

2012

ANNUAL REPORT

CORPORATE DIRECTORY

Directors

Fred Bart (Chairman)
Ian Dennis
Cheryl Bart AO

Company Secretary

Ian Dennis

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DIRECTORS' REPORT

The Directors of Audio Pixels Holdings Limited submit herewith the financial report of the company for the financial year ended 31 December 2012. 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 Chairman of the South Australian Film Corporation, FARE (Alcohol Education and Rehabilitation Foundation) and ANZ Trustees Limited. She is a non-executive director of SA Power Networks (formerly ETSA Utilities), Spark Infrastructure Limited, Australian Himalayan Foundation, 2015 Australian Asian Cup and the Australian Broadcasting Corporation. She is a fellow of the Australian Institute of Company Directors.

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	Since November 2005

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 2012 was \$2,622,099 (31 December 2011 - \$2,930,697).

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

On 20 December 2012, the company completed a successful private placement of 1,117,022 ordinary shares raising \$5,585,110 from institutional and sophisticated investors. The placement was made at \$5.00 per share. In addition to the above placement, interests associated with Mr Fred Bart agreed to take up a further 200,000 shares at \$5.00 each raising an additional \$1,000,000 which is subject to shareholder approval at a general meeting.

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. The property has been put up for sale.

Digital Speakers

During the reporting period the Company continued its development efforts to commercialise our digital speaker technologies into a high demand product; including but not limited to activities under a Joint Development Agreement with one of the world leading consumer electronic manufacturers and cooperative efforts with two of the worlds' leading MEMS fabricators.

The key highlight was the successful completion of the second of our four-phase product commercialisation plan. The first two phases of the plan were designed to focus on the optimisation of the electromechanical structures utilising mass-fabrication methods. For purposes of expediency and risk mitigation the initial phases utilised chip designs with various limitations, for example chips of the initial phases comprised of only 256 elements ("pixels"). **The positive results attained from Phase II, now enable the company to forge forward with the next phases, which are focused on the fabrication of mass-production versions of the product.** The next phases will for example expand the acoustic output and commercial appeal of the chip by increasing the element count to 1k "pixels".

Management is elated by the results of this phase of development. Not only have the results met all the original technical objectives, the success of the phase has empowered the company to advance from the crucial yet somewhat dreary task of optimising the structures, to the far more exciting and perceptible phases of fabricating working product.

During the latter weeks of the reporting period all three of our fabrication partners began delivering Phase II silicon chips, which were tested and measured using our newly designed proprietary test equipment. The equipment was redesigned to support the natural progression from prototype to playing chips, which demands a significant increase to number and complexity of mechanical, electrical and acoustic parameters that need to be measured and analysed under both static and dynamic conditions.

The chips overwhelmingly conformed to the targeted electromechanical specifications. We did however discover a small number of imperfections in the fabrication process of which the primary flaw manifested in electrical shorts occurring when applying the target operational voltages.

It is important to note MEMS device development, which is in relative infancy when compared to more traditional semiconductor fabrication, relies on the common practice of utilising "trial and error" methods of process development. In essence because the construction of each individual layer influences previous and future layers, certain fabrication flaws are unpredictable, as they tend to materialise in subsequent stages, or in some cases only after the device has completed its full fabrication. Therefore the common practice in MEMS device development is to initiate a new fabrication run in order to correct the fabrication process and/or design.

DIRECTORS' REPORT

Review of Operations (Cont.)

Audio Pixels being anything but ordinary, decided upon discovery of the flaw to first attempt the application of a particular technology used in other semiconductor segments to serve as a temporary measure to overcome the fabrication flaw. After considerable efforts fine tuning the process this approach ultimately allowed us to sidestep the shorts and enable the structures to operate sufficiently well as to obtain all required measurements. This highly creative approach, the result of our rather formidable knowledge in MEMS combined very close cooperation with our fabrication partners, **allowed us to save significant time and resources and successfully obtain all the measurement data needed to complete this phase of development**, without the need for corrective fabrication runs. Additionally the provisional solution worked well enough to apply our advancements in the field's of drive electronics and functional algorithms to successfully play music from the chips.

The summary of our test results reveal that our two backup manufacturers demonstrated significant advancements applying their process knowledge and fab capabilities toward meeting our specific requirements; while our lead fabrication partner was able to leverage their past experiences with our structures to exceed expectations and deliver full structures. The delivery of a full structure is exceptionally significant. In order to mitigate risks, fabrication of the full structure was originally targeted to commence in Phase III. However various circumstances and conditions evolved that enabled us to design, authorise and guide the development of a full structure, a whole phase earlier than originally planned. The early delivery of a full working structure provides the company with phenomenal head start for the next phase of fabrication, as it allowed us to principally debug both the design and the fabrication processes thereby dramatically reducing the potential for unanticipated flaws. This achievement will undoubtedly allow us to reduce the projected development time of Phase III, likely to a timeline very similar to Phase II, despite the considerable expanded intricacy of the Phase III device.

It should be noted that while the provisional measures were adequate to achieve all the technological objectives set for this Phase, they fell slightly short on our ability to provide a demonstration platform that management believes is worthy of public representation of our revolutionary technology. Management therefore decided to adhere to its original plan of public demonstration after the upcoming phase of development, which is wholly dedicated to the production of playing chips.

During the period, the market continued to evolve in accordance with management's projections; trending toward the sustained effort to bridge the chasm between the continual quest to improve audio output of devices and the pursuit of thinner, aesthetically pleasing devices. These two diametrically opposed objectives (from an audio perspective of course) along with other much sought after objectives (such as the constant need to reduce power consumption of devices), all play to the core strengths of Audio Pixels impending product offerings.

