



Electro Optic Systems Holdings Limited
A.C.N. 092 708 364
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<http://www.eos-aus.com>

28 February 2017

The Manager
Company Announcements Office
ASX Limited
Exchange Centre
20 Bridge Street
Sydney NSW 2000

Dear Sir,

Preliminary Final Report – Listing Rule 4.3A

The Preliminary Final Report/ Appendix 4E for the year ended 31 December 2016 is attached.

Yours faithfully,

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

Ian Dennis
Director

Preliminary Final Report of *Electro Optic Systems Holdings Limited* for the Financial Year Ended 31 December 2016

ACN 092 708 364

This Preliminary Final Report is provided to the Australian Stock Exchange (ASX) under ASX Listing Rule 4.3A.

Current Reporting Period: Financial Year ended 31 December 2016

Previous Corresponding Period: Financial Year ended 31 December 2015

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Results for Announcement to the Market

Revenue and Net (Loss)

		Percentage Change %	Amount
Revenue from ordinary activities	down	15.4	To \$25,797,200
(Loss) from ordinary activities after tax attributable to members	down	N/A	To (\$886,692)
Net (Loss) attributable to members	up	N/A	To (\$886,692)

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 31 December 2016		\$4,046,999
Number of ordinary shares outstanding at 31 December 2016		56,845,926
NTA per ordinary share at 31 December 2016		7.12 cents
NTA per ordinary share at 31 December 2015		6.60 cents

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

Refer to Review of Operations on pages 16 to 18.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Consolidated statement of profit or loss and other comprehensive
income for the
Financial Year ended 31 December 2016**

	Note	2016 \$	2015 \$
Revenue	2(a)	25,797,200	30,500,748
Changes in inventories of work in progress		(447,550)	843,062
Raw materials and consumables used		(10,346,026)	(14,969,882)
Employee benefits expense		(13,600,306)	(10,586,083)
Administrative costs		(3,756,612)	(3,235,089)
Finance costs		(27,663)	(17,100)
Depreciation expense	2(b)	(98,859)	(134,259)
(Loss)/ gain on disposal of fixed assets		(110)	7,404
Foreign exchange gain	2(b)	610,447	1,636,298
Occupancy costs		(796,222)	(742,906)
Other expenses		(252,776)	(269,751)
(Loss)/ profit before income tax expense	2	(2,918,477)	3,032,442
Income tax benefit		2,031,785	-
(Loss)/ profit for the year	4	(886,692)	3,032,442
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss			
Exchange differences arising on translation of Foreign operations		(74,898)	(315,850)
Total comprehensive (loss)/ profit for the year		(961,590)	2,716,592
(Loss)/ earnings per share:			
Basic (cents per share)	5	(1.6)	5.3
Diluted (cents per share)		(1.6)	5.3

Notes to the financial statements are included on pages 8 to 15

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Consolidated statement of financial position as at 31 December 2016

	Note	2016 \$	2015 \$
<i>Current Assets</i>			
Cash and cash equivalents		8,874,967	11,894,300
Trade and other receivables		3,805,560	6,536,772
Inventories		3,478,996	4,217,900
Other		459,228	1,460,118
<i>Total Current Assets</i>		16,618,751	24,109,090
<i>Non-Current Assets</i>			
Property, plant and equipment		459,791	155,858
<i>Total Non-Current Assets</i>		459,791	155,858
<i>Total Assets</i>		17,078,542	24,264,948
<i>Current Liabilities</i>			
Trade and other payables		7,176,569	13,585,096
Provisions		5,553,555	6,638,938
<i>Total Current Liabilities</i>		12,730,124	20,224,034
<i>Non-Current Liabilities</i>			
Provisions		301,419	289,243
<i>Total Non-Current Liabilities</i>		301,419	289,243
<i>Total Liabilities</i>		13,031,543	20,513,277
<i>Net Assets</i>		4,046,999	3,751,671
<i>Equity</i>			
Issued capital		75,383,567	75,383,567
Reserves	3	8,379,881	7,197,861
Accumulated losses	4	(79,716,449)	(78,829,757)
<i>Total Equity</i>		4,046,999	3,751,671

Notes to the financial statements are included on pages 8 to 15

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Consolidated statement of changes in equity for the Financial
Year ended 31 December 2016**

