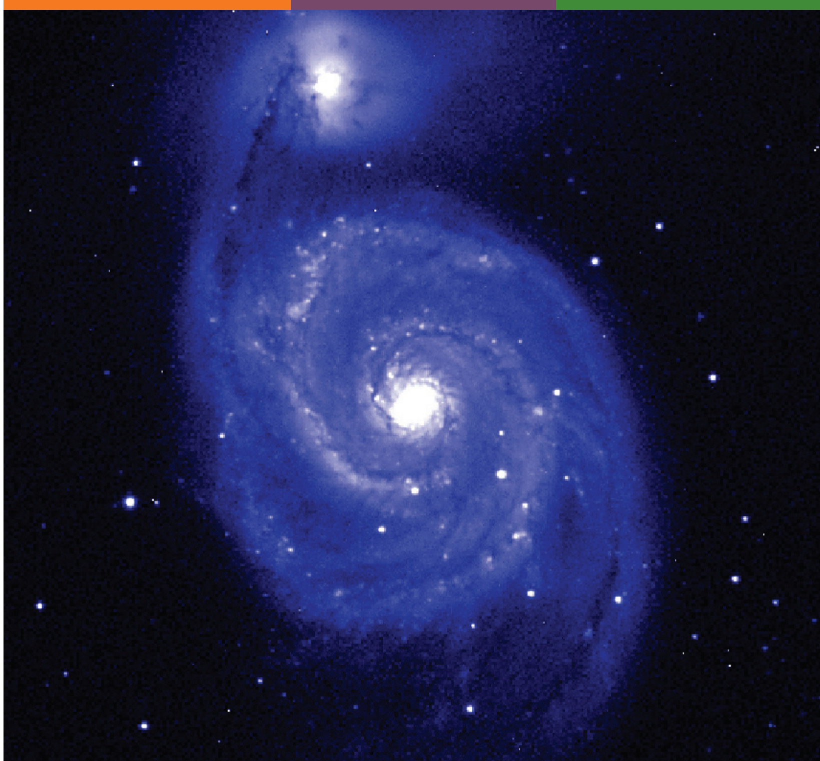
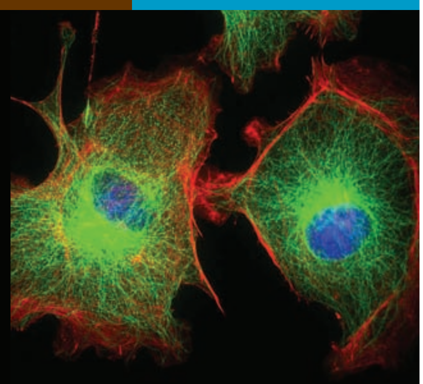
ANDOR™
TECHNOLOGY

ANNUAL REPORT **2009**





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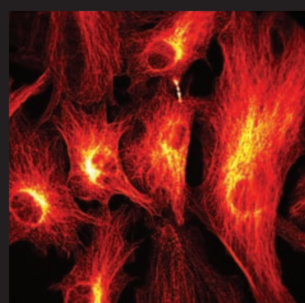
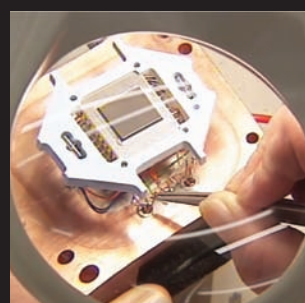
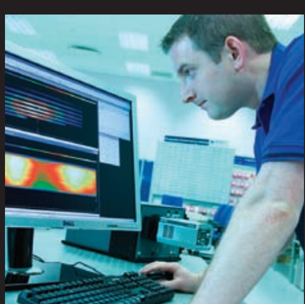
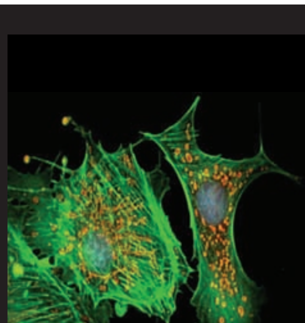
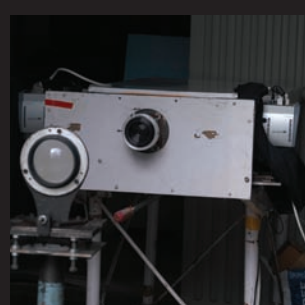
"This has truly been an extraordinary year. Unprecedented economic conditions, massive uncertainty across all business sectors and extreme volatility in the currency markets will mean 2009 will be remembered for some time. Andor has charted a path through the uncertainty of the past twelve months and delivered a strong set of results."

