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Breaking the Barriers of Sound

2011

ANNUAL REPORT

Audio Pixels Holdings Limited
ACN 094 384 273

CORPORATE DIRECTORY

Directors

Fred Bart (Chairman)
Ian Dennis
Cheryl Bart AO

Company Secretary

Ian Dennis

Registered Office

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

Telephone: +61 2 9233 3915
Facsimile: +61 2 9232 3411
Email: iadennis@bigpond.net.au

Israel Corporate Office

3 Pekris Street
Rehovot
ISRAEL 76702

Telephone: 0011 972 73 232 4444
Facsimile: 0011 872 73 232 4455
Email: danny@audiopixels.com

Website

www.audiopixels.com.au

Auditor

Deloitte Touche Tohmatsu
Chartered Accountants
The Barrington
Level 10
10 Smith Street
Parramatta NSW 2150
Australia

Bankers

St George Bank
Level 13
182 George Street
SYDNEY NSW 2000
Australia

Share Registry

Computershare Investor Services Pty Limited
Level 3
60 Carrington Street
Sydney NSW 2000

GPO Box 7045
Sydney NSW 1115
Australia

Telephone: 1300 855 080 or
+61 3 9415 5000 outside Australia
Facsimile: 1300 137 341

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DIRECTORS' REPORT

The Directors of Audio Pixels Holdings Limited submit herewith the financial report of the company for the financial year ended 31 December 2011. 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 director and secretary in various public listed and unlisted technology companies. 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 Electro Optic Systems Holdings Limited	May 1996 - November 2009 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 activity of the Company is an investment in Audio Pixels Limited of Israel. During the year the company acquired the outstanding shares in Audio Pixels Limited of Israel and now owns 100% of Audio Pixels Limited. Audio Pixels Limited is engaged in the development of digital speakers.

Results

The net loss for the financial year ended to 31 December 2011 was $2,930,697 (half-year financial period to 31 December 2010 - $530,606).

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

In January 2011, the Company completed the acquisition of the remaining minority shares in Audio Pixels Limited of Israel following shareholder approval on 13 January 2011. Following the completion of the formalities, the company was relisted on the Australian Stock Exchange on 1 February 2011 under the trading symbol "AKP". The main activity of the Company is the development of digital speakers.

On 28 June 2011, the Company launched its Level 1 American Depositary Receipt ("ADR") program for quotation on the Over-The-Counter ("OTC") market in the United States of America with the ticker symbol ADPXY.

The Company continues to lease its commercial property known as Lots 3, 4, 25 and 45 at 360 Pacific Highway, Crows Nest to Sydneyside (Australia) Pty Limited.

Digital Speakers

This last year was dominated by the company's continued efforts and progress advancing the digital speaker technologies towards mass-production. As proudly announced earlier this year we entered into a joint development agreement with a leading Japanese Consumer Electronic and Semiconductor manufacturer. The joint activities, while taking longer than originally anticipated, nonetheless have yielded results that exceeded our expectations.

The technological achievements, which stand at the forefront of our efforts, have been de-risking many of the key aspects of the technology commercialisation. The successful reduction of the structures' dimensions in combination with at total transition to a more cost effective mass manufacturing process, undoubtedly improved the commercial viability of the product.

As we progress toward the next phases we have taken additional steps to further mitigate the risk and expedite our time to market. In the coming months we expect to be in position to announce additional partnerships that we have formulated with several of the worlds leading fabricators. The aforementioned technological achievements have attracted the best silicon manufacturers that bring to bear vast additional resources, cutting edge fabrication technologies, and a wealth of proven MEMS experience. The strategic combination of our fabrication partners will assure the company of among others:

- Improved Probability of Successful Commercialisation
- Accelerated Development and Expedited Time to Market
- Competitive and Incentivised Cost Effective Manufacturing
- Quality Assurance
- Production Capacity
- Multiple Sourcing
- Global footprint

The core strength of the company continues to be its management in combination with a relatively small team of highly dedicated and uniquely skilled individuals. With a watchful eye on the struggling global economy we have kept operational and personnel expenses to a minimum expanding the team only slightly as to include the specific expertise needed for the ongoing phases of development.

Review of Operations (Cont.)

Over the course of the year the company has been heavily involved in expanding and strengthening its IP portfolio. The company's early patent filings of 2006 and 2007 have begun to reach sufficient maturity whereby submitted applications are receiving patent grants in various jurisdictions. Our "Basic-1" patent covering many of the critical aspects of the core functionality and methods of operation has been granted in the US, as has our patent for "digital volume control". This year alone we have added 6 additional patent applications, which are characterised as comprehensive patent applications covering critical technological aspects of the product and its usage.

The company continues to strategically engage the marketplace holding meaningful conversations and entering into Non-Disclosure Agreements with an increasing number of future potential clients and distributors - most such entities can only be categorised as global leaders in their respective industries/markets. The interest and feedback remain exceptionally positive, leading management to strengthen its opinion that the market opportunities available to the company extremely large.

Changes in State of Affairs

Apart from the acquisition of the outstanding shares 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.

Significant Events After Balance Date

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	5,286,849
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.

Remuneration Report (Audited)

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 or executives 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	Chief Technical Officer of Audio Pixels Limited
Shay Kaplan	Chief Scientist of Audio Pixels Limited

The Directors fees 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.

Remuneration Report (Cont.)

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

	Year ended 31 December 2011 $	6 Months ended 31 December 2010 $	30 June 2010 $	30 June 2009 $	30 June 2008 $	30 June 2007 $
Revenue	269,534	143,207	563,842	438,819	344,384	319,145
Net profit/(loss) before tax	(2,931,907)	(557,129)	237,211	(246,279)	129,107	72,503
Net profit/(loss) after tax	(2,930,697)	(530,606)	197,489	(247,015)	90,375	50,755
Share price at start of year/period	4.60	0.260	0.160	0.205	0.270	0.37
Share price at end of year/period	6.00	4.60	0.260	0.160	0.205	0.270
Dividend Paid	0.00	0.000	0.000	0.000	0.000	0.000

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

	31 December 2011 $	31 December 2010 $
Short-term employee benefits	664,220	161,029
Post employment benefits	12,240	2,040
Share-based payments	-	-
Termination benefits	-	-
	676,460	163,069

Remuneration Report (Cont.)

	Short Term		Post Employment	Share Based Payments	Total
	Directors fees/ Salary $	Non-monetary $	Superannuation $	Options $	$
December 2011					
Fred Bart	61,000	-	5,490	-	66,490
Cheryl Bart	37,500	-	3,375	-	40,875
Ian Dennis	37,500	-	3,375	-	40,875
Danny Lewin	125,822	53,328	-	-	179,150
Yuval Cohen	121,181	56,383	-	-	177,564
Shay Kaplan	116,205	55,301	-	-	171,506
	499,208	165,012	12,240	-	676,460
December 2010					
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
	130,904	30,125	2,040	-	163,069

* The remuneration paid to the three executives of Audio Pixels Limited relates to the three month period from the effective date of acquisition, namely 24 September 2010.

During and since the end of the financial year, an aggregate of 919,879 share options were granted to the following three highest remunerated officers of the company as part of the acquisition of the minority interests in Audio Pixels Limited.

Executive	Number of options granted	Issuing entity	Number of ordinary shares under option
Yuval Cohen	498,152	Audio Pixels Holdings Limited	498,152
Daniel Lewin	278,272	Audio Pixels Holdings Limited	278,272
Shay Kaplan	143,454	Audio Pixels Holdings Limited	143,454
	919,879		919,879

Audit Committee

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

Directors' Meetings

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

	Attended	Maximum possible attended
Fred Bart	4	4
Ian Dennis	4	4
Cheryl Bart	4	4

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 9.

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 23 day of February 2012.

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

The Barrington
Level 10
10 Smith Street
Parramatta NSW 2150
PO Box 38
Parramatta NSW 2124 Australia

DX: 28485
Tel: +61 (0) 2 9840 7000
Fax: +61 (0)2 9255 8544
www.deloitte.com.au

The Board of Directors
Audio Pixels Holdings Limited
Suite 2, Level 12
75 Elizabeth Street
SYDNEY NSW 2000

23 February 2012

Dear Board Members

Audio Pixels 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 Audio Pixels Holdings Limited.

