STARCOM Plc

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

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INDEX

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

U.S. Dollars in thousands

	Note	June 30 2014 Unaudited	June 30 2013 Unaudited	December 31 2013 Audited
ASSETS				
NON-CURRENT ASSETS:				
Property, plant and equipment, net		413	296	270
Intangible assets	4	2,193	1,721	2,003
Repurchase option		-	89	-
Long-term bank deposit		-	99	-
Income Tax Authorities		-	42	-
Total Non-Current Assets		2,606	2,247	2,273
CURRENT ASSETS:				
Inventories		2,636	1,946	2,797
Trade receivables		3,242	4,798	3,088
Other receivables		417	384	403
Income Tax Authorities		50	-	50
Short-term deposit		110	10	136
Cash and cash equivalents		107	25	49
Total Current Assets		6,562	7,163	6,523
TOTAL ASSETS		9,168	9,410	8,796
LIABILITIES AND EQUITY				
EQUITY				
Equity attributable to owners of the company		6,204	5,635	4,003
Total Equity		6,204	5,635	4,376
NON-CURRENT LIABILITIES:				
Long-term loans from banks		930	424	533
Deferred tax liability		-	128	-
Total Non-current Liabilities		930	552	533
CURRENT LIABILITIES:				
Short-term bank credit		129	82	111
Short-term loans and current maturities from banks		271	330	354
Trade payables		1,211	2,433	3,387
Shareholders	6	182	171	159
Other payables		241	207	249
Total Current Liabilities		2,034	3,223	4,055
TOTAL LIABILITIES AND EQUITY		9,168	9,410	8,796

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

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Date of Approval of the Financial Statements   Director

STARCOM Plc

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

U.S. Dollars in thousands

	Note	Six Months Ended June 30 2014 Unaudited	Six Months Ended June 30 2013 Unaudited	Year Ended December 31 2013 Audited
Revenues		2,627	3,498	5,844
Cost of sales		(1,360)	(1,513)	(3,501)
Gross profit		1,267	1,985	2,343
Operating expenses:				
Research and development, net		(108)	(70)	(152)
Selling and marketing		(396)	(268)	(758)
General and administrative		(1,678)	(1,038)	(2,325)
		(2,182)	(1,376)	(3,258)
Operating profit (loss)		(915)	609	(892)
Finance income		-	1	2
Finance expenses	7	(70)	(699)	(1,014)
Net finance costs		(70)	(698)	(1,012)
Profit (loss) before deferred income tax		(985)	(89)	(1,904)
Deferred income tax expense		-	-	116
Total comprehensive income (loss) for the period		(985)	(89)	(1,788)
Attributable to:				
Owners of the company		(985)	(86)	(1,785)
Non-controlling interest		-	(3)	(3)
Comprehensive income (loss)		(985)	(89)	(1,788)
Earnings per share:				
Basic and diluted earnings (loss) per share (in dollars)	5	(0.01)	(0.00)	0.01

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

STARCOM Plc

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

U.S. Dollars in thousands

	Share Capital *	Premium on Shares	Capital Reserve	Capital Reserve for Share-based payment	Accumulated Earnings	Total	Non-Controlling interest	Total
(Unaudited)								
Balance- January 1, 2014	-	3,121	89	309	484	4,003	-	4,003
Proceeds from issued share capital, net of mobilization costs – see Note 3a	-	3,119	-	-	-	3,119	-	3,119
Share based payment –see Note 3b	-	-	-	67	-	67	-	67
Comprehensive loss for the period	-	-	-	-	(985)	(985)	-	(985)
Balance- June 30, 2014	-	6,240	89	376	(501)	6,204	-	6,204
(Unaudited)								
Balance- January 1, 2013	-	28	447	-	2,269	2,744	(6)	2,738
Proceeds from issued share capital, net of mobilization costs – see Note 3a	-	2,939	-	-	-	2,939	-	2,939
Exchange of Keren Hagshama shares –see Note 3c	-	349	(358)	-	-	(9)	9	-
Share based payment –see note 3b	-	(195)	-	242	-	47	-	47
Comprehensive loss for the period	-	-	-	-	(86)	(86)	(3)	(89)
Balance- June 30, 2013	-	3,121	89	242	2,183	5,635	-	5,635
(Audited)								
Balance- January 1, 2013	-	28	447	-	2,269	2,744	(6)	2,738
Proceeds from issued share capital, net of mobilization costs – see Note 3a	-	2,939	-	-	-	2,939	-	2,939
Exchange of Keren Hagshama shares –see Note 3c	-	349	(358)	-	-	(9)	9	-
Share based payment –see Note 3b	-	(195)	-	309	-	114	-	114
Comprehensive income for the year	-	-	-	-	(1,785)	(1,785)	(3)	(1,788)
Balance- December 31, 2013	-	3,121	89	309	484	4,003	-	4,003

* An amount less than one thousand.