The recently completed Consumer Electronic Show (CES) highlighted the emergence of OLED television sets, devices that are simply far too thin to house any kind of speakers, let alone speakers capable of quality output that is worthy of the super-high-resolution (and cost) of the displays. Additional supporting news is the industry buzz that suggests Apple is extremely active developing a new audio format intended for delivery and playback of "high quality" 24bit audio for their devices and services. This of course is in addition to Apple's perpetual efforts to improve the audio experience in each new generation of device; often touting improved audio as a key feature (such as in the recently released iPhone 5). Additional indicators can be attained from companies such as Dover Electronics, a market leader of acoustic components including MEMS microphones and analog micro-speakers. Dover cited in their most recent annual report, not only the increasing popularity, acceptance and growth of MEMS acoustic devices, but also a clear emerging industry trend by leading OEM's to procure (at a premium) completed sound modules, especially those with improved acoustic capabilities, over the more cost effective individual speaker components. Industry and market eagerness to improve audio, even when it comes at a premium price, is perhaps best illustrated by Beats Electronics, a company founded by recording artist Dr. Dre and the Chairman of Interscope-Geffen Jimmy Lovine. Retail analysts at the NPD Group, recently cited the unprecedented growth of Beats Electronics, who in just over three years snapped up 51% of an estimated \$1 billion headphones segment. Of particular relevance is that Beats achieved these spectacular results by defying what some, perhaps many, considered to be the industry convention that "price is all that matters". Beats managed to lure customers away from flimsy \$20 earbuds, to quality headphones offered at a hefty price tag north of \$300; underlying yet again managements' assertion that the market is ready, willing and able to pay, even significant premiums, for a quality audio experience.

DIRECTORS' REPORT

Review of Operations (Cont.)

Throughout the period management has been proactive confirming such market trends in intimate conversations with our prospective customers, which if anything, have intensified their excitement and demand for our products as they gain an even clearer comprehension of the far-reaching and relevant value our impending products bring to the marketplace.

During the period of reporting the company received 6 patent grants of which two were granted in the Europe (one has been validated in 10 countries while the other in eight). The company further continued to expand its Intellectual Property portfolio, filing 14 applications during the reporting period for innovations in the fields of acoustic drive mechanisms, drive electronics, functional algorithms and packaging.

Changes in State of Affairs

There was no significant change in the state of affairs of the company other than that referred to in the financial statements or notes thereto.

Significant Events After Balance Date

Since the end of the financial year, the company agreed to the issue of 30,183 shares at an exercise price of A\$1.59 to a warrant holder in Audio Pixels Limited as a result the resolution of a previously disputed warrant agreement. The shares were issued on 1 February 2013 and raised cash of \$48,123.

Apart from the above, 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, the results of those operations or the state of affairs of the company in subsequent financial years.

Future Developments

The company will continue to focus on the development of its digital speaker technology. The company has received MEMS chips from various suppliers which are being tested and evaluated and have played music under Phase II of the program. The positive results obtained from Phase II have now enabled the company to shift focus from structural optimisation to the production of a high performance end product. Planning for Phase III is well underway.

Environmental Regulations

In the opinion of the directors the company 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 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	5,291,250
Ian Dennis	520,050
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 2012	Year ended 31 December 2011	6 Months ended 31 December 2010	30 June 2010	30 June 2009	30 June 2008
	\$	\$	\$	\$	\$	\$
Revenue	161,986	269,534	143,207	563,842	438,819	344,384
Net profit/(loss) before tax	(2,622,099)	(2,931,907)	(557,129)	237,211	(246,279)	129,107
Net profit/(loss) after tax	(2,622,099)	(2,930,697)	(530,606)	197,489	(247,015)	90,375
Share price at start of year/period	6.00	4.60	0.260	0.160	0.205	0.270
Share price at end of year/period	5.60	6.00	4.60	0.260	0.160	0.205
Dividend Paid	0.00	0.00	0.000	0.000	0.000	0.000

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

	31 December 2012	31 December 2011
	\$	\$
Short-term employee benefits	553,453	600,964
Post employment benefits	108,821	117,788
Share-based payments	-	-
Termination benefits	-	-
	662,274	718,752

DIRECTORS' REPORT

Remuneration Report (Cont.)

	Short Term		Post Employment	Share Based Payments	Total
	Directors fees/ Salary \$	Non-monetary \$	Superannuation \$	Options \$	
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	-	161,987
	482,350	71,103	108,821	-	662,274
December 2011					
Fred Bart	61,000	-	5,490	-	66,490
Cheryl Bart	37,500	-	3,375	-	40,875
Ian Dennis	87,500	-	3,375	-	90,875
Danny Lewin	116,339	19,774	35,250	-	171,363
Yuval Cohen	116,339	25,975	35,951	-	178,265
Shay Kaplan	111,231	25,306	34,347	-	170,884
	529,909	71,055	117,788	-	718,752

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 10.

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 22 day of February 2013.

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

22 February 2013

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.

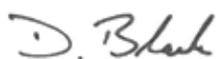
As lead audit partner for the audit of the financial statements of Audio Pixels Holdings Limited for the year ended 31 December 2012, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (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

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

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 2012, the statement of 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 13 to 47.

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 2012 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 6 to 8 of the directors' report for the year ended 31 December 2012. 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 2012, complies with section 300A of the *Corporations Act 2001*.



