

# DIRECTORS' REPORT

---

The Directors of Audio Pixels Holdings Limited (formerly Global Properties Limited) submit here with the financial report of the company for the financial period ended 31 December 2010. This report covers the six month financial period from 1 July 2010 to 31 December 2010 as a result of the change of balance date to a December year end following the acquisition of Audio Pixels Limited of Israel. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

The names and particulars of the directors of the company during or since the end of the financial year are:

| Name           | Particulars  |
|----------------|--|
| Fred Bart      | Chairman and Chief Executive Officer. A director since 5 September 2000. He has been Chairman and Managing Director of numerous private companies since 1980, specialising in manufacturing, property and marketable securities. He is a member of the Australian Institute of Company Directors.  |
| Ian Dennis     | Non executive director and Company Secretary is a chartered accountant with experience as secretary and director in various public listed, mining companies and trusts. He has been involved in the investment banking industry and stockbroking industry for the past twenty five years. Prior to that, Ian was with KPMG, Chartered Accountants in Sydney. Appointed to the Board on 5 September 2000. He is a member of the Australian Institute of Company Directors.  |
| Cheryl Bart AO | Non executive director. Appointed to the Board on 26 November 2001. Cheryl Bart is a lawyer and company director. She is Chairman of the South Australian Film Corporation, Adelaide Film Festival, Environmental Protection Authority, the Alcohol Education and Rehabilitation Foundation and ANZ Trustees Limited. She is a non-executive director of ETSA Utilities, Spark Infrastructure Group Limited and the Australian Broadcasting Corporation. She is a fellow of the Australian Institute of Company Directors. |

## Directorships of Other Listed Companies

Directorships of other listed companies held by directors in the 3 years immediately before the end of the financial year are as follows:

| Name        | Company                                | Period of directorship   |
|-------------|--|--------------------------|
| Fred Bart   | Genetic Technologies Limited           | May 1996 - November 2009 |
|             | Electro Optic Systems Holdings Limited | Since May 2000           |
| Ian Dennis  | Electro Optic Systems Holdings Limited | Since May 2000           |
| Cheryl Bart | Spark Infrastructure Group Limited     | Since November 2005      |

## Principal Activities

The principal activities of the Company are an investment in Audio Pixels Limited of Israel and property investment. During the period the company acquired a controlling interest in Audio Pixels Limited of Israel and since the end of the financial year acquired 100% of Audio Pixels Limited. Audio Pixels Limited is engaged in the development of digital speakers. The company is in the process of selling its property investments.

## Results

The net loss for the half-year financial period ended to 31 December 2010 was \$530,606 (12 Months to 30 June 2010 - \$197,489 profit).

# DIRECTORS' REPORT

---

## 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

The Company continues to lease its investment property known as Lots 3, 4, 25 and 45 at 360 Pacific Highway, Crows Nest. During the period the company sold its ASX listed securities and provided commercial loan facilities.

In August 2010, the Company acquired an effective 54.14% interest in Audio Pixels Limited of Israel by purchasing shares and a convertible note from existing shareholders. Since the end of the financial year the Company acquired the remaining minority shares in Audio Pixels Limited of Israel and now owns 100% of the issued share capital of Audio Pixels Limited.

Audio Pixels Limited is the developer of proprietary "digital speaker microchip" products and technologies that utilise Digital Sound Reconstruction techniques. The significance of this achievement is not only in achieving the final piece of the "end-to-end digital system"; it does so by providing many improvements and benefits when compared to traditional analog speakers. The technology holds several rather significant advantages over conventional analog speakers, principally the ability to deliver higher quality sound in a significantly smaller form factor that is far more compliant with today's consumer electronic devices.

