ANDOR TECHNOLOGY PLC
("Andor")
Preliminary Results for the year ended 30 September 2009

24 November 2009

Andor Technology plc (AND.L), the leading developer and manufacturer of high performance digital cameras and solutions for academic, industrial and government applications globally, today announces preliminary results for the year ended 30 September 2009.

Financial Highlights

- Turnover up 34% to £33.1m (2008: £24.7m)
- *Operating profit up 63% to £3.4m (2008: £2.1m)
- *PBT up 67% to £3.5m (2008: £2.1m)
- *EPS up 79.4% to 11.57 pence (2008: 6.45 pence)
- Cash generation up 411% to £5.8m (2008: £1.1m)
- Strong cash position - net funds of £7.9m

*Pre exceptional items

Operational Highlights

- White paper launch of scientific CMOS image sensor technology
- 30% year-on-year growth in opening order book for 2010
- Continued growth in China and investment in sales channel
- Delivering against US$2.1m design contract

Commenting on the results Conor Walsh, Chief Executive, said:

"Andor has charted a path through the uncertainty of the past 12 months and delivered a strong set of results. As we look forward to 2010 we remain cautious about the economic outlook, the exposure we have as a global business to currency volatility, and the ever-increasing competition for business. But we are also optimistic, buoyed by the strength of our brand and our business, the technology we offer and will deliver over the coming year, and most of all the skill and diligence of our staff."

Enquires:		
Andor Technology plc	Conor Walsh Chief Executive	+44 (0) 28 9023 7126
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Notes to Editors:

Andor Technology plc (www.andor.com) is at the forefront of developing and manufacturing instruments for the global scientific imaging and spectroscopy markets. The company's range of CCD and intensified CCD camera systems are used throughout the world for academic, industrial and government research across a wide range of fields such as biotechnology, physics and chemistry. Using Andor products these customers can break new ground by performing experiments that were previously considered impossible. Independently conducted customer research confirms that Andor's low light solutions are considered world beating.

Established in 1989, Andor's corporate headquarters are in Belfast, Northern Ireland. Operating in a global market, Andor's US headquarters opened in Connecticut in 1997. Andor has regional sales offices in Europe, the US, Japan and China.

The company is listed on the London Stock Exchange's AIM market and commenced dealings in its ordinary shares in December 2004 (AND.L).

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Overview

This year we have reached a number of new milestones at Andor. We celebrate 20 years in business and, for the 12th year in succession we have increased our turnover, growing sales by 34% to £33.1m. We have recorded our largest ever full year growth in operating profit (before exceptional items) up 63%, and over the past two years operating profits (before exceptional items) have more than doubled from £1.4m to £3.4m. Finally, we have recorded the largest ever cash generation achieved in a 12 month period, delivering cash conversion from operating profit of 176% and actual cash generation of £5.8m in the 12 months to 30 September 2009.

These are challenging and volatile times in the global market and Andor is a global business. We export more than 90% of our product and in the year just finished we have benefited from the weakening of sterling against the other major currencies. We forward contract a significant proportion of our currency exposure, but as with all global businesses, we remain exposed to the volatility of the exchange rates going forward and specifically to a strengthening of sterling.

It is also worth recording that one third of the year was spent in an offer period. It is testament to the management team and the employees of Andor that they did not lose focus on the primary responsibility of running the business and executing the strategic plan. These results are achieved through their hard work, ability and dedication.

Geographic Review

For the 12th year in succession we have achieved record turnover of £33.1m, up 34% on the previous year. We said during 2008 that we were implementing a strategy to grow OEM sales in the US to counter the effects of reduced research funding available to our scientific customers. At the end of 2008 we said we were seeing the benefit of this with significant growth in order intake. We are therefore pleased to report at the end of 2009, that the biggest growth across all regions has been achieved in the US, growing sales by 58%.

We continue to see China as a significant growth opportunity for Andor and during the year we invested further in our direct and indirect channels. Sales grew 54% in the 12 month period and we have plans for further investment during 2010 to capitalise on this opportunity. In Japan sales grew by 53% however this performance, more than others, has benefited from the fluctuations in the exchange rate.

Europe has been one of our strongest growth markets over the past three years, especially due to the explosive performance of our systems division in this region. It is therefore no surprise that sales in Europe have grown 12% this year representing a consolidation on a number of years of strong growth.

Segment Review - Scientific Research

Scientific research customers are core to our business and directly represent 60% of revenue. Our traditional product offering has been a portfolio of cameras at the very highest end of the performance range. We continue to invest in these products and sales to this segment during the year grew by

44% to £19.7m.

While this remains core to our business going forward, we are implementing a strategy of increasing our addressable market by extending our product offering into the mid-range market. We launched this strategy in December 2007 and since then we have released three cameras - the Luca, the iVac and the Clara - all targeted at this mid-range market.

In June 2009 we made our most significant announcement as part of this expansion strategy. At the Laser Conference and Exhibition in Munich we announced, together with our partners, a breakthrough in scientific CMOS image sensor technology. This sensor technology is capable of outperforming most scientific imaging devices on the market today and has the potential to become the global detection platform of choice for demanding scientific photonics applications. This is still in the development phase and there remain risks associated with the delivery, however, the level of interest in this technology among the scientific community is extremely high and we are very optimistic about the medium term revenue potential.

