

Half-Year Report of *Electro Optic Systems Holdings Limited* for the Half-Year Ended 30 June 2011

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 2011

Previous Corresponding Period: Half year ended 30 June 2010

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Results for Announcement to the Market

Revenue and Net Profit

| | | Percentage Change % | Amount |
|-------------------------------------------------------------------|------|------------------------------------|-----------------|
| Revenue from ordinary activities | Up | 17.4 | To \$18,807,183 |
| Profit from ordinary activities after tax attributable to members | Down | 42.2 | To \$1,154,155 |
| Net profit attributable to members | Down | 42.2 | To \$1,154,155 |

Dividends (Distributions)

| | Amount per security | Franked amount per security |
|-----------------------------------------------------------|--------------------------------|--------------------------------------------|
| 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 2011 | | \$13,269,185 |
| Number of ordinary shares outstanding at 30 June 2011 | | 56,845,926 |
| NTA per ordinary share at 30 June 2011 | | 23.33 cents |
| NTA per ordinary share at 30 June 2010 | | 18.51 cents |

Brief Explanation of Revenue, Net Profit and Dividends (Distributions)

Refer to Directors' Report

Review of Operations

1. RESULTS FOR HALF-YEAR ENDED 30 JUNE 2011

The consolidated entity (“EOS”) reported an operating profit before tax of \$1,154,155 for the 6 month period to 30 June 2011 [2010: \$1,995,881] based on revenues totalling \$18,807,183 [2010: \$16,013,946].

The consolidated entity reported net cash generated from operations for the 6 month period totalling \$642,933 [2010: \$8,106,886]. At 30 June 2011, the consolidated entity held cash totalling \$8,518,822 [30 June 2010: \$9,900,617]. Cash of \$484,009 [30 June 2010: \$544,659] is restricted as it secures bank guarantees relating to performance on some contracts.

2. REMOTE WEAPON SYSTEMS BUSINESS

Strong Orders from Existing Customers

Existing EOS customers for remote weapon systems have placed or are negotiating new orders at levels consistent with recent years. These new orders will allow plant production to continue at current capacity beyond 2012.

The production yield on existing products is improving, generally in accordance with industry norms. This allows EOS to retain a competitive position despite rising input costs.

New Market Penetration

In June 2011 EOS executed agreements to supply remote weapon systems to a significant military customer which had not previously purchased remote weapon systems from any source.

EOS’s product excelled in open competition that included competitive firing trials held in the foreign country. The foreign country program requirement is up to 400 weapon systems over approximately 5 years, subject to annual budget appropriations and performance reviews. An initial small order has been funded in late 2011 which will provide the basis for further performance reviews in 2012.

EOS expects the longer term requirements of this customer to be substantially in excess of this initial program requirement, and the current order places EOS and it’s local partners in a strong position for future procurements.

This order represents a significant breakthrough for EOS, since the customer is a major military organisation not in the Australian region which has made its decision only after an exhaustive selection process open to all RWS providers globally.

The order adds to EOS’s confidence in other markets where EOS can compete on merit, and which may reach similar decisions for long-term supply over the next 2 years.

EOS Incorporates in Singapore

In June 2011 EOS Defence Systems Pte Limited was established as a wholly-owned subsidiary of EOS in Singapore. Singapore is the 4th country where EOS has incorporated subsidiaries, after Australia, the US and Germany.

The Singapore subsidiary has three key objectives:

1. Serve as a marketing and customer liaison office for the ASEAN region, where EOS has current and potential customers;

Review of Operations

2. Coordinate an expanding EOS supplier network in the region, enhancing EOS's ability to respond to production volume fluctuations through a coordinated supplier network; and
3. Establish depot spare parts and repair facilities in Singapore, leveraging excellent regional transport links to enhance EOS product support.

EOS Defence Systems Pte Limited is led by Mr Henry Heng, an aerospace industry specialist with over 20 years of industry experience in military systems. This subsidiary is fully operational.

Executive Appointment

EOS has appointed Mark Bornholt AM to a senior executive position in its weapon system business.

Mr Bornholt will oversee EOS marketing, which will be re-organised with particular emphasis on closer coordination with EOS internal programs for improvement of the remote weapon systems product line.