Conor Walsh, Chief Executive, Andor Technology plc



Main Photo Front Cover: Two interacting galaxies - M51 (Whirlpool Galaxy) and NGC 5195.
Courtesy of Prof. Andrzej Pigulski, Wroclaw University, Poland. Image taken with Andor iKon DW432 CCD Camera

Contents

Directors and advisers

Directors

Dr B Keating
(Chairman)
Mr C Calling
Dr D Denvir
Dr A Rice
Mr C Walsh
Mr C J Walsh
Mr P J Smith
Mr J A Doherty
(Resigned 18 June 2009)

Company Secretary

Ms S Quinn

Registered office

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Springvale Business Park
Belfast
BT12 7AL

Registered number

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Statutory auditors

PricewaterhouseCoopers LLP
Chartered Accountants and
Statutory Auditors
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Beijing 100029
PR China

Chief Executive's Statement

Conor Walsh
Chief Executive

Overview

This year we have reached a number of new milestones at Andor. We celebrate 20 years in business and leave behind us the label of university spin-out. 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 have grown operating profit (before exceptional items) by 155% from £1.4m to £3.4m. Finally, we have recorded the largest ever cash generation achieved in a twelve month period, delivering cash conversion from operating profit (before exceptional items) of 170% and actual cash generation of £5.8m in the twelve 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 never lost 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 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. I am 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 twelve 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% in the 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 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 $1.3m and $2.1m each and also an order for a key US account for a custom designed product currently delivering $3.0m per annum.

Over the coming years the delivery of the mid-range portfolio 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, leaves 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 we 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 totaling 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 £13.3m. 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.

Chief Executive's Statement (continued)

Financial Review (continued)

Operating profit (before exceptional items) grew by 63% from £2.1m to £3.4m and operating margins grew by 180 basis points from 8.6% to 10.4%. We incurred £124,000 exceptional costs in the period 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 increase in profit on ordinary activities before tax. The underlying effective tax rate (before exceptional items) is 14.2%, 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 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 411% 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 that this will reverse slightly in 2010 but not to the levels 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 (2008: 10.5%). This amount includes an impairment provision of £0.4m against capitalised development expenditure.

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 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.

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 twelve 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.

Conor Walsh, Chief Executive, 23 November 2009


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Directors' Report

The directors present their report and the audited financial statements for the year ended 30 September 2009.

Principal activities

The principal activities of the company are the development and manufacture of high performance digital cameras.

Review of business and future developments

Turnover for the year increased to £33.1m from £24.7m in 2008, a growth of 34%. Operating profit (before exceptional items) was £3.4m (2008: £2.1m) and pre tax profit was £3.4m (2008: £1.5m). Detailed discussions on the performance of the business and future developments are provided in the Chief Executive's Statement on pages 2 to 4.

Principal risks and uncertainties

The management of the business and the execution of the company's strategy are subject to certain risks. The key risks affecting the company include competition and foreign exchange. In order to manage competition risk the Board carries out regular strategic reviews including assessments of competitor activity and market trends. In terms of foreign exchange management, this is discussed under the section financial risk management below.

Key performance indicators

The company's key performance indicators include growth in turnover, operating profit and pre exceptional earnings per share. The results of each for the current year are as follows:

	2009 £'000	2008 £'000	Increase £'000
Sales	33,113	24,717	8,396
Operating profit (before exceptional items)	3,441	2,115	1,326
Earnings per share (pence) (before exceptional items)	11.57	6.45	5.12
Headcount	203	190	13

Environment

The company is committed to its corporate responsibility of carrying out operations whilst minimising environmental impacts. The directors' continued aim is to minimise and properly manage energy efficiency, reduce the waste generated by re-using and recycling waste materials wherever feasible and complying with all applicable environmental legislation. The company has developed an environmental management standard accredited to ISO14001:2004 to achieve this goal.

Health and safety

The company is committed to achieving the highest practicable standards in both health and safety management for all their operations and also recognise and are committed to promoting the well being of employees. The directors have implemented a comprehensive health and safety management system accredited to OHSAS 18001:2008 to exceed the legislative requirements, maintain safe and healthy working conditions, establish objectives and targets and achieve continual improvement.

Directors' Report (continued)

Human resources

The company's most important resource is its people; their knowledge and experience is crucial to meeting customer requirements. Retention of key staff is critical but not a risk and the company has invested increasingly in employment training and development and has introduced appropriate incentive and career progression arrangements.

