

Half-Year Report of *Electro Optic Systems Holdings Limited* for the Half-Year Ended 30 June 2008

ACN 092 708 364

This Half-Year Report is provided to the Australian Stock Exchange (ASX) under ASX Listing Rule 4.2A.3.

Current Reporting Period: Half year ended 30 June 2008

Previous Corresponding Period: Half year ended 30 June 2007

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Results for Announcement to the Market

Revenue and Net Profit/(Loss)

		Percentage Change %	Amount
Revenue from ordinary activities	up	25.1	To \$26,590,236
Profit/(loss) from ordinary activities after tax attributable to members	up	152.9	To \$2,400,974
Net profit/(loss) attributable to members	up	152.9	To \$2,400,974

Dividends (Distributions)

	Amount per security	Franked amount per security
Final dividend	Nil¢	Nil¢
Interim dividend	Nil¢	Nil¢
Record date for determining entitlements to the dividend:		
• final dividend		N/A
• interim dividend		N/A
Net tangible assets at 30 June 2008		\$5,616,508
Number of ordinary shares outstanding at 30 June 2008		56,845,926
NTA per ordinary share at 30 June 2008		9.99 cents
NTA per ordinary share at 30 June 2007		32.78 cents

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

Refer to Directors' Report

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Review of Operations

1. RESULTS FOR HALF-YEAR ENDING 30 JUNE 2008

The consolidated entity ("EOS") reported an operating profit before tax of \$2,400,974 for the 6 month period to 30 June 2008 [2007: Loss \$(4,542,240)] based on revenues totalling \$26,590,236 [2007: \$21,247,327].

The consolidated entity reported positive net cash flow from operations for the 6 month period totalling \$10,537,240 [2007: \$7,628,073]. At 30 June 2008, the consolidated entity held cash totalling \$22,522,095 [2007: \$12,614,761]. Cash of \$5,616,713 is restricted as it secures bank guarantees relating to performance on some contracts. This cash becomes progressively unrestricted as the relevant contracts are performed.

2. MILITARY BUSINESS

US Weapon System Programs

EOS' 2007 results and 2008 outlook were impacted by the award of the US Army CROWS program to a competitor in August 2007. This event placed large-scale US production orders out of reach for at least 24 months, slowing growth in revenue and potentially deferring the company's transition to profitable operations.

In response EOS re-positioned itself in this market in late 2007 and early 2008. The key steps taken in this process were:

- Production redundancies between plants in the USA and Australia, required only for large-scale production to critical schedules, were eliminated;
 - Staff numbers world-wide were reduced from 235 to 134 at 30 June 2008 ;
- Continuing outsourcing of production tasks to achieve a reduced level of production complexity that would not exceed EOS' own competence to execute;
- Investments in new technology and product evolution were reduced, reflecting both the maturity of those efforts and a tighter focus on key customer objectives; and
- Business development effort was increased to minimise the impact on revenue of the loss of CROWS production orders.

The net result of all these adjustments has been the re-positioning of EOS from a company designed to be both competitive and profitable with revenue over \$80m [2006] to a company with profitable operations on \$40 million of annual revenue. EOS has achieved this while retaining all core quality, accounting and test capabilities mandatory for significant US defence contracts.

EOS is now actively preparing for the next wave of US remote weapon system requirements, involving Army, Navy, Air Force and the US Marine Corps. Even the CROWS program is expected to be re-opened for competition in the future. These opportunities are expected to emerge from 2009 and will require a diverse range of weapon systems. EOS widening range of products and increasingly responsive production capability will be assets in this environment.

The scale of future remote weapon system programs in the US will substantially exceed the current CROWS requirement of \$1.6 billion over 7 years. EOS investments in recent years in new technology and product diversification have been specifically tailored to these emerging requirements, which often exceed CROWS in technical complexity.

EOS remains a recognised leader in this sector and expects to be extremely competitive in a large proportion of the emerging US remote weapon system programs.