	Total \$	Accumulated losses \$	Issued capital \$	Foreign currency translation reserve \$	Employee equity settled benefits reserve \$
Balance at 1 January 2016	3,751,671	(78,829,757)	75,383,567	(529,942)	7,727,803
(Loss) for the period	(886,692)	(886,692)	-	-	-
Exchange differences arising on translation of foreign operations	(74,898)	-	-	(74,898)	-
Total comprehensive income for the year	(961,590)	(886,692)	-	(74,898)	-
Recognition of share based payments	1,256,918	-	-	-	1,256,918
Balance as 31 December 2016	4,046,999	(79,716,449)	75,383,567	(604,840)	8,984,721
Balance at 1 January 2015	1,035,079	(81,862,199)	75,383,567	(214,092)	7,727,803
Profit for the period	3,032,442	3,032,442	-	-	-
Exchange differences arising on translation of foreign operations	(315,850)	-	-	(315,850)	-
Total comprehensive income for the year	2,716,592	3,032,442	-	(315,850)	-
Balance as 31 December 2015	3,751,671	(78,829,757)	75,383,567	(529,942)	7,727,803

Notes to the financial statements are included on pages 8 to 15

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Consolidated statement of cash flows for the Financial Year ended 31 December 2016

	<u>Note</u>	<u>2016</u> \$	<u>2015</u> \$
<i>Cash Flows From Operating Activities</i>			
Receipts from customers		26,238,130	35,963,078
Payments to suppliers and employees		(31,075,678)	(29,016,677)
Tax refund received		2,031,785	-
Interest and bill discounts received		159,939	34,765
Interest and other costs of finance paid		(27,663)	(17,100)
Net cash provided by/ (used in) operating activities		<u>(2,673,487)</u>	<u>6,964,066</u>
<i>Cash Flows From Investing Activities</i>			
Proceeds from sale of property, plant and equipment		-	7,786
Payment for property, plant and equipment		(402,977)	(56,632)
Net cash (used in) by investing activities		<u>(402,977)</u>	<u>(48,846)</u>
<i>Cash Flows From Financing Activities</i>			
Proceeds of borrowings		-	-
Repayment of borrowings		-	(1,391,248)
Net cash (used in) financing activities		<u>-</u>	<u>(1,391,248)</u>
<i>Net (Decrease)/ increase In Cash Held</i>		(3,076,464)	5,523,972
<i>Cash and cash equivalents at the beginning of the year</i>			
		11,894,300	5,803,264
Effects of exchange rate changes on the balance of cash held in foreign currencies		57,131	567,064
<i>Cash and cash equivalents at the end of the year</i>		<u>8,874,967</u>	<u>11,894,300</u>

Notes to the financial statements are included on pages 8 to 15

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Notes to the Financial Statements
for the Financial Year ended 31 December 2016**

1. Basis of Preparation

The preliminary final report has been prepared in accordance with ASX Listing Rule 4.3A and disclosure requirements of ASX Appendix 4E.

The accounting policies adopted in the preparation of the preliminary financial report are consistent with those adopted and disclosed in the 2015 annual report.

Adoption of new and revised Accounting 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 their operations and effective for the current year.

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

- AASB 1057 Application of Australian Accounting Standards and AASB 2015-9 Amendments to Australian Accounting Standards – Scope and Application paragraphs.
- 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 Cycle.
- AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101.

The application of the above has not had any material impact on the amounts recognised in the consolidated financial statements.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Notes to the Financial Statements for the Financial Year ended 31 December 2016

1. Basis of Preparation (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 incurred a net loss during the year of \$886,692 (2015: \$3,032,442 profit). Net cash used by operating activities was \$2,673,487 (2015 - \$6,964,066 provided by). As at 31 December 2016, the consolidated entity had cash of \$8,874,967 (2015 - \$11,894,300) of which \$195,127 (2015 - \$1,849,580) is restricted as it secures bank guarantees on existing contracts with local and overseas customers. The cash will become unrestricted if the contracts are concluded or renegotiated.

In the opinion of the directors, the ability of the company and consolidated entity to continue as going concerns and pay their debts as and when they become due and payable is dependent upon:

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

In the opinion of the directors, the consolidated entity and Company can continue as going concerns and pay their 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 Company is not able to raise capital from new or existing shareholders, significant uncertainty would exist as to the ability of the consolidated entity and Company to continue as going concerns and therefore, they may be required to realise their assets and extinguish their 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 and Company not continue as going concerns.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Notes to the Financial Statements
for the Financial Year ended 31 December 2016**

