



2013

ANNUAL REPORT

CORPORATE DIRECTORY

Directors

Fred Bart (Chairman)
Ian Dennis
Cheryl Bart AO

Company Secretary

Ian Dennis

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Auditor

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Chartered Accountants
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Bankers

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182 George Street
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CONTENTS

| | |
|---|----|
| Directors' Report | 2 |
| Auditor's Independence Declaration | 9 |
| Independent Audit Report | 10 |
| Directors' Declaration | 12 |
| Consolidated Statement of Profit or Loss and Other Comprehensive Income | 13 |
| Consolidated Statement of Financial Position | 14 |
| Consolidated Statement of Changes in Equity | 15 |
| Consolidated Statement of Cash Flows | 16 |
| Notes To and Forming Part of the Financial Statements | 17 |
| ASX Additional Information | 46 |
| Twenty Largest Ordinary Shareholders | 47 |
| Corporate Governance Statement | 48 |

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).

DIRECTORS' REPORT

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.

DIRECTORS' REPORT

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.

DIRECTORS' REPORT

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.

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 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 |

DIRECTORS' REPORT

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.

DIRECTORS' REPORT

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.

The Board of Directors
Audio Pixels Holdings Limited
Suite 2, Level 12
75 Elizabeth Street
SYDNEY NSW 2000

27 February 2014

Dear Board Members

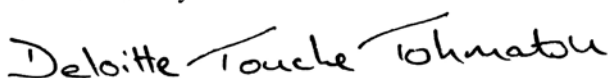
Audio Pixels Holdings Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Audio Pixels Holdings Limited.

As lead audit partner for the audit of the financial statements of Audio Pixels Holdings Limited for the year ended 31 December 2013, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



David Black
Partner
Chartered Accountants

Independent Auditor's Report to the members of Audio Pixels Holdings Limited

Report on the Financial Report

We have audited the accompanying financial report of Audio Pixels Holdings Limited, which comprises the statement of financial position as at 31 December 2013, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 12 to 45.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the company's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Audio Pixels Holdings Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

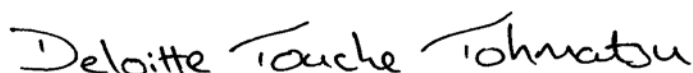
- (a) the financial report of Audio Pixels Holdings Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 5 to 7 of the directors' report for the year ended 31 December 2013. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of Audio Pixels Holdings Limited for the year ended 31 December 2013, complies with section 300A of the *Corporations Act 2001*.



DELOITTE TOUCHE TOHMATSU



David Black
Partner
Chartered Accountants
Parramatta, 27 February 2014

DIRECTORS' DECLARATION

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe the company will be able to pay its debts as and when they become due and payable;
- (b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and give a true and fair view of the financial position and performance of the company and the consolidated entity;
- (c) the directors have been given the declarations required by s.295A of the Corporations Act 2001; and
- (d) the attached financial statements are in compliance with International Financial Reporting Standards, as stated in Note 1 to the financial statements.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors



I A Dennis

Director

Dated at Sydney this 27 day of February 2014.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2013

| | Note | Consolidated Year ended 31 December 2013 \$ | Consolidated Year ended 31 December 2012 \$ |
|---|------|---|---|
| Revenue | 2 | 304,536 | 161,986 |
| Administrative expenses | | (890,428) | (924,543) |
| Amortisation | | (62,000) | (62,000) |
| Depreciation | | (95,509) | (104,845) |
| Directors fees | | (136,000) | (136,000) |
| Exchange gains/(losses) | | 1,045,468 | (77,560) |
| Finance costs | | - | (1,776) |
| Marketing | | (47,375) | - |
| Property expenses | | (37,043) | (31,954) |
| Reduction in fair value of investment property | | (100,000) | (140,000) |
| Research and development expenses | | (2,129,225) | (1,298,720) |
| (Loss) before income tax | 2 | (2,147,576) | (2,615,412) |
| Income tax benefit | 3 | - | - |
| (Loss) for the year | | (2,147,576) | (2,615,412) |
| Other comprehensive income/(loss) | | | |
| Items that may be reclassified subsequently to profit and loss | | | |
| Exchange differences arising on translation of foreign operations | 17 | (857,960) | 76,128 |
| Other comprehensive income/(loss) for the year, net of tax | | (857,960) | 76,128 |
| Total comprehensive (loss) for the year | | (3,005,536) | (2,538,824) |
| (Loss) attributable to: | | | |
| Owners of the company | | (2,147,576) | (2,615,412) |
| Total comprehensive (loss) attributable to: | | | |
| Owners of the company | | (3,005,536) | (2,539,284) |
| Earnings per share | | | |
| Basic and diluted (cents per share) | 21 | (8.46) | (11.23) |

Notes to the financial statements are included on pages 17 to 45.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2013

| | Note | Consolidated December 2013 \$ | Consolidated December 2012 \$ |
|--|------|--|--|
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 6 | 4,271,573 | 5,415,454 |
| Trade and other receivables | 7 | 132,430 | 58,835 |
| Assets held for sale | 8 | 1,500,000 | 1,600,000 |
| TOTAL CURRENT ASSETS | | 5,904,003 | 7,074,289 |
| NON CURRENT ASSETS | | | |
| Goodwill | 9 | 1,992,314 | 1,840,135 |
| Intangible | 10 | 721,620 | 728,500 |
| Property, plant and equipment | 11 | 170,186 | 195,841 |
| Trade and other receivables | 7 | 6,072 | 13,858 |
| TOTAL NON CURRENT ASSETS | | 2,890,192 | 2,778,334 |
| TOTAL ASSETS | | 8,794,195 | 9,852,623 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 12 | 668,014 | 326,271 |
| Provisions | 14 | 419,843 | 268,015 |
| TOTAL CURRENT LIABILITIES | | 1,087,857 | 594,286 |
| TOTAL LIABILITIES | | 1,087,857 | 594,286 |
| NET ASSETS | | 7,706,338 | 9,258,337 |
| EQUITY | | | |
| Issued capital | 15 | 37,398,942 | 35,945,405 |
| Reserves | 17 | (21,792,649) | (20,934,689) |
| Accumulated losses | 18 | (7,899,955) | (5,752,379) |
| Equity attributable to owners of the company | | 7,706,338 | 9,258,337 |
| TOTAL EQUITY | | 7,706,338 | 9,258,337 |

Notes to the financial statements are included on pages 17 to 45.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2013

| December 2013 - Consolidated | Issued Capital \$ | Equity Settled Option Reserve \$ | Exchange Translation Reserve \$ | Minority Acquisition Reserve \$ | Accumulated Losses \$ | Total \$ |
|---|----------------------|-------------------------------------|------------------------------------|------------------------------------|--------------------------|-------------|
| Balance at 1 January 2013 | 35,945,405 | 4,512,898 | 91,105 | (25,538,692) | (5,752,379) | 9,258,337 |
| Issue of new shares at \$5.00 each | 1,000,000 | - | - | - | - | 1,000,000 |
| Issue of new shares at \$1.59 each | 48,123 | - | - | - | - | 48,123 |
| Exercise of options | 405,414 | - | - | - | - | 405,414 |
| Other comprehensive income for the year | - | - | (857,960) | - | - | (857,960) |
| (Loss) for the year | - | - | - | - | (2,147,576) | (2,147,576) |
| Balance at 31 December 2013 | 37,398,942 | 4,512,898 | (766,855) | (25,538,692) | (7,899,955) | 7,706,338 |

| December 2012 - Consolidated | Issued Capital \$ | Equity Settled Option Reserve \$ | Exchange Translation Reserve \$ | Minority Acquisition Reserve \$ | Accumulated Losses \$ | Total \$ |
|---|----------------------|-------------------------------------|------------------------------------|------------------------------------|--------------------------|-------------|
| Balance at 1 January 2012 | 30,360,295 | 4,512,898 | 14,977 | (25,538,692) | (3,136,967) | 6,212,511 |
| Issue of new shares at \$5.00 each | 5,585,110 | - | - | - | - | 5,585,110 |
| Other comprehensive income for the year | - | - | 76,128 | - | - | 76,128 |
| (Loss) for the year | - | - | - | - | (2,615,412) | (2,615,412) |
| Balance at 31 December 2012 | 35,945,405 | 4,512,898 | 91,105 | (25,538,692) | (5,752,379) | 9,258,337 |

