

# Half-Year Report of *Electro Optic Systems Holdings Limited* for the Half-Year Ended 30 June 2010

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 2010

Previous Corresponding Period: Half year ended 30 June 2009

# **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	25.2	To \$16,013,946
Profit from ordinary activities after tax attributable to members	Up	1,117.5	To \$1,995,881
Net profit attributable to members	Up	1,117.5	To \$1,995,881

### 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 2010		\$10,526,750
Number of ordinary shares outstanding at 30 June 2010		56,845,926
NTA per ordinary share at 30 June 2010		18.51 cents
NTA per ordinary share at 30 June 2009		10.47 cents

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

Refer to Directors' Report

# **ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED**

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## **Review of Operations**

### **1. RESULTS FOR HALF-YEAR ENDED 30 JUNE 2010**

The consolidated entity (“EOS”) reported an operating profit before tax of \$1,995,881 for the 6 month period to 30 June 2010 [2009: \$163,937] based on revenues totalling \$16,013,946 [2009: \$21,405,322].

The consolidated entity reported net cash generated from operations for the 6 month period totalling \$8,106,886 [2009: \$7,295,484 used]. At 30 June 2010, the consolidated entity held cash totalling \$9,900,617 [30 June 2009: \$8,911,149]. Cash of \$544,659 [30 June 2009: \$5,813,277] is restricted as it secures bank guarantees relating to performance on some contracts.

### **2. REMOTE WEAPON SYSTEMS BUSINESS**

The U.S. Army announced in late 2009 that it would seek new sources for up to 19,500 CROWS remote weapon system requirements. Following the acquisition in November 2009 of the operations and technology of Recon Optical Inc., EOS had several product variants that would be fully compliant and qualified for a CROWS requirement.

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 optimise the potential offering for Army. The Army requirement, phased over 5 years, has a potential long-term program value of US\$3.9 billion.

The CROWS program proposals (tenders) are expected to be called by Army in February 2011. An award is expected to the successful bidder in about June 2011.

Although CROWS is a major opportunity and priority, EOS continues to develop and improve its remote weapon system business:

- **Consolidation of the ROI Acquisition.** In December 2009 EOS completed the acquisition of the remote weapon systems business of Recon Optical Inc. [“ROI”]. This acquisition vertically integrated all of the technology and production resources for all EOS remote weapon system products under EOS itself, for all global markets. During 2010 EOS has been actively consolidating this acquisition and in August 2010 the Barrington (IL) facility acquired with the ROI business was closed and all operations relocated to the EOS facility in Tucson (AZ).
- **Product range.** In 2008 and 2009 the EOS product range was expanded to cater for vehicles with weights in the range 4-40 tonne, corresponding to weapon system weights in the range 100-500 kg. The EOS product range is now undergoing consolidation to reduce production costs and increase modularity and commonality of parts across the product range.
- **Sales and Capacity.** Sales of remote weapon systems outside the US requirements have been strong, with EOS production facilities achieving 12 month order backlog at current capacity. Since most customers expect deliveries to commence within 12 months, a capacity upgrade is required.

## **Review of Operations**

- **Plant Capacity Upgrade.** A significant increase in production capacity is now being implemented in EOS' Tucson plant. This upgrade is aimed at meeting increased demand with a highly responsive capacity, and also reducing production costs at lower volume operations. This capacity upgrade will be completed within 2010, in time to allow a similar upgrade to be undertaken in EOS' Australian plant in 2011 without disrupting the combined output.

A key element in EOS plans in this sector is the long-term requirement of the Australian Defence force. In Australia the company expects the present demand to continue over the next decade, and is actively engaged to provide support for the Australian Defence Capability Plan which will shape future requirements.

### **3. SPACE BUSINESS**

#### **Space Operations Business**

Space operations contracts for provision of space data to the Australian Government from two separate 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 Systems Business**

EOS continued progress for completion of three major 2.4m telescope installations for the University of California Santa Cruz LICK Observatory, the New Mexico Institute of Mining and Technology Magdalena Ridge Observatory, and the Thai National Telescope project.

All of these projects achieved key milestones, and in particular the Magdalena Ridge Observatory telescope achieved progress allowing the removal of contingent liabilities from EOS accounts.