	2016	2015
	\$	\$
2. (Loss)/ Profit From Ordinary Activities		
(Loss)/ profit from ordinary activities before income tax includes the following items of revenue and expense:		
(a) Revenue		
Contract receipts	25,635,805	30,464,775
Interest received	159,939	34,765
Other revenue		
Other	1,456	1,208
Total revenue	<u>25,797,200</u>	<u>30,500,748</u>
(b) Expenses		
Foreign exchange (gains)	(610,477)	(1,636,298)
Depreciation of property, plant and equipment	98,859	134,259
3. Reserves		
Foreign currency translation reserve	(604,840)	(529,942)
Employee equity settled benefits reserve	<u>8,984,721</u>	<u>7,727,803</u>
Balance at end of financial period	<u>8,379,881</u>	<u>7,197,861</u>
4. Accumulated Losses		
Balance at beginning of financial period	(78,829,757)	(81,862,199)
Net (Loss)/ profit for the year	<u>(886,692)</u>	<u>3,032,442</u>
Balance at end of financial period	<u>(79,716,449)</u>	<u>(78,829,757)</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Notes to the Financial Statements
for the Financial Year ended 31 December 2016**

5. Earnings Per Share

	2016	2015
	¢ per share	¢ per share
Basic EPS	(1.6 cents)	5.3 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:

	2016	2015
	\$	\$
(Loss)/ earnings (a)	(886,692)	3,032,442

	2016	2015
	No.	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/ (loss) in the profit and loss.

(b) There are no potential ordinary shares and hence diluted earnings per share is the same as basic earnings per share.

The unlisted options outstanding are not in the money at 31 December 2016 and are not considered dilutive.

6. Contingent Liabilities

a) Entities within the consolidated entity are involved in contractual disputes 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.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Notes to the Financial Statements
for the Financial Year ended 31 December 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 performance.

	Revenue		Segment profit	
	2016 \$	2015 \$	2016 \$	2015 \$
Space	9,591,762	11,624,922	(2,146,398)	2,300,114
Defence systems	16,045,499	18,841,061	367,500	1,423,768
Total of all segments	25,637,261	30,465,983	(1,778,898)	3,723,882
Eliminations	-	-	-	-
Unallocated	159,939	34,765	(1,139,579)	(691,440)
Consolidated	25,797,200	30,500,748	(2,918,477)	-
(Loss)/ profit before tax	-	-	-	3,032,442
Income tax benefit	-	-	2,031,785	-
Consolidated segment revenue and (loss)/ profit for the year	25,797,200	30,500,748	(886,692)	3,032,442

The revenue reported above represents revenue from external customers. There were no intersegment sales during the period. There were no discontinued operations during the period. The consolidated entity has four customers who provided in excess of 10% of consolidated revenue. Three customers are within the Defence segment and provided combined revenue of \$16,637,765 and one customer is in the Space segment and provided revenue of \$6,347,732.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Notes to the Financial Statements
for the Financial Year ended 31 December 2016**

7. Segment Information (cont'd)

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

	2016	2015
	\$	\$
Space	1,327,933	3,857,109
Defence systems	6,875,642	8,513,539
Total segment assets	8,203,575	12,370,648
Unallocated assets	8,874,967	11,894,300
Total assets	17,078,542	24,264,948

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

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 substantial 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, Australia and other markets.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED
Notes to the Financial Statements
for the Financial Year ended 31 December 2016

8. 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.

9. Issuance of Securities

2016

No shares were issued during the financial year.

During the financial year, 3,000,000 unlisted options were issued to directors on 11 February 2016 following shareholder approval on 5 February 2016 and a further 200,000 unlisted options were issued on 30 May 2016 following shareholder approval. 2,515,000 unlisted options were also issued to staff on 5 February 2016. These 5,715,000 options issued under the Employee Share Option Plan have an exercise price of \$3.00 each and expire on 31 January 2019.

No options were exercised during the year.

2015

No shares or options were issued during the financial year.

No options were exercised during the year.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED
Notes to the Financial Statements
for the Financial Year ended 31 December 2016

10. Other Significant Information

None

11. Information on Audit or Review

This Preliminary Final report is based on accounts to which one of the following applies.

- | | |
|--|--|
| <input type="checkbox"/> The accounts have been audited. | <input type="checkbox"/> The accounts have been subject to review. |
| <input checked="" 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.

The audit is currently in progress and the directors continue to discuss a number of matters with the auditors. At this stage the directors anticipate an unmodified audit report with a paragraph relating to going concern. Any modifications to the audit report are unknown at this time.

