

# Half-Year Report of *Electro Optic Systems Holdings Limited* for the Half-Year Ended 30 June 2009

ACN 092 708 364

*This Half-Year Report is provided to the Australian Stock Exchange (ASX) under ASX Listing Rule 4.2A.3.*

Current Reporting Period: Half year ended 30 June 2009

Previous Corresponding Period: Half year ended 30 June 2008

# **ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED**

## **Results for Announcement to the Market**

### **Revenue and Net Profit**

		<b>Percentage Change %</b>	<b>Amount</b>
Revenue from ordinary activities	Down	19.5	To \$21,405,322
Profit from ordinary activities after tax attributable to members	Down	93.2	To \$163,937
Net profit attributable to members	Down	93.2	To \$163,937

### **Dividends (Distributions)**

	<b>Amount per security</b>	<b>Franked amount per security</b>
Final dividend	Nil¢	Nil¢
Interim dividend	Nil¢	Nil¢
Record date for determining entitlements to the dividend:		
• final dividend		N/A
• interim dividend		N/A
Net tangible assets at 30 June 2009		\$5,951,722
Number of ordinary shares outstanding at 30 June 2009		56,845,926
NTA per ordinary share at 30 June 2009		10.47 cents
NTA per ordinary share at 30 June 2008		9.99 cents

### **Brief Explanation of Revenue, Net Profit/(Loss) and Dividends (Distributions)**

Refer to Directors' Report

***Review of Operations***

**1. RESULTS FOR HALF-YEAR ENDING 30 JUNE 2009**

The consolidated entity ("EOS") reported an operating profit before tax of \$163,937 for the 6 month period to 30 June 2009 [2008: \$2,400,974] based on revenues totalling \$21,405,322 [2008: \$26,590,236].

The consolidated entity reported net cash used from operations for the 6 month period totalling \$7,295,494 [2008: \$10,537,240 inflow]. At 30 June 2009, the consolidated entity held cash totalling \$8,911,149 [2008: \$22,522,095]. Cash of \$5,813,277 [2008: \$5,616,713] is restricted as it secures bank guarantees relating to performance on some contracts. The cash will become unrestricted as the contracts are completed or renegotiated. The current expectation is that \$5,308,376 of the restricted cash will become unrestricted by 30 April 2010.

**2. MILITARY BUSINESS**

In 2008 EOS started to diversify its product range through accelerated product development and teaming agreements to provide a suite of remote operating weapon systems to satisfy demand across multiple weight categories and vehicle platforms.

Substantial progress was made during 2008 and in this reporting period the company continued this focus:

- EOS continues to maintain a strong, shipment-ready inventory of its existing 200 kg weapon system products and has focused production resources and capacity for the second half of 2009 on full-rate production of its new [300kg] weapon system.
- EOS established full rate production of the 300 kg weapon system. This system entered production and was progressively ramped to full production volume by 30 June. All of EOS production capacity in both Australia and the US is engaged in production of this system for current orders. The product is performing as expected.
- EOS has plans to expand its remote weapon system product range to include 100 kg weapon systems for very light military vehicles. EOS has several options in this segment, including derivatives of its Redback weapon system. This effort will continue in the second half of 2009.

The outlook for the military business remains relatively optimistic based on feedback from existing customers.

In Australia the company expects demand for remote weapon system products to continue to evolve over the next decade, and is actively engaged to provide support for the Australian Defence Capability Plan which will shape future requirements.

Internationally EOS also continues to address new opportunities and conduct live demonstrations for potential customers and partners. International sales are expected to account for most EOS revenue in this sector in 2009 and growth is expected.

***Review of Operations***

**3. SPACE BUSINESS**

**Space Operations Business**

Space operations contracts for provision of laser tracking and other data for satellites to the Australian Government from two separate sites in Australia continue to operate at the highest levels of performance anticipated in those contracts. EOS routinely receives the highest-available rating for performance and bonus payments under these contracts.