Review of Operations

Non-US Weapon System Programs

EOS continues to expand its sales of remote weapon systems to Asia, Europe [NATO] and the Middle East. While the company's US operations are being repositioned for new US procurements, up to 90% of revenue for EOS military business now arises from customers outside the USA. This is expected to continue into 2009.

The requirements of individual NATO members for remote weapon systems is now increasing rapidly, and EOS is well placed in several of these programs. Current sales to NATO members continue at low volume, but are building a reputation and presence for EOS in this key market.

Australia has emerged as a major customer in the past 2 years, and in the half-year to 30 June 2008 a total of 60 weapon systems were shipped for ultimate use by Australian forces.

EOS continued to consolidate its presence in Asia with strong performance in key, long-term programs in the region. Asia has emerged in recent years as a discerning buyer of the most advanced military technology, and EOS programs in the region are amongst the most advanced in the world. Asian customers have ordered from EOS leading edge products such as dual weapon systems, air-burst systems [that burst at pre-set ranges] and marine systems.

In all non-US weapon system programs, EOS acts as the weapon system prime contractor to provide a complete capability direct to each customer.

Weapon System Support Programs

EOS activities associated with the support of previously-shipped products of remote weapon systems continue to expand as the number of shipped units accumulates. This growing business within EOS now supports over 600 weapon systems, with approximately 400 of these fielded in current conflict areas.

EOS expects this activity to increase in the future.

3. SPACE BUSINESS

Space Systems Business

EOS continues to re-focus its telescope business towards military optical gimbals (telescopes) for space applications, to weapon system gimbals for conventional ballistic weapons, and a new market for directed energy weapons.

The combination of EOS technology in conventional remote weapon systems and EOS laser and optical technology has produced energy weapon system concepts with the potential capability to be produced and deployed rapidly. This relative maturity compared to all known competing concepts is based on the use by EOS of fully-qualified weapon systems as the basis for a new product, rather than completely new systems that could take several years to qualify.

In a spin-off from the EOS space ablation program [below] a new type of high power laser has been developed that is suitable for military directed energy applications [laser weaponry]. This technology is particularly powerful when combined with EOS' optical systems engineering capabilities to produce turn-key products. This capability is highly sought after in the global marketplace, and EOS is engaged on a series of negotiations for its use.

This is a new market meeting new, specific and urgent needs where EOS is in preliminary discussions with major partners and potential lead customers. The company considers this unproven market to have sufficient potential revenue to add substantially to EOS growth in the near term.

Review of Operations

Space Surveillance Business

Although EOS products and capabilities can uniquely meet key US requirements, no program funding is available in 2008 for any contract award or procurement activity. EOS is positioning itself for the contracts that will flow once funds are available.

Outside the US, the market for EOS space technology and products is maturing, with strong funding emerging in Asia and Europe from 2009. EOS is well-placed in several key programs in Asia and Europe.

In early 2008, EOS teamed with the major German aerospace company OHB-System for future exploitation of EOS ground-based and space-based products. This team is focused on fully-funded programs with requirements aligned to EOS capabilities.

EOS ablation technology completed its first [4-year] phase of development in early 2008 with strong results. The technology is now a credible option to be used for the complete de-orbit of space debris from a wide range of orbits.

In Australia, a Defence White Paper relating to space will be completed in late 2008. This review has temporarily stalled Australian defence activity in space as it relates to EOS capabilities.

4. SUMMARY AND OUTLOOK FOR 2008

The first half of 2008 was expected to provide an initial indication of how well EOS regrouped after both the setbacks of 2007.

The financial objectives for this period were understandably modest. The achieved revenue, profit and cash flow all met or exceeded those objectives, indicating an improving degree of management control over what must remain geographically and technologically diverse operations.

It is worth noting that the results were achieved without EOS sacrificing growth objectives, in terms of investment in technology or market presence. The engine for strong growth has been preserved in the form of new technology and market access.