Financial risk management

The company's operations expose it to a variety of financial risks that include the effects of changes in foreign currency rates, interest rate risk, credit risk and liquidity risk. The company has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the company by monitoring levels of debt finance and the related finance costs.

The Board reviews and agrees policies for managing each of these risks on an ongoing basis and they are summarised below.

Foreign currency risk

The company's treasury policies are designed to manage financial risks that arise from operating in a number of foreign currencies and to maximise interest income on cash deposits. The global nature of Andor's business means that we are exposed to fluctuations in exchange rates on trading transactions and on the translation of foreign currency denominated net assets. The company's policy is firstly to maximise the source of product supplies in these currencies and then to hedge the balance of foreign currency inflows using forward contracts. All Sterling and foreign currency balances not immediately required for company operations are placed on short-term deposit with leading international highly rated financial institutions. 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

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.

Credit risk

The company has implemented policies that require appropriate credit checks on potential customers before sales are made. The amount of exposure to individual customers is subject to a limit, which is reassessed regularly by the Board.

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.

Research and development

The company continues to invest in research and development in support of its product range, and expenditure in the year amounted to £3,223,000 (2008: £2,605,000).

Donations

The company made no political donations during the year (2008: £nil). Charitable donations amounted to £3,000 (2008: £4,000) and were made principally for the benefit of local communities in which the company operates.

Directors and their interests

The directors who served during the year are shown on page 1. The interests held in shares of the company by the directors who held office at the end of the financial year, all of which are beneficial holdings, were as follows:

	Ordinary Shares of £0.02 each 2009 (Number)	Ordinary Shares of £0.02 each 2008 (Number)
Mr C Calling	236,250	243,750
Dr D Denvir	2,362,075	2,462,075
Dr B Keating (Chairman)	683,750	683,750
Dr A Rice	20,000	20,000
Mr C Walsh	50,000	50,000
Mr C J Walsh (non-executive)	190,789	190,789

No director had any interest in any company contract during the year.

Dr A Rice, Dr B Keating and Mr Colin Walsh retire by rotation and being eligible, offer themselves for re-election.

Substantial shareholdings

There were the following holdings of more than 3% of the company's issued ordinary share capital as at 30 September 2009.

	Number of shares	Percentage of the issued class of share capital
Nortrust Nominees Limited	2,906,131	10.76
HSBC Global Custody Nominee (UK) Limited	2,551,742	9.45
Dr Donal Denvir	2,362,075	8.75
Vidacos Nominees Limited	2,060,698	7.63
HSDL Nominees Limited	1,577,239	5.84
The Bank of New York Nominees Limited	1,492,500	5.53
Qubis Limited	1,481,860	5.49
Hargreave Hale Nominees Limited	1,354,667	5.02
Mr Martin Catney	1,229,625	4.55
BNY (OSC) Nominees Limited	1,046,395	3.87
Goodbody Stockbrokers Nominees Limited	836,927	3.10

There have been no material changes to shareholdings since the balance sheet date.

Directors' Report (continued)

Employees

The company has continued its practice of keeping employees informed of matters affecting them as employees and the financial and economic factors affecting its performance. This is achieved through meetings and newsletters.

Applications for employment by disabled persons are given full and fair consideration for all vacancies in accordance with their particular aptitudes and abilities. In the event of employees becoming disabled, every effort is made to retrain them in order that their employment with the company may continue.

It is the policy of the company that training, career development and promotion opportunities should be available to all employees.

Supplier payment policy

The company's policy is to comply with the terms of payment agreed with suppliers when terms of business are established. At 30 September 2009, the company's trade creditors represented 61 days of purchases (2008: 56 days).

Share capital

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

Dividends

In the light of the opportunities which are open for the company to invest in, the directors do not recommend that a dividend on ordinary shares be declared for the year ended 30 September 2009 (2008: nil).

Statement of directors' responsibilities

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Statement of disclosure of information to auditors

So far as each of the directors in office at the date of approval of these financial statements is aware:

- there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Statutory auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

On behalf of the Board
Conor Walsh
Director
23 November 2009

Report of the remuneration committee

(This part of the report is unaudited)

The Board recognises that directors' remuneration is of legitimate concern to shareholders and is committed to following current best practice.

Remuneration committee

Since August 2001, the remuneration policy for executive directors and the determination of individual directors' remuneration packages has been delegated to the remuneration committee which consists only of non-executive directors. During the financial year ended 30 September 2009, the remuneration committee comprised Dr B Keating, and Mr C J Walsh (Chairman).