These ongoing and long-term space data contracts provide an operational and contractual framework for future expansion of space data services at a time of increasing demand.

**Space Systems Business**

EOS is a global provider of large optical telescopes. A key reason for participation in this market has been the requirement for new performance levels and new technology that may relate to space programs in space surveillance and space observation that EOS may participate in.

The EOS telescope business performance has steadily improved over the past year, and has delivered and installed two major telescopes in that period. During the reporting period EOS delivered the 1.3m Skymapper telescope for the Australian National University at Coonabarabran NSW and a 2.4m telescope to the University of California Santa Cruz LICK Observatory.

EOS can now build and deploy operationally-proven designs that can meet next-generation space surveillance requirements. The company believes that its technologies provide a uniquely effective solution to those complex requirements.

EOS is also exploring opportunities with the Australian National University to participate in the Giant Magellan Telescope (GMT) project and is confident that its current technology and infrastructure will be of benefit to the GMT consortium.

**Space Surveillance Business**

The relevance of EOS space surveillance and space ablation technologies to emerging requirements continues to increase. EOS investment in these areas continues, focussed through direct interaction with prospective customers.

The dramatic increase in the population of space debris in low earth orbit over the past 2 years has highlighted the threat to space infrastructure. There are now several major and coordinated global efforts to address this problem as soon as possible, and EOS is positioning its technology and capabilities to respond to this potential market.

EOS space ablation technology for debris removal, which the company believes is cost effective, is recently finding early-stage interest. EOS believes the cost of deploying this technology, and the increased sophistication required of the supporting space surveillance infrastructure is becoming more acceptable to potential customers.

EOS has also developed space technology applicable to the defence of Australia, in areas including space surveillance, space situation awareness and theatre defence using directed energy. The recent Australian Defence White Paper recognises the need for all of these

***Review of Operations***

technologies and provides EOS an opportunity to demonstrate the suitability of its technology and product offerings in its home market.

**4. SUMMARY AND OUTLOOK**

EOS enters the second half of 2009 with its operations well-placed.

The company has an expanded product range and strong inventory of remote weapon systems. The transition to full production of the new weapon system has been completed successfully. EOS expects to have its production facilities operating at capacity, through the second half of 2009.

The emergence of potential domestic Australian demand for EOS space systems is a positive development. EOS space systems is also expected to receive continued interest through to 2010.

The company has a cautiously optimistic outlook for its full-year performance in 2009, with caution due principally to the diminishing but still real possibility of disruption to the normal course of its business due to the global economic crisis, and exchange rate volatilities.

Ben Greene  
Chief Executive Officer  
31 August 2009

# **ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED**

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## **Directors Report**

The directors of Electro Optic Systems Holdings Limited submit herewith the financial report for the half-year ended 30 June 2009. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

The names of the directors of the company during or since the end of the half year are:

Mr Fred Bart (Chairman)  
Dr Ben Greene (Chief Executive Officer)  
Mr Ian Dennis  
Mr Mark Ureda  
Mr Peter Leahy (Appointed 4 May 2009)  
Mr Robert Schuitema (Resigned 30 April 2009)

### **Review of Operations**

A detailed review of operations is included on pages 3 to 5 of this financial report.

### **Auditor's independence declaration**

The auditor's independence declaration is included on page 7 of the half-year financial report.

Signed in accordance with a resolution of the directors made pursuant to s.306(3) of the Corporations Act 2001.

On behalf of the Directors



I.A Dennis  
Director  
Sydney, 31 August 2009

The Board of Directors  
Electro Optic Systems Holdings Limited  
Level 12, 75 Elizabeth Street  
SYDNEY NSW 2000

31 August 2009

Dear Board Members

**Electro Optic Systems Holdings Limited**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Electro Optic Systems Holdings Limited.