EOS is committed to demonstrating that it is still capable of exploiting the major opportunities afforded by its technology and market position.

Ben Greene

Chief Executive Officer

27 August 2008

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Directors Report

The directors of Electro Optic Systems Holdings Limited submit herewith the financial report for the half-year ended 30 June 2008. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

The names of the directors of the company during or since the end of the half year are:

Mr Fred Bart (Chairman)
Dr Ben Greene (Chief Executive Officer)
Mr Ian Dennis
Mr Mark Ureda
Mr Robert Schuitema

Review of Operations

A detailed review of operations is included on pages 3 to 5 of this financial report.

Auditor's independence declaration

The auditor's independence declaration is included on page 7 of the half-year financial report.

Signed in accordance with a resolution of the directors made pursuant to s.306(3) of the Corporations Act 2001.

On behalf of the Directors



I.A Dennis
Director
Sydney, 27 August 2008

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

27 August 2008

Dear Board Members

Electro Optic Systems Holdings Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Electro Optic Systems Holdings Limited.

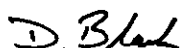
As lead audit partner for the review of the financial statements of Electro Optic Systems Holdings Limited for the half-year ended 30 June 2008, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



David Black
Partner
Chartered Accountants

Member of
Deloitte Touche Tohmatsu

Independent Auditor's Review Report to the members of Electro Optic Systems Holdings Limited

We have reviewed the accompanying half-year financial report of Electro Optic Systems Holdings Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, cash flow statement, statement of recognised income and expense for the half-year ended on that date, selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 10 to 25.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2008 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Electro Optic Systems Holdings Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Member of
Deloitte Touche Tohmatsu

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Electro Optic Systems Holdings Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2008 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our conclusion, we draw attention to Note 1 in the financial report which indicates that the consolidated entity generated a profit of \$2,400,974 during the six months ended 30 June 2008 (year ended 31 December 2007 incurred a net loss of \$20,734,269). This condition, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Material Uncertainty Regarding Contractual Dispute

Without qualifying our conclusion, we draw attention to Note 6 in the financial report. An entity within the consolidated entity is currently involved in a contractual dispute with a customer. The ultimate outcome of the dispute cannot presently be determined, and no provision for any liability that may result has been made in the financial report.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

D. Black

David Black
Partner
Chartered Accountants
Canberra, 27 August 2008

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Directors' Declaration

The directors declare that:

- a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the Corporations Act 2001.

On behalf of the Directors



I A Dennis
Director
Sydney, 27 August 2008

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Consolidated income statement for the half-year ended 30 June 2008

	Note	Half-year ended 30 June 2008 \$	Half-year ended 30 June 2007 \$
Revenue	2(a)	26,590,236	21,247,327
Other Income	2(c)	707,783	-
Other Revenue	2(b)	477,136	689,955
Changes in inventories of finished goods and work in progress		(9,756,413)	(4,036,921)
Raw materials and consumables used		(5,979,579)	(8,808,983)
Employee benefits expense		(6,578,570)	(8,653,364)
Administrative costs		(1,568,425)	(2,862,550)
Finance costs		(9,770)	(53,613)
Depreciation expense	2(c)	(262,004)	(817,565)
Lease expenses		(115,549)	(26,308)
Occupancy costs		(614,902)	(1,115,768)
Other expenses		(488,969)	(104,450)
Profit (Loss) before income tax expense	2	2,400,974	(4,542,240)
Income tax expense		-	-
Profit (Loss) for the period	4	2,400,974	(4,542,240)
Earnings per share:			
Basic (cents per share)	5	4.2	(8.7)
Diluted (cents per share)	5	4.2	(8.7)

Notes to the financial statements are included on pages 15 to 25

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Consolidated balance sheet as at 30 June 2008