Mr Bornholt is a recently retired Australian Army Brigadier. His extensive military experience and relationship with key customers will facilitate the efficient allocation of EOS marketing and development resources.

Economic Conditions and Capacity

During the first half of 2011 EOS Australian operations contended with an escalating exchange rate and a tight labour market, especially for skilled staff. Consequently EOS is unlikely to be able to expand its Australian operations to meet any growth in demand for remote weapon systems.

Australian operations going forward have been focused on activities currently achieving the highest yield and with competitive advantages resistant to further exchange rate rises.

The EOS production facility in Tucson [USA] was substantially expanded and upgraded in 2010, and it is well-placed to increase output to meet demand.

CROWS Developments

In May 2010 EOS announced that it had teamed with Northrop Grumman Corporation ("NGC") to meet the Army's requirements, with NGC to act as prime contractor and EOS as first-tier subcontractor to NGC. Since then NGC and EOS have worked closely together to provide a highly competitive response to the expected request for tender from Army.

The US Army has recently released draft tender documents for the CROWS program. This is the penultimate pre-tender phase, and signifies that the Army is on schedule to release the formal tender to qualified bidders late in 2011.

The US Army has also announced that two parallel contract awards, not a single award, will be made pursuant to this competition. Contract awards expected to the two successful bidders by Q2 2012.

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3. SPACE BUSINESS

Space Technology

In this period EOS accelerated development of advanced adaptive optics (“AO”) technology for extremely large telescopes, in collaboration with the Australian National University (“ANU”). This technology allows most image degradation due to the atmosphere to be removed, enabling vast increases to the effectiveness of the telescope. The developments are on schedule.

The EOS-ANU collaboration for the joint development of AO technology is intended to meet the AO requirements of Giant Magellan Telescope (GMT) and similar large telescopes. For the next generation of extremely large telescopes, the expected cost of AO technology is approximately \$70 million per telescope, and there are several projects under way. In late 2012 ANU and EOS expect to compete for the commercial contract to provide AO for GMT.

The collaboration has already seen substantial joint investment in technology development at the Mount Stromlo Observatory, where ANU and EOS are co-located, with extensive operational testing planned for 2012 using EOS optical and tracking facilities. In addition to its commercial applications, the new AO technology under development will significantly enhance the effectiveness of EOS space surveillance systems.

EOS continues to work in collaboration with international partners to optimise for Australian conditions the requirements of synthetic aperture radar (“SAR”) satellite systems and other space-based surveillance capabilities. EOS expects Australia to outlay substantial sums on these capabilities over the next 3-5 years, and EOS is positioning to meet these requirements.

Space Information

Space operations contracts for provision of space data to the Australian Government from two separate optical tracking sites in Australia continue to operate at the highest levels of performance anticipated in those contracts. During this period EOS received high ratings for performance and bonus payments under these long-term contracts.

Space surveillance continues to increase in importance to all space-faring nations and companies. The international contact groups that EOS participates in consistently rate the Space Situation Awareness (“SSA”) issue in the top three national priorities due to the significant economic dislocation that could arise from any major collision in space.

During this period EOS has continued to position new products and services to meet the demand for SSA data.

By 2007 the space surveillance sensors developed by EOS had been fully tested under a series of customer funded demonstrations which clearly showed superior performance of the new technology for key future applications.

The key issues delaying the uptake of the new surveillance technology developed by EOS were:

- The expected long-term operating cost of the EOS sensors was substantially more expensive than space industry forecasts for the operating budget that might be available. A 4-fold productivity increase was indicated by customer feedback. Current space tracking global assets cost more than \$1 billion annually to operate

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and maintain, and these assets are also undergoing a major productivity upgrade at this time.

- The inter-operability of the EOS sensors with around \$6 billion of existing space surveillance infrastructure was unknown. EOS technology was developed specifically to augment and complement this vast investment, not to replace it. This infrastructure is principally comprised of radar assets, and is currently undergoing a \$1 billion upgrade to allow a leap-ahead in space information quality and volume from its \$1 billion annual operating cost. Any new EOS capability must be proven to complement and augment this infrastructure seamlessly.