As lead audit partner for the review of the financial statements of Electro Optic Systems Holdings Limited for the half-year ended 30 June 2009, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



David Black  
Partner  
Chartered Accountants

## **Independent Auditor's Review Report to the members of Electro Optic Systems Holdings Limited**

We have reviewed the accompanying half-year financial report of Electro Optic Systems Holdings Limited, which comprises the statement of financial position as at 30 June 2009, and the statement of comprehensive income, statement of cash flows and statement of changes in equity for the half-year ended on that date, selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 10 to 25.

### *Directors' Responsibility for the Half-Year Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2009 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Electro Optic Systems Holdings Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



### *Auditor's Independence Declaration*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

### *Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Electro Optic Systems Holdings Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2009 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

### *Material Uncertainty Regarding Continuation as a Going Concern*

Without qualifying our conclusion, we draw attention to Note 1 in the financial report which indicates the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

### *Material Uncertainty Regarding Contractual Dispute*

Without qualifying our conclusion, we draw attention to Note 7 in the financial report. An entity within the consolidated entity is currently involved in a contractual dispute with a customer. The ultimate outcome of the dispute cannot presently be determined, and no provision for any liability that may result has been made in the financial report.

*Deloitte Touche Tohmatsu*

DELOITTE TOUCHE TOHMATSU

*D. Black*

David Black  
Partner  
Chartered Accountants  
Canberra, 31 August 2009

# ***ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED***

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## **Directors' Declaration**

The directors declare that:

a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the Corporations Act 2001.

On behalf of the Directors

A handwritten signature in black ink, appearing to read 'I A Dennis', with a stylized flourish at the end.

I A Dennis  
Director  
Sydney, 31 August 2009

***ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED***

**Condensed Consolidated statement of comprehensive income  
for the half-year ended 30 June 2009**

	Note	Half-year ended 30 June 2009 \$	Half-year ended 30 June 2008 \$
Revenue	2(a)	21,405,322	26,590,236
Other Income	2(c)	-	707,783
Other Revenue	2(b)	112,616	477,136
Changes in inventories of finished goods and work in progress		(715,653)	(9,756,413)
Raw materials and consumables used		(10,888,052)	(5,979,579)
Employee benefits expense		(6,186,548)	(6,578,570)
Administrative costs		(2,742,990)	(1,568,425)
Finance costs		(112,204)	(9,770)
Depreciation expense	2(c)	(83,881)	(262,004)
Lease expenses		(37,150)	(115,549)
Occupancy costs		(556,739)	(614,902)
Other expenses		(30,784)	(488,969)
<b>Profit before income tax expense</b>	2	163,937	2,400,974
Income tax expense		-	-
<b>Profit for the period</b>	4	163,937	2,400,974
<b>Other comprehensive income</b>			
Exchange differences arising on translation of foreign operations		1,128,369	126,688
Income tax relating to components of other comprehensive income		-	-
		1,128,369	126,688
<b>Total comprehensive income for the period</b>		1,292,306	2,527,662
<b>Earnings per share:</b>			
Basic (cents per share)	6	0.3	4.2
Diluted (cents per share)	6	0.3	4.2

Notes to the condensed consolidated financial statements are included on pages 15 to 25

***ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED***

**Condensed Consolidated statement of financial position  
as at 30 June 2009**

	Note	30 June 2009 \$	31 December 2008 \$
<b><i>Current Assets</i></b>			
Cash and cash equivalents		8,911,149	17,611,137
Trade and other receivables		8,155,655	3,119,578
Inventories		4,496,048	8,502,095
Other - Prepayments		199,397	287,805
<b><i>Total Current Assets</i></b>		<b>21,762,249</b>	<b>29,520,615</b>
<b><i>Non-Current Assets</i></b>			
Property, plant and equipment		341,386	417,641
<b><i>Total Non-Current Assets</i></b>		<b>341,386</b>	<b>417,641</b>
<b><i>Total Assets</i></b>		<b>22,103,635</b>	<b>29,938,256</b>
<b><i>Current Liabilities</i></b>			
Trade and other payables		5,758,499	14,301,344
Borrowings		2,812,067	3,311,454
Provisions		7,529,278	7,693,544
Other		42,870	109,893
<b><i>Total Current Liabilities</i></b>		<b>16,142,714</b>	<b>25,416,235</b>
<b><i>Non-Current Liabilities</i></b>			
Borrowings		9,199	16,659
<b><i>Total Non-Current Liabilities</i></b>		<b>9,199</b>	<b>16,659</b>
<b><i>Total Liabilities</i></b>		<b>16,151,913</b>	<b>25,432,894</b>
<b><i>Net Assets</i></b>		<b>5,951,722</b>	<b>4,505,362</b>
<b><i>Equity</i></b>			
Issued capital		75,383,567	75,383,567
Reserves	3	6,488,491	5,206,068
Accumulated losses	4	(75,920,336)	(76,084,273)
<b><i>Total Equity</i></b>		<b>5,951,722</b>	<b>4,505,362</b>

