2 April 2014

**Starcom PLC**
("Starcom" or the "Company")

**Final Results**
**For the Year Ended 31 December 2013**

Starcom (AIM: STAR), which specialises in the development of wireless solutions for the remote tracking, monitoring and protection of a variety of assets and people, is pleased to announce its final results for the year ended 31 December 2013.

**Highlights**

- 11 per cent. increase in sales to $9m (2012: $8m)
- Strong H2 performance with sales increased 57 per cent. to $5.5m (H1: $3.5m)
- Gross margin increased to 56 per cent. (2012: 52 per cent.)
- Net profit of $0.7m (2012: $1.3m) reflecting significant non-recurring costs of approximately $0.6m
- Launch of new improved product versions: Helios TT and Triton 2, during Q4
- Since year end, WatchLock now being actively marketed by Assa Abloy's brands across UK

**Michael Rosenberg, Chairman of Starcom, commented,** "We are pleased to report an increase in revenues for the year despite the problems in Ukraine which led to the decision to cancel a major order for Watchlock. The Company continues to develop its various products to meet market needs and anticipates further growth in revenues during 2014, although most will occur in the second half of the year."

-ends-


For further information please contact:

| **Starcom plc** | **Northland Capital (Nomad)** | **Northland Capital (Broking)** | **Leander (Financial PR)** |
|---|---|---|---|
| Michael Rosenberg<br>Avi Hartmann<br>Eitan Yanuv | Luke Cairns<br>Edward Hutton<br>Lauren Kettle | John Howes<br>Alice Lane | Christian Taylor-Wilkinson |
| Tel: 07785 727595<br>+972 543070103<br>+972 36199901 | Tel: 020 7382 1100 | Tel: 020 7382 1100 | Tel: 07795 168 157 |

# CHAIRMAN'S STATEMENT

## Overview

I am pleased to report further operational improvements and sales growth for Starcom, following a strong second half performance, with revenues of $5.5m. We ended 2013 with total sales for the year of $9m compared to $8m for the previous year. As referred to in more detail below, revenue would have been $1m higher but for the unfortunate events in the Ukraine which resulted in a long-standing customer being unable to honour his contract with us. This event also impacted our bottom line and, therefore, we report a lower profit after taxation of $0.7m compared with $1.3m for 2012. Further, our 2013 profits were also impacted by certain one off, non-recurring costs totalling $585,000 and exchange rate losses of $439,000. However, we were pleased to see gross margins increase to 56% compared with 52% in 2012, proving the success of our business model.

To ensure sufficient resources to successfully implement our strategy for the coming year, it was decided to raise further capital in the London market in February 2014. A total of £2m was raised by a placing of 13.3m shares at a price of 15p. The Board is confident that these additional resources will enable growth to continue as planned, including an increase in support staff to help facilitate the anticipated evolution of the business.

## Operational Review

The Company continued to promote its main products into the global markets and, during 2013, we released updated versions of two of our products, as we looked to stay ahead of our competitors. We have now begun improving the build and technical abilities of WatchLock and should release WatchLock 2 in 2015.

We are pleased to report that Starcom increased the number of companies with which it works and only lost one customer in the year, further details of which are provided in the Helios section below. We are determined to be very selective of who we use as distribution partners at this early stage in our development, as we are focused on building a strong and reliable partner pipeline, which will see us become a much more competitive company in the future.

Unit Sales for the year were as follows:

| Product | 2013 | 2012 | % Change |
|---|---:|---:|---:|
| Helios | 29,884 | 45,359 | (34)% |
| WatchLock | 16,637 | 5,879 | 183% |
| Triton | 1,278 | 57 | 2,142% |
| Kylos | 484 | 164 | 195% |

**Watchlock**

Unit sales of WatchLock were ahead of expectations with sales of over 16,000 units during the year (2012: 5,879). A higher proportion was sold by the Company directly to the end user, rather than through its joint venture partner, Mul-T-Lock and this naturally resulted in a higher revenue contribution to the Company. In its first full year of sales since the product's initial launch in 2012 the WatchLock has now become the largest contributor to the Company's revenues. Since the start of 2014 our partners in this project have reorganised their approach to the marketing of WatchLock and are now actively embracing the product across all their globally recognised brand names within their group. A major launch of the product was initiated in the UK in February 2014 and a similar launch will follow in the USA later in the year.

As was reported on 21 March 2014, a major purchase order for 4,000 units, which had been previously included in sales for the year, has been impacted by the events in Ukraine. The Company has worked with a local distributor in that country for many years but unfortunately the current political and economic turbulence has changed the relationships previously held by that distributor, in particular with government agencies which were purchasing the products. Accordingly the Company has decided to cancel the order and now has possession of all the units which will be sold in due course to other customers.

