

Half-Year Report of *Electro Optic Systems Holdings Limited* for the Half-Year Ended 30 June 2016

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 2016

Previous Corresponding Period: Half year ended 30 June 2015

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Results for Announcement to the Market

Revenue and Net Profit/ (Loss)

		Percentage Change %	Amount
Revenue from ordinary activities	Up	32.32	To \$14,570,487
Profit/ (Loss) from ordinary activities after tax attributable to members	Up	N/A	To \$1,065,423
Profit/ (Loss) attributable to members	Up	N/A	To \$1,065,423

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 2016		\$5,383,160
Number of ordinary shares outstanding at 30 June 2016		56,845,926
NTA per ordinary share at 30 June 2016		9.47 cents
NTA per ordinary share at 30 June 2015		0.52 cents

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

Refer to Directors' Report

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Review of Operations

1. RESULTS FOR HALF-YEAR ENDED 30 JUNE 2016

The consolidated entity (“EOS”) reported an operating profit after tax of \$1,065,423 for the 6 month period to 30 June 2016 [2015: operating loss \$538,432] based on revenues totalling \$14,570,487 [2015: \$11,011,930].

The consolidated entity reported net cash used by operations for the 6 month period totalling \$4,121,769 [2015: \$6,849,011 cash generated by operations]. At 30 June 2016, the consolidated entity held cash totalling \$7,644,911 [30 June 2015: \$12,956,893]. Cash of \$1,338,545 [30 June 2015: \$1,827,505] is restricted as it secures bank guarantees relating to performance on some contracts.

2. EOS DEFENCE SYSTEMS

This sector develops, markets, manufactures and supports remote weapon systems [RWS] and related products in global markets.

During the first half the trend towards new products, advanced technologies and new markets continued.

➤ New Products

The transition from machine gun to cannon as the standard armament for armored fighting vehicles is now well under way. Vast numbers of 20-30 mm weapon systems are now deployed amongst forces unfriendly to Australia and its allies, which are typically armed with only 12.7 mm machine guns. This trend was anticipated by EOS over 5 years ago and EOS now has the sector-leading product in 30 mm lightweight weapon systems. This market is growing quickly and is expected to exceed the traditional RWS market by 2017.

The EOS completion of development of a next-generation 30 mm armored vehicle turret has also been timely. Australia [LAND 400 program] and Singapore have each initiated formal acquisition processes of over \$1 billion of 30 mm turrets. These contracts will be awarded in 2017 [Singapore] and 2018 [Australia]. The EOS turret meets the formal requirements for each program and has been put forward for consideration amid very strong competition.

➤ Advanced Technologies

Although the well-established market for remote weapon systems such as CROWS has become commoditised, there is still demand for around \$100 million each year with the market splitting into low cost and high performance segments. EOS continues to compete effectively for high performance variants in this sector.

➤ New Markets

EOS continues to diversify its customer base. In the first half product shipments were made to Europe, SE Asia, NE Asia and Australia. A new licensed production

Review of Operations

plant in NE Asia is now producing excellent product and in anticipation of a recovery in US demand, EOS is in talks to establish, in the US, a capability to produce EOS new products.

EOS is also facing challenges in this sector arising from changing market demographics, technological disruption (led by EOS but still truly disruptive), geo-political forces, budget instability in almost all countries, changes to government policies for export licenses as alliances shift, and relentless requirements for continuous improvement. The key challenges presently are:

- Australian production facilities will not meet future requirements. EOS has delayed design of new facilities pending resolution of the emerging market structure and likely production demands. These matters are now coming into focus.
- Supply chain management is increasingly important as EOS prepares for increased production with reduced inventory.
- Marketing resources are stretched. There is very high demand for the new products, requiring significant effort and expense. At the same time orders are not being confirmed at the expected rate.
- Production efficiency increases and quality improvements both stalled late in the first half due to simultaneous needs to transition parts procurement software, address component obsolescence for new customers, support new plant production offshore and provide staff training for new hires. These issues are coming under control and forward momentum is being restored.

3. EOS SPACE SYSTEMS

EOS has developed unique space tracking sensors which can cost-effectively obtain accurate orbital data for space debris and satellites. This information degrades rapidly after acquisition, so it must be continuously updated with new observations. The requirement for new data is persistent and long term.

To provide a reliable data service for space users, EOS is deploying sufficient sensors to find and track essentially all space debris of interest or concern to those space users. This information will be used to provide asset management and risk mitigation services. The delivery of space equipment still provides most revenue for Space Systems, but from 2017 the service business model is expected to overtake equipment as the dominant revenue source.

