

# Half-Year Report of Audio Pixels Holdings Limited for the Half-Year Ended 30 June 2019

ACN 094 384 273

*This Half-Year Report is provided to the Australian Stock Exchange (ASX) under ASX Listing Rule 4.2A.3.*

Current Reporting Period: Half-year ended 30 June 2019

Previous Corresponding Period: Half-year ended 30 June 2018

## **AUDIO PIXELS HOLDINGS LIMITED**

### **Results for Announcement to the Market**

#### **Revenue and Net Profit/(Loss)**

		<b>Percentage Change %</b>	<b>Amount</b>
Revenue from ordinary activities	Up	330.0%	To \$157,024
(Loss) from ordinary activities after tax attributable to members	down	N/A	To (\$2,557,036)
Net (loss) attributable to members	down	N/A	To (\$2,557,036)

#### **Dividends (Distributions)**

	<b>Amount per security</b>	<b>Franked amount per security</b>
Final dividend	Nil¢	Nil¢
Interim dividend	Nil¢	Nil¢
Record date for determining entitlements to the dividend:		
• final dividend		N/A
• interim dividend		N/A

#### **Brief Explanation of Revenue, Net Profit/(Loss) and Dividends (Distributions)**

Refer to Directors' Report.

# **AUDIO PIXELS HOLDINGS LIMITED**

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## ***Directors' Report***

The directors of Audio Pixels Holdings Limited submit herewith the financial report for the half-year ended 30 June 2019. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

The names of the directors of the company during or since the end of the half year are:

Mr Fred Bart (Chairman)

Mr Ian Dennis

Ms Cheryl Bart AO

### **PRINCIPAL ACTIVITIES**

During the reporting period there were no significant changes in the nature of the Company's principal activities which were predominately focused on the refinement of the fabrication processes required to mass produce a commercial version of the Company's proven ground-breaking MEMS based digital loudspeaker.

Audio Pixels is a world leader in the digital transformation of sound reproduction; combining the emergence of a multibillion-dollar MEMS device industry together with the multibillion-dollar loudspeaker market that has over the course of a century become an indispensable fixture of daily life throughout a myriad of industries and applications.

### **REVIEW OF OPERATIONS**

Achievements during the reporting period were technical in nature, focused on advancing the company's proven prototype technologies into a mass-produced product. The primary accomplishment of the period has been the culmination of years of effort transitioning a prototype technology into a design and fabrication process than can be reliably manufactured in mass volumes.

This significance of this milestone is best described in the scientific journal *Sensors and Materials*, (Vol. 30, No. 4 2018), "Depending on the complexity of the device design and its process, translational engineering can span years and consume millions of dollars, before commercial production can begin. It is a necessary and unavoidable step in MEMS development. Many MEMS start-ups have failed because the time and funds needed for translational engineering were badly underestimated".

The company has successfully achieved what the journal described as transitional engineering. Reviewing the progression perhaps offers insight as to the significance of this achievement. During the reporting period we along with our vendor have been able to advance the fabrication process to the point where we can now anticipate that the MEMS wafers will consistently meet the underlying electro-mechanical requirements. This effort refers to the production of our transducer chip, which resides at the heart of our low power, fast-response, hi-performance, true-digital microchip loudspeaker. The transducer chip function is to translate electrical signals into mechanical movement that produces a particular pulse of acoustic energy. When summed with other pulses, the transducer generates the desired sound waveform.

The transducer chip's design and fabrication complexity resides in its immersion of multi-physical domains that can react differently to differing electrical, physical and other stimuli. Attaining operational stability demands that both the device and its fabrication process are not only able to achieve the desired device physics, but they do so within the realistic limitations of the manufacturing capabilities. While MEMS surface micromachining uses many of the well-established techniques, processes, and tools as those used to build integrated circuits (ICs) the addition of a third dimension/ moving part(s) adds significant complexity to the device and its fabrication process. An increasing level of complication accompanies each additional layer of the device; as for example the differing cumulative effects that

## ***Directors' Report***

subsequent processes might have on existing layers. As each new process step is introduced it holds the potential of altering parameters achieved in prior process steps.

