

AUDIO PIXELS HOLDINGS LIMITED
ACN 094 384 273

FINANCIAL REPORT FOR THE YEAR ENDED
31 DECEMBER 2016

AUDIO PIXELS HOLDINGS LIMITED

ACN 094 384 273

CORPORATE DIRECTORY

Directors

Fred Bart (Chairman)
Ian Dennis
Cheryl Bart AO

Company Secretary

Ian Dennis

Registered Office

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Australia

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Web site

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Auditor

Deloitte Touche Tohmatsu
Chartered Accountants
Brindabella Circuit
Brindabella Business Park
Canberra Airport ACT 2609
Australia

Share Registry

Computershare Investor Services Pty Limited
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Sydney NSW 2000

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Bankers

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Australia

AUDIO PIXELS HOLDINGS LIMITED
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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 2016. 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. Mr Bart is also Chairman of Immunovative Therapies Limited, an Israeli company involved in in the manufacture of cancer vaccines for the treatment of most forms of cancer. He is a member of the Audit Committee and a member of the Nomination and Remuneration Committee.
Ian Dennis	Non-executive director and Company Secretary. Ian is a chartered accountant with experience as director and secretary in various public listed and unlisted technology companies. He has been involved in the investment banking industry and stockbroking industry for the past thirty years. Prior to that, Ian was with KPMG, Chartered Accountants in Sydney. Appointed to the Board on 5 September 2000. He is a member of the Audit Committee and Nomination and Remuneration Committee.
Cheryl Bart AO	Non-executive director. Appointed to the Board on 26 November 2001. Cheryl Bart is a lawyer and company director. She is non-executive director of SG Fleet Australia Limited, ME Bank, Invictus Games Sydney 2018, Prince's Charities of Australia, Football Federation of Australia (FFA), Ted X Sydney and the Australian Himalayan Foundation. She is immediate past director of ABC (Australian Broadcasting Corporation), SA Power Networks (formerly ETSA Utilities), Spark Infrastructure Limited, and the Local Organising Committee of the 2015 Australian Asian Cup. She is a fellow of the Australian Institute of Company Directors, Patron of SportsConnect and a member of Chief Executive Women. She is a member of the Audit Committee and a member of the Nominations and Remuneration Committee.

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DIRECTORS' REPORT (CONTINUED)

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	November 2005 to May 2015
	SG Fleet Australia Limited	Since February 2014

Principal activities

The principal activity of the Company is an investment in Audio Pixels Limited of Israel. Audio Pixels Limited is engaged in the development of digital speakers.

Results

The net loss for the financial year ended to 31 December 2016 was \$5,054,771 (31 December 2015 – \$1,840,940).

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

During the reporting period there were no significant changes in the nature of the company's principal activities which were focused on the refinement of technology and fabrication processes' required to mass produce a commercial version of the Company's proven groundbreaking MEMS ("Micro Electro Mechanical Structure") based digital loudspeaker technologies.

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

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DIRECTORS' REPORT (CONTINUED)

Review of operations (cont)

The Company's primary efforts are to commercialize its groundbreaking MEMS based digital sound wave transducer platform into an industry compliant microchip that will propel audio loudspeakers, systems and ultrasonic sensors from its century old analog origins into the advanced digital era of today.

The ongoing commercialization efforts have been dedicated to evolving the Company's proven playing digital loudspeaker prototype technologies into a small robust semiconductor loudspeaker chip that is ideally suited for a very wide range of original equipment manufacturer (OEM) and consumer applications. The mission undertaken by the Company is analogous to the transition undergone by the display industry from analog based cathode ray tube (CRT) technologies into the modern digital light emitting diodes (LED) based displays of today. The common thread between both transitions is that they are no less significant in terms of scale, volume and complexity. The distinction however is that while a wide range of multinational conglomerates all contributed to the advancement of display technologies, Audio Pixels alone has led the charge toward making digital sound reconstruction a reality.

Managing the scope, complexity and magnitude of such an undertaking necessitates careful planning. The company sought to mitigate the technological and fabrication risks by establishing a four-phase program whereby each phase was independently planned (funded) and executed to address specific functional and fabrication challenges. Each phase was designed to resolve particular challenges while collectively contributing to an end result of a mass-manufacturable commercially viable product. The fourth and final phase of this program, which is currently entering its latter stages, is somewhat different as it serves as the final "integration phase"; a development phase that fuses all the functional and manufacturing achievements of each prior phase into a working device produced using mass manufacturing methods.

DIRECTORS' REPORT (CONTINUED)

Review of operations (cont)

An important nuance to the fourth phase is that the integration of a number of independent elements requires precision coordination between vendors and activities. The reality of any integration effort is that any individual interval, more often than not, impacts the overall integration process and progress. Throughout the fourth phase management has and continues to invest enormous efforts trying to navigate the natural fluctuations associated with producing a groundbreaking MEMS based technology; the highlights of which are:

- MEMS - the MEMS transducer (Micro Electro Mechanical Structure responsible for generating the sound waves). Standard semiconductor convention is often an inadequate representation of the true behaviour of a specific full structured MEMS device. Developing devices of our scale and composition often introduce unexpected variances from the planned and simulated results. This phenomenon was quite evident when the batch of fabricated devices delivered during this reporting period failed to meet a critical design specification.
- MEMS ACTIVITIES– During the latter part of the reporting period the company received and tested the lead fabrication batch of wafers. These wafers consisted of fully fabricated MEMS chips prior to singulation (the process of individually separating the devices). Initial evaluation results of the lead wafer batch received showed that specific electro-mechanical characteristics of the devices differed from the design specifications, which ultimately translated into the need to use higher operating voltages to actuate and control the device elements. The Company investigated and identified the root cause of the deviance and advised its fabrications partners to make the necessary corrections as well as implement a very minor change to the fabrication process which will ensure that future produced wafers do not deviate from the required specifications.

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DIRECTORS' REPORT (CONTINUED)

Review of operations (cont)

Additionally the Company attempted to “salvage” this batch of wafers by modifying our electronics systems as to enable the use of higher actuation and control voltages. While initial results involving the use of higher voltages were quite encouraging, ultimately advanced testing revealed that the chips could not adhere to the required functional specifications when forced to operate at significantly higher voltages than they were originally designed.

The vendors advised us that they should be able to deliver new batches of wafers that incorporate the design change on or before May 31, 2017. This was announced to the market on 25 January 2017.

- **Application Specific Integrated Circuits (ASIC) ACTIVITIES** – During the reporting period the Company completed design, fabrication, and testing of its second-generation integrated circuit. The proprietary ASIC which is co-packaged together with the MEMS device, serves to convert and control voltages required by the MEMS transducer. To ensure specification compliance the Company together with our design partner (ICSense) conducted extensive detail and statistical analysis. The Company proceeded to conduct the process of integrating the ASIC together with the MEMS; a process that entails implementation, test and verification of functionality and reliability of the MEMS chip as it receives and processes each signal, instruction, and condition as prescribed by the ASIC. To the extent possible (given the shortcoming of the MEMS as described above) the Company concluded the integration process.

- **Chip Package** – The Company is expecting to receive the first batch of assembled and packaged chips, within the coming days. Although the MEMS chip assembled inside the package has been deemed inoperable (for our current purposes), nonetheless upon receipt the Company will begin to conduct various environmental tests to ensure compliance with various industry standards.

The Company continues to expand its intellectual property portfolio, submitting 2 additional patent applications during the reporting period.

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DIRECTORS' REPORT (CONTINUED)

Review of operations (cont)

Further information concerning the operations and financial condition of the entity can be found in the financial report and in releases made to the Australian Stock Exchange (ASX) during the year.

Changes in state of affairs

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

Significant events after balance date

There has not been any matter or circumstance that has arisen since the end of the financial year which is not otherwise dealt with in this report or in the financial statements, that has significantly affected or may significantly affect the operations of the company or the consolidated entity, the results of those operations or the state of affairs of the company or the consolidated entity in subsequent financial years.

Future developments

The consolidated entity will continue to focus on the development of its digital speaker technology.