EOS is on track to complete expansion of its space data acquisition capacity by 700% (7 times) over 2015 levels by mid-2017, by bringing new sensors on line in Western Australia and Queensland. The WA site is nearing completion and will commence operational testing in October 2016. The Queensland site is projected to commence construction in early 2017. This is later than initially planned.

Expansion activity of the EOS network beyond WA was delayed to allow the lessons-learned from the current expansion to be adopted into the plans for the next phases. These include:

- Lengthy process of negotiating leases for occupying Commonwealth sites will result in the use of commercial sites for all non-critical assets;

Review of Operations

- Utilities currently sourced from the Commonwealth as part of the basing strategy will be commercially sourced whenever possible; and
- Supply chain modifications have been made.

In parallel with this process of project planning amendments, EOS has also been testing its tracking sensors under contract with a major potential customer, using space debris objects which are difficult for current technology to track. These tests have proven challenging, and the small project delay has allowed some performance tuning for improved results.

The WA sensor network is on schedule for completion of the initial phase by late 2016 to allow a formal, contracted performance evaluation with a major customer to be performed through second quarter 2017.

During 2016 the network expansion process has also been more tightly integrated with negotiations for service contracts with key customers, and with negotiations for new sites in foreign countries. These processes are proceeding as expected.

4. FORECAST AND OUTLOOK

The operating profit of \$1,065,423 for the 6 months ending 30 June 2016 was within management expectations. The result included a tax benefit of \$2,031,785 from the Research and Development tax offset program, for which the cash is expected to be received in the current quarter.

Through the remainder of 2016 Defence Systems will continue its transition to being a provider of high-end weapon system solutions through a diversified global supply chain and production houses. EOS expects the instability in this market caused by complex global factors to continue for some time, but key projects which were destabilized 2-3 years ago are now approaching resolution, funding release and contract award by 2017. EOS is well placed in these projects.

Space Systems is recovering from a small delay in its project schedule required to consolidate gains and eliminate errors in the initial phase of sensor deployment in WA.

EOS expects to be break even in the full year to 31 December 2016.

Financial uncertainties can adversely impact the governments which are EOS customers. The company cannot be certain that future customer procurements will continue as usual or that business conditions will not deteriorate from current expectations.

Further information concerning the operations and financial condition of the entity can be found in the financial report and in releases made to the Australian Stock Exchange (ASX) during the half year.

Ben Greene

Chief Executive Officer

26 August 2016

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 2016. 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 AO
Mr Kevin Scully
Mr Geoff Brown – appointed on 22 April 2016

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, 26 August 2016

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

26 August 2016

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 2016, 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 condensed statement of financial position as at 30 June 2016, and the condensed statement of profit or loss and other comprehensive income, the condensed statement of cash flows and the condensed statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, 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 24.

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 gives a true and fair view and 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 2016 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*. 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 2016 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*.

Emphasis of Matter

Without modifying our conclusion, we draw attention to Note 1 in the financial report, which indicates that the consolidated entity net cash used in operating activities for the six months ended 30 June 2016 was \$4,121,769 (\$6,849,011 net cash generated by operating activities during the six months ended 30 June 2015). This condition, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that 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.



DELOITTE TOUCHE TOHMATSU



David Black
Partner
Chartered Accountants
Parramatta, 26 August 2016

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, 26 August 2016

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Condensed Consolidated statement of profit or loss and other comprehensive income for the half-year ended 30 June 2016

	Note	Half-year ended 30 June 2016 \$	Half-year ended 30 June 2015 \$
Revenue	2(a)	14,570,487	11,011,930
Other Revenue	2(b)	-	3,066
Changes in inventories of finished goods and work in progress		1,133,487	344,660
Raw materials and consumables used		(7,474,774)	(5,668,297)
Employee benefits expense		(6,641,785)	(4,963,851)
Administrative costs		(1,898,591)	(1,474,810)
Finance costs		(95,481)	(81,427)
Depreciation and amortisation expense	2(c)	(67,957)	(78,108)
Gain/(loss) on disposal of fixed assets	2(c)	-	7,786
Foreign exchange gains	2(c)	71,849	850,427
Lease expenses		(23,079)	(18,235)
Occupancy costs		(432,063)	(370,151)
Other expenses		(108,455)	(101,422)
(Loss) before income tax expense	2	(966,362)	(538,432)
Income tax benefit		2,031,785	-
Profit/ (Loss) for the period	4	1,065,423	(538,432)
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss			
Exchange differences arising on translation of foreign operations		73,656	(203,185)
Income tax relating to components of other comprehensive income		-	-
		73,656	(203,185)
Total comprehensive profit/ (loss) for the period		1,139,079	(741,617)
Profit/ (Loss) attributable to :			
Owners of the company		1,065,423	(538,432)
		1,065,423	(538,432)
Total comprehensive profit/ (loss) attributable to:			
Owners of the company		1,139,079	(741,617)
		1,139,079	(741,617)
Profit/ (Loss) per share:			
Basic (cents per share)	5	1.87	(0.95)
Diluted (cents per share)	5	1.87	(0.95)