There are a number of methods used to mitigate this risk; paramount among them is constant measurement and test before, during, and after various fabrication steps. As has been reported in the past the company designed unique tools and competency to measure and test the devices. The company has chronicled numerous instances whereby the applied process steps met the electromechanical requirements, only to later discover that some of the compliant results attained were to some degree altered by subsequent process steps.

**Recently delivered wafers that have consistently proven to meet the required electromechanical specifications have undergone the entire fabrication process with all process amendments and corrections, emphasise the significant progress achieved in transitioning the technology from prototype to a mass produced technology.**

Having wafers that meet the required electromechanical specifications enables the company to advance on a number of fronts in particular with the acoustic characterization phase. Our engineers have already been able to characterize the acoustic output of the MEMS transducer. While the devices performed consistently including the playing of speech and music, the acoustic output was measured to be below our targeted specifications. In order to achieve the optimal acoustic response from the transducer elements ("Pixels") we must control the shape and pulse of the acoustic response. The membrane geometries and material properties are of critical significance to attaining the desired pulse shape. Detailed characterization revealed slight anomalies in the devices that were traced to the inherent limitations of the current fabrication process. These imperfections were only identifiable once the fabrication process produced electromechanically reliable devices allowing for detailed acoustic characterization to be conducted.

Rather than alter the fabrication process in order to try to diminish or possibly eliminate the slight imperfections of fabrication, the company together with its vendor devised a plan that will revert the specification to compliancy, while diminishing dependencies on the vendor's fabrication tolerances. Considerations concerning preservation of intellectual property protection prohibit discussion in greater detail, however management is confident that the relative nuanced changes that are already in progress on test wafers that are anticipated to be completed by mid-September 2019, will produce the desired results with minimal disruption to the overall fabrication pipeline.

Accomplishing the aforementioned milestone has allowed the company to authorize larger scale wafer production, and reinvigorate our interaction with our packaging vendor in anticipation of receiving larger quantities of wafers. It should also be noted that all testing conducted for the entire period has been done utilizing our proprietary ASIC and algorithms.

Management continues to remain intimately engaged with its future customers, routinely conducting confidential communications as to the progress, potential, applications and demand for its impending products.

# **AUDIO PIXELS HOLDINGS LIMITED**

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## ***Directors' Report***

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 half year.

### **Auditor's independence declaration**

The auditor's independence declaration is included on page 6 of the half-year financial report.

Signed in accordance with a resolution of the directors made pursuant to s.306(3) of the Corporations Act 2001.

On behalf of the Directors

A handwritten signature in black ink, appearing to read 'I A Dennis', with a stylized flourish at the end.

I A Dennis  
Director  
Sydney, 29 August 2019

The Board of Directors  
Audio Pixels Holdings Limited  
Level 12  
75 Elizabeth Street  
Sydney NSW 2000

29 August 2019

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 review of the financial statements of Audio Pixels Holdings Limited for the half-year ended 30 June 2019, 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 review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

*DELOITTE TOUCHE TOHMATSU*

DELOITTE TOUCHE TOHMATSU

*David Salmon*

David Salmon  
Partner  
Chartered Accountants  
Canberra, 29 August 2019

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

We have reviewed the accompanying half-year financial report of Audio Pixels Holdings Limited, which comprises the condensed consolidated statement of financial position as at 30 June 2019, and the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-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 end of the half-year or from time to time during the half-year as set out on pages 9 to 23.

### **Directors' Responsibility for the Half-Year Financial Report**

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Audio Pixels Holdings Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Auditor's Independence Declaration**

In conducting our review, 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 review report.

## Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Audio Pixels Holdings Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2019 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU

*David Salmon*

David Salmon  
Partner  
Chartered Accountants  
Canberra, 29 August 2019

## **AUDIO PIXELS HOLDINGS LIMITED**

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### **Directors' Declaration**

The directors declare that:

- a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- 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 giving a true and fair view of the financial position as at 30 June 2019 and the performance for the half year ended on that date of the consolidated entity.

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the Corporations Act 2001.