The ability of extremely large telescopes to provide the next generation of new knowledge in astronomy is causing a market trend towards these projects, which require large telescopes of 30m aperture valued at \$750m or more each. The cost of these instruments normally requires implementation as multi-national, collaborative projects. EOS has advanced technology which is competitive for up to 10% of such projects, and EOS is actively positioning to be a major sub-system provider to several extremely large telescope projects over the next 5 years.

The Giant Magellan Telescope (GMT) is one of these projects, and Australia has committed \$100m towards the estimated \$1 billion cost of GMT. EOS technology, particularly if combined with the technology of the Australian National University ("ANU") is particularly relevant to the requirements for adaptive optics for the GMT.

Adaptive optics ("AO") is a mandatory element in all large telescopes, because they allow most image degradation due to the atmosphere to be "reversed" and provide vast increases to the effectiveness of the telescope optics. AO systems comprise at least 10% of the GMT project, corresponding to the Australian financial contribution to GMT.

EOS and ANU have entered into a collaboration that will allow joint development of their respective AO capabilities specifically to meet the requirements of GMT and similar large telescopes. This collaboration involves a substantial joint investment and physical

## **Review of Operations**

relocation of EOS operations to ANU's Mount Stromlo Observatory where the joint team will have access to ANU infrastructure as well as EOS telescope facilities for testing.

Although EOS will continue to provide complete telescopes of aperture up to 3m, the extremely large telescope segment represents a significant growth market where existing EOS technology can be commercially deployed.

### **Space Surveillance Business**

International concern relating to the space navigation risk associated with space debris continues to escalate, with the threat causing most concern amongst those with the highest investment in satellites and space technology.

Until 2009 this concern could not overcome administrative inertia and the complexities of implementing the forms of international collaboration required to achieve a solution.

Three things have changed:

- A. The Chinese anti-satellite test and the Iridium satellite collision have significantly increased risks by expanding the population of space debris;
- B. Investment in space technology and satellite deployment has again increased; and
- C. The cost of mitigating the risk has fallen through the refinement of previously-demonstrated EOS technology.

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 EOS space debris tracking facilities in Australia, aimed at achieving full operational status for capabilities that had previously been configured for technology demonstrations or prototype operations.

This effort aims to increase site efficiency by 400% and will be completed in 2012, although major improvements in operational efficiency are likely throughout the upgrade period.

The ability to offer a firm schedule for commercial operations for space debris collision mitigation will allow EOS to enter into commercial negotiations for debris tracking well before the full upgrade is completed.

There are also military applications of EOS space technology.

In 2009 the Australian Defence White Paper recognised the long term need to develop Australian space surveillance technologies and EOS is also coordinating with the Australian Department of Defence in relation to the application of specific Australian technologies and capabilities to meet this requirement.

The Australian Defence White Paper also forecast the need for next-generation space-based radar technology for Australia, and EOS is maintaining a central role in the development of a space-based radar system to meet future Australian defence requirements in partnership with Germany's OHB System.

***Review of Operations***

**4. SUMMARY AND OUTLOOK**

EOS is positioned for further growth in the medium term in both its operating sectors.

All business operations in the space sector are operating normally, allowing a clear focus on expanding opportunities in space surveillance and large telescope projects. In this sector the ASRP grant activity has provided confidence that operational status will be achieved for EOS' space debris technology, and opened the possibility of commercial and military space data contracts, and an associated expansion of EOS capabilities.

These are very positive developments which will be exploited actively in the future. EOS has never been better placed to achieve its objectives in the space sector.

In the remote weapons systems sector, EOS orders are at a 4-year high, and production capacity is being increased to meet expected future demand. The teaming arrangement and production sharing agreement with NGC provide an excellent platform to competitively address the imminent US Army CROWS requirement.

EOS' financial performance in this half-year was sound and the outlook for the balance of 2010 is positive but may be impacted by government reviews of defence budgets and any continued volatility in foreign exchange rates.

Ben Greene  
Chief Executive Officer  
27 August 2010

# **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 2010. 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 6 of this financial report.

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

The auditor's independence declaration is included on page 8 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, 27 August 2010

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

27 August 2010

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.

