STARCOM Plc

COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2012

STARCOM Plc

COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2012

INDEX

June 11, 2013

Starcom Plc

Chairman's Statement 2012

Starcom is pleased to announce record revenues and profits for the year ended 31 December 2012. The results detailed below are for the Company's operating subsidiaries acquired as part of the restructuring ahead of the AIM IPO in February 2013. These results therefore represent combined rather than consolidated results for the period under review. Revenues in the period grew by over 44% to $8,039,000. Profits before taxation of $1,600,000 also showed significant growth, increasing by over 100% compared with 2011. Following the successful Admission to AIM in February raising just over $4m, the Company has been able to strengthen its balance sheet through the payment of an outstanding loan of $1m and retain $2.2m after the payment of the IPO expenses. These extra funds will enable the Company to continue with its market expansion plans globally and be used towards the continued development of both existing and new products.

Starcom has a number of products all focused on using the latest technology for tracking physical assets and people. Its revenue model is based on the sale of hardware and monthly subscriptions to its bespoke monitoring web portal. During the year ended 31 December 2012 around 20% of revenues were derived from higher margin monthly subscriptions and the expectation is that these revenues will steadily increase, in line with the growing subscriber user base.

The Company's product portfolio is described below:

Helios

This is an automatic vehicle location device (AVL) which provides fleet operators with real time information and offers them a key management tool with the ability to track shipments and improve emergency response capabilities, terminal management, asset tracking, route productivity, fuel optimization and driver behavior management.

The Helios was first launched in 2008 and, up to the end of 2012, over 170,000 AVL systems had been sold to distributors in over 50 countries around the world. During 2012, a total of 45,000 units were sold compared with approximately 31,000 units in 2011. Although all sales by the Company are typically only to its network of distributors, the end users include commercial fleet vehicles, inland and public transportation operators as well as private customers. The product is assembled by a subcontractor in Taiwan and all units are factory tested for quality control purposes by Starcom's in-house designed testing equipment prior to shipping. The Company is in the process of meeting with new suppliers with a view to reducing production costs.

Watchlock

The Watchlock was launched by Starcom in May 2012 at the IFSEC trade show where it won the award for Physical Security Innovation Product of the year. Starcom has partnered with Mul-T-Lock Technologies Limited ("Mul-T-Lock") to produce and market this product. Mul-T-Lock is part of the Swedish-based Assa Abloy group, the world's leading manufacturer and supplier of high security locking solutions. Mul-T-Lock jointly owns the Watchlock with Starcom and integrates the technology developed by Starcom into its C10 padlock.

The Watchlock secures fixed and mobile assets as with a normal padlock but has the added functionality of real time location and tracking. It can report tampering while simultaneously transmitting its location to an on line web portal making it ideal for both static and mobile applications such as warehouses, pipelines, fencing, trucks, trailers and vending machines. It incorporates advanced key duplication control and can operate in extreme weather conditions. It does not rely on an external power supply.

As with other Starcom products, the Watchlock will produce revenues both from the sales of hardware and through software revenue streams. During 2012, 6,457 units were shipped worldwide, mostly as demonstration units. Mul-T-Lock sells around 400,000 C10 padlocks per annum and the Company expects that sales of the Watchlock will show significant growth as the market is penetrated through both Starcom and Mul-T-Lock's distribution channels. Since the Watchlock launch in 2012, Starcom has been working on the next generation of this product which will further enhance its attractiveness both physically and economically. With Mul-T-Lock expected to start its own marketing efforts on the Watchlock shortly, it is anticipated that the majority of sales of this product during 2013 will be achieved in the second half of the year.

Triton

The Triton was launched late in 2012. It uses similar core technology as the Helios and Watchlock and provides a simple and effective way to track and monitor freight containers in transit. Installation is quick and simple - the product can be installed in a matter of seconds on the inside door hinge of the container, unlike other systems which require a complex and time consuming set up process, offering an advantage against other products in the market. The system tracks the location of the container and allows its security to be closely monitored.

It incorporates light and impact sensors to alert when containers have been broken into. There are some 20 million shipping containers in use worldwide and to date only a small percentage have deployed tracking devices such as the Triton. As with other Starcom products, the business model is a combination of hardware and software sales. Independent research suggests that only 60,000 units of all types were shipped in 2012 and this is expected to rise to around 1 million by 2016. The Triton is therefore still at an early stage of market penetration but is anticipated to generate growing revenues over the next few years. Triton is one of only two products on the market that have gained approval from Kiln, the Lloyds Insurer for use in high value cargo insurance.

New product updates

The Company is in the process of releasing two new products to the market: the Rainbow- which is a personal tracker and the Kylos which is a real time merchandise and personal goods tracker. Both products are in the final research and development stage and are expected to start initial sales during this year as planned.

Financial Accounts

Starcom plc was admitted to Aim in February 2013. The Company holds 100% of the shares of Starcom G.P.S. Systems Ltd and Starcom Systems Limited which, between them, operate the core businesses of the group.

Trade receivables shown at the year-end were $3,761,000 compared with $961,000 for the previous year. This reflects the strong increase in revenues during 2012 which occurred mainly in the second part of the year.

The outstanding loans shown at the balance sheet date from Keren Hagshama have since been repaid out of the IPO proceeds. In addition to this, since the year-end, the Company has increased inventory and reduced its payables. The board considers that the Company is well positioned to accommodate upcoming orders.

General and administrative costs have risen in line with the increase in activity and, although costs are always under scrutiny, it is expected that they will continue to rise as the level of sales continues to increase. In particular, more will be expended in the area of marketing and sales and in research and development.

Current Trading and Outlook

The first two months of the year coincided with the IPO process which occupied a significant amount of management time, resulting in slower sales in the first quarter.

However, with the AIM admission successfully completed, management is fully focussed on delivering further growth for 2013 and beyond. It is expected therefore that most of the growth projected for 2013 will be seen in the second half of the year, as the new products come on stream and with the benefit of the additional marketing resources provided by new funds from the IPO. The board is therefore confident that revenues and profits in 2013 will show further improvement.

Starcom Plc

Directors report

for the year ended 31 December 2012

The directors present the annual report together with the financial statements and auditors report for the year ended 31 December 2012.

The Company was incorporated in the Jersey and two wholly-owned trading subsidiaries; Starcom Systems Limited and Starcom G.P.S. Systems Limited, incorporated in Jersey and Israel, respectively.

Principal activities and review of business

The Group's principal activity is in the development of wireless solutions for the remote tracking, monitoring and protection of various types of assets and people. Further information on the results of the Group for the period under review can be found in the Chairman's Statement.

Accounts production

The financial statements for the year ended 31 December 2012 have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS")

Dividends

The directors do not propose a final dividend.

Directors

The directors were appointed after the period (Feb 2013) and following the restructuring of the Group prior to its admission to trading on AIM.

M Rosenberg

A Hartmann

M Bloom

E Yanuv

Charitable and political Donations

The Group did not make any charitable or political contributions during the year.

Corporate governance

Under the AIM rules the Group is not obliged to implement the provisions of the Combined Code. However, the Group is committed to applying the principles of good governance contained in the Combined Code as appropriate to a Group of this size. The Board will continue to review compliance with the Code at regular intervals.

In common with other organizations of a similar size, the Executive Directors are heavily involved in the day to day running of the business and meet regularly on an informal basis as well as at Board Meetings.

The Board of Directors meets regularly and is responsible for formulating strategy, monitoring financial performance and approving major items of capital expenditure.

Future Development

The Company, as described in the Chairman Statement, is in the process of releasing two new products to the market: the Rainbow, which is a personal tracking device and the Kylos, which is a real time merchandise and personal goods tracker. Both products are in the final research and development stage and are expected to start initial sales during this year as planned.

Statement of director's responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. Under that law the directors are required to prepare the Group and parent Company financial statements in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS")

The financial statements are required by law to give a true and fair view of the state of affairs of the Group and parent Company and of the profit and loss of the Group for that period.

In preparing each of the Group and parent Company financial statements the directors are required to:

Select suitable accounting policies and then apply them consistently;

Make judgments and accounting estimates that are reasonable and prudent; and

state whether they have been prepared in accordance with IFRS as adopted by the EU subject to any material departures disclosed and explained in the parent Company financial statements; and prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and parent Company and to enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991 and Article 4 of the IAS Regulation. They have general responsibility for taking such steps as are reasonably open to safeguard the assets of the Group and parent Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations the directors are also responsible for preparing a Directors Report to comply with that law and those regulations.