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

STARCOM Plc
CONSOLIDATED STATEMENTS OF CASH FLOWS
U.S. Dollars in thousands

	Six Months Ended June 30		Year Ended December 31
	2014	**2013**	**2013**
CASH FLOWS FROM OPERATING ACTIVITIES:	**Unaudited**	**Unaudited**	**Audited**
Comprehensive income (loss)	(985)	(89)	(1,788)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Depreciation and amortization	134	108	234
Interest expense (income) and linkage differences	(259)	237	289
Equity settled option-based payment expense	67	47	114
Deferred income tax expense	-	12	-
Expiration of repurchase option	-	-	89
Capital loss	20	-	3
Changes in assets and liabilities:			
Decrease (Increase) in inventories	161	(710)	(1,561)
Increase in trade receivables	(154)	(1,037)	794
Decrease (Increase) in other receivables	(15)	181	152
Increase in Income Tax Authorities	-	(8)	(116)
Increase in deferred issuance costs	-	(75)	(72)
Increase (Decrease) in trade payables	(1,934)	(507)	278
Increase in other payables	(7)	45	80
Net cash used in operating activities	(2,972)	(1,796)	(1,504)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment	(247)	(44)	(81)
Proceeds from sales of property, plant and equipment	46	-	23
Increase (Decrease) in short-term deposit	25	-	(69)
Decrease (Increase) in long-term deposits	-	(1)	47
Purchase of intangible assets	(286)	(236)	(607)
Net cash used in investing activities	(462)	(281)	(687)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from (repayment of) short-term bank credit, net	18	2	(97)
Short-term loans from banks	-	(27)	(27)
Long-term loans	737	-	262
Repayment from (proceeds to) shareholders	269	15	(3)
Repayment of long-term loans	(406)	(1,127)	(1,134)
Consideration from issue of shares	2,874	3,121	3,121
Net cash provided by financing activities	3,492	1,984	2,122
Decrease in cash and cash equivalents	58	(93)	(69)
Cash and cash equivalents at the beginning of the period	49	118	118
Cash and cash equivalents at the end of the period	107	25	49
Appendix A – Additional Information			
Interest received during the period	-	1	2
Interest paid during the period	(29)	(127)	(112)

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

NOTE 1 - GENERAL INFORMATION

a. **The Reporting Entity**

Starcom plc ("the Company") was incorporated in Jersey on November 28, 2012. During February 2013 the Company signed an asset purchase agreement with Starcom Systems S.A., a Panamanian company that 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 G.P.S systems.

In accordance with the agreement, Starcom Systems S.A. sold to the Company for a nominal consideration its business and assets, including its holdings in Starcom G.P.S. Systems Limited, an Israeli company that engages in the same field.

Subsequent to completion of the transaction, the Company transferred to an additional company in Jersey, Starcom Systems Limited, its entire activity, except for its holdings in Starcom G.P.S Limited, for a nominal consideration. Thus, the Company became a holding company, holding 100% of Starcom Systems Limited and approximately 97% of Starcom G.P.S Limited, where Company operations are conducted.

During 2013, the Company acquired the remaining 3% of Starcom G.P.S. Limited.

On February 27, 2013 the Company's shares were admitted to trading on London's Stock Exchange Alternative Investment Market ("AIM") following a successful Initial Public Offering ("IPO") raising £ 2.72 ($ 4.09) million before expenses, reflecting a Company valuation of £ 14.2 ($ 27.53) million.
On February 3, 2014 the Company raised £ 2 million before expenses. For additional detail in regard to the infusion of capital see Note 3.

b. **Definitions in these financial statements**

1. <u>The Company</u> – Starcom Plc
2. <u>Starcom Israel</u> – Starcom G.P.S. Systems Ltd.
3. <u>Starcom Jersey</u> – Starcom GPS Limited
4. <u>The Group</u> – Starcom Plc and its subsidiaries

NOTE 2 - BASIS OF PREPARATION AND CHANGE IN THE GROUP'S ACCOUNTING POLICIES

a. Basis of preparation

The interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles for the preparation of financial statements for interim periods, as prescribed in International Accounting Standard No. 34 ("Interim Financial Reporting").
The interim consolidated financial information should be read in conjunction with the annual financial statements as of 31 December, 2013 and for the year ended on that date and with the notes thereto,
The significant accounting policies applied in the annual financial statements of the Company as of December 31, 2013 are applied consistently in these interim consolidated financial statements, except adoption of new standards and interpretations effective as of 1 January 2014, as detailed in Note 2c below.