As lead audit partner for the audit of the financial statements of Audio Pixels Holdings Limited for the year ended 31 December 2011, 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 audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Glen Sanford
Partner
Chartered Accountants

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

The Barrington
Level 10
10 Smith Street
Parramatta NSW 2150
PO Box 38
Parramatta NSW 2124 Australia

DX: 28485
Tel: +61 (0) 2 9840 7000
Fax: +61 (0)2 9255 8544
www.deloitte.com.au

Independent Auditor's Report to the members of Audio Pixels Holdings Limited

Report on the Financial Report

We have audited the accompanying financial report of Audio Pixels Holdings Limited, which comprises the statement of financial position as at 31 December 2011, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 12 to 47.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the company's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Deloitte.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Audio Pixels Holdings Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

(a) the financial report of Audio Pixels Holdings Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included on pages 5 to 7 of the directors' report for the year ended 31 December 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of Audio Pixels Holdings Limited for the year ended 31 December 2011, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Glen Sanford
Partner
Chartered Accountants
Parramatta, 23 February 2012

DIRECTORS' DECLARATION

The directors declare that:

(a) in the directors' opinion, there are reasonable grounds to believe the company will be able to pay its debts as and when they become due and payable;

(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 give a true and fair view of the financial position and performance of the company;

(c) the directors have been given the declarations required by s.295A of the Corporations Act 2001; and

(d) the attached financial statements are in compliance with International Financial Reporting Standards, as stated in note 1 to the financial statements.

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 23 day of February 2012.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	Consolidated Year ended 31 December 2011 $	Consolidated 6 Months to 31 December 2010 $
Revenue	2	269,534	143,207
Other income	2	-	329,200
Acquisition costs		-	(159,917)
Administrative expenses		(951,348)	(231,948)
Amortisation		(77,500)	-
Depreciation		(133,527)	(38,310)
Directors fees		(136,000)	(32,666)
Exchange losses		(16,569)	(43,684)
Finance costs		(28,537)	(79,277)
Loss on sale of shares		-	(1,453)
Property expenses		(49,687)	(21,967)
Reduction in fair value of investment property		-	(80,000)
Research and development expenses		(1,186,463)	(340,314)
Share based payments		(621,810)	-
(Loss) before income tax	2	(2,931,907)	(557,129)
Income tax benefit	3	1,210	26,523
(Loss) for the year		(2,930,697)	(530,606)
Other comprehensive income			
Exchange differences arising on translation of foreign operations		(8,531)	23,508
Net gain on available for sale financial assets	17	-	(230,440)
Other comprehensive (loss) for the year, net of tax		(8,531)	(206,932)
Total comprehensive (loss) for the year		(2,939,228)	(737,538)
(Loss) attributable to:			
Owners of the company		(2,930,697)	(298,041)
Non-controlling shareholders		-	(232,565)
		(2,930,697)	(530,606)
Total comprehensive (loss) attributable to:			
Owners of the company		(2,939,228)	(504,973)
Non-controlling shareholders		-	(232,565)
		(2,939,228)	(737,538)
Earnings per share			
Basic and diluted (cents per share)	22	(12.77)	(3.16)

Notes to the financial statements are included on pages 17 to 47.

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011

	Note	Consolidated December 2011 $	Consolidated December 2010 $
CURRENT ASSETS			
Cash and cash equivalents	6	2,113,321	5,144,431
Current tax asset	3(b)	3,333	17,243
Trade and other receivables	7	41,894	48,006
Assets held for resale	8	-	1,750,000
TOTAL CURRENT ASSETS		2,158,548	6,959,680
NON CURRENT ASSETS			
Investment property	8	1,740,000	-
Goodwill	9	1,840,135	1,840,135
Intangible	10	790,500	868,000
Property, plant and equipment	11	253,804	321,650
Trade and other receivables	7	14,303	2,131
TOTAL NON CURRENT ASSETS		4,638,742	3,031,916
TOTAL ASSETS		6,797,290	9,991,596
CURRENT LIABILITIES			
Trade and other payables	12	380,005	349,962
Current tax payables	3	-	24,652
Borrowings	13	-	900,000
Provisions	14	169,747	152,026
TOTAL CURRENT LIABILITIES		549,752	1,426,640
TOTAL LIABILITIES		549,752	1,426,640
NET ASSETS		6,247,538	8,564,956
EQUITY			
Issued capital	15	30,360,295	8,000,025
Reserves	17	(21,010,817)	23,508
Accumulated losses	19	(3,101,940)	(171,243)
Equity attributable to owners of the company		6,247,538	7,852,290
Non-controlling interests	18	-	712,666
TOTAL EQUITY		6,247,538	8,564,956

Notes to the financial statements are included on pages 17 to 47.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011

December 2010 - Consolidated	Issued Capital $	Exchange translation reserve $	Minority Interests $	Available for sale Revaluation Reserve $	Retained Earnings/ (Accumulated Losses) $	Total $
Balance at 1 July 2010	3,200,025	-	-	230,440	126,798	3,557,263
Placement of equity at $2.00 per share	4,800,000	-	-	-	-	4,800,000
Minority interests of Audio Pixels Limited	-	-	945,231	-	-	945,231
	8,000,025	-	945,231	230,440	126,798	9,302,494
Other comprehensive income for the period	-	23,508	-	(230,440)	-	(206,932)
(Loss) for the period	-	-	(232,565)	-	(298,041)	(530,606)
Balance at 31 December 2010	8,000,025	23,508	712,666	-	(171,243)	8,564,956

December 2011 - Consolidated	Issued Capital $	Equity Settled Option Reserve $	Exchange translation reserve $	Minority Interests $	Minority Acquisition Reserve $	Accumulated Losses $	Total $
Balance at 1 January 2010	8,000,025	-	23,508	712,666	-	(171,243)	8,564,956
Issue of new equity to acquire the minority interests	22,360,270	-	-	(712,666)	(21,647,604)	-	-
Issue of options to founders and staff	-	4,512,898	-	-	(3,891,088)	-	621,810
	30,360,295	4,512,898	23,508	-	(25,538,692)	(171,243)	9,186,766
Other comprehensive income for the year	-	-	(8,531)	-	-	-	(8,531)
(Loss) for the year	-	-	-	-	-	(2,930,697)	(2,930,697)
Balance at 31 December 2011	30,360,295	4,512,898	14,977	-	(25,538,692)	(3,101,940)	6,247,538

Notes to the financial statements are included on pages 17 to 47.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	Consolidated Year ended 31 December 2011 $	Consolidated 6 Months to 31 December 2010 $
Cash flows from operating activities			
Receipts from customers		140,625	70,312
Payments to suppliers and employees		(2,310,971)	(742,364)
Income taxes paid		(23,442)	-
Distributions received		-	18,480
Interest and bill discounts received		141,693	60,807
Interest and other costs of finance paid		(29,534)	(79,277)
Net cash provided by (used by) operating activities	20	(2,081,629)	(672,042)
Cash flows from investing activities			
Payment for investment		-	(1,093,733)
Payment for property, plant and equipment		(66,053)	(23,048)
Receipt of option fee on property held for resale		10,000	-
Proceeds on sale of investment securities		-	997,747
Net cash inflows/(outflows) from investing activities		(56,053)	(119,034)
Cash flows from financing activities			
Placement of shares		-	4,800,000
Repayment of debt of subsidiary		-	(604,078)
Repayment of bank loan		(900,000)	-
Net cash provided by financing activities		(900,000)	4,195,922
Net increase/(decrease) in cash and cash equivalents held		(3,037,682)	3,404,846
Cash and cash equivalents at the beginning of the financial year		5,144,431	1,739,585
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		6,572	-
Cash and cash equivalents at the end of the financial year	6	2,113,321	5,144,431

Notes to the financial statements are included on pages 17 to 47.

1. Summary of Significant Accounting Policies

Statement of Compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law. Accounting Standards include Australian equivalents to International Financial Reporting Standards ("A-IFRS"). Compliance with A-IFRS ensures that the financial statements and notes comply with International Financial Reporting Standards ("IFRS").

The financial statements were authorised for issue by the Directors 23 February 2012.

Basis of Preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of investment property. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are expressed in Australian dollars.