In determining how amounts are presented within terms in the income statement and balance sheet the directors have had regard to the substance of the reported transaction or arrangement in accordance with generally accepted accounting principles or practice.

So far as each of the directors is aware at the time the report is approved:

There is no relevant audit information of which the Company's auditors are unaware; and

The directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Going concern

The directors have prepared and reviewed sales forecasts and budgets for the next twelve months and having considered these cash flows and the availability of other financing sources if required, have concluded that the Group will remain a going concern. After this process and having made further relevant enquiries, the Directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Risks

Foreign exchange risks

Most of the Groups sales and income are in US Dollars and the US Dollar is the currency in which the Company reports. The expenses however are divided between the US Dollar and the Israeli Shekel. The cost of goods (components) are paid in US Dollars and part of the operational costs such as rent and other service providers quote their fees in US Dollars. Labour costs are paid in Israeli Shekels. The Company has therefore a partial currency risk in the event the Israeli Shekel strengthens against the US Dollar which could influence the bottom line of the Group's financial results.

The Group consults with foreign currency experts from main Israeli banks regarding the main financial institutions expectations for foreign currency changes. The management reviews them carefully and will consider with the board whether it should purchase financial instruments sold by local banks, to protect itself from this foreign exchange risk. There are no financial instruments in use at the date of this report.

Interest Rate Risks

The Company is exposed to interest risks as it uses credit lines and loans from its banks. Changes in the effective Prime interest rate published monthly by the bank of Israel can influence the financing costs of the Company.

Credit Risk

The Group is exposed to credit risks if its customers fail to pay for goods supplied by the Group. In order to minimize this risk the Group has a policy of:

(a) Selling only to respectable integrators and distributors and not to the end customer.

(b) Orders from customers in certain regions are shipped only after an approved letter of credit is received by the Group's bank.

(c) New customers must pay 50% before initial shipping.

Capital Risk management

The Group manages its cash carefully. In order to reduce its risk, the Group may take measures to reduce its fixed costs (labour) if performance is below the Group's expectations. The Group may conduct a placing for

new shares of the Company to raise additional capital as required when monitoring its performance, to continue its operations.

Supplier payment policy

It is the Group's policy to settle the terms of payment with suppliers when agreeing the terms of the transaction, to ensure that suppliers are aware of these terms and to abide by them.

Crest

The Company's ordinary shares are eligible for settlement through CREST, the system for securities to be held and transferred in electronic form rather than in paper. Shareholders are not obliged to use CREST and can continue to hold and transfer shares in paper without loss of rights.

Auditors

A resolution reappointing Barzily as the Group’s auditors will be proposed at the AGM in accordance with article 113(3) of the Companies (Jersey) Law 1991.

Electronic Communications

The Company may deliver shareholder information including Annual and Interim Reports, Forms of Proxy and Notices of General Meetings in an electronic format to shareholders.

If you would like to receive shareholder information in electronic format, please register your request on the Company's Registrar's electronic database at www.capitaregistrars.com. You will initially need your unique investor code which you will find at the top of your share certificate. There is no charge for this service. If you wish to subsequently change your mind, you may do so by contacting the Company's Registrars by post or through their website.

If you elect to receive shareholder information electronically, please note that it is the shareholder's responsibility to notify the Company of any change to their name, address, email address or other contact details. Shareholders should also note that, with electronic communication, the Company's obligations will be satisfied when it transmits the notification of availability of information or such other document as may be involved to the electronic address it has on file. The Company cannot be held responsible for any failure in transmission beyond its control any more than it can for postal failure.

In the event of the Company becoming aware that an electronic notification is not successfully transmitted, a further two attempts will be made. In the event that the transmission is still unsuccessful a hard copy of the notification will be mailed to the shareholder. In the event that specific software is required to access information placed on the Company's website it will be available via the website without charge.

Before electing for electronic communications shareholders should ensure that they have the appropriate equipment and computer capabilities sufficient for the purpose. The Company takes all reasonable precautions to ensure no viruses are present in any communication it sends out but cannot accept responsibility for loss or damage arising from the opening or use of any email or attachments from the Company and recommends that shareholders subject all messages to virus checking procedures prior to use. Any electronic communication received by the Company that is found to contain any virus will not be accepted.

Shareholders wishing to receive shareholder information in the conventional printed form will continue to do so and need take no further action.

Should you have any further questions on this, please contact the Company's Registrars, Capita Registrars.

On behalf of the board

M Rosenberg

Chairman

June 11, 2013

Barzily&Co.
Certified Public Accountants
ברזלי ושות', רואי חשבון

Jerusalem, June 11, 2013

Report of Independent Auditors
to the Board of Directors and Stockholders of
Starcom Plc

We have audited the accompanying combined financial position of Starcom G.P.S Systems Limited and the business assets and liabilities acquired by Starcom Plc from Starcom Systems S.A. on an aggregated basis (together - "the Group") as of December 31 2012, 2011 and 2010 and the related combined statements of comprehensive income, statement of changes in shareholders' equity and statements of cash flows for the three years then ended. These financial statements are the responsibility of the Starcom Plc's board of directors and management. Our responsibility is to express an opinion on these combined financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including those prescribed by the Israeli Auditors' Regulations (Auditor's Mode of Performance – 1973). Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the board of directors and management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Group as of December 31 2012, 2011 and 2010 and the combined results of its operations, changes in shareholders' equity and cash flows for the three years then ended in conformity with international financial reporting standards (IFRS).

Hillel Steinberger
For and behalf of Barzily & Co.
Certified Public Accountants.
A Member of MSI Worldwide

Member of msi Global Alliance Independent Legal & Accounting Firms

Jerusalem: Har Hotzvim, 19 Hartom st. 97775 Tel. 0732366200, Fax. 972-2-6231340 טל. 073-2366200, פקס. 02-6231340 ירושלים: הר חוצבים, רח' הרטום 19, 97775
Tel-Aviv: Migdal Shalom, 9 Ahad Ha'am st. 65251 Tel. 972-3-5176383, Fax. 972-3-5176392 טל. 03-5176383, פקס. 03-5176392 תל אביב: מגדל שלום, רח' אחד העם 9, 65251
Haifa: Tirat Hacarmel 5 Haetgar st. 39032 Tel. 972-4-8200879, Fax. 972-4-8200873 טל. 04-8200879, פקס. 04-8200873 חיפה: טירת הכרמל, רח' האתגר 5, 39032

www.barzily.co.il

COMBINED STATEMENTS OF FINANCIAL POSITION

U.S. Dollars in thousands

	Note	December 31 2012	December 31 2011	December 31 2010
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents		118	129	26
Short-term deposit		10	8	10
Trade receivables	3C	3,761	961	1,162
Shareholders	3A	-	11	92
Other receivables	3B	565	201	20
Inventories	4	1,236	912	339
Income Tax Authorities		34	-	-
Deferred issuance costs		107	-	-
Total Current Assets		5,831	2,222	1,649
NON-CURRENT ASSETS:				
Long-term bank deposit	5	95	163	169
Income Tax Authorities		-	26	16
Property, plant and equipment, net	6	285	332	174
Intangible assets	7	1,560	1,097	529
Deferred tax asset	8b	-	199	199
Repurchase option	11c	89	-	-
Total Non-Current Assets		2,029	1,817	1,087
TOTAL ASSETS		7,860	4,039	2,736
LIABILITIES AND EQUITY				
CURRENT LIABILITIES:				
Short term bank credit		80	-	270
Short-term loans from banks	9	288	244	119
Trade payables		2,940	2,002	1,583
Other payables	10	162	102	91
Short-term loan from non-controlling interest	11c	506	-	-
Shareholders	3A, 18	156	-	-
Total Current Liabilities		4,132	2,348	2,063
NON-CURRENT LIABILITIES:				
Long-term loans from banks	11A	571	542	522
Deferred tax liability	8b	116	-	-
Put option	11B	-	197	-
Long-term loan from non-controlling interest	11C	303	-	-
Total Non-Current Liabilities		990	739	522
EQUITY	13	2,738	952	151
TOTAL LIABILITIES AND EQUITY		7,860	4,039	2,736

The accompanying notes are an integral part of the combined financial statements.