These two issues are now being directly addressed with focused development effort, largely funded by space information customers and guided towards operational utility:

- In July 2010 EOS was awarded a grant of \$4.04 million under the Australian Space Research Program. This grant forms part of a (fully funded) \$10 million upgrade to increase data acquisition efficiency by 400%. This project is on schedule.
- In August 2011 EOS was awarded a contract of \$3 million by the Australian government to demonstrate operational inter-operability of EOS sensors with existing surveillance radar systems.

The \$1 billion surveillance radar capability improvement now in process, not involving EOS, will soon address a much higher proportion of the space debris problem than the 15% currently addressed without expansion of its current \$1 billion annual operating cost. This improved capability and efficiency will produce a radar platform better suited to operate with EOS sensors.

There has not been any sensor development from any other source that can better complement existing space infrastructure to improve the safety and cost-effectiveness of space exploitation.

The company believes its productivity and inter-operability programs are on schedule towards satisfactory outcomes and that the design of its space sensors can be cost-effectively reproduced, as will be required to escalate data output in future.

The international market interest in this technology and capability is high, and preliminary discussions have commenced with space information users who need this data.

4. SUMMARY AND OUTLOOK

EOS remote weapons systems business is well placed:

- repeat orders from existing customers for stable products are expected to remain strong beyond the medium term;
- significant long term orders from new customers are being achieved; and
- ongoing development with NGC of an excellent mix of scalable production, new technology and logistic support capabilities to address US Army CROWS program requirements.

EOS space business continues to consolidate around space surveillance and major telescope projects:

- EOS space surveillance sensors have moved beyond technology and capability demonstrations to address under government contract the key issue of how to

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deploy these alongside existing sensor assets, which represent multi-billion dollar investments.

- Collaboration with ANU has advanced to a formal teaming arrangement on advanced adaptive optics for large telescopes, including the \$70m Australian commitment to the Giant Magellan Telescope.

Although there remain challenges arising from the global financial and economic outlook, and instability in exchange rates, EOS continues to meet its key strategic objectives and is well placed in both its weapon systems and space sectors.

EOS' financial performance in this half-year was within expectations and the outlook for the balance of 2011 is positive.

Ben Greene
Chief Executive Officer
30 August 2011

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Directors Report

The directors of Electro Optic Systems Holdings Limited submit herewith the financial report for the half-year ended 30 June 2011. 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

Review of Operations

A detailed review of operations is included on pages 3 to 7 of this financial report.

Auditor's independence declaration

The auditor's independence declaration is included on page 9 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, 30 August 2011

The Board of Directors
Electro Optic Systems Holdings Limited
Suite 2, Level 12
75 Elizabeth Street
Sydney NSW 2000

30 August 2011

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.

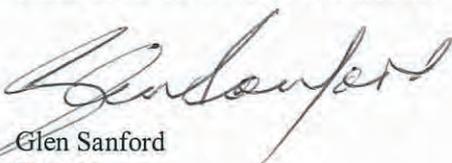
As lead audit partner for the review of the financial statements of Electro Optic Systems Holdings Limited for the half-year ended 30 June 2011, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (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



Glen Sanford
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 condensed statement of financial position as at 30 June 2011, and the condensed statement of comprehensive income, the condensed statement of cash flows and the condensed 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 12 to 26.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

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 a Financial Report 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 2011 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 Holding 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*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Electro Optic Systems Holdings Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

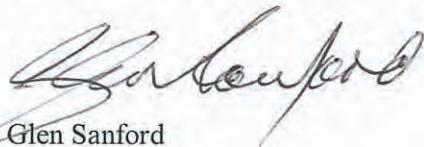
Conclusion

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 2011 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*.



