

DIRECTORS' REPORT

The Directors of Audio Pixels Holdings Limited submit herewith the financial report of the company for the financial year ended 31 December 2013. 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. Ian 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 non-executive director of ABC (Australian Broadcasting Corporation), SA Power Networks (formerly ETSA Utilities), Spark Infrastructure Limited, SG Fleet Australia Limited, Football Federation of Australia (FFA), Australian Himalayan Foundation, and the Local Organising Committee of the 2015 Australian Asian Cup. She is immediate past Chairman of the South Australian Film Corporation, FARE (Alcohol Education and Rehabilitation Foundation) and ANZ Trustees Limited. She is a fellow of the Australian Institute of Company Directors and Patron of SportsConnect.

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	Electro Optic Systems Holdings Limited	Since May 2000
Ian Dennis	Electro Optic Systems Holdings Limited	Since May 2000
Cheryl Bart	Spark Infrastructure Group Limited SG Fleet Australia Limited	Since November 2005 Since February 2014

Principal Activities

The principal activity of the Company is an investment in Audio Pixels Limited of Israel. Audio Pixels Limited is engaged in the development of digital speakers.

Results

The net loss for the financial year ended to 31 December 2013 was \$2,147,576 (31 December 2012 - \$2,615,412).

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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 February 2013, 30,183 new ordinary shares were issued at \$1.59 raising \$48,123. In March 2013 1,066,879 options were exercised at 38 cents each raising \$405,414. Following shareholder approval at the Annual General Meeting held on 10 May 2013, interests associated with Mr Fred Bart took up a further 200,000 shares at \$5.00 each raising an additional \$1,000,000. The placement terms were on the same basis as the institutional and sophisticated investors took up shares in December 2012. In total, 1,297,062 new ordinary shares were issued during the year bringing the number of ordinary shares on issue to 25,707,047 shares.

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 with a lease to 30 September 2016. The property has been put up for sale in November 2013 as the property is surplus to the requirements of the Group.

Digital Speakers

During the reporting period the Company continued development of its digital speakers technologies and its commercialisation into a high demand product; including but not limited to activities under development agreements with leading consumer, electronic, and semiconductor manufacturers.

The primary achievements of the past year were technical in nature; principally evolving prior development phases that were focused on core technologies into a mass-produced commercially viable product. Management's focus has been on the implementation of Phase-III of the previously detailed four-phase commercialisation plan. The significance of this phase is in its application of the wealth and breadth of knowledge and knowhow accumulated throughout the company's history, into the world's first digital speaker microchip that is capable of reproducing hi-quality audio. The chips resulting from this phase of development fundamentally represent the company's primary product, and as such will also serve as early engineering samples for select customers.

The technology developed, refined and optimised over past years has enabled the company to enter into this phase of development with the highest degree of confidence possible to produce a working product of mass-market appeal. The marketplace continues to eagerly anticipate achievement of this milestone, with countless inquiries from industry leaders arriving daily.

Phase III involves the amalgamation of numerous critical components, paramount among them is the flawless fabrication of the micro electro mechanical structures (the MEMS chips) in accordance with design criteria that are compliant with specific commercial characteristics, including (but not limited to):

- Increased pixel count (and density) from 256 to 1024 elements per chip
- Implementation of countermeasures intended to mitigate fabrication risks
- Implementation of design considerations for integration of ASIC driver
- Implementation of design considerations for chip packaging
- Implementation of design considerations to improve yield of mass fabrication

Phase III also involved the evolution of the chips drive electronics. The company applied the knowledge obtained from previously designed and proven electronic circuitry, into a highly sophisticated High Voltage Driver ASIC (HVDA). The HVDA which will be integrated into the final speaker chip, serves a multitude of purposes principle among them is the utilisation of existing device and system voltages for the precision functionality of the MEMS component. Aided by one of the world's leading ASIC design houses, the ASIC design is on schedule to be completed and fabricated in accordance with the prescribed timelines.

The company's collaboration with an industry leader in advanced materials has also enabled the timely completion of the chips initial package design. This package design is intended to serve the chips packaging needs through mass production, at which point the current design will be transitioned from a prefabricated package to the automated application of the package during the chips assembly process.

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Review of Operations (Cont.)

Phase III also necessitated a complete overhaul of the company's test and measurement capabilities. The new generation of the chip, in particular the increased pixel count as well as the emphasis on the acoustic output of the chip requires far more complex and sophisticated test and measurement systems. Additionally, the exponential increase in pixels, chips, numbers and variety of test vectors necessitates extremely high speed of operation, of course without compromise in precision.