June 11, 2013

Date of Approval of the Financial Statements

Director

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

U.S. Dollars in thousands

	Note	Year Ended December 31 2012	2011	2010
Revenues		8,093	5,575	5,327
Cost of sales	14	(3,874)	(2,708)	(2,947)
Gross profit		4,219	2,867	2,380
Operating expenses:				
Research and development		(98)	(18)	(27)
Selling and marketing		(299)	(402)	(250)
General and administrative	15	(1,786)	(1,525)	(1,326)
Operating profit		2,036	922	777
Finance income	16A	2	26	-
Finance costs	16B	(385)	(159)	(299)
Net finance costs		(383)	(133)	(299)
Profit before deferred income tax		1,653	789	478
Deferred income tax (income tax expense)	8b	(315)	-	199
Total comprehensive income for the year		1,338	789	677
Attributable to :				
Owners of the Company		1,345	789	677
Non-controlling interest		(7)	-	-
Comprehensive income		1,338	789	677
Earnings per share:				
Basic and diluted earnings per share	17	1.34	0.79	0.68

The accompanying notes are an integral part of the combined financial statements.

COMBINED STATEMENT OF CHANGES IN EQUITY

U.S. Dollars in thousands

	Share Capital *	Premium on Shares	Receipts on Account of Shares	Capital Reserve	Accumulated Earnings	Non-controlling Interest	Total
Balance as of January 1 2010	-	-	-	-	(508)	-	(508)
Comprehensive income for the year	-	-	-	-	677	-	677
Dividends distributed	-	-	-	-	(18)	-	(18)
Balance as of December 31 2010	-	-	-	-	151	-	151
Receipts on account of shares (see Note 11B)	-	-	225	(197)	-	-	28
Comprehensive income for the year	-	-	-	-	789	-	789
Dividends distributed	-	-	-	-	(16)	-	(16)
Balance as of December 31 2011	-	-	225	(197)	924	-	952
Receipts (refunds) on account of shares (see Note 11B)	-	28	(225)	197	-	-	-
Issuance to others of shares in a subsidiary (see Note 11C)	-	-	-	447	-	1	448
Comprehensive income for the year	-	-	-	-	1,345	(7)	1,338
Balance as of December 31 2012	-	28	-	447	2,269	(6)	2,738

* Amount less than one thousand.

The accompanying notes are an integral part of the combined financial statements.

COMBINED STATEMENTS OF CASH FLOWS

U.S. Dollars in thousands

	Year Ended December 31 2012	Year Ended December 31 2011	Year Ended December 31 2010
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Profit for the year	1,338	789	677
Adjustments to reconcile net profit to net cash provided by (used in) operating activities:			
Depreciation and amortization	184	105	20
Interest expense (income) and exchange rate differences	212	(51)	38
Deferred income tax (income tax expense)	315	-	(199)
Interest to shareholders	2	-	-
Interest expense in regard to options	28	-	-
Changes in assets and liabilities:			
Decrease (Increase) in inventories	(324)	(573)	179
Decrease (Increase) in trade receivables	(2,800)	201	(227)
Increase in other receivables	(364)	(181)	(10)
Increase in Income Tax Authorities	(8)	(10)	(4)
Increase in deferred issuance costs	(107)	-	-
Increase in trade payables	938	419	32
Increase in other payables	60	11	57
Net cash provided by (used in) operating activities	(526)	710	563
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(18)	(249)	(74)
Repayment from (Proceeds to) shareholders, net	-	102	(132)
Decrease (Increase) in long-term bank deposits	71	6	(169)
Decrease (Increase) in short-term deposits	(2)	2	130
Expenditures for intangible assets	(582)	(603)	(529)
Net cash used in investing activities	(531)	(742)	(774)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from (Repayment of) short-term bank credit, net	80	(270)	76
Short-term loan from a bank, net	(13)	40	-
Repayment from shareholders	165	-	-
Proceeds from receipt of long-term loans	1,327	312	554
Proceeds from (Repayment of) Put Options	(225)	225	-
Repayment of long-term loans	(288)	(156)	(423)
Dividends distributed	-	(16)	(18)
Net cash provided by financing activities	1,046	135	189
Increase (Decrease) in cash and cash equivalents	(11)	103	(22)
Cash and cash equivalents at the beginning of the year	129	26	48
Cash and cash equivalents at the end of the year	118	129	26
Appendix A – Additional Information			
Interest received during the year	2	5	-
Interest paid during the year	(142)	(159)	(160)

The accompanying notes are an integral part of the combined financial statements.

NOTE 1 - GENERAL INFORMATION

a. **The Reporting Entity**

1. Starcom Plc ("the Company") was incorporated in Jersey on November 28, 2012. In February 2013 the Company acquired operations that were performed till then through Starcom Systems S.A., a Panamanian company controlled by the same shareholders as the Company.

   Starcom Systems S.A. specializes in easy-to-use practical wireless solutions that combine advanced technology, telecommunications and digital data for the protection and management of people, fleets of vehicles, containers and assets and engages in marketing, distribution, research and development of GPS systems.

   Starcom G.P.S. Systems Ltd was incorporated in Israel on November 16, 2004 and specializes in easy-to-use practical wireless solutions that combine advanced technology, telecommunications and digital data for the protection and management of people, fleets of vehicles, containers and assets and engages in production, marketing, distribution, research and development of GPS systems. Starcom G.P.S. Systems Ltd was a subsidiary of Starcom Systems S.A. until February 19, 2013, when ownership passed to the Company.

   Starcom GPS markets are located in the Americas, Europe, the Middle East and Africa ("EMEA") and Asia Pacific ("APAC"). Starcom GPS distributes and sells its products through technology partners and independent dealers.

2. Address of the Company's registered office in Jersey is:
   13-14 Esplanade, St Helier, Jersey JE1 1BD.

3. Address of the official company office in Israel of Starcom G.P.S. Systems Ltd is:
   33 Jabotinsky St., Migdal Hateomim 1, Ramat Gan, Israel.

b. **Definitions in these financial statements:**

1. International Financial Reporting Standards (hereinafter: "IFRS") – Standards and interpretations adopted by the International Accounting Standards Board (hereafter: "IASB") that include international financial reporting standards (IFRS) and international accounting standards (IAS), with the addition of interpretations to these Standards as determined by the International Financial Reporting Interpretations Committee (IFRIC) or interpretations determined by the Standards Interpretation Committee (SIC), respectively.
2. The Company - Starcom Plc.
3. The subsidiary - Starcom GPS Systems Ltd.
4. The Group – Starcom Systems S.A. and the Subsidiary.
5. Related party - As determined by International Accounting Standard No. 24 in regard to related parties.

NOTE 2A - BASIS OF PREPARATION

a. **Basis of preparation:**

The Company's operations are the continuation of the operations of Starcom Systems S.A, (including its holdings in Starcom GPS Systems Ltd) held by the same shareholders as the Company. In February 2013, Starcom Systems S.A. transferred all its operations, assets and liabilities to the Company without consideration.

Since all the assets, liabilities and operations have been transferred from Starcom Systems S.A. to the Company, it is appropriate in these financial statements to combine the relevant data of Starcom Systems S.A. and the subsidiary for the years ending December 31, 2010, 2011 and 2012.

The relevant data has been combined so that the results, net assets, share capital and accumulated earnings of Starcom Systems S.A. and the subsidiary are aggregated, with intercompany balances and transactions eliminated.

b. **Declaration in regard to implementation of International Financial Reporting Standards (IFRS)**

The combined financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (hereinafter – "IFRS") and related clarifications published by the International Accounting Standards Board ("IASB").

c. **Basis of Measurement**

The combined financial statements have been prepared on the historical cost basis except for financial instruments at fair value through profit or loss that are stated at fair value.

d. **Operating Turnover Period**

The ordinary operating period turnover for the Group is a year. As a result, the current assets and current liabilities include items that are expected and intended to be realized at the end of the ordinary operating turnover period for the Group.

e. **Functional and Presentation Currency**

The combined financial statements are presented in U.S. dollars (hereinafter: "dollars") that is the functional currency of the Group and is rounded to the nearest thousand, except when otherwise indicated.
The dollar is the currency that represents the economic environment in which the Group operates.
The Group's transactions and balances denominated in dollars are presented at their original amounts. Non-dollar transactions and balances have been remeasured to dollars. All transaction gains and losses from remeasurement of monetary assets and liabilities denominated in non-dollar currencies are reflected in the statements of comprehensive income as financial income or expenses, as appropriate.

U.S. Dollars in thousands

NOTE 2B - USE OF ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Upon formulation of accounting estimates used in preparation of the Group financial statements, management is required to make assumptions in regard to circumstances and events that are significantly uncertain. Management arrives at these decisions based on prior experiences, various facts, external items and reasonable assumptions in accordance with the circumstances related to each assumption.
Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgment in applying accounting policies that have a significant effect on the amounts recognized in the combined financial statements is included in the following Note:
Note 7 – Capitalization of development costs and amortization of these costs.

