

Electro Optic Systems Holdings Limited

A.C.N. 092 708 364

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<http://www.eos-aus.com>

**This Preliminary Final Report (Appendix 4E) is provided to the Australian Stock Exchange (ASX) under ASX Listing Rule 4.3A
Audited Results for Announcement to the Market for the Financial Year Ended 31 December 2004**

		Percentage Change		Amount
		%		\$
Revenue from ordinary activities	down	17.7	to	15,878,583
Loss from ordinary activities after tax attributable to members	down	N/A	to	(6,844,505)
Net loss attributable to members	down	N/A	to	(6,844,505)
		Amount per security		Franked amount per security
Final dividend		Nil		Nil
Interim dividend		Nil		Nil

Net Tangible assets \$8,666,834

Number of ordinary shares outstanding at year end 34,621,935

NTA per ordinary share at 31 December 2004 0.25 cents

NTA per ordinary share at 31 December 2003 0.42 cents

A review of operations is included in pages 3 to 6 of the attached signed Financial Report for the financial year ended 31 December 2004.

These results have been audited by Deloitte Touche Tohmatsu and their signed audit report is included on pages 14 and 15 of the attached audited financial statements for the financial year ended 31 December 2004.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED
ACN 092 708 364

FINANCIAL REPORT FOR THE FINANCIAL YEAR ENDED
31 DECEMBER 2004

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

CORPORATE DIRECTORY

Directors

Mr Fred Bart (Chairman)
Dr Ben Greene (Chief Executive Officer)
Dr Bob Dean
Mr Ian Dennis
Ms Cheryl Bart
Mr John Gordon

Company Secretary

Mr Ian Alistair Dennis

Registered Office

Suite 2, Level 12
75 Elizabeth Street
Sydney NSW 2000
Australia

Telephone:- 612 9233 3915
Facsimile:- 612 9232 3411

Web site www.eos-aus.com

Share Registry

Computershare Investor Services Pty Limited
Level 3,
60 Carrington Street
Sydney NSW 2000
Australia
GPO Box 7045
Sydney NSW 1115

Telephone:- 1300 855 080 or 613 9611 5711 outside Australia
Facsimile:- 1300 137 341

Auditors

Deloitte Touche Tohmatsu
Chartered Accountants
Grosvenor Place
225 George Street
Sydney NSW 2000
Australia

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

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REVIEW OF OPERATIONS

Financial Performance

Pre-tax loss for 2004 was \$6,844,505 on revenue of \$15,878,583.

This loss was due to factors associated with:

- Revenue reductions caused by a focus on growing specific programs and deferral of contract effort generally. Although EOS has rapidly expanded staff numbers, the demands of business expansion exceed available human resources. EOS has deferred contracted activities to the maximum extent permitted under customer contracts to allow the needs of business expansion to be addressed.
- Strong increases in R&D expenditure to meet the demands of the market for specific variants of EOS products in both space and defence (CROWS) programs. The Space Research Centre continues to be supported as a principal vehicle for marketing EOS technologies to space customers.
- Costs associated with obtaining, fitting and occupying new premises in both Australia and the USA. In the USA the company has increased its facility space by 400% to over 50,000 square feet. In Australia the facility space has doubled to 2,000 square metres.
- CROWS staff recruitment and training (estimated \$1.2m net after training grants of \$0.3m). Training commitments also reduced CROWS revenues for 2004, as shipments were deferred in favour of in-house staff training.
- CROWS logistics requirements, and priming CROWS parts inventory with initial stocks.
- Reductions in contract price per unit for CROWS deliverables, as contracts commence transition to volume pricing prior to the achievement of any reduction in production cost.
- Deferral of Commonwealth R&D funding support (\$1m) late in 2004, to allow customer requirements to be integrated into a more aggressive program with earlier commercialisation outcomes.
- Costs related to establishing strategic partnerships, including supporting diligence efforts and redirection of space capabilities for demonstrations.

The results are thus principally due to the repositioning of the company to take advantage of program successes, and to optimise company growth.

No new capital placements were made during 2004. The company has no debt other than debts incurred in the normal course of its business. However the company's cash position had weakened by the end of 2004, and a capital placement was negotiated with a strategic investor (announced 31 January 2005) to restore working capital and reserves.

A key parameter indicating growth is the backlog at 31 December 2004 of approximately \$46m, far exceeding the \$22m for 2003. Importantly, telescopes and observatories form less than 50% of this backlog for the first time, as new businesses begin to make market inroads.

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REVIEW OF OPERATIONS (cont)

Market demand in all business areas is expected to strengthen in 2005, as outlined below.

Defence Products

EOS produces sensor and electronics technology that replaces or reduces the role of human operators for existing and future weapon systems. In 2001 EOS, in collaboration with its US partner Recon Optical Inc. ("ROI"), competed for and won the US Army CROWS ("Common Remotely Operated Weapon System") program.

CROWS eliminates most human and environmental errors from existing weapon systems, allowing vast improvements in effectiveness. After several years of development and testing, including deployment to combat operations from late 2003, CROWS is now a major weapons program for the US Army.

CROWS is currently funded for US\$70m of production in 2005, and additional funds of US\$50m for 2005 production are under consideration by Congress. This funding is sufficient for up to 500 CROWS units. Approximately 40% of CROWS funding flows into performance contracts for EOS.

In late 2004 EOS initiated a production capacity increase from 50 to 150 units per year in its Australian facility, in anticipation of 2005 funding. This production rate can meet CROWS requirements to June 2005. A new US production facility with a capacity of 960 units per year will be on line by June. The Australian plant is optimised for short-run and prototype production, while the US plant is based on lean production technology for long production runs.

Both plants can be rescaled to meet demand fluctuations. EOS expects demand for this family of product, in all markets, to be 8,000 units over 5 years.

The demand surge for this product would not have been met without the commitment over several preceding years to quality and configuration systems, and to manufacturing documentation. These large EOS investments in process control have proven invaluable in the transition to production.

However, there remain risks associated with establishing high quality, volume production of such complex products. Supply chain and subcontractor management will be key issues in 2005. EOS remains committed to the orderly opening of its proprietary CROWS architecture to allow high value-added vendors to contribute their product and reduce both risks and time-to-market for future CROWS variants.

The relationship with ROI, EOS' partner and CROWS prime contractor, is of prime importance in the execution of this program. EOS and ROI continue to closely coordinate effort towards meeting customer expectations in this and other rapidly developing markets.

The establishment of production capacity has required capital investment, and significant costs associated with the recruitment and training of staff. Also, accessories and enhancements for the immediate deployment of CROWS have required development outlays.

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REVIEW OF OPERATIONS (cont)

The rapid surge in demand has not allowed a progressive investment program, and significant costs must be borne in the earliest stages of the production ramp. Also, profitability from the new production facilities will be initially lower than design levels. Although the company plans to meet costs from gross profits in 2005 on this product line, this cannot be assured at this time.

Space Surveillance and Control

During 2004 EOS commissioned the Mount Stromlo Space Research Centre. This facility houses a capability for the determination of precise (1 mm accuracy) orbits for geodynamic and other special-purpose satellites. This data is provided to the Commonwealth through Geoscience Australia.

During 2004 EOS also came under Commonwealth contract to operate a laser tracking site in Western Australia. The two EOS-operated laser tracking sites provide critically important data for the calibration of a wide range of space sensors, including those that measured and tracked the recent tsunamis event in Asia.

Also housed at the Space Research Centre, EOS high power laser tracking enhancements allow detection and tracking of objects in space with unprecedented sensitivity and accuracy. A key application is the acquisition and tracking of 5 cm space debris that cannot presently be acquired or tracked. The new EOS capability is revolutionary, so substantial validation and test programs are required before customer commitment can be obtained.

Two annual phases of customer-funded tracking demonstrations have been scheduled. The 2004 testing was completed successfully, and the 2005 tests will conclude in September 2005. EOS expects the full test cycle to demonstrate an operational capability for space tracking and information collection, with substantial near-term markets.

EOS tracking technology can be used to avoid collisions between space debris and satellites. With its uniquely accurate data on debris orbits, EOS can engage debris with directed-energy (high power radiation) to remove it from space permanently.

In late 2003 EOS announced Australian Government funding of \$8.4m towards a \$23m R&D effort to demonstrate space debris de-orbit using ground-based lasers. This effort has exceeded expectations in its technical achievements, and is presently formally suspended at EOS' request to allow more aggressive program objectives to be addressed.

EOS' directed-energy efforts are small-scale and easily exceeded by other global efforts. However, EOS' ability to acquire and track previously undetected targets with lasers is unique. Any directed-energy engagement of space objects first requires that they be tracked by laser.

In late 2004, EOS negotiated a strategic alliance (announced 31 January 2005) for space applications with Northrop Grumman Corporation ("NGC"). NGC is the world leader in directed-energy applications, with vast experience in space tracking and information systems. This alliance will provide complete solutions to key customer requirements.

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REVIEW OF OPERATIONS (cont)

Space Systems

Demand for EOS technology in large-scale optical systems grew again 2004. Orders for telescopes and observatory systems pushed backlog from \$22m to \$24m.

The average telescope size under contract has increased from 1.8m to 2.4m over 2 years. This represents an increase of over 50% in contract value per telescope.

Focus on space telescopes, adaptive optics and large-scale synthetic aperture systems continues. Customer funding for most of these projects has been slipped to 2005 and beyond. Notwithstanding this, EOS expects further modest growth in this sector in 2005.

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 year ended 31 December 2004. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Directors

The names and particulars of the directors of Electro Optic Systems Holdings Limited in office during or since the end of the financial period are:

Names	Qualifications, experience and special responsibilities
Fred Bart	Chairman (Age 50). A director since 8 May 2000. He has been Chairman and Managing Director of numerous private companies since 1980, specialising in manufacturing, property and technology. Mr Bart is Chairman of Global Properties Limited and Deputy Chairman of Genetic Technologies Limited.
Dr Ben Greene	BE (Hons), Phd in Applied Physics (Age 53) is the Chief Executive Officer of Electro Optic Systems. Dr Greene was involved in the formation of EOS. He is widely published in the subject areas of laser tracking, space geodesy, quantum physics, satellite design, laser remote sensing, and the metrology of time, and is currently regarded as a world leader in these fields. Appointed to the Board on 11 April 2002.
Ian Dennis	BA, A.C.A. (Age 47) is a chartered accountant with experience as director and secretary in various public listed companies and trusts in Australia and overseas. He has been involved in the investment banking industry and stockbroking industry for the past twenty years. Prior to that, Ian was with KPMG, Chartered Accountants in Sydney. Appointed to the Board on 8 May 2000. Mr Dennis is a director of Global Properties Limited.
Cheryl Bart	Non-executive director. (Age 45) Appointed to the Board on 7 September 2001. Cheryl Bart is a lawyer and company director. She is a non-executive director of ETSA Utilities, the Alcohol Education and Rehabilitation Foundation, Defence Industry Advisory Board, Adelaide Film Festival, Economic Development Board of South Australia and APP Corporation Pty Limited.
Dr Bob Dean	Non-executive director (Age 63) Appointed to the Board on 1 December 2002. Dr Bob Dean is a former senior executive of Boeing, Lockheed-Martin and Ball Corporation. He has extensive experience with US Governments, Space agencies and US defense contractors.

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DIRECTORS' REPORT (CONTINUED)

John Gordon Non-executive director (Age 58) Appointed to the Board on 18 November 2004. John Gordon has a distinguished career in US government service, retiring as a 4-star USAF General. He has served in senior positions in USAF Space Command, and brings strong technology and business credentials to the Board.

Principal activities

The principal activities of the consolidated entity are in the space systems and surveillance and defence products business.

The company is listed on the Australian Stock Exchange.

Results

The consolidated net loss for the year was \$6,844,505 (2003 – \$1,210,661 profit).

Dividends

The directors recommend that no dividend be paid and no amount has been paid or declared by way of dividend since the end of the previous financial year and up to the date of this report.

Review of operations

A detailed review of operations is included as an attachment to this financial report.

Significant changes to the state of affairs

In the opinion of the directors there were no other significant changes in the state of affairs of the consolidated entity that occurred during the financial period not otherwise disclosed in this report.

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DIRECTORS' REPORT (CONTINUED)

Significant events after balance date

On 31 January 2005 the Company announced that it had formed a strategic alliance with Northrop Grumman Space and Mission Systems Corp. to jointly exploit space applications of EOS's laser and electro-optic technologies. Northrop Grumman also took up a placement of 5 million shares at \$4.50 each raising cash of \$22.5 million.

In the opinion of the directors, no other matter or circumstance has arisen since the end of the financial year which is not otherwise dealt with in this report or in the financial statements, that has significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in future financial years.

Likely developments

The company will continue to operate in the space systems and surveillance and defence products business.

Further disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

Environmental Regulations

In the opinion of the directors the consolidated entity is in compliance with all applicable environmental legislation and regulations.

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DIRECTORS' REPORT (CONTINUED)

Directors' interests and benefits

The relevant interest of each director in the share capital of the company as notified by the directors to the Australian Stock Exchange in accordance with Section 205G(10) of the Corporations Act 2001 as at the date of this report are:

	Ordinary Shares	Options
Mr Fred Bart	6,110,050	-
Dr Ben Greene	2,592,593	4,859,892
Mr Ian Dennis	160,050	200,000
Ms Cheryl Bart	290,000	200,000
Dr Bob Dean	-	200,000
Mr John Gordon	-	-

Directors' and executives' remuneration

The directors are responsible for remuneration policies and packages applicable to the Board members and executives of the company. The broad remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities.