Notes to the condensed consolidated financial statements are included on pages 15 to 25

**ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED**

**Condensed Consolidated Statement of changes in equity for the  
half-year ended 30 June 2009**

	Total \$	Accumulated losses \$	Issued capital \$	Foreign currency translation reserve \$	Employee equity settled benefits reserve \$
Balance at 31 December 2007	2,722,744	(78,297,279)	75,383,567	231,683	5,404,773
Profit for the period	2,400,974	2,400,974	-	-	-
Exchange differences arising on translation of foreign operations	126,688	-	-	126,688	-
Recognition of share-based payments	366,102	-	-	-	366,102
<b>Balance at 30 June 2008</b>	<b>5,616,508</b>	<b>(75,896,305)</b>	<b>75,383,567</b>	<b>358,371</b>	<b>5,770,875</b>
Balance at 31 December 2008	4,505,362	(76,084,273)	75,383,567	(846,852)	6,052,920
Profit for the period	163,937	163,937	-	-	-
Exchange differences arising on translation of foreign operations	1,128,369	-	-	1,128,369	-
Recognition of share-based payments	154,054	-	-	-	154,054
<b>Balance at 30 June 2009</b>	<b>5,951,722</b>	<b>(75,920,336)</b>	<b>75,383,567</b>	<b>281,517</b>	<b>6,206,974</b>

Notes to the condensed consolidated financial statements are included on pages 15 to 25

***ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED***

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**Condensed Consolidated statement of cash flows  
for the half-year ended 30 June 2009**

	<u>Note</u>	<u>Half-year ended 30 June 2009 \$</u>	<u>Half-year ended 30 June 2008 \$</u>
<b><i>Cash Flows From Operating Activities</i></b>			
Receipts from customers		6,998,591	33,233,443
Payments to suppliers and employees		(14,453,360)	(23,125,660)
Interest and bill discounts received		271,489	439,227
Interest and other costs of finance paid		(112,204)	(9,770)
Net cash (used in)/ provided by operating activities		<u>(7,295,484)</u>	<u>10,537,240</u>
<b><i>Cash Flows From Investing Activities</i></b>			
Payment for property, plant and equipment		(13,249)	(132,089)
Net cash (used in) investing activities		<u>(13,249)</u>	<u>(132,089)</u>
<b><i>Cash Flows From Financing Activities</i></b>			
Repayment of borrowings		(65,535)	(130,703)
Net cash (used in) financing activities		<u>(65,535)</u>	<u>(130,703)</u>
<b><i>Net (Decrease)/Increase In Cash Held</i></b>		(7,374,268)	10,274,448
<b><i>Cash and cash equivalents at the beginning of the half-year</i></b>			
Effects of exchange rate changes on the balance of cash held in foreign currencies		17,611,137	12,614,761
<b><i>Cash and cash equivalents at the end of the half-year</i></b>		<u>(1,325,720)</u>	<u>(367,114)</u>
		<u>8,911,149</u>	<u>22,522,095</u>

Notes to the condensed consolidated financial statements are included on pages 15 to 25

# ***ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED***

## **Notes to the condensed consolidated Financial Statements for the half-year ended 30 June 2009**

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### **1. Summary of accounting policies**

#### **Statement of Compliance**

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 Interim Financial Reporting. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS34 Interim Financial Reporting. The half-year financial report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

#### **Basis of preparation**

The condensed consolidated financial statements have been prepared under the historical cost convention. Cost is based on the fair values of the consideration given in exchange for assets. Except where indicated otherwise, all amounts are presented in Australian dollars.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's 2008 annual financial report for the financial year ended 31 December 2008.

