16 May 2013

Starcom Plc
("Starcom" or the "Company")

Preliminary combined results for the year ended 31 December 2012

Starcom Plc (AIM: STAR), which specialises in the development of wireless solutions for the remote tracking, monitoring and protection of various types of assets and people, announces its first results as an AIM quoted Company for the year ended 31 December 2012.

Highlights

- Revenue increased by 44.6% to $8.1 million (2011: $5.6 million)
- Profit before taxation increased by 100% to $1.6 million (2011: $0.8 million)
- Profit after taxation increased by 62.5% to $1.3 million (2011:$0.8 million)
- Successful launch of Watchlock and Triton products during 2012
- Watchlock awarded Physical Security Innovation Product of the Year in May 2012 at IFSEC Awards
- Successful IPO on AIM in February 2013

Commenting on the results, the chairman, Michael Rosenberg said: "These results demonstrate that Starcom is now on its way to becoming a leading provider of tracking and security related products on a global basis. The recent Admission to AIM resulted in new net funds of around $3.2m being raised which will enable the company to continue with its expansion plans and provide further growth in revenues and profits over the next few years. It is anticipated that in 2013 the majority of growth in revenues will take place in the second half of the year as the new products begin to penetrate the market."

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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 focussed 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 optimisation and driver behaviour 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.

Combined Statements of Financial Position for the year ended 31 December 2012

	Note	December 31 2012 $'000	2011 $'000	2010 $'000
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

Combined Statements of Comprehensive Income for the year ended 31 December 2012

	Note	Year Ended December 31 2012 $'000	2011 $'000	2010 $'000
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

Combined Statement of Changes in Equity for the year ended 31 December 2012

	Share Capital * $'000	Premium on Shares $'000	Receipts on Account of Shares $'000	Capital Reserve $'000	Accumulated Earnings $'000	Non-controlling Interest $'000	Total $'000
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.

Combined Statements of Cash Flows for the year ended 31 December 2012

	Year Ended December 31		
	2012 $'000	2011 $'000	2010 $'000
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	-	-
Update of sale 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)

Notes to the Combined Financial Statements for the year ended 31 December 2012

1. GENERAL INFORMATION

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.

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

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.

2. 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 the 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.

The combined financial statements of the Company have been prepared in accordance with International Financial Reporting Standards and related clarifications published by the International Accounting Standards Board.

3A. SHAREHOLDERS

Debit balances are linked to the Israeli Consumer Price Index ("CPI") and bear a fixed annual interest at the rate of 4%.

Loans from shareholders accrue annual 4% interest.

3B. OTHER RECEIVABLES

	December 31		
	2012	**2011**	**2010**
	$'000	**$'000**	**$'000**
Government institutions	137	89	20
Prepaid expenses	11	112	-

Advances to suppliers	417	-	-
	565	201	20

3C. TRADE RECEIVABLES

	December 31		
	2012	2011	2010
	$'000	$'000	$'000
Group receivables	3,937	993	1,167
Net of allowance for doubtful accounts	(176)	(32)	(5)
	3,761	961	1,162

4. INVENTORIES

	December 31		
	2012	2011	2010
	$'000	$'000	$'000
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.

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%.

6. PROPERTY, PLANT AND EQUIPMENT, NET

	Computers and Software $'000	Office Furniture and Equipment $'000	Laboratory Equipment $'000	Leasehold Improvements $'000	Vehicles $'000	Total $'000
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

	Computers and Software $'000	Office Furniture and Equipment $'000	Laboratory Equipment $'000	Leasehold Improvements $'000	Vehicles $'000	Total $'000

	Computers and Software $’000	Office Furniture and Equipment $’000	Laboratory Equipment $’000	Leasehold Improvements $’000	Vehicles $’000	Total $’000
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 $’000	Office Furniture and Equipment $’000	Laboratory Equipment $’000	Leasehold Improvements $’000	Vehicles $’000	Total $’000
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

7. INTANGIBLE ASSETS

a. Composition:

	Cost of Materials (including overhead costs) $’000	Direct Labour $’000	Total $’000
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) $'000	Direct Labour $'000	Total $'000
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 $'000	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	

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.

See also Note 2C g.

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.