There are currently no performance based incentives to directors and executives based on the performance of the company in Australia. EOSH's wholly owned US subsidiary, EOS Technologies, Inc., based in Tucson, Arizona, has in place a Management Incentive Compensation Plan (MICP) for 2005 which will reward selected key executives with a cash award, based on a percentage of base salary and payable in Q1 2006, if EOS Technologies, Inc. achieves or exceeds certain pre-determined financial targets, specifically Orders and Profit targets as contained in the firm's 2005 Operating Plan.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

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DIRECTORS' REPORT (CONTINUED)

Directors' and executives' remuneration (cont)

Details of the nature and amount of each major element of the emoluments of each director of the company and the named officers of the company and the consolidated entity receiving the highest emoluments are as follows:

Directors	Primary		Post Employment	Equity	Total \$
	Salary & Fees \$	Non- monetary \$	Super- annuation \$	Options \$	
Mr Fred Bart	10,000	-	-	-	10,000
Dr Ben Greene*	161,514	48,513	30,000	-	240,027
Mr Ian Dennis	46,000	-	-	-	46,000
Ms Cheryl Bart	10,000	-	-	-	10,000
Dr Bob Dean*	325,600	47,311	-	-	372,911
Mr John Gordon	-	-	-	-	-
	553,114	95,824	30,000	-	678,938
* Executive Directors					

Executives	Primary		Post Employment	Equity	Total \$
	Salary & Fees \$	Non- monetary \$	Super- annuation \$	Options \$	
Mr Ron Thompson	73,234	62,400	27,669	-	163,303
Dr Craig Smith	137,663	-	26,671	-	164,334
Mr Bruce Cook	115,545	16,524	-	4,244	136,313
Mr Robert Meeks	102,000	1,107	-	6,368	109,475
Mr Steven Juliver	74,861	12,459	-	6,368	93,688
	503,303	92,490	54,340	16,980	667,113

Non-monetary includes the provision for motor vehicles and health benefits.

Benefits include the provision of motor vehicles and health benefits. Base emoluments includes base salary and superannuation.

(A) All options issued during the year expire on 30 April 2009 and have an exercise price of \$2.58 each. Each option entitles the holder to purchase one ordinary share in the company. The value included in directors' remuneration has been calculated using the Black-Scholes method of option valuation as at the date the options were granted which was 7 May 2004. The options do not have any performance hurdles and are subject to vesting periods set down in the Employee Share Option Plan.

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DIRECTORS' REPORT (CONTINUED)

Directors' and executives' remuneration (cont)

During and since the end of the financial year an aggregate of 40,000 share options at \$2.58 were granted to the following directors and executives of the company and issued by the parent entity:

Directors and executives	Number of options granted	Issuing Entity	Number of ordinary shares under option
Mr Bruce Cook	10,000	Parent entity	10,000
Mr Robert Meeks	15,000	Parent entity	15,000
Mr Steven Juliver	15,000	Parent entity	15,000

Indemnification of Officers and Auditors

During or since the financial year the company has not indemnified or made a relevant agreement to indemnify an officer or auditor of the company or of any related body corporate against a liability incurred as such an officer or auditor. In addition, the company has not paid, or agreed to pay, a premium in respect of a contract insuring against a liability incurred by an officer or auditor.

Share Options

On 7 May 2004 the Board approved the issue of 700,000 options under the terms of the Employee Share Option Plan. These options have an exercise price of \$2.58 and expire on or before 30 April 2009. No further options have been issued since year-end. Further details regarding share options are included in note 21 to the financial statements.

Audit Committee

Due to the limitations imposed by size, the company does not have a formally constituted audit committee.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

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DIRECTORS' REPORT (CONTINUED)

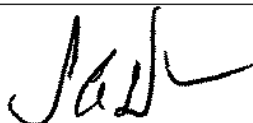
Directors' meetings

During the year the company held nine meetings of directors. The attendances of the directors at meetings of the Board were:

	Attended	Held
Mr Fred Bart	9	9
Dr Ben Greene	9	9
Mr Ian Dennis	9	9
Dr Bob Dean	9	9
Ms Cheryl Bart	9	9
Mr John Gordon	2	2

Signed in accordance with a resolution of directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors



I A Dennis
Director

Dated at Sydney this 25 day of February 2005

Independent audit report to the members of Electro Optic Systems Holding Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Electro Optic Systems Holding Limited (the company) and the consolidated entity, for the financial year ended 31 December 2004 as set out on pages 16 to 77. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal controls, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with the Corporations Act 2001 and Accounting Standards and other mandatory professional reporting requirements in Australia so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

The audit opinion expressed in this report has been formed on the above basis.

Deloitte.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Qualification

Included within non-current assets of the consolidated entity is the Westpac satellite with a carrying value of \$4,900,000 (2003: \$5,600,000). Recoverability of the carrying value of the Westpac satellite is dependent on the ability of the consolidated entity to establish profitable trading operations or the sale of the asset at an amount equal to or greater than the carrying value. Due to the fact that the consolidated entity does not currently have sufficient signed contracts relating to this asset, we are unable to determine at this time whether or not future operations will be sufficiently successful to support the carrying value of the satellite or whether an amount at least equal to the carrying value would be obtained through sale. We are therefore unable to determine whether the carrying value is fairly stated.

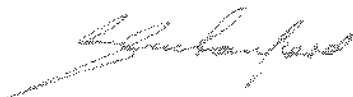
Qualified Audit Opinion

In our opinion, except for the effects on the financial report, if any, of the matters referred to in the qualification paragraph, the financial report of Electro Optic Systems Holding Limited is in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2004 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.



DELOITTE TOUCHE TOHMATSU



Glen Sanford
Partner
Chartered Accountants
Sydney, 25 February 2005

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED
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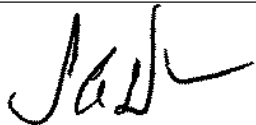
DIRECTORS' DECLARATION

The directors declare that:

- (a) the attached financial statements and notes thereto comply with Accounting Standards;
- (b) the attached financial statements and notes thereto give a true and fair view of the financial position and performance of the company and the consolidated entity;
- (c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001; and
- (d) 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.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors



I A Dennis
Director

Dated at Sydney this 25 day of February 2005.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

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**STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31
DECEMBER 2004**

	Note	Consolidated		The Company	
		31	31	31	31
		December	December	December	December
		2004	2003	2004	2003
		\$	\$	\$	\$
Revenue from ordinary activities	2	<u>15,878,583</u>	<u>19,303,256</u>	<u>2,136,387</u>	<u>635,434</u>
Changes in inventories of finished goods and work in progress		260,329	321,908	-	-
Raw materials and consumables used		(7,882,369)	(8,409,262)	-	-
Employee benefits expense		(7,917,614)	(5,622,006)	(30,000)	(30,000)
Amortisation of goodwill		(666,492)	(666,492)	-	-
Administration expenses		(2,754,183)	(1,555,684)	(206,442)	(249,656)
Borrowing expenses		(104,297)	(90,274)	-	(30,043)
Cost of shares sold		-	(172,436)	-	(172,436)
Cost of property sold		(1,688,264)	-	(1,688,264)	-
Depreciation expense		(1,122,322)	(1,011,234)	(418)	(698)
Loss on sale of fixed assets		-	(89,499)	-	-
Foreign exchange losses		(160,809)	-	-	-
Lease expenses		(36,682)	(64,957)	-	-
Occupancy costs		(626,207)	(483,894)	(39,952)	(39,461)
Provision for non-recovery of loan		-	-	(3,650,560)	(4,846,277)
Other expenses from ordinary activities		<u>(124,178)</u>	<u>(148,765)</u>	<u>(55,493)</u>	<u>(22,587)</u>
Total expenses		<u>(22,823,088)</u>	<u>(17,992,595)</u>	<u>(5,671,129)</u>	<u>(5,391,158)</u>
(Loss)/ Profit from ordinary activities before income tax expense	2	(6,944,505)	1,310,661	(3,534,742)	(4,755,724)
Income tax benefit/(expense) relating to ordinary activities	5	<u>100,000</u>	<u>(100,000)</u>	<u>-</u>	<u>-</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

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**STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31
DECEMBER 2004 (cont)**

	Note	Consolidated		The Company	
		31	31	31	31
		December	December	December	December
		2004	2003	2004	2003
		\$	\$	\$	\$
Net (loss)/ profit	23	(6,844,505)	1,210,661	(3,534,742)	(4,755,724)
(Decrease) in foreign currency translation reserve arising on translation of self-sustaining foreign operations	22	<u>(10,774)</u>	<u>(85,758)</u>	-	-
Total Revenue, Expense and Valuation Adjustments Attributable to Members of the Parent Entity Recognised Directly in Equity		<u>(10,774)</u>	<u>(85,758)</u>	-	-
Total changes in equity other than those resulting from transactions with owners as owners		<u>(6,855,279)</u>	<u>1,124,903</u>	<u>(3,534,742)</u>	<u>(4,755,724)</u>
Earnings per share					
Basic (cents per share)	4	(19.8)	3.9		
Diluted (cents per share)	4	(19.8)	3.3		

Notes to the financial statements are included on pages 22 to 77.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

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STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2004

		Consolidated		The Company	
	Note	December 2004	December 2003	December 2004	December 2003
		\$	\$	\$	\$
CURRENT ASSETS					
Cash assets		3,686,742	5,930,878	3,517,202	5,213,410
Receivables	7	4,192,238	5,437,566	9,477	5,396
Inventories	8	1,065,985	805,656	-	-
Other	9	<u>170,979</u>	<u>19,842</u>	-	-
TOTAL CURRENT ASSETS		<u>9,115,944</u>	<u>12,193,942</u>	<u>3,526,679</u>	<u>5,218,806</u>
NON-CURRENT ASSETS					
Property, plant and equipment	11	6,557,120	6,860,729	628	1,046
Investment property	12	-	1,645,251	-	1,645,251
Investments	6	-	-	841,325	841,325
Intangible assets	13	4,839,272	5,505,764	-	-
Other	9	-	-	-	-
TOTAL NON-CURRENT ASSETS		<u>11,396,392</u>	<u>14,011,744</u>	<u>841,953</u>	<u>2,487,622</u>
TOTAL ASSETS		<u>20,512,336</u>	<u>26,205,686</u>	<u>4,368,632</u>	<u>7,706,428</u>
CURRENT LIABILITIES					
Payables	14	2,092,819	1,923,524	60,847	39,182
Interest-bearing liabilities	15	354,186	163,752	-	-
Provisions	16	1,122,618	910,367	-	-
Current tax liability	18	-	100,000	-	-
Other	19	<u>2,748,453</u>	<u>2,303,871</u>	-	-
TOTAL CURRENT LIABILITIES		<u>6,318,076</u>	<u>5,401,514</u>	<u>60,847</u>	<u>39,182</u>
NON-CURRENT LIABILITIES					
Interest-bearing liabilities	15	588,689	537,833	-	-
Provisions	16	<u>99,465</u>	<u>80,235</u>	-	-
TOTAL NON-CURRENT LIABILITIES		<u>688,154</u>	<u>618,068</u>	-	-
TOTAL LIABILITIES		<u>7,006,230</u>	<u>6,019,582</u>	<u>60,847</u>	<u>39,182</u>
NET ASSETS		<u>13,506,106</u>	<u>20,186,104</u>	<u>4,307,785</u>	<u>7,667,246</u>
EQUITY					
Contributed equity	20	22,805,829	22,630,548	22,805,829	22,630,548
Reserves	22	(112,030)	(101,256)	-	-
Accumulated losses	23	<u>(9,187,693)</u>	<u>(2,343,188)</u>	<u>(18,498,044)</u>	<u>(14,963,302)</u>
TOTAL EQUITY		<u>13,506,106</u>	<u>20,186,104</u>	<u>4,307,785</u>	<u>7,667,246</u>

Notes to the financial statements are included on pages 22 to 77.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED
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STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2004

	Notes	Consolidated		The Company	
		31	31	31	31
		December	December	December	December
		2004	2003	2004	2003
		\$	\$	\$	\$
Cash flows from operating activities					
Receipts from customers		14,588,675	14,146,252	79,101	193,177
Payments to suppliers and employees		(18,166,612)	(16,205,430)	(357,316)	(336,035)
Interest received		273,344	122,736	250,299	110,677
Interest and other costs of finance paid		<u>(104,297)</u>	<u>(90,274)</u>	<u>-</u>	<u>(30,043)</u>
Net cash outflows from operating activities	25(b)	<u>(3,408,890)</u>	<u>(2,026,716)</u>	<u>(27,916)</u>	<u>(62,224)</u>
Cash flows from investing activities					
Advances to wholly-owned controlled entities		-	-	(3,650,560)	(4,846,277)
Proceeds on sale of investment securities		-	331,580	-	331,580
Proceeds from sale of property		1,806,987	-	1,806,987	-
Amounts advanced to non related parties		(200,000)	-	(200,000)	-
Amounts received from non related parties		200,000	-	200,000	-
Payment for property, plant and equipment		<u>(328,164)</u>	<u>(394,908)</u>	<u>-</u>	<u>-</u>
Net cash inflows/ (outflows) from investing activities		<u>1,478,823</u>	<u>(63,328)</u>	<u>(1,843,573)</u>	<u>(4,514,697)</u>
Cash flows from financing activities					
Proceeds from issue of ordinary shares		175,281	10,312,204	175,281	10,312,204
Repayment of borrowings		(484,536)	(2,478,498)	-	(550,000)
Proceeds from borrowings		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net cash inflows/ (outflows) from financing activities		<u>(309,255)</u>	<u>7,833,706</u>	<u>175,281</u>	<u>9,762,204</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED
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STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2004

	Notes	Consolidated		The Company	
		31 December 2004 \$	31 December 2003 \$	31 December 2004 \$	31 December 2003 \$
Net (decrease)/ increase in cash held		(2,239,322)	5,743,662	(1,696,208)	5,185,283
Cash at the beginning of the financial year		5,929,848	218,777	5,213,410	28,127
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		<u>(3,784)</u>	<u>(32,591)</u>	<u>-</u>	<u>-</u>
Cash at the end of the financial year	25(a)	<u>3,686,742</u>	<u>5,929,848</u>	<u>3,517,202</u>	<u>5,213,410</u>

Notes to the financial statements are included on pages 22 to 77.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004**

1. Summary of Accounting Policies

Financial Reporting Framework

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Urgent Issues Group Consensus Views, and complies with other requirements of the law.

The financial report has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

Significant Accounting Policies

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Going Concern

The financial report has been prepared on the basis that the company and the consolidated entity are going concerns, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

(b) Westpac Satellite

Included within non-current assets of the consolidated entity is the Westpac – Western Pacific Laser Tracking Network (WPLTN) satellite which has a carrying value of \$4,900,000 (2003 - \$5,600,000).