Notes to the condensed consolidated financial statements are included on pages 15 to 24.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Condensed Consolidated statement of financial position as at 30 June 2016

	Note	30 June 2016 \$	31 December 2015 \$
Current Assets			
Cash and cash equivalents		7,644,911	11,894,300
Current tax receivable		2,031,785	-
Trade and other receivables		5,893,273	6,536,772
Inventories		4,449,747	4,217,900
Other – Prepayments		580,132	1,460,118
Total Current Assets		20,599,848	24,109,090
Non-Current Assets			
Property, plant and equipment		137,272	155,858
Total Non-Current Assets		137,272	155,858
Total Assets		20,737,120	24,264,948
Current Liabilities			
Trade and other payables		8,881,495	13,585,096
Provisions		6,165,385	6,638,938
Total Current Liabilities		15,046,880	20,224,034
Non-Current Liabilities			
Provisions		307,080	289,243
Total Non-Current Liabilities		307,080	289,243
Total Liabilities		15,353,960	20,513,277
Net Assets		5,383,160	3,751,671
Equity			
Issued capital		75,383,567	75,383,567
Reserves	3	7,763,927	7,197,861
Accumulated losses	4	(77,764,334)	(78,829,757)
Total Equity		5,383,160	3,751,671

Notes to the condensed consolidated financial statements are included on pages 15 to 24.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Condensed Consolidated Statement of changes in equity for the
half-year ended 30 June 2016**

	Total \$	Accumulated losses \$	Issued capital \$	Foreign currency translation reserve \$	Employee equity settled benefits reserve \$
Consolidated					
Balance at 1 January 2016	3,751,671	(78,829,757)	75,383,567	(529,942)	7,727,803
Profit/ (Loss) for the period	1,065,423	1,065,423	-	-	-
Other comprehensive income for the period	73,656	-	-	73,656	-
Total comprehensive income for the period	1,139,079	1,065,423	-	73,656	-
Recognition of share based payments	492,410	-	-	-	492,410
Balance at 30 June 2016	5,383,160	(77,764,334)	75,383,567	(456,286)	8,220,213
Consolidated					
Balance at 1 January 2015	1,035,079	(81,862,199)	75,383,567	(214,092)	7,727,803
(Loss) for the period	(538,432)	(538,432)	-	-	-
Other comprehensive income for the period	(203,185)	-	-	(203,185)	-
Total comprehensive income for the period	(741,617)	(538,432)	-	(203,185)	-
Balance at 30 June 2015	293,462	(82,400,631)	75,383,567	(417,277)	7,727,803

Notes to the condensed consolidated financial statements are included on pages 15 to 24.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Condensed Consolidated statement of cash flows
for the half-year ended 30 June 2016**

	Note	Half-year ended 30 June 2016 \$	Half-year ended 30 June 2015 \$
<i>Cash Flows From Operating Activities</i>			
Receipts from customers		12,180,147	18,433,222
Payments to suppliers and employees		(16,268,531)	(11,510,573)
Interest and bill discounts received		62,096	7,789
Interest and other costs of finance paid		(95,481)	(81,427)
Net cash (used in)/ provided by operating activities		(4,121,769)	6,849,011
<i>Cash Flows From Investing Activities</i>			
Payment for property, plant and equipment		(49,154)	(15,397)
Proceeds from sale of property, plant and equipment		-	7,786
Net cash (used in) investing activities		(49,154)	(7,611)
<i>Cash Flows From Financing Activities</i>			
Repayment of borrowings		-	-
Proceeds from borrowing		-	-
Net cash provided by financing activities		-	-
<i>Net (Decrease)/ Increase in Cash Held</i>		(4,170,923)	6,841,400
<i>Cash and cash equivalents at the beginning of the half-year</i>		11,894,300	5,803,264
Effects of exchange rate changes on the balance of cash held in foreign currencies		(78,466)	312,229
<i>Cash and cash equivalents at the end of the half-year</i>		7,644,911	12,956,893