Environmental regulations

In the opinion of the directors the company and the consolidated entity is in compliance with all applicable environmental legislation and regulations.

Indemnification and Insurance of Officers and Auditors

During the financial year, the company paid a premium in respect of a contract insuring the Directors and Officers of the Company and any related body corporate against a liability incurred as such a Director or Officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the coverage provided and the amount of the premium. The Company has agreed to indemnify the current Directors, Company Secretary and Executive Officers against all liabilities to other persons that may arise from their position as Directors or Officers of the Company and its controlled entities, except where to do so would be prohibited by law. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

The Company has not, during or since the financial year indemnified or agreed to indemnify an auditor of the company or of any related body corporate against any liability incurred as such an auditor.

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DIRECTORS' REPORT (CONTINUED)

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	5,592,765
Ian Dennis	570,050
Cheryl Bart	500,000

Mr Fred Bart took up 151,515 ordinary shares at \$6.60 in the private placement which was approved by shareholders at the Annual General Meeting held on 31 May 2016. Apart from this placement, there has been no movement in Directors' shareholdings during the 2016 year.

Remuneration report (audited)

Since the end of the previous financial year no director of the Company has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of remuneration received or due and receivable by directors as shown in the financial statements) because of a contract made by the Company or related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest. There are no employment contracts for any of the directors.

This report outlines the remuneration arrangements in place for Directors and key management personnel of the Company. The Directors are responsible for remuneration policies and packages applicable to the Board members of the Company. The entire Board makes up the Nomination and Remuneration Committee. The 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:

- 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

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DIRECTORS' REPORT (CONTINUED)

Remuneration report (cont)

The Directors fees are not dependent on the earnings of the Company and the consequences of the Company's performance on shareholder wealth. On 24 September 2010, the maximum total directors fees were increased to a total of \$250,000 per annum in line with the increased activities of the company. The actual directors fees paid were within the approved limit of \$250,000 per annum approved by shareholders at the Annual General Meeting held on 24 September 2010.

The table below sets out summary information about the Company's earnings and movements in shareholder wealth for the last 5 financial years.

	Year ended 31 December 2016 \$	Year ended 31 December 2015 \$	Year ended 31 December 2014 \$	Year ended 31 December 2013 \$	Year ended 31 December 2012 \$
Revenue	103,630	25,073	181,583	304,536	161,986
Net profit/(loss) before tax	(5,054,771)	(1,840,940)	(2,796,787)	(2,147,576)	(2,615,412)
Net profit/(loss) after tax	(5,054,771)	(1,840,940)	(2,796,787)	(2,147,576)	(2,615,412)

	Year ended 31 December 2016 \$	Year ended 31 December 2015 \$	Year ended 31 December 2014 \$	Year ended 31 December 2013 \$	Year ended 31 December 2012 \$
Share price at start of year/period	8.45	9.86	3.80	5.60	6.00
Share price at end of year/period	14.15	8.45	9.86	3.80	5.60
Dividend Paid	0.00	0.00	0.00	0.00	0.00

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

	31 December 2016 \$	31 December 2015 \$
Short-term employee benefits	737,818	693,742
Post employment benefits	<u>163,284</u>	<u>150,410</u>
	<u>901,102</u>	<u>844,152</u>

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DIRECTORS' REPORT (CONTINUED)

Remuneration report (cont)

The following table sets out each key management personnel's equity holdings (represented by holdings of fully paid ordinary shares in Audio Pixels Holdings Limited).

	Balance at 1/1/16	Granted as remuneration	Received on exercise of options	Net other change	Balance at 31/12/16
	No.	No.	No.	No.	No.
Mr Fred Bart	5,441,250	-	-	151,515	5,592,765
Mrs Cheryl Bart	500,000	-	-	-	500,000
Mr Ian Dennis	570,050	-	-	-	570,050
Mr Danny Lewin	1,709,092	-	-	-	1,709,092
Mr Yuval Cohen	1,928,971	-	-	-	1,928,971
Mr Shay Kaplan	881,604	-	-	-	881,604

Convertible Note issued to Key Management Personnel

On 22 June 2015, shareholders approved the issue of a convertible note of \$1.5m to 4F Investments Pty Limited, company controlled by Mr Fred Bart. On 31 May 2016 shareholders approved the extension of the note to 31 December 2016. On 28 December 2016, the Company announced that the convertible notes would be extended for a further term of 12 months to 31 December 2017 subject to shareholder approval. The terms of the issue were as follows:

Face Value:	\$1,500,000
Date of initial issue:	26 June 2015
Interest rate:	8% payable quarterly
Term:	12 months to 31 December 2017 (following extension)
Listing status:	Unlisted
Security:	Unsecured
Conversion terms:	Convertible to ordinary shares based on the lower of the five day volume weighted average share price of Audio Pixels Holdings Limited on the date of the agreement (\$9.68) or the five day volume weighted average share price of Audio Pixels Holdings Limited immediately prior to conversion.

Transactions with related entities

During the year ended 31 December 2016, the Company paid a total of \$107,857 (year ended 31 December 2015 - \$107,857) to 4F Investments Pty Limited, a company associated with Mr Fred Bart in respect of directors fees and superannuation for Mr Fred Bart and Mrs Cheryl Bart.

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DIRECTORS' REPORT (CONTINUED)

Remuneration report (cont)

During the year ended 31 December 2016, the Company paid interest of \$119,671 (year ended 31 December 2015 - \$62,137) on a convertible note to 4F Investments Pty Limited, a company associated with Mr Fred Bart. The convertible note of \$1.5m was issued on 26 June 2015 following shareholder approval at an Extraordinary General Meeting. The convertible note was extended twice during the year ended 31 December 2016, the most recent of which being on 28 December 2016, which is subject to shareholder approval.

During the year ended 31 December 2016, the Company paid a total of \$41,063 (year ended 31 December 2015 - \$41,063) to Dennis Corporate Services Pty Limited, a company associated with Mr Ian Dennis in respect of directors fees and superannuation.

During the year, the Company paid \$30,000 (31 December 2015 – \$30,000) to Dennis Corporate Services Pty Limited, a company associated with Mr Ian Dennis in respect of consulting fees for company secretarial and accounting services.

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DIRECTORS' REPORT (CONTINUED)

Remuneration report (cont)

On 8 May 2014, the company entered into a lease in respect of office premises at Level 12, 75 Elizabeth Street Sydney for a period of forty eight months to 30 March 2018. The Company recharged \$22,478 of the rent and other tenancy charges to Electro Optic Systems Holdings Limited, a company of which Fred Bart and Ian Dennis are directors and \$24,456 to 4F Investments Pty Limited, a company controlled by Fred Bart.

The following table sets out the remuneration of each key management personnel of the Company:

	Short Term		Post Employment		Total
December 2016	Directors fees/ Salary \$	Non-monetary \$	Superannuation \$	Social Security \$	\$
Fred Bart	61,000	-	5,794	-	66,794
Cheryl Bart	37,500	-	3,563	-	41,063
Ian Dennis	67,500*	-	3,563	-	71,063
Danny Lewin	152,420	36,606	-	49,034	238,060
Yuval Cohen	168,369	30,782	-	53,967	253,118
Shay Kaplan	<u>145,771</u>	<u>37,870</u>	<u>-</u>	<u>47,363</u>	<u>231,004</u>
	<u>632,560</u>	<u>105,258</u>	<u>12,920</u>	<u>150,364</u>	<u>901,102</u>
December 2015	Directors fees/ Salary \$	Non-monetary \$	Superannuation \$	Social Security \$	\$
Fred Bart	61,000	-	5,794	-	66,794
Cheryl Bart	37,500	-	3,563	-	41,063
Ian Dennis	67,500*	-	3,563	-	71,063
Danny Lewin	141,260	33,798	-	44,722	219,780
Yuval Cohen	156,042	28,012	-	49,476	233,530
Shay Kaplan	<u>135,050</u>	<u>33,580</u>	<u>-</u>	<u>42,292</u>	<u>211,922</u>
	<u>598,352</u>	<u>95,390</u>	<u>12,920</u>	<u>137,490</u>	<u>844,152</u>

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

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DIRECTORS' REPORT (CONTINUED)

Audit Committee

The Audit Committee was formally constituted on 29 August 2014 with all three directors appointed to the Audit Committee. Ian Dennis was appointed chair of the Audit Committee.