On behalf of the Directors

A handwritten signature in black ink, appearing to read 'I A Dennis', with a stylized flourish at the end.

I A Dennis  
Director  
Sydney, 29 August 2019

# AUDIO PIXELS HOLDINGS LIMITED

## Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income for the half-year ended 30 June 2019

	Note	Consolidated Half-year ended 30 June 2019 \$	Consolidated Half-year ended 30 June 2018 \$
Revenue	2(a)	157,024	36,518
Administrative expenses		(420,724)	(502,590)
Amortisation		(42,283)	(39,124)
Depreciation		(199,688)	(36,665)
Directors' benefits		(74,460)	(74,460)
Exchange gains/(losses)		121,230	1,334,642
Interest expense		(14,290)	(838,036)
Marketing expenses		(1,224)	(3,983)
Research and development		(2,082,621)	(1,233,684)
<b>(Loss) before income tax expense</b>	2	(2,557,036)	(1,357,382)
Income tax expense		-	-
<b>(Loss) for the period</b>	3	(2,557,036)	(1,357,382)
<b>Other Comprehensive Income</b>			
Items that may be reclassified subsequently to profit and loss			
Exchange differences arising on translation of foreign operations		(172,915)	(1,205,012)
Income tax relating to components of other comprehensive income		-	-
Other comprehensive (loss)/ income for the period (net of tax)		(172,915)	(1,205,012)
<b>Total Comprehensive (loss) for the period</b>		(2,729,951)	(2,562,394)
(Loss) attributable to:			
Owners of the company		(2,557,036)	(1,357,382)
		(2,557,036)	(1,357,382)
Total comprehensive (loss) attributable to:			
Owners of the company		(2,729,951)	(2,562,394)
		(2,729,951)	(2,562,394)
<b>(Loss) per share:</b>			
Basic (cents per share)	4	(9.04 cents)	(5.05 cents)
Diluted (cents per share)	4	(9.04 cents)	(5.05 cents)

Notes to the financial statements are included on pages 14 to 23.

# AUDIO PIXELS HOLDINGS LIMITED

## Condensed Consolidated Statement of Financial Position as at 30 June 2019

	Note	Consolidated 30 June 2019 \$	Consolidated 31 Dec 2018 \$
<b>Current Assets</b>			
Cash and cash equivalents		8,621,836	11,019,092
Trade and other receivables		150,947	173,565
<b>Total Current Assets</b>		8,772,783	11,192,657
<b>Non-Current Assets</b>			
Goodwill	10	2,334,395	2,326,483
Right of use asset		765,297	-
Intangible	11	444,405	483,848
Property, plant and equipment		377,993	329,858
Trade and other receivables		9,269	5,525
<b>Total Non-Current Assets</b>		3,931,359	3,145,714
<b>Total Assets</b>		12,704,142	14,338,371
<b>Current Liabilities</b>			
Trade and other payables		1,048,184	987,849
Lease liabilities		323,039	-
Provisions		217,364	203,960
<b>Total Current Liabilities</b>		1,588,587	1,191,809
<b>Non-Current liabilities</b>			
Lease liabilities		446,306	-
<b>Total Non-Current Liabilities</b>		446,306	-
<b>Total Liabilities</b>		2,034,893	1,191,809
<b>Net Assets</b>		10,669,249	13,146,562
<b>Equity</b>			
Issued capital	7	66,217,433	66,217,433
Reserves	8	(24,964,017)	(25,043,740)
Accumulated losses	3	(30,584,167)	(28,027,131)
<b>Total Equity</b>		10,669,249	13,146,562

Notes to the financial statements are included on pages 14 to 23.