**Helios**
As already announced unit sales of Helios, the vehicle tracking system, were lower than expected and were mainly impacted by the decision taken by the Company to cease trading with one of its large South American distributors due to concerns about their financial viability. A total of approximately 30,000 units were sold during the year (2013: 45,000). In addition the Directors decided to maintain prices in the face of increased market competition, thus maintaining margin but with lower sales. The Company feels that this strategy is the correct course to take, especially following the release, at the end of 2013, of a new generation of Helios products. This lower cost and much smaller unit, called the Helios TT also addresses, for the first time, the motorcycle market. Although we are still at an early stage in promoting Helios TT, the initial reaction from the market has been positive.

**Triton**
We are pleased with the release for commercial testing of the Triton 2. This product, which provides a simple and effective way to track and monitor freight containers in transit, and which now has the ability to monitor temperature and humidity, is being field tested by a major pharmaceutical company. Although we are still in the early days of testing and it is unlikely that sales for 2014 will be of significance, we have been informed that it is being well received by the market and we are confident that Triton 2 will widen the market opportunities available to us by entering the food and pharmaceutical industries. In 2013 the Company sold 1,278 units of Triton 1.

**Kylos and Rainbow**
This device is designed to track merchandise or personal goods. The Directors believe it is the world's smallest tracking device that contains light, temperature, humidity and location detectors. Customers are currently testing the product for a variety of applications. Commercial sales are not expected to start until 2015.

Despite some promising sales leads for the Rainbow, sales for 2013 were slow and did not contribute materially to revenues. The directors have taken the decision to focus on their more established products for 2014 and will review the prospects for the Rainbow later in the year but in the meantime do not anticipate meaningful revenues from the product in the current financial year

**Starcom Online**
At 31 December 2013 there were 43,787 (2012: 50,000) registered subscribers to Starcom Online, the Company's web application for online fleet and asset management. Since a large number of sales of Helios and WatchLock took place towards the end of 2013, the impact on revenues from online customers will not be felt, in any meaningful way, until later in 2014.

**Financial Review**

We recorded a very strong second half with sales of over $5.5m compared to $3.5m for the first half of the year in line with the release of new products and new version of existing products as well as better traction with some of our distributors.

As indicated above, the gross margin for the year showed an increase over 2013, with final figure at 56% (2013: 52%).

Sales and marketing expenses increased following the recruitment of additional staff and ancillary costs. General and administrative costs also increased due to additional staff and expenses related to the Company becoming an AIM listed public company.

Our operating profit increased to $1.8m compared with $0.6m in the first half of the year, and compared to $2m for the full year 2012.

Our net profit for the year was $0.7m compared to a loss of $89,000 in the first half and a profit of $1.3m for the full year 2012. The main impact on the profits were finance costs of which the majority were one-time costs as follows: The final settlement with Keren Hagshama Ltd in respect of the early repayment of their loans caused a one off expense of $340,000 and a sum of $89,000 due to the expiration of the repurchase option. In addition, profits were impacted by the calculation of the value attributable to options granted at the time of the IPO. This amounted to approximately $45,000. Exchange losses of $439,000 were also recorded. Following a change in the employment terms of certain senior management and due to recent changes in the Israeli severance law, it was necessary to make a one-time provision for notional termination of $110,000. No payment was made to the employees and no change made in the remuneration they receive and the effect is to remove the need for annual provisions under Israeli law to be made in the future.

Year end trade receivables were $6.2m, mainly reflecting the increase in sales towards the end of the year.

## Outlook

The Directors expect further growth in 2014 due to the Company's enlarged range of products and stronger relations with its distribution and sales partners. They are also focused on replacing the lost sales revenue in the Ukraine, either through a new customer relationship or pending a hopeful return to stability in that country. As in 2013, they anticipate that the majority of our expected revenue growth in 2014 will fall into the second half of the year, due to the seasonal nature of our customers' purchasing activities.

## Annual Report and Notice of General Meeting

A copy of the audited annual report for the year ended 31 December 2013 will be available to shareholders from 10 April 2014 when a copy will be available for inspection on the Group's website at http://www.starcomsystems.com/

The Notice of General Meeting will be posted to shareholders on or before 10 April 2014 and the General Meeting will be held at 11am on 27 May 2014 at the office of K&L Gates, One New Change, London, EC4M 9AF.