Segment Review - OEM

OEM growth has been another focus for the business since December 2007 and I am pleased to report a reversal of the sales decline of 2008. During the year ended 30 September 2009 sales grew by 24% to £7.0m. This has been largely driven by a focused plan in the US which, over the last two years, has delivered two engineering and design contracts worth US$1.3m and US$2.1m each and also an order for a key US account for a custom designed product currently delivering US$3.0m per annum.

Over the coming years the delivery of the mid-range portfolio of cameras for the scientific research segment will create further opportunity in the OEM segment. Many of our existing customers have demand for product that we have not been able to satisfy historically. Our strategy in scientific research to expand our product portfolio into the mid-range market will also greatly increase our addressable market in OEM. The products, complemented by our investment in purpose built facilities and engineering capabilities, leave us well positioned to meet the needs of existing and new OEM accounts.

Segment Review - Systems Division

The systems division was created to provide a more complete solution to the customer and complements our other segments which tend to be more component based. Currently we offer the Andor Revolution® which is the complete solution for live cell microscopy. Last year we recorded growth of 109% and said our plan for 2009 was to consolidate on market share achieved. I am pleased to report sales for the full year grew by 20% to £6.4m (2008: £5.3m).

In the summer of 2009 we announced a new product to add to the portfolio and we expect this to be formally launched in the first half of the new financial year, a little later than planned. This product will target existing technology in the live cell field and will leverage our existing investment in channel to market and application knowledge. We are continuing to grow our geographic reach for this segment and I am pleased to report that following very strong performance in Europe last year, our biggest growth region this year was the US where we almost doubled sales in local currency. We are adding to our channel infrastructure in Asia Pacific and expect to see further growth in these regions over the coming years.

Financial Review

Turnover grew by 34% to £33.1m (2008: £24.7m). Europe is our largest geographic market with sales of £13.9m, up 12% on the previous year. Sales to the US grew by 58% to £11.7m while Asia Pacific in total grew by 53% to £7.5m. Europe now represents 42% of revenue, with the US at 35% and Asia Pacific totalling 23%.

Gross margin increased by 340 basis points to 51%. The market remains extremely competitive, but with the benefit of superior technology and helped by favourable currency movements our margins before production costs have improved by 380 basis points. Changes to duty classifications and a prudent view on stock provisioning have increased production costs relative to turnover by 40 basis points.

We continue to invest for growth and during the period operating costs (before exceptional items) grew from £9.6m to £13.4m. We increased our headcount by 33 (18%) with nearly all of those additions coming in operations and engineering. This investment considerably strengthens our ability to design and manufacture new product as well as continuously improve quality and meet market output demands. R&D expenditure grew to £3.2m representing 9.7% of turnover.

Operating profit (before exceptional items) grew by 63% from £2.1m to £3.4m and pre-exceptional operating margins grew by 180 basis points from 8.6% to 10.4%. We incurred £124,000 exceptional costs in the year relating to the offer period, which terminated in January 2009 (2008: £600,000). Net interest receivable was £72,000 (2008: £5,000 payable). Profit before tax increased by 124% to £3.4m and pre-exceptional profit before tax increased 67% from £2.1m to £3.5m.

The taxation charge for the period was £400,000 (2008: £379,000). Of this amount, £500,000 related to corporation tax payable with the balance being a deferred tax credit. This increase is due to the improvement in profit on ordinary activities before tax. The underlying effective tax rate is 14.2% before exceptional items, benefiting from the R&D tax credits and also a prior year provision reversal.

Basic earnings per share have increased from 4.22 pence per share in 2008 to 11.11 pence per share in 2009. Pre-exceptional basic earnings per share have increased from 6.45 pence per share in 2008 to 11.57 pence per share in 2009.

On 30 September 2009 Andor had had cash at bank and in hand of £10.0m and long term borrowings of £2.0m. In addition, we have available facilities of £1.3m secured against debtor balances and overdraft facilities of £0.3m.

Cash generation increased fourfold from £1.1m to £5.8m driven by improved profitability and better working capital management. Working capital to sales fell from 30% to 15%, a record low for the business. It is likely that due to the timing of sales and the funding required for growth, this will reverse slightly in 2010 but not to the level of previous years. Capital expenditure fell back to £0.5m (2008: £0.9m). This is a typical level when we are not making one-off strategic investments for growth. The business now has net assets of £16.4m.

Research and development expenditure was 9.7% of sales in 2009 (2008: 10.5%). This amount includes an impairment provision of £0.4m against capitalised development expenditure.

Board Developments
During the year we said goodbye to Jack Doherty who resigned having given sterling service to Andor since 2005. We also announced that our Chairman, Bryan Keating would be stepping down after the upcoming AGM to be succeeded by Colin Walsh. Bryan has been with Andor for nearly 10 years and his contribution to the growth and development of the business over that time has been immense. We wish both Jack and Bryan good luck in their future activities and thank them for their service. A search for an additional non-executive board member is also underway.

