016 (Unaudited) £'000
United Kingdom	8,714	8,351
America	21,393	15,189
Continental Europe	11,675	8,687
Asia-Pacific	10,371	6,134
	52,153	**38,361**

6. Income tax expense

Analysis of tax charge in the period

	Half Year to 31 Mar 2017 (Unaudited) £000	Half Year to 31 Mar 2016 (Unaudited) £000	Full Year to 30 Sep 2016 (Audited) £000
Current taxation			
UK Corporation tax	569	448	1,760
Overseas tax	517	319	887
Adjustments in respect of prior year tax charge	–	–	(77)
Total current tax	1,086	767	2,570
Deferred tax			
Origination and reversal of temporary differences	175	146	218
Adjustments in respect of prior year deferred tax	–	–	290
Impact of change in the UK tax rate	–	–	(30)
Total deferred tax	175	146	478
Income tax expense per income statement	**1,261**	**913**	3,048

The tax charge for the six months ended 31 March 2017 is based on the estimated effective rate of the tax for the Group for the full year to 30 September 2017. The estimated rate is applied to the profit before tax.

7. Earnings per share

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

	Half Year to 31 Mar 2017 (Unaudited) No.	Half Year to 31 Mar 2016 (Unaudited) No.	Full Year to 30 Sep 2016 (Audited) No.
Number of shares used for basic earnings per share	**24,374,577**	24,213,432	24,248,471
Dilutive shares	**376,517**	393,973	436,112
Number of shares used for dilutive earnings per share	**24,751,094**	24,607,405	24,684,583

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

	Half Year to 31 Mar 2017 (Unaudited) £000	Half Year to 31 Mar 2017 (Unaudited) p per share	Half Year to 31 Mar 2016 (Unaudited) £000	Half Year to 31 Mar 2016 (Unaudited) p per share	Full Year to 30 Sep 2016 (Audited) £000	Full Year to 30 Sep 2016 (Audited) p per share
Basic earnings per share	3,442	14.1p	2,614	10.8p	7,048	29.1p
Adjustments net of income tax expense:						
Amortisation of acquired intangible assets	583	2.4p	542	2.2p	930	3.8p
Goodwill impairment	–	–	–	–	771	3.2p
Gain on bargain purchase of Alfalight	–	–	–	–	(578)	(2.4p)
Provision for regulatory risk compliance	–	–	–	–	500	2.1p
Restructuring costs	257	1.0p	818	3.4p	1,261	5.2p
Transaction fees	210	0.9p	144	0.6p	373	1.5p
Interest on discounted deferred consideration	80	0.3p	–	–	–	–
Total adjustments net of income tax expense	1,130	4.6p	1,504	6.2p	3,257	13.4p
Adjusted basic earnings per share	4,572	18.7p	4,118	17.0p	10,305	42.5p
Basic diluted earnings per share	3,442	13.8p	2,614	10.6p	7,048	28.6p
Adjusted diluted earnings per share	**4,572**	**18.5p**	**4,118**	**16.7p**	**10,305**	**41.7p**

Adjusted earnings per share before amortisation and adjustments has been shown because, in the opinion of the Directors, it more accurately reflects the trading performance of the Group.

8. Dividend

The Directors have declared an interim dividend of 3.7 pence per share for the half year ended 31 March 2017. This dividend has not been accounted for within the period to 31 March 2017 as it is yet to be paid.

	Half Year to 31 Mar 2017 (Unaudited) £000	Half Year to 31 Mar 2016 (Unaudited) £000	Full Year to 30 Sep 2016 (Audited) £000
Final 2016 dividend paid : 5.7p per share	1,383	–	–
Final 2015 dividend paid : 5.2p per share	–	1,254	1,254
2016 Interim dividend paid: 3.3p per share	–	–	801
	1,383	1,254	2,055

9. Borrowings

The group's banking facilities with the Royal Bank of Scotland comprise a committed revolving credit facility of $15m and an uncommitted flexible acquisition facility of $20m both available until 30 April 2019.

The revolving credit facility attracts an interest rate of between 0.9% and 1.8% above LIBOR dependent upon the Company's leverage ratio.

10. Called up share Capital

	2017 No.	2016 No.	2017 £'000	2016 £'000
Allotted, issued and fully paid				
Ordinary share of 20p each	24,476,471	24,260,024	4,895	4,852

11. Acquisition of StingRay Optics LLC

On 21 February 2017, the Group completed the acquisition of the entire unit capital of StingRay Optics LLC, a Keene, New Hampshire, based specialist designer and manufacturer of high performance optical and opto-mechanical subsystems for demanding defence and commercial applications. The acquisition strengthened the Group's position in the aerospace and defence sector.

The consideration for the acquisition will be up to $20m comprising initial consideration of $7.5m paid in cash and $2.5m paid in new G&H ordinary shares. There is also deferred contingent consideration of up to $10m, payable in cash, based on the performance of the business for a period of up to three years post acquisition.

The fair value of the assets acquired is summarised as follows:

	Provisional fair value £'000
Property, plant and equipment	98
Intangible assets	7,986
Cash	231
Trade and other receivables	655
Inventory	1,058
Trade and other payables	(1,274)
Current and deferred tax assets	156
Net assets acquired	8,910
Consideration paid:	
Cash and shares paid on completion	7,996
Deferred consideration	7,013
Goodwill	6,099

The fair value of the intangible assets represents the estimated fair value of StingRay's order book, its customer relationships and its brand. These have been valued using a discounted cash flow model. The deferred consideration has been discounted using the company's weighted average cost of capital.

The goodwill arising on acquisition reflects items not separately recognised, including the expertise of StingRay's employees and their contacts in target markets.

Post-acquisition, the acquired business contributed £1.1 million of revenue and £0.3 million of profit after tax excluding central costs to the consolidated income statement.

G&H

the specialist manufacturer
of optical components and systems

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