DELOITTE TOUCHE TOHMATSU



David Black
Partner
Chartered Accountants
Parramatta, 22 February 2013

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;
- (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 22 day of February 2013.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	Consolidated Year ended 31 December 2012 \$	Consolidated Year ended 31 December 2011 \$
Revenue	2	161,986	269,534
Administrative expenses		(931,230)	(951,348)
Amortisation		(62,000)	(77,500)
Depreciation		(104,845)	(133,527)
Directors fees		(136,000)	(136,000)
Exchange losses		(77,560)	(16,569)
Finance costs		(1,776)	(28,537)
Property expenses		(31,954)	(49,687)
Reduction in fair value of investment property		(140,000)	-
Research and development expenses		(1,298,720)	(1,186,463)
Share based payments		-	(621,810)
(Loss) before income tax	2	(2,622,099)	(2,931,907)
Income tax benefit	3	-	1,210
(Loss) for the year		(2,622,099)	(2,930,697)
Other comprehensive income/(loss)			
Exchange differences arising on translation of foreign operations	17	75,522	(8,531)
Other comprehensive income/(loss) for the year, net of tax		75,522	(8,531)
Total comprehensive (loss) for the year		(2,546,577)	(2,939,228)
(Loss) attributable to:			
Owners of the company		(2,622,099)	(2,930,697)
Total comprehensive (loss) attributable to:			
Owners of the company		(2,546,577)	(2,939,228)
Earnings per share			
Basic and diluted (cents per share)	22	(11.26)	(12.77)

Notes to the financial statements are included on pages 18 to 47.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012

	Note	Consolidated December 2012 \$	Consolidated December 2011 \$
CURRENT ASSETS			
Cash and cash equivalents	6	5,415,454	2,113,321
Trade and other receivables	7	58,835	45,227
		5,474,289	2,158,548
Assets held for sale	8	1,600,000	-
TOTAL CURRENT ASSETS		7,074,289	2,158,548
NON CURRENT ASSETS			
Investment property	8	-	1,740,000
Goodwill	9	1,840,135	1,840,135
Intangible	10	728,500	790,500
Property, plant and equipment	11	195,841	253,804
Trade and other receivables	7	13,858	14,303
TOTAL NON CURRENT ASSETS		2,778,334	4,638,742
TOTAL ASSETS		9,852,623	6,797,290
CURRENT LIABILITIES			
Trade and other payables	12	326,271	380,005
Provisions	14	240,281	169,747
TOTAL CURRENT LIABILITIES		566,552	549,752
TOTAL LIABILITIES		566,552	549,752
NET ASSETS		9,286,071	6,247,538
EQUITY			
Issued capital	15	35,945,405	30,360,295
Reserves	17	(20,935,295)	(21,010,817)
Accumulated losses	19	(5,724,039)	(3,101,940)
Equity attributable to owners of the company		9,286,071	6,247,538
TOTAL EQUITY		9,286,071	6,247,538

Notes to the financial statements are included on pages 18 to 47.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

December 2012 - Consolidated	Issued Capital \$	Equity Settled Option Reserve \$	Exchange Translation Reserve \$	Minority Interests \$	Minority Acquisition Reserve \$	Accumulated Losses \$	Total \$
Balance at 1 January 2012	30,360,295	4,512,898	14,977	-	(25,538,692)	(3,101,940)	6,247,538
Issue of new shares at \$5.00 each	5,585,110	-	-	-	-	-	5,585,110
Other comprehensive income for the year	-	-	75,522	-	-	-	75,522
(Loss) for the year	-	-	-	-	-	(2,622,099)	(2,622,099)
Balance at 31 December 2012	35,945,405	4,512,898	90,499	-	(25,538,692)	(5,724,039)	9,286,071

December 2011 - Consolidated	Issued Capital \$	Equity Settled Option Reserve \$	Exchange Translation Reserve \$	Minority Interests \$	Minority Acquisition Reserve \$	Accumulated Losses \$	Total \$
Balance at 1 January 2011	8,000,025	-	23,508	712,666	-	(171,243)	8,564,956
Issue of new equity to acquire the minority interests	22,360,270	-	-	(712,666)	(21,647,604)	-	-
Issue of options to founders and staff	-	4,512,898	-	-	(3,891,088)	-	621,810
	30,360,295	4,512,898	23,508	-	(25,538,692)	(171,243)	9,186,766
Other comprehensive (loss) for the year	-	-	(8,531)	-	-	-	(8,531)
(Loss) for the year	-	-	-	-	-	(2,930,697)	(2,930,697)
Balance at 31 December 2011	30,360,295	4,512,898	14,977	-	(25,538,692)	(3,101,940)	6,247,538

Notes to the financial statements are included on pages 18 to 47.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	Consolidated Year ended 31 December 2012 \$	Consolidated Year ended 31 December 2011 \$
Cash flows from operating activities			
Receipts from customers		159,165	140,625
Payments to suppliers and employees		(2,388,557)	(2,310,971)
Income taxes paid		-	(23,442)
Interest and bill discounts received		24,334	141,693
Interest and other costs of finance paid		(1,776)	(29,534)
Net cash (used by) operating activities	20	(2,206,834)	(2,081,629)
Cash flows from investing activities			
Payment for property, plant and equipment		(44,934)	(66,053)
Receipt of option fee on property		-	10,000
Net cash (outflows) from investing activities		(44,934)	(56,053)
Cash flows from financing activities			
Placement of shares		5,585,110	-
Proceeds of bank loan		200,000	-
Repayment of bank loan		(200,000)	(900,000)
Net cash provided by/(used by) financing activities		5,585,110	(900,000)
Net increase/(decrease) in cash and cash equivalents held		3,333,342	(3,037,682)
Cash and cash equivalents at the beginning of the financial year		2,113,321	5,144,431
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		(31,209)	6,572
Cash and cash equivalents at the end of the financial year	6	5,415,454	2,113,321

Notes to the financial statements are included on pages 18 to 47.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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").

The financial statements were authorised for issue by the Directors 22 February 2013.

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) Business Combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant Standards. Changes in the fair value of contingent consideration classified as equity are not recognised.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

1. Summary of Significant Accounting Policies (Cont.)

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3(2008) are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with AASB 112 Income Taxes and AASB 119 Employee Benefits respectively;
- Liabilities or equity instruments related to the replacement by the Group of an acquiree's share based payment awards are measured in accordance with AASB 2 Share-based Payment; and
- assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 Noncurrent Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete.

Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date. The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date - and is subject to a maximum of one year.

(c) 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.