Outlook
Our strategy is clear. We want to grow through investment and innovation, achieving superior advantage in our technology and our cost structures. We want to develop our core business as the springboard to fund further growth by expanding our addressable market but staying within our area of expertise. We want to leverage our facilities and our resources to drive volume and increase capacity utilisation. And finally, we want to use the dual assets of our listing and our cash generation to deliver accelerated growth by seeking out acquisition opportunities that complement our existing business.

This has truly been an extraordinary year. Unprecedented economic conditions, massive uncertainty across all business sectors and extreme volatility in the currency markets will mean 2009 will be remembered for some time. Andor has charted a path through the uncertainty of the past 12 months and delivered a strong set of results. As we look forward to 2010 we remain cautious about the economic outlook, the exposure we have as a global business to currency volatility, and the ever increasing competition for business. But we are also optimistic, buoyed by the strength of our brand and our business, by the technology we offer and will deliver over the coming year, and, most of all, by the skill and diligence of our staff.

Profit and loss account for the year ended 30 September 2009

		2009	2008
	Notes	**£'000**	£'000
Turnover	2	**33,113**	24,717
Cost of sales		**(16,298)**	(13,010)

Gross profit		**16,815**	11,707
Net operating expenses	3	**(13,498)**	(10,192)
Operating profit before exceptional items		**3,441**	2,115
Exceptional items	5	**(124)**	(600)
Operating profit	4	**3,317**	1,515
Interest receivable		**128**	141
Interest payable and similar charges	8	**(56)**	(146)
Profit on ordinary activities before taxation	2	**3,389**	1,510
Tax on profit on ordinary activities	9	**(400)**	(379)
Profit for the financial year	21	**2,989**	1,131
Basic earnings per share (pence)	10	**11.11**	4.22
Diluted earnings per share (pence)	10	**10.60**	4.15

All amounts above relate to continuing operations of the company.

The company has no recognised gains and losses other than those included in the results above, and therefore no separate statement of total recognised gains and losses has been presented.

There is no material difference between the profit on ordinary activities before taxation and the profit for the year stated above and their historical cost equivalents.

Balance sheet as at 30 September 2009
Registered number: NI 22466

	Notes	**2009** **£'000**	2008 £'000
Fixed assets			

Intangible assets	11	**191**	589
Tangible assets	12	**5,405**	5,733
		5,596	6,322
Current assets			
Stocks	13	**6,291**	5,229
Debtors	14	**4,371**	5,767
Cash at bank and in hand		**9,979**	4,140
		20,641	15,136
Creditors: amounts falling due within one year	15	**(6,014)**	(4,075)
Net current assets		**14,627**	11,061
Total assets less current liabilities		**20,223**	17,383
Creditors: amounts falling due after more than one year	16	**(1,827)**	(2,138)
Provisions for liabilities	18	**(134)**	(234)
Deferred income	19	**(1,832)**	(1,680)
Net assets		**16,430**	13,331
Capital and reserves			
Called up share capital	20	**540**	538
Share premium account	21	**4,810**	4,786
Capital redemption reserve	21	**1,843**	1,843
Profit and loss account	21	**9,237**	6,164
Shareholders' funds	22	**16,430**	13,331

The financial statements on pages 15 to 34 were approved by the Board of directors on 23 November 2009 and were signed on its behalf:

Conor Walsh
Director

Cash flow statement for the year ended 30 September 2009

	Notes	2009 £'000	2008 £'000
Net cash inflow from operating activities	23	**6,730**	2,038
Returns on investments and servicing of finance			
Interest received		**128**	141
Interest paid		**(66)**	(150)
Net cash inflow/(outflow) from returns on investments and servicing of finance		**62**	(9)
Taxation			
Corporation tax paid		**(132)**	(43)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(469)**	(911)
Capital grant received		**-**	5
Net cash outflow from capital expenditure and financial investment		**(469)**	(906)
Net cash inflow before financing		**6,191**	1,080
Financing			
Issue of share capital		**2**	2
Premium on share issue		**24**	38
Invoice discounting		**(156)**	156
Repayment of principal of bank loan		**(222)**	(133)
Net cash (outflow)/inflow from financing		**(352)**	63
Increase in cash in the year	24, 25	**5,839**	1,143

Notes to the financial statements for the year ended 30 September 2009

1 Accounting policies

The accounts have been prepared on the going concern basis under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards. The significant accounting policies adopted are applied consistently and are set out below.

Intangible fixed assets

On the acquisition of businesses, fair values are attributed to their separable net assets, and where the value of the consideration exceeds the fair value of the net assets, the difference is treated as goodwill and capitalised in the balance sheet.
As permitted under the standard, qualifying research and development expenditure is capitalised within intangible fixed assets. The cost of other intangible fixed assets is their purchase cost. Intangible fixed assets are eliminated by amortisation through the profit and loss account over their useful economic lives. These amortisation periods are derived from the estimated useful lives of goodwill acquired and the lives of patent rights to intellectual property. The principal annual rates used are as follows:

	%
Goodwill	10
Patents and intellectual property	25

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation.