As at the date of this report the consolidated entity has a contract relating to the use of the satellite for space tracking involving the company's facilities at Mt Stromlo. The original Mt Stromlo facility was destroyed by fire in January 2003 and was re commissioned in March 2004. Further, there is no ready market for disposal of the satellite. As such, the recoverable amount of the Westpac Satellite is dependent upon the future successful negotiation of space tracking contracts utilizing the Satellite.

The company self insures the Westpac satellite. The international registration of the satellite is WPLNT-1"FIZEAU".

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)

(c) **Goodwill**

Goodwill, representing the excess of the cost of acquisition over the fair value of the identifiable net assets acquired, is amortised on a straight line basis over a period of 10 years.

The directors have determined that the carrying value of the goodwill is appropriate based upon expected future cash flows from space tracking and fire control systems contracts signed and those currently under negotiation.

(d) **Classification of Assets and Liabilities**

Assets and liabilities are classified as current and non-current. Current assets are cash or other assets that would in the ordinary course of business be consumed or converted into cash within twelve months. Current liabilities are those that would in the ordinary course of business be due and payable within twelve months.

(e) **Principles of Consolidation**

A controlled entity is any entity controlled by Electro Optic Systems Holdings Limited. Control exists where Electro Optic Systems Holdings Limited has the capacity to dominate decision-making in relation to the financial and operating policies of another entity so that the entity operates with Electro Optic Systems Holdings Limited to achieve the objectives of Electro Optic Systems Holdings Limited. Details of the controlled entities are set out in Note 27. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

All inter-company balances and transactions between entities in the consolidated entity, including any unrealised profits or losses, have been eliminated on consolidation.

Where a controlled entity has entered or left the consolidated entity during the period its operating results have been included from the date control was obtained or until the date control ceased.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED
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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)**

(f) Income Tax

Tax-effect accounting principles are adopted whereby income tax expense is calculated on pre tax accounting profit after adjustment for permanent differences. The tax-effect of timing differences, which occur when items are included or allowed for income tax purposes in a period different to that for accounting, is shown at current taxation rates in the deferred tax assets and deferred tax liabilities, as applicable.

Legislation to allow groups, comprising a parent entity and its Australian resident wholly-owned entities, to elect to consolidate and be treated as a single entity for income tax purposes was substantively enacted on 21 October 2002. This legislation, which includes both mandatory and elective elements, is applicable to the company. The Group has elected to enter into the consolidation system and be taxed as a single entity.

The Group has not entered into any tax sharing agreements.

(g) Inventories

Inventories are measured at the lower of cost and net realisable value. Costs are assigned on a first-in first-out basis and include direct materials only.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED
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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)**

(h) Property Plant and Equipment

Items of property, plant and equipment are carried at cost less, where applicable, any accumulated depreciation or amortisation. The carrying amount of property, plant and equipment is reviewed at each reporting date by directors to ensure it is not in excess of the recoverable amount of those assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to present values in determining recoverable amounts.

The depreciable amount of all fixed assets including buildings and capitalised leased assets, but excluding freehold land, are depreciated over their estimated useful lives to the company commencing from the time the asset is held ready for use. Properties held for investment purposes are not subject to a depreciation charge. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of assets are:

Class of fixed asset	Depreciation rates
Plant and equipment	20% to 40%
Leased plant and equipment	20% to 33%
Motor vehicles	22.5%
Office equipment	25%
Leased office equipment	33.3%
Furniture, fixtures and fittings	9% to 25%
Satellite	10%

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)**

(i) Leases

Leases of fixed assets, where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to the entities within the consolidated entity are classified as finance leases. Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values. Leased assets are depreciated over their estimated useful lives where it is likely that the consolidated entity will obtain ownership of the asset or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the year.

Operating lease payments are recognised as an expense on the basis which reflects the pattern in which economic benefits from the leased asset are consumed.

(j) Construction Contracts and Work in Progress

Construction work in progress is valued at cost plus profit recognised to date, less any provision for anticipated future losses. Costs include both variable and fixed costs relating to specific contracts, and those costs are attributable to the contract activity in general and can be allocated on a reasonable basis.

Construction profits are recognised on the percentage completion basis measured using the proportion of costs incurred to date as compared to expected total costs. Where losses are anticipated they are provided in full.

Construction revenue has been recognised on the basis of the terms of the contract adjusted for any variations or claims allowable under the contract.

Deferred revenue is represented by advance billings on contracts and the basis of recognition is the percentage of completion basis.

(k) Non – Current Assets

The carrying amounts of all non-current assets are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non-current asset exceeds the recoverable amount, the asset is written down to the lower amount. In assessing recoverable amounts the relevant cash flows have been discounted to their present value.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)**

(l) Cash Flows

For the purposes of the statement of cash flows, cash includes cash on hand and at call deposits with banks or financial institutions, investments in money market instruments maturing within less than two months and net of bank overdrafts.

(m) Foreign Currency Transactions and Balances

Foreign currency transactions during the period are converted to Australian currency at the rates of exchange applicable at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are converted at the rates of exchange ruling on that date.

The gains and losses from conversion of short-term assets and liabilities, whether realised or unrealised, are included in profit from ordinary activities as they arise.

The assets and liabilities of overseas controlled entities, which are self-sustaining, are translated at period-end rates and operating results are translated at rates ruling at the end of each month. Gains and losses arising on translations are taken directly to the foreign currency translation reserve.

(n) Employee Entitlements

Provision is made for the consolidated entity's liability for employee entitlements arising from services rendered by employees to balance date. Employee entitlements expected to be settled within one year together with entitlements arising from wages and salaries, annual leave, and sick leave have been measured at their nominal amount using the remuneration rate expected to apply at the time of settlement. Other employee entitlements payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those entitlements.

Contributions are made by the consolidated entity to a defined contribution employee superannuation fund and are charged as an expense when incurred.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)**

(o) Research and Development Expenditure

Research and development costs are charged to profit from ordinary activities before income tax as incurred or deferred where it is expected beyond any reasonable doubt that sufficient future benefits will be derived so as to recover those deferred costs.

Deferred research and development expenditure is amortised on a straight line basis over the period during which the related benefits are expected to be realised, once commercial production is commenced.

(p) Investments

Other Companies

Shares in unlisted companies are carried at the lower of cost, and recoverable amount, being a Directors' valuation based on market values at the time of valuation. Dividends are brought to account as they are received.

Shares in listed companies are carried at the lower of cost and market value. Cost is allocated on an average basis.

(q) Accounts Payable

Liabilities are recognised for amounts to be paid in the future for goods purchased or services rendered, whether or not billed to the company or consolidated entity. Trade accounts are normally settled within 30 days.

(r) Revenue Recognition

Construction revenue has been recognised on the basis of the terms of the contract adjusted for many variations or claims allowable under the contract.

Rental revenue comprises revenue earned from the rental of the premises at 40 Frankston Road, Dandenong, Victoria. Rental revenue is recognised when the rent in respect of the premises is receivable.

Interest income is recognised as it accrues.

Revenue from the sale of goods is recognised upon delivery of goods to customers.

Income from grants is recognised on the basis of the terms of the grant agreement.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)**

(s) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- ii. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(t) Acquisition of Assets

Assets acquired are recorded at the cost of acquisition, being the purchase consideration determined as at the date of acquisition plus costs incidental to the acquisition.

(u) Interest-Bearing Liabilities

Bills of exchange are recorded at an amount equal to the net proceeds received, with the premium or discount amortised over the period until maturity. Interest expense is recognised on an effective yield basis.

Bank loans and other loans are recorded at an amount equal to the net proceeds received. Interest expense is recognised on an accrual basis.

Ancillary costs incurred in connection with the arrangement of borrowings are expensed as incurred.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED
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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)**

(w) Receivables

Trade receivables and other receivables are recorded at amounts due less any allowance for doubtful debts.

(x) Financial instruments issued by the Company

Debt and equity instruments are classified as either liabilities or equity in accordance with the substance of the contractual arrangement. Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

(y) Provisions

Provisions are recognised when the consolidated entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is probable that recovery will be received and the amount of the receivable can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

(z) Impacts of adopting the Australian equivalents to International Financial Reporting Standards ("A-IFRS")

At the date of this report, the directors of Electro Optic Systems Holdings Limited have not yet finalised a high-level assessment of the impact of A-IFRS on the consolidated entity, and consequently have not yet determined how they are going to manage the transition to A-IFRS. However, the directors are monitoring the developments in A-IFRS and the potential impact it will have on the consolidated entity, and expect to complete an impact study and commence a plan to prepare the consolidated entity to be

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)**

(z) Impacts of adopting the Australian equivalents to International Financial Reporting Standards (“A-IFRS”) (Cont)

A-IFRS compliant shortly. While no decision has yet been made as to the policy alternatives to be applied or the extent to which it will affect the consolidated entity, the directors of Electro Optic Systems Holdings Limited have identified the key accounting policy differences expected to arise on transitioning to A-IFRS.

As Electro Optic Systems Holdings Limited has a 31 December year end, priority will be given to considering the preparation of an opening balance sheet in accordance with AASB equivalents to IFRS as at 1 January 2004. This will form the basis of accounting for Australian equivalents of IFRS in the future, and is required when Electro Optic Systems Holdings Limited prepares its first fully IFRS compliant half year financial report for the half year ended 30 June 2005 and its first full year compliant report for the year ended 31 December 2005. Set out below are the key areas where accounting policies will change and may have an impact on the financial report of Electro Optic Systems Holdings Limited. At this stage the company has not been able to reliably quantify the impacts on the financial report.

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)

(z) Impacts of adopting the Australian equivalents to International Financial Reporting Standards (“A-IFRS”) (Cont)

First-time adoption of A-IFRS

On first-time adoption of A-IFRS, the consolidated entity will be required to restate its comparative balance sheet such that the comparative balances presented comply with the requirements specified in the A-IFRS. That is, the balances that were presented in the financial report for the half year ended 30 June 2004 and the year ended 31 December 2004 may not be the balances that will be presented as comparative numbers in the financial report for the following year, as a result of the requirement to retrospectively apply the A-IFRS. In addition, certain assets and liabilities may not qualify for recognition under A-IFRS, and will need to be derecognised. As most adjustments on first-time adoption are to be made against opening retained earnings, the amount of retained earnings at 1 January 2004 presented in the 2005 financial reports available to be paid out as dividends may differ significantly.

Various voluntary and mandatory exemptions are available to the consolidated entity on first-time adoption, which will not be available on an ongoing basis. The exemptions provide relief from retrospectively accounting for certain balances, instruments and transactions in accordance with A-IFRS, and includes relief from having to restate past business combinations, expense share-based payments granted before 7 November 2002, and permits the identification of a ‘deemed cost’ for property, plant and equipment.

The impact on Electro Optic Systems Holdings Limited of the changes in accounting policies on first-time adoption of A-IFRS will be affected by the choices made. The consolidated entity is evaluating the effect of the options available on first time adoption in order to determine the best possible outcome for the consolidated entity.

Classification of Financial Instruments

Under AASB 139 Financial Instruments: Recognition and Measurement, financial instruments will be required to be classified into one of five categories which will, in turn, determine the accounting treatment of the item. The classifications are “loans and receivables” - measured at amortised cost, “held to maturity” - measured at amortised cost, “held for trading” - measured at fair value with fair value changes charged to net profit or loss, “available for sale” - measured at fair value with fair value changes taken to equity, and “non-trading liabilities” - measured at amortised cost. This will result in a change in the current accounting policy that does not classify financial instruments. Current measurement is at amortised cost, with any derivative financial instruments not recognised on balance sheet. The future financial effect of this change in accounting policy is not yet known as the classification and measurement process has not yet been fully completed.

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)

(z) Impacts of adopting the Australian equivalents to International Financial Reporting Standards ("A-IFRS") (Cont)

Goodwill

Goodwill is currently amortised over a 10 year period. A-IFRS does not permit goodwill to be amortised, but instead requires the carrying amount to be tested for impairment at least annually. Goodwill currently recognised in the balance sheet, adjusted if necessary on the optional restatement of business combinations, must be allocated to individual cash-generating units (or groups of cash-generating units) and tested for impairment at the allocated level. This change in policy may result in increased volatility in the profit and loss, where impairment losses are likely to occur.

Impairment of Assets

Non-current assets are written down to recoverable amount when the asset's carrying amount exceeds recoverable amount. Historically, although not mandated, Electro Optic Systems Holdings Limited has discounted cash flows in determining the recoverable amount of its non-current assets.

Under A-IFRS, both current and non-current assets, including property, plant and equipment previously excluded as they were measured on the fair value basis, are tested for impairment. In addition, A-IFRS has a more prescriptive impairment test, and requires discounted cash flows to be used where value in use is used to assess recoverable amount. Consequently, on adoption of A-IFRS, a further impairment of certain assets may need to be recognised, thereby decreasing opening retained earnings and the carrying amount of assets – the consolidated entity has not yet determined the impact, if any, of any further impairment which may be required. It is not practicable to determine the impact of the change in accounting policy for future financial reports, as any impairment or reversal thereof will be affected by future conditions.

Intangible Assets

Under AASB 138 Intangible Assets, costs incurred in the research phase of the development of an internally generated intangible must be expensed. This will result in a change in the group's current accounting policy which allows for the capitalisation of costs incurred in the research phase of an internally generated intangible asset where future benefits are expected beyond reasonable doubt. Under the new policy, all research costs will be written off as incurred.

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)

(z) Impacts of adopting the Australian equivalents to International Financial Reporting Standards ("A-IFRS") (Cont)

Property, plant and equipment

On transition to A-IFRS, the entity has several options in the determination of the cost of each tangible asset, and can also elect to use the cost or fair value basis for the measurement of each class of property, plant and equipment after transition. At the date of this report, the entity has not decided which options and measurement basis will be adopted and the likely impacts therefore cannot be determined.

Share based payments

Share-based compensation forms part of the remuneration of employees of the consolidated entity (including executives) as disclosed in the notes to the financial statements. The consolidated entity does not recognise an expense for any share-based compensation granted. Under A-IFRS, the consolidated entity will be required to recognise an expense for such share-based compensation. Share-based compensation is measured at the fair value of the share options determined at grant date and recognised over the expected vesting period of the options. A reversal of the expense will be permitted to the extent non-market based vesting conditions (e.g. service conditions) are not met. The entity will not retrospectively recognise share-based payments vested before 1 January 2005 as permitted under A-IFRS first time adoption.