Notes to the financial statements are included on pages 17 to 45.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2013

| | Notes | Consolidated Year ended 31 December 2013 \$ | Consolidated Year ended 31 December 2012 \$ |
|---|-------|---|---|
| Cash flows from operating activities | | | |
| Receipts from customers | | 163,113 | 159,165 |
| Payments to suppliers and employees | | (2,987,225) | (2,388,557) |
| Interest and bill discounts received | | 147,544 | 24,334 |
| Interest and other costs of finance paid | | - | (1,776) |
| Net cash (used by) operating activities | 19 | (2,676,568) | (2,206,834) |
| Cash flows from investing activities | | | |
| Payment for property, plant and equipment | | (44,824) | (44,934) |
| Net cash (outflows) from investing activities | | (44,824) | (44,934) |
| Cash flows from financing activities | | | |
| Placement of shares | | 1,048,123 | 5,585,110 |
| Exercise of options | | 405,414 | - |
| Proceeds of bank loan | | - | 200,000 |
| Repayment of bank loan | | - | (200,000) |
| Net cash provided by financing activities | | 1,453,537 | 5,585,110 |
| Net increase/(decrease) in cash and cash equivalents held | | (1,267,855) | 3,333,342 |
| Cash and cash equivalents at the beginning of the financial year | | 5,415,454 | 2,113,321 |
| Effects of exchange rate fluctuations on the balances of cash held in foreign currencies | | 123,974 | (31,209) |
| Cash and cash equivalents at the end of the financial year | 6 | 4,271,573 | 5,415,454 |

Notes to the financial statements are included on pages 17 to 45.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

1. Summary of Significant Accounting Policies

Statement of Compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law. Accounting Standards include Australian equivalents to International Financial Reporting Standards ("A-IFRS"). Compliance with A-IFRS ensures that the financial statements and notes comply with International Financial Reporting Standards ("IFRS"). For the purposes of preparing the consolidated financial statements, the Company is a for profit entity.

The financial statements were authorised for issue by the Directors on 27 February 2014.

Basis of Preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of investment property. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are expressed in Australian dollars.

(a) Borrowings

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit or loss over the period of the borrowing using the effective interest rate method.

(b) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments maturing within less than 3 months at the date of acquisition, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the Statement of Financial Position.

(c) Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of short term employee benefits are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of long term employee benefits are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to the reporting date.

Defined contribution plans - Contributions to defined benefit contribution superannuation plans are expensed when incurred.

(d) Financial assets

Financial assets are classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of the initial recognition.

Loans and receivables

Trade receivables, loans and other receivables are recorded at amortised cost less impairment.

(e) Financial instruments issued by the company

Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Transaction costs on the issue of equity instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

Interest

Interest is classified as an expense consistent with the statement of financial position classification of the related debt.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

1. Summary of Significant Accounting Policies (Cont.)

(f) Foreign currency

Foreign currency transactions

All foreign currency transactions during the financial year are bought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date. Non-monetary assets and liabilities carried at fair value and historic cost that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Exchange differences are recognised in profit and loss in the period they arise.

Foreign operations

On consolidation, the assets and liabilities of the consolidated entity's overseas operations are translated at exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are recognised in the foreign currency translation reserve, and recognised in profit and loss on disposal of the foreign operation.

(g) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- ii. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(h) Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount

of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(i) Impairment of assets

At each reporting date, the entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

1. Summary of Significant Accounting Policies (Cont.)

(j) Income Tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of business combination) which affects neither taxable income nor accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the assets and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in profit or loss, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

(k) Intangible assets

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair value can be measured reliably. Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately. The intangible assets are written off on a straight line basis over 14 years. Expenditure on research activities is recognised as an expense in the period in which it is incurred.

(l) Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is measured at its fair value at the reporting date. Gains or losses arising from changes in the fair value of the investment property are included in profit or loss in the period in which they arise.

(m) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

1. Summary of Significant Accounting Policies (Cont.)

(n) Payables

Trade payable and other accounts payable are recognised when the entity becomes obliged to make future payments resulting from the purchase of goods and services.

(o) Provisions

Provisions are recognised when the entity has a present obligation as a result of a past event, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

(p) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company. Control is achieved when the Company:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

(q) Property, plant and equipment

Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straightline method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sales in the present condition. Management must be committed to the sale, which should be expected to qualify as a completed sale within one year from the date of classification. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

The following estimated useful lives are used in the calculation of depreciation:

| | |
|---------------------------------|---------------|
| Computers and related equipment | 5 to 15 years |
| Leasehold improvements | 3 to 5 years |
| Office furniture and equipment | 5 to 15 years |

(r) Revenue Recognition

Rental revenue comprises revenue earned from the rental of the premises at 360 Pacific Highway, Crows Nest, New South Wales. Rental revenue is recognised on a straight line basis over the term of the relevant lease (See Note 1(m)).

Interest income and distributions received are recognised as it accrues.

(s) Application of New and Revised Accounting Standards

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current year.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

1. Summary of Significant Accounting Policies (Cont.)

(s) Application of New and Revised Accounting Standards (Cont.)

New and revised Standards and amendments thereof and Interpretations effective for the current year that are relevant to the Group include:

- AASB 10 "Consolidated Financial Statements" and AASB 2011-7 "Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards"
- AASB 12 "Disclosure of Interests in Other Entities" and AASB 2011-7 "Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards"
- AASB 127 "Separate Financial Statements" (2011) and AASB 2011-7 "Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards"
- AASB 13 "Fair Value Measurement" and AASB 2011-8 "Amendments to Australian Accounting Standards arising from AASB 13"
- AASB 119 "Employee Benefits" (2011) and AASB 2011-10 "Amendments to Australian Accounting Standards arising from AASB 119 (2011)"

Impact of the application of AASB 10

AASB 10 replaces the parts of AASB 127 "Consolidated and Separate Financial Statements" that deal with consolidated financial statements and Interpretation 112 "Consolidation - Special Purpose Entities". AASB 10 changes the definition of control such that an investor controls an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee, and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in AASB 10 to explain when an investor has control over an investee. Some guidance included in AASB 10 that deals with whether or not an investor that owns less than 50% of the voting rights in an investee has control over the investee is relevant to the Group.

The directors of the Company made an assessment as at the date of the initial application of AASB 10 (i.e. 1 January 2013) as to whether or not the Group has control over the entities listed in Note 27 in accordance

with the new definition of control and the related guidance set out in AASB 10. The directors concluded that the Company has control over the entities listed in Note 27 on the basis of its 100% shareholding and its ability to use its power to affect its variable returns.

The application of AASB 10 has not had any material impact on the amounts recognised in the consolidated financial statements.

Impact of the application of AASB 12

AASB 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of AASB 12 has resulted in more extensive disclosures in the consolidated financial statements. However this did not result in any changes to the financial statements.

Impact of the application of AASB 13

The Group has applied AASB 13 for the first time in the current year. AASB 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of AASB 13 is broad; the fair value measurement requirements of AASB 13 apply to both financial instrument items and non-financial instrument items for which other AASBs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of AASB 2 "Share-based Payment", leasing transactions that are within the scope of AASB 17 "Leases", and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

AASB 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under AASB 13 is an exit price regardless of whether the price is directly observable or estimated using another valuation technique. Also, AASB 13 includes extensive disclosure requirements.

AASB 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the Group has not made any new disclosures required by AASB 13 for the 2012 comparative period, the application of AASB 13 has not had material impact on the amounts recognised in the consolidated financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

1. Summary of Significant Accounting Policies (Cont.)

(s) Application of New and Revised Accounting Standards (Cont.)

Impact of the application of AASB 119

In the current year, the Group has applied AASB 119 (as revised in 2011) "Employee Benefits" and the related consequential amendments for the first time.

The revised AASB 119 changes the definition of short-term benefits. Only benefits that are expected to be settled wholly within 12 months after the end of the end of the annual reporting period in which the employees render the service are classified as short-term employee benefits.