DELOITTE TOUCHE TOHMATSU



Glen Sanford

Partner

Chartered Accountants

Parramatta, 30 August 2011

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

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



I A Dennis
Director
Sydney, 30 August 2011

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Condensed Consolidated statement of comprehensive income for the half-year ended 30 June 2011

| | Note | Half-year ended 30 June 2011 \$ | Half-year ended 30 June 2010 \$ |
|-------------------------------------------------------------------|-------------|----------------------------------------------------|----------------------------------------------------|
| Revenue | 2(a) | 18,807,183 | 16,013,946 |
| Other Revenue | 2(b) | 43,361 | 61,944 |
| Changes in inventories of finished goods and work in progress | | (2,560,717) | 4,029,145 |
| Raw materials and consumables used | | (5,504,627) | (8,010,725) |
| Employee benefits expense | | (6,460,640) | (6,211,213) |
| Administrative costs | | (1,819,736) | (1,823,168) |
| Finance costs | | (165,298) | (72,416) |
| Depreciation and amortisation expense | 2(c) | (282,434) | (830,795) |
| Lease expenses | | (42,575) | (52,368) |
| Occupancy costs | | (689,711) | (795,716) |
| Other expenses | | (170,651) | (312,753) |
| Profit before income tax expense | 2 | 1,154,155 | 1,995,881 |
| Income tax expense | | - | - |
| Profit for the period | 4 | 1,154,155 | 1,995,881 |
| Other comprehensive income | | | |
| Exchange differences arising on translation of foreign operations | | 58,319 | (832) |
| Income tax relating to components of other comprehensive income | | - | - |
| | | 58,319 | (832) |
| Total comprehensive income for the period | | 1,212,474 | 1,995,049 |
| Profit attributable to : | | | |
| Owners of the company | | 1,154,155 | 1,995,881 |
| | | 1,154,155 | 1,995,881 |
| Total comprehensive income attributable to: | | | |
| Owners of the company | | 1,212,474 | 1,995,049 |
| | | 1,212,474 | 1,995,049 |
| Earnings per share: | | | |
| Basic (cents per share) | 6 | 0.20 | 0.35 |
| Diluted (cents per share) | 6 | 0.20 | 0.35 |

Notes to the condensed consolidated financial statements are included on pages 17 to 27

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Condensed Consolidated statement of financial position as at 30 June 2011

| | Note | 30 June 2011 \$ | 31 December 2010 \$ |
|--------------------------------------|------|-----------------------|------------------------------|
| Current Assets | | | |
| Cash and cash equivalents | | 8,518,822 | 8,088,355 |
| Trade and other receivables | | 11,025,124 | 15,509,461 |
| Inventories | | 11,205,580 | 11,603,252 |
| Other – Prepayments | | 158,565 | 253,520 |
| Total Current Assets | | 30,908,091 | 35,454,588 |
| Non-Current Assets | | | |
| Property, plant and equipment | | 2,160,126 | 2,361,836 |
| Intangibles | | 750,738 | 849,852 |
| Total Non-Current Assets | | 2,910,864 | 3,211,688 |
| Total Assets | | 33,818,955 | 38,666,276 |
| Current Liabilities | | | |
| Trade and other payables | | 9,012,759 | 14,745,292 |
| Borrowings | 5 | 5,109,198 | 5,321,708 |
| Provisions | | 5,273,987 | 5,531,382 |
| Total Current Liabilities | | 19,395,944 | 25,598,382 |
| Non-Current Liabilities | | | |
| Borrowings | 5 | 175,682 | 231,034 |
| Provisions | | 227,406 | 229,643 |
| Total Non-Current Liabilities | | 403,088 | 460,677 |
| Total Liabilities | | 19,799,032 | 26,059,059 |
| Net Assets | | 14,019,923 | 12,607,217 |
| Equity | | | |
| Issued capital | | 75,383,567 | 75,383,567 |
| Reserves | 3 | 7,955,083 | 7,696,532 |
| Accumulated losses | 4 | (69,318,727) | (70,472,882) |
| Total Equity | | 14,019,923 | 12,607,217 |

Notes to the condensed consolidated financial statements are included on pages 17 to 27

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Condensed Consolidated Statement of changes in equity for the half-year ended 30 June 2011