Information about assumptions and estimations regarding depreciation that have significant risk of resulting in a material adjustment is included in the following Notes:
Note 8 – Utilization of tax losses
Note 11b – Calculation of the fair value of the PUT option
Note 7 – Calculation of amortization
Note 11C – Calculation of a loan from a non-controlling interest

NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES

a. **Basis of combination**

All intra-Group transactions, balances, income and expenses of the companies are eliminated on combination.
See also Note 2Aa.

b. **Foreign currency and linkage basis**

Balances stated in foreign currency or linked to a foreign currency have been included in the combined financial statements according to the prevailing representative exchange rates at the balance sheet date. Balances linked to the Consumer Price Index in Israel are included in accordance with the Index published prior to balance sheet date. Linkage and exchange rate differences are included in the statement of comprehensive income when incurred.

	December 31,		
	2012	**2011**	**2010**
CPI (in points) *	122.4	120.4	117.4
Exchange Rate of U.S. $ in NIS	3.733	3.821	3.549

	Year Ended December 31,		
	2012	**2011**	**2010**
Change in CPI	1.66%	2.56%	2.26%
Change in Exchange Rate of U.S. $	(2.3%)	7.66%	(5.99%)

* Base Index 2002 = 100.

NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES (cont.)

c. **Financial instruments**

(i) Non-derivative financial assets
The Group initially recognizes loans and receivables on the date that they are originated. All other financial assets (including assets designated as at fair value through profit or loss) are recognized initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Group is recognized as separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Group classified non-derivative financial assets into the following categories: Financial assets at fair value, through profit or loss, held-to-maturity financial assets, loans and receivables, and available-for-sale financial assets.

Financial assets at fair value through profit or loss:
A financial asset is classified as at fair value through profit or loss if it is classified as held for trading or is designated as such on initial recognition. Financial assets are designated as at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, which takes into account any dividend income, are recognized in profit or loss.

Financial assets designated as at fair value through profit or loss comprise equity securities that otherwise would have been classified as available for sale.

Loans and receivables:
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.
Loans and receivables comprise cash and cash equivalents, and trade and other receivables.

NOTE 2C- SIGNIFICANT ACCOUNTING POLICIES (cont.)

c. **Financial instruments (cont.)**

(ii) Non-derivative financial liabilities
The Group initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated as at fair value through profit or loss) are recognized initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

(iii) Compound financial instruments
Compound financial instruments issued by Starcom GPS comprise: an interest bearing loan for which shares were issued to the lender. In addition, the Company maintains an option to repurchase these shares.

The purchase option component was recognized initially at its fair value using a binomial calculation.

The liability component was recognized initially at its fair value as the gap between fair value of Company assets and fair value of shareholders' equity.

The equity component was recognized initially as the difference between the loan amount plus the purchase option component and the fair value of the liability component.

Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Interest related to the financial liability is recognized in profit or loss.

d. **Cash and cash equivalents:**
Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES (cont.)

e. **Share capital**

Ordinary shares:

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of any tax effects.

f. **Property, plant and equipment**

Property, plant and equipment are measured at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, at the following annual rates:

	%
Computers and software	33
Office furniture and equipment	7 – 15
Vehicles	15
Laboratory equipment	15

Leasehold improvements are depreciated by the straight-line method over the term of the lease, ten year period, (including option terms) or the estimated useful lives of the improvements, unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

At each balance sheet date, the Group examines the residual value, the useful life and the depreciation method it uses. If the Group identifies material changes in the expected residual value, the useful life or the future pattern of consumption of future economic benefits in the asset that may indicate that a change in the depreciation is required, such changes are treated as changes in accounting estimates. In the reported periods, no material changes have taken place with any material effect on the financial statements of the Group.

g. **Intangible assets: Research and Development**

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if developments costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset.

The expenditure capitalized includes the cost of materials, direct labor, overhead costs that are directly attributable to preparing the asset for its intended use, and capitalized borrowing costs. Other development expenditure is recognized in profit or loss as incurred.

Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses. Amortization is calculated using the straight-line method over the estimated useful lives of the assets: ten years.

NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES (cont.)

g. **Intangible assets: Research and Development (cont.)**

At each balance sheet date, the Group reviews whether any events have occurred or changes in circumstances have taken place, which might indicate that there has been an impairment of the intangible assets. When such indicators of impairment are present, the Group evaluates whether the carrying value of the intangible asset in the Group's accounts can be recovered from the cash flows anticipated from that asset, and, if necessary, records an impairment provision up to the amount needed to adjust the carrying amount to the recoverable amount.

h. **Short-term deposit**

Deposits with maturities of more than three months but less than one year are included in short-term deposits.

i. **Leases**

(1) Lease payments
Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.
Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(2) Determining whether an arrangement contains a lease
At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. This will be the case if the following two criteria are met:
● The fulfillment of the arrangement is dependent on the use of a specific asset or assets; and
● the arrangement contains a right to use the asset(s).

At inception or on reassessment of the arrangement the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognized at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance cost on the liability is recognized using the Group's incremental rate.

j. **Inventories**

Inventories are stated at the lower of cost or market value.
Cost is determined using the "first-in, first -out" method.

NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES (cont.)

j. **Inventories (cont.)**

Inventory write-downs are provided to cover risks arising from slow-moving items, technological obsolescence, excess inventories, and discontinued products and for market prices lower than cost, if any. At the point of loss recognition, a new lower cost basis for that inventory is established.

k. **Impairment in value of assets**

During every financial period, the Group examines the book value of its tangible assets to determine any signs of loss from impairment in value of these assets. In the event that there are signs of impairment, the Group examines the realization value of the designated asset. In the event that the realization cannot be measured for an individual asset, the Group estimates realization value for the unit where the asset belongs. Joint assets are assigned to the units yielding cash on the same basis. Joint assets are designated to the smallest groups of yielding assets for which one can identify a reasonable basis that is consistent to the allocation.

The realization value is the higher of net sale price of the asset as compared with its useful life that is determined by the present value of projected cash flows to be realized from this asset and its realization value at the end of its useful life.
In the event that the book value of the asset or cash-yielding unit is greater than its realization value, a devaluation of the asset has occurred in the amount of the difference between its book value and its realization value. This amount is recognized immediately in the statements of comprehensive income.

In the event that prior devaluation of an asset is nullified, the book value of the asset or of the cash-yielding unit is increased to the estimated current fair value, but not in excess of the asset or cash-yielding unit book value that would have existed had there not been devaluation. Such nullification is recognized immediately in the statements of comprehensive income.

l. **PUT Option**

The Group classifies in the long-term liabilities category the PUT Option liability for reacquisition of shares to be issued. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

m. **Revenue recognition**

The Group generates revenues from sales of products, which include hardware and software, software licensing, professional services and maintenance. Professional services include mainly installation, project management, customization, consulting and training. The Group sells its products indirectly through a global network of distributors, system integrators and strategic partners, all of whom are considered end-users, and through its direct sales force.

Revenue from products and software licensing is recognized when persuasive evidence of an agreement exists, delivery of the product has occurred, the fee is fixed or determinable and collectability is probable.

NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES (cont.)

m. **Revenue recognition (cont.)**

Revenues from maintenance and professional services are recognized ratably over the contractual period or as services are performed, respectively.

n. **Allowance for doubtful accounts**

The Group evaluates its allowance for doubtful accounts on a regular basis through periodic reviews of the collectability of the receivables in light of historical experience, adverse situations that may affect the repayment abilities of its customers, and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

The Group performs ongoing credit evaluations of its customers and generally does not require collateral because (1) management believes it has certain collection measures in-place to limit the potential for significant losses, and (2) because of the nature of its customers that comprise the Group's customer base. Receivables are written off when the Group abandons its collection efforts. An allowance for doubtful accounts is provided with respect to those amounts that the Group has determined to be doubtful of collection.

o. **Concentrations of credit risk**

Financial instruments that potentially subject the Group to concentrations of credit risk consist principally of cash and cash equivalents, short-term deposits and trade receivables.

p. Provisions

Provisions are recognized when the Group has a current obligation (legal or derived) as a result of a past occurrence that can be reliably measured, that will in all probability result in the Group being required to provide additional benefits in order to settle this obligation. Provisions are determined by capitalization of projected cash flows at a rate prior to taxes that reflects the current market preparation for the money duration and the specific risks for the liability.

q. Employee benefits

The Group has several benefit plans for its employees:

1. Short-term employee benefits -
   Short-term employee benefits include salaries, vacation days, recreation and deposits to the National Insurance Institute that are recognized as expenses when rendered.
2. Benefits upon retirement -
   Benefits upon retirement generally funded by deposits to insurance companies and pension funds are classified as restricted deposit plans or as restricted benefits.

NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES (cont.)

q. **Employee benefits (cont.)**

2. Benefits upon retirement (cont.) -
All Group employees have restricted deposit plans, in accordance with Section 14 of the Severance Pay Law (Israel), whereby the Group pays fixed amounts without bearing any legal responsibility to pay additional amounts thereto even if the fund did not accumulate enough amounts to pay the entire benefit amount to the employee that relates to the services he rendered during the current and prior periods. Deposits to the restricted plan are classified as for benefits or for compensation, and are recognized as an expense upon deposit to the plan concurrent with receiving services from the employee and no additional provision is required in the financial statements.

r. **Finance income and costs**

Finance income includes interest in regard to invested amounts, changes in the fair value of financial assets presented at fair value in the statements of comprehensive income and gains from changes in the exchange rates and interest income that are recognized upon accrual using the effective interest method.

Finance costs include interest on loans received, changes in the time estimate of provisions, changes in the fair value of financial assets presented at fair value in the statements of comprehensive loss and losses from changes in value of financial assets.
Gains and losses from exchange rate differences are reported net. Exchange rate differences in regard to issuance of shares are charged to equity.

s. **Taxes**

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that they relate to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES (cont.)

s. **Taxes (cont.)**

Deferred tax is not recognized for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- Temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same Tax Authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

t. **Basic and Diluted Earnings per Share**

Basic earnings per share are computed based on the weighted average number of common shares outstanding during each year.

Diluted earnings per share is computed based on the weighted average number of common shares outstanding during each year, plus dilutive potential common shares considered outstanding during the year.

u. **Statement of cash flows**

The statement of cash flows from current operations is presented using the indirect method, whereby interest amounts paid and received by the Group are included in the cash flows in current operations.

v. **Dividend distribution**

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Group's shareholders.

w. Segment reporting

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets ,head office expenses and tax.

NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES (cont.)

x. **New Amendments and Interpretations not yet adopted**

New Standards, amendments and interpretations issued but not effective for the financial year beginning January 1 2012 and not early adopted:

IFRS 10 "Consolidated Financial Statements" builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The Standard provides additional guidance to assist in the determination of control where this is difficult to assess. This Standard is effective for periods beginning on or after 1 January 2013 subject to EU endorsement.

IFRS 11 ‘‘Joint Arrangements” provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. This standard is effective for periods beginning on or after 1 January 2013 subject to EU endorsement.

IFRS 12 ‘‘Disclosure of Interests in Other Entities” is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. This standard is effective for periods beginning on or after 1 January 2013 subject to EU endorsement.

IFRS 13, "Measurement of Fair Value" (hereinafter: "the Standard")
This Standard replaces the guidelines for measuring fair value that have appeared in other IFRS Standards, and thereby constitutes the ultimate source for proper measurement of fair value in accordance with IFRS regulations. The Standard defines fair value, establishes a framework of guidelines for measurement of fair value, and determines requirements in this regard. The Standard does not set any new requirements for measurement of assets or liabilities at fair value.

The Standard applies to assets, liabilities and equity instruments of the entity that are required to be measured or that may be measured at fair value or that disclosure was rendered in their regard as to fair value in accordance with relevant IFRS regulations. Concurrently, the Standard will not be applicable to share-based payment transactions that are included in IFRS 2, other share-based payments, leasing transactions included in IFRS 17 and other leasing. Concurrently, the Standard will not apply to measurements resembling but not truly measurements of fair value, such as net realization value of inventories, measurement of usability in accordance with IAS 36, and impairment of assets.

The Standard will be applicable to annual periods commencing 1 January 2013. Earlier implementation is possible, subject to proper disclosure. The Standard will apply prospectively when disclosure requirements do not apply to comparative figures for prior periods upon initial implementation of the Standard.

NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES (cont.)

x. **New Amendments and Interpretations not yet Adopted (cont.)**

New Standards, amendments and interpretations issued but not effective for the financial year beginning January 1 2012 and not early adopted (cont.):

Amendments to IFRS 7 "Financial Instruments: Disclosures" require disclosure of information that will enable users of financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognized financial assets and recognized financial liabilities, on the entity's financial position. These amendments are effective for periods beginning on or after January 1, 2013 subject to EU endorsement.

Amendments to IFRS 9 "Financial Instruments" and IFRS 7 "Financial Instruments: Disclosures" require entities to apply IFRS 9 for annual periods beginning on or after January 1, 2015 instead of on or after January 1, 2013. Early application continues to be permitted. The amendments also require additional disclosures on transition from IAS 39 "Financial Instruments: Recognition and Measurement" to IFRS 9.

IAS 27 "Separate Financial Statements: Replaces the current version of IAS 27, "Consolidated and Separate Financial Statements" as a result of the issue of IFRS 10 (abovementioned). This revised Standard is effective for periods beginning on or after 1 January 2013 subject to EU endorsement.

IAS 28 ‘‘Investments in Associates and Joint Ventures” replaces the current version of IAS 28 ‘‘Investments in Associates” as a result of the issue of IFRS 11 (see above). This revised standard is effective for periods beginning on or after 1 January 2013 subject to EU endorsement.

Amendments to IAS 32 "Financial Instruments: Presentation" add application guidance to address inconsistencies identified in applying some of the criteria when offsetting financial assets and financial liabilities. This includes clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. These amendments are effective for periods beginning on or after 1 January, 2014 subject to EU endorsement.

"Annual Improvements 2009-2011 Cycle" sets out amendments to various IFRSs and provides a vehicle for making non-urgent but necessary amendments to IFRSs:

- ♦ An amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards" clarifies whether an entity may apply IFRS 1:
  - (a) if the entity meets the criteria for applying IFRS 1 and has applied IFRS 1 in a previous reporting period; or

U.S. Dollars in thousands

NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES (cont.)

x. **New Amendments and Interpretations not yet Adopted (cont.)**

New Standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2012 and not early adopted (cont.):

(b) if the entity meets the criteria for applying IFRS 1 and has applied IFRS in a previous reporting period when IFRS 1 did not exist.

The amendment also addresses the transitional provisions for borrowing costs relating to qualifying assets for which the commencement date for capitalization was before the date of transition to IFRSs.

♦ An amendment to IAS 1 "Presentation of Financial Statements" clarifies the requirements for providing comparative information:
  (a) for the opening statement of financial position when an entity changes accounting policies, or makes retrospective restatements or reclassifications; and

♦ An amendment to IAS 16 "Property, Plant and Equipment" addresses a perceived inconsistency in the classification requirements for servicing equipment.
♦ An amendment to IAS 32 "Financial Instruments: Presentation" addresses perceived inconsistencies between IAS 12 "Income Taxes" and IAs 32 with regard to recognizing the consequences of income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction.
♦ An amendment to IAS 34 "Interim Financial Reporting' clarifies the requirements on segment information for total assets and liabilities for each reportable segment.

This applies to annual periods beginning on or after January 1, 2013.
The impact on the Group's financial statements of the future Standards, amendments and interpretations is still under review, but the Group does not currently expect any of these changes to have a material impact on the results or the net assets of the Group.

NOTE 3A - SHAREHOLDERS

Debit balances are linked to the New Israel Shekel ("NIS") and the Israeli Consumer Price Index ("CPI") and bear a fixed annual interest at the rate of 4%.
Loans from shareholders accrue annual 4% interest.

NOTE 3B - OTHER RECEIVABLES

	December 31		
	2012	**2011**	**2010**
Government institutions	137	89	20
Prepaid expenses	11	112	-
Advances to suppliers	417	-	-
	565	201	20

U.S. Dollars in thousands

NOTE 3C - TRADE RECEIVABLES

	December 31		
	2012	2011	2010
Group receivables	3,937	993	1,167
Net of allowance for doubtful accounts	(176)	(32)	(5)
	3,761	961	1,162

NOTE 4 - INVENTORIES

	December 31		
	2012	2011	2010
Raw materials	1,002	770	222
Work-in-progress	137	95	110
Finished goods	97	47	7
	1,236	912	339

Inventory write-downs for the years ended December 31, 2012, 2011 and 2010 were $44, $63 and $64 thousand, respectively, and have been included in cost of sales.