Specific transitional provisions are applicable to first-time application of AASB 119 (as revised in 2011). The Group has applied the relevant transitional provisions and restated the comparative amounts on a retrospective basis. The amount of these restatements is not material.

| | 31 December 2013 \$ | 31 December 2012 \$ |
|--|---------------------------|---------------------------|
| Impact on total comprehensive income for the year of the application of AASB 119 (as revised in 2011) | | |
| Impact on (loss) for the year | | |
| Increase in employee benefits expenses | 10,654 | 6,687 |
| Increase in (loss) for the year | 10,654 | 6,687 |

| | As at 01/01/2012 as previously reported | AASB 119 adjustments | As at 01/01/2012 as restated |
|--|---|-------------------------|---------------------------------|
| Impact on assets, liabilities and equity as at 1 January 2012 of the application of the above new and revised Standards | | | |
| Current employee benefits obligation | 169,747 | 35,027 | 204,774 |
| Total effect on net assets | 6,247,538 | (35,027) | 6,212,511 |
| Accumulated losses | (3,101,940) | (35,027) | (3,136,967) |
| Total effect on equity | 6,247,538 | (35,027) | 6,212,511 |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

1. Summary of Significant Accounting Policies (Cont.)

(s) Application of New and Revised Accounting Standards (Cont.)

| | As at 31/12/2012 as previously reported | AASB 119 adjustments | As at 31/12/2012 as restated |
|--|---|-------------------------|---------------------------------|
| Impact on assets, liabilities and equity as at 31 December 2012 of the application of the above new and revised Standards | | | |
| Current employee benefits obligation | 240,281 | 27,734 | 268,015 |
| Total effect on net assets | 9,286,071 | (27,734) | 9,258,337 |
| Reserves | (20,935,295) | 606 | (20,934,689) |
| Accumulated losses | (5,724,039) | (28,340) | (5,752,379) |
| Total effect on equity | 9,286,071 | (27,734) | 9,258,337 |
| | | | AASB 119 adjustments |
| Impact on assets, liabilities and equity as at 31 December 2013 of the application of the amendments to AASB 119 (as revised in 2011) | | | |
| Increase in current employee benefits obligation | | | 10,654 |

Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective.

| Standard/Interpretation | Effective for annual reporting periods beginning on or after | Expected to be initially applied in the financial year ending |
|---|--|---|
| AASB 9 Financial Instruments | 1-Jan-17 | 31-Dec-17 |
| AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127] | 1-Jan-17 | 31-Dec-17 |
| AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124] | 1-Jul-13 | 31-Dec-14 |

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the company or the consolidated entity but may change disclosures made.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

1. Summary of Significant Accounting Policies (Cont.)

(t) Share based payments

Equity-settled share-based payments are measured at fair value at the date of the grant. Fair value is measured by use of a Black-Scholes Option Pricing model. The expected life used in the model has been adjusted, based on management best estimates, for the effects of non-transferability, exercise restrictions and behavioural considerations. The fair value determined at the grant date of the equity-settled share based payments is expensed on a straight-line basis over the vesting period, based on the consolidated entity's estimate of shares that will eventually vest.

(u) Critical accounting judgements

In the application of the consolidated entity's accounting policies, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making these judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Asset held for sale

The directors made a critical judgement in relation to the value of the property included in Note 8 as an asset held for resale.

Intangible asset/Goodwill

The directors made a critical judgement in relation to the value of the intangible asset included in Note 10 and the impairment model used in accessing the carrying amount of the goodwill (see Note 9).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

| | Consolidated Year ended 31 December 2013 \$ | Consolidated Year ended 31 December 2012 \$ |
|--|---|---|
| 2. (Loss) from Operations | | |
| (a) Revenue | | |
| Interest received - other entities | 142,652 | 29,226 |
| Management fees - related parties | 14,366 | - |
| Rental income | 147,518 | 132,760 |
| Total revenue | 304,536 | 161,986 |
| (b) Expenses | | |
| Reduction of fair value of investment property | 100,000 | 140,000 |
| Amortisation | 62,000 | 62,000 |
| Depreciation | 95,509 | 104,845 |
| Employee benefits expense: | | |
| Other employee benefits | 1,370,483 | 1,131,289 |
| Superannuation | 12,410 | 12,240 |
| | 1,382,893 | 1,143,529 |
| Finance costs - interest paid - other entities | - | 1,776 |
| 3. Income Taxes | | |
| (a) Income tax recognised in profit or loss | | |
| Tax expense comprises: | | |
| Tax expense/(income) - prior year | - | - |
| Deferred tax expense/(income) | - | - |
| Total tax expense/(income) | - | - |

The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:

| | | |
|------------------------|-------------|-------------|
| (Loss) from operations | (2,147,576) | (2,615,412) |
| Amortisation | 62,000 | 62,000 |
| Impairment of property | 100,000 | 140,000 |
| | (1,985,576) | (2,413,412) |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

| | 31 December 2013 \$ | 31 December 2012 \$ |
|--|---------------------------|---------------------------|
| 3. Income Taxes (Cont.) | | |
| Income tax expense calculated at 30% | (595,673) | (724,024) |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | 143,931 | 155,957 |
| Deferred tax benefit not brought to account | 451,742 | 568,067 |
| | - | - |

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law and 25% under Israeli law. There has been no change in the corporate tax rate when compared with the previous reporting period.

(b) Unrecognised deferred tax balances

The following deferred tax assets have not been brought to account as assets:

| | | |
|-----------------------|-----------|-----------|
| Tax losses - revenue | 1,793,129 | 1,341,387 |
| Temporary differences | (104,961) | (52,578) |
| | 1,688,168 | 1,288,809 |

(c) Franking account balance

Adjusted franking account balance

| | |
|--------|--------|
| 86,721 | 86,721 |
|--------|--------|

(d) Israeli Tax Ruling

On July 16th 2012 a Tax Ruling was issued by the Israeli Tax Authorities (ITA) under which the ITA confirmed that the Merger carried out between Audio Pixels Ltd, a private Israeli company (PC 513853606) and Audio Pixels Holdings Limited, a public Australian company, complies with the conditions stipulated in Section 103T of the Israeli Ordinance. Consequently, the transfer of the rights by the transferring rights holders in exchange for the issuance of shares in the Australian company is not taxable at the date of the Merger pursuant to the provisions of Section 103T of the Israeli Ordinance.

4. Key Management Personnel Remuneration

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

| | | |
|------------------------------|---------|---------|
| Short-term employee benefits | 618,715 | 553,453 |
| Post employment benefits | 125,668 | 108,821 |
| Share-based payments | - | - |
| Termination benefits | - | - |
| | 744,383 | 662,274 |

The remuneration above relates to directors fees and superannuation paid to entities associated with Fred Bart, Cheryl Bart and Ian Dennis and the remuneration of the three senior executives of Audio Pixels Limited in Israel.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

| | 31 December 2013 \$ | 31 December 2012 \$ |
|---|---------------------------|---------------------------|
| 5. Remuneration of Auditors | | |
| (i) Auditor of the parent entity | | |
| Audit or review of the financial statements | 27,050 | 23,100 |
| Taxation service | 4,500 | 15,000 |
| | 31,550 | 38,100 |
| (ii) Network firm of the parent entity auditor | | |
| Audit or review of the financial statements | 15,586 | 14,599 |
| Taxation service | - | 10,044 |
| | 15,586 | 24,643 |
| The auditor of Audio Pixels Holdings Limited is Deloitte Touche Tohmatsu. | | |
| 6. Cash and Cash Equivalents | | |
| Cash on hand and at bank | 4,271,573 | 5,415,454 |
| Weighted average interest rate received on cash | 1.98% | 2.90% |
| 7. Trade and Other Receivables | | |
| Current | | |
| GST receivable | 69 | 2,831 |
| Interest receivable | - | 4,892 |
| Prepayments | 118,838 | 33,838 |
| Trade debtors | 13,523 | - |
| Other debtors | - | 17,274 |
| | 132,430 | 58,835 |
| Current debtors are receivable within 30 days | | |
| Non Current | | |
| Other debtors | 6,072 | 13,858 |

Other debtors comprise security deposits with government bodies.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

| | 31 December 2013 \$ | 31 December 2012 \$ |
|----------------------------------|---------------------------|---------------------------|
| 8. Asset held for sale | | |
| Strata title commercial property | 1,500,000 | 1,600,000 |

In 2013 the fair value of the Strata Title commercial property was determined in accordance with a valuation carried out on 14 February 2014 by Landmark White (Sydney) Pty Limited, independent valuers not related to the company. The valuation which conforms to Australian Valuation Standards was arrived at by reference to market evidence of transaction prices for similar properties and capitalisation of the net rental income at a rate of 7.25%.

The directors have determined the fair value of the property at 31 December 2013 of \$1,500,000 based on the 14 February 2014 valuation.

9. Goodwill

Being goodwill acquired on the acquisition of Audio Pixels Limited. The goodwill is allocated to the cash generating unit of digital speakers by Audio Pixels Limited of Israel.

| | | |
|-------------------------------|-----------|-----------|
| | 1,992,314 | 1,840,135 |
| Balance at 1 January | 1,840,135 | 1,840,135 |
| Net foreign currency exchange | 152,179 | - |
| Balance at 31 December | 1,992,314 | 1,840,135 |

The recoverable amount of this cash generating unit is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by the directors covering a 11 year period, with a growth rate reflecting the expected future growth in the product market, and a discount rate of 24% per annum. The cash flow projections used in the impairment model extend beyond 5 years as the intangible assets generating the cash flows within have a remaining life of 11 years and the product is new technology and hence related cash flows have a longer operating cycle and time to market. Cash flow projections during the budget period are based on the same expected gross margins and raw materials price inflation during the budget period and factor in a probability of the viability of the product. The directors believe that any reasonable possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying value to exceed the aggregate recoverable amount of the cash generating unit. Movements in the value of the goodwill are a result of the retranslation of the goodwill from the functional currency of the cash generating unit to which it is attributed.