Remuneration policy

Andor's executive remuneration packages are designed to attract, motivate and retain directors of the calibre necessary to maintain the company's position as a growing international business. The performance measurement of the executive directors and the determination of their annual remuneration packages are undertaken by the remuneration committee. The four main elements of their remuneration package are basic annual salary, participation in the company's profit related pay scheme, annual executive bonus payment and share option incentives (available to all executive directors).

The committee reviews each executive director's basic salary annually. In deciding upon appropriate levels of remuneration the committee has regard to rates of pay for similar jobs in comparable companies as well as internal factors such as the achievement of strategic objectives, improvement in operating efficiency and overall company performance. Executive directors' basic salaries were last reviewed on 1 January 2009.

The committee establishes the objectives which must be met before an annual executive bonus may be paid. The committee believes that the award of any bonus must be tied to the interests of the shareholders and that the principal measure of those interests is sustainable long term growth in shareholder value.

The committee considers that share ownership by directors strengthens the link between their personal interests and those of the other shareholders. This is achieved through the award of options under the share schemes detailed at note 20 to the financial statements. Options granted in the year are subject to the achievement of performance conditions.

Service contracts

Each of the executive directors have service agreements with the company, which are terminable by either party within a defined notice period as stipulated in their service agreement. The effective dates and notice periods are as follows:

Executive director	Date	Notice period
Dr D Denvir	1 November 1990	6 months
Mr C Walsh	14 October 2002	6 months
Dr A Rice	23 February 2004	6 months
Mr C Calling	1 September 1997	6 months

The non-executive directors have letters of appointment. They do not participate in the company's bonus arrangements or pension scheme.

Report of the remuneration committee (continued)

Auditable information

The following information has been audited by the company's auditors, PricewaterhouseCoopers LLP.

Details of directors' remuneration

The emoluments for the Chairman, executive and non-executive directors for the year are set out below. This information forms part of the audited financial statements:

	Salary & Fees	Benefits[5]	Profit Related Pay	Bonus	2009 Total excluding pension	2008 Total excluding pension	2009 Pension	2008 Pension
	£	£	£	£	£	£	£	£
Executive								
Mr C Calling	120,340	13,014	12,759	62,002	208,115	127,206	15,913	11,135
Dr D Denvir	93,500	590	9,739	48,000	151,829	115,486	12,305	11,202
Dr A Rice	92,500	384	9,635	47,500	150,019	113,564	12,173	11,022
Mr C Walsh	128,750	1,107	13,405	91,000	234,262	181,844	16,943	16,285
Non-executive								
Dr B Keating [1] (Chairman)	27,500	-	-	-	27,500	20,000	-	-
Mr C J Walsh [2]	17,000	-	-	-	17,000	8,000	-	-
Mr J A Doherty[3]	27,220	-	-	-	27,220	60,154	-	-
Mr P J Smith[4]	38,899	-	-	-	38,899	72,154	-	-
	545,709	15,095	45,538	248,502	854,844	698,408	57,334	49,644

(1) An amount of £27,500 (2008: £20,000) was paid to CIP Partnership for director's services.

(2) An amount of £17,000 (2008: £8,000) was paid to Crescent Capital (NI) Limited for director's services.

(3) Mr JA Doherty resigned as a director of the company on 18 June 2009. An amount of £11,385 (2008: £51,700) was paid for services as a member of the independent committee of the Andor board which was constituted to consider all matters relating to the potential acquisition of the business.

(4) An amount of £19,900 (2008: £56,150) was paid for services as a member of the independent committee of the Andor board which was constituted to consider all matters relating to the potential acquisition of the business.

(5) Benefits include private health care and car allowances.

Details of options granted to the directors of the company under the company schemes detailed at note 21 are:

	1 October 2008	Granted	Exercised	30 September 2009	Exercise Price £	Exercise Period
Approved Company Share Option Plan						
Mr C Calling	53,500	-	-	53,500	0.14	2003 to 2010
Long Term Incentive Plan						
Mr C Calling	-	95,000	-	95,000	0.02	2012 to 2020
Mr C Walsh	-	130,000	-	130,000	0.02	2012 to 2020
Dr A Rice	-	95,000	-	95,000	0.02	2012 to 2020
Dr D Denvir	-	96,000	-	96,000	0.02	2012 to 2020
Enterprise Management Incentive Scheme						
Mr C Calling	175,000	-	-	175,000	0.46	2004 to 2012
Mr C Walsh	90,000	-	-	90,000	0.46	2004 to 2012
Dr A Rice	250,000	-	-	250,000	0.48	2006 to 2014
Mr C Walsh	120,000	-	-	120,000	0.48	2006 to 2014
Mr C Calling	250,000	-	-	250,000	0.93	2010 to 2016
Mr C Walsh	250,000	-	-	250,000	0.93	2010 to 2016
Dr D Denvir	250,000	-	-	250,000	0.93	2010 to 2016
Dr A Rice	250,000	-	-	250,000	0.93	2010 to 2016