The recognition of the expense will decrease the consolidated entity's opening retained earnings on initial adoption of A-IFRS and increase share capital by the same amount for share-based payments issued after 7 November 2002 but not vested before 1 January 2005. Similar impacts will also occur in future periods, however, quantification of the impact on equity and in the income statement of the existing options granted as remuneration has not been completed at the reporting date.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)

(z) **Impacts of adopting the Australian equivalents to International Financial Reporting Standards ("A-IFRS") (Cont)**

Income tax

The consolidated entity currently recognises deferred taxes by accounting for the differences between accounting profits and taxable income, which give rise to 'permanent' and 'timing' differences. Under A-IFRS, deferred taxes are measured by reference to the 'temporary differences' determined as the difference between the carrying amount and the tax base of assets and liabilities recognised in the balance sheet.

Because A-IFRS has a wider scope than the entity's current accounting policies, it is likely that the amount of deferred taxes recognised in the balance sheet will increase. In particular, significant increases in deferred tax liabilities are anticipated in relation to deferred taxes associated with fair value adjustments and intangibles arising in relation to pre-transition business combinations, revaluations of land and buildings and investments in associates.

The consolidated entity also has carried forward tax losses which have not been recognised as deferred tax assets as they do not satisfy the 'virtually certain' criteria under current Australian GAAP. Under A-IFRS, it may be easier to recognise these tax losses as deferred tax assets as they are recognised based on a 'probable' recognition criteria. The impact of this difference may be to increase deferred tax assets and opening retained earnings, and result in a higher level of recognised deferred tax assets on a go-forward basis.

Adjustments to the recognised amounts of deferred taxes will also result as a consequence of adjustments to the carrying amounts of assets and liabilities resulting from the adoption of other A-IFRS. The likely impact of these changes on deferred tax balances has not currently been determined.

Business combinations

Historically, the acquisition of an entity or operation is accounted for under the purchase method of accounting by the legal acquirer. Where consolidated accounts are prepared, the assets and liabilities purchased are initially recognised at their fair values in the consolidated accounts.

Under A-IFRS, the purchase method of accounting must be applied where there is a business combination, however, not all acquisitions will qualify as a business combination, and as such the purchase method of accounting for these acquisitions will no longer be appropriate. In addition, the legal acquirer may not be the 'acquirer' per A-IFRS, and the consolidated accounts may consequently reflect the fair values of the

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)

(z) Impacts of adopting the Australian equivalents to International Financial Reporting Standards ("A-IFRS") (Cont)

legal acquirer's assets and liabilities rather than the fair value of the assets and liabilities of the legal entity acquired.

Furthermore, there are a number of recognition and measurement differences that result in relation to assets and liabilities acquired in a business combination, particularly in relation to intangible assets and restructuring provisions. Acquired contingent liabilities must also be recognised at their fair values where acquired in a business combination.

The impact of these changes in accounting policy on first-time adoption will depend on whether the consolidated entity will elect to adopt the exemption available to it to not reopen past acquisitions and retrospectively account for them. On an ongoing basis, this change in policy may significantly affect the profit and loss and balance sheet, as the accounting going forward significantly differs from the manner in which such transactions are treated under current Australian GAAP.

Derecognition of financial assets

Under current Australian GAAP, financial assets (such as receivables) are derecognised where control of the asset had been passed and the entity is entitled to reliably measurable economic benefits. A-IFRS prescribes more rigorous criteria that must be met before a financial asset can be derecognised, including specific conditions that must exist before a transfer can be said to have occurred, and the transfer of substantially all the risks and rewards of the financial asset in question. Transfers that do not qualify for derecognition will have to be treated as collateralised borrowings.

Depreciation

Under current Australian GAAP, the consolidated entity's property, plant and equipment is depreciated to the extent of its depreciable amount, determined as the difference between carrying amount and residual value. The residual amount used in the determination of recoverable amount is estimated at the date of acquisition and is not subsequently increased for changes in prices, except where the asset had been revalued. Under A-IFRS, the residual amount is reviewed at each balance date and revised to the current net amount expected from the disposal of the asset if it were already at the age and condition expected at the end of its useful life. Accordingly, changes to the residual value may introduce additional volatility in the profit or loss.

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)

(z) Impacts of adopting the Australian equivalents to International Financial Reporting Standards ("A-IFRS") (Cont)

Employee benefits

Under A-IFRS, the consolidated entity will no longer be able to recognise provisions for annual leave on a nominal basis, regardless of when the leave is expected to be taken, but will instead be required to discount the portion of annual leave liabilities expected to be taken more than twelve months from the reporting date. This change in accounting policy is likely to reduce the aggregate provision for annual leave, but is unlikely to significantly affect the income statement.

Proceeds from sale of assets

The current definition of revenue requires proceeds on sale of non-current assets to be included as revenue – this has the effect of ‘grossing up’ the statement of financial performance. Under A-IFRS, only the net gain or loss from the sale will be recognised in profit or loss. Consequently, there will be no net impact on the income statement.

Government grants

Presently, non-reciprocal grants received are recognised as revenue when the consolidated entity obtains control of the grant, regardless of the specific purpose for which the grant is required to be expended or the periods over which the grant conditions apply. A liability to repay the grant is only recognised where a present obligation exists to repay grant monies. A-IFRS requires grants received to be recognised as income on a systematic basis over the periods necessary to match them with the related costs which they are intended to compensate, but only when there is reasonable assurance that the entity will comply with the conditions attaching to them and that the grants will be received. Accordingly, the change in accounting policy will result in the later recognition of grants as revenue and the recognition of additional liabilities on the balance sheet. This will reduce some of the volatility in the income statement arising from the current Australian GAAP grant revenue recognition policies.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED
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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)**

(z) Impacts of adopting the Australian equivalents to International Financial Reporting Standards (“A-IFRS”) (Cont)

Functional currency

The consolidated entity conducts most of its transactions and reports internally in US dollars (USD). While no decision has yet been made, it is likely that the entity will consider USD to be its functional currency, but continue to present its financial report in Australian dollars, as presently required by Australian GAAP. Gains and losses on translating the functional currency into the presentation currency (being Australian dollars) will be recognised in equity. In contrast, current Australian GAAP effectively requires that the functional and presentation currency of an Australian entity be Australian dollars, consequently, translation gains or losses on USD monetary items would be recognised in profit and loss with non-monetary items being recorded at the historic conversion rate existing at the date of the transaction.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)**

	Consolidated		The Company	
	31	31	31	31
	December	December	December	December
	2004	2003	2004	2003
	\$	\$	\$	\$
2. Profit/ (Loss) from Ordinary Activities				
Profit/ (Loss) from Ordinary Activities before income tax has been determined after:				
(a) Operating Expenses				
Directors fees	30,000	30,000	30,000	30,000
Borrowing costs				
Finance lease finance charges	74,321	45,956	-	-
Interest paid – Other entities	29,976	44,318	-	30,043
Depreciation – property, plant and equipment	1,122,322	1,011,234	418	698
Amortisation of goodwill	666,492	666,492	-	-
Provision for non-recovery of loan – wholly-owned controlled entity	-	-	3,650,560	4,846,277
Foreign exchange loss	160,809	-	-	-
Operating lease rental expenses:				
Minimum lease payments	<u>626,607</u>	<u>438,894</u>	<u>39,952</u>	<u>39,461</u>
(b) Operating Revenue				
Revenue from operating activities				
Contract receipts	10,342,122	12,663,554	-	-
Grant revenue	2,267,026	2,254,743	-	-
Rental income	79,101	193,177	79,101	193,177
Insurance proceeds received	1,094,979	3,300,000	-	-
Foreign exchange gain	-	406,341	-	-
Interest received	273,344	122,736	250,299	110,677
Other	<u>15,024</u>	<u>31,125</u>	<u>-</u>	<u>-</u>
	<u>14,071,596</u>	<u>18,971,676</u>	<u>329,400</u>	<u>303,854</u>
(c) Non Operating Revenue				
Proceeds from sale of property	1,806,987	-	1,806,987	-
Proceeds from sale of shares	<u>-</u>	<u>331,580</u>	<u>-</u>	<u>331,580</u>
	<u>1,806,987</u>	<u>331,580</u>	<u>1,806,987</u>	<u>331,580</u>
Total Revenue	<u>15,878,583</u>	<u>19,303,256</u>	<u>2,136,387</u>	<u>635,434</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED
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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)**

	Consolidated		The Company	
	31 December 2004 \$	31 December 2003 \$	31 December 2004 \$	31 December 2003 \$

3. Sales of Assets

Sales of assets in the ordinary course of business have given rise to the following profits/losses.

Net Profits

Investment property	161,736	-	161,736	-
Property, plant & equipment	-	-	-	-
Investments	<u>-</u>	<u>159,144</u>	<u>-</u>	<u>159,144</u>

Net Losses

Property, plant & equipment	<u>-</u>	<u>89,499</u>	<u>-</u>	<u>-</u>
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4. Earnings per Share

Basic earnings (loss) per share	<u>(19.8 cents)</u>	<u>3.9 cents</u>
Diluted earnings (loss) per share	<u>(19.8 cents)</u>	<u>3.3 cents</u>

Basic Earnings per Share

Earnings (loss) (a)	<u>(6,844,505)</u>	<u>1,210,661</u>
Weighted average number of ordinary shares (b)	<u>34,543,544</u>	<u>31,152,920</u>

(a) Earnings used in the calculation of basic earnings per share are the same as the net profit (loss) in the statement of financial performance.

(b) Options are considered to be potential ordinary shares and are therefore excluded from the weighted average number of shares used in the calculation of basic earnings per share. Where dilutive, potential ordinary shares are included in the calculation of diluted earnings per share (see below).

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED
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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)**

Consolidated	
31	31
December	December
2004	2003
\$	\$

4. Earnings per Share (cont)

Diluted Earnings per Share

Earnings (a)	<u>(6,844,505)</u>	<u>1,210,661</u>
Weighted average number of ordinary shares (b)	<u>34,543,544</u>	<u>36,280,271</u>

(a) Earnings used in the calculation of diluted earnings per share are the same as the net profit (loss) in the statement of financial performance.

(b) The weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share are as follows.

Weighted average number of shares used in the calculation of basic earnings per share	34,543,544	31,152,920
Vendor options	-	787,603
CEO options	-	4,117,869
Directors options	-	86,936
Staff Share plan	<u>-</u>	<u>134,943</u>
Weighted average number of shares used in the calculation of diluted earnings per share	<u>34,543,544</u>	<u>36,280,271</u>

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)**

Consolidated	
31	31
December	December
2004	2003
\$	\$

4. Earnings per Share (cont)

(c) The following potential ordinary shares are not dilutive and therefore excluded from the weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share:

Vendor options	353,738	-
CEO options	4,563,925	446,056
Directors options	600,000	513,064
Staff Share plan	<u>1,251,000</u>	<u>514,057</u>
	<u>6,768,663</u>	<u>1,473,177</u>

(d) Weighted average number of converted, lapsed, or cancelled potential ordinary shares used in the calculation of diluted earning per share:

Vendor options	-	1,303,408
Staff Share plan	<u>-</u>	<u>71,000</u>
	<u>-</u>	<u>1,374,408</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)**

	Consolidated		The Company	
	31	31	31	31
	December	December	December	December
	2004	2003	2004	2003
	\$	\$	\$	\$
5. Income Tax				
(a) The prima facie income tax expense on pre-tax accounting profit (loss) reconciles to the income tax expense in the financial statements as follows:				
(Loss) profit from ordinary activities	<u>(6,944,505)</u>	<u>1,310,661</u>	<u>(3,534,742)</u>	<u>(4,755,724)</u>
Income tax benefit calculated at 30% of operating profit / (loss)	(2,083,352)	393,198	(1,060,423)	(1,426,717)
Permanent differences:				
Provision for non-recovery of loan	-	-	1,095,168	1,453,883
Amortisation and depreciation	409,948	409,948	-	-
Other assessable/ (deductible) items	-	(1,590)	-	(1,590)
Other non-deductible items	<u>9,259</u>	<u>57,785</u>	<u>2,633</u>	<u>1,346</u>
	<u>(1,664,145)</u>	<u>859,341</u>	<u>37,378</u>	<u>26,922</u>
Income tax adjusted for permanent differences	<u>(1,664,145)</u>	<u>859,341</u>	<u>37,378</u>	<u>26,922</u>
Over provision from prior year	(100,000)	-	-	-
Future income tax benefits not previously brought to account now recognised	<u>-</u>	<u>(759,341)</u>	<u>(37,378)</u>	<u>(26,922)</u>
Future income tax benefit of tax losses and timing differences not bought to account- refer Note 5(b)	<u>1,664,145</u>	<u>-</u>	<u>-</u>	<u>-</u>
Income tax attributable to operating loss	<u>(100,000)</u>	<u>100,000</u>	<u>-</u>	<u>-</u>
Future income tax benefit of tax losses not bought to account- refer Note 5(b)	<u>5,207,183</u>	<u>3,986,046</u>	<u>5,207,183</u>	<u>629,651</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)**

5. Income Tax (Cont)

(b) Future income tax benefits have not been brought to account as realisation of the benefit cannot be regarded as being virtually certain. The realisation of the benefits depend upon:

(i) the ability of the economic entity to derive future assessable income of a nature and of sufficient amount to enable the benefit to be realised;

(ii) the ability of the economic entity to continue to comply with the conditions for deductibility imposed by the law; and

(iii) an expectation that legislation will not change in a manner which could adversely affect the economic entity's ability to realise the benefit.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)**

