

# DIRECTOR'S REPORT

The Directors of Audio Pixels Holdings Limited submit herewith the financial report of the company for the financial year ended 31 December 2015. 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. Mr Bart is also Chairman of Immunovative Therapies Limited, an Israeli company involved in the manufacture of cancer vaccines for the treatment of most forms of cancer. He is a member of the Australian Institute of Company Directors, a member of the Audit Committee and a member of the Nomination and Remuneration Committee.
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 eight 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 and Chairman of the Audit Committee and Nomination and Remuneration Committee.
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 SG Fleet Australia Limited, Football Federation of Australia (FFA), Ted X Sydney and the Australian Himalayan Foundation. She is immediate past director of ABC (Australian Broadcasting Corporation), SA Power Networks (formerly ETSA Utilities), Spark Infrastructure Limited, and the Local Organising Committee of the 2015 Australian Asian Cup. She is a fellow of the Australian Institute of Company Directors, Patron of SportsConnect and a member of Chief Executive Women. She is a member of the Audit Committee and a member of the Nominations and Remuneration Committee.

## 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	November 2005 to May 2015
	SG Fleet Australia Limited	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 2015 was \$1,840,940 (31 December 2014 - \$2,796,787).

## 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.

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## Review of Operations

This reporting period the company continued its efforts advancing the transition of its cumulative research and development efforts into a mass-produced product. The core of activities centers on the many aspects needed to ensure successful component fabrication as dictated by the fourth, and final phase, of our four-phase commercial product development plan.

The company has already begun to receive production verification wafers. These wafers allow our development teams to examine, test and validate characteristics, progress and compliance of the MEMs chips during and throughout the fabrication process in order to ensure, to the maximum extent possible, successful fabrication of Phase-IV chips.

Among the batches of wafers were structures that were specifically designed to allow greater characterization of the electrical properties of our structures. Among the many development objectives prescribed for Phase-III, was the investigation of the precise electrical characteristics required to meet the exacting conditions of our patented matrix control system.

In order to obtain the level of control needed to play complex music, our proprietary control system calls for the pixels to operate within precisely defined voltage regimes. The influencing factors on these regimes extend beyond the most advanced computational modeling available and therefore actual measurements are required. It should be noted that Phase-III chips were extremely close to meeting the requirements, however slight variances predominantly attributable to manufacturing tolerances, unveiled that further optimization is required to ensure reliable pixel control.

The electrical optimization processes involved the use of a variety of advanced thinfilm coatings, principal among them a technique called ALD (Atomic Layer Deposition). The ALD technique uses a chemical reaction to achieve controlled growth of sub-nanometer thickness films. The ALD process uses a range of materials of differing properties in order to attain and improve the desired electrical characteristics (while at the same time increasing the product's long-term reliability). ALD is routinely used in a wide range of commercial applications including memory and logic devices, sensors, LED's, and in many MEMs applications. Our team has successfully tested a wide variety of ALD coatings enabling refinement of both the design and the fabrication processes as to ensure that Phase-IV chips will meet the company's exacting standards.

As has been well documented Audio Pixels is the first, and so far only company that has successfully implemented DSR (Digital Sound Reconstruction) in a commercially viable manner. DSR utilizes a series of short impulses to construct the desired sound. The absence of any particular frequency from these building blocks, in turn prevents the loudspeakers from reproducing those frequencies. Ensuring our elements produce the expected spectrum of frequencies serves to provide yet another level of assurance as to the anticipated performance of our Phase-IV chips. For this reason the team has undertaken a massive engineering project to extend the thinfilm coating program in order to successfully obtain invaluable impulse response measurements of individual pixels.

In parallel the company continued its close collaboration with its development partners. The company has completed an extensive design review of the integrated mixed signal driver and together with ICSense has advanced Generation-2 design to tape-out. Fabrication of the ASIC controller will begin shortly and proceed in accordance with the prescribed Phase-IV production schedule.

Our patent portfolio continues its organic growth now approaching 70 patents grants. When compared to comparable MEMs undertakings we are on record pace to achieve our objective of introducing an industry altering technology to the world. Our fab's have been able to maintain Phase-IV schedules even though we have increased the number of fabricated wafers 100-fold and staggered fabrication into a half-dozen independent batches. These are among the many activities that when combined with the on schedule delivery of our second-generation ASIC and chip package serve to build Management's confidence that Phase-IV is well on track toward producing publicly demonstrable engineering samples within the early part of the 3<sup>rd</sup> quarter of this year.

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.

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## 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.

## 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 and Insurance of Officers and Auditors

During the financial year, the company paid a premium in respect of a contract insuring the Directors and Officers of the Company and any related body corporate against a liability incurred as such a Director or Officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the coverage provided and the amount of the premium. The Company has agreed to indemnify the current Directors, Company Secretary and Executive Officers against all liabilities to other persons that may arise from their position as Directors or Officers of the Company and its controlled entities, except where to do so would be prohibited by law. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

The Company has not, during or since the financial year indemnified or agreed to indemnify an auditor of the company or of any related body corporate against any liability incurred as such an 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	5,441,250
Ian Dennis	570,050
Cheryl Bart	500,000

There has been no movement in Directors shareholdings during the 2015 year.

## Remuneration Report (Audited)

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.

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.

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## Remuneration Report (cont.)

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

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.