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

Not applicable

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Review of Operations

1. RESULTS FOR FULL-YEAR ENDING 31 DECEMBER 2016

The consolidated entity (“EOS”) reported an operating loss after tax of \$886,692 for the year ended 31 December 2016 [2015: \$3,032,442 profit] based on revenues totalling \$25,797,200 [2015: \$30,500,748].

The consolidated entity reported net cash used by operations for the year totalling \$2,673,487 [2015: \$6,964,066 provided by]. At 31 December 2016, the consolidated entity held cash totalling \$8,874,967 [2015: \$11,894,300]. Cash of \$195,127 [2015: \$1,849,580] is restricted as it secures bank guarantees relating to performance on some contracts.

These results are broadly in line with management expectations as the company prepares for expansion through 2017.

The results included a tax refund received of \$2,031,785 [2015: nil] under the Research and Development tax offset program.

2. EOS DEFENCE SYSTEMS

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

This segment achieved a marginal profit in 2016, with support from government rebates for its research and development outlays. Key features of this performance were:

- Long-term programs for continuous improvement in quality and productivity provided more gains, but at a reduced level which indicates that an optimum point is approaching for the current business model; and
- EOS investment transitioned from R&D to testing and qualification of specific new products with key customers, to meet specific customer requirements.

Customer satisfaction remains at high levels.

The performance of this sector in 2016 was achieved at a turning point in the global RWS market:

- A. The original RWS market opened by EOS in the 1990’s has been commoditised and in decline for five years.
- B. Emerging demand for next-generation products with leap-ahead technology is very strong, with contract awards in 2017 expected to far exceed traditional RWS products.

EOS has been predicting this paradigm shift for several years, and has invested heavily in the necessary research and product development. EOS next-generation products now available to customers provide a very significant improvement in firepower-per-kilogram of weapon system payload over all previously-fielded RWS.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Review of Operations

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.

It is not practical to sell EOS sensors to space operators, because each individual operator will need a small amount of data from each of many sensors. The EOS business model pools the requirements of many users to deploy sufficient sensors to achieve the data service levels required.

On 1 February 2017 EOS announced that it had achieved initial operations at its new space sensor site in Western Australia. This site will require several months of formal test procedures to be executed in collaboration with the Commonwealth and other potential data customers. Those formal tests are expected to commence during Q2 2017. Since existing EOS sensors can meet the planned test requirements, EOS does not expect significant issues with the test regime.

Space business development is again tracking to plan, after delays encountered during 2015 and 2016 relating to the specific site. Those delays have resulted in a revised and expanded site selection process to be applied for further deployment of EOS sensors. Site selection for the next sensor site has been under way for 5 months, and should conclude during Q2 2017. A location in Queensland is presently preferred.

One more operational site will allow EOS to provide robust, reliable operations from multiple sites to support mission-critical space applications. The next site should require only 12 months to fully deploy, so EOS expects to lift space data acquisition capacity in 2018 to many times its 2015 capacity. At this level EOS will exceed critical mass of sites, data and sensors, and can meet initial commercial objectives for data volume and data reliability.

The infrastructure build-out moves in lock-step with data and service delivery contracts, and these are under negotiation with current and potential customers.

Further capacity expansion will be undertaken as data volume requirements increase, as reflected in executed customer contracts.

Meanwhile this sector sustained a loss in 2016 which would not have been incurred without substantial and fully-expensed outlays for new sensors for future sites and site infrastructure costs.

4. FORECAST AND OUTLOOK

The operating loss of \$886,692 for the 12 months ended 31 December 2016 was within management expectations.

From 2017 EOS expects to rapidly increase revenue over a number of years, due to the Defence systems and Space systems businesses both maturing.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Review of Operations

Over recent years, EOS has been working closely with customers and industry partners to establish new markets for a new generation of RWS. This period of research, product development, product qualification and production preparation is nearing completion. EOS is presently negotiating multiple delivery contracts for a substantial number of next-generation RWS.

EOS expects multi-year defence contracts for advanced weapon systems to be in place within the next 90 days, with each providing strong revenue and profit growth for several years. The near-term outlook for EOS' Defence Systems sector is strong.

The outlook for EOS' Space Systems sector is positive. After program delays not associated with EOS sensor performance or market requirements, EOS is again accumulating space data capacity to meet demand for space data.

EOS is confident that its Space Systems sector will independently contribute significant revenue and profit to the company from Q4 2018, commensurate with the substantial investments EOS has made in this sector.

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.

The financial statements have been prepared on the basis of a going concern as detailed in Note 1.

Ben Greene

Chief Executive Officer

28 February 2017