# AUDIO PIXELS HOLDINGS LIMITED

## Condensed Consolidated Statement of Changes in Equity for the half-year ended 30 June 2019

	Issued Capital \$	Equity Settled Share Option Reserve \$	Foreign Currency Translation Reserve \$	Accumulated Losses \$	Convertible Note Equity Reserve \$	Minority Acquisition Reserve \$	Total \$
<b>Consolidated</b>							
Balance at 1 January 2019	66,217,433	4,532,439	(4,037,487)	(28,027,131)	-	(25,538,692)	13,146,562
Other comprehensive (loss) for the period	-	-	(172,915)	-	-	-	(172,915)
(Loss) for the period	-	-	-	(2,557,036)	-	-	(2,557,036)
Total comprehensive (loss) income for the period	-	-	(172,915)	(2,557,036)	-	-	(2,729,951)
Recognition of share based payments	-	252,638	-	-	-	-	252,638
<b>Balance at 30 June 2019</b>	<b>66,217,433</b>	<b>4,785,077</b>	<b>(4,210,402)</b>	<b>(30,584,167)</b>	<b>-</b>	<b>(25,538,692)</b>	<b>10,669,249</b>

	Issued Capital \$	Equity Settled Share Option Reserve \$	Foreign Currency Translation Reserve \$	Accumulated Losses \$	Convertible Note Equity Reserve \$	Minority Acquisition Reserve \$	Total \$
<b>Consolidated</b>							
Balance at 1 January 2018	45,228,931	4,512,898	(1,575,876)	(23,507,410)	666,893	(25,538,692)	(213,256)
Other comprehensive (loss) for the period	-	-	(1,205,012)	-	-	-	(1,205,012)
(Loss) for the period	-	-	-	(1,357,382)	-	-	(1,357,382)
Total comprehensive (loss) income for the period	-	-	(1,205,012)	(1,357,382)	-	-	(2,562,394)
Equity reserve on issue of convertible notes	-	-	-	-	48,204	-	48,204
<b>Balance at 30 June 2018</b>	<b>45,228,931</b>	<b>4,512,898</b>	<b>(2,780,888)</b>	<b>(24,864,792)</b>	<b>715,097</b>	<b>(25,538,692)</b>	<b>(2,727,446)</b>

Notes to the financial statements are included on pages 14 to 23.

# AUDIO PIXELS HOLDINGS LIMITED

## Condensed Consolidated Cash flow statement for the half-year ended 30 June 2019

	Consolidated Half-year ended 30 June 2019 \$	Consolidated Half-year ended 30 June 2018 \$
<b><i>Cash Flows From Operating Activities</i></b>		
Receipts from customers	59,859	-
Payments to suppliers and employees	(2,292,607)	(1,246,789)
Interest and bill discounts received	97,165	36,518
Interest paid	(14,290)	(838,036)
Net cash (used in) operating activities	(2,149,873)	(2,048,307)
<b><i>Cash Flows From Investing Activities</i></b>		
Payment for property, plant and equipment	(85,860)	(37,406)
Net cash (used in) investing activities	(85,860)	(37,406)
<b><i>Cash Flows From Financing Activities</i></b>		
Repayment of lease liabilities	(156,776)	-
Proceeds from convertible note	-	3,500,000
Net cash (used in)/ provided by financing activities	(156,776)	3,500,000
<b><i>Net (Decrease)/ Increase In Cash Held</i></b>	(2,392,509)	1,414,287
<b><i>Cash and cash equivalents at the beginning of the half-year</i></b>	11,019,092	2,700,577
<b><i>Effects of exchange fluctuations on the balances of cash held in foreign currencies</i></b>	(4,747)	(22,078)
<b><i>Cash and cash equivalents at the end of the half-year</i></b>	8,621,836	4,092,786

Notes to the financial statements are included on pages 14 to 23.

**Notes to the Condensed Consolidated Financial Statements  
for the half-year ended 30 June 2019**

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**1. Significant accounting policies**

**1 (a) Statement of compliance**

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 Interim Financial Reporting. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS34 “Interim Financial Reporting”. The half-year financial report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report and any public announcements made by the company during the interim reporting period in accordance with continuous disclosure requirements under the Corporations Act 2001.

**1 (b) Basis of preparation**

The condensed consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are expressed in Australian dollars, unless otherwise stated.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company’s 2018 annual financial report for the financial period ended 31 December 2018 except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and International Reporting Standards.