| | Total \$ | Accumulated losses \$ | Issued capital \$ | Foreign currency translation reserve \$ | Employee equity settled benefits reserve \$ |
|-------------------------------------------------------------------|--------------------------|--------------------------------------|----------------------------------|----------------------------------------------------------------|------------------------------------------------------------------------|
| Balance at 31 December 2009 | 9,244,831 | (73,648,024) | 75,383,567 | 1,126,450 | 6,382,838 |
| Profit for the period | 1,995,881 | 1,995,881 | - | - | - |
| Exchange differences arising on translation of foreign operations | (832) | - | - | (832) | - |
| Total comprehensive income for the period | <u>1,995,049</u> | <u>1,995,881</u> | <u>-</u> | <u>(832)</u> | <u>-</u> |
| Recognition of share-based payments | <u>375,246</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>375,246</u> |
| Balance at 30 June 2010 | <u>11,615,126</u> | <u>(71,652,143)</u> | <u>75,383,567</u> | <u>1,125,618</u> | <u>6,758,084</u> |
| Balance at 31 December 2010 | 12,607,217 | (70,472,882) | 75,383,567 | 573,402 | 7,123,130 |
| Profit for the period | 1,154,155 | 1,154,155 | - | - | - |
| Exchange differences arising on translation of foreign operations | 58,319 | - | - | 58,319 | - |
| Total comprehensive income for the period | <u>1,212,474</u> | <u>1,154,155</u> | <u>-</u> | <u>58,319</u> | <u>-</u> |
| Recognition of share-based payments | <u>200,232</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>200,232</u> |
| Balance at 30 June 2011 | <u>14,019,923</u> | <u>(69,318,727)</u> | <u>75,383,567</u> | <u>631,721</u> | <u>7,323,362</u> |

Notes to the condensed consolidated financial statements are included on pages 17 to 27

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Condensed Consolidated statement of cash flows for the half-year ended 30 June 2011

| | <u>Note</u> | <u>Half-year ended 30 June 2011 \$</u> | <u>Half-year ended 30 June 2010 \$</u> |
|---------------------------------------------------------------------------------------|-------------|----------------------------------------------------|----------------------------------------------------|
| <i>Cash Flows From Operating Activities</i> | | | |
| Receipts from customers | | 19,450,993 | 21,552,691 |
| Payments to suppliers and employees | | (18,875,210) | (13,439,098) |
| Interest and bill discounts received | | 232,448 | 65,709 |
| Interest and other costs of finance paid | | (165,298) | (72,416) |
| Net cash provided by operating activities | | <u>642,933</u> | <u>8,106,886</u> |
| <i>Cash Flows From Investing Activities</i> | | | |
| Payment for property, plant and equipment | | (85,537) | (1,766,369) |
| Net cash (used in) investing activities | | <u>(85,537)</u> | <u>(1,766,369)</u> |
| <i>Cash Flows From Financing Activities</i> | | | |
| Repayment of borrowings | | (54,282) | (2,133,559) |
| Net cash (used in) financing activities | | <u>(54,282)</u> | <u>(2,133,559)</u> |
| <i>Net Increase In Cash Held</i> | | 503,114 | 4,206,958 |
| <i>Cash and cash equivalents at the beginning of the half-year</i> | | | |
| | | 8,088,355 | 5,572,052 |
| Effects of exchange rate changes on the balance of cash held in foreign currencies | | (72,647) | 121,607 |
| <i>Cash and cash equivalents at the end of the half-year</i> | | <u>8,518,822</u> | <u>9,900,617</u> |

Notes to the condensed consolidated financial statements are included on pages 17 to 27

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Notes to the condensed consolidated Financial Statements
for the half-year ended 30 June 2011**

1. Significant 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 on the basis of 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 2010 annual financial report for the financial year ended 31 December 2010. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

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.

No new standards/revised standards/Interpretations or amending standards were issued by the Australian Accounting Standards Board prior to the signing of the directors' declaration, which are expected to have a financial impact on the Group for future reporting periods.

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 \$1,154,155 during the six months (year ended 31 December 2010 - \$3,175,142). Net cash provided by operating activities for the six months ended 30 June 2011 was \$642,933 (year ended 31 December 2010: \$5,241,034). As at 30 June 2011 the consolidated entity had cash of \$8,518,822 (31 December 2010: \$8,088,355) of which \$484,009 (31 December 2010: \$496,692) 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.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Notes to the condensed consolidated Financial Statements
for the half-year ended 30 June 2011**

1. Significant accounting policies

Basis of preparation (cont)

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 2011.

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.

- 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 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.