Directors' meetings

During the year the Company held three meetings of directors, two meetings of the Audit Committee and no meetings of the Nomination and Remuneration Committee. The attendances of the directors at meetings of the Board were:

Directors	Board of directors		Audit committee		Nomination and Remuneration committee	
	Held	Attended	Held	Attended	Held	Attended
Mr Fred Bart	3	3	2	2	-	-
Mrs Cheryl Bart	3	3	2	2	-	-
Mr Ian Dennis	3	3	2	2	-	-

All current board members are on the Audit Committee and the Nomination and Remuneration Committee.

Non-audit services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in Note 4 to the financial statements.

The directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services disclosed in Note 4 to the financial statements do not compromise the external auditors' independence for the following reasons:

- All non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor, and
- None of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

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DIRECTORS' REPORT (CONTINUED)

Auditor's independence declaration

The auditor's independence declaration is included on page 15.

Signed in accordance with a resolution of directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors

A handwritten signature in black ink, appearing to read 'I A Dennis', with a long horizontal flourish extending to the right.

I A Dennis
Director

Dated at Sydney this 27 day of February 2017

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

27 February 2017

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 2016, 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

DELOITTE TOUCHE TOHMATSU

David Salmon

David Salmon
Partner
Chartered Accountants

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

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Audio Pixels Holdings Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial report, which indicates that the Group incurred a net loss of \$5,054,771 (2015: \$1,840,940) and used net cash in operating activities of \$4,202,570 (2015: \$3,330,625), during the year ended 31 December 2016. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's and Group's ability to continue as going concerns. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the "Material Uncertainty Related to Going Concern" section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p>Recoverability of goodwill, intangible assets, investment in subsidiary and intercompany receivable</p> <p>As part of the acquisition of Audio Pixels Limited (AKL), Audio Pixels Holdings Limited (AKP) acquired goodwill and an intangible asset. The intangible asset relates to in process digital speaker technology.</p> <p>As at 31 December 2016, the carrying amount of goodwill is \$2,300,905 (2015: \$2,166,391) and the intangible, \$639,850 (2015: \$712,524) as disclosed in notes 7 and 8.</p> <p>The goodwill and intangible are subject to impairment testing annually and whenever an impairment indicator is identified. The determination of the recoverable amount is subject to management judgement including:</p> <ul style="list-style-type: none"> • Cash flow projections; • Expected future growth in the product market; and • Discount rates. <p>As at 31 December 2016, the carrying amount of the investment in APL is \$2,428,209 (2015: \$2,428,209) as disclosed in notes 1(v) and 23.</p> <p>Since acquisition, the operations of APL have been financed through cash provided from AKP. This cash has been recognised as a receivable from APL. As at 31 December 2016, the receivable balance in the company balance sheet of AKP is \$21,745,172 (2015: \$17,593,861) as disclosed in note 1(v).</p> <p>The recoverability of this loan and investment is dependent on the ability of AKL to commercialise its product to generate sufficient cash flows to repay the receivable and recover the investment in the company.</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Assessing the status of the technology development based on discussions with management, external research and discussions with industry experts; • Challenging the underlying assumptions reflected in management's cash flow forecasts. This included agreeing assumptions to underlying documentation, sensitising key judgmental inputs and critically analysing cash inflows and outflows; • Assessing the historical accuracy of the forecasts prepared by management; • Assessing the recoverable amount of net assets of the company in the context of the current market capitalisation (considering trading volumes); and • Engaging with internal experts to assess the appropriateness of management's processes and policies in the development of the cash flow model as well as testing the mathematical accuracy and the reasonableness of assumptions used. <p>We also assessed the appropriateness of the related disclosures in note 7 to the financial statements.</p>
<p>Convertible Notes</p> <p>AKP had on issue convertible notes with a face value of \$3,000,000 during the financial year. Initially these notes were due to expire in quarter two of 2016 but were extended to 31 December 2016. Subsequently, on 28 December 2016, the convertible notes were further extended to 31 December 2017.</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Evaluating management's determination that the extensions constituted an extinguishment of the original instrument through understanding the terms of the original and extension agreements;

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p>As at 31 December 2016, the carrying amount of the debt component of the convertible note is \$2,648,387 (2015: \$2,735,439) and the carrying amount of the embedded derivative component of the convertible note is \$1,169,870 (2015: \$167,517) as disclosed in note 11.</p> <p>The accounting for, and valuation of the convertible notes is complex due to judgements involved in:</p> <ul style="list-style-type: none"> • Determining whether the extensions are modifications to or extinguishments of the original instrument; and • Inputs to the fair value calculations of the embedded derivatives, including the volatility of the share price. 	<ul style="list-style-type: none"> • Inspecting management’s valuations for the convertible notes (including the embedded derivative component); • Assessing the competence, capabilities and objectivity of managements expert used in performing the valuations; and • Engaging with internal experts to assess the reasonableness of assumptions used in the valuation and the accounting treatment of the convertible notes. <p>We also assessed the appropriateness of the related disclosures in note 11 to the financial statements.</p>

Other Information

The directors are responsible for the other information. The other information comprises the Directors’ Report and ASX Additional Information, which we obtained prior to the date of this auditor’s report, the other information also includes the annual report (but does not include the financial report and our auditor’s report thereon) which is expected to be made available to us after that date.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor’s report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action.

Directors’ Responsibilities 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 preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor’s Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material

misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 12 of the directors' report for the year ended 31 December 2016.

In our opinion, the Remuneration Report of Audio Pixels Holdings Limited, for the year ended 31 December 2016, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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.

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU

David Salmon

David Salmon
Partner
Chartered Accountants
Canberra, 27 February 2017

AUDIO PIXELS HOLDINGS LIMITED
ACN 094 384 273

DIRECTORS' DECLARATION

The directors declare that:

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

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

On behalf of the Directors



I A Dennis
Director

Dated at Sydney this 27 day of February 2017.

AUDIO PIXELS HOLDINGS LIMITED
ACN 094 384 273

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	Consolidated Year ended 31 December 2016	Consolidated Year ended 31 December 2015
Revenue	2	<u>103,630</u>	<u>25,073</u>
Administrative expenses		(1,108,384)	(949,316)
Amortisation		(80,483)	(76,993)
Depreciation		(73,493)	(70,615)
Directors fees and superannuation		(148,920)	(136,000)
Exchange gains		350,531	1,640,986
Interest paid		(419,595)	(370,764)
Fair value movement of derivative liability		(511,648)	334,000
Loss on derecognition of convertible notes		(223,400)	-
Marketing		(21,233)	(22,270)
Research and development expenses		<u>(2,921,776)</u>	<u>(2,215,041)</u>
(Loss) before income tax	2	(5,054,771)	(1,840,940)
Income tax benefit	3	_____ -	_____ -
(Loss) for the year		<u>(5,054,771)</u>	<u>(1,840,940)</u>
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit and loss			
Exchange differences arising on translation of foreign operations	14	<u>(136,506)</u>	<u>(1,609,923)</u>
Other comprehensive (loss) for the year, net of tax		<u>(136,506)</u>	<u>(1,609,923)</u>
Total comprehensive (loss) for the year		<u>(5,191,277)</u>	<u>(3,450,863)</u>

Notes to the financial statements are included on pages 27 to 64.

AUDIO PIXELS HOLDINGS LIMITED
ACN 094 384 273

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	Consolidated Year ended 31 December 2016	Consolidated Year ended 31 December 2015
(Loss) attributable to:			
Owners of the company		<u>(5,054,771)</u>	<u>(1,840,940)</u>
Total comprehensive (loss) attributable to:			
Owners of the company		<u>(5,191,277)</u>	<u>(3,450,863)</u>
Earnings per share			
Basic and diluted (cents per share)	18	(19.02)	(7.16)

Notes to the financial statements are included on pages 27 to 64.