The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition. Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used are as follows:

	%
Freehold buildings	4
Plant & machinery	10 to 33

Land is not depreciated.

Impairment of non-financial assets

The company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or income-generating unit's net realisable value and its value in use and is determined for an individual asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the profit and loss account in those expense categories consistent with the function of the impaired asset.

Stocks and work in progress

Stocks are stated at the lower of cost and net realisable value. Cost for raw materials is calculated on a first in first out basis. Net realisable value for work in progress and finished goods is based on estimated selling prices less further costs expected to be incurred in bringing the stock to completion and disposal. Cost comprises materials, direct wages and other direct production costs together with a proportion of production overheads relevant to the stage of completion of work in progress and finished goods. Provision is made for slow moving and obsolete stocks.

Notes to the financial statements for the year ended 30 September 2009

1 Accounting policies (continued)

Turnover

Turnover represents the invoiced value of services provided and goods supplied during the year, excluding value added tax, and net of sales returns, trade discounts and rebates. Revenue is recognised upon customer receipt of products, which is when title to the product is passed to the customer. Turnover in respect of extended warranties is recognised over the extended warranty period.

Government grants

Grants that relate to capital expenditure are treated as deferred income, which is credited to the profit and loss account over the related asset's useful economic life. Revenue grants are credited to the profit and loss account to match the related expenditure.

Debtors

Debtors are stated after all known bad debts have been written off and specific provision has been made against all debts considered doubtful of collection.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profit and its results as stated in the financial statements. Deferred tax assets and liabilities recognised have not been discounted.

Pension costs

The company operates a defined contribution scheme for certain directors and employees. Contributions are charged to the profit and loss account in the period to which they relate.

Foreign currencies

Transactions in overseas currencies are translated at the exchange rate ruling at the date of the transaction or, where forward cover contracts have been arranged, at the contracted rates. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rates ruling at the balance sheet date or at a contracted rate if applicable and any exchange differences arising are taken to the profit and loss account.

Research and development expenditure

Payments made by the company to 3rd parties in respect of outsourced development activities are capitalised, within intangible fixed assets, and written off over the period in which the company expects to benefit. Research and development expenditure incurred directly by the company is written off as incurred.

Invoice discounting

Amounts due in respect of invoice discounting are separately disclosed as short term liabilities. The company can use this facility to draw down 80% of the value of sales invoices excluding Value Added Tax. There is a discounting charge of 1% above bank base rate.

Financial instruments

The company's policy is to hedge short term net foreign currency inflows from its sales in overseas markets. The company uses forward currency contracts to manage certain exposures to fluctuations in foreign currency exchange rates.

Notes to the financial statements for the year ended 30 September 2009

1 Accounting policies (continued)

Share-based payments

The company issues equity-settled share-based payments to certain employees which must be measured at fair value and recognised as an expense in the profit and loss account with a corresponding increase in equity. The fair values of these payments are measured at the dates of grant using option-pricing models, taking into account the terms and conditions upon which the awards are granted. The fair value is recognised over the period during which employees become unconditionally entitled to the awards, subject to the company's estimate of the number of awards which will lapse, either due to employees leaving the company prior to vesting or due to non-market based performance conditions not being met. Where an award has market-based performance conditions, the fair value of the award is adjusted at the date of grant for the probability of achieving these via the option pricing model. The total amount recognised in the income statement as an expense is adjusted to reflect the actual number of awards that vest, except where forfeiture is due to the failure to meet market-based performance measures. In accordance with the transitional provisions in FRS 20 "Share-based payment", the recognition and measurement principles in FRS 20 have only been applied to options and awards granted after 7 November 2002 that had not vested by 1 January 2006.

Comparative information

Certain comparative information has been restated to reflect a fairer comparison with the current year. This restatement relates to a reclassification of £495,000 from tangible fixed assets to intangible fixed assets. This restatement did not affect the company's profit for the year ended 30 September 2008 or its shareholders' funds as at 30 September 2008.

2 Segmental analysis

Geographical analysis of the company's turnover:

By destination	2009 £'000	2008 £'000
United Kingdom and Europe	**13,886**	12,376
United States of America	**11,747**	7,458
Asia Pacific	**7,480**	4,883
	33,113	24,717

All of the company's turnover originated in the United Kingdom.

Geographical analysis of profit before taxation:

By location	2009 £'000	2008 £'000
United Kingdom and Europe	**3,317**	1,515
United States of America	**-**	-
Asia Pacific	**-**	-
Operating profit	**3,317**	1,515
Net interest receivable/(payable)	**72**	(5)
Profit before taxation	**3,389**	1,510

Notes to the financial statements for the year ended 30 September 2009

2 Segmental analysis

Geographical analysis of net assets:

By location	2009 £'000	2008 £'000
United Kingdom and Europe	**12,245**	11,905

United States of America	**4,516**	2,711
Asia Pacific	**2,484**	1,483
Net operating assets	**19,245**	16,099
Corporation tax	**(632)**	(263)
Deferred tax	**(134)**	(234)
Net borrowings	**(2,049)**	(2,271)
Net assets	**16,430**	13,331

The company is engaged in only one class of business.