#### **Adoption of new and revised Accounting Standards**

In the current period, the group has adopted all the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the current reporting period. The adoption of these new and revised Standards and Interpretations has resulted in no changes to the Group's accounting policies.

#### **Going Concern**

The financial report has been prepared on the basis that the consolidated entity is a going concern, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The consolidated entity generated a net profit of \$163,937 during the six months (year ended 31 December 2008 - \$2,213,006). Net cash used in operating activities for the six months ended 30 June 2009 was \$7,295,484 (year ended 31 December 2008: \$3,780,918 provided by). As at 30 June 2009 the consolidated entity had cash of \$8,911,149 (31 December 2008: \$17,611,137) of which \$5,899,455 (31 December 2008: \$7,740,184) is restricted as it secures bank guarantees on existing contracts with local and overseas customers. The cash will become unrestricted as the contracts are completed or renegotiated. The current expectation is that \$5,308,376 of the restricted cash will become unrestricted by 30 April 2010.

In the opinion of the directors, the ability of the consolidated entity to continue as a going concern and pay its debts as and when they fall due is dependent upon:

- The ability to achieve target production and the required technical performance/quality levels for the military business in the second half-year period to 31 December 2009

## ***ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED***

### **Notes to the condensed consolidated Financial Statements for the half-year ended 30 June 2009**

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#### **1. Summary of accounting policies**

##### **Basis of preparation (cont)**

The Directors believe that this is achievable based on current production plans.

- The ability to obtain further new profitable contracts

The directors are in the process of bidding for new military and space contracts. The results of these bids are not known as at the date of this financial report. The Directors are confident that new contracts will be received during the next 12 months from the current bids outstanding and from new contracts which have not been bid at the date of the directors' report.

- In the absence of significant new contracts the ability to execute the closedown of the US manufacturing facilities in 2010

The production facilities in Australia and USA are currently being utilised to produce military equipment under existing contracts. As detailed above the Directors are in the process of bidding for new military and space contracts which could utilise these production facilities. Should sufficient military contracts not be received the directors will consider closing excess production facilities as contracts are completed.

- The successful completion of the telescope and enclosure contracts on hand

The telescope and enclosure division has progressed the completion of the contracts on hand and the consolidated entity has already provided for expected losses on contracts in accordance with Australian Accounting Standard AASB111 "Construction Contracts".

- The successful resolution of any contractual disputes with customers

As disclosed in note 7 to the financial statements the consolidated entity is aware of a potential dispute with a customer. No allowance has been made in the financial statements, or in future cash flow forecasts, for any settlements that may arise from the matter referred to in note 7 or any other potential contractual disputes.

- The willingness and ability of key military customers to make timely payments for goods supplied in accordance with agreed terms

The Directors believe that this is achievable based on past performance with customers.

- The continued support of the Company's shareholders

Should the company need to raise additional capital to fund new orders it may seek capital from existing or new shareholders. The Company has no current plans to raise capital.

Notwithstanding the above, unless new profitable contracts can be assured to meet the future working capital and funding requirements, then, in the opinion of the directors, material uncertainty exists regarding the ability of the consolidated entity to continue as a going concern and pay its debts as and when they become due and payable.



**ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED**

**Notes to the condensed consolidated Financial Statements  
for the half-year ended 30 June 2009**

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**1. Summary of accounting policies**

**Basis of preparation (cont)**

If the consolidated entity is unable to continue as a going concern it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different from those stated in the financial report.