**1 (c) New accounting Standard- AASB 16 Leases**

In the current year, the Group has applied AASB 16 Leases for the first time. AASB 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements and the impact of the adoption of AASB 16 on the Group’s consolidated financial statements are described below.

The date of initial application of AASB 16 for the Group is 1 January 2019.

The Group has applied AASB 16 using the modified retrospective approach with the cumulative effect of initially applying the Standard recognised at the date of initial application in Accumulated Losses.

**Impact on Lessee Accounting**

*Former operating leases*

AASB 16 changes how the Group accounts for leases previously classified as operating leases under AASB 117, which were off-balance-sheet.

Applying AASB 16, for all leases (except as noted below), the Group:

- a) recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of future lease payments;
- b) recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss; and

**Notes to the Condensed Consolidated Financial Statements  
for the half-year ended 30 June 2019**

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**1. Significant accounting policies (cont)**

c) separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows.

Lease incentives (e.g. free rent period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under AASB 117 they resulted in the recognition of a lease incentive liability, amortised as a reduction of rental expense on a straight-line basis.

Under AASB 16, right-of-use assets are tested for impairment in accordance with AASB 136 Impairment of Assets. This replaces the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets, the Group has opted to recognise a lease expense on a straight-line basis as permitted by AASB 16. This expense is presented within other expenses in the consolidated statement of profit or loss as applicable.

**Impact on Lessor Accounting**

AASB 16 does not change substantially how a lessor accounts for leases. Under AASB 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, AASB 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in the leased assets.

Under AASB 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under AASB 117).

**Financial impact of initial application of AASB 16**

The initial application of AASB 16 resulted in:-

- i. The creation of a right-of-use asset of \$926,122 and a lease liability of \$926,122 as at 1 January 2019.
- ii. A difference of \$501,998 between the operating lease commitments disclosed in applying AASB 117 in the 31 December 2018 annual report, discounted using the weighted average rate in (iii) below and the lease liability in (i) above. This difference is primarily attributable to the inclusion of certain leases as part of the opening adjustment that were previously not disclosed as operating lease commitments.
- iii. When measuring lease liabilities, the Group discounted lease payments using the rate implicit in the lease. Where this could not be determined, the Group's incremental borrowing rate was used. The weighted average rate applied is 5%.

**Notes to the Condensed Consolidated Financial Statements  
for the half-year ended 30 June 2019**

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**1. Significant accounting policies (cont)**

**1 (d) Accounting policies applied from 1 January 2019**

**Leases**

The Group assesses whether a contract is or contains a lease, at inception of a contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

**Notes to the Condensed Consolidated Financial Statements  
for the half-year ended 30 June 2019**

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**1. Significant accounting policies (cont)**

The Group did not make any such adjustments during the period.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under AASB 137. The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The Group applies AASB 136 Impairment of Assets to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss per the accounting policy disclosed in the 31 December 2018 annual report.

Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line “other expenses” in the statement of profit or loss.

As a practical expedient, AASB 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient.

**The Group as lessor**

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental 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. Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group’s net investment in the leases. Finance lease income is allocated to reporting periods so as to reflect a constant periodic rate of return on the Group’s net investment outstanding in respect of the leases.

## **AUDIO PIXELS HOLDINGS LIMITED**

### **Notes to the Condensed Consolidated Financial Statements for the half-year ended 30 June 2019**

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#### **1. Significant accounting policies (cont)**

When a contract includes lease and non-lease components, the Group applies AASB 15 to allocate the consideration under the contract to each component.

#### **1 (e) Prior Period Comparatives**

Comparative information has been disclosed in respect of the previous period for amounts reported in the financial statements. Where the presentation or classification of items in the financial statements is amended, the comparative amounts have been reclassified to conform with current period presentation. In particular, during the current financial half-year, comparatives have been revised to include interest on convertible notes in the interest paid line in cash flows from operating activities.

#### **1 (f) Going Concern**

The financial report has been prepared on the going concern basis which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The consolidated entity incurred a net loss during the half year of \$2,729,951 (2018 half-year: \$2,562,394). Net cash used in operating activities was \$2,149,873 (2018 half-year: \$2,048,307). As at 30 June 2019, the consolidated entity had cash of \$8,621,836 (at 31 December 2018: \$11,019,092) of which \$58,051 (2018: \$54,959) is restricted as it secures future lease payments.

