

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 2020. 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 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 thirty 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 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 Chairman of Powering Australian Renewables and Ted X Sydney. Cheryl is a non-executive director of SG Fleet Australia Limited, ME Bank, and the Invictus Games. 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
	Weebit Nano Limited	Since March 2018
	Noxopharm Limited	Since 8 May 2020
Ian Dennis	Electro Optic Systems Holdings Limited	Since May 2000
Cheryl Bart	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 2020 was \$12,102,367 (31 December 2019 - \$6,231,930).

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

As has been reported throughout the period, achievements were technical in nature, focused on advancing the Company's proven prototype technologies into a mass-production product. The main focus of the period has been an intensive effort to combine the company's accomplishments into working devices that can serve as product demonstrators as well as engineering samples for select customers.

The primary highlight of the period was the successful sampling of playing chips while still in wafer form in our cleanroom. As has been demonstrated the sound clarity and low frequency range of the chip was incomparable to any currently available technologies of similar form factor. Activities required to reach this milestone involved changes to structural design and fabrication processes of our MEMS transducer, advancements of algorithms, signal processing, chip assembly and packaging, measurement capabilities, as well as the design and production of electronic circuitry required to demonstrate the technology.

It should be noted that the global COVID-19 pandemic caused and continues to cause incongruities into our plans, forcing management to constantly adjust timelines involved in migrating the success of the technology demonstration out of the noisy environment of the cleanroom, where suitable assessment can be conducted by industry and customers.

Highlights of particular activities as follows:

- **MEMS Fabrication** - during the period a number of flaws in the fabrication process were detected as contributing factors to the functional failure of devices, lower than expected yields, as well as diminishing life-cycles. Correcting such shortcomings required improvements to the fabrication process as well as a number of relatively minor changes to the structural design that serve to reduce dependencies on manufacturing tolerances. The modifications to both the design and fabrication process have been proven to be sufficiently effective as to sanction the fabrication of larger quantities of wafers required to serve the objectives of product demonstration / engineering samples. Additional process optimization activities remain ongoing in an effort to improve device yield (i.e. number of good chips per wafer).
- **Device Performance** - Recent advancements in computational modeling tools has for the first time permitted the possibility to simulate the acoustic phenomena that are relevant and prevalent in our MEMS transducers. The company is currently bringing a highly advanced dynamically coupled

system online, that enables analysis and prediction of the acoustic performance of our structures. The addition of such capabilities to the company's "toolbox" is a significant gamechanger to achieve and maintain technological superiority, as such simulation capabilities which have not been feasible before, empower the company to use a software-only approach to explore and predict the influence most any structural or functional modification might have on the acoustic performance of the device.

- **New Generation ASIC** - during the reporting period the company authorized a redesign of its proprietary Application Specific Integrated Circuit (ASIC) controller - the component responsible for converting algorithms into precision electrical signals required to drive our MEMS transducer. The primary impetus for this undertaking was to improve controls of the Simplified Acoustic Half Structure.
- **Measurement Capabilities** - During the reporting period the company undertook a major upgrade and expansion of its test and measurement equipment and capabilities. This effort was deemed necessary to support the inclusion of packaged chips to the test and measurement capabilities as well as to support the characterization of larger quantities of wafers and chips, for longer periods of times.
- **Demonstration Capabilities** - During the reporting period the company expended considerable resources designing and building electronic circuitry that enable the company to demonstrate and showcase the capabilities of our technologies. This effort also included developments associated with the packaging of individual chip as well as chip arrays (multichip demonstration). Effort in this regard including the qualification and addition assembly and packaging vendor, located locally in order to help overcome logistical complexities spurred by the COVID pandemic experienced by our European based vendors and their global suppliers.

While a number of technical issues arose during the reporting period, solutions have been identified and successfully implemented to resolve all known challenges. Overall, the magnitude of accomplishments achieved during the reporting period present a positive outlook on the company's ability to reach in a timely manner, its next critical milestone involving demonstrating our technology to the marketplace.

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.

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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.

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

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	5,819,122
Ian Dennis	320,167
Cheryl Bart	1,282,777

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 Board 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 executives of 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 Holdings 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 2020 \$	Year ended 31 December 2019 \$	Year ended 31 December 2018 \$	Year ended 31 December 2017 \$	Year ended 31 December 2016 \$
Revenue	191,434	272,520	86,961	65,624	103,630
Net (loss) before tax	(12,102,367)	(6,231,930)	(4,519,721)	(5,914,957)	(5,054,771)
Net (loss) after tax	(12,102,367)	(6,231,930)	(4,519,721)	(5,914,957)	(5,054,771)

	Year ended 31 December 2020 \$	Year ended 31 December 2019 \$	Year ended 31 December 2018 \$	Year ended 31 December 2017 \$	Year ended 31 December 2016 \$
Share price at start of year/period	15.35	20.22	16.82	14.15	8.45
Share price at end of year/period	24.05	15.35	20.22	16.82	14.15
Dividend Paid	0.00	0.00	0.00	0.00	0.00

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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 1/1/20 No.	Granted as remuneration No.	Received on exercise of options No.	Net other change No.	Balance at 31/12/20 No.
Mr Fred Bart*	5,819,122	-	-	-	5,819,122
Mrs Cheryl Bart*	1,282,777	-	-	-	1,282,777
Mr Ian Dennis	320,167	-	-	-	320,167
Mr Danny Lewin	1,438,619	-	-	-	1,438,619
Mr Yuval Cohen	1,430,819	-	-	(30,183)	1,400,636

* Included in the above shareholdings in respect to both Fred Bart and Cheryl Bart are 782,777 (2019: 782,777) shares in Audio Pixels Holdings Limited held by the Bart Superannuation Fund, in respect to which each has a relevant interest.

Transactions with Related Entities

During the year ended 31 December 2020, the Company paid a total of \$107,857 (year ended 31 December 2019 - \$107,857) 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 2020, the Company paid a total of \$41,063 (year ended 31 December 2019 - \$41,063) 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 2019 - \$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 1 June 2018, the company exercised an option to renew a lease in respect of office premises at Suite 3, Level 12, 75 Elizabeth Street Sydney for a period of forty eight months to 30 March 2022. The Company recharged \$31,598 (year ended 31 December 2019 - \$30,441) of the rent and other tenancy charges to Electro Optic Systems Holdings Limited, a company of which Fred Bart and Ian Dennis are directors and \$22,289 (year ended 31 December 2019 - \$30,441) to 4F Investments Pty Limited, a company controlled by Fred Bart.

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Remuneration Report (Cont.)

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 \$	\$
December 2020					
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	168,624	41,414	-	60,303	270,341
Yuval Cohen	220,008	12,692	18,996	-	251,686
	554,632	54,106	31,916	60,303	700,957
December 2019					
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	170,962	41,828	-	60,846	273,636
Yuval Cohen	220,008	14,385	18,996	-	253,389
	556,970	56,213	31,916	60,846	705,945

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

Other non-monetary benefits include annual leave provision increases during the year.

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.

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.

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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 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 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 25 day of February 2021