Notes to the condensed consolidated financial statements are included on pages 15 to 24.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Notes to the condensed consolidated Financial Statements
for the half-year ended 30 June 2016**

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 IAS 34 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 2015 annual financial report for the financial year ended 31 December 2015. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current half-year.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED
Notes to the condensed consolidated Financial Statements
for the half-year ended 30 June 2016

1. Significant accounting policies (cont)

New and revised Standards and amendments thereof and Interpretations effective for the current half-year that are relevant to the Group include:

AASB 1057	Application of Australian Accounting Standards
AASB 2014-4	Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation
AASB 2015-1	Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014
AASB 2015-2	Amendments to Australian Accounting Standards –Disclosure Initiative: Amendments to AASB 101
AASB 2015-3	Amendments to Australian Accounting Standards arising from Withdrawal of AASB 1031 Materiality
AASB 2015-9	Amendments to Australian Accounting Standards – Scope and Application Paragraphs

The adoption of all the new and revised Standards and Interpretations has not resulted in any changes to the Group's accounting policies and has no effect on the amounts reported for the current or prior half-years.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Notes to the condensed consolidated Financial Statements for the half-year ended 30 June 2016

1. Significant accounting policies (cont)

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 earned a net profit after tax of \$1,065,423 during the six months (period ended 30 June 2015: \$538,432 loss). Net cash used by operating activities for the six months ended 30 June 2016 was \$4,121,769 (period ended 30 June 2015: \$6,849,011 provided by). As at 30 June 2016 the consolidated entity had cash of \$7,644,911 (30 June 2015: \$12,956,893) of which \$1,338,545 (30 June 2015: \$1,827,505) 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. At 30 June 2016 the consolidated entity had \$5,420,144 of unearned income which will become earned as contracts are fulfilled (30 June 2015: \$11,261,396).

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 become due and payable is dependent on:

- the ability of the consolidated entity to successfully complete projects on hand;
- the willingness of key customers to make timely payments for goods supplied in accordance with contractual terms;
- the future trading prospects of the group; and
- the ability to raise capital from existing or new shareholders should the need arise.

In the opinion of the directors, the consolidated entity can continue as a going concern and pay its debts as and when they become due and payable.

If the consolidated entity is unable to complete projects on hand successfully, secure additional profitable contracts, timely payments for goods supplied to key customers are not made in accordance with contractual terms, or should the need arise, if the consolidated entity is not able to raise capital from new or existing shareholders, significant uncertainty would exist as to the ability of the consolidated entity to continue as a going concern and therefore, 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.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Notes to the condensed consolidated Financial Statements
for the half-year ended 30 June 2016**

	Half-year to 30 June 2016 \$	Half-year to 30 June 2015 \$
2. Profit/ (Loss) From Ordinary Activities		
Profit/ (Loss) from ordinary activities before income tax includes the following items of revenue and expense:		
(a) Revenue		
Contract receipts	14,508,391	11,004,141
Interest received	62,096	7,789
Total revenue	<u>14,570,487</u>	<u>11,011,930</u>
(b) Other Revenue		
Other revenue	-	<u>3,066</u>
(c) Expenses		
Profit/ (Loss) for the period includes the following expenses:		
Unrealised foreign exchange (gains)/losses	<u>(71,849)</u>	<u>(850,427)</u>
Depreciation and amortisation of non-current assets	<u>67,957</u>	<u>78,108</u>
(Profit)/loss on sale of fixed assets	<u>-</u>	<u>(7,786)</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Notes to the condensed consolidated Financial Statements
for the half-year ended 30 June 2016**

	30 June 2016 \$	31 December 2015 \$
3. Reserves		
Foreign currency translation reserve	(456,286)	(529,942)
Employee equity settled benefits reserve	8,220,213	7,727,803
Balance at end of financial period	<u>7,763,927</u>	<u>7,197,861</u>
	Half-year to 30 June 2016 \$	Half-year to 30 June 2015 \$
4. Accumulated Losses		
Balance at beginning of financial period	(78,829,757)	(81,862,199)
Net Profit/ (loss) for the period	1,065,423	(538,432)
Balance at end of financial period	<u>(77,764,334)</u>	<u>(82,400,631)</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Notes to the condensed consolidated Financial Statements
for the half-year ended 30 June 2016**

5. Profit/ (Loss) Per Share

	2016 ¢ per share	2015 ¢ per share
Basic EPS	1.87 cents	(0.95 cents)
Diluted EPS	1.87 cents	(0.95 cents)

Basic Profit (Loss) 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 2016	Half-year to 30 June 2015
	\$	\$
Profit/ (Loss) (a)	1,065,423	(538,432)

	2016 No.	2015 No.
Weighted average number of ordinary shares used in the calculation of basic earnings per share	56,845,926	56,845,926

(a) Profit/ (Loss) used in the calculation of basic earnings per share is the same as net (loss) in the statement of profit or loss and other comprehensive income.