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**U.S. Dollars in thousands**

| | Note | 31 December, 2013 | 2012 |
|---|---|---|---|
| **;SETS** | | | |
| **)N-CURRENT ASSETS:** | | | |
| ng-term bank deposit | | - | * 47 |
| operty, plant and equipment, net | 6 | 270 | 285 |
| angible assets | 7 | 2,003 | 1,560 |
| purchase option | 11c | - | 89 |
| **tal Non-Current Assets** | | 2,273 | 1,981 |
| **JRRENT ASSETS:** | | | |
| sh and cash equivalents | | 49 | 118 |
| ort-term deposit | 5 | 136 | * 58 |
| ade receivables | 3C | 6,196 | 3,761 |
| her accounts receivable | 3B | 403 | 565 |
| ventories | 4 | 2,146 | 1,236 |
| come Tax Authorities | | 50 | 34 |
| ferred issuance costs | | - | 107 |
| **tal Current Assets** | | 8,980 | 5,879 |
| **)TAL ASSETS** | | 11,253 | 7,860 |
| **)UITY AND LIABILITIES** | | | |
| **)UITY** | 13 | 6,491 | 2,738 |
| **)N-CURRENT LIABILITIES:** | | | |
| ng-term loans from banks, net of current maturities | 11A | 533 | 571 |
| ferred tax liability | 8b | 210 | 116 |
| ng-term loan from non-controlling interest | 11C | - | 303 |
| **tal Non-Current Liabilities** | | 743 | 990 |

| | | | |
|---|---|---|---|
| **CURRENT LIABILITIES:** | | | |
| Short term bank credit | | 111 | 80 |
| Short-term loans and current maturities of long-term loans from banks | 9 | 354 | 288 |
| Trade payables | | 3,146 | 2,940 |
| Other accounts payable | 10 | 249 | 162 |
| Short-term loan from non-controlling interest | 11c | - | 506 |
| Shareholders | 3A, 18 | 159 | 156 |
| **Total Current Liabilities** | | 4,019 | 4,132 |
| | | | |
| **TOTAL LIABILITIES AND EQUITY** | | 11,253 | 7,860 |

* Reclassified.

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**U.S. Dollars in thousands (except shares data)**

| | Note | Year Ended 31 December 2013 | 2012 |
|---|---|---|---|
| Revenues | | 9,016 | 8,093 |
| Cost of sales | 14 | (3,952) | (3,874) |
| Gross profit | | 5,064 | 4,219 |
| Operating expenses: | | | |
| Research and development | | (152) | (98) |
| Selling and marketing | | (758) | (299) |
| General and administrative | 15 | (2,348) | (1,786) |
| Operating profit | | 1,806 | 2,036 |
| Finance income | 16A | 2 | 2 |
| Finance costs | 16B | (1,014) | (385) |
| Net finance costs | | (1,012) | (383) |
| Profit before deferred income tax expense | | 794 | 1,653 |
| Deferred income tax expense | 8 | (94) | (315) |
| Total comprehensive income for the year | | 700 | 1,338 |
| **Attributable to :** | | | |
| Owners of the Company | | 703 | 1,345 |
| Non-controlling interest | | (3) | (7) |

| | | | |
|---|---|---|---|
| Comprehensive income | | 700 | 1,338 |
| **Earnings per share:** | | | |
| Basic and diluted earnings per share | 17 | 0.01 | 1,339 |

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

**U.S. Dollars in thousands**

| | Share Capital * | Premium on Shares | Receipts on Account of Shares | Capital Reserve | Capital Reserve in Regard to Share-Based Payment Transactions | Accumulated Earnings | Non-controlling Interest | Total |
|---|---|---|---|---|---|---|---|---|
| Balance as of 1 January 2011 | - | - | - | - | - | 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 31 December 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 31 December 2012 | - | 28 | - | 447 | - | 2,269 | (6) | 2,738 |
| Proceeds from issued share capital, net of mobilisation costs (see Note 13c) | - | 2,939 | - | - | - | - | - | 2,939 |
| Exchange of Keren Hagshama shares (see Note 13c) | - | 349 | - | (358) | - | - | 9 | - |
| Share based payment (see Note 13d) | - | (195) | - | - | 309 | | - | 114 |
| Comprehensive income for the year | - | - | - | - | - | 703 | (3) | 700 |
| Balance as of 31 December 2013 | - | 3,121 | - | 89 | 309 | 2,972 | - | 6,491 |

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**U.S. Dollars in thousands**

| | Year Ended 31 December, 2013 | 2012 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Net Profit for the year | 700 | 1,338 |
| **Adjustments to reconcile net profit to net cash provided by (used in) operating activities:** | | |
| Depreciation and amortization | 234 | 184 |
| Interest expense and exchange rate differences | 289 | 212 |
| Equity settled option- based payment expense | 114 | - |
| Expiration of repurchase option | 89 | - |
| Deferred income tax expense | 78 | 315 |
| Capital loss | 3 | - |
| Interest to shareholders | - | 2 |
| Interest expense in regard to options | - | 28 |
| **Changes in assets and liabilities:** | | |
| Increase in inventories | (910) | (324) |
| Increase in trade receivables | (2,442) | (2,800) |
| Decrease (Increase) in other accounts receivable | 152 | (364) |
| Increase in Income Tax Authorities | (12) | (8) |
| Increase in deferred issuance costs | (72) | (107) |
| Increase in trade payables | 193 | 938 |
| Increase in other accounts payable | 80 | 60 |
| Net cash used in operating activities | (1,504) | (526) |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Purchases of property, plant and equipment | (81) | (18) |
| Proceeds from sales of property, plant and equipment | 23 | - |
| Decrease in long-term bank deposits * | 47 | 119 |
| Increase in short-term deposits * | (69) | (50) |
| Purchase for intangible assets | (607) | (582) |
| Net cash used in investing activities | (687) | (531) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Proceeds from (Repayment of) short-term bank credit, net | (97) | 80 |
| Short-term loan from a bank, net | (27) | (13) |
| Repayment from (Proceeds to) shareholders | (3) | 165 |