(d) Embedded Derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit and loss.

(e) 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

1. Summary of Significant Accounting Policies (Cont.)

(f) 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.

(g) 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.

(h) Foreign Currency

Foreign currency transactions

All foreign currency transactions during the financial year are brought 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

1. Summary of Significant Accounting Policies (Cont.)

(i) 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.

(j) 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

1. Summary of Significant Accounting Policies (Cont.)

(k) 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.

(l) 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

1. Summary of Significant Accounting Policies (Cont.)

(m) 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.

(n) 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.

(o) 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.

(p) 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.

(q) 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

1. Summary of Significant Accounting Policies (Cont.)

(r) Principles of Consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 127 Consolidated and Separate Financial Statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceeds the cost of acquisition, the deficiency is credited to profit and loss in the period of acquisition.

The consolidated financial statements include the information and results of each subsidiary from the date on which the company obtains control and until such time as the company ceases to control such entity.

In preparing the consolidated financial statements, all inter-company balances and transactions and unrealised profits within the consolidated entity are eliminated in full.

(s) 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

(t) 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(o)). Interest income and distributions received are recognised as it accrues.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

1. Summary of Significant Accounting Policies (Cont.)

(u) Standards and Interpretations Affecting Amounts Reported in the Current Period (and/or Prior Periods)

All other new and revised Standards and Interpretations effective for the period ended 31 December 2012 have been adopted with no impact on the amounts or disclosures in the financial statements.

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 January 2015	31 December 2015
AASB 10 Consolidated Financial Statements	1 January 2013	31 December 2013
AASB 12 Disclosure of Interests in Other Entities	1 January 2013	31 December 2013
AASB 13 Fair Value Measurement	1 January 2013	31 December 2013
AASB 127 Separate Financial Statements	1 January 2013	31 December 2013
AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements [AASB 1, 2, 3, 5, 7, 8, 101, 102, 107, 108, 110, 111, 112, 116, 117, 119, 121, 123, 124, 127, 128, 131, 133, 134, 136, 137, 138, 140, 141, 1050 & 1052 and Interpretations 2, 4, 5, 15, 17, 127, 129 & 1052]	1 July 2013	31 December 2014
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 January 2015	31 December 2015
AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124]	1 July 2013	31 December 2014
AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards [AASB 1, 2, 3, 5, 7, 101, 107, 112, 118, 121, 124, 132, 133, 136, 138, 139, 1023 & 1038 and Interpretations 5, 9, 16 & 17]	1 January 2013	31 December 2013
AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 [AASB 1, 2, 3, 4, 5, 7, 101, 102, 108, 110, 116, 117, 118, 119, 120, 121, 128, 131, 132, 133, 134, 136, 138, 139, 140, 141, 1004, 1023 & 1038 and Interpretations 2, 4, 12, 13, 14, 17, 19, 131 & 132]	1 January 2013	31 December 2013
AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) [AASB 1, AASB 8, AASB 101, AASB 124, AASB 134, AASB 1049 & AASB 2011-8 and Interpretation 14]	1 January 2013	31 December 2013
AASB 2011-11 Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements	1 July 2013	30 June 2014
AASB 2011-12 Amendments to Australian Accounting Standards arising from Interpretation 20 [AASB 1]	1 January 2013	31 December 2013
AASB 2012-1 Amendments to Australian Accounting Standards - Fair Value Measurement - Reduced Disclosure Requirements [AASB 3, AASB 7, AASB 13, AASB 140 & AASB 141]	1 July 2013	31 December 2014
AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle [AASB 1, AASB 101, AASB 116, AASB 132 & AASB 134 and Interpretation 2]	1 January 2013	31 December 2013
AASB 2012-7 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements [AASB 7, AASB 12, AASB 101 & AASB 127]	1 July 2013	31 December 2014

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

1. Summary of Significant Accounting Policies (Cont.)

(u) Standards and Interpretations Affecting Amounts Reported in the Current Period (and/or Prior Periods) (Cont.)

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 2012-10 Amendments to Australian Accounting Standards - Transition Guidance and Other Amendments [AASB 1, 5, 7, 8, 10, 11, 12, 13, 101, 102, 108, 112, 118, 119, 127, 128, 132, 133, 134, 137, 1023, 1038, 1039, 1049 & 2011-7 and Interpretation 12]	1 January 2013	31 December 2013
AASB 2012-11 Amendments to Australian Accounting Standards - Reduced Disclosure Requirements and Other Amendments [AASB 1, AASB 2, AASB 8, AASB 10, AASB 107, AASB 128, AASB 133, AASB 134 & AASB 2011-4]	1 July 2013	31 December 2014

The directors are evaluating the potential impact of these new pronouncements on the future financial statements.

(v) 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.

(w) Critical Accounting Judgements

In the application of the consolidated entities 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:

Investment Property/Asset held for sale

The directors made a critical judgement in relation to the value of the investment property included in Note 8.

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 2012

	Consolidated Year ended 31 December 2012 \$	Consolidated Year ended 31 December 2011 \$
2. (Loss) from Operations		
(a) Revenue		
Interest received - other entities	29,226	141,693
Rental income	132,760	127,841
Total revenue	161,986	269,534
(b) Expenses		
Reduction of fair value of investment property	140,000	-
Amortisation	62,000	77,500
Depreciation	104,845	133,527
Employee benefits expense:		
Other employee benefits	1,131,289	1,061,174
Superannuation	12,240	12,240
	1,143,529	1,073,414
Finance costs - interest paid - other entities	1,776	28,537
3. Income Taxes		
(a) Income tax recognised in profit or loss		
Tax expense comprises:		
Tax expense/(income) - prior year	-	(1,210)
Deferred tax expense/(income)	-	-
Total tax expense/(income)	-	(1,210)

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	(2,622,099)	(2,931,907)
Amortisation	62,000	77,500
Share based payments	-	621,810
Impairment of property	140,000	-
	(2,420,099)	(2,232,597)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

