

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.

2

Annual Report 2011

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 a 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.

DIRECTORS' REPORT

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

DIRECTORS' REPORT

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

DIRECTORS' REPORT

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.