	Note	30 June 2008 \$	31 December 2007 \$
Current Assets			
Cash and cash equivalents		22,522,095	12,614,761
Trade and other receivables		4,471,296	6,401,152
Inventories		3,448,525	13,204,938
Other - Prepayments		224, 048	193,091
Total Current Assets		30,665,964	32,413,942
Non-Current Assets			
Property, plant and equipment		531,527	674,370
Total Non-Current Assets		531,527	674,370
Total Assets		31,197,491	33,088,312
Current Liabilities			
Trade and other payables		2,388,163	17,306,876
Borrowings		137,540	215,133
Provisions		7,407,840	7,747,383
Unearned income		15,149,111	4,163,328
Other		81, 078	82,289
Total Current Liabilities		25,163,732	29,515,009
Non-Current Liabilities			
Borrowings		148,139	201,249
Provisions		233,228	562,732
Other		35,884	86,578
Total Non-Current Liabilities		417,251	850,559
Total Liabilities		25,580,983	30,365,568
Net Assets		5,616,508	2,722,744
Equity			
Issued capital		75,383,567	75,383,567
Reserves	3	6,129,246	5,636,456
Accumulated losses	4	(75,896,305)	(78,297,279)
Total Equity		5,616,508	2,722,744

Notes to the financial statements are included on pages 15 to 25

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Consolidated statement of recognised income and expense for the
half-year ended 30 June 2008**

Note	Half-year ended 30 June 2008 \$	Half-year Ended 30 June 2007 \$
Translation of foreign operations: Exchange differences taken to equity	126,688	795,127
Net income recognised directly in equity	126,688	795,127
Profit (Loss) for the period	2,400,974	(4,542,240)
Total recognised income and expense for the period	2,527,662	(3,747,113)

Notes to the financial statements are included on pages 15 to 25

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Consolidated cash flow for the half-year ended 30 June 2008

	Note	Half-year ended 30 June 2008 \$	Half-year ended 30 June 2007 \$
Cash Flows From Operating Activities			
Receipts from customers		33,233,443	37,089,762
Payments to suppliers and employees		(23,125,660)	(29,616,436)
Interest and bill discounts received		439,227	208,360
Interest and other costs of finance paid		(9,770)	(53,613)
Net cash provided by operating activities		<u>10,537,240</u>	<u>7,628,073</u>
Cash Flows From Investing Activities			
Payment for property, plant and equipment		(132,089)	(96,970)
Net cash (used in) investing activities		<u>(132,089)</u>	<u>(96,970)</u>
Cash Flows From Financing Activities			
Proceeds from placement of shares		-	7,222,500
Repayment of borrowings		(130,703)	(277,843)
Net cash provided/(used in) by financing activities		<u>(130,703)</u>	<u>6,944,657</u>
Net Increase/(Decrease) In Cash Held		10,274,448	14,475,760
Cash and cash equivalents at the beginning of the half-year		12,614,761	6,814,343
Effects of exchange rate changes on the balance of cash held in foreign currencies		(367,114)	(91,049)
Cash and cash equivalents at the end of the half-year		<u><u>22,522,095</u></u>	<u><u>21,199,054</u></u>

Notes to the financial statements are included on pages 15 to 25

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Notes to the Financial Statements for the half-year ended 30 June 2008

1. Summary of accounting policies

Statement of Compliance

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 Interim Financial Reporting. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS34 Interim Financial Reporting. The half-year financial report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

Basis of preparation

The financial statements have been prepared under the historical cost convention. Cost is based on the fair values of the consideration given in exchange for assets. Except where indicated otherwise, all amounts are presented in Australian dollars.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's 2007 annual financial report for the financial year ended 31 December 2007.

Adoption of new and revised Accounting Standards

In the current period, the group has adopted all the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the current reporting period. The adoption of these new and revised Standards and Interpretations has resulted in no changes to the Group's accounting policies.