As pioneers in the field of digital speakers certainly one that utilises an array of micro electro mechanical structures, this meant that the company itself needed to design and build the test systems in-house and from scratch. This massive undertaking included design of highly complex electronic drive and test circuitry, high precision optical and mechanical systems, data and communications systems as well as all the drive, test operational algorithms and control software. The systems which perform a multitude of electrical, mechanical, optical and acoustics tests of each and every wafer, chip and pixel) is in the final stages of fabrication, expected to be fully operational well prior to the receipt of the first MEMS chips from the silicon fabricators.

In parallel the company has also developed all the systems needed to permit management the timely demonstration of the chips capabilities to select audiences.

During this reporting period the company continues to expand its formidable IP portfolio; now encompassing 52 patent applications with 32 Patents filed in various jurisdictions.

Despite the broad expansion of activities the company has been able to maintain its current staff levels without any additional hiring's.

Further information concerning the operations and financial condition of the entity can be found in the financial report and in releases made to the Australian Stock Exchange (ASX) during the year.

Changes in State of Affairs

There was no significant change in the state of affairs of the company or the consolidated entity 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 or the consolidated entity, the results of those operations or the state of affairs of the company or the consolidated entity in subsequent financial years.

Future Developments

The consolidated entity will continue to focus on the development of its digital speaker technology. The consolidated entity expects to receive MEMS chips from various suppliers in the current financial year under Phase III of the previously detailed four-phase commercialisation plan. The chips resulting from this phase of development fundamentally represent the company's primary product, and as such will also serve as early engineering samples for select customers.

Environmental Regulations

In the opinion of the directors the company and the consolidated entity 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 or of any related body corporate against a liability incurred as such an officer or auditor. In addition, the company has not paid, or agreed to pay, a premium in respect of a contract insuring against a liability incurred by an officer or auditor.

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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	5,441,250
Ian Dennis	570,050
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 and key management personnel of the Company.

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 24 September 2010, the maximum total directors fees were increased to a total of \$250,000 per annum in line with the increased activities of the company. The actual directors fees paid were within the approved limit of \$250,000 per annum approved by shareholders at the Annual General Meeting held on 24 September 2010.

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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 2013 \$	Year ended 31 December 2012 \$	Year ended 31 December 2011 \$	6 Months ended 31 December 2010 \$	30 June 2010 \$	30 June 2009 \$
Revenue	304,536	161,986	269,534	143,207	563,842	438,819
Net profit/(loss) before tax	(2,147,576)	(2,615,412)	(2,931,907)	(557,129)	237,211	(246,279)
Net profit/(loss) after tax	(2,147,576)	(2,615,412)	(2,930,697)	(530,606)	197,489	(247,015)
Share price at start of year/period	5.60	6.00	4.60	0.26	0.16	0.21
Share price at end of year/period	3.80	5.60	6.00	4.60	0.26	0.16
Dividend Paid	0.00	0.00	0.00	0.00	0.00	0.00

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

	31 December 2013 \$	31 December 2012 \$
Short-term employee benefits	618,715	553,453
Post employment benefits	125,668	108,821
Share-based payments	-	-
Termination benefits	-	-
	744,383	662,274

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Remuneration Report (Cont.)

	Short Term		Post Employment	Share Based Payments	Total
	Directors fees/ Salary \$	Non-monetary \$	Superannuation \$	Options \$	\$
December 2013					
Fred Bart	61,000	-	5,566	-	66,566
Cheryl Bart	37,500	-	3,422	-	40,922
Ian Dennis	67,500	-	3,422	-	70,922
Danny Lewin	122,076	26,475	36,931	-	185,482
Yuval Cohen	133,788	23,120	40,626	-	197,534
Shay Kaplan	116,724	30,532	35,701	-	182,957
	538,588	80,127	125,668	-	744,383
December 2012					
Fred Bart	61,000	-	5,490	-	66,490
Cheryl Bart	37,500	-	3,375	-	40,875
Ian Dennis	67,500	-	3,375	-	70,875
Danny Lewin	107,019	23,223	32,202	-	162,444
Yuval Cohen	107,019	20,578	33,006	-	160,603
Shay Kaplan	102,312	27,302	31,373	-	160,987
	482,350	71,103	108,821	-	662,274

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 two meetings of directors. The attendances of the directors at meetings of the Board were:

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

No meetings of the Nomination and Remuneration Committee were held during the year. All current board members are on the Nomination and Remuneration Committee.

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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 27 day of February 2014.