	Consolidated		The Company	
	31	31	31	31
	December	December	December	December
	2004	2003	2004	2003
	\$	\$	\$	\$
6. Investments				
Non-Current				
Unlisted shares in controlled entities – at cost	-	-	<u>841,325</u>	<u>841,325</u>
7. Current Receivables				
GST receivable	78,025	10,304	8,961	5,396
Trade debtors	1,489,182	4,541,167	-	-
Amounts due from customers under construction contracts	2,613,742	883,240	-	-
Other debtors	<u>11,289</u>	<u>2,855</u>	<u>516</u>	<u>-</u>
	<u>4,192,238</u>	<u>5,437,566</u>	<u>9,477</u>	<u>5,396</u>
8. Current Inventories				
Raw materials – at cost	<u>1,065,985</u>	<u>805,656</u>	<u>-</u>	<u>-</u>
	<u>1,065,985</u>	<u>805,656</u>	<u>-</u>	<u>-</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED
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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)**

	Consolidated		The Company	
	31 December 2004 \$	31 December 2003 \$	31 December 2004 \$	31 December 2003 \$
9. Other Assets				
Current				
Prepayments	6,839	19,842	-	-
Other	<u>164,140</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>170,979</u>	<u>19,842</u>	<u>-</u>	<u>-</u>
Non-current				
Amounts due from wholly-owned controlled entity	-	-	16,315,488	12,664,928
Less Provision for non-recovery	<u>-</u>	<u>-</u>	<u>(16,315,488)</u>	<u>(12,664,928)</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
10. Auditors Remuneration				
(a) Auditor of the Parent Entity				
Other services	16,000	19,523	16,000	15,000
Auditing the financial report	<u>59,100</u>	<u>45,600</u>	<u>59,100</u>	<u>45,600</u>
	<u>75,100</u>	<u>65,123</u>	<u>75,100</u>	<u>60,600</u>
(b) Other Auditors				
Auditing the financial report	<u>19,185</u>	<u>16,186</u>	<u>-</u>	<u>-</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)**

	Consolidated		The Company	
	31	31	31	31
	December	December	December	December
	2004	2003	2004	2003
	\$	\$	\$	\$
11. Property, Plant and Equipment				
(a) Plant and equipment – at cost	1,132,503	1,319,327	-	-
Less accumulated depreciation	<u>(726,346)</u>	<u>(875,400)</u>	<u>-</u>	<u>-</u>
	<u>406,157</u>	<u>443,927</u>	<u>-</u>	<u>-</u>
(b) Leased assets	1,432,868	967,733	-	-
Less accumulated amortisation	<u>(564,132)</u>	<u>(360,563)</u>	<u>-</u>	<u>-</u>
	<u>868,736</u>	<u>607,170</u>	<u>-</u>	<u>-</u>
(c) Office Equipment – at cost	1,978,653	1,979,712	2,180	2,180
Less accumulated depreciation	<u>(1,661,870)</u>	<u>(1,825,259)</u>	<u>(1,552)</u>	<u>(1,134)</u>
	<u>316,783</u>	<u>154,453</u>	<u>628</u>	<u>1,046</u>
(d) Furniture, fixtures and fittings – at cost	221,854	200,640	-	-
Less accumulated depreciation	<u>(156,410)</u>	<u>(145,461)</u>	<u>-</u>	<u>-</u>
	<u>65,444</u>	<u>55,179</u>	<u>-</u>	<u>-</u>
(e) Satellite – at cost	7,000,000	7,000,000	-	-
Less accumulated depreciation	<u>(2,100,000)</u>	<u>(1,400,000)</u>	<u>-</u>	<u>-</u>
	<u>4,900,000</u>	<u>5,600,000</u>	<u>-</u>	<u>-</u>
Total Property, Plant and Equipment	<u>6,557,120</u>	<u>6,860,729</u>	<u>628</u>	<u>1,046</u>

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)**

	Consolidated		The Company	
	31	31	31	31
	December	December	December	December
	2004	2003	2004	2003
	\$	\$	\$	\$
11. Property, Plant and Equipment (cont)				
Cost				
Plant and equipment				
Balance as at 31 December 2003	1,319,327	1,430,399	-	-
Additions	74,807	299,380	-	-
Disposals	(237,140)	(267,128)	-	-
Net foreign currency exchange differences arising on translation of financial statements of self- sustaining foreign operations	<u>(24,491)</u>	<u>(143,324)</u>	<u>-</u>	<u>-</u>
Balance as at 31 December 2004	<u>1,132,503</u>	<u>1,319,327</u>	<u>-</u>	<u>-</u>
Leased Plant and equipment				
Balance as at 31 December 2003	967,733	589,468	-	-
Additions	577,768	428,003	-	-
Disposals	(98,531)	-	-	-
Net foreign currency exchange differences arising on translation of financial statements of self- sustaining foreign operations	<u>(14,102)</u>	<u>(49,738)</u>	<u>-</u>	<u>-</u>
Balance as at 31 December 2004	<u>1,432,868</u>	<u>967,733</u>	<u>-</u>	<u>-</u>

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)**

	Consolidated		The Company	
	31	31	31	31
	December	December	December	December
	2004	2003	2004	2003
	\$	\$	\$	\$
11. Property, Plant and Equipment (cont)				
Office Equipment				
Balance as at 31 December 2003	1,979,712	2,195,450	2,180	2,180
Additions	224,079	40,633	-	-
Disposal	(192,110)	(66,655)	-	-
Net foreign currency exchange differences arising on translation of financial statements of self-sustaining foreign operations	<u>(33,028)</u>	<u>(189,716)</u>	-	-
Balance as at 31 December 2004	<u>1,978,653</u>	<u>1,979,712</u>	<u>2,180</u>	<u>2,180</u>
Furniture, fixtures and fittings				
Balance as at 31 December 2003	200,640	247,833	-	-
Additions	29,278	-	-	-
Net foreign currency exchange differences arising on translation of financial statements of self-sustaining foreign operations	<u>(8,064)</u>	<u>(47,193)</u>	-	-
Balance as at 31 December 2004	<u>221,854</u>	<u>200,640</u>	-	-

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)**

	Consolidated		The Company	
	31	31	31	31
	December	December	December	December
	2004	2003	2004	2003
	\$	\$	\$	\$
11. Property, Plant and Equipment (cont)				
Satellite				
Balance as at 31 December 2003	<u>7,000,000</u>	<u>7,000,000</u>	-	-
Balance as at 31 December 2004	<u>7,000,000</u>	<u>7,000,000</u>	-	-
Accumulated Depreciation/Amortisation				
Plant and equipment				
Balance as at 31 December 2003	(875,400)	(1,095,677)	-	-
Depreciation expense	(108,127)	(80,221)	-	-
Disposals	237,140	202,028		
Net foreign currency exchange differences arising on translation of financial statements of self- sustaining foreign operations	<u>20,041</u>	<u>98,470</u>	-	-
Balance as at 31 December 2004	<u>(726,346)</u>	<u>(875,400)</u>	-	-
Leased plant and equipment				
Balance as at 31 December 2003	(360,563)	(241,511)	-	-
Depreciation expense	(244,038)	(165,149)	-	-
Disposals	27,257	-	-	-
Net foreign currency exchange differences arising on translation of financial statements of self- sustaining foreign operations	<u>13,212</u>	<u>46,097</u>	-	-
Balance as at 31 December 2004	<u>(564,132)</u>	<u>(360,563)</u>	-	-

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)**

	Consolidated		The Company	
	31	31	31	31
	December	December	December	December
	2004	2003	2004	2003
	\$	\$	\$	\$
11. Property, Plant and Equipment (cont)				
Office equipment				
Balance as at 31 December 2003	(1,825,259)	(1,986,549)	(1,134)	(436)
Depreciation expense	(52,929)	(48,986)	(418)	(698)
Disposals	185,609	42,257	-	-
Net foreign currency exchange differences arising on translation of financial statements of self-sustaining foreign operations	<u>30,709</u>	<u>168,019</u>	<u>-</u>	<u>-</u>
Balance as at 31 December 2004	<u>(1,661,870)</u>	<u>(1,825,259)</u>	<u>(1,552)</u>	<u>(1,134)</u>
Furniture, fixtures and fittings				
Balance as at 31 December 2003	(145,461)	(157,851)	-	-
Depreciation expense	(17,228)	(16,878)	-	-
Net foreign currency exchange differences arising on translation of financial statements of self-sustaining foreign operations	<u>6,279</u>	<u>29,268</u>	<u>-</u>	<u>-</u>
Balance as at 31 December 2004	<u>(156,410)</u>	<u>(145,461)</u>	<u>-</u>	<u>-</u>
Satellite				
Balance as at 31 December 2003	(1,400,000)	(700,000)	-	-
Depreciation expense	<u>(700,000)</u>	<u>(700,000)</u>	<u>-</u>	<u>-</u>
Balance as at 31 December 2004	<u>(2,100,000)</u>	<u>(1,400,000)</u>	<u>-</u>	<u>-</u>

Aggregate depreciation allocated during the period is recognised as an expense and disclosed in Note 2 to the financial statements.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)**

	Consolidated		The Company	
	31 December 2004 \$	31 December 2003 \$	31 December 2004 \$	31 December 2003 \$
12. Investment Property				
Strata Title commercial property				
Balance at 31 December 2003	1,645,251	1,645,251	1,645,251	1,645,251
Disposal during the year	<u>1,645,251</u>	<u>-</u>	<u>1,645,251</u>	<u>-</u>
Balance as at 31 December 2004	<u>-</u>	<u>1,645,251</u>	<u>-</u>	<u>1,645,251</u>
Current value of Strata Title Commercial Property	<u>-</u>	<u>1,900,000</u>	<u>-</u>	<u>1,900,000</u>

Value of the strata title commercial property determined in accordance with an independent valuation for first mortgage security purposes, performed on 23 July 2002 by Wendy Brown B.Bus (Prop) AAPI. The primary valuation approach was based on the capitalisation method and the direct comparison method was used as the secondary method.

13. Intangible Assets

Goodwill	6,664,958	6,664,958	-	-
Less accumulated amortisation	<u>(1,825,686)</u>	<u>(1,159,194)</u>	<u>-</u>	<u>-</u>
	<u>4,839,272</u>	<u>5,505,764</u>	<u>-</u>	<u>-</u>

Aggregate amortisation allocated during the period is recognised as an expense and disclosed in Note 2 to the financial statements.

14. Payables

Current

Trade payable and accruals	<u>2,092,819</u>	<u>1,923,524</u>	<u>60,847</u>	<u>39,182</u>
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Trade payables and accruals are non-interest bearing.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)**

	Consolidated		The Company	
	31	31	31	31
	December	December	December	December
	2004	2003	2004	2003
	\$	\$	\$	\$
15. Interest-bearing liabilities				
Current				
Bank borrowings – unsecured	-	1,030	-	-
Finance lease liabilities – secured (Note 29)	<u>354,186</u>	<u>162,722</u>	<u>-</u>	<u>-</u>
	<u>354,186</u>	<u>163,752</u>	<u>-</u>	<u>-</u>
Non-current				
Finance lease liabilities – secured (Note 29)	<u>588,689</u>	<u>537,833</u>	<u>-</u>	<u>-</u>
Financing arrangements				
Total facilities available	-	900,000	-	900,000
Facilities utilised at balance date	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Facilities not used at balance date	<u>-</u>	<u>900,000</u>	<u>-</u>	<u>900,000</u>

The bank loans were denominated in Australian dollars. The commercial bill facility of \$900,000 was a committed facility secured by a registered first mortgage against the strata title property. The \$900,000 commercial bill facility expired on the sale of the strata title property in October 2004.

The finance lease liabilities are secured by the leased assets. The average weighted interest rate charged on the finance leases was 9.32% (2003 – 7.25%)

16. Provisions

Current				
Employee entitlements	<u>1,122,618</u>	<u>910,367</u>	<u>-</u>	<u>-</u>
Non-current				
Employee entitlements	<u>99,465</u>	<u>80,235</u>	<u>-</u>	<u>-</u>
Number of employees at year end	<u>116</u>	<u>80</u>	<u>-</u>	<u>-</u>

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)**

	Consolidated		The Company	
	31	31	31	31
	December	December	December	December
	2004	2003	2004	2003
	\$	\$	\$	\$
17. Employee Benefits				
The aggregate employee benefits liability recognised in the financial statements is as follows:				
Provision for employee entitlements				
Current (Note 16)	1,122,618	910,367	-	-
Non Current (Note 16)	<u>99,465</u>	<u>80,235</u>	<u>-</u>	<u>-</u>
	<u>1,222,083</u>	<u>990,602</u>	<u>-</u>	<u>-</u>
18. Current Tax Liability				
Income tax payable	<u>-</u>	<u>100,000</u>	<u>-</u>	<u>-</u>
19. Other Current Liabilities				
Accrued expenditure	30,240	18,232	-	-
Amounts due to customers under construction contracts	<u>2,718,213</u>	<u>2,285,639</u>	<u>-</u>	<u>-</u>
	<u>2,748,453</u>	<u>2,303,871</u>	<u>-</u>	<u>-</u>
20. Contributed Equity				
Issued and paid-up Capital				
Balance at the beginning of the financial year -Ordinary shares	22,630,548	12,318,344	22,630,548	12,318,344
Add				
Placement of Ordinary shares for cash	-	10,315,500	-	10,315,500
Exercise of employee options for cash	160,720	116,440	160,720	116,440
Exercise of vendor options for cash	14,561	260,682	14,561	260,682
Less				
Issue costs on placement of ordinary shares	<u>-</u>	<u>(380,418)</u>	<u>-</u>	<u>(380,418)</u>
Balance at the end of the financial year	<u>22,805,829</u>	<u>22,630,548</u>	<u>22,805,829</u>	<u>22,630,548</u>

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)**

	Consolidated		The Company	
	31 December 2004	31 December 2003	31 December 2004	31 December 2003
20. Contributed Equity (Cont)				
Fully Paid Ordinary Shares	Number	Number	Number	Number
Balance at the beginning of financial year	34,451,128	28,591,720	34,451,128	28,591,720
Placement for cash	-	4,485,000	-	4,485,000
Exercise of employee options	98,000	71,000	98,000	71,000
Exercise of vendor options	<u>72,807</u>	<u>1,303,408</u>	<u>72,807</u>	<u>1,303,408</u>
Balance at end of financial year	<u>34,621,935</u>	<u>34,451,128</u>	<u>34,621,935</u>	<u>34,451,128</u>

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

21. Vendor, Directors and Employee Share Option Plan

(a) Unlisted Vendor and CEO Options

As part of the acquisition of the issued capital of Electro Optic Systems Pty Limited in April 2002, the Company issued 1,729,953 unlisted vendor options at an exercise price of 20 cents, exercisable on or before 31 December 2005. The Company also issued 4,563,925 unlisted CEO options to the Chief Executive Officer, Dr Ben Greene exercisable at an exercise price of 20 cents on or before 31 December 2005.