At the date of this report and having considered the above factors, in the opinion of the directors, the company and the consolidated entity can continue as going concerns and pay their 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 2011**

| | Half-year to 30 June 2011 \$ | Half-year to 30 June 2010 \$ |
|--------------------------------------------------------------------------------------------------------|-------------------------------------------------|-------------------------------------------------|
| 2. Profit From Ordinary Activities | | |
| Profit from ordinary activities before income tax includes the following items of revenue and expense: | | |
| (a) Revenue | | |
| Contract receipts | 18,574,735 | 15,948,237 |
| Interest received | 232,448 | 65,709 |
| Total revenue | <u>18,807,183</u> | <u>16,013,946</u> |
| (b) Other Revenue | | |
| Other revenue | <u>43,361</u> | <u>61,944</u> |
| (c) Expenses | | |
| Profit for the period has been arrived at after taking into account the following gains and losses: | | |
| Unrealised foreign exchange gains | <u>-</u> | <u>523,503</u> |
| Profit for the period includes the following expenses: | | |
| Unrealised foreign exchange losses | <u>360,826</u> | <u>-</u> |
| Depreciation and amortisation of non-current assets | <u>282,434</u> | <u>830,795</u> |
| Reversal of inventory obsolescence | <u>-</u> | <u>(2,361,345)</u> |

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Notes to the condensed consolidated Financial Statements
for the half-year ended 30 June 2011**

| | 30 June 2011 \$ | 31 December 2010 \$ |
|------------------------------------------|---------------------------------------------|---------------------------------------------|
| 3. Reserves | | |
| Foreign currency translation reserve | 631,721 | 573,402 |
| Employee Equity settled benefits reserve | 7,323,362 | 7,123,130 |
| Balance at end of financial period | <u>7,955,083</u> | <u>7,696,532</u> |
| | Half-year to 30 June 2011 \$ | Half-year to 30 June 2010 \$ |
| 4. Accumulated Losses | | |
| Balance at beginning of financial period | (70,472,882) | (73,648,024) |
| Net profit for the period | 1,154,155 | 1,995,881 |
| Balance at end of financial period | <u>(69,318,727)</u> | <u>(71,652,143)</u> |
| 5. Borrowings | | |
| Current | | |
| Finance lease liabilities | 107,783 | 106,712 |
| Secured promissory note | 5,001,415 | 5,214,996 |
| | <u>5,109,198</u> | <u>5,321,708</u> |
| Non Current | | |
| Finance lease liabilities | 175,682 | 231,034 |

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Notes to the condensed consolidated Financial Statements
for the half-year ended 30 June 2011**

6. Earnings Per Share

| | 2011 ¢ per share | 2010 ¢ per share |
|-------------|-----------------------------|-----------------------------|
| Basic EPS | 0.20 cents | 0.35 cents |
| Diluted EPS | 0.20 cents | 0.35 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:

| | Half-year to 30 June 2011 \$ | Half-year to 30 June 2010 \$ |
|--------------|---------------------------------------------|---------------------------------------------|
| Earnings (a) | 1,154,155 | 1,995,881 |

| | 2011 No. | 2010 No. |
|------------------------------------------------------------------------------------------------|---------------------|---------------------|
| 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:

| | Half-year to 30 June 2011 \$ | Half-year to 30 June 2010 \$ |
|--------------|---------------------------------------------|---------------------------------------------|
| Earnings (a) | 1,154,155 | 1,995,881 |

| | 2011 No. | 2010 No. |
|------------------------------------------------------------------------------------|---------------------|---------------------|
| 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 2011**

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.

| | 30 June 2011 Number | 30 June 2010 Number |
|-----------------------------|--------------------------------|--------------------------------|
| Staff options at \$1.95 | - | 120,000 |
| Directors options at \$1.95 | - | 1,564,800 |
| Staff options at \$1.30 | 1,630,000 | 1,800,000 |
| Total unlisted options | <u>1,630,000</u> | <u>3,484,800</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 2011**

7. Contingent Liabilities and Commitments

a) Entities within the consolidated entity are involved in contractual disputes in the normal course of contracting operations. The directors believe that the entities within the consolidated entity can settle any contractual disputes with customers and should any customers commence legal proceedings against the company, the directors believe that any actions can be successfully defended. As at the date of this report no legal proceedings have been commenced against any entity within the group.