NOTE 5 - LONG-TERM BANK DEPOSIT

The deposit serves as a security deposit for repayment of a long-term bank loan. In accordance with terms of the loan, the deposit constitutes approximately 30% of the loan balance. The deposit bears monthly interest at the rate of 0.29%.

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT, NET

	Computers and Software	Office Furniture and Equipment	Laboratory Equipment	Leasehold Improvements	Vehicles	Total
Cost:						
Balance as of January 1 2012	74	91	66	39	175	445
Additions during the year	14	4	-	-	-	18
Balance as of December 31 2012	88	95	66	39	175	463
Accumulated Depreciation:						
Balance as of January 1 2012	41	22	12	13	25	113
Depreciation during the year	20	7	9	3	26	65
Balance as of December 31 2012	61	29	21	16	51	178
Net book value as of December 31 2012	27	66	45	23	124	285

U.S. Dollars in thousands

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT, NET (cont.)

	Computers and Software	Office Furniture and Equipment	Laboratory Equipment	Leasehold Improvements	Vehicles	Total
Cost:						
Balance as of January 1 2011	45	81	59	11	82	278
Additions during the year	29	10	7	28	175	249
Disposals	-	-	-	-	(82)	(82)
Balance as of December 31 2011	74	91	66	39	175	445
Accumulated Depreciation:						
Balance as of January 1 2011	21	16	3	3	61	104
Depreciation during the year	20	6	9	10	25	70
Disposals	-	-	-	-	(61)	(61)
Balance as of December 31 2011	41	22	12	13	25	113
Net book value as of December 31 2011	33	69	54	26	150	332

	Computers and Software	Office Furniture and Equipment	Laboratory Equipment	Leasehold Improvements	Vehicles	Total
Cost:						
Balance as of January 1 2010	26	79	8	9	82	204
Additions during the year	19	2	51	2	-	74
Balance as of December 31 2010	45	81	59	11	82	278
Accumulated Depreciation:						
Balance as of January 1 2010	10	10	-	3	61	84
Depreciation during the year	11	6	3	-	-	20
Balance as of December 31 2010	21	16	3	3	61	104
Net book value as of December 31, 2010	24	65	56	8	21	174

U.S. Dollars in thousands

NOTE 7 - INTANGIBLE ASSETS

a. Composition:

	Cost of Materials (including overhead costs)	Direct Labour	Total
Cost:			
Balance as of January 1 2012	798	334	1,132
Additions during the year	299	283	582
Balance as of December 31 2012	1,097	617	1,714
Accumulated Depreciation:			
Balance as of January 1 2012	28	7	35
Depreciation during the year	99	20	119
Balance as of December 31 2012	127	27	154
Net book value as of December 31 2012	970	590	1,560

	Cost of Materials (including overhead costs)	Direct Labour	Total
Cost:			
Balance as of January 1 2011	464	65	529
Additions during the year	334	269	603
Balance as of December 31 2011	798	334	1,132
Accumulated Depreciation:			
Balance as of January 1 2011	-	-	-
Depreciation during the year	28	7	35
Balance as of December 31 2011	28	7	35
Net book value as of December 31 2011	770	327	1,097

b. Detail of remaining life of instruments as of December 31, 2012:

Instrument	Cost	Remaining Useful Life (in years)
Set 1	566	8.75
Set 2	340	8.75
Set 3	534	9.50
Set 4	274	9.50
Total	1,714	

U.S. Dollars in thousands

NOTE 7 - INTANGIBLE ASSETS (cont.)

The expenditure capitalized includes the cost of materials and direct labor that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognized in profit or loss as incurred.
Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses. Amortization is calculated using the straight-line method over the estimated useful lives of the assets: ten years.
See also Note 2C g.

NOTE 8 - TAXES ON INCOME

a. Israeli taxation
Taxable income of the subsidiary is subject to tax at the rates of 25%, 24% and 25% for the years 2012, 2011 and 2010, respectively.

b. Detail of tax income (expense):

	Year Ended December 31		
	2012	2011	2010
Deferred taxes	(315)	-	199

c. Reconciliation of effective tax rate:

	2012	2011	2010
Profit before taxes	1,653	789	478
Group's domestic tax rate	25%	24%	25%
Tax according to statutory rate	(413)	(189)	(120)
Increase (decrease) in income taxes derives from:			
Fixed provisions and others	(359)	80	45
Change in the tax rate	8	(8)	-
Deferred taxes for prior years	130	-	144
Tax exempt revenues (from Panama)	319	117	130
Total tax income (expense)	(315)	-	199

U.S. Dollars in thousands

NOTE 9 - SHORT-TERM LOAN FROM BANKS

	December 31		
	2012	**2011**	**2010**
Short-term loan	27	40	-
Current maturities of long-term loans	261	204	119
	288	244	119

NOTE 10 - OTHER PAYABLES

	December 31		
	2012	**2011**	**2010**
Employees and payroll accruals	156	78	76
Accrued expenses	6	24	15
	162	102	91

NOTE 11A - LONG-TERM LOANS FROM BANKS

1. Composition:

	December 31		
	2012	**2011**	**2010**
Long-term liability	832	746	641
Less: current maturities	(261)	(204)	(119)
	571	542	522

2. Aggregate maturities of long-term loans for years subsequent to December 31, 2012 are as follows:

	Amount
First year	261
Second year	298
Third year	174
Fourth year and after	99
	832

U.S. Dollars in thousands

NOTE 11A - LONG-TERM LOANS FROM BANKS

3. Additional information regarding long-term loans:

Loan #	Date Received	Amount Received NIS (U. S. dollars)	Annual Interest Rate	Loan Terms and Maturity Dates	Interest Payment Terms
1.	December 18, 2011	400 ($ 107)	8.8%	36 equal monthly installments including principal and interest	Monthly commencing 17 January 2012
2.	May 11, 2011	187 ($ 54)	9.9%	An initial payment in the amount of NIS 40 on June 30, 2011 and the balance payable in equal monthly installments commencing July 31, 2011	Monthly on the principal repayment dates commencing 31 July 2011.
3.	March 1, 2011	288 ($ 79)	Prime + 0.5%	One inclusive repayment on February 1, 2014	Monthly commencing 1 March, 2011
4.	January 19, 2011	256 ($ 72)	Prime + 0.5%	36 equal monthly installments including principal and interest	Monthly commencing 1 March 2011
5.	December 13, 2010	2,000 ($ 554)	7%	54 equal monthly installments that commenced on July 13, 2011, including principal and interest	Monthly commencing 13 January 2011
6.	August 8, 2012	1,200 ($ 300)	Prime + 0.9%	60 equal monthly installments including principal and interest	Monthly commencing 9 September 2012
7.	February 25, 2012	100 ($27)	Prime + 3.7%	36 equal monthly installments including principal and interest	Monthly commencing March 25, 2012

NOTE 11B - PUT OPTION

1. Starcom S.A. signed a PUT Agreement on December 30 2011.

   In accordance with an agreement between the parties, Starcom S.A. received an amount of $225 thousand from a third party (hereinafter: "Top Alpha") as consideration for issuance of shares that would give to Top Alpha 3.3% holdings of Starcom S.A. while Top Alpha would have the option, until July 2013, to put the shares back to Starcom S.A. for the original purchase price of $ 225 thousand.
   In actuality, the Company did not issue the shares and, therefore, these amounts were recorded on the day received in the financial statements as receipts on account of shares.

   The options were recognized initially at fair value. Subsequent to initial recognition, this financial liability was measured at amortized cost using the effective interest method.

2. In July 2012, the funds were returned to Top Alpha in accordance with their decision, and the rights that they had for shares were cancelled.

NOTE 11C - LONG-TERM LOAN FROM NON-CONTROLLING INTEREST

1. During April 2012 The subsidiary received a loan through "Keren Hagshama Ltd." (hereinafter: "Keren Hagshama") in the amount of $1 million dollar for a period of four years that will be repaid in four equal installments of principal and interest at the end of every year. The loan bears monthly interest at the rate of 0.8%.In addition, the company received $50 thousand through Keren Hagshama as an investment in the share capital of the company.
   The Group has an option for early repayment as well as to lengthen the loan period in a year.
   In consideration for the loan, The subsidiary will issue an amount of shares contingent upon the duration of the loan period and whether the Group will offer shares in an Initial Public Offering (IPO), as detailed in the following excerpts from the agreement:
   In the event that the Group becomes a publicly traded entity, then Keren Hagshama will receive 2% - 6% of the Group shares in accordance with the loan period.
   In the event that the Group will remain a private entity, then Keren Hagshama will receive 3.3% - 10% of the shares of the subsidiary in accordance with the loan period.
   As of the loan grant date, the subsidiary issued 3.3% of its share capital to Keren Hagshama.
   Upon completion of registration of shares the Group has an option to repurchase the public Company shares within a six month period commencing from the Initial Public Offering (IPO) date in accordance with the realization price per ordinary share as computed in accordance with the Group valuation of $18 million. In the event that the public Company valuation will exceed $23 million, the realization price will be higher, as detailed in the agreement.
   The subsidiary paid $50 thousand as fees for mobilization of a loan through Keren Hagshama.