The Directors have prepared the financial statements on the basis of a going concern. The company has a number of financing options available to it at this stage of the commercialisation of its key product. It is likely that it will raise equity capital during the current financial year from strategic or other investors but also has the following alternatives available to it - borrow against its land and building asset, receive upfront payments or ongoing cash flow streams from commercialisation partners. The Directors have received indications of interest from potential investors and partners to have confidence that one or a combination of these alternatives will be achieved.

(a) Borrowings

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit or loss over the period of the borrowing using the effective interest rate method.

(b) Business Combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant Standards. Changes in the fair value of contingent consideration classified as equity are not recognised.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

1. Summary of Significant Accounting Policies (Cont.)

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3(2008) are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with AASB 112 Income Taxes and AASB 119 Employee Benefits respectively;
- Liabilities or equity instruments related to the replacement by the Group of an acquiree's share based payment awards are measured in accordance with AASB 2 Share-based Payment; and
- assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 Noncurrent Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete.

Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date. The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date - and is subject to a maximum of one year.

(c) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments maturing within less than 3 months at the date of acquisition, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the Statement of Financial Position.

(d) Embedded Derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit and loss.

(e) Employee Benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of short term employee benefits are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of long term employee benefits are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to the reporting date.

Defined contribution plans - Contributions to defined benefit contribution superannuation plans are expensed when incurred.

1. Summary of Significant Accounting Policies (Cont.)

(f) Financial Assets

Financial assets are classified into the following specified categories: loans and receivables and Available for sale. The classification depends on the nature and purpose of the financial assets and is determined at the time of the initial recognition.

Loans and Receivables

Trade receivables, loans and other receivables are recorded at amortised cost less impairment.

AFS Financial Assets

Listed shares held by the group that are trade in active markets are classified as AFS and are stated at fair value. Fair value is based on market value. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognised in profit and loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividens on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

(g) Financial instruments issued by the company

Debt and Equity Instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Transaction Costs on the Issue of Equity Instruments

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.

Interest

Interest is classified as an expense consistent with the statement of financial position classification of the related debt.

(h) Foreign Currency

Foreign Currency Transactions

All foreign currency transactions during the financial year are bought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date. Non-monetary assets and liabilities carried at fair value and historic cost that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Exchange differences are recognised in profit and loss in the period they arise.

Foreign Operations

On consolidation, the assets and liabilities of the consolidated entity's overseas operations are translated at exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are recognised in the foreign currency translation reserve, and recognised in profit and loss on disposal of the foreign operation.

1. Summary of Significant Accounting Policies (Cont.)

(i) 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.

(j) Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

1. Summary of Significant Accounting Policies (Cont.)

(k) Impairment of Assets

At each reporting date, the entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

(l) Income Tax

Current Tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred Tax

Deferred tax is recognised on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of business combination) which affects neither taxable income nor accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the assets and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company intends to settles its current tax assets and liabilities on a net basis.

Current and Deferred Tax for the Period

Current and deferred tax is recognised as an expense or income in profit or loss, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

1. Summary of Significant Accounting Policies (Cont.)

(m) Intangible Assets

Intangible Assets Acquired in a Business Combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair value can be measured reliably. Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

(n) Investment Property

Investment property, which is properly held to earn rentals and/or for capital appreciation, is measured at its fair value at the reporting date. Gains or losses arising from changes in the fair value of the investment property are included in profit or loss in the period in which they arise.

(o) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as Lessor

Income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as Lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(p) Payables

Trade payable and other accounts payable are recognised when the entity becomes obliged to make future payments resulting from the purchase of goods and services.

1. Summary of Significant Accounting Policies (Cont.)

(q) Provisions

Provisions are recognised when the entity has a present obligation as a result of a past event, 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 virtually certain 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.

(r) Principles of Consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 127 Consolidated and Separate Financial Statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceeds the cost of acquisition, the deficiency is credited to profit and loss in the period of acquisition.

The consolidated financial statements include the information and results of each subsidiary from the date on which the company obtains control and until such time as the company ceases to control such entity.

In preparing the consolidated financial statements, all inter-company balances and transactions and unrealised profits within the consolidated entity are eliminated in full.

(s) Property, Plant and Equipment

Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straightline method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

(t) Revenue Recognition

Rental revenue comprises revenue earned from the rental of the premises at 360 Pacific Highway, Crows Nest, New South Wales. Rental revenue is recognised when the rent in respect of the premises is receivable.

Interest income and distributions received are recognised as it accrues.

1. Summary of Significant Accounting Policies (Cont.)

(u) Standards and Interpretations Affecting Amounts Reported in the Current Period (and/or Prior Periods)

All other new and revised Standards and Interpretations effective for the period ended 31 December 2011 have been adopted with no impact on the amounts or disclosures in the financial statements.

Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 Financial Instruments	1 January 2013	31 December 2013
AASB 10 Consolidated Financial Statements	1 January 2013	31 December 2013
AASB 12 Disclosure of Interests in Other Entities	1 January 2013	31 December 2013
AASB 13 Fair Value Measurement	1 January 2013	31 December 2013
AASB 127 Separate Financial Statements	1 January 2013	31 December 2013
AASB 1054 Australian Additional Disclosures	1 July 2011	30 June 2012
AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120,121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127]	1 January 2013	31 December 2013
AASB 2010-8 Amendments to Australian Accounting Standards - Deferred Tax: Recovery of Underlying Assets [AASB 112]	1 January 2012	31 December 2012
AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124]	1 July 2013	30 June 2014
AASB 2011-6 Amendments to Australian Accounting Standards - Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation - Reduced Disclosure Requirements [AASB 127, AASB 128 & AASB 131]	1 July 2013	30 June 2014
AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards [AASB 1, 2, 3, 5, 7, 9, 2009-11, 101, 107, 112, 118, 121, 124, 132, 133, 136, 138, 139, 1023 & 1038 and Interpretations 5, 9, 16 & 17]	1 January 2013	31 December 2013
AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 [AASB 1, 2, 3, 4, 5, 7, 9, 2009-11, 2010-7, 101, 102, 108, 110, 116, 117, 118, 119, 120, 121, 128, 131, 132, 133, 134, 136, 138, 139, 140, 141, 1004, 1023 & 1038 and Interpretations 2, 4, 12, 13, 14, 17, 19, 131 & 132]	1 January 2013	31 December 2013
AASB 2011-9 Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049]	1 July 2012	30 June 2013
AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) [AASB 1, AASB 8, AASB 101, AASB 124, AASB 134, AASB 1049 & AASB 2011-8 and Interpretation 14]	1 January 2013	31 December 2013

The directors are evaluating the potential impact of these new pronouncements on the future financial statements.

1. Summary of Significant Accounting Policies (Cont.)

(v) Share Based Payments

Equity-settled share-based payments are measured at fair value at the date of the grant. Fair value is measured by use of a Black-Scholes Option Pricing model. The expected life used in the model has been adjusted, based on management best estimates, for the effects of non-transferability, exercise restrictions and behavioural considerations. The fair value determined at the grant date of the equity-settled share based payments is expensed on a straight-line basis over the vesting period, based on the consolidated entity's estimate of shares that will eventually vest.

(w) Critical Accounting Judgements

In the application of the consolidated entities accounting policies, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making these judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Investment Property

The directors made a critical judgement in relation to the value of the investment property included in Note 8.

Intangible Asset

The directors made a critical judgement in relation to the value of the intangible asset included in Note 10.

	Consolidated Year ended 31 December 2011 $	Consolidated 6 Months to 31 December 2010 $
2. (Loss) from Operations		
(a) Revenue		
Distributions received - other entities	-	18,480
Interest received - other entities	141,693	60,807
Rental income	127,841	63,920
Total revenue	269,534	143,207
(b) Other Income		
Disposal of securities held for resale	-	329,200
(c) Expenses		
Amortisation	77,500	-
Depreciation	133,527	-
Directors fees	136,000	32,666
Finance costs - interest paid - other entities	28,537	79,277
3. Income Taxes		
(a) Income Tax Recognised in Profit or Loss		
Tax expense comprises:		
Tax expense/(income) - prior year	(1,210)	(3,067)
Deferred tax expense/(income)	-	(23,456)
Total tax expense/(income)	(1,210)	(26,523)

The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:

(Loss) from operations	(2,931,907)	(557,129)
Amortisation	77,500	
Share based payments	621,810	-
Impairment of property	-	80,000
Non-temporary differences on disposal of securities	-	(149,779)
	(2,232,597)	(626,908)

	31 December 2011 $	31 December 2010 $
3. Income taxes (Cont.)		
Income tax expense /(income)	(577,697)	(162,700)
Deferred tax benefit not brought to account	576,487	136,177
	(1,210)	(26,523)

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law and 25% under Israeli law. There has been no change in the corporate tax rate when compared with the previous reporting period.