| | | |
|---|---|---|
| Proceeds from receipt of long-term loans | 262 | 1,327 |
| Proceeds from (Repayment of) Put Options | - | (225) |
| Repayment of long-term loans | (1,134) | (288) |
| Consideration from issue of shares, net | 3,121 | - |
| Net cash provided by financing activities | 2,122 | 1,046 |
| Decrease in cash and cash equivalents | (69) | (11) |
| Cash and cash equivalents at the beginning of the year | 118 | 129 |
| Cash and cash equivalents at the end of the year | 49 | 118 |
| **Appendix A - Additional Information** | | |
| Interest received during the year | 2 | 2 |
| Interest paid during the year | (112) | (142) |

* Reclassified.

## NOTE 1 - GENERAL INFORMATION

a. **The Reporting Entity**

1. Starcom plc ("the Company") was incorporated in Jersey on 28 November, 2012. During February 2013 the Company signed an asset purchase agreement with Starcom Systems S.A., a Panamanian company that specialises 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 Ltd., an Israeli company that engages in the same field.

   Subsequent to the 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. Systems Ltd., 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. Systems Ltd., where Company operations are conducted.

During the reported period, the Company acquired the remaining 3% of Starcom G.P.S. Systems Ltd.

Since all the assets, liabilities and operations have been transferred from Starcom Systems S.A. to the Company, it is appropriate in these Audited Consolidated Financial Statements to present the Company's operations as if the abovementioned transaction always existed, while adjusting the capital structure to the Company capital structure.

On 19 February, 2013, the Company issued 18,783,333 Ordinary Shares to each of the controlling interest pro-rata to their holdings in the Company.
On 27 February, 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 ($21.53) million.
The Company issued 13.6 million new shares at £0.2 per share to new investors.
The Company issued upon admission an additional 1,150,000 Ordinary Shares to a lender to the Company - "Keren Hagshama Ltd" (hereinafter: Keren Hagshama).

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 subsidiaries - Starcom GPS Systems Ltd. And Starcom G.P.S. Systems Ltd.

4. Starcom Jersey - Starcom G.P.S. Systems Ltd.

5. Starcom Israel - Starcom G.P.S. Systems Ltd.

6. The Group - Starcom Plc. and the Subsidiaries.

## 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 Israel) 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 consolidate the relevant data of Starcom Systems S.A. and the subsidiary for the year ending 31 December, 2012.

The relevant data has been consolidated 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 consolidated 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").

The consolidated 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.

## NOTE 3A - SHAREHOLDERS

Credit balances are linked to the New Israel Shekel ("NIS") and the Israeli Consumer Price Index ("CPI").

**NOTE 3B - OTHER ACCOUNTS RECEIVABLE**

| | 31 December | |
|---|---|---|
| | 2013 | 2012 |
| Advances to suppliers | 321 | 417 |
| Government institutions | 82 | 137 |
| Prepaid expenses | - | 11 |
| | 403 | 565 |

**NOTE 3C - TRADE RECEIVABLES**

| | 31 December | |
|---|---|---|
| | 2013 | 2012 |
| Group receivables | 6,404 | 3,937 |
| Net of allowance for doubtful accounts | (208) | (176) |
| | 6,196 | 3,761 |

**NOTE 4 - INVENTORIES**

| | 31 December | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| Raw materials | 1,669 | 1,002 | 770 |
| Work-in-progress | 187 | 137 | 95 |
| Finished goods | 290 | 97 | 47 |
| | 2,146 | 1,236 | 912 |

Inventory write-downs for the years ended 31 December, 2013 and 2012 were $20 and $44 thousand, respectively, and have been included in cost of sales.

**NOTE 5 - SHORT-TERM BANK DEPOSIT**

The deposit sums of $93 and $48 for the years ended 31 December1, 2013 and 2012, respectively, serve as a security deposit for repayment of a long-term bank loan. In accordance with terms of the loan, the deposit constitutes approximately 15% of the loan balance. The deposit bears yearly interest at the rate of 1%.