10. Intangible Asset

Being the independent valuation of In Process Research and Development determined at the acquisition date of 24 September 2010 by Ernst & Young, Israel in their report dated 17 August 2011.

| | | |
|-------------------------------------|-----------|-----------|
| | 868,000 | 868,000 |
| Exchange differences on translation | 55,120 | - |
| Less accumulated amortisation | (201,500) | (139,500) |
| | 721,620 | 728,500 |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

| | 31 December 2013 \$ | 31 December 2012 \$ |
|---|---------------------------|---------------------------|
| 11. Property, Plant and Equipment | | |
| Computers and related equipment - at cost | 255,609 | 211,659 |
| Less accumulated depreciation | (237,415) | (180,508) |
| | 18,194 | 31,151 |
| Leasehold improvements - at cost | 183,065 | 156,595 |
| Less accumulated depreciation | (182,604) | (156,129) |
| | 461 | 466 |
| Office furniture and equipment - at cost | 742,611 | 603,883 |
| Less accumulated depreciation | (591,080) | (439,659) |
| | 151,531 | 164,224 |
| Total net book value of Property, Plant and Equipment | 170,186 | 195,841 |
| Cost | | |
| Computers and related equipment | | |
| Balance at 1 January | 211,659 | 199,003 |
| Additions | 8,172 | 16,455 |
| Net foreign currency exchange differences | 35,778 | (3,799) |
| Balance as at 31 December | 255,609 | 211,659 |
| Leasehold improvements | | |
| Balance at 1 January | 156,595 | 159,642 |
| Net foreign currency exchange differences | 26,470 | (3,047) |
| Balance as at 31 December | 183,065 | 156,595 |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

| | 31 December 2013 \$ | 31 December 2012 \$ |
|--|---------------------------|---------------------------|
| 11. Property, Plant and Equipment (Cont.) | | |
| Office furniture and equipment | | |
| Balance at 1 January | 603,883 | 580,697 |
| Additions | 36,652 | 28,479 |
| Net foreign currency exchange differences | 102,076 | (5,293) |
| Balance as at 31 December | 742,611 | 603,883 |
| Accumulated depreciation | | |
| Computers and related equipment - at cost | | |
| Balance as at 1 January | (180,508) | (159,243) |
| Net foreign currency exchange differences | (32,569) | 3,275 |
| Depreciation expense | (24,338) | (24,540) |
| Balance at 31 December | (237,415) | (180,508) |
| Leasehold improvements | | |
| Balance as at 1 January | (156,129) | (159,095) |
| Net foreign currency exchange differences | (26,398) | 3,038 |
| Depreciation expense | (77) | (72) |
| Balance at 31 December | (182,604) | (156,129) |
| Office furniture and equipment | | |
| Balance as at 1 January | (439,659) | (367,200) |
| Net foreign currency exchange differences | (80,327) | 7,774 |
| Depreciation expense | (71,094) | (80,233) |
| Balance at 31 December | (591,080) | (439,659) |
| 12. Trade and Other Payables | | |
| Current | | |
| Trade payables and accruals | 668,014 | 303,115 |
| Other creditors - related parties | - | 23,156 |
| | 668,014 | 326,271 |

The payables are non interest bearing and have an average credit period of 30 days.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

| | 31 December 2013 \$ | 31 December 2012 \$ |
|-------------------------------------|---------------------------|---------------------------|
| 13. Current Borrowings | | |
| At amortised cost | | |
| Commercial bill - secured | - | - |
| Financing arrangements | | |
| Total facilities available | - | 920,000 |
| Facilities utilised at balance date | - | - |
| Facilities not used at balance date | - | 920,000 |

The commercial bills were denominated in Australian dollars. The commercial bill facility of \$900,000 was a committed facility secured by a registered first mortgage against the Strata Title property. The \$900,000 commercial bill expired on 28 February 2013. The average weighted interest rate on the interest bearing liabilities was Nil (2012 - 5.85%). The unused facility of \$20,000 relates to a credit card facility. The carrying amount is equal to the fair value.

14. Provisions

| | | |
|-------------------|---------|---------|
| Employee benefits | 419,843 | 268,015 |
|-------------------|---------|---------|

15. Issued Capital

| | | |
|--|------------|------------|
| Issued and paid up capital | | |
| Fully paid Ordinary Shares | | |
| Balance at the beginning of the financial year | 35,945,405 | 30,360,295 |
| Issue of shares at \$5.00 each for cash | 1,000,000 | 5,585,110 |
| Issue of shares at \$1.59 each for cash | 48,123 | - |
| Issue of shares on exercise of options | 405,414 | - |
| Balance at the end of the financial year | 37,398,942 | 35,945,405 |

| | Number | Number |
|--|------------|------------|
| Fully paid Ordinary Shares | | |
| Balance at the beginning of the financial year | 24,409,985 | 23,292,963 |
| Issue of shares at \$5.00 each for cash | 200,000 | 1,117,022 |
| Issue of shares \$1.59 each for cash | 30,183 | - |
| Issue of shares on exercise of options | 1,066,879 | - |
| Balance at the end of the financial year | 25,707,047 | 24,409,985 |

Fully paid ordinary shares carry one vote per share and carry the rights to dividends.

Changes in the Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore the company does not have a limited amount of authorised capital and issued shares do not have a par value.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

16. Options Issued to Founders and Staff

On 13 January 2011, shareholders approved the issue of 1,066,879 unlisted options at an exercise price of 38 cents to the founders and staff of Audio Pixels Limited of Israel. These 1,066,879 unlisted options were issued on 11 February 2011. All the 1,066,879 options were exercised during the year raising \$405,414. There are no options outstanding at balance date or the date of this report.

Each share option converted to one ordinary share in Audio Pixels Holdings Limited. The options carry neither rights to dividends nor voting rights.

The allocation of the options between the founders and staff is as follows:

| | Number | Value |
|----------|-----------|-----------|
| Founders | 919,879 | 3,891,088 |
| Staff | 147,000 | 621,810 |
| | 1,066,879 | 4,512,898 |

The value of the options issued to the three founders was allocated to the minority acquisition reserve and the value of the options issued to staff was treated as share based payments in the 31 December 2011 profit and loss account.

| | 2013 | | 2012 | |
|--|-------------|---|-----------|---|
| | Number | Weighted Average Exercise price \$ | Number | Weighted Average Exercise price \$ |
| Balance at the beginning of the financial year | 1,066,879 | 0.38 | 1,066,879 | 0.38 |
| Exercised during the year | (1,066,879) | 0.38 | - | - |
| Balance at the end of the financial year | - | - | 1,066,879 | 0.38 |
| Exercisable at end of year | - | - | - | 0.38 |

These 1,066,879 options were subject to a voluntary escrow which expired on 11 February 2013.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

| | 31 December 2013 \$ | 31 December 2012 \$ |
|--|---------------------------|---------------------------|
| 17. Reserves | | |
| Foreign currency translation | | |
| Balance at the beginning of the financial year | 91,105 | 14,977 |
| Translation of foreign operations | (857,960) | 76,128 |
| Balance at end of financial year | (766,855) | 91,105 |
| <p>Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. Australian dollars) are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve are reclassified to profit and loss on the disposal of the foreign operation.</p> | | |
| Equity settled option reserve | | |
| Balance at the beginning of the financial year | 4,512,898 | 4,512,898 |
| Balance at end of financial year | 4,512,898 | 4,512,898 |
| <p>The above equity-settled option reserve relates to share options granted by the Company.</p> | | |
| Minority acquisition reserve | | |
| Balance at the beginning of the financial year | (25,538,692) | (25,538,692) |
| Balance at end of financial year | (25,538,692) | (25,538,692) |
| <p>The minority interest reserve comprises amounts related to the acquisition of a minority interest shareholding in a subsidiary company in a prior period.</p> | | |
| Total Reserves | (21,792,649) | (20,934,689) |
| 18. Accumulated Losses | | |
| Balance at the beginning of the financial year | (5,752,379) | (3,136,967) |
| (Loss) for the year attributable to owners of the company | (2,147,576) | (2,615,412) |
| Balance at the end of the financial year | (7,899,955) | (5,752,379) |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

| 31 December 2013 \$ | 31 December 2012 \$ |
|---------------------------|---------------------------|
|---------------------------|---------------------------|

19. Notes to the Statement of Cash Flows

(a) Reconciliation of cash and cash equivalents

For the purposes of the statement of cash flows, cash includes cash on hand and at call deposits with banks or financial institutions, investments in money market instruments maturing within less than 3 months at the date of acquisition. Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

| | | |
|---|-----------|-----------|
| Cash and cash equivalents | 4,271,573 | 5,415,454 |
| (b) Restricted cash | | |
| Cash held as security for future lease payments | 30,667 | 23,251 |

(c) Reconciliation of (loss) for the period to net cash flows from operating activities

| | | |
|--|-------------|-------------|
| (Loss) after related income tax | (2,147,576) | (2,615,412) |
| Prior period adjustment | - | (6,687) |
| Reduction in fair value of investment property | 100,000 | 140,000 |
| Amortisation | 62,000 | 62,000 |
| Depreciation | 95,509 | 104,845 |
| Foreign exchange | (1,214,263) | 104,783 |
| Changes in assets and liabilities | | |
| (Increase)/decrease in assets | | |
| Current trade and other receivables | (73,595) | (13,608) |
| Non-current trade and other receivables | 7,786 | 445 |
| Increase/(decrease) in liabilities | | |
| Provisions | 151,828 | 70,534 |
| Current trade payables | 341,743 | (53,734) |
| Net cash used in operating activities | (2,676,568) | (2,206,834) |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

20. Related Party Transactions

(a) Directors

The Directors of Audio Pixels Holdings Limited in office during the year were Fred Bart, Ian Dennis and Cheryl Bart.