NOTE 2 - BASIS OF PREPARATION AND CHANGE IN THE GROUP'S ACCOUNTING POLICIES (cont.)

b. Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management of 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.

The judgment of management, when implementing the Group accounting policies and the basic assumptions utilized in the estimates that are bound up in uncertainties are consistent with those that were utilized to prepare the annual financial statements.

c. **Changes in the accounting policies**

The Group applies, for the first time, certain standards and amendments as detailed below. As required by IAS 34, the nature and the effect of these changes are disclosed below.

Amendments to IAS 32, "Financial Instruments: Presentation regarding Offsetting Financial Assets and Financial Liabilities":

The IASB issued amendments to IAS 32 ("the amendments to IAS 32") regarding the offsetting of financial assets and financial liabilities. The amendments to IAS 32 clarify, among others, the meaning of "currently has a legally enforceable right of set-off" ("the right of set-off"). Among others, the amendments to IAS 32 prescribe that the right of set-off must be legally enforceable not only during the ordinary course of business of the parties to the contract but also in the event of bankruptcy or insolvency of one of the parties. The amendments to IAS 32 also state that in order for the right of set-off to be currently available, it must not be contingent on a future event, there may not be periods during which the right is not available, or there may not be any events that will cause the right to expire.

The amendments to IAS 32 are to be applied retrospectively from the financial statements for annual periods beginning on January 1, 2014 or thereafter. Earlier application is permitted.

Implementation of the amendments to IAS 32 did not have a material impact on the financial statements.

Amendments to IAS 36, "Impairment of Assets":

In May 2013, the IASB issued amendments to IAS 36, "Impairment of Assets" ("the amendments") regarding the disclosure requirements of fair value less costs of disposal. The amendments include additional disclosure requirements of the recoverable amount and fair value. The additional disclosures include the fair value hierarchy, the valuation techniques and changes therein, the discount rates and the principal assumptions underlying the valuations.

The amendments are effective for annual periods beginning on January 1, 2014 or thereafter. Earlier application is permitted.

NOTE 2 - BASIS OF PREPARATION AND CHANGE IN THE GROUP'S ACCOUNTING POLICIES (cont.)

c. **Changes in the accounting policies (cont.)**

The appropriate disclosures will be included in the Company's financial statements upon the first-time adoption of the amendments.

IFRIC 21, "Levies":

In May 2013, the IASB issued IFRIC 21, "Levies" (IFRIC 21") regarding levies imposed by governments through legislation. According to IFRIC 21, the liability to pay a levy will only be recognized when the activity that triggers payment occurs.

IFRIC 21 is effective for annual periods beginning on January 1, 2014 or thereafter. Earlier application is permitted.

The Company is evaluating the possible impact of the adoption of IFRIC 21 but is presently unable to assess its effect, if any, on the financial statements.

IFRS 15 Revenues from Contracts with Clients

This Standard changes the existing guidelines in regard to recognition of revenues and presents a new module for revenue recognition from contracts with clients. The Standard determines that there are two approaches to revenue recognition: At one point or over a period of time. The module includes five stages for analysis of transactions in order to determine the timing of revenue recognition and its amount. Concurrently, the Standard determines new disclosure requirements that are broader than those currently in existence.

The Standard will be implemented for annual periods commencing with January 1, 2017, with the possibility of early adoption. The Standard includes various alternatives for the transfer period, so that companies may choose one of the following alternatives at the time of initial implementation: full retrospective implementation, full retrospective implementation including practical reliefs; or implementation of the Standard commencing with its initial implementation date, while amending the balance of surplus at that date in regard to transactions that are as yet not completed.

The Group has not as yet examined the implication of implementation of the Standard on the financial statements.

NOTE 2 - BASIS OF PREPARATION AND CHANGE IN THE GROUP'S ACCOUNTING POLICIES (cont.)

c. **New standards, interpretations and amendments adopted by the Group (cont.)**

IFRS 9 (2014) Financial Instruments
In accordance with the Standard, there are three main categories for measurement of financial instruments: depreciated cost, fair value through the statement of operations and fair value through other comprehensive income. The basis of classification for receivable instruments is based on the transaction module of the entity for management of financial instruments and the characteristics of the forecasted cash flows of the financial instrument. Investment in capital instruments will be measured by fair value through the statement of operations (unless the company chose, upon initial recognition, to present the changes in fair value in other comprehensive income).