Going Concern

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

The consolidated entity generated a net profit of \$2,400,974 during the six months (year ended 31 December 2007 a net loss of \$20,734,269). Net cash provided by operating activities for the six months ended 30 June 2008 was \$10,537,240 (year ended 31 December 2007: \$582,034). As at 30 June 2008 the consolidated entity had cash of \$22,522,095 (31 December 2007: \$12,614,761) of which \$5,616,713 (31 December 2007: \$6,140,456) is restricted as it secures bank guarantees on existing contracts with local and overseas customers. The cash will become unrestricted if the contract is concluded or renegotiated.

In the opinion of the directors, the ability of the consolidated entity to continue as a going concern and pay its debts as and when they fall due is dependent upon:

- The ability to achieve target production levels for the military business in the second half-year period to 31 December 2008

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Notes to the Financial Statements for the half-year ended 30 June 2008

1. Summary of accounting policies

Basis of preparation (cont)

The Directors believe that this is achievable based on current production plans.

- The ability to obtain further new profitable contracts

The directors are in the process of bidding for new military and space contracts. The results of these bids are not known as at the date of this financial report. The Directors are confident that new contracts will be received during the next 12 months from the current bids outstanding and from new contracts which have not been bid at the date of the directors' report.

- In the absence of significant new contracts the ability to execute the closedown of the US military manufacturing facility by 30 November 2008 and the German operations by 31 October 2008
- The successful completion of the telescope and enclosure contracts on hand

The telescope and enclosure division has progressed the completion of the contracts on hand and the consolidated entity has already provided for expected losses on contracts in accordance with Australian Accounting Standard AASB111 "Construction Contracts".

- The successful resolution of contractual disputes with customers

As disclosed in note 6 to the financial statements the consolidated entity from time to time has contractual disputes with customers in the normal course of business. No allowance has been made in the financial statements for any settlements that may arise on these disputes.

- The continued support of the Company's shareholders

Should the company need to raise additional capital to fund new orders it may seek capital from existing or new shareholders. The Company has no current plans to raise capital.

Notwithstanding the above, unless new profitable contracts can be assured to meet the future working capital and funding requirements, then, in the opinion of the directors, material uncertainty exists regarding the ability of the consolidated entity to continue as a going concern and pay its debts as and when they become due and payable.

If the consolidated entity is unable to continue as a going concern it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different from those stated in the financial report.

No adjustments have been made to the financial report relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Notes to the Financial Statements
for the half-year ended 30 June 2008**

	Half-year to 30 June 2008 \$	Half-year to 30 June 2007 \$
2. Loss From Ordinary Activities		
Loss from ordinary activities before income tax includes the following items of revenue and expense:		
(a) Revenue		
Contract receipts	26,150,509	21,038,967
Interest received	439,727	208,360
Total revenue	<u>26,590,236</u>	<u>21,247,327</u>
(b) Other Revenue		
Grant revenue	421,062	651,090
Other revenue	56,074	38,865
	<u>477,136</u>	<u>689,955</u>
(c) Expenses		
Profit (loss) for the period has been arrived at after taking into account the following gains and losses:		
Unrealised foreign exchange gains	<u>(707,783)</u>	-
Profit (loss) for the period includes the following expenses:		
Unrealised foreign exchange losses	-	<u>521,162</u>
Depreciation of non-current assets	<u>262,004</u>	<u>817,565</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Notes to the Financial Statements
for the half-year ended 30 June 2008**

	30 June 2008 \$	31 December 2007 \$
3. Reserves		
Foreign currency translation reserve	358,371	231,683
Employee Equity settled benefits reserve	5,770,875	5,404,773
Balance at end of financial period	6,129,246	5,636,456
	Half-year to 30 June 2008 \$	Half-year to 30 June 2007 \$
4. Accumulated Losses		
Balance at beginning of financial period	(78,297,279)	(57,563,010)
Net profit /(loss) for the period	2,400,974	(4,542,240)
Balance at end of financial period	(75,896,305)	(62,105,250)