Share options are granted at nil cost. Options granted in the year are subject to the achievement of performance conditions. The market price of shares during the year ranged from £0.57 to £1.34 and closed at £1.30 on 30 September 2009. Refer to note 20 for details of the share option scheme. The remuneration committee received external advice from PricewaterhouseCoopers LLP in respect of share incentive awards.

Pension arrangements

The executive directors are members of the company's defined contribution scheme, and details of the company contributions are shown in the table on page 14.

Compensation for past directors

No awards have been made to any former directors of the company by way of compensation for loss of office, pensions or otherwise in the financial year ended 30 September 2009.

Payments to third parties

Other than the amounts noted in the table on page 14, no other payments have been made to any third parties for making available services of any of the company's directors in the financial year ended 30 September 2009.

The directors' remuneration report has been approved by the Board of directors, and signed on its behalf by:

Colin J Walsh
Chairman, Remuneration Committee
23 November 2009

Independent auditors' report to the members of Andor Technology plc

We have audited the financial statements of Andor Technology plc for the year ended 30 September 2009, which comprise the profit and loss account, the balance sheet, the cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the directors' responsibilities statement set out on page 9 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Sections 495 and 496 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2009 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Other matters

At the request of the directors, we have also audited the Report of the Remuneration Committee that is described as having been audited. In our opinion, the part of the Report of the Remuneration Committee to be audited has been properly prepared in accordance with the Companies Act 2006.

Kevin MacAllister (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Belfast

23 November 2009

The maintenance and integrity of the Andor Technology plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.


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Profit and loss account for the year ended 30 September 2009

	Notes	2009 £'000	2008 £'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

	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 19 to 39 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.

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.

Notes to the financial statements for the year ended 30 September 2009 (continued)

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.

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

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.

Notes to the financial statements for the year ended 30 September 2009 (continued)

3. Net operating expenses

	2009 £'000	2008 £'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

4. Operating profit

Operating profit is stated after charging/(crediting):	2009 £'000	2008 £'000
Staff costs (note 6)	9,864	7,855
Depreciation of tangible fixed assets	670	699
Research and development (including impairment charge in respect of intangible fixed assets)	3,223	2,605
Amortisation of intangible 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 £'000	2008 £'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 £'000	2008 £'000
Fees incurred in relation to the takeover bids	124	600

6. Employee information

	2009 £'000	2008 £'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

	Number	Number
The average monthly number of persons employed by the company (including directors) during the year was:		
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.

The report of the remuneration committee, which details the emoluments of all directors including the highest paid director, is set out on pages 13 to 15.

Notes to the financial statements for the year ended 30 September 2009 (continued)

8. Interest payable and similar charges

	2009 £'000	2008 £'000
On bank loans and overdrafts	54	144
On invoice discounting	2	2
	56	146

9. Tax on profit on ordinary activities

	2009 £'000	2008 £'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 £'000	2008 £'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

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

Impairment Testing

Developing 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 assupmtions

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

Notes to the financial statements for the year ended 30 September 2009 (continued)

12. Tangible assets

	Freehold land and 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.

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

	2009 £'000	2008 £'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 (continued)

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 £'000	2008 £'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).

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 £'000	2008 £'000	2009 £'000	2008 £'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 £'000	EU Euro £'000	Japanese Yen £'000	Total £'000
Total 2009	1,309	1,216	908	3,433
Total 2008	1,757	2,946	298	5,001

Notes to the financial statements for the year ended 30 September 2009 (continued)

17. Financial instruments (continued)

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 £'000	Losses £'000	gains/(losses) £'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)

	Unrecognised		Total net
	Gains £'000	Losses £'000	gains/(losses) £'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 £'000	2008 £'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

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.

Notes to the financial statements for the year ended 30 September 2009 (continued)

20. Called up share capital (continued)

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.

Detais 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	2010 to 2017
	10,000	-	-	-	10,000	1.12	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

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

Notes to the financial statements for the year ended 30 September 2009 (continued)

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

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 7 to 11.

Notes...

Notes...

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Spectroscopy Solutions

Microscopy Systems

Time Resolved Cameras

X-Ray Cameras

OEM Solutions

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