**NOTE 6 - PROPERTY, PLANT AND EQUIPMENT, NET**

| | Computers and Software | Office Furniture and Equipment | Laboratory Equipment | Leasehold Improvements | Vehicles | Total |
|---|---|---|---|---|---|---|
| **Cost:** | | | | | | |
| Balance as of 1 January 2013 | 88 | 95 | 66 | 39 | 175 | 463 |
| Additions during the year | 29 | 11 | - | 41 | - | 81 |
| Decrease | - | - | - | - | (45) | (45) |
| Balance as of 31 December 2013 | 117 | 106 | 66 | 80 | 130 | 499 |
| **Accumulated Depreciation:** | | | | | | |
| Balance as of 1 January 2013 | 61 | 29 | 21 | 16 | 51 | 178 |
| Depreciation during the year | 21 | 9 | 10 | 5 | 25 | 70 |
| Decrease | - | - | - | - | (19) | (19) |
| Balance as of 31 December 2013 | 82 | 38 | 31 | 21 | 57 | 229 |
| Net book value as of 13 December 2013 | 35 | 68 | 35 | 59 | 73 | 270 |

**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 1 January 2012 | 74 | 91 | 66 | 39 | 175 | 445 |
| Additions during the year | 14 | 4 | - | - | - | 18 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Balance as of 31 December 2012 | 88 | 95 | 66 | 39 | 175 | 463 |
| **Accumulated Depreciation:** | | | | | | |
| Balance as of 1 January 2012 | 41 | 22 | 12 | 13 | 25 | 113 |
| Depreciation during the year | 20 | 7 | 9 | 3 | 26 | 65 |
| Balance as of 31 December 2012 | 61 | 29 | 21 | 16 | 51 | 178 |
| Net book value as of 31 December 2012 | 27 | 66 | 45 | 23 | 124 | 285 |

**NOTE 7 - INTANGIBLE ASSETS**

a. Composition:

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

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

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

| Instrument | Cost | Remaining Useful Life (in years) |
|---|---|---|
| Set 1 | 566 | 7.75 |
| Set 2 | 340 | 7.75 |
| Set 3 | 534 | 8.50 |
| Set 4 | 273 | 8.50 |
| Set 5 | 132 | 9.50 |
| Set 6 | 71 | 10.00 |
| Set 7 | 95 | 10.00 |
| Set 8 | 237 | 10.00 |
| Set 9 | 72 | 10.00 |
| Total | 2,320 | |

**NOTE 7 - INTANGIBLE ASSETS (cont.)**

The expenditure capitalised includes the cost of materials and direct labour that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in profit or loss as incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation 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 Starcom Israel is subject to tax at the rate of 25% for the years 2013 and 2012, respectively.

On 5 August, 2013, the "Knesset" (the Israeli parliament) issued the Law for Changing National Priorities (Legislative Amendments for Achieving Budget Targets for 2013 and 2014), 2013 ("the Budget Law"), which consists, among others, of fiscal changes whose main aim is to enhance the collection of taxes in those years. These changes include, among others, increasing the corporate tax rate from 25% to 26.5%.

b. Detail of tax expense:

| | **Year Ended 31 December ,** | |
|---|---|---|
| | **2013** | **2012** |
| Deferred taxes | (210) | (116) |

c. Reconciliation of effective tax rate:

| | **2013** | **2012** |
|---|---|---|
| Profit before taxes | 793 | 1,653 |
| Group's domestic tax rate | 25% | 25% |
| Tax according to statutory rate | (198) | (413) |
| Increase (decrease) in income taxes derives from: | | |
| Fixed provisions and others | (118) | (359) |
| Change in the tax rate | (7) | 8 |
| Deferred taxes for prior years | - | 130 |
| Tax exempt revenues | 229 | 319 |

| | | |
|---|---|---|
| Total tax expense | (94) | (315) |

## NOTE 9 - SHORT-TERM AND CURRENT MATURITIES OF LONG-TERM LOANS FROM BANKS

| | 31 December | |
|---|---|---|
| | 2013 | 2012 |
| Short-term loan | - | 27 |
| Current maturities of long-term loans | 354 | 261 |
| | 354 | 288 |

## NOTE 10 - OTHER ACCOUNTS PAYABLE

| | 31 December | |
|---|---|---|
| | 2013 | 2012 |
| Employees and payroll accruals | 226 | 156 |
| Accrued expenses | 23 | 6 |
| | 249 | 162 |

## NOTE 11A - LONG-TERM LOANS FROM BANKS

1. Composition:

| | 31 December | |
|---|---|---|
| | 2013 | 2012 |
| Long-term liability | 887 | 832 |
| Less: current maturities | (354) | (261) |
| | 533 | 571 |

2. Aggregate maturities of long-term loans for years subsequent to 31 December, 2013 are as follows:

| | Amount |
|---|---|
| First year | 354 |
| Second year | 251 |
| Third year | 128 |
| Fourth year and after | 154 |
| | 887 |