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Notes to the Financial Statements for the half-year ended 30 June 2008

5. Earnings Per Share

	2008 ¢ per share	2007 ¢ per share
Basic EPS	4.2 cents	(8.7 cents)
Diluted EPS	4.2 cents	(8.7 cents)

Basic Earnings per Share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	Half-year to 30 June 2008 \$	Half-year to 30 June 2007 \$
Earnings (a)	2,400,974	(4,542,240)

	2008 No.	2007 No.
Weighted average number of ordinary shares used in the calculation of basic earnings per share	56,845,926	52,160,692

(a) Earnings used in the calculation of basic earnings per share is the same as net loss in the profit and loss.

Diluted Earnings per Share

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

	Half-year to 30 June 2008 \$	Half-year to 30 June 2007 \$
Earnings (a)	2,400,974	(4,542,240)

	2008 No.	2007 No.
Weighted average number of ordinary shares and potential ordinary shares (b) & (c)	56,845,926	52,160,692

(a) Earnings used in the calculation of diluted earnings per share is the same as net loss in the profit and loss.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Notes to the Financial Statements
for the half-year ended 30 June 2008**

5. Earnings Per Share (cont'd)

(b) The following are considered to be potential ordinary shares but are not dilutive and are therefore excluded from the weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share.

	30 June 2008 Number	30 June 2007 Number
Staff Share Plan at \$2.58	448,500	511,750
Directors options at \$2.85	300,000	300,000
Directors options at \$2.56	200,000	200,000
Directors options at \$3.06	2,298,000	2,298,000
Staff options at \$3.06	250,000	250,000
Staff options at \$3.50	478,750	674,500
Staff options at \$1.95	120,000	60,000
Directors options at \$1.95	1,764,800	1,764,800
Total unlisted options	<u>5,860,050</u>	<u>6,059,050</u>

(c) Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

Weighted average number of ordinary shares used in the calculation of basic earning per share	<u>56,845,926</u>	<u>52,160,692</u>
Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share	<u>56,845,926</u>	<u>52,160,692</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Notes to the Financial Statements for the half-year ended 30 June 2008

6. Contingent Liabilities

(a) 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 research project was completed in June 2008 with the company meeting all of its payment obligations and the final payment received from the Industry Research and Development Board on behalf of the Commonwealth of Australia.

In certain limited cases there may be an obligation to pay back the grant received. The maximum liability is the amount received from the Commonwealth of Australia which was \$8,421,230 (31 December 2007: \$7,745,055). The directors are of the opinion that as at the date of this report no liability exists to back any amount.

(b) As at the date of this report the US subsidiary, EOS Technologies Inc (EOST), is aware of a potential contractual dispute in relation to the supply of a telescope and enclosure to New Mexico Institute of Mining and Technology (NMT) for the Magdalena Ridge Observatory. The contract between NMT and EOST contains a provision which allows for liquidated damages to be paid at the rate of US\$5,000 per day from 12 March 2007 if the telescope is not "substantially complete" at that date. The contract also provides that EOST will not be liable for liquidated damages if the delay is caused by any act, event or condition that is beyond the reasonable control of EOST.

The original contract required that "the date on which the parties concur that the items on the testing list have been materially and substantially completed and the telescope is operationally ready" be by 28 September, 2006. NMT agreed to extend the completion date to 12 March 2007 but, subsequently, despite EOST's notice of further delays, related mainly due to inclement weather, refused to agree to any additional extensions. At the date of this report a new completion date has not been agreed and NMT management has informed EOST that they do not accept that the telescope is "substantially complete".

Based on the position taken by NMT it is possible that Liquidated Damages may be claimed by NMT from 13 March 2007, however, based on the fact NMT astronomers began operational use of the telescope on 17 March 2007 and have continued to make use of the telescope for scientific research, the directors are of the opinion that the telescope was "substantially complete" and has been operational and used successfully by NMT since March 2007.