3 Net operating expenses

	2009	2008
	£'000	£'000
General administrative expenses	**3,340**	2,483
Product research and development	**3,223**	2,605
Total administrative expenses	**6,563**	5,088
Sales and marketing expenses	**6,935**	5,104
Net operating expenses	**13,498**	10,192

Notes to the financial statements for the year ended 30 September 2009

4 Operating profit

	2009	2008
	£'000	£'000
Operating profit is stated after charging/(crediting):		
Staff costs (note 6)	**9,864**	7,855
Depreciation of tangible fixed assets	**670**	699
Product research and development (including impairment charge in respect of intangible fixed assets)	**3,223**	2,605

Amortisation of intangible fixed assets	**33**	108
Amortisation of government capital grants	**(120)**	(135)
Government revenue grants receivable	**(399)**	(155)

During the year the company obtained the following services from its auditor at costs detailed below:

	2009	2008
	£'000	£'000
Fees payable to the company's auditor for the audit of the Company's annual accounts	**33**	33
Fees payable to the company's auditor for other services:		
- Taxation	**28**	29
- Corporate finance transactions	**8**	27
- All other services	**41**	91
	77	147
Total	**110**	180

5 Exceptional items

	2009	2008
	£'000	£'000
Fees incurred in relation to the takeover bids	**124**	600

Notes to the financial statements for the year ended 30 September 2009

6 Employee information

	2009	2008
	£'000	£'000
Staff costs:		

Wages and salaries	**8,488**	6,663
Social security costs	**799**	660
Cost of employee share option schemes	**84**	75
Other pension costs (1)	**493**	457
	9,864	7,855

The average monthly number of persons employed by the company (including directors) during the year was:	**2009 Number**	2008 Number
Production, engineering and research and development	**124**	111
Finance and administration	**13**	13
Sales and marketing	**66**	66
	203	190

(1) The company pension plan is a defined contribution plan. The contributions made to the plan were £493,000 (2008: £457,000). At the end of the year, contributions of £38,000 (2008: £39,000) representing unpaid contributions for September 2009, were outstanding.

7 Directors' emoluments

	2009 £'000	2008 £'000
Aggregate emoluments	**855**	698
Aggregate gains made on the exercise of share options	**-**	-
Company pension contributions to money purchase schemes	**57**	50

Retirement benefits are accruing to four (2008: four) directors under money purchase schemes.

8 Interest payable and similar charges

	2009	2008
	£'000	£'000

On bank loans and overdrafts	**54**	144
On invoice discounting	**2**	2
	56	146

Notes to the financial statements for the year ended 30 September 2009

9 Tax on profit on ordinary activities

	2009	2008
	£'000	£'000
UK Corporation tax at 28% (2008: 29%)	**665**	252
Adjustment in respect of previous periods	**(192)**	24
Overseas tax	**27**	16
Total current tax	**500**	292
Deferred tax at 28% (2008: 28%)	**(46)**	36
Adjustment in respect of previous periods	**(54)**	51
Total deferred tax	**(100)**	87
Tax charge for the year	**400**	379

The difference between the current tax on ordinary activities for the year, reported in the profit and loss account, and the current tax charge that would result from applying the standard rate of UK tax to the profit on ordinary activities before taxation, is explained as follows:

	2009	2008
	£'000	£'000
Profit on ordinary activities before tax	**3,389**	1,510
Profit on ordinary activities before tax at the rate of UK corporation tax of 28% (2008: 29%)	**949**	438
Excess depreciation over capital allowances	**64**	(46)
Research and development tax allowances	**(476)**	(305)

Timing differences - pension contributions	**-**	1
Excess foreign taxes suffered	**27**	16
Tax relief on exercise of share options	**(9)**	26
Deferred capital grant release	**(32)**	(39)
Net expenses not deductible for tax purposes	**181**	177
Industrial Buildings Allowance tax relief	**(12)**	-
Adjustments in respect of prior periods	**(192)**	24
Current tax charge for the year	**500**	292

Notes to the financial statements for the year ended 30 September 2009

10 Earnings per share

Earnings per ordinary share is based on profit for the financial year of £2,989,000 (2008: £1,131,000) and 26,900,576 ordinary shares (2008: 26,835,333), the weighted average number of ordinary shares in issue during the year.

Diluted earnings per share are calculated on the profit for the financial year and on an adjusted number of shares reflecting the number of dilutive shares under option:

2009	**Earnings £'000**	**Number of shares**	**EPS pence**
Basic EPS	**2,989**	**26,900,576**	**11.11**
Effect of dilutive securities - options		**1,296,667**	
Diluted EPS	**2,989**	**28,197,243**	**10.60**

2008	Earnings £'000	Number of shares	EPS Pence
Basic EPS	1,131	26,835,333	4.22
Effect of dilutive securities - options		414,962	