   The loan was evaluated and divided to different components by independent appraisers as follows:
   Repurchase option -$89
   Liability (short and long term)-$670
   Capital reserve-$469.
   The mobilization costs were allocated according to the components ratio.
   The loan was assessed assuming a fifty-percent likelihood that the loan will be repaid within a year and a fifty percent likelihood according to the original terms.
   Effective annual interest rate was determined as 42.46%.

2. In February 2013 Starcom Israel and the Company contracted with Keren Hagshama that pursuant to the Hagshama Agreement and, upon Admission, the Company will issue 1,150,000 Ordinary shares to Keren Hagshama and will repay the loan. Keren Hagshama and Gabriel Danon will transfer their respective shares in Starcom Israel to the Company, and subsequently no further rights or obligations exist under the Hagshama Loan Agreement, except as detailed below. The Ordinary shares to be issued to Keren Hagshama upon Admission are subject to limitations on sale (the extent of which are not defined in the Hagshama Loan agreement) for a period of six months from date of Admission.

   Immediately subsequent to the IPO, as detailed in Note 22a, the loan was paid to Keren Hagshama, the shares were returned to the subsidiary, and Keren Hagshama received as consideration 1,150,000 shares of the Company.

U.S. Dollars in thousands

NOTE 12 - COMMITMENTS AND CHARGES

a. Operating lease commitments:

1. The subsidiary rents offices and signed operating leases commencing March 2011 for a period of five years with an option for five additional years. Rent expenses for the years ended December 31, 2012 and 2011 were in the amounts of $ 133 thousand and $ 126 thousand, respectively.
Total of future minimum lease payments under non-cancellable operating leases for each of the following periods as of December 31, 2012:

Not later than one year	159
Later than one year and not later than five years	344
	503

2. The subsidiary signed operating leases for rental of vehicles for a period of 36 months. Rent expenses for the vehicles for the years ended December 31, 2012 and 2011 were in the amounts of $ 88 thousand and $97 thousand, respectively.
Total of future minimum lease payments under non-cancellable operating leases for each of the following periods as of December 31, 2012:

Not later than one year	30
Later than one year and not later than four years	28
	58

b. Other commitments:
During December 2009 the subsidiary signed a cooperative agreement with Multilock Ltd. (hereinafter: "Multilock") for development, production and marketing of a combined system that includes the operating system of Multilock contained in the follow-up system of the Group.

In order to produce the combined system, each side obligated to sell to his counterpart, at a price equal to the cost of SAP with the addition of 15%, the component that he manufactures.

Cost of SAP is the cost of a completed product, including direct and indirect production costs but not including research and development costs or general and administrative expenses. Thus, cost of a combined system is the SAP of the Company plus the SAP of Multilock with the addition of 15%. The system was completed and is marketed under the logo Watchlock. Sales commenced in March 2012. The Group capitalized the research and development costs relevant to development of the system.

Price of the marketed system will be uniform and will be determined in advance by both parties. At the end of each quarter, differences arising from total net sales of the combined systems sold by both parties during the quarter and the cost of the combined systems during the quarter will be allocated equally between the parties (50% - 50%).

U.S. Dollars in thousands

NOTE 12 - COMMITMENTS AND CHARGES (cont.)

c. Charges:

1. A first class current general charge in favor of a bank was placed on all the subsidiary's assets.

2. A first class fixed charge in favor of banks was placed on deposits in the amounts of $8 thousand, and NIS 30 thousand (approximately $8 thousand) including their earnings.

3. A charge in favor of a bank was placed on three subsidiary vehicles.

4. A second class floating charge in favor of a lender – Top Alpha Ltd. was placed on all subsidiary assets, share capital, and subsidiary rights to receive money.

NOTE 13 - SHARE CAPITAL

a. Composition – common stock of $ 0.01 par value, authorized – 1,000 shares; issued and outstanding – 999 shares as of December 31 2012, 2011 and 2010 respectively.

b. A Company share grants to its holder voting rights, rights to receive dividends and rights to net assets upon dissolution.

c. See Note 11B.

d. Dividends
The following dividends were declared and paid by Starcom Systems S.A:

Year Ended December 31		
2012	**2011**	**2010**
-	16	18

NOTE 14 - COST OF SALES

	Year Ended December 31		
	2012	**2011**	**2010**
Purchases	4,065	3,011	2,659
Depreciation	86	18	-
Outsourcing	47	252	78
Decrease (Increase) in inventory	(324)	(573)	210
	3,874	2,708	2,947

U.S. Dollars in thousands

NOTE 15 - GENERAL AND ADMINISTRATIVE EXPENSES

	Year Ended December 31		
	2012	2011	2010
a. Salaries and related expenses	734	730	708
Office rent and maintenance	320	231	143
Professional services	217	263	50
Doubtful accounts	144	27	5
Depreciation	98	70	20
Other	273	204	400
	1,786	1,525	1,326
b. Cost of defined contribution plans	132	125	100

c. Average Number of Staff Members by Category:

	2012	2011	2010
Sales and marketing	2	3	4
Research and development	4	4	3
General and administrative	12	7	8
	18	14	15

NOTE 16A - FINANCE INCOME

	Year Ended December 31		
	2012	2011	2010
Exchange rate differences	-	21	-
Interest from bank	2	5	-
	2	26	-

NOTE 16B - FINANCE COSTS

	Year Ended December 31		
	2012	2011	2010
Interest to non-controlling interest	168	-	-
Interest to banks and others	87	63	79
Exchange rate differences	45	-	139
Bank charges	44	35	42
Interest to suppliers	39	61	39
Interest to shareholder	2	-	-
	(385)	(159)	(299)
Net finance costs	(383)	(133)	(299)

U.S. Dollars in thousands

NOTE 17 - EARNINGS PER SHARE

Weighted average number of shares used in computing basic and diluted earnings per share:

	Year Ended December 31		
	2012	2011	2010
Issued ordinary shares on January 1	999	999	999
Effect of receipts on account of shares	-	-	-
Total	999	999	999

NOTE 18 - RELATED PARTIES

a. The related parties that own the controlling shares in the Group are:
Mr. Avraham Hartman (32%), Mr. Uri Hartman (32%), Mr. Doron Kedem (32%).

b. Balances: *

	December 31		
	2012	2011	2010
	(156)	11	92

* See also Note 3A.

c. Transactions:

	Year Ended December 31		
	2012	2011	2010
Key management compensation:			
Short-term employee benefits	179	192	141
Post-employment benefits	23	23	21
Total salaries and related expenses for shareholders	202	215	162

d. Directors and the shareholders of the Group are each entitled to benefits, in addition to salaries, that include a vehicle, meals, cellular phones and a professional enrichment fund. Concurrently, the Group deposits for them amounts in a restricted benefit plan for implementation upon completion of their employment.

NOTE 19 - FINANCIAL INSTRUMENTS AND MANAGEMENT OF FINANCIAL RISKS

a. Financial Risk Factors:

The Group's operations expose it to a variety of financial risks, including: market, currency, credit and liquidity risks. The comprehensive Group plan for risk management focuses on the fact that it is not possible to predict financial market behavior and an effort to minimize possible negative effects on Company financial performance.

In this Note information is stated in regard to Group exposure to each of the risks abovementioned and the handling of these risks. Risk management and capital are handled by Company management that identifies and evaluates financial risks.

1) Exchange rate risk

Group operations are exposed to exchange rate risks arising mainly from exposure of loans from banks, suppliers and others that are linked to the NIS.

U.S. Dollars in thousands

NOTE 19 - FINANCIAL INSTRUMENTS AND MANAGEMENT OF FINANCIAL RISKS (cont.)

2) **Credit risk**

Credit risks are handled at the Group level. These risks arise from cash and cash equivalents, bank deposits and unpaid receivable balances. Cash and cash equivalent balances of the Group are deposited in an Israeli banking corporation. Group management is of the opinion that there is insignificant credit risk regarding these amounts.