(b) Current Tax Asset		
Income tax refund due	3,333	17,243
(c) Current Tax Payables		
Prior year tax payable	-	24,652
(d) Unrecognised Deferred Tax Balances		
The following deferred tax assets have not been bought to account as assets:		
Tax losses - revenue	710,720	133,023
Temporary differences	(11,293)	29,677
	699,427	162,700
(e) Franking Account Balance		
Adjusted franking account balance	86,721	63,279

	31 December 2011 $	31 December 2010 $

4. Key Management Personnel Remuneration

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

Short-term employee benefits	664,220	161,029
Post employment benefits	12,240	2,040
Share-based payments	-	-
Termination benefits	-	-
	676,460	163,069

The remuneration above relates to directors fees and superannuation paid to entities associated with Fred Bart, Cheryl Bart and Ian Dennis and the remuneration of the three senior executives of Audio Pixels Limited. The amount for the six month period ended 31 December 2010 also included the remuneration of the three senior executives of Audio Pixels Limited from 24 September 2010, being the effective date of acquisition.

5. Remuneration of Auditors

Audit or review of the financial report - Deloitte Touche Tohmatsu	32,560	16,750
Other auditors - Deloitte Touche Tohmatsu Israel	26,221	19,679
Other auditors - Ernst & Young Israel	-	5,904
Preparation of the tax return - Deloitte Touche Tohmatsu	4,319	2,500
	63,100	44,833

The auditor of Audio Pixels Holdings Limited is Deloitte Touche Tohmatsu.

6. Cash and Cash Equivalents

Cash on hand and at bank	2,113,321	5,144,431
Weighted average interest rate received on cash	2.92%	4.75%

	31 December 2011 $	31 December 2010 $
7. Trade and Other Receivables		
Current		
Prepayments	30,358	24,218
Other debtors	11,536	23,788
	41,894	48,006
Other debtors comprise a lease straight lining adjustment over the term of the commercial lease.		
Non Current		
Other debtors	14,303	2,131
Other debtors comprise security deposits with government bodies.		
8. Investment Property		
Strata title commercial property	1,740,000	1,750,000

The fair value of the Strata Title commercial property was determined in accordance with a valuation carried out on 2 September 2010 by Landmark White (NSW) Pty Limited, independent valuers not related to the company. The valuation which conforms to Australian Valuation Standards was arrived at by reference to market evidence of transaction prices for similar properties and capitalisation of the net rental income at a rate of 7.50%.

The directors have determined the fair value of the property at 31 December 2011 of $1,740,000 based on the 2 September 2010 valuation, their review of market movements over the period and the receipt of the $10,000 option fee on the non completed sale of the property.

In the prior financial period closing at 31 December 2010, the asset was classified as an asset held for resale as the company had signed a conditional sales contract. The conditions were not met and the company retained the option fee. The company has no current intention to sell the investment property.

9. Goodwill

Being goodwill acquired on the acquisition of Audio Pixels Limited (Refer Note 24). The goodwill is allocated to the cash generating unit of digital speakers by Audio Pixels Limited of Israel.	1,840,135	1,840,135

The recoverable amount of this cash generating unit is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by the directors covering a 14 year period and a discount rate of 24% per annum. Cash flow projections during the budget period are based on the same expected gross margins and raw materials price inflation during the budget period. The directors believe that any reasonable possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying value to exceed the aggregate recoverable amount of the cash generating unit.

	31 December 2011 $	31 December 2010 $
10. Intangible Asset		
Being the independent valuation determined at the acquisition date of 24 September 2010 by Ernst & Young, Israel in their report dated 17 August 2011.	868,000	868,000
Less amortisation	(77,500)	-
	790,500	868,000
11. Property, Plant and Equipment		
Computers and related equipment - at cost	199,003	162,243
Less accumulated depreciation	(159,243)	(130,178)
	39,760	32,065
Leasehold improvements - at cost	159,642	159,846
Less accumulated depreciation	(159,095)	(144,575)
	547	15,271
Office furniture and equipment - at cost	580,697	552,355
Less accumulated depreciation	(367,200)	(278,041)
	213,497	274,314
Total net book value of Property, Plant and Equipment	253,804	321,650
Cost		
Computers and related equipment		
Balance at 1 January 2011	162,243	-
Additions through business combinations	-	159,401
Additions	36,988	10,089
Net foreign currency exchange differences	(228)	(7,247)
Balance as at 31 December 2011	199,003	162,243
Leasehold improvements		
Balance at 1 January 2011	159,846	-
Additions through business combinations	-	167,459
Net foreign currency exchange differences	(204)	(7,613)
Balance as at 31 December 2011	159,642	159,846

	31 December 2011 $	31 December 2010 $
11. Property, Plant and Equipment (Cont.)		
Office furniture and equipment		
Balance at 1 January 2011	552,355	-
Additions through business combinations	-	565,084
Additions	29,065	12,959
Net foreign currency exchange differences	(723)	(25,688)
Balance as at 31 December 2011	580,697	552,355
Accumulated depreciation		
Computers and related equipment - at cost		
Balance as at 1 January 2011	(130,178)	-
Addition through business combinations	-	(130,743)
Net foreign currency exchange differences	182	6,068
Depreciation expense	(29,247)	(5,503)
Balance at 31 December 2011	(159,243)	(130,178)
Leasehold improvements		
Balance as at 1 January 2011	(144,575)	-
Addition through business combinations	-	(140,363)
Net foreign currency exchange differences	193	6,628
Depreciation expense	(14,713)	(10,840)
Balance at 31 December 2011	(159,095)	(144,575)
Office furniture and equipment		
Balance as at 1 January 2011	(278,041)	-
Addition through business combinations	-	(268,792)
Net foreign currency exchange differences	408	12,718
Depreciation expense	(89,567)	(21,967)
Balance at 31 December 2011	(367,200)	(278,041)

	31 December 2011 $	31 December 2010 $
12. Trade and Other Payables		
Current		
Trade payables and accruals	380,005	349,962

The payables are non interest bearing and have an average credit period of 30 days.

13. Current Borrowings		
At amortised cost		
Commercial bill - secured	-	900,000
Financing arrangements		
Total facilities available	20,000	920,000
Facilities utilised at balance date	-	900,000
Facilities not used at balance date	20,000	20,000

The commercial bills 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 expired on 31 March 2011. The average weighted interest rate on the interest bearing liabilities was 6.89% (2010 - 6.89%). The unused facility of $20,000 relates to a credit card facility. The carrying amount is equal to the fair value.

14. Provisions		
Employee benefits	169,747	152,026

	31 December 2011 $	31 December 2010 $
15. Issued Capital		
Issued and paid up capital		
Fully paid Ordinary Shares		
Balance at the beginning of the financial period	8,000,025	3,200,025
Placement of shares at $2.00 each	-	4,800,000
Issue of shares to minority vendors at $4.57 each	22,360,270	-
Balance at the end of the financial period	30,360,295	8,000,025

Fully paid Ordinary Shares	Number	Number
Balance at the beginning of the financial period	18,400,125	16,000,125
Placement of shares at $2.00 each	-	2,400,000
Issue of shares to minority vendors at $4.57 each	4,892,838	-
Balance at the end of the financial period	23,292,963	18,400,125

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

16. Options Issued to Founders and Staff

On 13 January 2011, shareholders approved the issue of 1,066,879 unlisted options to the founders and staff of Audio Pixels Limited of Israel. These 1,066,879 unlisted options were issued on 11 February 2011 and are exercisable at a price of 38 cents each and expire on 31 March 2013. These options vested upon issue, however the options and any ordinary shares resulting from the exercise of the options are subject to a two year voluntary restriction period.

Each share option converts to one ordinary share in Audio Pixels Holdings Limited. The options carry neither rights to dividends nor voting rights. The options can be exercised at any time from the date of issue to the date of expiry.

The 1,066,879 unlisted options were priced using a Black-Scholes option pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions and behavioural conditions. Expected volatility is based on historical share price volatility over a two year period.