	2004	2003
	Number	Number
Balance at the beginning of the financial period (i)	4,990,470	6,293,878
Exercised during the period (ii)	<u>(72,807)</u>	<u>(1,303,408)</u>
Balance at the end of the financial period (iii)	<u>4,917,663</u>	<u>4,990,470</u>

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)**

21. **Vendor, Directors and Employee Share Option Plan (cont)**

(i) Balance at the beginning of the year

2004	Number	Grant date	Expiry date	Exercise Price
Option – Series				
Vendor options	426,545	11/4/02	31/12/05	\$0.20
CEO Options	<u>4,563,925</u>	11/4/02	31/12/05	\$0.20
	<u>4,990,470</u>			
2003				
Option - Series	-	-	-	-
Vendor options	1,729,953	11/4/02	31/12/05	\$0.20
CEO Options	<u>4,563,925</u>	11/4/02	31/12/05	\$0.20
	<u>6,293,878</u>			

Vendor options carry no rights to dividends and no voting rights.

In accordance with the terms of the vendor and CEO options, options can be exercised at any time from the date of their issue to the date of expiry.

(ii) Vendor Options Exercised during the financial year

	Number of Options Exercised	Grant Date	Exercise Date	Expiry Date	Exercise Price	No. of Shares Issued	Fair Value Received	Fair Value of Shares at Date of Issue
2004								
Vendor Options	72,807	11/4/02	21/4/04	31/12/05	\$0.20	72,807	14,561	\$196,579
2003								
Vendor Options	1,303,408	11/4/02	5/5/03	31/12/05	\$0.20	1,303,408	\$260,682	\$1,863,873

Fair value of consideration received is measured as the nominal value of the cash receipts on conversion. The fair value of shares at the date of issue is measured as the market value at the close of trade on the date of their issue.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)**

21. **Vendor, Directors and Employee Share Option Plan (cont)**

(iii) Balance at the end of the financial year

	Number	Grant date	Expiry date	Exercise Price
2004				
Option - Series	-	-	-	-
Vendor options	353,738	11/4/02	31/12/05	\$0.20
CEO Options	<u>4,563,925</u>	11/4/02	31/12/05	\$0.20
	<u>4,917,663</u>			
2003				
Option – Series				
Vendor options	426,545	11/4/02	31/12/05	\$0.20
CEO Options	<u>4,563,925</u>	11/4/02	31/12/05	\$0.20
	<u>4,990,470</u>			

Vendor options carry no rights to dividends and no voting rights.

In accordance with the terms of the vendor and CEO options, options can be exercised at any time from the date of their issue to the date of expiry.

Consideration received on the exercise of vendor options is recognised in contributed equity. During the financial year \$14,561 (2003 – \$260,682) was recognised in contributed equity arising from the exercise of vendor options.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)**

21. Vendor, Directors and Employee Share Option Plan (cont)

(b) Unlisted Options issued under the Employee Share Option Plan

On 28 June 2002, shareholders approved the adoption of an Employee Share Option Plan. On 1 July 2002 the Company issued a total of 1,108,000 options exercisable at \$1.64 per share on or before 1 July 2006. On 23 October 2003, at the Annual General Meeting, shareholders approved the issue of 200,000 unlisted options to Dr Bob Dean (Director) exercisable at \$1.64 per share on or before 1 July 2006. On 7 May 2004 Directors approved the issue of 700,000 unlisted options to staff at an exercise price of \$2.58 exercisable on or before 30 April 2009.

	2004	2003
	Number	Number
Balance at the beginning of the financial year (i)	1,249,000	1,108,000
Granted during the year (ii)	700,000	212,000
Exercised during the year (iii)	<u>(98,000)</u>	<u>(71,000)</u>
Balance at the end of the financial year (iv)	<u>1,851,000</u>	<u>1,249,000</u>

(i) Balance at the beginning of the year

	Number	Grant date	Expiry date	Exercise Price
2004				
Option – Series				
Staff Options	649,000	1/7/02	1/7/06	\$1.64
Director Options	200,000	23/10/03	1/7/06	\$1.64
Director Options	<u>400,000</u>	1/7/02	1/7/06	\$1.64
	<u>1,249,000</u>			
2003				
Option – Series				
Staff Options	708,000	1/7/02	1/7/06	\$1.64
Director Options	<u>400,000</u>	1/7/02	1/7/06	\$1.64
	<u>1,108,000</u>			

Staff and Director options carry no rights to dividends and no voting rights.

In accordance with the terms of the Employee Share Option Plan, options issued at \$1.64 on 1 July 2002 can be exercised at any time from the date of their issue to the date of expiry. Options granted on 7 May 2004 at an exercise price of \$2.58 vest over a three year period with 20% vesting after 12 months, a further 30% after 2 years and the balance after 3 years.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)**

21. Vendor, Directors and Employee Share Option Plan (cont)

(ii) Granted during the year

	Number	Grant Date	Expiry Date	Exercise Price	Fair Value Received
2004					
Staff Options	<u>700,000</u>	7/5/04	30/4/09	\$2.58	-
	<u>700,000</u>				
2003					
Director options	200,000	23/10/03	1/7/06	\$1.64	-
Staff Options	<u>12,000</u>	23/10/03	1/7/06	\$1.64	-
	<u>212,000</u>				

(iii) Exercised during the year

	Number of Options Exercised	Grant Date	Exercise Date	Expiry Date	Exercise Price	No. of Shares Issued	Fair Value Received	Fair Value of Shares at Date of Issue
2004								
Staff	10,000	1/7/02	12/1/04	1/7/06	\$1.64	10,000	\$16,400	\$22,700
Staff	20,000	1/7/02	30/4/04	1/7/06	\$1.64	20,000	\$32,800	\$52,000
Staff	7,500	1/7/02	11/5/04	1/7/06	\$1.64	7,500	\$12,300	\$18,000
Staff	6,000	1/7/02	21/7/04	1/7/06	\$1.64	6,000	\$9,840	\$15,600
Staff	17,000	1/7/02	20/9/04	1/7/06	\$1.64	17,000	\$27,880	\$44,030
Staff	17,500	1/7/02	21/9/04	1/7/06	\$1.64	17,500	\$28,700	\$45,500
Staff	3,000	1/7/02	22/11/04	1/7/06	\$1.64	3,000	\$4,920	\$9,000
Staff	12,500	1/7/02	26/11/04	1/7/06	\$1.64	12,500	\$20,500	\$41,875
Staff	<u>4,500</u>	1/7/02	15/12/04	1/7/06	\$1.64	<u>4,500</u>	<u>\$7,380</u>	<u>\$13,950</u>
	<u>98,000</u>					<u>98,000</u>	<u>\$160,720</u>	<u>\$262,655</u>
2003								
Staff	10,000	1/7/02	26/6/03	1/7/06	\$1.64	10,000	\$16,400	\$28,500
Staff	30,000	1/7/02	3/7/03	1/7/06	\$1.64	30,000	\$49,200	\$75,000
Staff	11,500	1/7/02	8/7/03	1/7/06	\$1.64	11,500	\$18,860	\$32,200
Staff	7,500	1/7/02	10/10/03	1/7/06	\$1.64	7,500	\$12,300	\$19,125
Staff	500	1/7/02	22/10/03	1/7/06	\$1.64	500	\$820	\$1,360
Staff	<u>11,500</u>	1/7/02	31/10/03	1/7/06	\$1.64	<u>11,500</u>	<u>\$18,860</u>	<u>\$29,900</u>
	<u>71,000</u>					<u>71,000</u>	<u>\$116,440</u>	<u>\$186,085</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)****21. Vendor, Directors and Employee Share Option Plan (cont)**

Fair value of consideration received is measured as the nominal value of the cash receipts on conversion. The fair value of shares at the date of issue is measured as the market value at the close of trade on the date of their issue.

(iv) Balance at the end of the financial year

	Number	Grant date	Expiry date	Exercise Price
2004				
Option – Series				
Director options	400,000	1/7/02	1/7/06	\$1.64
Director options	200,000	23/10/03	1/7/06	\$1.64
Staff Options	551,000	1/7/02	1/7/06	\$1.64
Staff Options	<u>700,000</u>	7/5/04	30/4/09	\$2.58
	<u>1,851,000</u>			
2003				
Option – Series				
Director options	400,000	1/7/02	1/7/06	\$1.64
Director options	200,000	23/10/03	1/7/06	\$1.64
Staff Options	<u>649,000</u>	1/7/02	1/7/06	\$1.64
	<u>1,249,000</u>			

Staff and Director options carry no rights to dividends and no voting rights.

In accordance with the terms of the Employee Share Option Plan, options issued at \$1.64 on 1 July 2002 can be exercised at any time from the date of their issue to the date of expiry. Options granted on 7 May 2004 at an exercise price of \$2.58 vest over a three year period with 20% vesting after 12 months, a further 30% after 2 years and the balance after 3 years.

The difference between the total market value of the options issued during the financial year, at the date of issue, and the total amount received from employees (nil) is not recognised in the financial statements except for the purposes of determining director's and executives remuneration in respect of that financial year as disclosed in Note 24 to the financial statements. The amounts are disclosed in remuneration in respect of the financial year in which the entitlement was earned.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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	Consolidated		The Company	
	31	31	31	31
	December	December	December	December
	2004	2003	2004	2003
	\$	\$	\$	\$
22. Reserves				
Foreign currency	<u>(112,030)</u>	<u>(101,256)</u>	—	—
Movement during the period:				
Opening balance	(101,256)	(15,498)	-	-
Translation of foreign operations	<u>(10,774)</u>	<u>(85,758)</u>	—	—
Closing balance	<u>(112,030)</u>	<u>(101,256)</u>	—	—
23. Accumulated Losses				
Balance at the beginning of the financial year	(2,343,188)	(3,553,849)	(14,963,302)	(10,207,578)
Net profit (loss) attributable to members of the parent entity	<u>(6,844,505)</u>	<u>1,210,661</u>	<u>(3,534,742)</u>	<u>(4,755,724)</u>
Balance at end of financial year	<u>(9,187,693)</u>	<u>(2,343,188)</u>	<u>(18,498,044)</u>	<u>(14,963,302)</u>

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)**

24. Directors' and executives remuneration

The specified directors of Electro Optic Systems Holdings Limited during the year were:

Mr Fred Bart (Chairman, non executive)
Dr Ben Greene (Chief Executive Officer)
Dr Bob Dean (Chief Executive Officer EOST)
Mr Ian Dennis (Non-executive)
Ms Cheryl Bart (Non-executive)
Mr John Gordon (Non-executive) appointed 18 November 2004

The specified executives of Electro Optic Systems Holdings Limited during the year were:

Mr Ron Thompson (General Manager)
Dr Craig Smith (Chief Executive Officer of EOS Space Systems Pty Limited)
Mr Bruce Cook (Chief Technology Officer)
Mr Robert Meekes (Director Advanced Programs)
Mr Steven Juliver (Director of Administration and Contracts) appointed 26 April 2004

Specified directors' and specified executives remuneration

The board reviews the remuneration packages of all specified directors and specified executives on an annual basis. Remuneration packages are reviewed and determined with regard to current market rates and are benchmarked against comparable industry salaries, adjusted by a performance factor to reflect changes in the performance of the company.

Directors	Primary		Post Employment	Equity	Total \$
	Salary & Fees \$	Non- monetary \$	Super- annuation \$	Options \$	
Mr Fred Bart	10,000	-	-	-	10,000
Dr Ben Greene*	161,514	48,513	30,000	-	240,027
Mr Ian Dennis	46,000	-	-	-	46,000
Ms Cheryl Bart	10,000	-	-	-	10,000
Dr Bob Dean*	325,600	47,311	-	-	372,911
Mr John Gordon	-	-	-	-	-
	553,114	95,824	30,000	-	678,938
* Executive Directors					

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)**

	Consolidated		The Company	
	31	31	31	31
	December	December	December	December
	2004	2003	2004	2003
	\$	\$	\$	\$

24. Directors' and executives remuneration (Cont)

Executives	Primary		Post Employment	Equity	Total \$
	Salary & Fees \$	Non- monetary \$	Super- annuation \$	Options \$	
Mr Ron Thompson	73,234	62,400	27,669	-	163,303
Dr Craig Smith	137,663	-	26,671	-	164,334
Mr Bruce Cook	115,545	16,524	-	4,244	136,313
Mr Robert Meeks	102,000	1,107	-	6,368	109,475
Mr Steven Juliver	74,861	12,459	-	6,368	93,688
	503,303	92,490	54,340	16,980	667,113

Non-monetary includes the provision for motor vehicles and health benefits.
Further details on options can be found in note 21.