No adjustments have been made to the financial report relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

**2. Profit From Ordinary Activities**

Profit from ordinary activities before income tax includes the following items of revenue and expense:

**(a) Revenue**

Contract receipts	21,133,833	26,150,509
Interest received	271,489	439,727
Total revenue	<u>21,405,322</u>	<u>26,590,236</u>

**(b) Other Revenue**

Grant revenue	-	421,062
Other revenue	112,616	56,074
	<u>112,616</u>	<u>477,136</u>

**(c) Expenses**

Profit for the period has been arrived at after taking into account the following gains and losses:

Unrealised foreign exchange gains	-	(707,783)
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Profit for the period includes the following expenses:

Unrealised foreign exchange losses	868,810	-
Depreciation of non-current assets	83,881	262,004
Inventory write down	(781,655)	(439,606)

**ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED**

**Notes to the condensed consolidated Financial Statements  
for the half-year ended 30 June 2009**

	<b>30 June 2009</b>	<b>31 December 2008</b>
	\$	\$
<b>3. Reserves</b>		
Foreign currency translation reserve	281,517	(846,852)
Employee Equity settled benefits reserve	6,206,974	6,052,920
Balance at end of financial period	<u>6,488,491</u>	<u>5,206,068</u>

	<b>Half-year to 30 June 2009</b>	<b>Half-year to 30 June 2008</b>
	\$	\$
<b>4. Accumulated Losses</b>		
Balance at beginning of financial period	(76,084,273)	(78,297,279)
Net profit for the period	163,937	2,400,974
Balance at end of financial period	<u>(75,920,336)</u>	<u>(75,896,305)</u>

**5. Borrowings**

During the period no repayments were made under the promissory note. The promissory note of A\$2,671,471 (US\$2,150,000) carries interest at 5% and is repayable by 31 December 2010 or at the rate of US\$50,000 per completed inventory item sold which was part of the purchase agreement to which the promissory note relates. The promissory note has been classified as current as the directors are of the opinion that the inventory to which it relates will be sold within the next twelve months.

**ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED**

**Notes to the condensed consolidated Financial Statements  
for the half-year ended 30 June 2009**

**6. Earnings Per Share**

	<b>2009</b>	<b>2008</b>
	<b>¢ per share</b>	<b>¢ per share</b>
Basic EPS	0.3 cents	4.2 cents
Diluted EPS	0.3 cents	4.2 cents

***Basic Earnings per Share***

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	<b>Half-year to 30 June 2009</b>	<b>Half-year to 30 June 2008</b>
	<b>\$</b>	<b>\$</b>
Earnings (a)	163,937	2,400,974

	<b>2009</b>	<b>2008</b>
	<b>No.</b>	<b>No.</b>
Weighted average number of ordinary shares used in the calculation of basic earnings per share	56,845,926	56,845,926

(a) Earnings used in the calculation of basic earnings per share is the same as net profit in the statement of comprehensive income.

***Diluted Earnings per Share***

The earnings and weighted average number of ordinary and potential ordinary shares used in the calculation of diluted earnings per share are as follows:

	<b>Half-year to 30 June 2009</b>	<b>Half-year to 30 June 2008</b>
	<b>\$</b>	<b>\$</b>
Earnings (a)	163,937	2,400,974

	<b>2009</b>	<b>2008</b>
	<b>No.</b>	<b>No.</b>
Weighted average number of ordinary shares and potential ordinary shares (b) & (c)	56,845,926	56,845,926

(a) Earnings used in the calculation of diluted earnings per share is the same as net profit in the statement of comprehensive income.

**ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED**

**Notes to the condensed consolidated Financial Statements  
for the half-year ended 30 June 2009**

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6. Earnings Per Share (cont'd)

(b) The following are considered to be potential ordinary shares but are not dilutive and are therefore excluded from the weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share.