This reporting period was dominated by the company's continued focus on the engineering efforts required for the productisation of the technologies and the transition to a mass producible, commercially viable product. The bulk of our engineering efforts have been in the following areas:

- Implementing the first phases of the company's Fabrication Development Plan. The company has worked in very close collaboration with its chosen development partner, which happens to be one of the world's foremost consumer electronic and semiconductor fabrication conglomerates. The joint efforts have led to the successful completion of literally dozens of short loops intended to test, validate, and select the optimal fabrication process and techniques. These efforts have enabled the joint teams the timely advancement of the first phase of the chip fabrication process that utilises mass-production techniques.
- Design and build of an automated test and measurement system. This unique multifunctional test and measurement system which was designed and built in-house will enable the rapid yet highly accurate extraction of critical and complex mechanical, electrical and acoustical measurement data from the structures received from the fabrication lines.
- Design and simulation of a unique addressing and control scheme (and algorithms); enabling accurate functional control within a highly cost-effective wiring system between the logic controls and the mechanical structures.
- On the business and administrative front management has focused its attention on advancing the significant forward commitment into a rewarding agreement with the world's foremost consumer electronic and semiconductor fabrication conglomerates. Additionally management has for the most part completed the rather considerable effort entailed in restructuring of the organisation as to ensure full compliance with the rules, regulations and procedures as a wholly owned subsidiary of our publicly traded Australian parent company.

## Changes in State of Affairs

Apart from the acquisition of Audio Pixels Limited during the financial year there was no significant change in the state of affairs of the company other than that referred to in the financial statements or notes thereto.

# DIRECTORS' REPORT

---

## Significant Events after Balance Date

Since the end of the financial period, shareholders approved the completion of the acquisition of the outstanding shares in Audio Pixels Limited of Israel at a general meeting held on 13 January 2011. At the meeting it was resolved to issue 4,892,838 new ordinary shares to the vendors and which are subject to escrow restrictions and 1,066,879 unlisted options were issued to founders and staff on 11 February 2011 at an exercise price of 38 cents and are exercisable on or before 31 March 2013.

At the general meeting, shareholders also approved the change of name of the company from Global Properties Limited to Audio Pixels Holdings Limited and the shares were re-listed on the ASX Limited on 1 February 2011. Shareholders also approved the sale of the investment property to a related party of the directors, Gilt Properties Limited for \$1,750,000, subject to the listing of Gilt Properties Limited on ASX Limited.

On 14 November 2010, Audio Pixels Limited repaid a bank debt to the Silicon Valley Bank and all security in relation to the debt was formally released. Since balance date the parent company has registered a fixed and floating charge over all the assets of Audio Pixels Limited.

Apart from the above, there has not been any matter or circumstance that 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 company, the results of those operations or the state of affairs of the company in subsequent financial years.

## Future Developments

The company will continue to focus on the development of its digital speaker technology.

## Environmental Regulations

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

## 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 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.

## 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(1) of the Corporations Act as at the date of this report are:

| Name        | Ordinary Shares |
|-------------|-----------------|
| Fred Bart   | 5,283,470       |
| Ian Dennis  | 520,050         |
| Cheryl Bart | 500,000         |

Since the end of the previous financial year no director of the company has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of remuneration received or due and receivable by directors as shown in the financial statements) because of a contract made by the company or related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest. There are no employment contracts for any of the directors.

# DIRECTORS' REPORT

---

## Remuneration Report

This report outlines the remuneration arrangements in place for Directors of the Company. The Company had no executives until the acquisition of Audio Pixels Limited of Israel at which time, three executives became key management personnel.

The Directors are responsible for remuneration policies and packages applicable to the Board members of the Company. The entire Board makes up the Nomination and Remuneration Committee. 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 based on the performance of the Company. There are no employment contracts in place with any Director of the Company. There are standard employment contracts for the three executives of Audio Pixels Limited in Israel including at will employment and a notice period of three months for termination.

The key management personnel of Audio Pixels Holdings Limited during the year were:

| Name        | Position                                     |
|-------------|--|
| Fred Bart   | Chairman and Chief Executive Officer         |
| Cheryl Bart | Non executive director                       |
| Ian Dennis  | Non executive director and company secretary |
| Danny Lewin | CEO and director of Audio Pixels Limited     |
| Yuval Cohen | Director of Audio Pixels Limited             |
| Shay Kaplan | Director of Audio Pixels Limited             |

The Directors fees of \$10,000 per annum per director have remained constant since the listing of the company in December 2004 until 31 October 2010 and are not dependent on the earnings of the company and the consequences of the company's performance on shareholder wealth. On 1 November 2010, the total directors fees were increased to a total of \$136,000 per annum plus 9% superannuation in line with the increased activities of the company. The increased directors fees are within the approved limit of \$250,000 per annum approved by shareholders at the Annual General Meeting held on 24 September 2010.