The Black-Scholes model determined a value of $4.23 each or $4,512,898 in total for the 1,066,879 options based on the following inputs to the model for the options issued on 11 February 2011:

	31 December 2011 $	31 December 2010 $
Dividend yield	-	-
Expected volatility	60%	-
Risk free interest rate	4.75%	-
Expected life of options	807 days	-
Grant date share price	$4.57	-
Exercise price	$0.38	

The allocation of the options between the founders and staff is as follows:

	Number	Value	
Founders	919,879	3,891,088	-
Staff	147,000	621,810	-
	1,066,879	4,512,898	-

The value of the options issued to the three founders has been allocated to the minority acquisition reserve and the value of the options issued to staff has been treated as share based payments in the profit and loss account for the year.

16. Options Issued to Founders and Staff (Cont.)

	2011		2010	
	Number	Weighted Average Exercise price $	Number	Weighted Average Exercise price $
Balance at the beginning of the financial year	-	-	-	-
Granted during the year	1,066,879	0.38	-	-
Exercised during the year	-	-	-	-
Lapsed during the year	-	-	-	-
Balance at the end of the financial year	1,066,879	0.38	-	-
Exercisable at end of year	1,066,879	-	-	-

	31 December 2011 $	31 December 2010 $
17. Reserves		
Available-for-sale revaluation reserve on securities representing the change in fair value during the year		
Balance at the beginning of the financial period	-	230,440
Disposal of securities	-	(329,200)
Related income tax	-	98,760
Balance at the end of the financial period	-	-
Foreign currency translation		
Balance at the beginning of the financial period	23,508	-
Translation of foreign operations	(8,531)	23,508
Balance at end of financial period	14,977	23,508
Equity settled option reserve		
Balance at the beginning of the financial period	-	-
Issue of 1,066,879 options to founders and staff	4,512,898	-
Balance at end of financial period	4,512,898	-
Minority acquisition reserve		
Balance at the beginning of the financial period	-	-
Issue of new equity to acquire the minority interests of Audio Pixels Limited	(21,647,604)	-
Issue of options to founders	(3,891,088)	-
Balance at end of financial period	(25,538,692)	-
Total	21,010,817	23,508

	31 December 2011 $	31 December 2010 $
18. Minority Interests		
Balance at beginning of the financial period	712,666	-
Minority interests acquired as a result of purchase of Audio Pixels Limited	(712,666)	945,231
Share of losses for the period	-	(232,565)
Balance at end of financial period	-	712,666
19. Accumulated Losses		
Balance at the beginning of the financial period	(171,243)	126,798
(Loss) for the period attributable to owners of the company	(2,930,697)	(298,041)
Balance at the end of the financial period	(3,101,940)	(171,243)

	31 December 2011 $	31 December 2010 $

20. Notes to the Cash Flow Statement

(a) Reconciliation of Cash and Cash Equivalents

For the purposes of the cash flow statement, cash includes cash on hand and at call deposits with banks or financial institutions, investments in money market instruments maturing within less than 3 months at the date of acquisition. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:

Cash and cash equivalents	2,113,321	5,144,431

(b) Restricted cash

Cash held as security for future lease payments	23,115	24,702

(c) Reconciliation of profit/(loss) for the period to net cash flows from operating activities

(Loss) after related income tax	(2,930,697)	(530,606)
Reduction in fair value of investment property	-	80,000
Equity settled share-based payments	621,810	-
Amortisation	77,500	-
Depreciation	133,527	38,310
Foreign exchange	(14,731)	28,868
Profit on sale of securities	-	(228,987)
Changes in assets and liabilities		
(Increase)/ decrease in assets		
Current trade and other receivables	7,580	20,248
Increase /(decrease) in liabilities		
Tax payable	(24,652)	(20,310)
Provisions	17,721	-
Deferred tax liability	-	(122,216)
Current trade payables	30,043	62,651
Net cash used in operating activities	(2,081,629)	(672,042)

21. Related Party Transactions

(a) Directors

The Directors of Audio Pixels Holdings Limited in office during the year were Fred Bart, Ian Dennis and Cheryl Bart.

(b) Directors' Shareholdings

	31 December 2011 Number	31 December 2010 Number
Fred Bart	5,286,849	5,283,470
Ian Dennis	520,050	520,050
Cheryl Bart	500,000	500,000

During the year Mr Bart subscribed for a placement of 250,000 ordinary shares in the Company at $2.00 per share which was approved by shareholders in general meeting in the current financial period. Mr Bart also purchased a further 5,031 ordinary shares as part of the acquisition of Audio Pixels Limited which was also approved by shareholders in general meeting. Mr Fred Bart purchased 3,379 shares during the year ended 31 December 2011 on market.

(c) Transactions with Related Entities

The company has paid $12,598 (six month period ended 31 December 2010: $9,078) in respect of rental of the Sydney offices premises to 4F Investments Pty Limited, a company associated with Fred Bart. These rentals are based on a share of actual costs incurred and do not include a profit mark up.

During the year ended 31 December 2011, the Company paid a total of $107,365 (six month period ended 31 December 2010 - $24,561) to 4F Investments Pty Limited, a company associated with Mr Fred Bart in respect of directors fees and superannuation for Mr Fred Bart and Mrs Cheryl Bart.

During the year ended 31 December 2011, the Company paid a total of $40,875 (six month period ended 31 December 2010 - $10,145) to Dennis Corporate Services Pty Limited, a company associated with Mr Ian Dennis in respect of directors fees and superannuation.

During the year, the Company paid $50,000 (six month period ended 31 December 2010 - Nil) to Dennis Corporate Services Pty Limited, a company associated with Mr Ian Dennis in respect of consulting fees for company secretarial and accounting services.

22. Earnings per Share

	31 December 2011 $	31 December 2010 $
Basic earnings (loss) per share	(12.77 cents)	(3.16 cents)
Diluted earnings (loss) per share	(12.77 cents)	(3.16 cents)
Earnings (a)	(2,930,697)	(530,606)
Weighted average number of Ordinary Shares	22,957,837	16,790,071

(a) Earnings used in the calculation of basic earnings per share are the same as the net (loss) in the Statement of comprehensive income.

22. Earnings per Share (Cont.)

Diluted earnings (loss) per share

There are 1,066,879 unlisted options exercisable at 38 cents which expire on 31 March 2013 which are potential ordinary shares which are considered to be antidilutive as they would result in a reduction in the loss per share if exercised. Accordingly as per AASB 133 the basic earnings per share is the same as diluted earnings per share as no adjustment has been made for the antidilutive potential ordinary shares.

	31 December 2011 $	31 December 2010 $

23. Segment Information

Since 24 September 2010, the company acquired an equity interest in Audio Pixels Limited of Israel which is involved in the development of digital speakers.

Segment Revenues		
Property investment	127,841	63,920
Other investments	-	18,480
Digital speakers	-	-
Total of all segments	127,841	82,400
Unallocated	141,693	60,807
Total	269,534	143,207
Segment Results		
Property investment	78,154	41,953
Other investments	-	(91,630)
Digital speakers	(3,151,754)	(507,452)
Total of all segments	(3,073,600)	(557,129)
Unallocated	141,693	-
(Loss) before income tax	(2,931,907)	(557,129)
Income tax gain/ (expense)	1,210	26,523
(Loss) for the period	(2,930,697)	(530,606)

The consolidated entity had one customer who provided 100% of the rental income for the six month period ended 31 December 2010 and 100% for the year ended 31 December 2011.

The consolidated entity was entitled to a distribution from one investment for the six month period ended 31 December 2010 of $18,480.