b) On 10 June 2010 the parent company provided a guarantee in respect of a proposed advance payment of US\$3,531,255 and A\$2,136,443 by a subsidiary company in relation to the supply of 91 remote weapon systems to a customer. The advance payments were received in August 2010. The guarantee can be satisfied by the delivery of the remote weapon systems or if the subsidiary company is in breach of its obligations it will be required to deliver shares in the parent company for the outstanding amount of the guarantee less the total value of any deliverable items actually delivered and accepted by the customer. The value of shares to be issued to satisfy the guarantee will be based on the average weighted share price over the period of 60 days prior to the guarantee being called. As at the date of this report the outstanding amount under the guarantee was US\$1,118,805 and A\$2,136,443.

c) In December 2010, a subsidiary company EOS Defense Systems, Inc acquired 32 completed inventory units for a purchase price of US\$5,300,000, payable in certain instalments in accordance with and under the terms of a promissory note executed by EOS Defense Systems, Inc. The promissory note provides for interest to be paid at 5% per annum, with all principal and interest due in full by 31 December 2011. The company is required to repay US\$165,625 for each unit sold on receipt of the payment from the end customer. The parent company, Electro Optic Systems Holdings Limited has guaranteed the repayment of the debt.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Notes to the condensed consolidated Financial Statements
for the half-year ended 30 June 2011**

8. Segment Information

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 its performance.

| | Revenue | | Segment profit | |
|--------------------------------------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| | Half-year to 30 June 2011 | Half-year to 30 June 2010 | Half-year to 30 June 2011 | Half-year to 30 June 2010 |
| | \$ | \$ | \$ | \$ |
| Space systems | 388,715 | 289,826 | (655,079) | (1,112,898) |
| Space surveillance | 1,561,443 | 1,068,603 | 165,444 | (251,130) |
| Defence | 16,624,587 | 14,589,808 | 1,974,414 | 3,962,119 |
| Total of all segments | 18,574,735 | 15,948,237 | 1,484,779 | 2,598,091 |
| Eliminations | | | | |
| Unallocated | 232,448 | 65,709 | (330,625) | (602,210) |
| Consolidated | 18,807,183 | 16,013,946 | | |
| Profit before tax | | | 1,154,155 | 1,995,881 |
| Income tax benefit | - | - | - | - |
| Consolidated segment revenue and profit for the period | 18,807,183 | 16,013,946 | 1,154,155 | 1,995,881 |

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.

Segment profit represents the profit earned by each segment without the allocation of central administration costs and directors' salaries, investment revenue and finance costs and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

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

| | Assets | | Liabilities | |
|----------------------|--------------|---------------------|--------------|---------------------|
| | 30 June 2011 | 31 December 2010 | 30 June 2011 | 31 December 2010 |
| | \$ | \$ | \$ | \$ |
| Space systems | 371,299 | 1,144,226 | 923,995 | 1,795,473 |
| Space surveillance | 696,776 | 826,728 | 2,569,836 | 1,824,477 |
| Defence | 24,232,058 | 28,606,967 | 16,021,736 | 22,101,362 |
| Total segment assets | 25,300,133 | 30,577,921 | 19,515,567 | 25,721,312 |
| Unallocated assets | 8,518,822 | 8,088,355 | 283,465 | 337,747 |
| Total | 33,818,955 | 38,666,276 | 19,799,032 | 26,059,059 |

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Notes to the condensed consolidated Financial Statements
for the half-year ended 30 June 2011**

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, Singapore 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

Half-year ended 30 June 2011

9. Issuance of Securities

2011

None

2010

None

No options were exercised during the period.

Issued capital as at 30 June 2011 and 30 June 2010 amounted to \$75,383,567.

10. Other Significant Information

None.

11. Subsequent events

On 24 August 2011, the company announced that it had been awarded a \$3 million Department of Defence Concept Technology Demonstrator (CTD) contract to demonstrate that its electro-optic space surveillance sensors integrate and operate effectively with existing space surveillance sensors.

On 29 August 2011, EOS received an order for additional remote weapon systems from an existing customer for A\$7.4m for delivery prior to 31 December 2011.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Notes to the condensed consolidated Financial Statements
for the half-year ended 30 June 2011**

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 |
|----------------|