On December 6 2011 an Amendment was enacted, based on the recommendations of the Trachtenberg Committee regarding tax issues. Accordingly, commencing with 2012 there will be an increase in corporate tax to 25%.

b. As of December 31 2012 the subsidiary had tax loss carry-forwards totaling $ 198 thousand. These tax loss carry-forwards may be offset against taxable income in the future. Based on projected earnings of the subsidiary in the forthcoming years, the subsidiary recorded deferred taxes in the amount of $ 116 thousand as of December 31, 2012 in regard to the entire amount of the carry-forward losses.

c. Detail of tax income (expense):

	Year Ended December 31		
	2012 $'000	**2011 $'000**	**2010 $'000**
Deferred taxes	(315)	-	199

Taxes for prior years	-	-	-
Current taxes	-	-	-
	(315)	-	199

d. Reconciliation of effective tax rate:

	2012 $'000	2011 $'000	2010 $'000
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	(5)	80	45
Change in the tax rate	8	(8)	-
Deferred taxes for prior years	(224)	-	144
Tax exempt revenues (from Panama)	319	117	130
Total tax income (expense)	(315)	-	199

9. SHORT-TERM LOAN FROM BANKS

	December 31		
	2012 $'000	2011 $'000	2010 $'000
Short-term loan	27	40	-
Current maturities of long-term loans	261	204	119
	288	244	119

10. OTHER PAYABLES

	December 31		
	2012 $'000	2011 $'000	2010 $'000
Employees and payroll accruals	156	78	76
Accrued expenses	6	24	15
	162	102	91

11A. LONG-TERM LOANS FROM BANKS

1. Composition:

	December 31		
	2012 $'000	2011 $'000	2010 $'000
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 $'000
First year	261
Second year	298
Third year	174
Fourth year and after	99
	832

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

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.

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

1. During April 2012 the Group 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 Company has an option for early repayment as well as to lengthen the loan period in a year.

In consideration for the loan, the Company will issue an amount of shares contingent upon the duration of the loan period and whether the Company will offer shares in an Initial Public Offering (IPO), as detailed in the following excerpts from the agreement:

In the event that the Company becomes a publicly traded entity, then Keren Hagshama will receive 2% - 6% of the Company shares in accordance with the loan period.

In the event that the Company will remain a private entity, then Keren Hagshama will receive 3.3% - 10% of the shares of the subsidiary company 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 Company 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 Company 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 Company 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. Keen 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 Keen 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.

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 ($'000):

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 $97 thousand, respectively.
   Total of future minimum lease payments under non-cancellable operating leases for each of the following periods as of December 31, 2012 ($'000):

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 Mul-T-Lock Technologies Limited. (hereinafter: "Mul-T-Lock ") for development, production and marketing of a combined system that includes the operating system of Mul-T-Lock 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 Mul-T-Lock 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%).

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.

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 the Group:

Year Ended December 31		
2012	2011	2010
$'000	$'000	$'000
-	16	18

14. COST OF SALES

Year Ended December 31

	2012 $'000	2011 $'000	2010 $'000
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

15. GENERAL AND ADMINISTRATIVE EXPENSES

	Year Ended December 31		
	2012 $'000	2011 $'000	2010 $'000
a. Salaries and related expenses	665	730	708
Doubtful accounts	143	27	5
Depreciation	98	70	20
Other	880	698	593
	1,786	1,525	1,326
b. Cost of defined contribution plans	132	125	100

c. Average Number of Staff Members by Category:

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

16A. FINANCE INCOME

	Year Ended December 31		
	2012 $'000	2011 $'000	2010 $'000
Exchange rate differences	-	21	-
Interest from bank	2	5	-
	2	26	-

16B. FINANCE COSTS

	Year Ended December 31		
	2012 $'000	2011 $'000	2010 $'000
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)

17. EARNINGS PER SHARE

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

Year Ended December 31

	2012 $'000	2011 $'000	2010 $'000
Issued ordinary shares on January 1	999	999	999
Effect of receipts on account of shares	-	-	-
Total	999	999	999

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 $'000	2011 $'000	2010 $'000
	(156)	11	92

c. Transactions:

	Year Ended December 31		
	2012 $'000	2011 $'000	2010 $'000
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.

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.

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)
Related Parties	(156)	-	-	-	-	(156)
Long-term Loans From Banks	(240)	-	(331)	-	-	(571)
	(2,720)	-	(420)	2,435	412	(293)

	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.

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) :

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

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

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

d. Fair value

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

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.

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.

Amounts presented in relation to assets are measured consistent with the manner of measurement in the financial statements.

Segment information regarding the reported segments:

	Sets **$'000**	**Web** **$'000**	**Accessory** **$'000**	**Other** **$'000**	**Total** **$'000**
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

22. **SIGNIFICANT EVENTS AFTER THE REPORTED YEAR**

a. On 4 March 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.