In the opinion of the directors, given the current financial position, performance and prospects, the consolidated entity is able to continue as a going concern and pay its debts as and when they become due and payable. Therefore, it is appropriate to prepare the financial report on the going concern basis.

**AUDIO PIXELS HOLDINGS LIMITED**

**Notes to the Condensed Consolidated Financial Statements  
for the half-year ended 30 June 2019**

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	<b>Consolidated Half-year to 30 June 2019 \$</b>	<b>Consolidated Half-year to 30 June 2018 \$</b>
<b>2. (Loss) for the period</b>		
(Loss) from ordinary activities before income tax includes the following items of revenue and expense:		
<b>(a) Revenue</b>		
Rental income	59,859	-
Interest received	97,165	36,518
Total revenue	<u>157,024</u>	<u>36,518</u>
<b>(b) Expenses</b>		
Amortisation	42,283	39,124
Interest expense	14,290	838,036
Rental payments	-	69,577
Rental amounts recharged to sub tenants	-	(54,359)
Net rental expense	-	15,218
Depreciation of property, plant and equipment and right of use assets	<u>199,688</u>	<u>36,665</u>
<b>3. (Accumulated losses)</b>		
Balance at beginning of financial period	(28,027,131)	(23,507,410)
Net (loss) for the period	<u>(2,557,036)</u>	<u>(1,357,382)</u>
Balance at end of financial period	<u>(30,584,167)</u>	<u>(24,864,792)</u>

**AUDIO PIXELS HOLDINGS LIMITED**

**Notes to the Condensed Consolidated Financial Statements  
for the half-year ended 30 June 2019**

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**4. (Loss) Per Share**

	<b>2019</b> <b>¢ per share</b>	<b>2018</b> <b>¢ per share</b>
Basic EPS	(9.04 cents)	(5.05 cents)
Diluted EPS	(9.04 cents)	(5.05 cents)

***Basic (Loss) per Share***

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	<b>Half-year to 30 June 2019</b> <b>\$</b>	<b>Half-year to 30 June 2018</b> <b>\$</b>
(Loss) (a)	(2,557,036)	(1,357,382)

  

	<b>2019</b> <b>No</b>	<b>2018</b> <b>No</b>
Weighted average number of ordinary shares used in the calculation of basic earnings per share	28,301,720	26,893,409

(a) Earnings used in the calculation of basic earnings per share is the same as net (loss) in the Statement of Profit and Loss and Other Comprehensive Income.

(b) There are potential ordinary shares to be issued in relation to the issue of 203,000 unlisted employee options on 17 December 2018 at an exercise price of \$16.20. These options expire on 17 December 2023. The unlisted employee options have not been included in dilutive EPS, as they are anti-dilutive.

**5. Net tangible assets per security**

	<b>30 June 2019</b> <b>\$ per share</b>	<b>30 June 2018</b> <b>\$ per share</b>
Net tangible assets /(liabilities) per security	0.28	(0.20)

**AUDIO PIXELS HOLDINGS LIMITED**

**Notes to the Condensed Consolidated Financial Statements  
for the half-year ended 30 June 2019**

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**6. Segment information**

The Company acted as the parent company for its subsidiaries in the half year period ended 30 June 2019. The company owns a 100% equity interest in Audio Pixels Technologies Pty Limited of Australia and Audio Pixels Limited of Israel. These subsidiaries are involved in the development of digital speakers. Accordingly the directors are of the opinion that the consolidated entity operates in one segment.