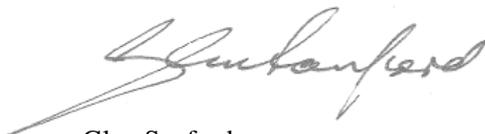
As lead audit partner for the review of the financial statements of Electro Optic Systems Holdings Limited for the half-year ended 30 June 2010, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (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 2010, 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 11 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 2010 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 2010 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, 27 August 2010

# **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



I A Dennis  
Director  
Sydney, 27 August 2010

***ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED***

**Condensed Consolidated statement of comprehensive income  
for the half-year ended 30 June 2010**

	Note	Half-year ended 30 June 2010 \$	Half-year ended 30 June 2009 \$
Revenue	2(a)	16,013,946	21,405,322
Other Revenue	2(b)	61,944	112,616
Changes in inventories of finished goods and work in progress		4,029,145	(715,653)
Raw materials and consumables used		(8,010,725)	(10,888,052)
Employee benefits expense		(6,211,213)	(6,186,548)
Administrative costs		(1,823,168)	(2,742,990)
Finance costs		(72,416)	(112,204)
Depreciation and amortisation expense	2(c)	(830,795)	(83,881)
Lease expenses		(52,368)	(37,150)
Occupancy costs		(795,716)	(556,739)
Other expenses		(312,753)	(30,784)
<b>Profit before income tax expense</b>	2	1,995,881	163,937
Income tax expense		-	-
<b>Profit for the period</b>	4	1,995,881	163,937
<b>Other comprehensive income</b>			
Exchange differences arising on translation of foreign operations		(832)	1,128,369
Income tax relating to components of other comprehensive income		-	-
		(832)	1,128,369
<b>Total comprehensive income for the period</b>		1,995,049	1,292,306
<b>Earnings per share:</b>			
Basic (cents per share)	6	0.35	0.29
Diluted (cents per share)	6	0.35	0.29

Notes to the condensed consolidated financial statements are included on pages 16 to 26

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

## **Condensed Consolidated statement of financial position as at 30 June 2010**

	Note	30 June 2010 \$	31 December 2009 \$
<b><i>Current Assets</i></b>			
Cash and cash equivalents		9,900,617	5,572,052
Trade and other receivables		4,899,226	7,460,363
Inventories		7,579,576	8,443,344
Other – Prepayments		121,560	128,318
<b><i>Total Current Assets</i></b>		22,500,979	21,604,077
<b><i>Non-Current Assets</i></b>			
Property, plant and equipment		2,456,076	1,403,565
Intangibles		1,088,376	1,119,695
<b><i>Total Non-Current Assets</i></b>		3,544,452	2,523,260
<b><i>Total Assets</i></b>		26,045,431	24,127,337
<b><i>Current Liabilities</i></b>			
Trade and other payables		8,631,265	6,710,506
Borrowings		7,970	2,137,441
Provisions		5,791,070	5,854,867
<b><i>Total Current Liabilities</i></b>		14,430,305	14,702,914
<b><i>Non-Current Liabilities</i></b>			
Borrowings		-	4,088
Provisions		-	175,604
<b><i>Total Non-Current Liabilities</i></b>		-	179,592
<b><i>Total Liabilities</i></b>		14,430,305	14,882,506
<b><i>Net Assets</i></b>		11,615,126	9,244,831
<b><i>Equity</i></b>			
Issued capital		75,383,567	75,383,567
Reserves	3	7,883,702	7,509,288
Accumulated losses	4	(71,652,143)	(73,648,024)
<b><i>Total Equity</i></b>		11,615,126	9,244,831

Notes to the condensed consolidated financial statements are included on pages 16 to 26

## **ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED**

### **Condensed Consolidated Statement of changes in equity for the half-year ended 30 June 2010**

	<b>Total \$</b>	<b>Accumulated losses \$</b>	<b>Issued capital \$</b>	<b>Foreign currency translation reserve \$</b>	<b>Employee equity settled benefits reserve \$</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	-
Total comprehensive income for the period	<u>1,292,306</u>	<u>-</u>	<u>-</u>	<u>1,292,306</u>	<u>-</u>
Recognition of share-based payments	154,054	-	-	-	154,054
<b>Balance at 30 June 2009</b>	<b><u>5,951,722</u></b>	<b><u>(75,920,336)</u></b>	<b><u>75,383,567</u></b>	<b><u>281,517</u></b>	<b><u>6,206,974</u></b>
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>-</u>	<u>-</u>	<u>1,995,049</u>	<u>-</u>
Recognition of share-based payments	375,246	-	-	-	375,246
<b>Balance at 30 June 2010</b>	<b><u>11,615,126</u></b>	<b><u>(71,652,143)</u></b>	<b><u>75,383,567</u></b>	<b><u>1,125,618</u></b>	<b><u>6,758,084</u></b>