Diluted EPS	1,131	27,250,295	4.15

11 Intangible assets

	Goodwill £'000	Patents and intellectual property £'000	Development expenditure £'000	Total £'000
Cost				
At 1 October 2008 and **at 30 September 2009**	**350**	**248**	**495**	**1,093**
Aggregate amortisation				
At 1 October 2008	**343**	**161**	**-**	**504**
Impairment charge for the year	**-**	**-**	**365**	**365**
Charge for the year	**7**	**26**	**-**	**33**
At 30 September 2009	**350**	**187**	**365**	**902**
Net book value				
At 30 September 2009	**-**	**61**	**130**	**191**
At 30 September 2008	7	87	495	589

Notes to the financial statements for the year ended 30 September 2009

11 Intangible assets

Impairment testing

Development expenditure has been reviewed for impairment during the year using a value in use calculation using discounted future cash flows. The cash flow projections are over a period of 4 years, the expected period over which the company expects to benefit from the related development expenditure. The key assumption, which has been determined on the basis of management experience, is the discount rate of 20%.

Sensitivity to changes in assumptions

A movement of 1% in the discount rate would change the impairment charge during the year by £20,000.

12 Tangible assets

	Freehold land & buildings £'000	**Plant and machinery £'000**	**Total £'000**
Cost			
At 1 October 2008	**5,242**	**3,603**	**8,845**
Additions	**-**	**469**	**469**
Transfer to research & development expenditure	**-**	**(127)**	**(127)**
At 30 September 2009	**5,242**	**3,945**	**9,187**
Accumulated depreciation			
At 1 October 2008	**743**	**2,369**	**3,112**
Charge for the year	**197**	**473**	**670**
At 30 September 2009	**940**	**2,842**	**3,782**
Net book value			
At 30 September 2009	**4,302**	**1,103**	**5,405**
At 30 September 2008	4,499	1,234	5,733

13 Stocks

	2009 £'000	2008 £'000
Raw materials	**1,212**	931
Work in progress	**996**	1,090
Finished goods	**4,083**	3,208
	6,291	5,229

Included in finished goods is £1,983,000 (2008: £1,494,000) of demonstration stock.

Notes to the financial statements for the year ended 30 September 2009

14 Debtors

	2009 £'000	2008 £'000
Trade debtors	**4,207**	5,371
Other debtors	**62**	212
Prepayments and accrued income	**102**	184
	4,371	5,767

Trade debtors are subject to invoice discounting.

15 Creditors: amounts falling due within one year

	2009 £'000	2008 £'000
Bank loan (note 16)	**222**	133
Trade creditors	**1,838**	1,572
Invoice discounting (note 16)	**-**	156
Corporation tax	**632**	263
Other tax and social security	**196**	171

Accruals and deferred income	**3,126**	1,780
	6,014	4,075

16 Creditors: amounts falling due after more than one year

	2009	2008
	£'000	£'000
Bank loan	**1,827**	2,138

	2009	2008
	£'000	£'000
Maturity of bank loan and invoice discounting:		
Less than one year, or on demand	**222**	289
Between one and two years	**222**	133
Between two and five years	**666**	399
After more than five years	**939**	1,606
	2,049	2,427

The company's bank loan is denominated in sterling and is repayable by instalments over 15 years at a rate based on LIBOR plus a percentage. The bank loan is secured by fixed and floating charges over the assets of the company.

Notes to the financial statements for the year ended 30 September 2009

17 Financial instruments

The company's financial instruments comprise borrowings, its cash, other current assets and liabilities that arise directly from its operations. Short term debtors and creditors have been excluded from all the following disclosures, other than the currency risk disclosures.

Company policy, objectives and strategy

The main risks arising from the company's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks on an ongoing basis and they are summarised below.

Interest rate risk

The company finances its operations through retained profits and bank borrowings, including invoice discounting facilities. At the end of the current and prior years all of its financial liabilities on which interest is payable were at variable rates, and the company has not used interest rate swaps or other derivative instruments to manage the risk.

Liquidity risk

As regards liquidity, the company's policy is to maintain an appropriate spread of maturity to ensure continuity of funding. At 30 September 2009, 78% (2008: 83%) of its total financial liabilities were due to mature after 2 years.

Foreign currency risk

The company's revenues are mainly denominated in sterling and in US dollars, although substantially all of its costs are denominated in sterling. The company uses forward contracts as a method of hedging anticipated net foreign currency receipts. No other financial instruments are used to hedge foreign currency assets and revenues, although the company's exposure will continue to be monitored.

Interest rate risk profile of financial assets and financial liabilities

Financial assets

The company's financial assets, other than short term debtors, consist of sterling cash deposits and cash at bank. The deposits are placed on money markets at variable rates.

Financial liabilities

The interest rate profile of the company's financial liabilities at 30 September 2009 was:

	2009	2008

	£'000	£'000
Floating - bank, loan	**2,049**	2,271
Floating - bank, invoice discounting	**-**	156
	2,049	2,427

Maturity of financial liabilities

For the maturity profile of the company's financial liabilities at 30 September 2009, other than short term creditors and accruals, refer to note 16.

Borrowing facilities

The facilities available, but undrawn, at 30 September 2009 in respect of which all conditions precedent had been met were as follows £1,600,000 (2008: £1,344,000).