The table below sets out summary information about the company's earnings and movements in shareholder wealth for the last 5 financial years.

|                                     | 6 Months ended   |              |              |              |              |
|-------------------------------------|------------------|--------------|--------------|--------------|--------------|
|                                     | 31 December 2010 | 30 June 2010 | 30 June 2009 | 30 June 2008 | 30 June 2007 |
|                                     | \$               | \$           | \$           | \$           | \$           |
| Revenue                             | 143,207          | 563,842      | 438,819      | 344,384      | 319,145      |
| Net profit/(loss) before tax        | (557,129)        | 237,211      | (246,279)    | 129,107      | 72,503       |
| Net profit/(loss) after tax         | (530,606)        | 197,489      | (247,015)    | 90,375       | 50,755       |
| Share price at start of year/period | 0.260            | 0.160        | 0.205        | 0.270        | 0.450        |
| Share price at end of year/period   | 4.60             | 0.260        | 0.160        | 0.205        | 0.270        |
| Dividend Paid                       | 0.000            | 0.000        | 0.000        | 0.000        | 0.000        |

# DIRECTORS' REPORT

---

## Remuneration Report (cont)

The aggregate compensation of the key management personnel of the company is set out below:

|                              | 31 December<br>2010<br>\$ | 30 June<br>2010<br>\$ |
|------------------------------|---------------------------|-----------------------|
| Short-term employee benefits | 161,029                   | 30,000                |
| Post employment benefits     | 2,040                     | -                     |
| Share-based payments         | -                         | -                     |
| Termination benefits         | -                         | -                     |
|                              | <u>163,069</u>            | <u>30,000</u>         |

|                      | Short Term                      |                    | Post Employment      | Share Based Payments | Total          |
|----------------------|---------------------------------|--------------------|----------------------|----------------------|----------------|
|                      | Directors fees/<br>Salary<br>\$ | Non-Monetary<br>\$ | Superannuation<br>\$ | Options<br>\$        | \$             |
| <b>December 2010</b> |                                 |                    |                      |                      |                |
| Fred Bart            | 13,500                          | -                  | 915                  | -                    | 14,415         |
| Cheryl Bart          | 9,583                           | -                  | 563                  | -                    | 10,146         |
| Ian Dennis           | 9,583                           | -                  | 562                  | -                    | 10,145         |
| Danny Lewin*         | 35,245                          | 8,981              | -                    | -                    | 44,226         |
| Yuval Cohen*         | 29,984                          | 12,594             | -                    | -                    | 42,578         |
| Shay Kaplan*         | 33,009                          | 8,550              | -                    | -                    | 41,559         |
|                      | <u>130,904</u>                  | <u>30,125</u>      | <u>2,040</u>         | <u>-</u>             | <u>163,069</u> |
| <b>June 2010</b>     |                                 |                    |                      |                      |                |
| Fred Bart            | 10,000                          | -                  | -                    | -                    | 10,000         |
| Cheryl Bart          | 10,000                          | -                  | -                    | -                    | 10,000         |
| Ian Dennis           | 10,000                          | -                  | -                    | -                    | 10,000         |
|                      | <u>30,000</u>                   | <u>-</u>           | <u>-</u>             | <u>-</u>             | <u>30,000</u>  |

\* The remuneration paid to the three executives of Audio Pixels Limited relates to the three month period from the effective date of acquisition, namely 30 September 2010.

## Audit Committee

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

# DIRECTORS' REPORT

---

## Directors' Meetings

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

|             | Attended | Maximum possible attended |
|-------------|----------|---------------------------|
| Fred Bart   | 2        | 2                         |
| Ian Dennis  | 2        | 2                         |
| Cheryl Bart | 2        | 2                         |

No meetings of the Nomination and Remuneration Committee were held during the year.

## Non-audit Services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in Note 5 to the financial statements.

The directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services disclosed in Note 5 to the financial statements do not compromise the external auditors' independence, based on a resolution of directors, for the following reasons:

- All non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor, and
- None of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

## Auditor's Independence Declaration

The auditor's independence declaration is included on page 8.

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 28 day of February 2011.