The Standard will be implemented at annual periods commencing January 1, 2018, with the possibility of early adoption. The Standard may be implemented retroactively, except for some reliefs.

The Group has not as yet examined the implication of implementation of the Standard on the financial statements.

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 3 - SIGNIFICANT EVENTS DURING THE REPORTED PERIOD

a. **Issue of Shares and Mobilization of Capital**
On February 3, 2014, the Company issued 13,333,333 Ordinary Shares raising £ 2 million before expenses.

b. **Options issued**
During February 2014 the Company issued to Northland Capital Partners 492,533 Options for purchase of Company shares at the exercise price of £ 0.15 per share.

U.S. Dollars in thousands

NOTE 4 - INTANGIBLE ASSETS

a. Composition:

	Cost of Materials (including overhead costs)	Direct Labour	Total
Cost:			
Balance as of January 1 2014	1,502	819	2,321
Additions during the year	145	141	286
Balance as of June 30 2014	1,647	960	2,607
Accumulated Depreciation:			
Balance as of January 1 2014	224	94	318
Depreciation during the year	46	50	96
Balance as of June 30 2014	270	144	414
Net book value as of June 30 2014	1,377	816	2,193

	Cost of Materials (including overhead costs)	Direct Labour	Total
Cost:			
Balance as of January 1 2013	1,097	617	1,714
Additions during the year	122	114	236
Balance as of June 30 2013	1,219	731	1,950
Accumulated Depreciation:			
Balance as of January 1 2013	127	27	154
Depreciation during the year	27	48	75
Balance as of June 30 2013	154	75	229
Net book value as of June 30 2013	1,065	656	1,721

U.S. Dollars in thousands

NOTE 4 - INTANGIBLE ASSETS (cont.)

a. Composition (cont.):

	Cost of Materials (including overhead costs)	Direct Labour	Total
Cost:			
Balance as of January 1 2013	1,097	617	1,714
Additions during the year	405	202	607
Balance as of December 31 2013	1,502	819	2,321
Accumulated Depreciation:			
Balance as of January 1 2013	127	27	154
Depreciation during the year	97	67	164
Balance as of December 31 2012	224	94	318
Net book value as of December 31 2013	1,278	725	2,003

NOTE 5 - SHARE CAPITAL

a. Composition – as of June 30 2014 common stock of no par value, authorized 118,500,000 shares; issued and outstanding – 84,433,333.

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

c. See Note 3.

U.S. Dollars in thousands

NOTE 6 - RELATED PARTIES

a. Related parties that own the controlling shares in the Group are:
Mr. Avraham Hartman (22.6%), Mr. Uri Hartman (22.6%), Mr. Doron Kedem (22.6%).

b. Balances:

	June 30		December 31
	2014	**2013**	**2013**
Current balance	(182)	(171)	(159)

c. Transactions:

	Six Months Ended June 30		Year Ended December 31
	2014	**2013**	**2013**
Total salaries, services rendered and related expenses for shareholders	523	147	171

NOTE 7 - FINANCE INCOME (EXPENSES)

	Six Months Ended June 30		Year Ended December 31
	2014	**2013**	**2013**
Interest from bank	-	1	2
Interest to non-controlling interest	-	338	338
Interest to banks and others	29	32	56
Exchange rate differences	10	285	439
Bank charges	30	27	53
Interest to suppliers	1	17	39
Update of sale Options	-	-	89
	(70)	(699)	(1,014)
Net finance costs	(70)	(698)	(1,012)

NOTE 8 - FINANCIAL INSTRUMENTS

In the opinion of directors and management, the book value of financial assets and liabilities that are not measured at fair value closely resembles their fair value.

U.S. Dollars in thousands

NOTE 9 - SEGMENTATION REPORTING

Segment information regarding the reported segments:

	Sets	Web	Accessory	Other	Total
Period Ended 30.06.2014:					
Segment revenues	2,080	685	21	133	2,912
Cost of sales	(1,255)	(136)	(13)	(4)	(1,408)
Gross profit	825	549	8	129	1,511
Operating expenses					(2,182)
Operating profit					(671)
Period Ended 30.06.2013:					
Segment revenues	2,637	679	37	145	3,498
Cost of sales	(1,364)	(23)	(18)	(108)	(1,513)
Gross profit	1,273	656	19	37	1,985
Operating expenses					(1,376)
Operating profit					609
Year Ended 31.12.2013:					
Segment revenues	4,126	1,478	100	140	5,844
Cost of sales	(2,793)	(142)	(170)	(191)	(3,296)
Gross profit (loss)	1,333	1,336	(70)	(51)	2,548
Operating expenses	(864)	(46)	-	-	(910)
Operating profit					1,638