## NOTE 11A - LONG-TERM LOANS FROM BANKS (cont.)

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. | 18 December, 2011 | 400 ($ 107) | 8.8% | 36 equal monthly installments including principal and interest | Monthly commencing 17 January 2012 |
| 2. | 1 March, 2011 | 216 ($ 62) | Prime + 0.5% | One inclusive repayment on February 1, 2014 | Monthly commencing 1 March, 2011 |
| 3. | 19 January, 2011 | 192 ($ 55) | Prime + 0.5% | 36 equal monthly installments including principal and interest | Monthly commencing 1 March 2011 |
| 4. | 13 December, 2010 | 2,000 ($ 554) | 7% | 54 equal monthly installments that commenced on July 13, 2011, including principal and interest | Monthly commencing 13 January 2011 |
| 5. | 8 August, 2012 | 1,200 ($ 300) | Prime + 0.9% | 60 equal monthly installments including principal and interest | Monthly commencing 9 September 2012 |
| 6. | 20 September, 2013 | 950 ($ 270) | Prime + 0.9% | 60 equal monthly installments including principal and interest | Monthly commencing 20 October 2013 |

## NOTE 11B - PUT OPTION

1. Starcom S.A. signed a PUT option agreement on 30 December 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 recognised initially at fair value. Subsequent to initial recognition, this financial liability was measured at amortised 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**

During April 2012, Starcom Israel received a loan through Keren Hagshama in the amount of $1 million 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 Starcom Israel received $50 thousand through Keren Hagshama as an investment in the share capital of Starcom Israel.

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 transfer 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 agreement.

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 realisation 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 realisation price will be higher, as detailed in the agreement.

As of the loan grant date, the Company transferred 3.3% of Starcom Israel share capital to Keren Hagshama.

The Company paid $50 thousand as fees for mobilisation of a loan through Keren Hagshama.

The loan was evaluated and divided to different components by independent appraisers as follows (in thousands):
Repurchase option -$89

Liability (short and long term)-$670
Capital reserve-$469.

The mobilisation 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 fifty percent likelihood according to the original terms.
Effective annual interest rate was determined as 42.46%.

On 27 February, 2013 Starcom Israel and the Company agreed with Keren Hagshama pursuant to the Hagshama agreement that upon admission the Company will issue 1,150,000 Ordinary Shares, that represent 2% of the Company shares before the IPO, to Keren Hagshama and repay $1,150 thousand which is composed of $ 1,000 loan principal, interest in the amount of $100 thousand and expenses in regard to clearing of the loan in the amount of $50 thousand. Keren Hagshama will transfer its respective shares in Starcom Israel to the Company, following which no further rights or obligations exist under the Hagshama Loan Agreement save as set out below.
As a result of the early repayment, the Company recorded financial expenses in the amount of approximately $340 thousand.

The Ordinary Shares are subject to limitations on sale for a period of six months from admission in which the Company is entitled (but not obliged) to acquire Keren Hagshama Ordinary Shares.
This option expired on 26 August, 2013 and the Company did not acquire Keren Hagshama Ordinary Shares.

**NOTE 12 - COMMITMENTS AND CHARGES**

a. Operating lease commitments:

1. Starcom Israel 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 31 December, 2013 and 2012 were in the amounts of $145 thousand and $133 thousand, respectively.
Total of future minimum lease payments under non-cancellable operating leases for each of the following periods as of 31 December, 2013:

| | |
|---|---|
| Not later than one year | 159 |
| Later than one year and not later than five years | 180 |
| | 339 |

2. Starcom Israel signed operating leases for rental of vehicles for a period of 36 months. Rent expenses for the vehicles for the years ended 31 December, 2013 and 2012 were in the amounts of $77 thousand and $88 thousand, respectively.
Total of future minimum lease payments under non-cancellable operating leases for each of the following periods as of 31 December, 2013:

| | |
|---|---|
| Not later than one year | 35 |
| Later than one year and not later than four years | 31 |
| | 66 |

b. Other commitments:

During December 2009 Starcom Israel signed a cooperative agreement with Mul-T-Lock Ltd. (hereinafter: "Mul-T-Lock") for development, production and marketing of a consolidated system that includes the operating system of Mul-T-Lock contained in the follow-up system of the Group.

In order to produce the consolidated 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 consolidated 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 capitalised 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, each company pays $20 for each device sold by the other company. Starcom and Mul-T-Lock are currently renegotiating the terms of the mutual payments.
Provisions were recorded according to the anticipated outcome of these negotiations.

c. A lawsuit was filed against the subsidiary in Israel regarding breach of an agreed comprise settled in 2012 for a material amount. The Company filed a counterclaim. According to legal advisors to the Company, chances of the suit to be accepted are slim whilst chances for counter claim are reasonable. The Company did not provide for the abovementioned claim.

d. Charges:

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

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

3. A first class charge in favor of a bank was placed on all subsidiary bank account.

**NOTE 13 - SHARE CAPITAL**

a. Composition - common stock of no par value, authorised - 118,500,000 shares; issued and outstanding - 71,100,000 shares as of 31 December 2013.