23. Segment Information (Cont.)

Segment Assets and Liabilities

	Assets		Liabilities	
	31 December 2011 $	31 December 2010 $	31 December 2011 $	31 December 2010 $
Property investment	1,740,000	1,750,000	-	900,000
Other investments	3,333	17,243	-	-
Digital speakers	2,940,636	3,079,922	549,752	501,988
Total all segments	4,683,969	4,847,165	549,752	1,401,988
Unallocated	2,113,321	5,144,431	-	24,652
Consolidated	6,797,290	9,991,596	549,752	1,426,640

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

Other Segment Information

	Depreciation and amortisation of segment assets		Acquisition of segment assets	
	31 December 2011 $	31 December 2010 $	31 December 2011 $	31 December 2010 $
Property investment	-	-	-	-
Other investments	-	-	-	-
Digital speakers	211,027	38,310	66,053	1,093,733
Total all segments	211,027	38,310	66,053	1,093,733
Unallocated	-	-	-	-
Consolidated	211,027	38,310	66,053	1,093,733

23. Segment Information (Cont.)

Information on Geographical Segments

Geographical Segments	Revenue from External Customers $	Segment Assets $	Acquisition of Segment Assets $
31 December 2011			
Australia	269,388	3,800,532	-
Israel	146	2,996,758	-
Total	269,534	6,797,290	-
31 December 2010			
Australia	143,207	6,565,049	-
Israel	-	3,426,547	1,093,733
Total	143,207	9,991,596	1,093,733

24. Acquisition of Subsidiary

On 24 September 2010, the company acquired an effective 54.17% equity interest in Audio Pixels Limited of Israel for a cash payment of $1,093,733. Audio Pixels Limited is based in Israel and is involved in the development of digital speakers.

The initial accounting for the acquisition of the subsidiary on 24 September 2010 was provisionally determined in the financial statements at 31 December 2010 whilst the directors determined the fair value of certain assets. The directors have now determined the fair value of these assets based on an independent report and no changes have been made to the provisional accounting treatment apart from the allocation between Intangible assets and goodwill on acquisition as per the summary below.

Net assets acquired on acquisition		Final Fair value on acquisition 31 December 2011 $	Provisional Fair value on acquisition 31 December 2010 $
Assets			
Cash		261,775	261,775
Accounts receivable		22,957	22,957
Long term deposit		2,162	2,162
Intangible		868,000	-
Property, plant and equipment		352,046	352,046
		1,506,940	638,940
Liabilities			
Borrowing from bank		622,130	622,130
Advance from parent company		257,705	257,705
Trade payables		47,133	47,133
Other accounts payable		401,032	401,032
		1,328,000	1,328,000
Net assets at acquisition		178,940	(689,060)
Amount paid for 54.17%	$1,093,733		
Gross up for 100%	$2,019,075	2,019,075	2,019,075
Goodwill on acquisition		1,840,135	2,708,135

The initial acquisition on 24 September 2010 was paid for in cash.

During the current year ended 31 December 2011, the company completed the formalities for the acquisition of the remaining 45.83% minority holdings in Audio Pixels Limited and now owns 100%. On 13 January 2011 shareholders approved the issue of 4,892,838 new ordinary shares to the vendors which are subject to escrow conditions and 1,066,879 unlisted options were issued to the founders and staff on 11 February 2011 at an exercise price of 38 cents and are exercisable on or before 31 March 2013, which are also subject to escrow conditions.

The 4,892,838 share were valued at the market value at the time of the issue of $4.57 and the value of the 1,066,879 options was determined in accordance with the Black-Scholes Option Pricing Model. The difference between the market price at the time of the issue of the securities and the value of the minority interests based on the accounting treatment at the date of the initial acquisition has been recognised in the Minority Acquisition Reserve (representing a transaction between owners).

25. Financial Risk Management Objectives and Policies

The consolidated entity's principal financial instruments comprise receivables, payables, cash, equity investments, borrowings and short term deposits.

Due to the small size of the company significant risk management decisions are taken by the board of directors. These risks include market risk (including fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Directors do not plan to eliminate risk altogether, rather they plan to identify and respond to risks in a way that creates value for the company and its shareholders. Directors and shareholders appreciate that in order for the consolidated entity to compete and grow, a long term strategy needs to involve risk taking for reward.

The consolidated entity does not use derivative financial instruments to hedge these risk exposures.

Risk Exposures and Responses

(a) Interest Rate Risk

The Group's exposure to market interest rates relates primarily to the consolidated entities cash holdings and short term deposits.

At balance date, the consolidated entity had the following mix of financial assets and liabilities exposed to Australian variable interest rate risk that are not designated in cash flow hedges:

	31 December 2011 $	31 December 2010 $
Financial assets		
Cash and cash equivalents	2,113,321	5,144,431
Financial liabilities		
Current borrowings at amortised cost	-	900,000

The Company constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing and the mix of fixed and variable interest rates.

At 31 December 2011, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax (loss) and equity would have been affected as follows:

Judgements of reasonably possible movements	Post Tax Profit Higher/(Lower)		Equity Higher/(Lower)	
	31 December 2011 $	31 December 2010 $	31 December 2011 $	31 December 2010 $
Consolidated entity				
+1% (100 basis points)	22,656	12,161	22,656	12,161
-.5% (50 basis points)	(11,409)	(6,080)	(11,409)	(6,080)

The movements in profits are due to higher/lower interest rates on cash and cash equivalents balances. The cash and cash equivalents balances were higher in December 2010 than in December 2011 and accordingly the sensitivity is lower.

25. Financial Risk Management Objectives and Policies (Cont.)

(b) Foreign Currency Risk

The consolidated entity has a foreign currency risk since the acquisition of Audio Pixels Limited. Audio Pixels Limited operates in Israel and all transfer of funds to Audio Pixels Limited are denominated in US dollars. The consolidated entity does not hedge its US dollar exposure.

The carrying amounts of the Group's foreign currency (US$) denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Liabilities		Assets	
	31 December 2011 $	31 December 2010 $	31 December 2011 $	31 December 2010 $
Cash and cash equivalents	-	-	865,009	376,034
Trade and other receivables	-	-	43,486	20,971
Trade and other payables	26,355	42,434	-	-

All US$ denominated financial instruments were translated to A$ at 31 December 2011 at the exchange rate of 1.0176 (2010: 1.0163).

At 31 December 2011, had the Australian Dollar moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

Judgements of reasonably possible movements	Post Tax Profit Higher/(Lower)		Equity Higher/(Lower)	
	31 December 2011 $	31 December 2010 $	31 December 2011 $	31 December 2010 $
Consolidated				
AUD/USD +10%	223,950	46,132	223,950	46,132
AUD/USD -5%	(111,975)	(23,066)	(111,975)	(23,066)

Management believes the balance date risk exposures are representative of risk exposure inherent in financial instruments.

(c) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The consolidated entity has adopted a policy of only dealing with creditworthy counterparties which are continuously monitored. Rental revenue is due in advance.

The credit risk on liquid funds is limited because the counterparties are major banks with high credit-ratings assigned by international credit agencies.

25. Financial Risk Management Objectives and Policies (Cont.)

(d) Liquidity Risk Management

The consolidated entities approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. The consolidated entities investments in money market instruments all have a maturity of less than 3 months.

Ultimate responsibility for liquidity risk management rests with the board of directors, who have built an appropriate risk management framework for the management of the consolidated entities short, medium and long term funding and liquidity requirements. The consolidated entity manages liquidity by maintaining adequate cash reserves by continuously monitoring forecast and actual cash flows and managing maturity profiles of financial assets.

The consolidated entities commercial bill borrowings of $900,000 were rolled over on a monthly basis at prevailing commercial interest rates. The commercial bill facility expired on 31 March 2011.

The following tables detail the consolidated entities remaining contractual maturity for its non-derivative financial assets. The tables have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on these assets except where the consolidated entity anticipates that the cash flow will occur in a different period.

	Weighted average effective interest rate %	Less than 1 month $	1-3 months $	3 months to 1 year $	1-5 years $
31 December 2011					
Non interest bearing	0.00	209,241	-	-	-
Variable interest rate instruments	0.90	804,735	2,078	9,351	62,340
Fixed rate instruments	4.90	1,104,492	8,983	40,428	269,520
31 December 2010					
Non interest bearing	0.00	373,904	-	-	-
Variable interest rate instruments	2.00	120,726	402	1,809	12,060
Fixed rate instruments	5.25	4,670,345	40,686	183,087	1,220,580

(e) Commodity price risk

The consolidated entity has no exposure to commodity price risk.

(f) Other price risks

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

26. Subsequent events

The Directors are not aware of any significant events since the end of the financial year and up to the date of this report.