	<b>30 June 2009</b>	<b>30 June 2008</b>
	<b>Number</b>	<b>Number</b>
Staff Share Plan at \$2.58	-	448,500
Directors options at \$2.85	-	300,000
Directors options at \$2.56	-	200,000
Directors options at \$3.06	-	2,298,000
Staff options at \$3.06	250,000	250,000
Staff options at \$3.50	333,000	478,750
Staff options at \$1.95	120,000	120,000
Directors options at \$1.95	1,604,800	1,764,800
Total unlisted options	<u>2,307,800</u>	<u>5,860,050</u>

(c) Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

Weighted average number of ordinary shares used in the calculation of basic earnings per share	<u>56,845,926</u>	<u>56,845,926</u>
Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share	<u>56,845,926</u>	<u>56,845,926</u>

## ***ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED***

### **Notes to the condensed consolidated Financial Statements for the half-year ended 30 June 2009**

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#### **7. Contingent Liabilities**

As at the date of this report the US subsidiary, EOS Technologies Inc (EOST), is aware of a potential contractual dispute in relation to the supply of a telescope and enclosure to New Mexico Institute of Mining and Technology (NMT) for the Magdalena Ridge Observatory. The original contract between NMT and EOST contains a provision which allows for liquidated damages to be paid at the rate of US\$5,000 per day if the telescope was not “substantially complete” on time. The original contract required that “the date on which the parties concur that the items on the testing list have been materially and substantially completed and the telescope is operationally ready” be by 28 September, 2006. NMT agreed to extend the completion date to 12 March 2007 but, subsequently, despite EOST’s notice of further delays, related mainly due to inclement weather, refused to agree to any additional extensions. The contract also provides that EOST will not be liable for liquidated damages if the delay is caused by any act, event or condition that is beyond the reasonable control of EOST. As at the date of this report (31 August 2009) in the event that EOST were unsuccessful in any application to have liquidated damages reduced and liquidated damages were payable from 13 March 2007 the total liquidated damages could total US\$4,510,000.

In September 2008 EOST and NMT entered into an agreement to work towards the completion of the telescope and the resolution of any potential dispute. The agreement calls for EOST and NMT to work together to resolve outstanding issues through three phases, EOST to complete a certain number of critical and non critical items under each phase and NMT to make payments as work is completed. Under the agreement as EOST completes each critical and non critical item potential liquidated damages are reduced / capped. If EOST complete all critical and non critical items liquidated damages are reduced to nil. If EOST complete all critical items liquidated damages are capped.

As at the date of this report EOST have completed phase 1 and have received payment from NMT relating to that phase and EOST have been working towards the completion of phase 2 by 12 September 2009. However, the directors are of the opinion that EOST will not achieve this 12 September 2009 deadline and as a result, in the absence of any extension from NMT, the contract amendment will terminate and potential liquidated damages remain uncapped. The directors believe that a further extension will be granted by NMT management. However as at the date of this report the length of any extension had not been agreed.

Based on the position taken by NMT, and the expectation that phase 2 will not be completed on a timely basis, it is possible that Liquidated Damages may be claimed by NMT from 13 March 2007. However, based on the fact NMT astronomers began operational use of the telescope on 17 March 2007 and have continued to make use of the telescope for scientific research, the directors are of the opinion that the telescope was “substantially complete” and has been operational and used successfully by NMT since March 2007.

No provision has been made in the financial statements nor have any cash outflows been factored into future cashflow forecasts (refer note 1 – Going Concern) for any liability that may arise resulting from this matter as the directors believe that EOST can settle any contractual disputes with NMT and, should NMT commence legal proceedings against EOST, the directors believe that any action can be successfully defended. As at the date of this report no legal proceedings relating to this potential contractual dispute have been commenced by NMT.

**ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED**

**Notes to the condensed consolidated Financial Statements  
for the half-year ended 30 June 2009**

**8. Segment Information**

The Group has adopted AASB 8 Operating Segments and AASB 2008-3 Amendments to Australian Accounting Standards arising from AASB 8 with effect from 1 January 2009. AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess performance. Following the adoption of AASB 8, the identification of the Group's reportable segments has not changed from those disclosed in the 30 June 2008 half-year report.