(b) Directors' Shareholdings

| | 2013 Number | 2012 Number |
|-------------|----------------|----------------|
| Fred Bart | 5,441,250 | 5,291,250 |
| Ian Dennis | 570,050 | 520,050 |
| Cheryl Bart | 500,000 | 500,000 |

Mr Fred Bart purchased 200,000 ordinary shares during the year ended 31 December 2013 via a placement approved by shareholders in general meeting. On 4 September 2013, Ian Dennis purchased 50,000 ordinary shares from Fred Bart at \$2.00 each.

(c) Transactions with Related Entities

The company has paid Nil (year ended 31 December 2012: \$35,464) in respect of rental of the Sydney offices premises to 4F Investments Pty Limited, a company associated with Fred Bart. These rentals were based on a share of actual costs incurred and did not include a profit mark up.

The company received \$14,366 (year ended 31 December 2012: Nil) in respect of management fees from 4F Investments Pty Limited, a company associated with Fred Bart. These management fees are based on a share of actual costs incurred and do not include a profit mark up.

During the year ended 31 December 2013, the Company paid a total of \$107,488 (year ended 31 December 2012 - \$107,365) 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 2013, the Company paid a total of \$40,922 (year ended 31 December 2012 - \$40,875) 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 2012 - \$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 29 October 2012, the company entered into a sublease in respect of office premises at Level 12, 75 Elizabeth Street Sydney for a period of seventeen months to 30 March 2014. The company recharges 20% of the rent to Electro Optic Systems Holdings Limited, a company of which Fred Bart and Ian Dennis are directors, 20% to 4F Investments Pty Limited, a company controlled by Fred Bart and 40% to another tenant who is a shareholder in the company. The related parties have advanced Nil (2012: \$23,156) to the company as advance rent which is included in other creditors in Note 12.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

| | 31 December 2013 \$ | 31 December 2012 \$ |
|--|---------------------------|---------------------------|
| 21. Earnings per Share | | |
| Basic (loss) per share | (8.46 cents) | (11.23 cents) |
| Diluted (loss) per share | (8.46 cents) | (11.23 cents) |
| (Loss) (a) | (2,147,576) | (2,615,412) |
| Weighted average number of Ordinary Shares | 25,395,498 | 23,292,963 |

(a) (Loss) used in the calculation of basic earnings per share are the same as the net (loss) in the Statement of profit or loss and other comprehensive income.

Diluted (loss) per share

There were 1,066,879 unlisted options exercisable at 38 cents which expire on 31 March 2013 which were potential ordinary shares which were considered to be antidilutive as they would result in a reduction in the loss per share if exercised.

Accordingly as per AASB 133 the basic earnings per share is the same as diluted earnings per share as no adjustment has been made for the antidilutive potential ordinary shares.

22. Segment Information

Since 24 September 2010, the company acquired an equity interest in Audio Pixels Limited of Israel which is involved in the development of digital speakers.

Segment Revenues

| | | |
|-----------------------|---------|---------|
| Property investment | 147,518 | 132,760 |
| Digital speakers | - | - |
| Total of all segments | 147,518 | 132,760 |
| Unallocated | 157,018 | 29,226 |
| Total | 304,536 | 161,986 |

Segment Results

| | | |
|---------------------------|-------------|-------------|
| Property investment | 10,475 | 100,806 |
| Digital speakers | (2,315,069) | (2,745,444) |
| Total of all segments | (2,304,594) | (2,644,638) |
| Unallocated | 157,018 | 29,226 |
| (Loss) before income tax | (2,147,576) | (2,615,412) |
| Income tax gain/(expense) | - | - |
| (Loss) for the period | (2,147,576) | (2,615,412) |

The consolidated entity had one customer who provided 100% of the rental income for the year ended 31 December 2013 and 100% for the year ended 31 December 2012.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

22. Segment Information (Cont.)

Segment Assets and Liabilities

| | Assets | | Liabilities | |
|---------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| | 31 December 2013 \$ | 31 December 2012 \$ | 31 December 2013 \$ | 31 December 2012 \$ |
| Property investment | 1,513,523 | 1,600,000 | - | - |
| Other investments | - | - | - | - |
| Digital speakers | 3,009,030 | 2,834,338 | 1,087,857 | 594,286 |
| Total all segments | 4,522,553 | 4,434,338 | 1,087,857 | 594,286 |
| Unallocated | 4,271,642 | 5,418,285 | - | - |
| Consolidated | 8,794,195 | 9,852,623 | 1,087,587 | 594,286 |

Assets used jointly by reportable segments are allocated on the basis of the revenue earned by the individual reportable segments.

Other Segment Information

| | Depreciation and amortisation of segment assets | | Acquisition of segment assets | |
|---------------------|--|---------------------------|-------------------------------|---------------------------|
| | 31 December 2013 \$ | 31 December 2012 \$ | 31 December 2013 \$ | 31 December 2012 \$ |
| Property investment | - | - | - | - |
| Other investments | - | - | - | - |
| Digital speakers | 157,509 | 166,845 | 44,824 | 44,934 |
| Total all segments | 157,509 | 166,845 | 44,824 | 44,934 |
| Unallocated | - | - | - | - |
| Consolidated | 157,509 | 166,845 | 44,824 | 44,934 |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

22. Segment Information (Cont.)

Information on Geographical Segments

| Geographical Segments | Revenue from External Customers \$ | Segment Assets \$ | Acquisition of Segment Assets \$ |
|-------------------------|---|----------------------|--|
| 31 December 2013 | | | |
| Australia | 304,536 | 5,674,251 | - |
| Israel | - | 3,119,944 | 44,824 |
| Total | 304,536 | 8,794,195 | 44,824 |
| 31 December 2012 | | | |
| Australia | 161,952 | 6,885,407 | - |
| Israel | 34 | 2,967,216 | 44,934 |
| Total | 161,986 | 9,852,623 | 44,934 |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

23. Financial Risk Management Objectives and Policies

The consolidated entity's principal financial instruments comprise receivables, payables, cash and short term deposits.

Due to the small size of the group significant risk management decisions are taken by the board of directors. These risks include market risk (including fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Directors do not plan to eliminate risk altogether, rather they plan to identify and respond to risks in a way that creates value for the company and its shareholders. Directors and shareholders appreciate that in order for the consolidated entity to compete and grow, a long term strategy needs to involve risk taking for reward.

The consolidated entity does not use derivative financial instruments to hedge these risk exposures.

Risk Exposures and Responses

(a) Interest Rate Risk

The Group's exposure to market interest rates relates primarily to the consolidated entity's cash holdings and short term deposits.

At balance date, the consolidated entity had the following mix of financial assets exposed to Australian interest rate risk that are not designated in cash flow hedges:

| | 31 December 2013 \$ | 31 December 2012 \$ |
|---------------------------|---------------------------|---------------------------|
| Financial assets | | |
| Cash and cash equivalents | 4,271,573 | 5,415,454 |

The Group constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing and the mix of fixed and variable interest rates.