	31 December 2012 \$	31 December 2011 \$
3. Income Taxes (Cont.)		
Income tax expense calculated at 30%	(786,624)	(669,779)
Effect of different tax rates of subsidiaries operating in other jurisdictions	155,957	92,082
Deferred tax benefit not brought to account	630,667	576,487
	-	(1,210)

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	1,341,387	710,720
Temporary differences	(52,578)	(11,293)
	1,288,809	699,427
(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 (P.C 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	553,453	600,964
Post employment benefits	108,821	117,788
Share-based payments	-	-
Termination benefits	-	-
	662,274	718,752

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 2012

	31 December 2012 \$	31 December 2011 \$
5. Remuneration of Auditors		
(i) Auditor of the parent entity		
Audit or review of the financial statements	23,100	32,560
Taxation service	15,000	4,319
	38,100	36,879
(ii) Network Firm of the Parent Entity Auditor		
Audit or review of the financial statements	14,599	17,532
Taxation service	10,044	18,049
	24,643	35,581
The auditor of Audio Pixels Holdings Limited is Deloitte Touche Tohmatsu.		
6. Cash and Cash Equivalents		
Cash on hand and at bank	5,415,454	2,113,321
Weighted average interest rate received on cash	2.90%	2.92%
7. Trade and Other Receivables		
Current		
GST receivable	2,831	3,333
Interest receivable	4,892	-
Prepayments	33,838	30,358
Other debtors	17,274	11,536
	58,835	45,227
Current debtors are receivable within 30 days		
Non Current		
Other debtors	13,858	14,303

Other debtors comprise security deposits with government bodies.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

	31 December 2012 \$	31 December 2011 \$
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8. Investment Property/Asset Held for Sale

Strata title commercial property

1,600,000	1,740,000
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In 2011 the fair value of the Strata Title commercial property was determined in accordance with a valuation carried out on 2 September 2010 by Landmark White (NSW) 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 7.50%.

The directors have determined the fair value of the property at 31 December 2012 of \$1,600,000 based on the 2 September 2010 valuation, their review of market movements over the period, the estimated increase in capitalisation rates to 8.25%.

In the 31 December 2011 financial statements, the asset was classified as an investment property. The company has subsequently placed the property on the market for sale as it is surplus to the needs of the company and accordingly the property has been re classified as an asset held for sale.

9. Goodwill

Being goodwill acquired on the acquisition of Audio Pixels Limited (Refer Note 24). The goodwill is allocated to the cash generating unit of digital speakers by Audio Pixels Limited of Israel.

1,840,135	1,840,135
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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 14 year period and a discount rate of 24% per annum. 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.

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.

Less amortisation

868,000	868,000
(139,500)	(77,500)
728,500	790,500

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

	31 December 2012 \$	31 December 2011 \$
11. Property, Plant and Equipment		
Computers and related equipment - at cost	211,659	199,003
Less accumulated depreciation	(180,508)	(159,243)
	31,151	39,760
Leasehold improvements - at cost	156,595	159,642
Less accumulated depreciation	(156,129)	(159,095)
	466	547
Office furniture and equipment - at cost	603,883	580,697
Less accumulated depreciation	(439,659)	(367,200)
	164,224	213,497
Total net book value of Property, Plant and Equipment	195,841	253,804
Cost		
Computers and related equipment		
Balance at 1 January	199,003	162,243
Additions	16,455	36,988
Net foreign currency exchange differences	(3,799)	(228)
Balance as at 31 December	211,659	199,003
Leasehold improvements		
Balance at 1 January	159,642	159,846
Net foreign currency exchange differences	(3,047)	(204)
Balance as at 31 December	156,595	159,642

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

	31 December 2012 \$	31 December 2011 \$
11. Property, Plant and Equipment (Cont.)		
Office furniture and equipment		
Balance at 1 January	580,697	552,355
Additions	28,479	29,065
Net foreign currency exchange differences	(5,293)	(723)
Balance as at 31 December	603,883	580,697
Accumulated depreciation		
Computers and related equipment - at cost		
Balance as at 1 January	(159,243)	(130,178)
Net foreign currency exchange differences	3,275	182
Depreciation expense	(24,540)	(29,247)
Balance at 31 December	(180,508)	(159,243)
Leasehold improvements		
Balance as at 1 January	(159,095)	(144,575)
Net foreign currency exchange differences	3,038	193
Depreciation expense	(72)	(14,713)
Balance at 31 December	(156,129)	(159,095)
Office furniture and equipment		
Balance as at 1 January	(367,200)	(278,041)
Net foreign currency exchange differences	7,774	408
Depreciation expense	(80,233)	(89,567)
Balance at 31 December	(439,659)	(367,200)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

	31 December 2012 \$	31 December 2011 \$
12. Trade and Other Payables		
Current		
Trade payables and accruals	303,115	380,005
Other creditors - related parties	23,156	-
	326,271	380,005
The payables are non interest bearing and have an average credit period of 30 days.		
13. Current Borrowings		
At amortised cost		
Commercial bill - secured	-	-
Financing arrangements		
Total facilities available	920,000	20,000
Facilities utilised at balance date	-	-
Facilities not used at balance date	920,000	20,000
The commercial bills were denominated in Australian dollars. The commercial bill facility of \$900,000 is a committed facility secured by a registered first mortgage against the Strata Title property. The \$900,000 commercial bill expires on 28 February 2013 unless a further extension is required. The average weighted interest rate on the interest bearing liabilities was 5.85% (2011 - 6.89%). 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	240,281	169,747