	31 December 2011 $	31 December 2010 $
27. Parent Entity Disclosures		
Financial position		
Assets		
Current assets	4,890,837	7,986,358
Non-current assets	4,168,209	1,093,733
Total assets	9,059,046	9,080,091
Liabilities		
Current liabilities	10,645	976,442
Non-current liabilities	-	-
Total liabilities	10,645	976,442
Net assets	9,048,401	8,103,669
Equity		
Issued capital	30,360,295	8,000,025
Reserves	(21,025,794)	-
(Accumulated losses)/Retained earnings	(286,100)	103,644
Total equity	9,048,401	8,103,669
Financial performance		
(Loss) for the period	(389,744)	(23,154)
Other comprehensive income	-	-
	(389,744)	(23,154)

28. Controlled Entity

Name of Entity	Country of Incorporation	31 December 2011 %	31 December 2010 %
Parent Entity			
Audio Pixels Holdings Limited	Australia		
Controlled Entity			
Audio Pixels Limited	Israel	100.00	54.17

All entities are audited by Deloitte Touche Tohmatsu

29. Leases

Operating leases - Leasing Arrangements (the Company as Lessor)

Operating leases relate to the investment property owned by the consolidated entity with a remaining lease term of nine months, with an option for a further term of three years. The operating leases contain rental review clauses. The lessee does not have an option to buy the property at the expiry of the lease period.'

	31 December 2011 $	31 December 2010 $
Non-cancellable operating lease receivables		
Not longer than 1 year	104,288	139,050
Longer than 1 year and not longer than 5 years	-	104,288
Longer than 5 years	-	-
	104,288	243,338

30. Additional Company Information

Audio Pixels Holdings Limited is a listed public company, incorporated and operating in Australia. The name of the company was changed from Global Properties Limited on 13 January 2011 following shareholder approval.

Registered Office and Principal Place of Business

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

Tel: (02) 9233 3915
Fax: (02) 9232 3411

www.audiopixels.com.au

The Company has 9 employees in Israel.

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 "AKP". The Home Exchange is Sydney. The Company also has a Level 1 American Depositary Receipts (ADR) program and quotation on the Over-the- counter (OTC) market in the United State of America under the code "ADPXY".

Substantial Shareholders

At 10 February 2012 the following substantial shareholders were registered:

	Ordinary Shares	Percentage of total Ordinary Shares
Fred Bart Group	5,286 849	22.70%

Voting Rights

At 10 February 2012 there were 772 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

(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 10 February 2012 the distribution of ordinary shareholdings were:

Range	Ordinary Shareholders	Number of Shares
1-1,000	231	102,877
1,001 - 5,000	195	556,387
5,001 - 10,000	207	1,916,297
10,001 - 100,000	108	3,306,419
100,001 and over	31	17,410,983
	772	23,292,963

There were 67 ordinary shareholders with less than a marketable parcel.

There is no current on-market buy-back.

TWENTY LARGEST ORDINARY SHAREHOLDERS

At 10 February 2012 the 20 largest ordinary shareholders held 68.47% of the total issued fully paid quoted ordinary shares of 23,287,932.

Shareholder	Fully Paid Ordinary Shares	Percentage of Total
1. S.G.S. Trusts Limited	4,892,838	21.01%
2. Landed Investments (NZ) Limited	3,615,000	15.53%
3. Fred Bart	1,244,300	5.34%
4. Kam Superannuation Fund Pty Limited	600,000	2.58%
5. Link Traders (Aust) Pty Limited	524,769	2.25%
6. Ian Dennis and Caroline Dennis	520,000	2.23%
7. Cheryl Bart	500,000	2.15%
8. Grandor Pty Limited	444,563	1.91%
9. Joshua Ehrlich <A/C Super Fund>	418,000	1.79%
10. Bart Superannuation Pty Limited	388 379	1.67%
11. Jamber Investments Pty Limited	371,000	1.59%
12. Matthew James Sachr	322,900	1.39%
13. Brent McCarty, Yvonne McCarty and Zeljan Unkovich	315,075	1.35%
14. Array Capital Corporation	300,000	1.29%
15. Lee K Lau	300,000	1.29%
16. James Bart	250,000	1.07%
17. Nicole Bart	250,000	1.07%
18. Landed Investments Limited	248,960	1.07%
19. Locope Pty Limited	230,000	0.99%
20. Justin Casey <2 A/C>	210,000	0.90%
	15,945,784	68.47%

Restricted Securities

On 25 January 2011, the company issued 4,887,807 ordinary shares to the vendors of Audio Pixels Limited which were subject to an ASX imposed restriction period of 12 months which expired on 25 January 2012. These securities are now quoted but subject to a voluntary escrow period until 25 January 2013. The company has also issued 5,031 ordinary shares to one vendor of Audio Pixels Limited, who was a related party, which are subject to an ASX imposed restriction period of 24 months which expires on 1 February 2013. The ASX code for these unquoted securities is AKPAK. These 4,892,838 ordinary shares are registered under the name of S.G.S. Trusts Limited as trustee for the vendors.

The company has also issued 1,066,879 unlisted options exercisable at 38 cents to the founders and staff of Audio Pixels Limited which are subject to a voluntary escrow period of 24 months which expires on 11 February 2013. The ASX code for these unquoted securities is AKPAM.

RESTRICTED UNLISTED OPTION HOLDER
UNQUOTED

At 24 February 2011 the 6 restricted unlisted optionholders held 100% of the unquoted options outstanding of 1,066,879. The options were issued on 11 February 2011 and are exercisable at 38 cents each and expire on or before 31 March 2013. There is a voluntary escrow period on these shares for 24 months which expires on 11 February 2013.

Shareholder	Fully Paid Ordinary Shares	Percentage of Total
1. Yuval Cohen	498,152	46.69%
2. Daniel Lewin	278,273	26.08%
3. Shay Kaplan	143,454	13.45%
4. Meir Ben Simon	75,000	7.03%
5. Havi Shimchovich	45,000	4.22%
6. Victor Cohen	27,000	2.53%
	1,066,879	100.00%

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Audio Pixels Holdings Limited is responsible for the corporate governance of the entity. The Board guides and monitors the business and affairs of Audio Pixels Holdings Limited on behalf of the shareholders by whom they are elected and to whom they are accountable. The Board recognises that it has a number of legal and other obligations to non-shareholder stakeholders.

The Directors are committed to protecting stakeholders' interests and keeping investors fully informed about the performance of the Group, while meeting stakeholders' expectations of sound corporate governance practices. To ensure the best representation of Shareholder interests, the Board will regularly review its corporate governance practices.

The Corporate Governance Statement follows the Australian Stock Exchange Corporate Governance Council's (the "Council's") amendments to the 2nd edition of the Corporate Governance Principles and Recommendations released on 30 June 2010 in relation to diversity, remuneration, trading policies and briefings.

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. Audio Pixels 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. Remunerate fairly and responsibly

Audio Pixels Holdings Limited's corporate governance practices were in place throughout the year ended 31 December 2011, unless otherwise stated, 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 3.1 of the Guidelines as the Company does not have a formal code of conduct. The Company has three executives and six staff based in Israel and three Australian based directors to which the code of conduct applies. The company currently has one woman on the board and one woman in executive position in Israel.

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.

In accordance with Recommendation 5.1, the Board has appointed Ian Dennis, Director and Company Secretary to ensure compliance with ASX Listing Rule disclosure requirements. Due to the limitations imposed by size the Board has not established written policies and procedures.

The Directors respect the rights of shareholders in accordance with Principle 6. The Company sends all financial communications to shareholders who have requested hard copy financial statements and posts all relevant information including all ASX Announcements on the Company web site. Notices of Meetings are sent to all shareholders inviting them to attend the Annual General Meeting which is held at the registered office in Sydney. A representative of the auditor, Deloitte Touche Tohmatsu attends the Annual General Meeting.

The Directors have established 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.audiopixels.com.au**.

CORPORATE GOVERNANCE STATEMENT

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 page 2. Directors of Audio Pixels 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 Director of Audio Pixels Holdings Limited is considered to be independent:

Name	Position
Mr Ian Dennis	Non-executive Director

Due to limitations imposed by the small size of the Company, the company does not comply with Recommendation 2.1 in having a majority of independent directors. The Chairman, Mr Fred Bart is not an independent Chairman as recommended by Recommendation 2.2. The Board proposes to maintain the current directors until the size of the activities of the Company warrant further changes.

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	11 years
Mr Ian Dennis	Non-Executive Director	11 years
Ms Cheryl Bart	Non-Executive Director	9 years

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

Nomination Committee

The entire Board comprises the Nomination Committee. 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.

Performance

The performance of the Board is reviewed regularly against both measurable and qualitative indicators. Directors whose performance is consistently unsatisfactory may be asked to retire.