25. Notes to the Statement of Cash Flows

(a) Reconciliation of Cash

For the purposes of the statement of cash flows, cash includes cash on hand and at call deposits with banks or financial institutions, investments in money market instruments maturing within less than two months and net of bank overdrafts. Cash at the end of the financial year as shown in the statements of cash flows is reconciled to the related items in the statement of financial position as follows:

Cash	3,686,742	5,930,878	3,517,202	5,213,410
Bank overdraft	-	(1,030)	-	-
	<u>3,686,742</u>	<u>5,929,848</u>	<u>3,517,202</u>	<u>5,213,410</u>

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)**

	Consolidated		The Company	
	31	31	31	31
	December	December	December	December
	2004	2003	2004	2003
	\$	\$	\$	\$
25. Notes to the Statement of Cash Flows (Cont)				
(b) Reconciliation of (Loss)/ Profit from Ordinary Activities after related income tax to net cash flows from operating activities				
Operating (loss)/ profit from ordinary activities after related income tax	(6,844,505)	1,210,661	(3,534,742)	(4,755,724)
Profit on sale of investments	-	(159,144)	-	(159,144)
Profit on sale of investment property	(161,736)	-	(161,736)	-
(Profit)/ Loss on sale of fixed assets	-	89,499	-	-
Increase (decrease) in current tax liability	(100,000)	100,000	-	-
Other	-	-	-	-
Amortisation	666,492	666,492	-	-
Depreciation of fixed assets	1,122,322	1,011,234	418	698
Foreign exchange movements	(11,973)	(53,166)	-	-
Provision for non-recovery of loan	-	-	3,650,560	4,846,277
(Increase)/decrease in assets				
Current receivables	1,245,328	(4,461,821)	(4,081)	(2,340)
Inventories	(260,329)	(321,908)	-	-
Other current assets	(151,137)	1,881	-	-
Increase/(decrease) in liabilities				
Provisions for employee entitlements	231,481	178,840	-	-
Current trade payables	169,295	(89,825)	21,665	8,009
Leases	241,290	-	-	-
Deferred revenues	462,814	146,155	-	-
Other liabilities	(18,232)	(345,614)	-	-
Net cash inflows (outflows) from operating activities	<u>(3,408,890)</u>	<u>(2,026,716)</u>	<u>(27,916)</u>	<u>(62,224)</u>

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)**

The Company	
31	31
December	December
2004	2003

25. Notes to the Statement of Cash Flows (Cont)

(c) Non-Cash Financing and Investing Activities

During the financial period, the consolidated entity acquired via finance leases property plant and equipment with a cost value of \$577,768 (2003 - \$428,003). These acquisitions are not reflected in the statement of cash flows.

26. Related party and specified executive disclosures

(a) Directors

The Directors of Electro Optic Systems Holdings Limited in office during the financial year were:

Mr Fred Bart
Dr Ben Greene
Mr Ian Dennis
Dr Bob Dean
Ms Cheryl Bart
Mr John Gordon (Appointed 18 November 2004)

(b) Specified Directors' Shareholdings

	Balance at 1/1/04	Granted as remuneration	Received on exercise of options	Net other change	Balance at 31/12/04
	No.	No.	No.	No.	No.
Mr Fred Bart	6,110,050	-	-	-	6,110,050
Dr Ben Greene	2,592,593	-	-	-	2,592,593
Mr Ian Dennis	160,050	-	-	-	160,050
Ms Cheryl Bart	290,000	-	-	-	290,000
Dr Bob Dean	-	-	-	-	-
Mr John Gordon	-	-	-	-	-

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)**

26. Related party and specified executive disclosures (cont)

(c) Specified Directors' Option holdings

	Balance at 1/1/04	Granted as remuneration	Exercised	Balance at 31/12/04	Balance vested at 31/12/04	Options vested during year
	No.	No.	No.	No.	No.	
Mr Fred Bart	-	-	-	-	-	-
Dr Ben Greene	4,859,892	-	-	4,859,892	4,859,892	-
Mr Ian Dennis	200,000	-	-	200,000	200,000	-
Ms Cheryl Bart	200,000	-	-	200,000	200,000	-
Dr Bob Dean	200,000	-	-	200,000	200,000	-
Mr John Gordon	-	-	-	-	-	-

(d) Specified Executives' Shareholdings

	Balance at 1/1/04	Granted as remuneration	Received on exercise of options	Net other change	Balance at 31/12/04
	No.	No.	No.	No.	No.
Mr Ron Thompson	232,700	-	-	-	232,700
Dr Craig Smith	-	-	-	-	-
Mr Bruce Cook	-	-	-	-	-
Mr Robert Meeks	-	-	-	-	-
Mr Steven Juliver	-	-	-	-	-

(e) Specified Executives' Option holdings

	Balance at 1/1/04	Granted as remuneration	Exercised	Balance at 31/12/04	Balance vested at 31/12/04	Options vested during year
	No.	No.	No.	No.	No.	
Mr Ron Thompson	-	-	-	-	-	-
Dr Craig Smith	-	-	-	-	-	-
Mr Bruce Cook	-	15,000	-	15,000	-	-
Mr Robert Meeks	-	10,000	-	10,000	-	-
Mr Steven Juliver	-	15,000	-	15,000	-	-

Specified executives options vest 20% after 12 months, 30% after 2 years and the balance after 3 years. Refer to note 21 for further details.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)****26. Related party and specified executive disclosures (cont)**

(f) Transactions within the Wholly-Owned Group

The wholly-owned group includes:

- the ultimate parent entity in the wholly-owned group;
- wholly-owned controlled entities; and
- other entities in the wholly-owned group.

The ultimate parent entity in the wholly-owned group is Electro Optic System Holdings Limited.

Amounts receivable from entities in the wholly-owned group are disclosed in note 9 to the financial statements.

Certain entities within the group have lent money to other entities within the wholly-owned group on an interest free basis. The amounts receivable by the ultimate parent entity in the wholly-owned group are disclosed in note 9 to the financial statements. The ultimate parent entity in the wholly-owned group has provided for this amount based upon the net asset position of the controlled entities.

27. Controlled Entities

Name of Entity	Country of Incorporation	December 2004 %	December 2003 %
Parent Entity			
Electro Optic Systems Holdings Limited	Australia		
Controlled Entities			
Electro Optic Systems Pty Limited	Australia	100	100
Fire Control Systems Pty Limited	Australia	100	100
FCS Technology Holdings Pty Limited	Australia	100	100
EOS Space Systems Pty Limited	Australia	100	100
EOS USA Inc (Inc in Nevada)*	USA	100	100
EOS Technologies Inc (Inc in Arizona)*	USA	100	100

* Not audited by Deloitte Touche Tohmatsu

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)

28. Contingent Liabilities

Electro Optic Systems Pty Limited provided a guarantee to Fire Control Systems Pty Limited, a controlled entity, on 16 October 1996 to meet any genuine commitments of Fire Control Systems Pty Limited, either current or to be raised in the foreseeable future.

Electro Optic Systems Pty Limited has engaged in Research and Development syndications during the period from 1992 through to 1996. The taxation treatment undertaken was in accordance with specific and general taxation rulings issued by the Australian Taxation Office. However, Electro Optic Systems Pty Limited has a contingent liability under indemnities given to Research and Development Investors in the event that the Australian Taxation Office reverses its rulings. The directors are of the opinion that it is not possible to estimate the potential exposure, if any, to the consolidated entity from these indemnities.

On 8 December 2003, the parent company and the subsidiary company Electro Optic Systems Pty Limited entered into a Deed of Undertaking with the Industry Research and Development Board on behalf of the Commonwealth of Australia. The undertaking from the parent company was to ensure that the subsidiary company was able to contribute matching funding under the R & D Start Program for the Project. The directors are of the opinion that it is not possible to estimate any potential exposure, if any, to the consolidated entity under this undertaking.

On 8 December 2003 a subsidiary company entered into a 2 year R & D Start Grant agreement with AusIndustry for the laser de-orbiting of space debris. On 12 January 2005 the company requested a suspension of the R & D Start agreement for the period from 1 January 2005 until 1 July 2005 to allow the project to be re-scheduled around a new budget and larger scale objectives. Under the terms of the R&D Start Agreement, AusIndustry may request a return of the funds advanced of \$4,521,769 if the project is not completed, however the Directors are of the opinion that the company has been successful in the work under the project to date and are unable to foresee any circumstances where AusIndustry would claim the funds back. At the date of this report the Directors have not received a formal response to the suspension request.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)**

	Consolidated		The Company	
	31	31	31	31
	December	December	December	December
	2004	2003	2004	2003
	\$	\$	\$	\$
29. Capital and Leasing Commitments				
(a) Finance leasing commitments payable				
not later than one year	446,717	286,526	-	-
later than one year and not later than five years	646,558	563,238	-	-
later than five years	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Minimum lease payments	1,093,275	849,764	-	-
Less future finance charges	<u>(150,400)</u>	<u>(149,209)</u>	<u>-</u>	<u>-</u>
Total lease liability	<u>942,875</u>	<u>700,555</u>	<u>-</u>	<u>-</u>
Represented by:				
Current liability (Note 15)	354,186	162,722	-	-
Non-current liability (Note 15)	<u>588,689</u>	<u>537,833</u>	<u>-</u>	<u>-</u>
	<u>942,875</u>	<u>700,555</u>	<u>-</u>	<u>-</u>
(b) Operating lease commitments				
Non-cancellable operating leases contracted for but not recognised in the financial statements:				
Payable:				
not later than one year	717,460	231,519	-	-
later than one year and not later than five years	3,907,225	1,044,919	-	-
later than five years	<u>-</u>	<u>194,652</u>	<u>-</u>	<u>-</u>
	<u>4,624,685</u>	<u>1,471,090</u>	<u>-</u>	<u>-</u>

Operating Leases

Leasing arrangements

Operating leases relate to US premises at 325 West Grant Street, Tuscon, Arizona with a lease term of 10 years which expires on 15 March 2010. The consolidated entity has an option to renew for a further period of 5 years on expiry of the current lease. The rental is subject to annual reviews to CPI. There is no option to purchase the property.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)**

29. Capital and Leasing Commitments (cont)

A new operating lease was entered into on 1 December 2004 for premises at 3160 East Transcon Way, Tuscon Arizona with a lease term of 5 years. There is no option to renew after 5 years and future lease payments are fixed under the contract. There is no option to purchase the property.

On 1 January 2004 a subsidiary company entered into a renewal of a lease for the premises in Queanbeyan, Australia for a 5 year period with a 5 year option. The Company has the first right of refusal in respect of the purchase of the property.

On 31 December 2004 a subsidiary company entered into a new lease for premises at 111 Canberra Avenue, Griffith, ACT Australia for a 5 year period with a 5 year option. There is no option to purchase the property.

Finance Leases

Leasing arrangements

Finance leases relate to motor vehicles, computer and office equipment with lease terms of between one and three years. The consolidated entity has options to purchase the computer and office equipment for a nominal amount at the conclusion of the lease arrangements. The consolidated entity has options to purchase motor vehicles for agreed residual amounts at the conclusion of the lease arrangements.

30. Subsequent Events

On 31 January 2005, the Company entered into various agreements with Northrop Grumman Space and Mission Systems Corp. including a strategic alliance and subscription agreement. The subscription agreement was in respect of 5million ordinary shares at an issue price of \$4.50 which raised cash of \$22,500,000.

Apart from the above, 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
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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)**

31. **Financial Instruments**

(a) Interest Rate Risk

The consolidated entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial asset and financial liabilities, is as follows:

Cash assets totalling \$3,686,742 (2003 - \$5,930,878) have a weighted floating interest rate of 5.20% (2003 - 4.95%). Bank loans totalling \$Nil (2003 - \$1,030) have a weighted average floating interest rate of Nil (2003 - 9.0%)

Finance leases totalling \$942,875 (2003 - \$700,555) have a weighted average interest rate of 9.32% (2003- 7.25%)

Other receivables, investments, accounts payable, provisions and other financial items are non-interest bearing.

(b) Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount of those assets, net of any provisions for doubtful debts of those assets, as disclosed in the statement of financial position and notes to the financial statements.

Credit risk for derivative financial instruments arises from the potential failure of counterparties to the contract to meet their obligations. The consolidated entity measures credit risk on a fair value basis.

The consolidated entity does not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

(c) Net Fair Values

The net fair value approximates their carrying value.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED
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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)**

31. **Financial Instruments (Cont)**

No financial assets and financial liabilities are readily traded on organised markets in standardised form other than listed equity investments.

The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the statement of financial position or in the notes to the financial statements.

	Consolidated		Consolidated	
	December 2004	December 2004	December 2003	December 2003
	Carrying amount	Net fair value	Carrying amount	Net fair value
Financial assets				
Cash	3,686,742	3,686,742	5,930,878	5,930,878
Receivables	<u>4,192,238</u>	<u>4,192,238</u>	<u>5,437,566</u>	<u>5,437,566</u>
Financial liabilities				
Accounts payable	2,092,819	2,092,819	1,923,524	1,923,524
Interest bearing liabilities	<u>942,875</u>	<u>942,875</u>	<u>701,585</u>	<u>701,585</u>

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)****32. Segment Information**

The consolidated entity operates in Australia and USA 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. The Company also operates in the investment sector.

Segment Revenues

	12 Months ended 31 December 2004	12 Months ended 31 December 2003
Space systems and surveillance	12,048,090	17,643,464
Defence	1,656,037	574,833
Investment	<u>1,886,088</u>	<u>524,757</u>
Total of all segments	15,590,215	18,743,054
Unallocated	<u>288,368</u>	<u>560,202</u>
Consolidated	<u>15,878,583</u>	<u>19,303,256</u>

Segment Results

Space systems and surveillance	(4,458,147)	1,819,051
Defence	(1,935,685)	(488,266)
Investment	234,560	352,321
Other	<u>-</u>	<u>-</u>
Total of all segments	(6,159,272)	1,683,106
Unallocated	<u>(785,233)</u>	<u>(372,445)</u>
Profit (loss) from ordinary activities before income tax expense	(6,944,505)	1,310,661
Income tax expense relating to ordinary activities	<u>100,000</u>	<u>(100,000)</u>
Net profit (loss)	<u>(6,844,505)</u>	<u>1,210,661</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED
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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)**

32. Segment Information (cont)

Segment Assets and Liabilities

	Assets		Liabilities	
	31 December 2004	31 December 2003	31 December 2004	31 December 2003
Space systems and surveillance	10,428,042	12,488,691	2,404,707	4,020,831
Defence	1,394,140	635,102	4,601,523	1,898,751
Investment	-	1,645,251	-	-
Total all segments	11,822,182	14,769,044	7,006,230	5,919,582
Unallocated	<u>8,690,154</u>	<u>11,436,642</u>	-	<u>100,000</u>
Consolidated	<u>20,512,336</u>	<u>26,205,686</u>	<u>7,006,230</u>	<u>6,019,582</u>

Other Segment Information

	Depreciation and amortisation of segment assets		Acquisition of segment assets	
	12 Months ended 31 December 2004	12 Months ended 31 December 2003	12 Months ended 31 December 2004	12 Months ended 31 December 2003
Space systems and surveillance	1,109,882	1,000,767	905,933	768,016
Defence	12,440	10,467	-	-
Investment	-	-	-	-
Total all segments	1,122,322	1,011,234	905,933	768,016
Unallocated	<u>666,492</u>	<u>666,492</u>	-	-
Consolidated	<u>1,788,814</u>	<u>1,677,726</u>	<u>905,933</u>	<u>768,016</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED
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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)**