AUDIO PIXELS HOLDINGS LIMITED
ACN 094 384 273

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT
31 DECEMBER 2016

	Note	Consolidated December 2016 \$	Consolidated December 2015 \$
CURRENT ASSETS			
Cash and cash equivalents	5	5,083,948	1,523,016
Trade and other receivables	6	<u>86,118</u>	<u>43,726</u>
TOTAL CURRENT ASSETS		<u>5,170,066</u>	<u>1,566,742</u>
NON CURRENT ASSETS			
Goodwill	7	2,300,905	2,166,391
Intangible asset	8	639,850	712,524
Property, plant and equipment	9	166,587	165,578
Trade and other receivables	6	<u>11,873</u>	<u>6,837</u>
TOTAL NON CURRENT ASSETS		<u>3,119,215</u>	<u>3,051,330</u>
TOTAL ASSETS		<u>8,289,281</u>	<u>4,618,072</u>
CURRENT LIABILITIES			
Trade and other payables	10	471,870	470,230
Borrowings	11	2,648,387	2,735,439
Derivative liability	11	1,169,870	167,517
Provisions	12	<u>640,463</u>	<u>524,907</u>
TOTAL CURRENT LIABILITIES		<u>4,930,590</u>	<u>3,898,093</u>
TOTAL LIABILITIES		<u>4,930,590</u>	<u>3,898,093</u>
NET ASSETS		<u>3,358,691</u>	<u>719,979</u>
EQUITY			
Issued capital	13	45,228,931	37,398,942
Reserves	14	(24,277,787)	(24,141,281)
Accumulated losses	15	<u>(17,592,453)</u>	<u>(12,537,682)</u>
Equity attributable to owners of the company		<u>3,358,691</u>	<u>719,979</u>
TOTAL EQUITY		<u>3,358,691</u>	<u>719,979</u>

Notes to the financial statements are included on pages 27 to 64

AUDIO PIXELS HOLDINGS LIMITED
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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR
ENDED 31 DECEMBER 2016

<u>December 2016 – Consolidated</u>	Issued Capital	Equity Settled Option Reserve	Exchange translation reserve	Minority Acquisition Reserve	Accumul- ated Losses	Total
	\$	\$	\$	\$	\$	\$
Balance at 1 January 2016	37,398,942	4,512,898	(3,115,487)	(25,538,692)	(12,537,682)	719,979
Other comprehensive income for the year	-	-	<u>(136,506)</u>	-	-	<u>(136,506)</u>
(Loss) for the year	-	-	-	-	<u>(5,054,771)</u>	<u>(5,054,771)</u>
Share placement at \$6.60	<u>7,829,989</u>	-	-	-	-	<u>7,829,989</u>
Balance at 31 December 2016	<u>45,228,931</u>	<u>4,512,898</u>	<u>(3,251,993)</u>	<u>(25,538,692)</u>	<u>(17,592,453)</u>	<u>3,358,691</u>
<u>December 2015 - Consolidated</u>						
Balance at 1 January 2015	37,398,942	4,512,898	(1,505,564)	(25,538,692)	(10,696,742)	4,170,842
Other comprehensive income for the year	-	-	<u>(1,609,923)</u>	-	-	<u>(1,609,923)</u>
(Loss) for the year	-	-	-	-	<u>(1,840,940)</u>	<u>(1,840,940)</u>
Balance at 31 December 2015	<u>37,398,942</u>	<u>4,512,898</u>	<u>(3,115,487)</u>	<u>(25,538,692)</u>	<u>(12,537,682)</u>	<u>719,979</u>

Notes to the financial statements are included on pages 27 to 64.

AUDIO PIXELS HOLDINGS LIMITED
ACN 094 384 273

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	Consolidated Year ended 31 December 2016 \$	Consolidated Year ended 31 December 2015 \$
Cash flows from operating activities			
Payments to suppliers and employees		(4,126,693)	(3,221,890)
Interest paid		(179,507)	(133,808)
Interest received		<u>103,630</u>	<u>25,073</u>
Net cash (used by) operating activities	16	<u>(4,202,570)</u>	<u>(3,330,625)</u>
Cash flows from investing activities			
Payment for property, plant and equipment		<u>(72,700)</u>	<u>(75,696)</u>
Net cash (outflows) from investing activities		<u>(72,700)</u>	<u>(75,696)</u>
Cash flows from financing activities			
Proceeds from placement	13	7,829,989	-
Convertible note		<u>-</u>	<u>3,000,000</u>
Net cash provided by financing activities		<u>7,829,989</u>	<u>3,000,000</u>
Net increase/ (decrease) in cash and cash equivalents held		3,554,719	(406,321)
Cash and cash equivalents at the beginning of the financial year		1,523,016	1,875,504
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		<u>6,213</u>	<u>53,833</u>
Cash and cash equivalents at the end of the financial year	5	<u>5,083,948</u>	<u>1,523,016</u>

Notes to the financial statements are included on pages 27 to 64.

AUDIO PIXELS HOLDINGS LIMITED
ACN 094 384 273

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

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 (“AASBS”). Compliance with AASBS ensures that the financial statements and notes comply with International Financial Reporting Standards (“IFRS”). For the purposes of preparing the consolidated financial statements, the Company is a for profit entity.

The financial statements were authorised for issue by the Directors on 27 February 2017.

Basis of preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of the derivative liability. 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) Going concern

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

The consolidated entity incurred a net loss during the year of \$5,054,771 (2015: \$1,840,940) and as at 31 December 2016 had net current assets of \$239,476 (2015: net current liabilities of \$2,231,351). Net cash used by operating activities was \$4,202,570 (2015: \$3,330,625). As at 31 December 2016, the consolidated entity had cash of \$5,083,948 (2015: \$1,523,016) of which \$52,036 (2015 - \$32,841) is restricted as it secures future lease payments. The cash will become unrestricted once the contracts are concluded or renegotiated. Further, in the event that they are not converted to ordinary shares, the consolidated entity has \$3,000,000 due on convertible notes on 31 December 2017.

AUDIO PIXELS HOLDINGS LIMITED
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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)**

(b) **Going concern (cont)**

In the opinion of the directors, the ability of the company and consolidated entity to continue as going concerns and pay their debts as and when they become due and payable is dependent upon:

- the ability of the company to secure additional funding from existing or new investors to fund continued development and enable the repayment of convertible notes to the extent that they are not converted to ordinary shares. The directors consider that the company has a number of financing options available to it at this stage of the commercialisation of the product;
- the completion of the development stage of the technology; and
- the future trading prospects of the consolidated entity including obtaining commercial contracts.

If the company and the consolidated entity are unable to achieve successful outcomes in relation to the above matters, significant uncertainty would exist as to the ability of the company and the consolidated entity to continue as going concerns and therefore, they may be required to realise their assets and extinguish their liabilities other than in the normal course of business and at amounts different from those stated in the financial report.

No adjustments have been made to the financial report relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the company and the consolidated entity not continue as going concerns.

AUDIO PIXELS HOLDINGS LIMITED
ACN 094 384 273

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)**

(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) **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.

(e) **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.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)**

(f) **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.

(g) **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 2016 (Continued)**

(h) **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.

(i) **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 goodwill impairment testing, there was one cash-generating unit, relating to the digital speakers segment. The cash-generating unit is tested for impairment annually. 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.

AUDIO PIXELS HOLDINGS LIMITED
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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)**

(i) **Goodwill (cont)**

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

(j) **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.

(k) **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).

AUDIO PIXELS HOLDINGS LIMITED
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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)**

(k) **Income Tax (cont)**

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 2016 (Continued)**

(l) 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 in-process development asset acquired is written off on a straight line basis. Expenditure on research activities is recognised as an expense in the period in which it is incurred.