(b) Potential ordinary shares are anti-dilutive and hence diluted earnings per share is the same as basic earnings per share.

6. 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) An entity within the group has committed to spend up to \$5,000,000 under an agreement on capital infrastructure as disclosed in the 2015 Annual Report. As at the reporting date, the estimated remaining commitment is \$1,740,961.

c) The parent entity has provided a guarantee to the Commonwealth of Australia for \$2,750,000 in respect of advance payments received of \$3,950,000 in relation to a space sector project.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Notes to the condensed consolidated Financial Statements
for the half-year ended 30 June 2016**

7. 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 2016 \$	Half-year to 30 June 2015 \$	Half-year to 30 June 2016 \$	Half-year to 30 June 2015 \$
Space	6,619,111	6,290,249	(46,530)	1,403,264
Defence systems	7,889,280	4,713,892	97,162	(1,618,063)
Total of all segments	14,508,391	11,004,141	50,632	(214,799)
Eliminations	-	-	-	-
Unallocated	62,096	7,789	(1,016,994)	(323,633)
Consolidated segment revenue and Profit/(loss) before tax	14,570,487	11,011,930	(966,362)	(538,432)
Income tax benefit	-	-	2,031,785	-
Consolidated segment revenue and profit/(loss) for the period	14,570,487	11,011,930	1,065,423	(538,432)

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 benefit. 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 2016 \$	31 December 2015 \$	30 June 2016 \$	31 December 2015 \$
Space	5,144,664	3,857,109	7,114,342	8,614,200
Defence systems	5,915,760	8,513,539	8,239,617	11,899,077
Total segment assets	11,060,424	12,370,648	15,353,959	20,513,277
Unallocated assets	9,676,696	11,894,300	-	-
Total	20,737,120	24,264,948	15,353,959	20,513,277

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Notes to the condensed consolidated Financial Statements
for the half-year ended 30 June 2016**

7. 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.

Product and Services within each Business Segment

Space

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.

The space sector also manufactures and sells telescopes and dome enclosures for space projects.

Defence systems

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, Australasia and other markets.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Half-year ended 30 June 2016

8. Issuance of Securities

2016

During the half year period, the Company issued 5,715,000 unlisted options to Directors and staff at an exercise price of \$3.00 per share exercisable on or before 31 January 2019. The share based payment expense is included in the condensed consolidated statement of profit or loss and other comprehensive income.

2015

None

No options were exercised during the period.

Issued capital as at 30 June 2016 and 30 June 2015 amounted to \$75,383,567.

9. Subsequent events

The Directors are not aware of any significant subsequent events since the end of the financial period and up to the date of this report.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Notes to the condensed consolidated Financial Statements
for the half-year ended 30 June 2016**

10. Related party transactions

During the period, the Company paid a total of \$33,398 (six month period ended 30 June 2015 - \$33,398) to 4F Investments Pty Limited, a company associated with Mr Fred Bart in respect of directors fees and superannuation for Mr Fred Bart.

During the period, the Company paid a total of \$20,531 (six month period ended 30 June 2015 - \$20,531) to Dennis Corporate Services Pty Limited, a company associated with Mr Ian Dennis in respect of directors fees and superannuation for Mr Ian Dennis.

During the period, the Company paid a total of \$60,000 (six month period ended 30 June 2015 - \$60,000) to Dennis Corporate Services Pty Limited, a company associated with Mr Ian Dennis in respect of consulting fees for secretarial and accounting services.

During the period, the Company paid a total of \$8,784 (six month period ended 30 June 2015 - Nil) to GCB Stratos Consulting Pty Limited, a company associated with Mr Geoff Brown in respect of directors fees and superannuation for Mr Geoff Brown.

During the period, the Company paid a total of \$11,402 (six month period ended 30 June 2015 - \$10,461) to Audio Pixels Holdings Limited, a company which Fred Bart and Ian Dennis are directors and shareholders in respect of shared Sydney office facilities.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED
Notes to the condensed consolidated Financial Statements
for the half-year ended 30 June 2016

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