At 31 December 2013, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax (loss) and equity would have been affected as follows:

| Judgements of reasonably possible movements | Post Tax Profit Higher/(Lower) | | Equity Higher/(Lower) | |
|---|--------------------------------|---------------------------|---------------------------|---------------------------|
| | 31 December 2013 \$ | 31 December 2012 \$ | 31 December 2013 \$ | 31 December 2012 \$ |
| Consolidated entity | | | | |
| +1% (100 basis points) | 21,273 | 54,244 | 21,273 | 54,244 |
| -.5% (50 basis points) | (21,443) | (26,987) | (21,443) | (26,987) |

The movements in profits are due to higher/lower interest rates on cash and cash equivalents balances. The cash and cash equivalents balances were lower in December 2013 than in December 2012 and accordingly the sensitivity is lower.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

23. Financial Risk Management Objectives and Policies (Cont.)

(b) Foreign Currency Risk

The consolidated entity has a foreign currency risk since the acquisition of Audio Pixels Limited. Audio Pixels Limited operates in Israel and all transfer of funds to Audio Pixels Limited are denominated in US dollars. The consolidated entity does not hedge its US dollar exposure.

The carrying amounts of the Group's foreign currency (US\$) denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

| | Liabilities | | Assets | |
|-----------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| | 31 December 2013 \$ | 31 December 2012 \$ | 31 December 2013 \$ | 31 December 2012 \$ |
| Cash and cash equivalents | - | - | 1,024,765 | 941,813 |
| Trade and other receivables | - | - | 116,349 | 25,157 |
| Trade and other payables | 392,479 | 275,267 | - | - |

All US\$ denominated financial instruments were translated to A\$ at 31 December 2013 at the exchange rate of 0.8874 (2012: 1.0374).

At 31 December 2013 and 31 December 2012, had the Australian Dollar moved, as illustrated in the table below, with all other variables held constant, post tax loss and equity would have been affected as follows:

| Judgements of reasonably possible movements | Post Tax Profit Higher/(Lower) | | Equity Higher/(Lower) | |
|---|--------------------------------|------------|-----------------------|------------|
| | 2013 \$ | 2012 \$ | 2013 \$ | 2012 \$ |
| Consolidated | | | | |
| AUD/USD +10% | 261,693 | 173,386 | 261,693 | 173,386 |
| AUD/USD -5% | (151,506) | (100,381) | (151,506) | (100,381) |

Management believes the balance date risk exposures are representative of risk exposure inherent in financial instruments.

(c) Credit Risk Management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The consolidated entity has adopted a policy of only dealing with creditworthy counterparties which are continuously monitored. Rental revenue is due in advance.

The credit risk on liquid funds is limited because the counterparties are major banks with high credit-ratings assigned by international credit agencies.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

23. Financial Risk Management Objectives and Policies (Cont.)

(d) Liquidity Risk Management

The consolidated entity's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. The consolidated entity's investments in money market instruments all have a maturity of less than 3 months.

Ultimate responsibility for liquidity risk management rests with the board of directors, who have built an appropriate risk management framework for the management of the consolidated entity's short, medium and long term funding and liquidity requirements. The consolidated entity manages liquidity by maintaining adequate cash reserves by continuously monitoring forecast and actual cash flows and managing maturity profiles of financial assets.

Prior to being repaid, the consolidated entity's commercial bill borrowings of \$900,000 were rolled over on a monthly basis at prevailing commercial interest rates. The commercial bill facility expired on 28 February 2013.

The following tables detail the consolidated entity's remaining contractual maturity for its non-derivative financial assets. The tables have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on these assets except where the consolidated entity anticipates that the cash flow will occur in a different period.

| | Weighted average effective interest rate % | Less than 1 month \$ | 1-3 months \$ | 3 months to 1 year \$ | 1-5 years \$ |
|-------------------------|--|----------------------------|------------------|-----------------------------|-----------------|
| 31 December 2013 | | | | | |
| Non interest bearing | 0.00 | 962,021 | - | - | - |
| Fixed rate instruments | 1.98 | 3,316,608 | 14,110 | 63,497 | - |
| 31 December 2012 | | | | | |
| Non interest bearing | 0.00 | 864,181 | - | - | - |
| Fixed rate instruments | 2.90 | 4,532,514 | 26,160 | 31,839 | - |

(e) Commodity Price Risk

The consolidated entity has no exposure to commodity price risk.

(f) Other Price Risks

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

24. Financial Instruments

Fair value of financial instruments

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

The Strata Title property held for resale is the only asset in the Group measured at fair value. The fair value determined at 31 December 2013 was \$1,500,000 (2012: \$1,600,000).

The fair value hierarchy was Level 3.

Movement schedule

| | |
|---------------------------------------|-----------|
| Opening balance | 1,600,000 |
| Total gains/(losses) in profit/(loss) | (100,000) |
| Closing balance | 1,500,000 |

Sensitivity schedule

Movements in the valuation of the property have sensitivity to the capitalisation rate. Increases in the capitalisation rate would result in a lower property valuation and vice versa.

25. Subsequent Events

The Directors are not aware of any significant events since the end of the financial year and up to the date of this report.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

| | 31 December 2013 \$ | 31 December 2012 \$ |
|--|---------------------------|---------------------------|
| 26. Parent Entity Disclosures | | |
| Financial position | | |
| Assets | | |
| Current assets | 12,215,449 | 10,003,453 |
| Non-current assets | 4,028,209 | 4,028,209 |
| Total assets | 16,243,658 | 14,031,662 |
| Liabilities | | |
| Current liabilities | 16,415 | 51,002 |
| Non-current liabilities | - | - |
| Total liabilities | 16,415 | 51,002 |
| Net assets | 16,227,243 | 13,980,660 |
| Equity | | |
| Issued capital | 37,398,942 | 35,945,405 |
| Reserves | (21,025,794) | (21,025,794) |
| (Accumulated losses)/Retained earnings | (145,905) | (938,951) |
| Total equity | 16,227,243 | 13,980,660 |
| Financial performance | | |
| Profit/(Loss) for the period | 793,046 | (652,851) |
| Other comprehensive income | - | - |
| | 793,046 | (652,851) |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

27. Controlled Entity

| Name of Entity | Country of Incorporation | 31 December 2013 % | 31 December 2012 % |
|-------------------------------|--------------------------|--------------------|--------------------|
| Parent Entity | | | |
| Audio Pixels Holdings Limited | Australia | | |
| Controlled Entity | | | |
| Audio Pixels Limited | Israel | 100.00 | 100.00 |

28. Leases

Operating leases - leasing arrangements (the Company as Lessor)

Operating leases relate to the strata title property owned by the consolidated entity with a remaining lease term of thirty three months to 30 September 2016, with an option for a further term of three years. The operating leases contain rental review clauses. The lessee does not have an option to buy the property at the expiry of the lease period.

| | 31 December 2013 \$ | 31 December 2012 \$ |
|--|---------------------|---------------------|
| Non-cancellable operating lease receivables | | |
| Not longer than 1 year | 147,518 | 110,639 |
| Longer than 1 year and not longer than 5 years | 358,153 | - |
| Longer than 5 years | - | - |
| | 405,671 | 110,639 |

Operating leases - leasing arrangements (the Company as lessee)

The parent company entered into a sublease arrangement in respect of its head office premises at Level 12, 75 Elizabeth Street, Sydney NSW commencing on 29 October 2012 for a period of 17 months to 30 March 2014.

| | 31 December 2013 \$ | 31 December 2012 \$ |
|---|---------------------|---------------------|
| Non-cancellable operating lease payables | | |
| Not longer than 1 year | 1,412 | 65,599 |
| Longer than 1 year and not longer than 5 years | - | 30,000 |
| Longer than 5 years | - | - |
| | 1,412 | 95,599 |

At the date of this report, the Company is negotiating a new four year lease on the current premises from 31 March 2014. The Company recovers 80% of the lease payments from director related entities who sublease space from the company on a month to month arrangement.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

29. Contingent Liability

The parent company has been advised of a potential derivative action in Israel by an individual shareholder of BE4 Limited, an Israeli company in bankruptcy proceedings. At the date of this report the parent company has not been formally served. The Directors do not believe the Company has a case to answer, and is prepared to vigorously defend any action if commenced.

30. Additional Company Information

Audio Pixels Holdings Limited is a listed public company, incorporated and operating in Australia.

Registered Office and Principal Place of Business

Level 12
75 Elizabeth Street
Sydney NSW 2000
Australia

Tel: (02) 9233 3915

Fax: (02) 9232 3411

www.audiopixels.com.au

The Company has 11 (2012: 11) employees in Israel.

ASX ADDITIONAL INFORMATION

Additional information required by the Australian Stock Exchange Listing Rules and not disclosed elsewhere in this report.

Home Exchange

The Company's ordinary shares are quoted on the Australian Stock Exchange Limited under the trading symbol "AKP". The Home Exchange is Sydney. The Company also has a Level 1 American Depositary Receipts (ADR) program and quotation on the OTCQX market in the United State of America under the code "ADPXY".