(m) Leasing

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

The Group as lessor

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

The Group as lessee

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)**

(n) **Payables**

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

(o) **Provisions**

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

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

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

(p) **Basis of consolidation**

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

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

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

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

AUDIO PIXELS HOLDINGS LIMITED
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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)**

(q) Property, plant and equipment

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

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

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

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

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

(r) Financial liabilities

Classification as debt or equity

The company has on issue convertible notes. The component parts of the convertible notes issued by the Group are classified separately as borrowings and derivative liability in accordance with the substance of the contractual arrangements and the definitions of a financial liability.

A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a variable number of the Company's own equity instruments is a derivative liability instrument. The value of a conversion option classified as a derivative liability instrument is recognised at fair value on issue. The derivative liability is subsequently measured at fair value through profit or loss.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)**

(r) **Financial liabilities (cont)**

On initial recognition, the face borrowing or liability component is measured at fair value. This is subsequently recognised on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

(s) **Revenue Recognition**

Revenue comprises interest income on bank deposits. Interest income received is recognised on an accrual basis.

(t) **Application of New and Revised Accounting Standards**

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

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

- AASB 1057 Application of Australian Accounting Standards and AASB 2015-9 Amendments to Australian Accounting Standards – Scope and Application paragraphs.
- AASB 2014-4 Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation.
- AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle.
- AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101.

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

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)**

(t) **Application of New and Revised Accounting Standards (cont)**

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, and the relevant amending standards	1 Jan 2018	31 Dec 2018
AASB 15 Revenue from Contracts with Customers AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15 and AASB 2015-8 Amendments to Australian Accounting Standards – Effective Date of AASB 15	1 Jan 2018	31 Dec 2018
AASB 16 Leases	1 Jan 2019	31 Dec 2019
AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses	1 Jan 2017	31 Dec 2017
AASB 2016 -2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107	1 Jan 2017	31 Dec 2017
AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions	1 Jan 2018	31 Dec 2018

The directors are still assessing the impact of AASB 15 and AASB 16. The directors anticipate that the adoption of all other Standards and Interpretations in future periods will have no material financial impact on the financial statements of the company or the consolidated entity but may change disclosures made.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)**

(u) **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.

(v) **Critical accounting judgements**

In the application of the consolidated entity's accounting policies, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making these judgements. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

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

Intangible asset/Goodwill

The directors made a critical judgement in relation to the value of the intangible asset included in Note 8 and the impairment model used in accessing the carrying amount of the goodwill (see Note 7).

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)**

(v) **Critical accounting judgements (cont)**

Deferred tax

The directors made a critical judgement in relation to not recognising the deferred tax balances described in Note 3(b). Given the current stage of development, the directors do not currently consider it's probable that sufficient taxable amounts will be available against which deductible temporary differences can be utilised.

Valuation of derivative liability

The directors made a critical judgement in relation to the expected share price volatility used to value the derivative liability included in Note 11.

Functional Currency

The directors made a critical judgement in relation to the functional currency of Audio Pixels Holdings Limited. The directors consider AUD to be the appropriate functional currency, as financing activities of the entity occur in AUD.

Investment in subsidiary and intercompany receivable

The directors made a critical judgement in relation to the recoverability of the investment in subsidiary – Audio Pixels Limited and the receivable from this subsidiary. The assessment of the recoverability of these assets is considered concurrently with the recoverability of the intangible asset/goodwill. These assets are discussed in Note 23 as part of current and non-current assets:

- Investment in subsidiary -\$2,428,209 (non-current assets)
- Intercompany receivable - \$21,745,172 (included in current assets)

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

	Consolidated Year ended 31 December 2016 \$	Consolidated Year ended 31 December 2015 \$
2. (Loss) from operations		
(a) Revenue		
Interest received – other entities	<u>103,630</u>	<u>25,073</u>
Total revenue	<u>103,630</u>	<u>25,073</u>
(b) Expenses		
Amortisation	80,483	76,993
Depreciation	73,493	70,615
Interest paid	419,595	370,764
Rental payments	116,770	118,685
Rental amounts recharged to sub tenants	<u>(93,248)</u>	<u>(84,924)</u>
Net rental expense	<u>23,522</u>	<u>33,761</u>
Fair value movement in derivative liability	511,648	(334,000)
Employee benefits expense:		
Salary and other employee benefits	1,579,756	1,506,529
Superannuation	<u>12,920</u>	<u>12,920</u>
	<u>1,592,676</u>	<u>1,519,449</u>
3. Income taxes		
(a) Income tax recognised in profit or loss		
Tax expense comprises:		
Tax expense/(income) – prior year	-	-
Deferred tax expense/(income)	<u>-</u>	<u>-</u>
Total tax expense/(income)	<u>-</u>	<u>-</u>
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	(5,054,771)	(1,840,940)
Amortisation	80,483	76,993
Convertible note adjustments	<u>915,301</u>	<u>(200,192)</u>
	<u>(4,058,987)</u>	<u>(1,964,139)</u>

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)**

	31 December 2016	31 December 2015
	\$	\$
3. Income taxes (Cont)		
Income tax expense calculated at 30%	(1,217,696)	(589,242)
Effect of different tax rates of subsidiaries operating in other jurisdictions	189,622	145,329
Deferred tax benefit not brought to account	<u>1,028,074</u>	<u>443,913</u>
	<u> -</u>	<u> -</u>

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	3,889,544	2,861,471
Tax losses - capital	168,030	168,030
Temporary differences	<u>(160,166)</u>	<u>(131,227)</u>
	<u>3,897,408</u>	<u>2,898,274</u>

(c) Franking account balance

Adjusted franking account balance	<u>86,721</u>	<u>86,721</u>
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(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, complied 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.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)**

	31 December 2016 \$	31 December 2015 \$
4. Remuneration of auditors		
(i) Auditor of the parent entity		
Audit or review of the financial statements	36,225	35,125
Taxation service	<u>3,575</u>	<u>3,000</u>
	<u>39,800</u>	<u>38,125</u>
(ii) Network firm of the parent entity auditor		
Audit or review of the financial statements	18,625	19,410
Taxation service	<u>2,070</u>	<u>4,270</u>
	<u>20,695</u>	<u>23,680</u>
<p>The auditor of Audio Pixels Holdings Limited is Deloitte Touche Tohmatsu.</p>		
5. Cash and cash equivalents		
Cash on hand and at bank	<u>5,083,948</u>	<u>1,523,016</u>
Weighted average interest rate received on cash	<u>2.21%</u>	<u>0.97%</u>
6. Trade and other receivables		
Current		
GST receivable	8,827	6,973
Prepayments and other debtors	<u>77,291</u>	<u>36,753</u>
	<u>86,118</u>	<u>43,726</u>
Non Current		
Other debtors	<u>11,873</u>	<u>6,837</u>
<p>Other debtors comprise security deposits with government bodies.</p>		

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)**

		31 December 2016	31 December 2015
		\$	\$
7. Goodwill			
	Being goodwill acquired on the acquisition of Audio Pixels Limited. The goodwill is allocated to the cash generating unit of digital speakers by Audio Pixels Limited of Israel.	<u>2,300,905</u>	<u>2,166,391</u>
	Balance at 1 January	2,166,391	2,124,068
	Net foreign currency exchange	<u>134,514</u>	<u>42,323</u>
	Balance at 31 December	<u>2,300,905</u>	<u>2,166,391</u>

The recoverable amount of this cash generating unit is determined based on a fair value less costs of disposal calculation which uses cash flow projections based on financial budgets approved by the directors covering an 14 year period, with a growth rate reflecting the expected future growth in the product market, and a discount rate of 24% per annum. The assumed growth rate is based on the forecast future global MEMS market. Given the nature of the product, the forecast cash flows are managements' best estimate and reflect the risks inherent in the initial take up of the product. The cash flow projections used in the impairment model extend beyond 5 years as the intangible assets generating the cash flows within relate to new technology and hence reflect a longer operating cycle and time to market. Cash flow projections during the budget period are based on the same expected gross margins and raw materials price inflation during the budget period and factor in a probability of the viability of the product. The fair value less costs of disposal calculation is sensitive to changes in the percentage likelihood of completion. Increases in the percentage likelihood of completion increases the recoverable amount and vice versa. Movements in the value of the goodwill are a result of the retranslation of the goodwill from the functional currency of the cash generating unit to which it is attributed.