Notes to the financial statements for the year ended 30 September 2009

17 Financial instruments (continued)

Fair values of financial assets and financial liabilities

Set out below is a comparison by category of book values and fair values of the company's financial assets and liabilities as at 30 September 2009. Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale and excludes accrued interest.

	Book value		**Fair value**	
	2009	2008	**2009**	2008
	£'000	£'000	**£'000**	£'000
Primary financial instruments held or issued to finance the company's operations				
Short term borrowings	**222**	289	**222**	289
Long term borrowings	**1,827**	2,138	**1,827**	2,138

Financial assets	**9,979**	4,140	**9,979**	4,140

Summary of main methods and assumptions:

i) the fair value of short-term deposits approximates to the carrying amount because of their short maturity; and

ii) all bank borrowings, including invoice discounting facilities, are at variable rates.

Currency exposures

The table below shows the extent to which the company has net monetary assets in currencies other than sterling. Foreign exchange differences on retranslation of these assets and liabilities are taken to the profit and loss account.

	Net foreign currency monetary assets			
	US Dollar	**EU Euro**	**Japanese Yen**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Total 2009	**1,309**	**1,216**	**908**	**3,433**
Total 2008	1,757	2,946	298	5,001

Hedges

The company's policy is to hedge short term net foreign currency inflows from its sales in overseas markets. The table below shows the extent to which the company has off balance sheet (unrecognised) gains and losses in respect of financial instruments used as hedges at the beginning and end of the year. It also shows the amount of such gains and losses which have been included in the profit and loss account for the year and those gains and losses which are expected to be included in next year's profit and loss account.

	Unrecognised		**Total net**
	Gains	**Losses**	**gains/(losses)**
	£'000	**£'000**	**£'000**
Gains and losses on hedges at 30 September 2008	**97**	**(1)**	**96**
Arising in previous years and included in 2009 income	**(97)**	**1**	**(96)**
Gains and losses not included in 2009 income	**-**	**-**	**-**

Arising in 2009	**170**	**(268)**	**(98)**
Gains and losses on hedges at 30 September 2009, expected to be included in 2010 income	**170**	**(268)**	**(98)**

Notes to the financial statements for the year ended 30 September 2009

17 Financial instruments (continued)

	Unrecognised		Total net
	Gains	**Losses**	**gains/(losses)**
	£'000	**£'000**	**£'000**
Gains and losses on hedges at 30 September 2007	94	(26)	68
Arising in previous years and included in 2008 income	(94)	26	(68)
Gains and losses not included in 2008 income	-	-	-
Arising in 2008	97	(1)	96
Gains and losses on hedges at 30 September 2008, expected to be included in 2009 income	97	(1)	96

The company has entered into a series of contracts to sell €9,000,000 and $9,600,000 at fixed forward exchange rates. The settlement dates of the contracts fall in the period October 2009 to September 2010.

18 Provisions for liabilities

	Deferred taxation £'000
At 1 October 2008	**234**
Credited to the profit and loss account	**(100)**
At 30 September 2009	**134**

	2009	2008

	£'000	£'000
Deferred taxation:		
Accelerated capital allowances	**188**	284
Short term timing differences	**(54)**	(50)
	134	234

19 Deferred income

	Government grant £'000	Deferred revenue £'000	Total £'000
At 1 October 2008	**1,680**	**-**	**1,680**
Warranty revenue deferred during the year	**-**	**272**	**272**
Amortisation in the year	**(120)**	**-**	**(120)**
At 30 September 2009	**1,560**	**272**	**1,832**

Notes to the financial statements for the year ended 30 September 2009

20 Called up share capital

Allotted called up and fully paid (ordinary shares of £0.02 each)	**2009 Number**	**2009 £'000**
At 1 October 2008	**26,892,493**	**538**
Issued during the year	**115,000**	**2**
At 30 September 2009	**27,007,493**	**540**

During the year, the company issued an additional 115,000 £0.02 ordinary shares. The premium on issue amounted to £24,429.

Share option schemes

The company operates three share option schemes that grant options over its ordinary shares on a discretionary basis to its directors and employees:

i) the Inland Revenue approved Company Share Option Plan may grant options to employees other than directors. The total number of options in issue under the scheme may not exceed 20% of the issued ordinary share capital of the company, the options are exercisable at any time between three and ten years from the date of their grant and the exercise price is the market value of an ordinary share on the date of grant;

ii) the Enterprise Management Incentive Scheme may grant options to both employees and directors. The total number of options granted, taken together with the options granted in the preceding 10 years under this and other employee option schemes, may not exceed 10% of the company's ordinary share capital. The options are exercisable between two and ten years from the date of their grant and the exercise price shall not be less than the market value of an ordinary share. Whilst the exercise of an option may be conditional upon the satisfaction of performance conditions, to date no conditions have been attached; and

iii) the Long Term Incentive Plan scheme may grant options to both employees and directors. The total number of options granted, taken together with the options granted in the preceding 10 years under this and other employee option schemes, may not exceed 10% of the company's ordinary share capital. The options are exercisable between three and ten years from the date of their grant. The exercise of an option is conditional upon the satisfaction of performance conditions. For each period where Cumulative Profit is equal to or exceeds the Cumulative Profit Target, the Performance Target is achieved in full for the Cumulative Proportion of the Option capable of vesting for that year with 80% vesting at 80% Profit Target, and straight line vesting between 80% Profit Target and the Cumulative Profit Target.