Substantial Shareholders

At 14 February 2014 the following substantial shareholders were registered:

| | Ordinary Shares | Percentage of total Ordinary Shares |
|-----------------|-----------------|-------------------------------------|
| Fred Bart Group | 5,441,250 | 21.17% |

Voting Rights

At 14 February 2014 there were 893 holders of fully paid ordinary shares.

Rule 74 of the Company's Constitution stipulates the voting rights of members as follows:

"Subject to any rights or restrictions for the time being attached to any class or classes of shares and to this Constitution:

- (a) on a show of hands every person present in the capacity of a Member or a proxy, attorney or representative (or in more than one of these capacities) has one vote; and
- (b) On a poll every person present who is a Member or proxy, attorney or representative has member present has:
 - (i) For each fully paid share that the person holds or represents - one vote; and
 - (ii) For each share other than a fully paid share that the person holds or represents - that proportion of one vote that the amount paid (not credited) on the shares bears to the total amount paid and payable on the share (excluding amounts credited)."

Other Information

In accordance with Listing Rule 4.10.19, the Company has used the cash and assets in a form readily convertible to cash that it had at the time of admission in a way consistent with its business objectives.

Distribution of Shareholdings

At 14 February 2014 the distribution of ordinary shareholdings were:

| Range | Ordinary Shareholders | Number of Shares |
|------------------|-----------------------|------------------|
| 1-1,000 | 272 | 118,475 |
| 1,001 - 5,000 | 261 | 787,642 |
| 5,001 - 10,000 | 196 | 1,752,064 |
| 10,001 - 100,000 | 126 | 4,066,445 |
| 100,001 and over | 38 | 18,982,421 |
| | 893 | 25,797,047 |

There were 88 ordinary shareholders with less than a marketable parcel.

There is no current on-market buy-back.

TWENTY LARGEST ORDINARY SHAREHOLDERS

At 14 February 2014 the 20 largest ordinary shareholders held 63.40% of the total issued fully paid quoted ordinary shares of 25,707,047.

| Shareholder | Fully Paid Ordinary Shares | Percentage of Total |
|---|----------------------------|---------------------|
| 1. Meitav Dash Trusts Limited | 4,216,582 | 16.40% |
| 2. Landed Investments (NZ) Limited | 3,565,000 | 13.87% |
| 3. Fred Bart | 1,244,750 | 4.84% |
| 4. Link Traders (Aust) Pty Limited | 756,945 | 2.94% |
| 5. Kam Superannuation Fund Pty Limited | 650,000 | 2.53% |
| 6. Bart Superannuation Pty Limited | 592,780 | 2.31% |
| 7. Lee K Lau | 588,546 | 2.29% |
| 8. Ian Dennis and Caroline Dennis | 570,000 | 2.22% |
| 9. Cheryl Bart | 500,000 | 1.94% |
| 10. Meitav Dash Trusts Limited<Yuval Cohen A/C> | 498,152 | 1.94% |
| 11. Jamber Investments Pty Limited | 440,000 | 1.71% |
| 12. Decante Pty Ltd <J M Ehrlich Super Fund A/C> | 383,000 | 1.49% |
| 13. Matthew James Sachr | 322,900 | 1.26% |
| 14. Brent McCarty, Yvonne McCarty and Zeljan Unkovich | 321,306 | 1.25% |
| 15. HSBC Custodian Nominees (Australia) Pty Limited | 314,857 | 1.22% |
| 16. Array Capital Corporation | 288,557 | 1.12% |
| 17. Meitav Dash Trusts Limited <Daniel Lewin A/C> | 278,273 | 1.08% |
| 18. Grandor Pty Limited | 258,497 | 1.01% |
| 19. James John Bart | 255,974 | 1.00% |
| 20. Larron Pty Limited <Jennings Family A/C> | 251,000 | 0.98% |
| | 16,297,119 | 63.40% |

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Audio Pixels Holdings Limited is responsible for the corporate governance of the entity. The Board guides and monitors the business and affairs of Audio Pixels Holdings Limited on behalf of the shareholders by whom they are elected and to whom they are accountable. The Board recognises that it has a number of legal and other obligations to non-shareholder stakeholders.

The Directors are committed to protecting stakeholders' interests and keeping investors fully informed about the performance of the Group, while meeting stakeholders' expectations of sound corporate governance practices. To ensure the best representation of Shareholder interests, the Board will regularly review its corporate governance practices.

The Corporate Governance Statement follows the Australian Stock Exchange Corporate Governance Council's (the "Council's") amendments to the 2nd edition of the Corporate Governance Principles and Recommendations released on 30 June 2010 in relation to diversity, remuneration, trading policies and briefings.

In accordance with the Council's recommendations, the Corporate Governance Statement must now contain certain specific information and must disclose the extent to which the Company has followed the guidelines during the period. Where a recommendation has not been followed, that fact must be disclosed, together with the reasons for the departure. Audio Pixels Holdings Limited's Corporate Governance Statement is now structured with reference to the Corporate Governance Council's principles and recommendations, which are as follows:

- Principle 1. Lay solid foundations for management and oversight
- Principle 2. Structure the Board to add value
- Principle 3. Promote ethical and responsible decision making
- Principle 4. Safeguard integrity in financial reporting
- Principle 5. Make timely and balanced disclosure
- Principle 6. Respect the rights of shareholders
- Principle 7. Recognise and manage risk
- Principle 8. Remunerate fairly and responsibly

Audio Pixels Holdings Limited's corporate governance practices were in place throughout the year ended 31 December 2013, unless otherwise stated, and embrace the Council's best practice recommendations which are being put in place as appropriate.

Due to the limitations imposed by size, the Company does not meet Recommendation 3.1 of the Guidelines as the Company does not have a formal code of conduct. The Company has three executives and eight staff based in Israel and three Australian based directors to which the code of conduct applies. The company currently has one woman on the board and one woman in an executive position in Israel.

Due to the limitations imposed by size, the Company does not meet Recommendation 4.2 of the Guidelines as the Company does not have a formally constituted audit committee. All Directors of the Company act as the audit committee.

In accordance with Recommendation 5.1, the Board has appointed Ian Dennis, Director and Company Secretary to ensure compliance with ASX Listing Rule disclosure requirements. Due to the limitations imposed by size the Board has not established written policies and procedures.

The Directors respect the rights of shareholders in accordance with Principle 6. The Company sends all financial communications to shareholders who have requested hard copy financial statements and posts all relevant information including all ASX Announcements on the Company web site. Notices of Meetings are sent to all shareholders inviting them to attend the Annual General Meeting which is held at the registered office in Sydney. A representative of the auditor, Deloitte Touche Tohmatsu attends the Annual General Meeting.

The Directors have established a formal risk assessment plan in order to comply with Principle 7.

Additional information regarding the Company's corporate governance policies, its Directors and other relevant information can be found on the Company's website: www.audiopixels.com.au

Structure of the Board

The skills, experience and expertise relevant to the position of director held by each Director in office at the date of this Annual Report is included in the Directors' Report on page 2. Directors of Audio Pixels Holdings Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgement.

CORPORATE GOVERNANCE STATEMENT

In the context of director independence, “materiality” is considered from both the Company and individual director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal or less than 5 percent of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10 percent of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors which point to the actual ability of the director in question to shape the direction of the Company’s loyalty.

In accordance with the definition of independence above, and the materiality thresholds set, the following Director of Audio Pixels Holdings Limited is considered to be independent:

| Name | Position |
|---------------|------------------------|
| Mr Ian Dennis | Non-executive Director |

Due to limitations imposed by the small size of the Company, the company does not comply with Recommendation 2.1 in having a majority of independent directors. The Chairman, Mr Fred Bart is not an independent Chairman as recommended by Recommendation 2.2. The Board proposes to maintain the current directors until the size of the activities of the Company warrant further changes.

There are procedures in place, agreed by the Board, to enable directors, in furtherance of their duties, to seek independent professional advice at the Company’s expense.

The term in office held by each Director in office at the date of this report is as follows:

| Name | Position | Term in Office |
|----------------|------------------------|----------------|
| Mr Fred Bart | Non-Executive Chairman | 13 years |
| Mr Ian Dennis | Non-Executive Director | 13 years |
| Ms Cheryl Bart | Non-Executive Director | 11 years |

For additional details regarding board appointments, please refer to the Company’s website.

Nomination Committee

The entire Board comprises the Nomination Committee. The Board continues to operate within the established guidelines, including when necessary, selecting candidates for the position of Director and, where appropriate, seeking the services of an independent consultant who is not a director of the Company to provide assistance in the recruitment of potential Directors.

Performance

The performance of the Board is reviewed regularly against both measurable and qualitative indicators. Directors whose performance is consistently unsatisfactory may be asked to retire.