3) **Liquidity risks**

Cautious management of liquidity risks requires that there be sufficient amounts of cash to finance operations. Group management currently examines projections regarding liquidity surpluses deriving from cash and cash equivalents. This examination is based on projected cash flows, in accordance with procedures and limitations determined by the Group.

b. **Linkage terms of financial instruments:**

Group exposure to Index and foreign currency risks, based on par value, except for derivative financial instruments is as follows:

	December 31 2012					
	NIS			U.S. Dollar	Euro	Total
	Unlinked	Linked	Variable Interest	Unlinked		
Financial Assets:						
Cash and Cash Equivalents	2	-	-	100	16	118
Short-term Deposit	10	-	-	-	-	10
Trade Receivables	69	-		3,296	396	3,761
Other Receivables	554	-	-	-	-	554
Repurchase Option	-	-	-	89	-	89
Long-term Bank Deposit	95	-	-	-	-	95
Financial Liabilities:						
Short-term Bank Credit	(80)	-	-	-	-	(80)
Short-term Loans from Banks	(199)	-	(89)	-	-	(288)
Trade Payables	(2,699)	-	-	(241)	-	(2,940)
Loan from Non-controlling Interest	-	-	-	(809)	-	(809)
Other Payables	(76)	-	-	-	-	(76)
Shareholders	-	-	-	(156)	-	(156)
Long-term Loans From Banks	(240)	-	(331)	-	-	(571)
	(2,564)	-	(420)	2,279	412	(293)

U.S. Dollars in thousands

NOTE 19 - FINANCIAL INSTRUMENTS AND MANAGEMENT OF FINANCIAL RISKS (cont.)

	December 31 2011					
	NIS			U.S. Dollar	Euro	Total
	Unlinked	Linked	Variable Interest	Unlinked		
Financial Assets:						
Cash and Cash Equivalents	106	-	-	23	-	129
Short-term Deposit	8	-	-	-	-	8
Trade Receivables	30	-	-	838	93	961
Related Parties	-	11	-	-	-	11
Other Receivables	89	-	-	-	-	89
Long-term Bank Deposit	163	-	-	-	-	163
Financial Liabilities:						
Short-term Loans from Banks	(222)	-	(22)	-	-	(244)
Trade Payables	(1,729)	-	-	(273)	-	(2,002)
Other Payables	(64)	-	-	-	-	(64)
Long-term Loans From Banks	(439)	-	(103)	-	-	(542)
PUT Option	-	-	-	(197)	-	(197)
	(2,058)	11	(125)	391	93	(1,688)

	December 31 2010				
	NIS		U.S. Dollar	Euro	Total
	Unlinked	Linked	Unlinked		
Financial Assets:					
Cash and Cash Equivalents	2	-	10	14	26
Short-term Deposit	10	-	-	-	10
Trade Receivables	29	-	1,058	75	1,162
Related Parties	-	92	-	-	92
Other Receivables	20	-	-	-	20
Long-term Bank Deposit	169	-	-	-	169
Financial Liabilities:					
Short term bank credit	(270)	-	-	-	(270)
Short-term Loans from Banks	(119)	-	-	-	(119)
Trade Payables	(1,337)	-	(246)	-	(1,583)
Other Payables	(70)	-	-	-	(70)
Long-term Loans from Banks	(522)	-	-	-	(522)
	(2,088)	92	822	89	(1,085)

c. **Sensitivity tests in regard to changes in market conditions:**

The U.S. $ strengthening (weakening) against the New Israel Shekel (NIS) and an increase in the Consumer Price Index for the year ended December 31, 2012, 2011 and 2010 would increase (decrease) the equity and comprehensive income in amounts detailed.

The following analysis is based on changes in the exchange rate, in the Consumer Price Index and in the Prime (Variable) Interest that, in the opinion of Group management, are reasonable as of the end of the reported period. This analysis was performed assuming that all other variables, mainly interest rates, would remain fixed.

U.S. Dollars in thousands

NOTE 19 - FINANCIAL INSTRUMENTS AND MANAGEMENT OF FINANCIAL RISKS (cont.)

Analysis of Sensitivity to Changes in the Exchange Rate of the U.S. Dollar Against the NIS:

For the Year Ended December 31	5% Increase in Exchange Rate	5% Decrease in Exchange Rate
2012	158	(158)
2011	109	(109)
2010	100	(100)

Analysis of Sensitivity to Changes in the Exchange Rate of the U.S. Dollar Against the Euro:

For the Year Ended December 31	5% Increase in Exchange Rate	5% Decrease in Exchange Rate
2012	21	(21)
2011	5	(5)
2010	4	(4)

Analysis of Sensitivity to Changes in the Consumer Price Index (CPI) :

For the Year Ended December 31	5% Increase in CPI	5% Decrease in CPI
2012	-	-
2011	1	(1)
2010	5	(5)

Analysis of Sensitivity to Changes in the Prime (Variable) Interest :

For the Year Ended December 31	25% Increase in Prime (Variable) Interest	25% Decrease in Prime (Variable) Interest
2012	(4)	4
2011	(2)	2
2010	-	-

d. Fair value

Balance of financial obligations to shareholders and to the noncontrolling interest (see Notes 11B and 11C) is presented according to fair value, taking into account the benefit component given to shareholders.

U.S. Dollars in thousands

NOTE 20 - CUSTOMERS AND GEOGRAPHIC INFORMATION

a. Major customers' data as a percentage of total sales to unaffiliated customers:

	Year ended December 31		
	2012	**2011**	**2010**
Customer B	15%	0.6%	0.0%
Customer A	12%	16.2%	6.7%

b. Breakdown of Combined Sales to unaffiliated Customers according to Geographic Regions:

	Year ended December 31		
	2012	**2011**	**2010**
Latin America	46%	49%	45%
Europe	18%	20%	9%
Africa	10%	12%	30%
Asia	20%	13%	7%
Middle East	6%	6%	9%
Total	100%	100%	100%

c. As of December 31 2012: $1,409 thousand of the combined depreciated assets are located in Israel and $ 436 thousand in Panama.

As of December 31 2011: $1,147 thousand of the combined depreciated assets are located in Israel and $ 282 thousand in Panama.

As of December 31 2010: $564 thousand of the combined depreciated assets are located in Israel and $ 139 thousand in Panama.

NOTE 21 - SEGMENTATION REPORTING

The Group has three main reportable segments, as detailed below:
Reported operating segments include: sets, accessory, web and other.
For each of the strategic divisions, the Group's CEO reviews internal management reports on at least a quarterly basis.
There are no inter-segment sales. Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before financial expenses and tax is included in the internal management reports that are reviewed by the Group's CEO. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments.

U.S. Dollars in thousands

NOTE 21 - SEGMENTATION REPORTING (cont.)

Segment information regarding the reported segments:

	Sets	Web	Accessory	Other	Total
Year Ended 31.12.2012:					
Segment revenues	5,961	1,647	185	300	8,093
Cost of sales	(3,521)	(47)	(77)	(229)	(3,874)
Gross profit	2,440	1,600	108	71	4,219
Selling and marketing expenses	(299)	-	-	-	(299)
Development expenses	(78)	(20)	-	-	(98)
Operating profit before general and administrative expenses	2,063	1,580	108	71	3,822
Unattributed general and administrative expenses					(1,786)
					2,036
Year Ended 31.12.2011:					
Segment revenues	3,719	1,582	205	69	5,575
Cost of sales	(2,554)	(29)	(125)	-	(2,708)
Gross profit	1,165	1,553	80	69	2,867
Operating expenses					(1,945)
Operating profit					922
Year Ended 31.12.2010:					
Segment revenues	3,846	1,117	172	192	5,327
Cost of sales	(2,830)	(35)	(82)	-	(2,947)
Gross profit	1,016	1,082	90	192	2,380
Operating expenses					(1,603)
Operating loss					777

NOTE 22 - SIGNIFICANT EVENTS AFTER THE REPORTED YEAR

a. On March 4, 2013 the Company offered shares on London's Alternative Investment Market ("AIM") in an Initial Public Offering ("IPO") and raised £2.72 ($4.09) million prior to expenses, reflecting a company value of £14.2 ($27.53) million.

   The Company offered 13.6 million shares at £ 0.2 per share.

   In the framework of the IPO, the Company signed agreements with an advisor, brokers and others, including granting of options.

b. During February 2013 Starcom Systems S.A. agreed to transfer to the Company 800 shares in Starcom G.P.S. Systems Limited for a consideration of $1 and certain business and assets of Starcom S.A. upon Admission. The Company agrees to discharge the obligations of Starcom Systems S.A.

c. See also Note 11C2.