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

	31 December 2012 \$	31 December 2011 \$
15. Issued Capital		
Issued and paid up capital		
Fully paid Ordinary Shares		
Balance at the beginning of the financial year	30,360,295	8,000,025
Issue of shares at \$5.00 each for cash	5,585,110	-
Issue of shares to minority vendors at \$4.57 each	-	22,360,270
Balance at the end of the financial year	35,945,405	30,360,295
Fully paid Ordinary Shares		
Balance at the beginning of the financial year	23,292,963	18,400,125
Issue of shares at \$5.00 each for cash	1,117,022	-
Issue of shares to minority vendors at \$4.57 each	-	4,892,838
Balance at the end of the financial year	24,409,985	23,292,963

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

16. Options Issued to Founders and Staff

On 13 January 2011, shareholders approved the issue of 1,066,879 unlisted options to the founders and staff of Audio Pixels Limited of Israel. These 1,066,879 unlisted options were issued on 11 February 2011 and are exercisable at a price of 38 cents each and expire on 31 March 2013. These options vested upon issue, however the options and any ordinary shares resulting from the exercise of the options were subject to a two year voluntary restriction period which expired on 11 February 2013.

Each share option converts to one ordinary share in Audio Pixels Holdings Limited. The options carry neither rights to dividends nor voting rights. The options can be exercised at any time from the date of issue to the date of expiry.

The 1,066,879 unlisted options were priced using a Black-Scholes option pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions and behavioural conditions. Expected volatility is based on historical share price volatility over a two year period.

The Black-Scholes model determined a value of \$4.23 each or \$4,512,898 in total for the 1,066,879 options based on the following inputs to the model for the options issued on 11 February 2011.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

16. Options Issued to Founders and Staff (Cont.)

	31 December 2012 \$	31 December 2011 \$
Dividend yield	-	-
Expected volatility	-	60%
Risk free interest rate	-	4.75%
Expected life of options	-	807 days
Grant date share price	-	\$4.57
Exercise price	-	\$0.38

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

	Number	Value	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.

	2012		2011	
	Number	Weighted Average Exercise price \$	Number	Weighted Average Exercise price \$
Balance at the beginning of the financial year	1,066,879	0.38	-	-
Granted during the year	-	-	1,066,879	0.38
Exercised during the year	-	-	-	-
Lapsed during the year	-	-	-	-
Balance at the end of the financial year	1,066,879	0.38	1,066,879	0.38
Exercisable at end of year	-	0.38	-	0.38

These 1,066,879 options are 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 2012

	31 December 2012 \$	31 December 2011 \$
17. Reserves		
Foreign currency translation		
Balance at the beginning of the financial year	14,977	23,508
Translation of foreign operations	75,522	(8,531)
Balance at end of financial year	90,499	14,977
Equity settled option reserve		
Balance at the beginning of the financial year	4,512,898	-
Issue of 1,066,879 options to founders and staff	-	4,512,898
Balance at end of financial year	4,512,898	4,512,898
Minority acquisition reserve		
Balance at the beginning of the financial year	(25,538,692)	-
Issue of new equity to acquire the minority interests of Audio Pixels Limited	-	(21,647,604)
Issue of options to founders	-	(3,891,088)
Balance at end of financial year	(25,538,692)	(25,538,692)
Total	(20,935,295)	(21,010,817)
18. Minority Interests		
Balance at beginning of the financial year	-	712,666
Minority interests acquired as a result of purchase of Audio Pixels Limited	-	(712,666)
Balance at end of financial year	-	-
19. Accumulated Losses		
Balance at the beginning of the financial year	(3,101,940)	(171,243)
(Loss) for the year attributable to owners of the company	(2,622,099)	(2,930,697)
Balance at the end of the financial year	(5,724,039)	(3,101,940)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

	31 December 2012 \$	31 December 2011 \$
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20. Notes to the Cash Flow Statement

(a) Reconciliation of cash and cash equivalents

For the purposes of the cash flow statement, 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 flow is reconciled to the related items in the statement of financial position as follows:

Cash and cash equivalents	5,415,454	2,113,321
(b) Restricted cash		
Cash held as security for future lease payments	23,251	23,115

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

(Loss) after related income tax	(2,622,099)	(2,930,697)
Reduction in fair value of investment property	140,000	-
Equity settled share-based payments	-	621,810
Amortisation	62,000	77,500
Depreciation	104,845	133,527
Foreign exchange	104,783	(14,731)
Changes in assets and liabilities		
(Increase)/decrease in assets		
Current trade and other receivables	(13,608)	7,580
Non-current trade and other receivables	445	-
Increase/(decrease) in liabilities		
Tax payable	-	(24,652)
Provisions	70,534	17,721
Current trade payables	(53,734)	30,043
Net cash used in operating activities	(2,206,834)	(2,081,629)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

21. 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

	31 December 2012 Number	31 December 2011 Number
Fred Bart	5,291,250	5,286,849
Ian Dennis	520,050	520,050
Cheryl Bart	500,000	500,000

Mr Fred Bart purchased 4,401 shares during the year ended 31 December 2012 on market.

(c) Transactions with Related Entities

The company has paid \$35,464 (year ended 31 December 2011: \$12,598) in respect of rental of the Sydney offices premises to 4F Investments Pty Limited, a company associated with Fred Bart. These rentals are based on a share of actual costs incurred and do not include a profit mark up.

During the year ended 31 December 2012, the Company paid a total of \$107,365 (year ended 31 December 2011 - \$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 2012, the Company paid a total of \$40,875 (year ended 31 December 2011 - \$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 2011 - \$50,000) 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. 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 \$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 2012

	31 December 2012 \$	31 December 2011 \$
22. Earnings per Share		
Basic (loss) per share	(11.26 cents)	(12.77 cents)
Diluted (loss) per share	(11.26 cents)	(12.77 cents)
(Loss) (a)	(2,622,099)	(2,930,697)
Weighted average number of Ordinary Shares	23,292,963	22,957,837

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

Diluted (loss) per share

There are 1,066,879 unlisted options exercisable at 38 cents which expire on 31 March 2013 which are potential ordinary shares which are 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.