8. Intangible asset			
	Being the independent valuation of In Process Development determined at the acquisition date of 24 September 2010 by Ernst & Young, Israel in their report dated 17 August 2011.	868,000	868,000
	Exchange differences on translation	198,427	190,618
	Less accumulated amortisation	<u>(426,577)</u>	<u>(346,094)</u>
		<u>639,850</u>	<u>712,524</u>

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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	31 December 2016	31 December 2015
	\$	\$
8. Intangible asset (cont)		
The intangible asset is allocated to the digital speaker cash-generating unit when assessed for impairment. Refer to Note 7 for commentary on cash-generating unit.		
9. Property, Plant and Equipment		
Computers and related equipment – at cost	362,977	356,676
Less accumulated depreciation	<u>(344,624)</u>	<u>(327,468)</u>
	<u>18,353</u>	<u>29,208</u>
Leasehold improvements – at cost	241,873	226,429
Less accumulated depreciation	<u>(226,061)</u>	<u>(222,338)</u>
	<u>15,812</u>	<u>4,091</u>
Office furniture and equipment – at cost	1,043,341	973,609
Less accumulated depreciation	<u>(910,919)</u>	<u>(841,330)</u>
	<u>132,422</u>	<u>132,279</u>
Total net book value of Property, Plant and Equipment	<u>166,587</u>	<u>165,578</u>
Cost		
Computers and related equipment		
Balance at 1 January	356,676	296,039
Additions	4,364	25,755
Disposals	(3,068)	-
Net foreign currency exchange differences	<u>5,005</u>	<u>34,882</u>
Balance as at 31 December	<u>362,977</u>	<u>356,676</u>
Leasehold improvements		
Balance at 1 January	226,429	199,132
Additions	12,266	3,831
Net foreign currency exchange differences	<u>3,178</u>	<u>23,466</u>
Balance as at 31 December	<u>241,873</u>	<u>226,429</u>

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

	31 December 2016 \$	31 December 2015 \$
9. Property, Plant and Equipment (cont)		
Office furniture and equipment		
Balance at 1 January	973,609	829,720
Additions	56,070	46,110
Net foreign currency exchange differences	<u>13,662</u>	<u>97,779</u>
Balance as at 31 December	<u>1,043,341</u>	<u>973,609</u>
Accumulated depreciation		
Computers and related equipment – at cost		
Balance as at 1 January	(327,468)	(274,730)
Net foreign currency exchange differences	(4,705)	(33,508)
Disposals	3,068	-
Depreciation expense	<u>(15,519)</u>	<u>(19,230)</u>
Balance at 31 December	<u>(344,624)</u>	<u>(327,468)</u>
Leasehold improvements		
Balance as at 1 January	(223,338)	(198,722)
Net foreign currency exchange differences	(2,124)	(23,428)
Depreciation expense	<u>(599)</u>	<u>(188)</u>
Balance at 31 December	<u>(226,061)</u>	<u>(222,338)</u>
Office furniture and equipment		
Balance as at 1 January	(841,330)	(704,139)
Net foreign currency exchange differences	(12,214)	(85,994)
Depreciation expense	<u>(57,375)</u>	<u>(51,197)</u>
Balance at 31 December	<u>(910,919)</u>	<u>(841,330)</u>

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)**

		31 December 2016	31 December 2015
		\$	\$
10. Trade and other payables			
Current			
Trade payables and accruals	471,870	<u>470,230</u>	

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

11. Borrowings

On 4 May 2015, the Company announced its intention to issue two convertible notes of \$1,500,000 each at a coupon rate of 8% per annum, raising \$3,000,000.

One convertible note was issued to an unrelated party on 28 May 2015 and one convertible note was issued to 4F Investments Pty Limited, a company associated with Mr Fred Bart. The convertible note to 4F Investments Pty Limited received shareholder approval at an Extraordinary General Meeting held on 22 June 2015 and was issued on 26 June 2015.

The unrelated party holding one convertible note of \$1,500,000 agreed to extend their convertible note to 31 December 2016 on 22 March 2016. On 31 May 2016 shareholders approved the extension of the convertible note to 4F Investments Pty Limited to 31 December 2016.

On 28 December 2016, the Company reached agreement with both holders of the convertible notes to extend the expiry date by 12 months to 31 December 2017. Shareholder approval for the extension of the convertible note held by 4F Investments Pty Limited will be sought at the next general meeting of the Company. For accounting purposes these extensions have been treated as the derecognition of the original convertible notes and the recognition of two new convertible note instruments. The difference in valuation is recognised as a gain or loss in the profit and loss.

The two convertible notes have a term of 12 months to 31 December 2017, are unsecured, not listed and are convertible to ordinary shares based on the lower of the five day volume weighted average share price of Audio Pixels Holdings Limited on the date of the agreement (\$9.68) or the five day volume weighted average share price of Audio Pixels Holdings Limited immediately prior to conversion.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)**

	31 December 2016	31 December 2015
	\$	\$
11. Borrowings (cont)		
Borrowings – Convertible note		
Carrying amount at start of period	2,735,439	-
Face value of notes issued	-	3,000,000
Gain on derecognition of convertible notes	(267,305)	-
Derivative liability – fair value initially recognised	<u>-</u>	<u>(501,517)</u>
	2,468,134	2,498,483
Amortised interest	<u>180,253</u>	<u>236,956</u>
Current Liability at end of period	<u>2,648,387</u>	<u>2,735,439</u>
Derivative liability		
Carrying value at start of the period	167,517	-
Fair value initially recognised	-	501,517
Loss on derecognition of convertible notes	490,705	-
Fair value movement to the end of the reporting period	<u>511,648</u>	<u>(334,000)</u>
Derivative liability	<u>1,169,870</u>	<u>167,517</u>
Total borrowings	<u>3,818,257</u>	<u>2,902,956</u>

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)**

	31 December 2016	31 December 2015
	\$	\$
12. Provisions		
Employee benefits	<u>640,463</u>	<u>524,907</u>
13. Issued capital		
Issued and paid up capital		
Fully paid Ordinary Shares		
Balance at the beginning of the financial year	37,398,942	37,398,942
Placement for cash at \$6.60 per share	<u>7,829,989</u>	<u>-</u>
Balance at the end of the financial year	<u>45,228,931</u>	<u>37,398,942</u>
	<u>Number</u>	<u>Number</u>
Fully paid Ordinary Shares		
Balance at the beginning of the financial year	25,707,047	25,707,047
Placement for cash at \$6.60 per share	<u>1,186,362</u>	<u>-</u>
Balance at the end of the financial year	<u>26,893,409</u>	<u>25,707,047</u>
Fully paid ordinary shares carry one vote per share and carry the rights to dividends.		
Changes in the Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefor the company does not have a limited amount of authorised capital and issued shares do not have a par value.		
In 2016, a share placement occurred. 151,515 shares were issued to a company associated with Fred Bart. 1,034,847 shares were issued to unrelated parties.		
14. Reserves		
Foreign currency translation		
Balance at the beginning of the financial year	(3,115,487)	(1,505,564)
Translation of foreign operations	<u>(136,506)</u>	<u>(1,609,923)</u>
Balance at end of financial year	<u>(3,251,993)</u>	<u>(3,115,487)</u>

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)**

		31 December 2016 \$	31 December 2015 \$
14.	Reserves (cont)		
	Foreign currency translation		
	Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. Australian dollars) are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve are reclassified to profit and loss on the disposal of the foreign operation.		
	Equity settled option reserve		
	Balance at the beginning of the financial year	4,512,898	4,512,898
	Balance at end of financial year	<u>4,512,898</u>	<u>4,512,898</u>
	The above equity-settled option reserve relates to share options granted by the Company.		
	Non-controlling interest acquisition reserve		
	Balance at the beginning of the financial year	(25,538,692)	(25,538,692)
	Balance at end of financial year	<u>(25,538,692)</u>	<u>(25,538,692)</u>
	The non-controlling interest reserve comprises amounts related to the acquisition of a non-controlling interest shareholding in a subsidiary company in a prior period.		
	Total Reserves	<u>(24,277,787)</u>	<u>(24,141,281)</u>
15.	Accumulated losses		
	Balance at the beginning of the financial year	(12,537,682)	(10,696,742)
	(Loss) for the year attributable to owners of the company	<u>(5,054,771)</u>	<u>(1,840,940)</u>
	Balance at the end of the financial year	<u>(17,592,453)</u>	<u>(12,537,682)</u>

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)**

	31 December	31 December
	2016	2015
	\$	\$

16. **Notes to the statement of cash flows**

(a) Reconciliation of cash and cash equivalents

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

Cash and cash equivalents	<u>5,083,948</u>	<u>1,523,016</u>
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(b) Restricted cash

Cash held as security for future lease payments	<u>52,036</u>	<u>32,841</u>
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Restricted cash amounts are included in the cash and cash equivalents amounts above.