Diversity Policy

The Company values diversity and recognises the benefits it can bring to the organisation's ability to achieve its goals. Accordingly, the Company is in the process of developing a diversity policy which will outline its diversity objectives in relation to gender, age, cultural background and ethnicity. It will include requirements for the Board to establish measurable objectives for achieving diversity, and for the Board to assess annually both the objectives, and the Company's progress made in achieving them.

Remuneration

One of the Company's key objectives is to provide maximum stakeholder benefits from the retention of a high quality Board by remunerating Directors fairly and appropriately with reference to relevant employment market conditions. The entire Board comprises the Remuneration Committee. The expected outcomes of the remuneration structure are:

- Retention and motivation of directors; and
- Attraction of quality management to the Company;

For details regarding the amount of remuneration and all monetary and non-monetary components for each of the key management personnel during the year, refer to the Remuneration Report in the Directors report.

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.

Securities Trading Policy

1. Introduction

The Securities Trading Policy of Audio Pixels Holdings Limited ("AKP") regulates the sale and purchase of securities (ordinary shares, options and derivative products) in AKP by Directors, employees and associated persons.

The purpose of this Securities Trading Policy is to reinforce this position and to assist Directors, employees and associates to avoid conduct known as "insider trading". The Securities Trading Policy was updated to comply with ASX Listing Rules on Trading Policies which comes into effect on 1 January 2011.

2. What is Insider Trading?

2.1 Prohibition

Insider trading is a criminal offence. A person will be guilty of insider trading if:

(a) that person possesses information in relation to a company which is not generally likely to affect the price or value of that company's securities (ie. information that is "price sensitive"); and

(b) that person:

(i) buys or sells securities in the company;

(ii) procures someone else to buy or sell securities in the company; or

(iii) passes on that information to a third party where that person knows, or ought reasonably to know, that the third party would be likely to deal in the securities or procure someone else to deal in the securities of the company.

When is Information "Generally Available"?

Information is considered to be generally available if it:

(a) is readily observable; (for example, published in the press, or in marketing communications); or

(b) has been made known in a manner likely to bring it to the attention of persons who commonly invest in securities of a kind whose price or value might be affected by the information (e.g. by way of an ASX announcement) and, since the information was made known, a reasonable period has elapsed.

Examples of Inside Information:

- Some examples of information which could be inside information are: Sales figures;
- Profit forecasts;
- Unpublished announcements, or knowledge of possible regulatory investigation; Liquidity and cashflow;
- Proposed changes in AKP's capital structure, including issues of securities, right and buy-backs;
- Borrowings;
- Major asset purchase or sales;
- Impending mergers, acquisitions, reconstructions, takeovers, etc; Significant litigation;
- Significant changes in operations; Significant changes in industry;
- New products/services in technology; Proposed dividends;
- Management restructuring or Board changes; and
- New contracts or customers.

2.2 Dealing Through Third Parties

A person does not need to be a Director or employee of AKP to be guilty of insider trading in relation to securities in our Company. The prohibition extends to dealings by Directors and employees through nominees, agents or other associates, such as family members, family trusts and family companies.

2.3 Employee Share and Option Schemes

The prohibition will not apply to the initial acquisition of shares or options under AKP's Employee Share Ownership Plan or under any Prospectus issued by the Company.

However, it will apply when shares are disposed of, or options are exercised, if the employee at that time is in possession of price sensitive information that is not generally available to the market.

3. Guidelines for Trading In AKP Securities

3.1 General Rule

Directors and employees of AKP should not buy or sell securities in AKP, when AKP is in possession of price sensitive or confidential information that is not generally available to the market.

3.2 Safest Times to Deal in AKP Securities

There is no particular time during which it is "safe" or "unsafe" to deal in AKP securities. The SOLE TEST is whether, at the particular time, a Director or employee is in possession of price sensitive information that is not generally available in the market.

3.3 Closed Periods

Subject to the insider trading provisions of the Corporations Act and the notification requirements of the Company set out in the " Trading Policy", the trading windows (in order to minimise suggestions of insider trading) for any Directors or employees to deal in Securities is during the four week period commencing on the second business day after:

(a) AKP's annual general meeting;

(b) The release of AKP's half-yearly announcement to the ASX;

(c) The release of AKPs's preliminary final statement or full year announcement to ASX (whichever is earlier);

(d) The release of a disclosure document (e.g. a prospectus) by AKP; and

(e) The release of the quarterly commitments test report known as Appendix 4C.

In accordance with ASX Listing Rule 12.12.2 Directors and employees are prohibited from trading in the Company's securities except during the above "trading windows" (in which case, the closed period is the whole of the year apart from the defined trading windows).

The Chairman of the Board, or the Chairman's delegate, (e.g. the Company Secretary) may also notify Directors and employees of AKP in writing of other ad hoc closed periods determined by the Board.

3.4 Excluded Trading

For the purposes of ASX Listing Rule 12.12.3 the following examples of trading in the Company's securities are excluded from the operation of the Trading Policy:

1. transfers of securities of the Company already held by Directors or employees into a superannuation fund or other saving scheme in which the restricted person is a beneficiary;

2. transfers of securities of the Company already held by Directors or Employees to or from private companies or trusts controlled by the restricted person;

3. an investment in, or trading in units of, a fund or other scheme (other than a scheme only investing in the securities of the entity) where the assets of the fund or other scheme are invested at the discretion of a third party;

4. where a restricted person is a trustee, trading in the securities of the Company by that trust provided the restricted person is not a beneficiary of the trust and any decision to trade during the prohibited period is taken by the other trustees or by the investment managers independently of the restricted person;

5. undertakings to accept, or the acceptance of, a takeover offer;

6. trading under an offer or invitation made to all or most of the security holders. Such as, a rights issue, a security purchase plan, a dividend reinvestment plan and an equal access buy-back, where the plan that determines the timing and structure of the offer has been approved by the Board This includes decisions relating to whether or not to take up the entitlements and the sale of entitlements required to provide for the take up of the balance of entitlements under a renounceable pro rate issue;

7. a disposal of securities of the Company that is the result of a secured lender exercising their rights under a margin lending arrangement. Any agreements by Directors or employees that provide lenders with rights over their interest in the Company's securities must be approved in writing beforehand by the Board;

8. the exercise (but not the sale of securities following exercise) of an option or a right under an employee incentive scheme, or the conversion of a convertible security, where the final date for the exercise of the option or right, or the conversion of the security, falls within the prohibited period and the Company has been in an exceptionally long prohibited period or the Company has had a number of consecutive prohibited periods and the restricted person could not reasonably have been expected to exercise it at a time when free to do so.

3.5 Trading During a Prohibited Period with Prior Written Clearance

In accordance with ASX Listing Rule 12.12.4, a restricted person, who is not in possession of inside information in relation to the Company, may be given prior written clearance by the Chairman of the Board or the Chairman's delegate (e.g. the Company Secretary) to sell or otherwise dispose of the securities of the Company during a prohibited period under the Trading Policy where the restricted person is in severe financial hardship or there are other exceptional circumstances approved by the Board.

3.6 Procedures for Clearance

In accordance with ASX Listing Rule 12.12.5 any request for clearance to trade during a prohibited period due to exceptional circumstances must be in writing to the Chairman of the Board prior to the trade setting out the reasons for the request and the approval of the Chairman of the Board must be in writing (electronic clearance by email or facsimile is acceptable) and is only valid for five (5) business days after the approval is given.

4. Disclosure Policy

Any Director or employee proposing to buy or sell in excess of 20,000 AKP securities MUST advise the Chairman (in the case of Directors) or the Company Secretary (in the case of employees) in writing (on any approved form) of their intention to do so BEFORE buying or selling the securities. This notification obligation operates at all times.

Directors and employees must not buy or sell AKP in excess of 20,000 AKP securities until approval has been given by the Board, Chairman or Company Secretary. The Board, Chairman or Company Secretary should not reasonably withhold approval and if a response is not received within 48 hours of the advice, approval will be deemed to have been given.

5. Australian Stock Exchange Limited Notification By Directors

The Australian Stock Exchange Listing Rules oblige any Director dealing in AKP securities to notify AKP (through AKP's Company Secretary) within 3 days after any dealing providing full details of the dealing in accordance with the prescribed (Appendix 3Y) form.

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