Diversity Policy

The Company values diversity and recognises the benefits it can bring to the organisation’s ability to achieve its goals. Accordingly, the Company has developed a diversity policy which outlines its diversity objectives in relation to gender, age, cultural background and ethnicity. It includes requirements for the Board to establish measurable objectives for achieving diversity, and for the Board to assess annually both the objectives, and the Company’s progress made in achieving them.

At the date of this report, the Company has three executives and eight staff based in Israel and three Australian based directors to which this policy applies. The company currently has one woman on the board and one woman in an executive position in Israel.

Remuneration

One of the Company’s key objectives is to provide maximum stakeholder benefits from the retention of a high quality Board by remunerating Directors fairly and appropriately with reference to relevant employment market conditions. The entire Board comprises the Remuneration Committee. The expected outcomes of the remuneration structure are:

- Retention and motivation of directors; and
- Attraction of quality management to the Company;

For details regarding the amount of remuneration and all monetary and non-monetary components for each of the key management personnel during the year, refer to the Remuneration Report in the Directors report.

CORPORATE GOVERNANCE STATEMENT

There is no scheme to provide retirement benefits, other than statutory superannuation, to non-executive directors.

The Board is responsible for determining and reviewing compensation arrangements for the Directors themselves.

Securities Trading Policy

1. Introduction

The Securities Trading Policy of Audio Pixels Holdings Limited ("AKP") regulates the sale and purchase of securities (ordinary shares, options and derivative products) in AKP by Directors, employees and associated persons.

The purpose of this Securities Trading Policy is to reinforce this position and to assist Directors, employees and associates to avoid conduct known as "insider trading". The Securities Trading Policy was updated to comply with ASX Listing Rules on Trading Policies which came into effect on 1 January 2011.

2. What is Insider Trading?

2.1 Prohibition

Insider trading is a criminal offence. A person will be guilty of insider trading if:

- (a) that person possesses information in relation to a company which is not generally available to the market, and if it were generally available to the market, would be likely to affect the price or value of that company's securities (ie. information that is "price sensitive"); and
- (b) that person:
 - (i) buys or sells securities in the company;
 - (ii) procures someone else to buy or sell securities in the company; or
 - (iii) passes on that information to a third party where that person knows, or ought reasonably to know, that the third party would be likely to deal in the securities or procure someone else to deal in the securities of the company.

When is information "generally available"?

Information is considered to be generally available if it:

- (a) is readily observable; (for example, published in the press, or in marketing communications); or

- (b) has been made known in a manner likely to bring it to the attention of persons who commonly invest in securities of a kind whose price or value might be affected by the information (e.g. by way of an ASX announcement) and, since the information was made known, a reasonable period has elapsed.

Examples of inside information:

Some examples of information which could be inside information are:

- Sales figures;
- Profit forecasts;
- Unpublished announcements, or knowledge of possible regulatory investigation;
- Liquidity and cashflow;
- Proposed changes in AKP's capital structure, including issues of securities, right and buy-backs;
- Borrowings;
- Major asset purchase or sales;
- Impending mergers, acquisitions, reconstructions, takeovers, etc;
- Significant litigation;
- Significant changes in operations;
- Significant changes in industry;
- New products/services in technology;
- Proposed dividends;
- Management restructuring or Board changes, and
- New contracts or customers.

2.3 Dealing through third parties

A person does not need to be a Director or employee of AKP to be guilty of insider trading in relation to securities in our Company. The prohibition extends to dealings by Directors and employees through nominees, agents or other associates, such as family members, family trusts and family companies.

CORPORATE GOVERNANCE STATEMENT

2.4 Employee share and option schemes

The prohibition will not apply to the initial acquisition of shares or options under AKP's Employee Share Ownership Plan or under any Prospectus issued by the Company.

However, it will apply when shares are disposed of, or options are exercised, if the employee at that time is in possession of price sensitive information that is not generally available to the market.

3. Guidelines for Trading in AKP Securities

3.1 General rule

Directors and employees of AKP should not buy or sell securities in AKP, when AKP is in possession of price sensitive or confidential information that is not generally available to the market.

3.2 Safest times to deal in AKP securities

There is no particular time during which it is "safe" or "unsafe" to deal in AKP securities. The SOLE TEST is whether, at the particular time, a Director or employee is in possession of price sensitive information that is not generally available in the market.

3.3 Closed periods

Subject to the insider trading provisions of the Corporations Act and the notification requirements of the Company set out in the "Trading Policy", the trading windows (in order to minimise suggestions of insider trading) for any Directors or employees to deal in Securities is during the four week period commencing on the second business day after:

- (a) AKP's annual general meeting;
- (b) The release of AKP's half-yearly announcement to the ASX;
- (c) The release of AKP's preliminary final statement or full year announcement to ASX (whichever is earlier);
- (d) The release of a disclosure document (e.g. a prospectus) by AKP; and
- (e) The release of the quarterly commitments test report known as Appendix 4C.

In accordance with ASX Listing Rule 12.12.2 Directors and employees are prohibited from trading in the Company's securities except during the above "trading windows" (in which case, the closed period is the whole of the year apart from the defined trading windows).

The Chairman of the Board, or the Chairman's delegate, (e.g. the Company Secretary) may also notify Directors and employees of AKP in writing of other ad hoc closed periods determined by the Board.

3.4 Excluded trading

For the purposes of ASX Listing Rule 12.12.3 the following examples of trading in the Company's securities are excluded from the operation of the Trading Policy:

1. transfers of securities of the Company already held by Directors or employees into a superannuation fund or other saving scheme in which the restricted person is a beneficiary;
2. transfers of securities of the Company already held by Directors or Employees to or from private companies or trusts controlled by the restricted person;
3. an investment in, or trading in units of, a fund or other scheme (other than a scheme only investing in the securities of the entity) where the assets of the fund or other scheme are invested at the discretion of a third party;
4. where a restricted person is a trustee, trading in the securities of the Company by that trust provided the restricted person is not a beneficiary of the trust and any decision to trade during the prohibited period is taken by the other trustees or by the investment managers independently of the restricted person;
5. undertakings to accept, or the acceptance of, a takeover offer;
6. trading under an offer or invitation made to all or most of the security holders. Such as, a rights issue, a security purchase plan, a dividend reinvestment plan and an equal access buy-back, where the plan that determines the timing and structure of the offer has been approved by the Board This includes decisions relating to whether or not to take up the entitlements and the sale of entitlements required to provide for the take up of the balance of entitlements under a renounceable pro rate issue;

CORPORATE GOVERNANCE STATEMENT

7. a disposal of securities of the Company that is the result of a secured lender exercising their rights under a margin lending arrangement. Any agreements by Directors or employees that provide lenders with rights over their interest in the Company's securities must be approved in writing beforehand by the Board;
8. the exercise (but not the sale of securities following exercise) of an option or a right under an employee incentive scheme, or the conversion of a convertible security, where the final date for the exercise of the option or right, or the conversion of the security, falls within the prohibited period and the Company has been in an exceptionally long prohibited period or the Company has had a number of consecutive prohibited periods and the restricted person could not reasonably have been expected to exercise it at a time when free to do so.

3.5 Trading during a prohibited period with prior written clearance

In accordance with ASX Listing Rule 12.12.4, a restricted person, who is not in possession of inside information in relation to the Company, may be given prior written clearance by the Chairman of the Board or the Chairman's delegate (e.g. the Company Secretary) to sell or otherwise dispose of the securities of the Company during a prohibited period under the Trading Policy where the restricted person is in severe financial hardship or there are other exceptional circumstances approved by the Board.

3.6 Procedures for clearance

In accordance with ASX Listing Rule 12.12.5 any request for clearance to trade during a prohibited period due to exceptional circumstances must be in writing to the Chairman of the Board prior to the trade setting out the reasons for the request and the approval of the Chairman of the Board must be in writing (electronic clearance by email or facsimile is acceptable) and is only valid for five (5) business days after the approval is given.

4. Disclosure Policy

Any Director or employee proposing to buy or sell in excess of 20,000 AKP securities MUST advise the Chairman (in the case of Directors) or the Company Secretary (in the case of employees) in writing (on any approved form) of their intention to do so BEFORE buying or selling the securities. This notification obligation operates at all times.

Directors and employees must not buy or sell AKP in excess of 20,000 AKP securities until approval has been given by the Board, Chairman or Company Secretary. The Board, Chairman or Company Secretary should not reasonably withhold approval and if a response is not received within 48 hours of the advice, approval will be deemed to have been given.

5. Australian Stock Exchange Limited Notification by Directors

The Australian Stock Exchange Listing Rules oblige any Director dealing in AKP securities to notify AKP (through AKP's Company Secretary) within 3 days after any dealing providing full details of the dealing in accordance with the prescribed (Appendix 3Y) form.

www.audiopixels.com.au