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

(Loss) after related income tax	(5,054,771)	(1,840,940)
Amortisation	80,483	76,993
Convertible note adjustments	915,301	(97,044)
Depreciation	73,493	70,615
Foreign exchange gains	(286,844)	(1,798,447)
Changes in assets and liabilities		
(Increase)/ decrease in assets		
Current trade and other receivables	(42,392)	35,474
Non-current trade and other receivables	(5,036)	(720)
Increase /(decrease) in liabilities		
Provisions	115,556	106,222
Current trade payables	<u>1,640</u>	<u>117,222</u>
Net cash (used in) operating activities	<u>(4,202,570)</u>	<u>(3,330,625)</u>

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)**

17. 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) KMP Remuneration

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

	31 December 2016 \$	31 December 2015 \$
Short-term employee benefits	737,818	693,742
Post employment benefits	<u>163,284</u>	<u>150,410</u>
	<u>901,102</u>	<u>844,152</u>

The remuneration above relates to directors fees, consultancy 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.

(c) Transactions with related entities

During the year ended 31 December 2016, the Company paid a total of \$107,857 (year ended 31 December 2015 - \$107,734) 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 2016, the Company paid a total of \$41,063 (year ended 31 December 2015 - \$41,063) to Dennis Corporate Services Pty Limited, a company associated with Mr Ian Dennis in respect of directors fees and superannuation.

During the year ended 31 December 2016, the Company paid interest of \$119,671 (year ended 31 December 2015 - \$62,137) on a convertible note to 4F Investments Pty Limited, a company associated with Mr Fred Bart. The convertible note of \$1.5m was issued on 26 June 2015 following shareholder approval at an Extraordinary General Meeting. The convertible note was extended twice during the year ended 31 December 2016, the most recent of which being on 28 December 2016, which is subject to shareholder approval.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)**

31 December 31 December
2016 2015

17. Related Party Transactions (cont)

During the year, the Company paid \$30,000 (31 December 2015 – \$30,000) to Dennis Corporate Services Pty Limited, a company associated with Mr Ian Dennis in respect of consulting fees for company secretarial and accounting services.

On 8 May 2014, the company entered into a lease in respect of office premises at Level 12, 75 Elizabeth Street Sydney for a period of forty eight months to 30 March 2018. The company recharged \$22,478 of the rent and other tenancy charges to Electro Optic Systems Holdings Limited, a company of which Fred Bart and Ian Dennis are directors, \$24,456 to 4F Investments Pty Limited, a company controlled by Fred Bart and \$44,954 to another tenant who is a shareholder in the company.

18. Earnings per Share

Basic (loss) per share	<u>(19.02)</u>	<u>(7.16 cents)</u>
Diluted (loss) per share (b)	<u>(19.02)</u>	<u>(7.16 cents)</u>
 (Loss) (a)	 (5,054,771)	 (1,840,940)
 Weighted average number of Ordinary Shares	 <u>26,571,894</u>	 <u>25,707,047</u>

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

(b) There are potential ordinary shares to be issued in relation to the convertible notes of \$3m which expire on 31 December 2017. The convertible note holders have the option of receiving their \$3m back with interest or converting their convertible notes into ordinary shares based on the lower of the five day volume weighted average share price of Audio Pixels Holdings Limited on the date of the agreement (\$9.68) or the five day volume weighted average share price of Audio Pixels Holdings Limited immediately prior to conversion. The convertible notes have not been included in dilutive EPS, as they are anti-dilutive.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)**

19. Segment Information

AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess performance.

The identification of the Group's reportable segments has not changed from those disclosed in the previous 2015 report.

The consolidated entity operates in Australia and Israel.

Products and services within each segment

Digital speakers

The subsidiary company in Israel is developing a digital speaker and has not reached the stage of having any revenue.

	31 December 2016	31 December 2015
Segment Revenues		
Segment Information		
Digital speakers	<u>103,630</u>	<u>25,073</u>
Total of all segments	<u>103,630</u>	<u>25,073</u>
 Segment Results		
Digital speakers	<u>(5,054,771)</u>	<u>(1,840,940)</u>
(Loss) before income tax	<u>(5,054,771)</u>	<u>(1,840,940)</u>
Income tax gain/ (expense)	<u>-</u>	<u>-</u>
(Loss) for the period	<u>(5,054,771)</u>	<u>(1,840,940)</u>

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)**

19. **Segment Information (cont)**

Segment Assets and Liabilities

	Assets		Liabilities	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
		\$		\$
Digital speakers	8,289,281	4,618,072	4,930,591	3,898,093
Total all segments	8,289,281	4,618,072	4,930,591	3,898,093
Unallocated	-	-	-	-
Consolidated	<u>8,289,281</u>	<u>4,618,072</u>	<u>4,930,591</u>	<u>3,898,093</u>

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 2016	31 December 2015	31 December 2016	31 December 2015
		\$		\$
Digital speakers	153,976	147,608	72,700	75,696
Total all segments	153,976	147,608	72,700	75,696
Unallocated	-	-	-	-
Consolidated	<u>153,976</u>	<u>147,608</u>	<u>72,700</u>	<u>75,696</u>

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)**

19. **Segment Information (cont)**

**Information on Geographical Segments
31 December 2016**

Geographical Segments	Revenue from External Customers	Segment Assets	Acquisition of Segment Assets
	\$	\$	\$
Australia	103,630	4,543,183	-
Israel	<u>-</u>	<u>3,746,098</u>	<u>72,700</u>
Total	<u>103,630</u>	<u>8,289,281</u>	<u>72,700</u>

**Information on Geographical Segments
31 December 2015**

Geographical Segments	Revenue from External Customers	Segment Assets	Acquisition of Segment Assets
	\$	\$	\$
Australia	25,073	1,123,793	-
Israel	<u>-</u>	<u>3,494,279</u>	<u>75,696</u>
Total	<u>25,073</u>	<u>4,618,072</u>	<u>75,696</u>

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)**

20. Financial risk management objectives and policies

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

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

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

Risk Exposures and Responses

(a) Interest rate risk

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

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

	31 December 2016	31 December 2015
	\$	\$
Financial assets		
Cash and cash equivalents	<u>5,083,948</u>	<u>1,523,016</u>

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.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)**

20. Financial risk management objectives and policies (cont)
(a) Interest rate risk (cont)

At 31 December 2016, 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 2016 \$	31 December 2015 \$	31 December 2016 \$	31 December 2015 \$
Consolidated entity				
+1% (100 basis points)	50,839	15,278	50,839	15,278
-0.5% (50 basis points)	(25,420)	(7,567)	(25,420)	(7,567)

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 2016 than in December 2015 and accordingly the sensitivity is higher.

(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 2016 \$	31 December 2015 \$	31 December 2016 \$	31 December 2016 \$
Cash and cash equivalents	-	-	745,611	442,702
Trade and other receivables	-	-	77,291	36,753
Trade and other payables	374,591	374,202	-	-

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)**

20. Financial risk management objectives and policies (cont)

All US\$ denominated financial instruments were translated to A\$ at 31 December 2016 at the exchange rate of 0.7197 (2015: 0.7298).