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

c. **Issue of Shares and Mobilisation of Capital**

On 19 February, 2013, the Company issued 18,783,333 Ordinary Shares to each of the controlling interest pro-rata to their holdings in the Company.

On 27 February, 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.

The Company issued 13.6 million new shares at £0.2 per share to new investors.

In the framework of the IPO, the Company signed agreements with an advisor, brokers and others, including granting of Options (see below).

The Company issued upon admission an additional 1,150,000 Ordinary Shares to Keren Hagshama (see also Note 11c).

d. **Options issued**

1. During February 2013, the Company issued to its directors 1,422,000 Options for purchase of 1,422,000 of Company shares at the exercise price of £0.2 per share. The Options will be vested in three equal parts during three intervals commencing February 2013 and will expire at the end of ten years. Total expenses recorded in regard to these Options in the statement of comprehensive income for the reported period amounted to $114 thousand.

2. During February 2013, the Company issued to professional consultants and brokers 1,610,500 Options at the exercise price of £0.2 per share. The Options are fully vested. Approximately one million Options will expire in February 2018 and approximately 600 thousand will expire in February 2014. Fair value of the Options that was recorded as an offset against receipts from issuance is in the amount of $195 thousand.

**NOTE 14 - COST OF SALES**

| | Year Ended 31 December, | |
|---|---|---|
| | **2013** | **2012** |
| Purchases | 4,698 | 4,065 |
| Amortisation | 164 | 86 |
| Outsourcing | - | 47 |
| Increase in inventory | (910) | (324) |
| | 3,952 | 3,874 |

**NOTE 15 - GENERAL AND ADMINISTRATIVE EXPENSES**

**Year Ended 31 December,**

| | 2013 | 2012 |
|---|---|---|
| a. Salaries and related expenses | 1,025 | 734 |
| Professional services(1) | 556 | 217 |
| Office rent and maintenance | 393 | 320 |
| Depreciation | 70 | 98 |
| Doubtful accounts | 32 | 144 |
| Other | 272 | 273 |
| | 2,348 | 1,786 |

(1) Including share based payment in the amount of $114 and $0 thousand for the year ended 31 December, 2013 and 2012, respectively.

| | | |
|---|---|---|
| b. Cost of defined contribution plans | 147 | 132 |

c. Average Number of Staff Members by Category:

| | | |
|---|---|---|
| Sales and marketing | 5 | 2 |
| Research and development | 3 | 4 |
| General and administrative | 11 | 12 |
| | 19 | 18 |

**NOTE 16A - FINANCE INCOME**

| | Year Ended 31 December, | |
|---|---|---|
| | 2013 | 2012 |
| Interest from bank | 2 | 2 |

**NOTE 16B - FINANCE COSTS**

| | Year Ended 31 December, | |
|---|---|---|
| | 2013 | 2012 |
| Exchange rate differences | 439 | 45 |
| Interest to non-controlling interest | 338 | 168 |
| Expiration of repurchase option | 89 | - |
| Interest to banks and others | 56 | 87 |

| | | |
|---|---|---|
| Bank charges | 53 | 44 |
| Interest to suppliers | 39 | 39 |
| Interest to shareholder | - | 2 |
| | (1,014) | (385) |
| Net finance costs | (1,012) | (383) |

## NOTE 17 - EARNINGS PER SHARE

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

| | Year Ended 31 December, | |
|---|---|---|
| | 2013 | 2012 |
| Number of shares | 71,100,000 | 999 |

## NOTE 18 - RELATED PARTIES

a. The related parties that own the controlling shares in the Group are:
Mr. Avraham Hartman (26.4%), Mr. Uri Hartman (26.4%), Mr. Doron Kedem (26.4%).

b. Balances: *

| | 31 December | |
|---|---|---|
| | 2013 | 2012 |
| | (151) | (156) |

* See also Note 3A.

c. Transactions:

| | Year Ended 31 December, | |
|---|---|---|
| | 2013 | 2012 |
| Key management compensation: | | |
| Short-term employee benefits | 95 | 179 |
| Post-employment benefits | 76 | 23 |
| Total salaries and related expenses for shareholders | 171 | 202 |

d. The Company entitled the related parties, mentioned in note 18a, to monthly management fees. These shareholders, however, waived their right to management fees for the period of October to December, 2013 in light of the market situation.

e. 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 minimise 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 the Group 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:

**31December, 2013**

| NIS | U.S. Dollar | Euro | Total |
|---|---|---|---|

| | NIS | | U.S. Dollar | Euro | Total |
|---|---|---|---|---|---|
| | Unlinked | Variable Interest | Unlinked | | |
| **Financial Assets:** | | | | | |
| Cash and Cash Equivalents | (2) | - | 50 | 1 | 49 |
| Short-term Deposit | 136 | - | - | - | 136 |
| Trade Receivables | 56 | - | 5,817 | 323 | 6,196 |
| Other Accounts Receivable | - | - | - | - | - |
| **Financial Liabilities:** | | | | | |
| Short-term Bank Credit | (111) | - | - | - | (111) |
| Trade Payables | (2,175) | - | (784) | (9) | (2,968) |
| Other Accounts Payable | (110) | - | - | - | (110) |
| Shareholders | (77) | - | - | - | (77) |
| Long-term Loans From Banks | (299) | (588) | - | - | (887) |
| | (2,582) | (588) | 5,083 | 315 | 2,228 |

**31December, 2012**

| | NIS | | U.S. Dollar | Euro | Total |
|---|---|---|---|---|---|
| | Unlinked | Variable Interest | Unlinked | | |
| **Financial Assets:** | | | | | |
| Cash and Cash Equivalents | 2 | - | 100 | 16 | 118 |
| Short-term Deposit | 58 | - | - | - | 58 |

| | | | | | |
|---|---|---|---|---|---|
| Trade Receivables | 69 | | 3,296 | 396 | 3,761 |
| Other Receivables | 554 | - | - | - | 554 |
| Repurchase Option | - | - | 89 | - | 89 |
| Long-term Bank Deposit | 47 | - | - | - | 47 |
| **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) |

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

| For the Year Ended 31 December | 5% Increase in Exchange Rate | 5% Decrease in Exchange Rate |
|---|---|---|
| 2013 | 176 | (176) |
| 2012 | 158 | (158) |

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

| For the Year Ended 31 December | 5% Increase in Exchange Rate | 5% Decrease in Exchange Rate |
|---|---|---|
| 2013 | 17 | (17) |

| | | |
|---|---|---|
| 2012 | 21 | (21) |

**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 31 December | | |
| 2013 | (29) | 29 |
| 2012 | (4) | 4 |

**d. Fair value**

The table below is a comparison between the carrying amount and fair value of the Company's financial instruments that are presented in the financial statements not at fair value (other than those whose amortised cost is a reasonable approximation of fair values):

| | Carrying amount | | Fair value | |
|---|---|---|---|---|
| | 31 December, | | 31 December, | |
| | 2013 | 2012 | 2013 | 2012 |
| **Financial liabilities:** | | | | |
| Interest-bearing loans | 886 | 832 | 852 | 827 |
| **Financial assets:** | | | | |
| Repurchase option | - | 89 | - | 89 |

**NOTE 20 - CUSTOMERS AND GEOGRAPHIC INFORMATION**

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

| | Year ended 31 December, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| Customer A | 14% | 15% | 0.6% |
| Customer B | 11% | 12% | 16.2% |
| Customer C | 11% | 0% | 0% |

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

| | Year ended 31 December, | | |
|---|---|---|---|
| | **2013** | **2012** | **2011** |
| Latin America | 15% | 46% | 49% |
| Europe | 37% | 18% | 20% |
| Africa | 30% | 10% | 12% |
| Asia | 10% | 20% | 13% |
| Middle East | 8% | 6% | 6% |
| Total | 100% | 100% | 100% |

**c.** As of 31 December 2013: $1,549 thousand of the consolidated depreciated assets are located in Israel and $724 thousand in Jersey.

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

## NOTE 21 - SEGMENTATION REPORTING

The Group has four 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.

Segment information regarding the reported segments:

| | **Sets** | **Web** | **Accessory** | **Other** | **Total** |
|---|---|---|---|---|---|
| **Year Ended 31.12.2013:** | | | | | |
| Segment revenues | 7,217 | 1,478 | 131 | 190 | 9,016 |
| Cost of sales | (3,407) | (184) | (170) | 191 | (3,952) |
| Gross profit (loss) | 3,810 | 1,294 | (39) | (1) | 5,064 |
| Research & Development expenses | (102) | (50) | - | - | (152) |

| | | | | | |
|---|---|---|---|---|---|
| Selling and marketing expenses | (759) | - | - | - | (759) |
| Operating profit (loss) before general and administrative expenses | 2,949 | 1,244 | (39) | (1) | 4,153 |
| Unattributed general and administrative expenses | | | | | (2,252) |
| | | | | | 1,901 |

**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 |
| Research & Development expenses | (78) | (20) | - | - | (98) |
| Selling and marketing expenses | (299) | - | - | - | (299) |
| Operating profit before general and administrative expenses | 2,063 | 1,580 | 108 | 71 | 3,822 |
| Unattributed general and administrative expenses | | | | | (1,786) |
| | | | | | 2,036 |