23. 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	132,760	127,841
Digital speakers	-	-
Total of all segments	132,760	127,841
Unallocated	29,226	141,693
Total	161,986	269,534

Segment Results

Property investment	100,806	78,154
Digital speakers	(2,752,131)	(3,151,754)
Total of all segments	(2,651,325)	(3,073,600)
Unallocated	29,226	141,693
(Loss) before income tax	(2,622,099)	(2,931,907)
Income tax gain/(expense)	-	1,210
(Loss) for the period	(2,622,099)	(2,930,697)

The consolidated entity had one customer who provided 100% of the rental income for the year ended 31 December 2012 and 100% for the year ended 31 December 2011.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

23. Segment Information (Cont.)

Segment Assets and Liabilities

	Assets		Liabilities	
	31 December 2012 \$	31 December 2011 \$	31 December 2012 \$	31 December 2011 \$
Property investment	1,600,000	1,740,000	-	-
Other investments	-	-	-	-
Digital speakers	2,834,338	2,940,636	566,552	549,752
Total all segments	4,434,338	4,680,636	566,552	549,752
Unallocated	5,418,285	2,116,654	-	-
Consolidated	9,852,623	6,797,290	566,552	549,752

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 2012 \$	31 December 2011 \$	31 December 2012 \$	31 December 2011 \$
Property investment	-	-	-	-
Other investments	-	-	-	-
Digital speakers	166,845	211,027	44,934	66,053
Total all segments	166,845	211,027	44,934	66,053
Unallocated	-	-	-	-
Consolidated	166,845	211,027	44,934	66,053

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

23. Segment Information (Cont.)

Information on Geographical Segments

Geographical Segments	Revenue from External Customers \$	Segment Assets \$	Acquisition of Segment Assets \$
31 December 2012			
Australia	161,952	6,885,407	-
Israel	34	2,967,216	44,934
Total	161,986	9,852,623	44,934
31 December 2011			
Australia	269,388	3,800,532	-
Israel	146	2,996,758	66,053
Total	269,534	6,797,290	66,053

24. Acquisition of Subsidiary

During the previous year ended 31 December 2011, the company completed the formalities for the acquisition of the remaining 45.83% minority holdings in Audio Pixels Limited and now owns 100%. On 13 January 2011 shareholders approved the issue of 4,892,838 new ordinary shares to the vendors which are subject to escrow conditions and 1,066,879 unlisted options were issued to the founders and staff on 11 February 2011 at an exercise price of 38 cents and are exercisable on or before 31 March 2013, which are also subject to escrow conditions.

The 4,892,838 shares were valued at the market value at the time of the issue of \$4.57 and the value of the 1,066,879 options was determined in accordance with the Black-Scholes Option Pricing Model. The difference between the market price at the time of the issue of the securities and the value of the minority interests based on the accounting treatment at the date of the initial acquisition has been recognised in the Minority Acquisition Reserve (representing a transaction between owners).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

25. 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 entities cash holdings and short term deposits.

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

	31 December 2012 \$	31 December 2011 \$
Financial assets		
Cash and cash equivalents	5,415,454	2,113,321
Financial liabilities		
Current borrowings at amortised cost	-	-

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 2012, 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 2012 \$	31 December 2011 \$	31 December 2012 \$	31 December 2011 \$
Consolidated entity				
+1% (100 basis points)	54,244	22,656	54,244	22,656
-0.5% (50 basis points)	(26,987)	(11,409)	(26,987)	(11,409)

The movements in profits are due to higher/lower interest rates on cash and cash equivalents balances. The cash and cash equivalents balances were higher in December 2012 than in December 2011 and accordingly the sensitivity is higher.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

25. 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 2012 \$	31 December 2011 \$	31 December 2012 \$	31 December 2011 \$
Cash and cash equivalents	-	-	941,813	865,009
Trade and other receivables	-	-	25,157	43,486
Trade and other payables	275,267	26,355	-	-

All US\$ denominated financial instruments were translated to A\$ at 31 December 2012 at the exchange rate of 1.0374 (2010:1.0176).

At 31 December 2012 and 31 December 2011, had the Australian Dollar moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

Judgements of reasonably possible movements	Post Tax Profit Higher/(Lower)		Equity Higher/(Lower)	
	2012 \$	2011 \$	2012 \$	2011 \$
Consolidated entity				
AUD/USD +10%	173,386	223,950	173,386	223,950
AUD/USD -5%	(100,381)	(111,975)	(100,381)	(111,975)

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 2012

25. 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 expires 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 2012					
Non interest bearing	0.00	864,181	-	-	-
Variable interest rate instruments	0.00	-	-	-	-
Fixed rate instruments	2.90	4,532,514	26,160	31,839	-
31 December 2011					
Non interest bearing	0.00	209,241	-	-	-
Variable interest rate instruments	0.90	804,735	2,078	9,351	62,340
Fixed rate instruments	4.90	1,104,492	8,983	-	-

(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 2012

26. Subsequent Events

Since the end of the financial year, the company agreed to the issue of 30,183 shares at an exercise price of A\$1.59 to a warrant holder in Audio Pixels Limited as a result of the resolution of a previously disputed warrant agreement. The shares were issued on 1 February 2013 and raised cash of \$48,123.