Notes to the condensed consolidated financial statements are included on pages 16 to 26

# **ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED**

## **Condensed Consolidated statement of cash flows for the half-year ended 30 June 2010**

	<b>Note</b>	<b>Half-year ended 30 June 2010 \$</b>	<b>Half-year ended 30 June 2009 \$</b>
<b><i>Cash Flows From Operating Activities</i></b>			
Receipts from customers		21,552,691	6,998,591
Payments to suppliers and employees		(13,439,098)	(14,453,360)
Interest and bill discounts received		65,709	271,489
Interest and other costs of finance paid		(72,416)	(112,204)
Net cash provided by/(used in) operating activities		8,106,886	(7,295,484)
<b><i>Cash Flows From Investing Activities</i></b>			
Payment for property, plant and equipment		(1,766,369)	(13,249)
Net cash (used in) investing activities		(1,766,369)	(13,249)
<b><i>Cash Flows From Financing Activities</i></b>			
Repayment of borrowings		(2,133,559)	(65,535)
Net cash (used in) financing activities		(2,133,559)	(65,535)
<b><i>Net Increase/(Decrease) In Cash Held</i></b>		4,206,958	(7,374,268)
<b><i>Cash and cash equivalents at the beginning of the half-year</i></b>		5,572,052	17,611,137
Effects of exchange rate changes on the balance of cash held in foreign currencies		121,607	(1,325,720)
<b><i>Cash and cash equivalents at the end of the half-year</i></b>		9,900,617	8,911,149

Notes to the condensed consolidated financial statements are included on pages 16 to 26

***ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED***

**Notes to the condensed consolidated Financial Statements  
for the half-year ended 30 June 2010**

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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 2009 annual financial report for the financial year ended 31 December 2009.

**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 \$1,995,881 during the six months (year ended 31 December 2009 - \$2,436,259). Net cash provided by operating activities for the six months ended 30 June 2010 was \$8,106,886 (year ended 31 December 2009: \$6,048,087 used in). As at 30 June 2010 the consolidated entity had cash of \$9,900,617 (31 December 2009: \$5,572,052) of which \$544,659 (31 December 2009: \$3,220,171) 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.

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 2010

***ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED***

**Notes to the condensed consolidated Financial Statements  
for the half-year ended 30 June 2010**

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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.

- 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 2010**

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	<b>Half-year to 30 June 2010 \$</b>	<b>Half-year to 30 June 2009 \$</b>
<b>2. Profit From Ordinary Activities</b>		
Profit from ordinary activities before income tax includes the following items of revenue and expense:		
<b>(a) Revenue</b>		
Contract receipts	15,948,237	21,133,833
Interest received	65,709	271,489
Total revenue	<u>16,013,946</u>	<u>21,405,322</u>
<b>(b) Other Revenue</b>		
Other revenue	61,944	112,616
	<u>61,944</u>	<u>112,616</u>
<b>(c) Expenses</b>		
Profit for the period has been arrived at after taking into account the following gains and losses:		
Unrealised foreign exchange gains	523,503	-
Profit for the period includes the following expenses:		
Unrealised foreign exchange losses	-	868,810
Depreciation and amortisation of non-current assets	830,795	83,881
Reversal of inventory obsolescence	<u>(2,361,345)</u>	<u>(781,655)</u>

***ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED***

**Notes to the condensed consolidated Financial Statements  
for the half-year ended 30 June 2010**

	<b>30 June 2010 \$</b>	<b>31 December 2009 \$</b>
<b>3. Reserves</b>		
Foreign currency translation reserve	1,125,618	1,126,450
Employee Equity settled benefits reserve	6,758,084	6,382,838
Balance at end of financial period	<u>7,883 702</u>	<u>7,509,288</u>
	<b>Half-year to 30 June 2010 \$</b>	<b>Half-year to 30 June 2009 \$</b>
<b>4. Accumulated Losses</b>		
Balance at beginning of financial period	(73,648,024)	(76,084,273)
Net profit for the period	1,995,881	163,937
Balance at end of financial period	<u>(71,652,143)</u>	<u>(75,920,336)</u>

**5. Borrowings**

During the period the promissory note was repaid in full and all security discharged.

***ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED***

**Notes to the condensed consolidated Financial Statements  
for the half-year ended 30 June 2010**

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**6. Earnings Per Share**

	<b>2010 ¢ per share</b>	<b>2009 ¢ per share</b>
Basic EPS	0.35 cents	0.29 cents
Diluted EPS	0.35 cents	0.29 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 2010 \$</b>	<b>Half-year to 30 June 2009 \$</b>
Earnings (a)	1,995,881	163,937

	<b>2010 No.</b>	<b>2009 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 2010 \$</b>	<b>Half-year to 30 June 2009 \$</b>
Earnings (a)	1,995,881	163,937

	<b>2010 No.</b>	<b>2009 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 2010**

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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 2010 Number</b>	<b>30 June 2009 Number</b>
Staff options at \$3.06	-	250,000
Staff options at \$3.50	-	333,000
Staff options at \$1.95	120,000	120,000
Directors options at \$1.95	1,564,800	1,604,800
Staff options at \$1.30	1,800,000	-
Total unlisted options	<u>3,484,800</u>	<u>2,307,800</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>

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**Notes to the condensed consolidated Financial Statements  
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**7. Contingent Liabilities**

a) Entities within the consolidated entity are involved in contractual disputes in the telescope and enclosure division which are 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 12 November 2009 the parent company provided a guarantee in respect of an advance payment received of US\$2,935,050 by a subsidiary company in relation to the supply of 23 remote weapon systems to a customer. 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\$1,565,243.

c) On 15 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\$3,531,255 and A\$2,136,443.

d) In the audited financial statements for the year ended 31 December 2009, there was a contingent liability note in relation to a telescope contract with New Mexico Institute of Mining and Technology (“NMT”) for the Magdalena Ridge Observatory which included a potential for liquidated damages. On 18 August 2010 the Company and NMT executed an Amendment and Modification Agreement which specifically removed any potential for liquidated damages.

***ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED***

**Notes to the condensed consolidated Financial Statements  
for the half-year ended 30 June 2010**

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**8. Segment Information**

	Revenue		Segment profit	
	Half-year to 30 June 2010	Half-year to 30 June 2009	Half-year to 30 June 2010	Half-year to 30 June 2009
	\$	\$	\$	\$
Space systems	289,826	2,769,240	(1,112,898)	(540,683)
Space surveillance	1,068,603	983,677	(251,130)	335,841
Defence	14,589,808	17,380,916	3,962,119	1,054,921
Total of all segments	15,948,237	21,133,833	2,598,091	850,079
Eliminations		-		-
Unallocated	65,709	271,489	(602,210)	(686,142)
Consolidated	16,013,946	21,405,322		
Profit before tax			1,995,881	163,937
Income tax benefit				-
Consolidated segment revenue and profit for the period	16,013,946	21,405,322	1,995,881	163,937

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 2010 \$	31 December 2009 \$
Space systems	413,643	1,894,017
Space surveillance	773,363	287,904
Defence	14,957,808	16,373,364
Total segment assets	16,144,814	18,555,285
Unallocated assets	9,900,617	5,572,052
Total assets	26,045,431	24,127,337

***ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED***

**Notes to the condensed consolidated Financial Statements  
for the half-year ended 30 June 2010**

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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 2010**

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9. Issuance of Securities

**2010**

None

**2009**

None

No options were exercised during the period.

Issued capital as at 30 June 2010 and 30 June 2009 amounted to \$75,383,567.

*ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED*  
**Notes to the condensed consolidated Financial Statements**  
**for the half-year ended 30 June 2010**

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10. Other Significant Information

None.
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***ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED***

**Half-year ended 30 June 2010**

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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