At 31 December 2016 and 31 December 2015, had the Australian Dollar moved, as illustrated in the table below, with all other variables held constant, post tax loss and equity would have been affected as follows:

Judgements of reasonably possible movements	Post Tax Loss Higher/(Lower)		Equity Higher/(Lower)	
	2016 \$	2015 \$	2016 \$	2015 \$
Consolidated				
AUD/USD +10%	344,768	264,234	344,768	264,234
AUD/USD -5%	<u>(199,603)</u>	<u>(152,977)</u>	<u>(199,603)</u>	<u>(152,977)</u>

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.

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

(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.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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20. Financial risk management objectives and policies (cont)

(d) Liquidity risk management (cont)

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.

The following tables detail the consolidated entity's remaining contractual maturity for its non-derivative financial assets and non-derivative financial liabilities. The tables have been drawn up based on the undiscounted contractual maturities of the financial assets and financial liabilities 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 2016					
Assets					
Non interest bearing	0.00	714,569	-	-	-
Fixed rate instruments	2.21	4,378,720	18,375	84,306	499,633
Liabilities					
Convertible notes	8.00	-	60,000-	3,180,000	-
31 December 2015					
Assets					
Non interest bearing	0.00	301,248	-	-	-
Fixed rate instruments	0.97	1,222,995	2,454	11,044	58,900
Liabilities					
Convertible notes	8.00	-	60,000	3,180,000	-

All financial liabilities are expected to be settled under commercial terms of within 12 months. The derivative liability amount if converted will be settled in equity, so no associated cash outflows.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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20. Financial risk management objectives and policies (cont)

(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.

21. Financial Instruments

Fair value of financial instruments

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

Financial liabilities

The convertible note derivative liability is valued as sold call options with a strike price of \$9.68 using the Black-Scholes option pricing model. An input into the Black-Scholes option pricing model is the expected share price volatility over the remaining term of the options. The expected share price volatility used in the option valuation at reporting date was 76.56% which was based on historical share price volatility.

The fair value of the derivative liability is sensitive to changes in share price volatility. Increases in volatility increase the fair value of the derivative liability and vice versa.

The fair value hierarchy was Level 3. A movement schedule is included in Note 11.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)**

22. Subsequent events

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

23. Parent entity disclosures

	31 December 2016	31 December 2015
	\$	\$
Financial position		
Assets		
Current assets	26,282,355	18,717,654
Non-current assets	<u>2,428,209</u>	<u>2,428,209</u>
Total assets	<u>28,710,564</u>	<u>21,145,863</u>
Liabilities		
Current liabilities	3,915,537	2,998,985
Non-current liabilities	<u>—</u>	<u>—</u>
Total liabilities	<u>3,915,537</u>	<u>2,998,985</u>
Net assets	<u>24,795,027</u>	<u>18,146,878</u>
Equity		
Issued capital	45,228,931	37,398,942
Reserves	(21,025,794)	(21,025,794)
(Accumulated losses)/Retained earnings	<u>591,890</u>	<u>1,773,730</u>
Total equity	<u>24,795,027</u>	<u>18,146,878</u>
Financial performance		
(Loss)/ Profit for the period	(1,181,840)	1,142,625
Other comprehensive income	<u>—</u>	<u>—</u>
	<u>(1,181,840)</u>	<u>1,142,625</u>

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)**

24. Controlled Entity

Name of Entity	Country of Incorporation	31 December 2016 %	31 December 2015 %
Parent Entity			
Audio Pixels Holdings Limited	Australia		
Controlled Entities			
Audio Pixels Limited	Israel	100.00	100.00
Audio Pixels Technologies Pty Limited – incorporated on 11 May 2016	Australia	100.00	-

25. Leases

Operating leases – leasing arrangements (the Company as lessee)

On 8 May 2014, the parent company entered into a lease in respect of office premises at Level 12, 75 Elizabeth Street Sydney for a period of forty eight months from 31 March 2014 to 30 March 2018. The company recharges 20% of the rent and other tenancy charges 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.

	31 December 2016 \$	31 December 2015 \$
Non-cancellable operating lease payables		
Not longer than 1 year	102,321	87,516
Longer than 1 year and not longer than 5 years	21,879	109,395
Longer than 5 years	<u>-</u>	<u>-</u>
	<u>124,200</u>	<u>196,911</u>

The Company recovers 80% of the lease payments and other tenancy charges from director related entities and another party on a month to month basis.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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26. Contingent liability

The parent company has been advised of a potential derivative action in Israel by an individual shareholder of BE4 Limited (a company with no financial interest in Audio Pixels Holdings Limited), an Israeli company in bankruptcy proceedings. The Central District Court of Israel dismissed the motion to file a derivative action against Audio Pixels Limited and impose costs and expenses on the petitioner. At the date of this report the period in which to appeal the decision is still open. The Directors do not believe the Company has a case to answer, and is prepared to vigorously defend any action if commenced.

27. Commitments

The subsidiary company, Audio Pixels Limited of Israel has entered into various purchase orders and commitments of \$1,754,896 (2015: \$907,993) with various strategic partners which will become payable once qualified products are delivered to the company.

28. 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 (2015: 11) employees in Israel.

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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 OTC market in the United State of America under the code "ADPXY" which is under the NASDAQ International Designation program.

SUBSTANTIAL SHAREHOLDERS

At 20 February 2017 the following substantial shareholders were registered:

	Ordinary Shares	Percentage of total Ordinary Shares
Fred Bart Group	5,592,765	20.80%

VOTING RIGHTS

At 20 February 2017 there were 2,150 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

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ASX ADDITIONAL INFORMATION (Cont)

- (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 20 February 2017 the distribution of ordinary shareholdings were:

Range	Ordinary Shareholders	Number of Shares
1-1,000	1,199	477,000
1,001 – 5,000	570	1,415,433
5,001 – 10,000	188	1,556,081
10,001 – 100,000	158	4,700,399
100,001 and over	<u>35</u>	<u>18,744,496</u>
	<u>2,150</u>	<u>26,893,409</u>

There were 85 ordinary shareholders with less than a marketable parcel.

There is no current on-market buy-back.

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TWENTY LARGEST ORDINARY SHAREHOLDERS

At 20 February 2017 the 20 largest ordinary shareholders held 62.66% of the total issued fully paid quoted ordinary shares of 26,893,409.

Shareholder	Fully Paid Ordinary Shares	Percentage of Total
1. Altshuler Shacham Trusts Limited	3,830,454	14.24%
2. Landed Investments (NZ) Limited	3,565,000	13.26%
3. Fred Bart	1,244,325	4.63%
4. Link Traders (Aust) Pty Limited	893,532	3.32%
5. Lee K Lau	891,576	3.32%
6. HSBC Custodian Nominees (Australia) Pty Limited	869,740	3.23%
7. Bart Superannuation Pty Limited	744,295	2.77%
8. Kam Superannuation Fund Pty Limited	650,000	2.42%
9. Ian Dennis and Caroline Dennis	570,000	2.12%
10. Cheryl Bart	500,000	1.86%
11. Altshuler Shacham Trusts Limited <Yuval Cohen A/C>	498,152	1.85%
12. Jamber Investments Pty Limited	475,000	1.77%
13. Decante Pty Limited	400,000	1.49%
14. Brent McCarty, Yvonne McCarty and Zeljan Unkovich	304,014	1.12%
15. Altshuler Shacham Trusts Limited <Daniel Lewin A/C>	278,273	1.03%
16. James John Bart	256,074	0.95%
17. Nicole Bart	250,000	0.93%
18. Larron Pty Limited <Jennings Family A/C>	225,000	0.84%
19. Citicorp Nominees Pty Limited	211,159	0.79%
20. Norbert Lipton	<u>193,610</u>	<u>0.72%</u>
	<u>16,850,204</u>	<u>62.66%</u>