Notes to the financial statements for the year ended 30 September 2009

20 Called up share capital (continued)

Details of the movements in the year in share options granted by the company are set out below:

	1 October 2008	Granted	Lapsed	Exercised	30 September 2009	Exercise Price (£)	Exercise period
Approved Company Share Option Plan							
	252,500	**-**	**-**	**(82,750)**	**169,750**	**0.14**	**2003 to 2010**
	185,200	**-**	**-**	**(21,000)**	**164,200**	**0.464**	**2004 to 2012**
	55,000	**-**	**-**	**(11,250)**	**43,750**	**0.48**	**2007 to 2014**

Enterprise Management Incentive Scheme

315,000	**-**	**-**	**-**	**315,000**	**0.464**	**2004 to 2012**
485,000	**-**	**-**	**-**	**485,000**	**0.48**	**2006 to 2014**
500,000	**-**	**-**	**-**	**500,000**	**0.98**	**2009 to 2016**
1,000,000	**-**	**-**	**-**	**1,000,000**	**0.93**	**2010 to 2016**
100,000	**-**	**-**	**-**	**100,000**	**1.20 1.12**	**2010 to 2017**
10,000	**-**	**-**	**-**	**10,000**		**2010 to 2017**

Long Term Incentive Plan Scheme

-	**700,000**	**-**	**-**	**700,000**	**0.02**	**2012 to 2020**

For share options granted during the year the following information is provided (information is calculated on a weighted average basis):

Arrangement	Long Term Incentive Plan
Nature of Arrangement	Share option scheme
Date of grant	22 June 2009
Number of instruments granted	700,000
Exercise price (£)	£0.02
Share priced at date of grant (£)	£1.15
Contractual life (years)	10
Performance conditions	80% of profit on a cumulative basis
Settlement	Equity
Expected volatility	57.5%
Expected option life at grant date (years)	4
Risk free interest rate	4.5%
Expected dividend (dividend yield)	0
Expected departures (per annum from grant date)	0
Fair value per granted instrument determined at the grant date (£)	1.3
Valuation model	Black Scholes

Notes to the financial statements for the year ended 30 September 2009

21 Share premium account and reserves

	Share premium account £'000	Capital Redemption reserve £'000	Profit and loss account £'000
At 1 October 2008	**4,786**	**1,843**	**6,164**
Issue of ordinary shares	**24**	**-**	**-**
Profit for the financial year	**-**	**-**	**2,989**
Adjustment in respect of employee share option schemes	**-**	**-**	**84**
At 30 September 2009	**4,810**	**1,843**	**9,237**

22 Reconciliation of movements in shareholders' funds

	2009 £'000	2008 £'000
At 1 October 2008	**13,331**	12,085
Issue of ordinary shares	**2**	2
Movement on share premium account	**24**	38
Profit for the financial year	**2,989**	1,131
Adjustment in respect of employee share option schemes (see note below)	**84**	75
At 30 September 2009	**16,430**	13,331

The adoption of FRS 20 has led to the cost of employee share option schemes being charged to administrative expenses within the profit and loss account, with an equal and opposite credit to the profit and loss account.

23 Net cash inflow from operating activities

	2009 £'000	2008 £'000
Operating profit	**3,317**	1,515
Depreciation charge	**670**	699

Amortisation of intangible fixed assets (including impairment charge)	**398**	108
Amortisation of capital grant	**(120)**	(135)
Increase in stocks	**(935)**	(786)
Decrease/(increase) in debtors	**1,396**	(281)
Increase in creditors	**1,920**	843
Adjustment in respect of employee share option schemes	**84**	75
Net cash inflow from continuing operations	**6,730**	2,038

Notes to the financial statements for the year ended 30 September 2009

24 Analysis of net funds

	1 October 2008 £'000	**Cash flow £'000**	**30 September 2009 £'000**
Cash at bank and in hand	4,140	**5,839**	**9,979**
Debt due after one year	(2,138)	**311**	**(1,827)**
Debt due within one year	(133)	**(89)**	**(222)**
	(2,271)	**222**	**(2,049)**
Net funds	1,869	**6,061**	**7,930**

25 Reconciliation of net cash flow to movement in net funds

	2009 £'000	2008 £'000
Increase in cash in financial year	**5,839**	1,143
Cash outflows from decrease in debt	**222**	133
Change in net debt resulting from cash flows	**6,061**	1,276
Movement in net funds in the year	**6,061**	1,276
Net funds at 1 October 2008	**1,869**	593
Net funds at 30 September 2009	**7,930**	1,869

26 Ultimate controlling party

There is no one ultimate controlling party. The shareholdings of the directors are shown in the directors' report.

27 Related party transactions

The only transactions with related parties in the year relate to directors' shareholdings and these have been disclosed in the Directors' Report on pages 5 to 9.