No provision has been made in the financial statements for any liability that may arise resulting from this matter as the directors believe that EOST can settle any contractual disputes with NMT and, should NMT commence legal proceedings against EOST, the directors believe that any action can be successfully defended and settled. As at the date of this report no legal proceedings relating to this potential contractual dispute have been commenced by NMT.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Notes to the Financial Statements
for the half-year ended 30 June 2008**

7. Segment Information

	External Sales		Total	
	Half-year to 30 June 2008 \$	Half-year to 30 June 2007 \$	Half-year to 30 June 2008 \$	Half-year to 30 June 2007 \$
Space systems	474,838	2,660,475	474,838	2,660,475
Space surveillance	807,263	850,777	807,263	850,777
Defence	24,868,408	17,527,715	24,868,408	17,527,715
Total of all segments	26,150,509	21,038,967	26,150,509	21,038,967
Eliminations	-	-	-	-
Unallocated	439,727	208,360	439,727	208,360
Consolidated	26,590,236	21,247,327	26,590,236	21,247,327
Segment Results				
	Half year to 2008 \$		Half year to 2007 \$	
Space systems	(3,210,363)		(366,374)	
Space surveillance	(539,686)		(721,663)	
Defence	6,505,981		(2,872,332)	
Total of all segments	2,755,932		(3,960,369)	
Unallocated	(354,958)		(581,871)	
Profit /(Loss) before income tax benefit	2,400,974		(4,542,240)	
Income tax benefit	-		-	
Profit /(Loss) after related income tax benefit	2,400,974		(4,542,240)	

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Notes to the Financial Statements for the half-year ended 30 June 2008

7. Segment Information (cont'd)

The consolidated entity operates in Australia, USA and Germany in the development, manufacture and sale of telescopes and dome enclosures, laser satellite tracking systems and the manufacture of electro-optic fire control systems for defence.

Product and Services within each Business Segment

Space Systems

EOS is a supplier of large optical systems. During the period the consolidated entity continued to wind down the telescope division and is in the process of completing existing contracts.

Space Surveillance

EOS's laser-based space surveillance systems have been demonstrated in customer trials and EOS is now well-placed to be a major contributor to the next generation of space tracking capability. Future business is dependent on large government contracts being awarded in the space sector.

In addition, EOS has substantial space resources in its own right, and may enter the market for space data provision in the future.

Defence

EOS develops, manufactures and markets advanced fire control, surveillance, and weapon systems to approved military customers. These products either replace or reduce the role of a human operator for a wide range of existing and future weapon systems in the US, Australia and other markets.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Notes to the Financial Statements
for the half-year ended 30 June 2008**

8. Issuance of Securities

2008

None

2007

On 13 March 2007, the company issued 179,432 ordinary shares at \$1.38 to the University of Deggendorf in respect of services rendered to the German subsidiary, EOS Optronics GmbH.

On 8 May 2007, the company completed a placement of 5,350,000 ordinary shares to institutional shareholders at a price of \$1.35 per share. This placement raised cash of \$7,222,500.

No options were exercised during the period.

Electro Optic Systems Holdings Limited issued 1,858,800 share options over ordinary shares to Directors and staff under the Employee Share Option Plan during the half year. The issue of these options resulted in a charge to profit and loss during the half year of \$224,150 which is included under employee compensation. This charge to profit and loss was based on the fair value of the options at grant date.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Notes to the Financial Statements
for the half-year ended 30 June 2008**

9. Other Significant Information

None

10. Information on Audit or Review

This half yearly report is based on accounts to which one of the following applies.

- | | |
|---|---|
| ☐ The accounts have been audited. | ☒ The accounts have been subject to review. |
| ☐ The accounts are in the process of being audited or subject to review. | ☐ The accounts have not yet been audited or reviewed. |

Description of likely dispute or qualification if the accounts have not yet been audited or subject to review or are in the process of being audited or subjected to review.

Not applicable

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

Not applicable