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 2015 \$	Year ended 31 December 2014 \$	Year ended 31 December 2013 \$	Year ended 31 December 2012 \$	Year ended 31 December 2011 \$
Revenue	25,073	181,583	304,536	161,986	269,534
Net profit /(loss) before tax	(1,840,940)	(2,796,787)	(2,147,576)	(2,615,412)	(2,931,907)
Net profit/(loss) after tax	(1,840,940)	(2,796,787)	(2,147,576)	(2,615,412)	(2,930,697)

	Year ended 31 December 2015 \$	Year ended 31 December 2014 \$	Year ended 31 December 2013 \$	Year ended 31 December 2012 \$	Year ended 31 December 2011 \$
Share price at start of year/period	9.86	3.80	5.60	6.00	4.60
Share price at end of year/period	8.45	9.86	3.80	5.60	6.00
Dividend Paid	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 2015 \$	31 December 2014 \$
Short-term employee benefits	693,742	690,224
Post employment benefits	150,410	143,625
	844,152	833,849

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## Remuneration Report (Cont.)

The following table sets out each key management personnel's equity holdings (represented by holdings of fully paid ordinary shares in Audio Pixels Holdings Limited).

	Balance at 1/1/15 No.	Granted as remuneration No.	Received on exercise of options No.	Net other change No.	Balance at 31/12/15 No.
Mr Fred Bart	5,441,250	-	-	-	5,441,250
Mrs Cheryl Bart	500,000	-	-	-	500,000
Mr Ian Dennis	570,050	-	-	-	570,050
Mr Danny Lewin	1,709,092	-	-	-	1,709,092
Mr Yuval Cohen	1,928,971	-	-	-	1,928,971
Mr Shay Kaplan	881,604	-	-	-	881,604

## Convertible Note Issued to Key Management Personnel

On 22 June 2015, shareholders approved the issue of a convertible note of \$1.5m to 4F Investments Pty Limited, company controlled by Mr Fred Bart. The terms of the issue were as follows:

Face Value:	\$1,500,000
Date of issue:	26 June 2015
Interest rate:	8% payable quarterly
Term:	12 months
Listing status:	Unlisted
Security:	Unsecured
Conversion terms:	Convertible to ordinary shares based on the lower of the five day volume weighted average share price of Audio Pixels Holdings Limited on the date of the agreement (\$9.68) or the five day volume weighted average share price of Audio Pixels Holdings Limited immediately prior to conversion.

## Transactions with Related Entities

During the year ended 31 December 2015, the Company paid a total of \$107,857 (year ended 31 December 2014 - \$107,734) 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 2015, the Company paid interest of \$62,137 on a convertible note to 4F Investments Pty Limited, a company associated with Mr Fred Bart. The convertible note of \$1.5m was issued on 26 June 2015 following shareholder approval at an Extraordinary General Meeting.

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## Remuneration Report (cont.)

During the year ended 31 December 2015, the Company paid a total of \$41,063 (year ended 31 December 2014 - \$41,016) 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 \$30,000 (31 December 2014 - \$30,000) to Dennis Corporate Services Pty Limited, a company associated with Mr Ian Dennis in respect of consulting fees for company secretarial and accounting services.

On 8 May 2014, the company entered into a lease in respect of office premises at Level 12, 75 Elizabeth Street Sydney for a period of forty eight months to 30 March 2018. The company recharges 20% (\$13,559) of the rent to Electro Optic Systems Holdings Limited, a company of which Fred Bart and Ian Dennis are directors, 20% (\$13,559) to 4F Investments Pty Limited, a company controlled by Fred Bart and 40% (\$27,818) to another tenant who is a shareholder in the company.

The following table sets out the remuneration of each key management personnel of the Company:

	Short Term		Post Employment		Total \$
	Directors fees/ Salary \$	Non-monetary \$	Superannuation \$	Social Security \$	
<b>December 2015</b>					
Fred Bart	61,000	-	5,794	-	66,794
Cheryl Bart	37,500	-	3,563	-	41,063
Ian Dennis	67,500*	-	3,563	-	71,063
Danny Lewin	141,260	33,798	-	44,722	219,780
Yuval Cohen	156,042	28,012	-	49,476	233,530
Shay Kaplan	135,050	33,580	-	42,292	211,922
	598,352	95,390	12,920	137,490	844,152
<b>December 2014</b>					
Fred Bart	61,000	-	5,718	-	66,718
Cheryl Bart	37,500	-	3,516	-	41,016
Ian Dennis	67,500*	-	3,516	-	71,016
Danny Lewin	139,369	30,195	-	42,597	212,161
Yuval Cohen	153,941	29,135	-	47,178	230,254
Shay Kaplan	133,238	38,346	-	41,100	212,684
	592,548	97,676	12,750	130,875	833,849

\*The amounts disclosed for Ian Dennis include directors fees of \$37,500 and consulting fees of \$30,000.

## Audit Committee

The Audit Committee was formally constituted on 29 August 2014 with all three directors appointed to the Audit Committee. Ian Dennis was appointed chair of the Audit Committee.

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## Directors' Meetings

During the year the company held three meetings of directors, two meetings of the Audit Committee and no meetings of the Nomination and Remuneration Committee. The attendances of the directors at meetings of the Board were:

Directors	Board of directors		Audit committee		Nomination and Remuneration committee	
	Held	Attended	Held	Attended	Held	Attended
Mr Fred Bart	3	3	2	2	-	-
Mrs Cheryl Bart	3	3	2	2	-	-
Mr Ian Dennis	3	3	2	2	-	-

All current board members are on the Audit Committee and the Nomination and Remuneration Committee.

## 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 4 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 4 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 26 day of February 2016