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

	31 December 2012 \$	31 December 2011 \$
27. Parent Entity Disclosures		
Financial position		
Assets		
Current assets	10,003,453	4,890,837
Non-current assets	4,028,209	4,168,209
Total assets	14,031,662	9,059,046
Liabilities		
Current liabilities	51,002	10,645
Non-current liabilities	-	-
Total liabilities	48,171	10,645
Net assets	13,980,660	9,048,401
Equity		
Issued capital	35,945,405	30,360,295
Reserves	(21,025,794)	(21,025,794)
(Accumulated losses)/Retained earnings	(938,951)	(286,100)
Total equity	13,980,660	9,048,401
Financial performance		
(Loss) for the period	(652,851)	(389,744)
Other comprehensive income	-	-
	(652,851)	(389,744)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

28. Controlled Entity

Name of Entity	Country of Incorporation	31 December 2012 %	31 December 2011 %
Parent Entity			
Audio Pixels Holdings Limited	Australia		
Controlled Entity			
Audio Pixels Limited	Israel	100.00	100.00

29. Leases

Operating leases - leasing arrangements (the Company as Lessor)

Operating leases relate to the investment property owned by the consolidated entity with a remaining lease term of nine months, 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 2012 \$	31 December 2011 \$
Non-cancellable operating lease receivables		
Not longer than 1 year	110,639	104,288
Longer than 1 year and not longer than 5 years	-	-
Longer than 5 years	-	-
	<u>110,639</u>	<u>104,288</u>

Operating leases - leasing arrangements (the Company as Lessee)

The parent company entered into a sublease arrangement in respect of its head office premises at Suite 3, Level 12, 75 Elizabeth Street, Sydney NSW commencing on 29 October 2012 for a period of 17 months to 30 March 2014.

	31 December 2012 \$	31 December 2011 \$
Non-cancellable operating lease payables		
Not longer than 1 year	65,599	-
Longer than 1 year and not longer than 5 years	30,000	-
Longer than 5 years	-	-
	<u>95,599</u>	<u>-</u>

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 2012

30. 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.

31. 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 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 18 February 2013 the following substantial shareholders were registered:

	Ordinary Shares	Percentage of total Ordinary Shares
Fred Bart Group	5,291,250	21.65%

Voting Rights

At 18 February 2013 there were 827 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 18 February 2013 the distribution of ordinary shareholdings were:

Range	Ordinary Shareholders	Number of Shares
1 - 1,000	247	110,153
1,001 - 5,000	238	672,990
5,001 - 10,000	191	1,737,734
10,001 - 100,000	116	3,582,511
100,001 and over	35	18,336,780
	827	24,440,168

There were 72 ordinary shareholders with less than a marketable parcel.

There is no current on-market buy-back.

TWENTY LARGEST ORDINARY SHAREHOLDERS

At 18 February 2013 the 20 largest ordinary shareholders held 66.71% of the total issued fully paid quoted ordinary shares of 24,440,168.

Shareholder	Fully Paid Ordinary Shares	Percentage of Total
1. S.G.S. Trusts Limited	4,892,838	20.02%
2. Landed Investments (NZ) Limited	3,615,000	14.79%
3. Fred Bart	1,244,300	5.09%
4. Link Traders (Aust) Pty Limited	718,901	2.94%
5. Kam Superannuation Fund Pty Limited	650,000	2.66%
6. Ian Dennis and Caroline Dennis	520,000	2.13%
7. Cheryl Bart	500,000	2.05%
8. Grandor Pty Limited	444,563	1.82%
9. Jamber Investments Pty Limited	440,000	1.80%
10. Decante Pty Ltd <J M Ehrlich Super Fund A/C>	418,000	1.71%
11. Bart Superannuation Pty Limited	392,780	1.61%
12. Matthew James Sachr	322,900	1.32%
13. Brent McCarty, Yvonne McCarty and Zeljan Unkovich	315,075	1.29%
14. Array Capital Corporation	300,000	1.23%
15. Lee K Lau	300,000	1.23%
16. Leo James Casey + Frances Mary Casey	277,000	1.13%
17. James Bart	250,000	1.02%
18. Nicole Bart	250,000	1.02%
19. Landed Investments Limited	248,960	1.02%
20. Larron Pty Limited <Jennings Family A/C>	203,000	0.83%
	16,303,317	66.71%

Restricted Securities

On 25 January 2011, the company issued 4,887,807 ordinary shares to the vendors of Audio Pixels Limited which were subject to an ASX imposed restriction period of 12 months which expired on 25 January 2012. These securities are now quoted and were subject to a voluntary escrow period which expired 25 January 2013. The company has also issued 5,031 ordinary shares to one vendor of Audio Pixels Limited, who was a related party, which are subject to an ASX imposed restriction period of 24 months which expired on 1 February 2013. These 4,892,838 ordinary shares are registered under the name of S.G.S. Trusts Limited as trustee for the vendors.

The company has also issued 1,066,879 unlisted options exercisable at 38 cents to the founders and staff of Audio Pixels Limited which are subject to a voluntary escrow period of 24 months which expires on 11 February 2013. The ASX code for these unquoted securities is AKPAM.

RESTRICTED UNLISTED OPTION HOLDER UNQUOTED

At 18 February 2013 the 6 restricted unlisted optionholders held 100% of the unquoted options outstanding of 1,066,879. The options were issued on 11 February 2011 and are exercisable at 38 cents each and expire on or before 31 March 2013. There was a voluntary escrow period on these shares for 24 months which expired on 11 February 2013.

Shareholder	Fully Paid Ordinary Shares	Percentage of Total
1. Yuval Cohen	498,152	46.69%
2. Daniel Lewin	278,273	26.08%
3. Shay Kaplan	143,454	13.45%
4. Meir Ben Simon	75,000	7.03%
5. Havi Shimchovich	45,000	4.22%
6. Victor Cohen	27,000	2.53%
	<u>1,066,879</u>	<u>100.00%</u>

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 2012, 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

CORPORATE GOVERNANCE STATEMENT

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.

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	12 years
Mr Ian Dennis	Non-Executive Director	12 years
Ms Cheryl Bart	Non-Executive Director	10 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.

CORPORATE GOVERNANCE STATEMENT

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.

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 comes 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.

CORPORATE GOVERNANCE STATEMENT

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.

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.

CORPORATE GOVERNANCE STATEMENT

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;

CORPORATE GOVERNANCE STATEMENT

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;
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.



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