32. Segment Information (cont)

Information on Geographical Segments (secondary reporting format)

31 December 2004

Geographical Segments	Revenue from External Customers	Segment Assets	Acquisition of Segment Assets
Australia	10,088,030	17,355,120	355,230
North America	<u>5,790,553</u>	<u>3,157,216</u>	<u>550,703</u>
Total	<u>15,878,583</u>	<u>20,512,336</u>	<u>905,933</u>

31 December 2003

Geographical Segments	Revenue from External Customers	Segment Assets	Acquisition of Segment Assets
Australia	13,313,764	18,830,043	653,501
North America	4,997,904	7,375,643	114,515
Other	<u>991,588</u>	<u>-</u>	<u>-</u>
Total	<u>19,303,256</u>	<u>26,205,686</u>	<u>768,016</u>

33. Non-Hedged Foreign Currency Balances

The Australian dollar equivalent of foreign currency balances included in the financial statements which are not effectively hedged are as follows:

	Consolidated		The Company	
	31 December 2004 \$	31 December 2003 \$	31 December 2004 \$	31 December 2003 \$
US Dollars				
Cash	87,673	70,560	-	-
Payables	841,910	764,685	-	-
Receivables	3,062,085	495,649	-	-

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)**

	Consolidated		The Company	
	31	31	31	31
	December	December	December	December
	2004	2003	2004	2003
	\$	\$	\$	\$
33. Non-Hedged Foreign Currency Balances (cont)				
Euros Payables	15,592	198,789	-	-
GBP Payables	673	6,581	-	-
New Zealand Dollars Payables	7,883	78,620	-	-
34. Construction Contracts				
Construction work in progress	<u>36,230,928</u>	<u>20,796,868</u>	-	-
Progress billings	<u>(36,335,399)</u> <u>(104,471)</u>	<u>(22,199,267)</u> <u>(1,402,399)</u>	-	-
Recognised and included in the financial statements as amounts due:				
From customers under construction contracts:				
Current (note 7)	<u>2,613,742</u>	<u>883,240</u>	-	-
To customers under construction contracts:				
Current (note 19)	<u>(2,718,213)</u> <u>(104,471)</u>	<u>(2,285,639)</u> <u>(1,402,399)</u>	-	-
Retentions included in progress billings	-	-	-	-

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 (Cont)

35. Insurance

The Company suffered significant losses during the Canberra bush fires over the weekend of 18 January 2003. The Company was insured in respect of the damage to the Mt Stromlo facility, damage to equipment at Mt Stromlo and the Queanbeyan facility and business interruption insurance. During the financial year the Company negotiated a final settlement of \$4,394,979 in respect of the insurance claims with the underwriters. The amount has been booked as revenue during the years ended 31 December 2004 and 2003.

36. Additional Company Information

Electro Optic Systems Holdings Limited is a listed public company in Australia, incorporated and operating in Australia and North America.

Registered Office

Suite 2, Level 12
75 Elizabeth Street
Sydney NSW 2000
Australia
Tel: 02 9233 3915
Fax: 02 9232 3411

Principal Place of Business

111 Canberra Avenue
Griffith
ACT 2603
Australia
Tel: 02 6222 7900
Fax: 02 6299 7687

USA Operations

3160 East Transcon Way
Suite 180
Tuscon, Arizona 85706
USA
Tel: +1 (520) 624 6399
Fax: +1 (520) 624 1906

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AND CONTROLLED ENTITIES

ASX ADDITIONAL INFORMATION

Additional information required by the Australian Stock Exchange Listing Rules and not disclosed elsewhere in this report.

HOME EXCHANGE

The Company's ordinary shares are quoted on the Australian Stock Exchange Limited under the trading symbol "EOS". The Home Exchange is Sydney.

SUBSTANTIAL SHAREHOLDERS

At 21 February 2005 the following substantial shareholders were registered:

	Ordinary Shares	Percentage of total Ordinary shares
Fred Bart Group	6,110,050	15.37%
Technology Investments Pty Limited	2,592,593	6.52%
Northrop Grumman Space and Mission Systems Corp.	<u>5,000,000</u>	<u>12.58%</u>
	<u>13,702,643</u>	<u>34.47%</u>

VOTING RIGHTS

At 21 February 2005 there were 1,314 holders of fully paid ordinary shares.

Rule 74 of the Company's Constitution stipulates the voting rights of members as follows:

"Subject to any rights or restrictions for the time being attached to any class or classes of shares and to this Constitution:

- (a) on a show of hands every person present in the capacity of a Member or a proxy, attorney or representative (or in more than one of these capacities) has one vote; and

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED
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AND CONTROLLED ENTITIES

ASX ADDITIONAL INFORMATION (Cont)

- (b) On a poll every person present who is a Member or proxy, attorney or Representative has member present has:
- (i) For each fully paid share that the person holds or represents – one vote; and
 - (ii) For each share other than a fully paid share that the person holds or represents – that proportion of one vote that the amount paid (not credited) on the shares bears to the total amount paid and payable on the share (excluding amounts credited).”

OTHER INFORMATION

In accordance with Listing Rule 4.10.19, the Company has used the cash and assets in a form readily convertible to cash that it had at the time of admission in a way consistent with its business objectives.

DISTRIBUTION OF SHAREHOLDINGS

At 21 February 2005 the distribution of share and option holdings were:

Range	Ordinary Shareholders	Number of Shares	Option Holders	Number of Options
1-1,000	244	172,347	0	0
1,001 – 5,000	482	1,444,518	17	62,500
5,001 – 10,000	299	2,642,395	57	434,000
10,001 – 100,000	245	7,676,317	41	693,500
100,001 and over	<u>44</u>	27,805,129	<u>5</u>	5,459,892
	<u>1,314</u>	39,740,706	<u>120</u>	6,649,892

There were 16 ordinary shareholders with less than a marketable parcel.

There is no current on-market buy-back.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED
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TWENTY LARGEST ORDINARY SHAREHOLDERS - QUOTED

At 21 February 2005 the 20 largest ordinary shareholders held 60.11 % of the total issued fully paid quoted ordinary shares of 39,740,706.

Shareholder	Fully Paid Ordinary Shares	Percentage of Total
1. Northrop Grumman Space and Missions Systems Corp.	5,000,000	12.58%
2. N & J Properties Pty Limited	4,090,000	10.29%
3. Technology Investments Pty Limited	2,592,593	6.52%
4. AWC Nominees Pty Limited	2,507,276	6.31%
5. Shanton Apparel (NZ) Limited	2,020,000	5.08%
6. Link Traders (Aust) Pty Limited	1,400,000	3.52%
7. Innovation Investments Pty Limited	900,000	2.26%
8. Perpetual Trustee Company Limited	650,000	1.64%
9. National Nominees Limited	596,440	1.50%
10. F & B Investments Pty Limited	580,125	1.46%
11. Fodiro Pty Limited	510,000	1.28%
12. Capitol Enterprises Limited	500,000	1.26%
13. Pathold No 285 Pty Limited	358,000	0.90%
14. Dr Joshua Ehrlich	356,447	0.90%
15. Henry Herron	346,169	0.87%
16. Puppall Pty Limited	324,962	0.82%
17. Sarantina Capital Pty Limited	317,500	0.80%
18. Equity Trustees Limited	299,257	0.75%
19. Winerust Pty Limited	269,231	0.69%
20. Mrs Yvonne McCarty & Mr Brent McCarty	268,847	0.68%
	<u>23,886,847</u>	<u>60.11%</u>

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VENDOR OPTION HOLDERS

At 21 February 2005 the largest optionholders held 100% of the options issued as part of the vendor consideration. These options are exercisable at 20 cents each on or before 31 December 2005 as set out below.

<u>Name of Shareholder</u>	<u>Number</u>
1. Dr Ben Greene	4,563,925
2. Technology Investments Pty Limited	<u>295,967</u>
	<u>4,859,892</u>

EMPLOYEE SHARE OPTION PLAN

Shareholders approved the issue of 1,120,000 unlisted options under the Employee Share Option Plan at a General Meeting on 28 June 2002 and a further 200,000 unlisted options to Dr Bob Dean in General Meeting on 23 October 2003. 1,108,000 unlisted options were issued on 1 July 2002 and 212,000 unlisted options on 23 October 2003 and are exercisable at \$1.64 per share on or before 1 July 2006.

On 7 May 2004 Directors approved the issue of 700,000 unlisted options at an exercise price of \$2.58 under the Employee Share Option Plan. These unlisted options expire on 30 April 2009 and are subject to vesting provisions in accordance with the rules of the Employee Share Option Plan.

The holders of the options under the Employee Share Option Plan at the date of this report are as follows:

Mr Ian Dennis – Director	200,000
Ms Cheryl Bart – Director	200,000
Dr Bob Dean	200,000
Staff	<u>1,190,000</u>
Total	<u>1,790,000</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED
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CORPORATE GOVERNANCE STATEMENT

Corporate Governance Statement

The Board of Directors of Electro Optic Systems Holdings Limited is responsible for the corporate governance of the consolidated entity. The Board guides and monitors the business and affairs of Electro Optic Systems Holdings Limited on behalf of the shareholders by whom they are elected and to whom they are accountable.

The format of the Corporate Governance Statement has changed in comparison to the previous year due to the introduction of the Australian Stock Exchange Corporate Governance Council's (the "Council's") "Principles of Good Corporate Governance and Best Practice Recommendations". In accordance with the Council's recommendations, the Corporate Governance Statement must now contain certain specific information and must disclose the extent to which the Company has followed the guidelines during the period. Where a recommendation has not been followed, that fact must be disclosed, together with the reasons for the departure. Electro Optic Systems Holdings Limited's Corporate Governance Statement is now structured with reference to the Corporate Governance Council's principles and recommendations, which are as follows:

- Principle 1. Lay solid foundations for management and oversight
- Principle 2. Structure the Board to add value
- Principle 3. Promote ethical and responsible decision making
- Principle 4. Safeguard integrity in financial reporting
- Principle 5. Make timely and balanced disclosure
- Principle 6. Respect the rights of shareholders
- Principle 7. Recognise and manage risk
- Principle 8. Encourage enhanced performance
- Principle 9. Remunerate fairly and responsibly
- Principle 10. Recognise the legitimate interests of stakeholders

Electro Optic Systems Holdings Limited's corporate governance practices were in place throughout the year ended 31 December 2004 and embrace the Council's best practice recommendations which are being put in place as appropriate.

Due to the limitations imposed by size, the Company does not meet Recommendation 4.2 of the Guidelines as the Company does not have a formally constituted audit committee. All Directors of the Company act as the audit committee.

During the current year the Directors will establish a formal risk assessment plan in order to comply with Principle 7.

Additional information regarding the Company's corporate governance policies, its Directors and other relevant information can be found on the Company's website:

www.eos-aus.com

Structure of the Board

The skills, experience and expertise relevant to the position of director held by each Director in office at the date of this Annual Report is included in the Directors' Report on pages 7 and 8. Directors of Electro Optic Systems Holdings Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgement.

In the context of director independence, "materiality" is considered from both the Company and individual director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal or less than 5 percent of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10 percent of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors which point to the actual ability of the director in question to shape the direction of the Company's loyalty.

In accordance with the definition of independence above, and the materiality thresholds set, the following Directors of Electro Optic Systems Holdings Limited are considered to be independent:

Name	Position
Mr. Ian Dennis	Non-executive Director
Mr John Gordon	Non-executive Director
Dr Bob Dean	Executive Director

There are procedures in place, agreed by the Board, to enable directors, in furtherance of their duties, to seek independent professional advice at the Company's expense.

The term in office held by each Director in office at the date of this report is as follows:

Name	Position	Term in Office
Mr Fred Bart	Non-Executive Chairman	5 years
Dr Ben Greene	Executive Director	3 years
Mr. Ian Dennis	Non-Executive Director	5 years
Ms Cheryl Bart	Non-Executive Director	4 years
Dr Bob Dean	Executive Director	3 years
Mr John Gordon	Non-executive Director	3 months

For additional details regarding board appointments, please refer to the Company's website.

Nomination Committee

The Board does not currently have a formal Nomination Committee. However, the Board continues to operate within the established guidelines, including when necessary, selecting candidates for the position of Director and, where appropriate, seeking the services of an independent consultant who is not a director of the Company to provide assistance in the recruitment of potential Directors. It is envisaged that a Nomination and Remuneration Committee will be established during the coming financial year.

Performance

The performance of the Board and key executives is reviewed regularly against both measurable and qualitative indicators. During the reporting period, an assessment of the performance of each Board member and key executive against specific and measurable qualitative and quantitative performance criteria was undertaken. The performance criteria against which directors and executives are assessed is aligned with the financial and non-financial objectives of Electro Optic Systems Holdings Limited. Directors whose performance is consistently unsatisfactory may be asked to retire.

Remuneration

One of the Company's key objectives is to provide maximum stakeholder benefits from the retention of a high quality Board and executive team by remunerating Directors and key executives fairly and appropriately with reference to relevant employment market conditions. Whilst the Company does not currently have a formal Remuneration Committee, the nature and amount of Executive Directors' and Officers' emoluments are linked to the Company's financial and operational performance. Further, it is envisaged that a Nomination and Remuneration Committee will be established during the coming financial year. The expected outcomes of the remuneration structure are:

- Retention and motivation of key executives;
- Attraction of quality management to the Company; and
- Performance incentives which allow executives to share the rewards of the success of Electro Optic Systems Holdings Limited.

For details regarding the amount of remuneration and all monetary and non-monetary components for each of the five highest-paid (non-director) executives during the year and for all Directors, refer to Note 23 of the Notes to the Financial Statements. In relation to the payment of bonuses, options and other incentive payments, discretion is exercised by the Board, having regard to the overall performance of Electro Optic Systems Holdings Limited and the performance of the individual during the period.

There is no scheme to provide retirement benefits, other than statutory superannuation, to non-executive directors.

The Board is responsible for determining and reviewing compensation arrangements for the Directors themselves, the Chief Executive Officer and the executive team.