Electro Optic Systems Holdings Limited
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Facsimile Transmission Cover Sheet

TO:	Andrew Black
COMPANY:	ASX
FACSIMILE:	9241 7620
FROM:	Ian Dennis
DATE:	5 August 2003
PAGES:	4 (Including this cover sheet)

Dear Andrew,

Appendix 4C Clarification

I refer to your fax of 1 August 2003 requesting clarification of the Appendix 4C for the period ended 30 June 2003.

I now attach a copy of the response for release to the market.

Please note that your figures at items 1,2,3 and 5 do not seem to agree with our Appendix 4C.

Yours faithfully,

Ian Dennis
Director

Electro Optic Systems Holdings Limited
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5 August 2003

The Manager
Australian Stock Exchange
Exchange Centre
Level 6
20 Bridge Street
Sydney NSW 2000

By Fax 9241 7620 (3 pages)
Att Andrew Black

Dear Sir,

Appendix 4C Clarification

I refer to your letter dated 1 August 2003 regarding the Appendix 4C for the period ended 30 June 2003 and respond to your questions as follows:

1. The negative operating cash flows for the three-month period were $452,000 and should this level of negative cash flow continue for another quarter without other revenue the company would only have sufficient cash reserves for another 3 months without considering other factors. Other factors include the following:

a) The Company has profitable contracts and customer commitments for 2003, and does not expect to draw on cash reserves to support Company operations. Projects presently under way include major programs (each greater than $5m) for adaptive optics systems for the Gemini South Observatory in Chile, the urgent replacement of government space tracking facilities in Canberra that were destroyed by recent bushfires (Announced 4 July 2003), the contract with Australian National University for the reconstruction of their 2 telescopes lost in the fire in Canberra (Announced 13 July 2003). The Company has strong cash flow for these projects in the second half of the year.

b) The Company is still negotiating with its insurers over the insurance claim for Mt Stromlo damage. The insurers have thus far paid \$2m (included in June quarter as revenue) out of a total claim that is expected to reach \$5m. These payments are made in arrears, and this impacted cash flow to 30 June.

c) Notwithstanding its full capacity for 2003 being already booked for profitable contracts, the Company continues to bid for new programs on the basis of planned capability expansion.

d) The parent Company has a commercial property in Dandenong, Victoria which it has owned for over 2 years, with a recent market valuation of \$1.9m which has an unused finance facility of \$140,000 at 30 June 2003. The Directors are considering selling the property during the next 6 months which could release \$1.1m cash after repaying the current first mortgage over the property of \$800,000.

e) The Company received the first milestone payment of \$1.7m on 25 July 2003 in respect of the Mt Stromlo tracking facility and has already lodged the second milestone payment on 23 July 2003 for a further \$1.1m which is due for payment during August 2003.

2. The Company does not expect to have negative operating cash flows similar to those reported in Appendix 4C in the future. However as the contracts the Company has and anticipates receiving in the future are of a long term nature, there may well be fluctuations in the future on the contract revenue receipts which are all subject to milestone payments which may not coincide with quarterly cash reporting.

3 & 4. The contract revenues in the quarter ended 30 June 2003 were less than anticipated due to delays in receipt of the insurance proceeds from the fire in January 2003, which delayed reinstatement of revenue-generating equipment. Sales of fire control system units that were anticipated to generate revenue during the June 2003 quarter have been deferred to late in 2003 to allow production to be standardised to a US Army specification, as announced in May 2003.

The Company has also expended additional funds on its Mt Stomlo facility in Canberra to allow accurate tracking of space objects down to below 10 cm in size. These expenditures (included in Research and Development) were as originally anticipated. The Company expects significant additional revenue resulting from these trials in future years commencing in the latter part of 2003 after successful negotiations with its key customers and after the reconstruction of the facility.

5. The Company's business objectives and strategies have not changed since the statement in the Prospectus of 8 March 2002.

The Company is continuing discussions with major overseas organisations and government agencies relating to the formation of strategic alliances for the accelerated exploitation of its space surveillance business.

The Directors are currently assessing the medium-term capital requirements of the Company and have retained Ord Minnet to assist and advise in this regard. This assessment includes the potential working capital needs of additional new orders in 2003, adding to the high backlog of orders presently held by the company. A decision on any capital raising will be made only after finalisation of discussions with key customers, which are currently in progress.

