

# 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 2021. 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 an 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 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 Chairman of Tilt 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 Weebit Nano Limited Noxopharm Limited	May 2000 to 27 July 2021 Since March 2018 Since 8 May 2020
Ian Dennis	Electro Optic Systems Holdings Limited	May 2000 to 28 May 2021
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 2021 was \$3,309,869 (31 December 2020 - \$12,102,367).

## 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 and its technologies toward achieving its commercial objectives. The main focus of the period has been the comprehensive effort to transition of devices, systems and techniques to mass produced product demonstrators and engineering samples.

The primary highlights of the year and to the date of this report involve:

- Demonstration of fully functioning packaged chips operating reliably outside the cleanroom
- Demonstration of functioning full range speaker chips
- Onboarding of additional fabrication partner to prepare for mass production of the MEMS and chip packaging
- Transition of MEMS fabrication processes from development to mass production lines and techniques
- Completion of proprietary multiphysics simulation models that enable predictive acoustic output
- Development of new method to control chip volume as to enable near-ear (headphone) applicability
- Design and fabrication of systems that permit independently operated demonstration systems
- Porting of software and algorithms from development to embedded code
- Development of customer supporting software applications and controls
- Upgrading and expansion of chip characterization systems to permit higher throughput

Unquestionably the accomplishments of the period are anchored in the successful completion of the multiyear effort to develop our patented MEMS transducer in a manner that can be reliably mass produced using commercially viable surface micromachining techniques. This accomplishment of the period is in no small part attributable to the highly productive multiyear collaboration with EarthMountain. The combination of formidable resources and skillset brought forth by EarthMountain, together with the company's extensive process knowledge and real-world experience, is considered to be a winning formula that enabled the

company to successfully deliver the desired short and long term manufacturing capabilities. During the period this alliance was memorialized in a comprehensive manufacturing agreement that secures significant and expanding production capacity at a time where the industry worldwide is struggling with capacity shortages.

The successful integration and packaging of the MEMS transducer, together with our proprietary ASIC controller, enabled countless advancements in algorithms, signal processing, and multichip functionality, as well as the design and production of the electronic circuitry and software required to demonstrate and operate the devices outside of the cleanroom. Our current packaging capabilities and capacity will be further augmented later this quarter as EarthMountain brings their dedicated chip packaging capabilities online.

Packaged EarthMountain devices were measured and demonstrated to reproduce a near flat frequency response from 100Hz through 50KHz. This pioneering achievement for the first time makes it possible for a single device to reproduce crystal clear sound throughout the audible spectrum - without imposing the tradeoffs required by conventional speaker technologies to achieve quality sound through the utilization of separate drivers to reproduce the low, mid, and high frequencies.

The completion of our proprietary multiphysics simulation models enabled computational simulations and exploration of the acoustic output of our transducers under varying parameters. This capability proved instrumental not only in optimizing the MEMS transition to mass-fabrication, but also in the exploration of methods to improve acoustic performance and output to further enhance the commercial appeal of the product.

Ongoing influence of the global COVID-19 pandemic throughout the period negatively impacted the countless engineering tasks and timelines associated with the aforementioned accomplishments. This was most consequential in preventing direct and hands-on interaction with vendors, subcontractors and customers that are traditionally utilized for effective collaboration. Contending with this reality is the impetus behind the decision to expedite production and engage in the design and fabrication of systems that permit demonstration devices and systems that can be independently operated and assessed by customers and market influencers. These systems are for the most part completed and awaiting production chips, anticipated by the vendor to be supplied prior to the end of Q1-22.

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Overall, the magnitude of accomplishments achieved during the reporting period present a positive outlook on the company's ability to achieve its next critical milestone involving public exposure of the company's industry altering 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.

## 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 matters 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 Audio Pixels Limited 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 director's fees were increased to a total of \$250,000 per annum in line with the increased activities of the company. The actual director's 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 2021 \$	Year ended 31 December 2020 \$	Year ended 31 December 2019 \$	Year ended 31 December 2018 \$	Year ended 31 December 2017 \$
Revenue	108,691	191,434	272,520	86,961	65,624
Net (loss) before tax	(3,309,869)	(12,102,367)	(6,231,930)	(4,519,721)	(5,914,957)
Net (loss) after tax	(3,309,869)	(12,102,367)	(6,231,930)	(4,519,721)	(5,914,957)

	Year ended 31 December 2021 \$	Year ended 31 December 2020 \$	Year ended 31 December 2019 \$	Year ended 31 December 2018 \$	Year ended 31 December 2017 \$
Share price at start of year/period	\$24.05	15.35	20.22	16.82	14.15
Share price at end of year/period	22.50	24.05	15.35	20.22	16.82
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 1/1/21 No.	Granted as remuneration No.	Received on exercise of options No.	Net other change No.	Balance at 31/12/21 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	1,400,636	-	-	-	1,400,636

\* Included in the above shareholdings in respect to both Fred Bart and Cheryl Bart are 782,777 (2020: 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 2021, the Company paid a total of \$108,104 (year ended 31 December 2020 - \$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 2021, the Company paid a total of \$41,156 (year ended 31 December 2020 - \$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 2020 - \$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.

During the year, the company entered into unsecured loan facilities with 4F Investments Pty Limited, a company associated with Mr Fred Bart, totalling \$2m at an interest rate of 6%. The loan facility was drawn to \$1m at 31 December 2021 and is repayable by 30 June 2022. Interest to 31 December 2021 of \$9,136 has been accrued in the financial statements.

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## Remuneration Report (Cont.)

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 \$18,970 (year ended 31 December 2020 - \$31,598) of the rent and other tenancy charges to Electro Optic Systems Holdings Limited, a company of which Fred Bart and Ian Dennis were directors of until 27 July 2021 and 28 May 2021 respectively and \$40,488 (year ended 31 December 2020 - \$22,289) to 4F Investments Pty Limited, a company controlled by Fred Bart.

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 \$	Super annuation \$	Social Security \$	\$
<b>December 2021</b>					
Fred Bart	61,000	-	5,948	-	66,948
Cheryl Bart	37,500	-	3,656	-	41,156
Ian Dennis	67,500*	-	3,656	-	71,156
Danny Lewin	177,226	43,467	-	63,550	284,243
Yuval Cohen	220,008	16,923	18,996	-	255,927
	563,234	60,390	32,256	63,550	719,430
<b>December 2020</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	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

\*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 28 day of February 2022