	Revenue		Segment profit	
	Half-year to 30 June 2009 \$	Half-year to 30 June 2008 \$	Half-year to 30 June 2009 \$	Half-year to 30 June 2008 \$
Space systems	2,769,240	474,838	(540,683)	(3,210,363)
Space surveillance	983,677	807,263	335,841	(539,686)
Defence	17,380,916	24,868,408	1,054,921	6,505,981
Total of all segments	21,133,833	26,150,509	850,079	2,755,932
Eliminations	-	-	-	-
Unallocated	271,489	439,727	(686,142)	(354,958)
Consolidated	21,405,322	26,590,236		
Profit before tax			163,937	2,400,974
Income tax benefit			-	-
Consolidated segment revenue and profit for the period	21,405,322	26,590,236	163,937	2,400,974

The revenue reported above represents revenue generated from external customers. There were no intersegment sales during the period. There were no discontinued operations during the period.

The following is an analysis of the Group's assets by reportable operating segment:

	30 June 2009 \$	31 December 2008 \$
Space systems	1,297,998	1,092,363
Space surveillance	260,913	406,666
Defence	11,633,575	10,828,089
Total segment assets	13,192,486	12,327,119
Unallocated assets	8,911,149	17,611,137
Total assets	22,103,635	29,938,256

## ***ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED***

### **Notes to the condensed consolidated Financial Statements for the half-year ended 30 June 2009**

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#### **8. Segment Information (cont'd)**

Assets used jointly by reportable segments are allocated on the basis of the revenue earned by individual reportable segments.

The consolidated entity operates in Australia, USA and Germany in the development, manufacture and sale of telescopes and dome enclosures, laser satellite tracking systems and the manufacture of electro-optic fire control systems for defence.

#### **Product and Services within each Business Segment**

##### **Space Systems**

EOS is a global supplier of large optical systems. During the period the consolidated entity continued the process of completing existing contracts.

##### **Space Surveillance**

EOS's laser-based space surveillance systems have been demonstrated in customer trials and EOS is now well-placed to be a major contributor to the next generation of space tracking capability. Future business is dependent on large government contracts being awarded in the space sector.

In addition, EOS has space resources in its own right, and may enter the market for space data provision in the future.

##### **Defence**

EOS develops, manufactures and markets advanced fire control, surveillance, and weapon systems to approved military customers. These products either replace or reduce the role of a human operator for a wide range of existing and future weapon systems in the USA, Australia and other markets.

***ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED***

**Notes to the condensed consolidated Financial Statements  
for the half-year ended 30 June 2009**

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9. Issuance of Securities

**2009**

None

**2008**

None

No options were exercised during the period.

Issued capital as at 30 June 2009 and 30 June 2008 amounted to \$75,383,567.



***ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED***

**Notes to the condensed consolidated Financial Statements  
for the half-year ended 30 June 2009**

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10. Other Significant Information

Note 25 to the 31 December 2008 financial statements referred to the proposed acquisition of a business subject to formal US Government approval of novation of various underlying contracts. On 23 July 2009 the vendor informed the consolidated entity under the Asset Purchase Agreement, it wished to terminate the acquisition as US Government approval of novation had not been received by 1 May 2009.

***ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED***

**Half-year ended 30 June 2009**

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**Information on Audit or Review**

This half yearly report is based on accounts to which one of the following applies.

- |   |   |
|---|---|
| <input type="checkbox"/> The accounts have been audited.  | <input checked="" type="checkbox"/> The accounts have been subject to review. |
| <input type="checkbox"/> The accounts are in the process of being audited or subject to review. | <input type="checkbox"/> The accounts have not yet been audited or reviewed.  |

Description of likely dispute or qualification if the accounts have not yet been audited or subject to review or are in the process of being audited or subjected to review.

Not applicable

Description of dispute or qualification if the accounts have been audited or subjected to review.

Not applicable