6. The Company can confirm that it is in compliance with the listing rules, and in particular, listing rule 3.1.

7. The Company believes that its financial condition warrants the continued quotation of its securities pursuant to listing rule 12.2. This statement is based on the following:

a) The Company has a market capitilisation of some A$78m and a strong backlog of profitable contracts

b) The latest audited balance sheet as at 31 December 2002 discloses net assets in excess of A$8.7m.

c) The Company believes that additional funds in the form of new capital are available based on the support of the major shareholders.

Yours faithfully,

Ian Dennis
Director

ASX
AUSTRALIAN STOCK EXCHANGE

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1 August 2003

Mr Ian Dennis
Director & Company Secretary
Electro Optic Systems Holdings Limited
Level 9
185 Macquarie Street
Sydney NSW 2000

Dear Ian

Electro Optic Systems Holdings Limited (the "Company")

I refer to the Company's Quarterly Report in the form of Appendix 4C for the period ended 30 June 2003, released to Australian Stock Exchange Limited ("ASX") on Thursday, 31 July 2003, (the "Appendix 4C").

ASX notes that the Company has reported the following.

1. Receipts from customers of $5,783,000.

2. Net negative operating cash flows for the quarter of $1,056,000.

3. Cash at end of quarter of $404,000.

4. Loan facilities available of $140,000

5. Proceeds from exercise of options of $49,200

In light of the information contained in the prospectus and the Appendix 4C, please respond to each of the following questions.

1. It is possible to conclude on the basis of the information provided that if the Company were to continue to expend cash at the rate for the quarter indicated by the Appendix 4C, the Company may only have sufficient cash to fund its activities for approximately 3 months. Is this the case, or are there other factors that should be taken into account in assessing the Company's position?

2. Does the Company expect that in the future it will have negative operating cash flows similar to that reported in the Appendix 4C for the quarter and, if so, what steps has it taken to ensure that it has sufficient funds in order to continue its operations at that rate?

3. To what extent have the Company's actual revenues and expenses in the quarter, as reported in the Appendix 4C, matched the Company's anticipated revenues and expenses for that reporting period?

4. If the Company's actual revenues and expenses are not substantially in accordance with the Company's anticipated revenues and expenses, when did the Company become aware that its revenues and expenses would not substantially match the anticipated revenues and expenses? You may wish to outline any circumstances that may have had an effect on the Company's revenues and expenses.

5. What steps has the Company taken, or what steps does it propose to take, to enable it to continue to meet its business objectives as set out in its prospectus? The Company's business objectives and strategies may have changed since the date of the prospectus. If so, this should be taken into account in your response.

6. Can the Company confirm that it is in compliance with the listing rules, and in particular, listing rule 3.1?

7. Please comment on the Company's compliance with listing rule 12.2, with reference to the matters discussed in the note to the rule.

Listing rule 3.1

Listing rule 3.1 requires an entity to give ASX immediately any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities. The exceptions to this requirement are set out in listing rule 3.1A.

In responding to this letter you should consult listing rules 3.1, 3.1A and Guidance Note 8 - Continuous Disclosure.

If the information requested by this letter is information required to be given to ASX under listing rule 3.1 your obligation is to disclose the information immediately.

Your responsibility under listing rule 3.1 is not confined to, or necessarily satisfied by, answering the questions set out in this letter.

Under listing rule 18.7A, a copy of this letter and your response will be released to the market, so your response should be in a suitable form and separately address each of the questions asked. If you have any queries or concerns, please contact me immediately. Your response should be sent to me on **facsimile number (02) 9241 7620.** It should <u>NOT</u> be sent to the Company Announcements Office.

Unless the information is required immediately under listing rule 3.1, a response is requested as soon as possible and, in any event, not later than half an hour before the start of trading (ie **before 9.30 a.m. E.S.T.) on Tuesday, 5 August 2003.**

If you are unable to respond by the time requested you should consider a request for a trading halt in the Company's securities.

If you have any queries regarding any of the above, please let me know.

Yours sincerely,

A.R.A. Black

Andrew Black
Senior Companies Advisor