**7. Share capital**

	<b>30 June 2019 \$</b>	<b>31 December 2018 \$</b>
Issued and paid up capital		
Fully paid Ordinary Shares		
Balance at the beginning of the financial period	66,217,433	45,228,931
Balance at the end of the financial period	66,217,433	66,217,433
Fully paid Ordinary Shares		<b>Number</b>
Balance at the beginning of the financial period	28,301,720	26,893,409
Balance at the end of the financial period	28,301,720	28,301,720

**8. Reserves**

Minority acquisition reserve	(25,538,692)	(25,538,692)
Equity settled share option reserve	4,785,077	4,532,439
Foreign currency translation reserve	(4,210,402)	(4,037,487)
	<u>(24,964,017)</u>	<u>(25,043,740)</u>

## **AUDIO PIXELS HOLDINGS LIMITED**

### **Notes to the Condensed Consolidated Financial Statements for the half-year ended 30 June 2019**

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#### **9. Related party transactions**

During the period, the Company paid a total of \$53,929 (six month period ended 30 June 2018 - \$53,929) 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 period, the Company paid a total of \$20,531 (six month period ended 30 June 2018 - \$20,531) to Dennis Corporate Services Pty Limited, a company associated with Mr Ian Dennis in respect of directors' fees and superannuation for Mr Ian Dennis.

During the period, the Company paid a total of \$15,000 (six month period ended 30 June 2018 - \$15,000) to Dennis Corporate Services Pty Limited, a company associated with Mr Ian Dennis in respect of consulting fees for secretarial and accounting services.

On 8 May 2014, the company entered into a lease in respect of office premises at Suite 3, Level 12, 75 Elizabeth Street Sydney for a period of forty eight months to 30 March 2018. The option in the lease was exercised and the lease has been extended for a further 4 years to 30 March 2022. During the half-year period ended 30 June 2019, the company recharged \$14,965 (six month period ended 30 June 2018 - \$13,129) of the rent and other tenancy charges to Electro Optic Systems Holdings Limited, a company of which Fred Bart and Ian Dennis are directors, \$14,965 (six month period ended 30 June 2018 - \$13,129) to 4F Investments Pty Limited, a company controlled by Fred Bart and \$29,930 (six month period ended 30 June 2018 - \$26,257) to another tenant who is a shareholder in the company.

#### **10. Goodwill**

	<b>30 June 2019 \$</b>	<b>31 December 2018 \$</b>
Goodwill paid on the acquisition of subsidiary company, Audio Pixels Limited of Israel		
Balance at the beginning of the period	2,326,483	2,189,025
Add Exchange differences on translation	<u>7,912</u>	<u>137,458</u>
	<u>2,334,395</u>	<u>2,326,483</u>

**AUDIO PIXELS HOLDINGS LIMITED**

**Notes to the Condensed Consolidated Financial Statements  
for the half-year ended 30 June 2019**

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**11. Intangible asset**

	<b>30 June 2019 \$</b>	<b>31 December 2018 \$</b>
Based on independent valuation performed by Ernst & Young, Israel as at the acquisition date, 24 September 2010		
Intangible	868,000	868,000
Add Exchange differences on translation	204,060	201,221
Less amortisation	<u>(627,655)</u>	<u>(585,373)</u>
	<u>444,405</u>	<u>483,848</u>

**12. Subsequent events**

Apart from the Digital Speaker Update to the ASX on 12 August 2019, the Directors are not aware of any significant subsequent events since the end of the financial period and up to the date of this report.

**13. Commitments**

At 30 June 2019 the Consolidated entity has entered into agreements with strategic suppliers for delivery of certain components which on delivery of components meeting the required specifications of the Consolidated entity will result in final payments being due of \$431,155 (31 December 2018 - \$286,427).

## ***AUDIO PIXELS HOLDINGS LIMITED***

### **Information on Audit or Review**

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This half yearly report is based on accounts to which one of the following applies.

- |   |   |
|---|---|
| <input type="checkbox"/> The accounts have been audited.  | <input checked="" type="checkbox"/> The accounts have been subject to review. |
| <input type="checkbox"/> The accounts are in the process of being audited or subject to review. | <input type="checkbox"/> The accounts have not yet been audited or reviewed.  |

Description of likely dispute or qualification if the accounts have not yet been audited or subject to review or are in the process of being audited or subjected to review.

Not applicable

Description of dispute or qualification if the accounts have been audited or subjected to review.

Not applicable