



**Barzily & Co.**

Certified Public Accountants  
בדולי ושות', רואי חשבון

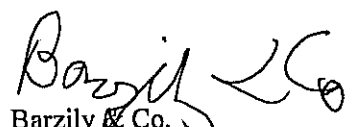
Jerusalem, March 10, 2016

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

We have audited the accompanying consolidated financial position of Starcom Plc (hereinafter - "the Group") as of December 31 2015 and 2014 and the related consolidated statements of comprehensive income, statement of changes in shareholders' equity and statements of cash flows for the two years then ended. These financial statements are the responsibility of the Starcom Plc's board of directors and management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group as of December 31 2015 and 2014 and the consolidated results of its operations, changes in shareholders' equity and cash flows for the two years then ended in conformity with international financial reporting standards (IFRS).

  
**Barzily & Co.**  
Certified Public Accountants.  
A Member of MSI Worldwide



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# **CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

U.S. Dollars in thousands

		December 31,	
	Note	2015	2014
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS:</b>			
Property, plant and equipment, net	6	359	395
Intangible assets	7	2,611	2,312
Income Tax Authorities		67	-
<b>Total Non-Current Assets</b>		<b>3,037</b>	<b>2,707</b>
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents		90	103
Short-term bank deposit	5	63	101
Trade receivables	3B	1,343	1,943
Other accounts receivable	3A	44	114
Inventories	4	2,202	3,382
Income Tax Authorities		-	56
<b>Total Current Assets</b>		<b>3,742</b>	<b>5,699</b>
<b>TOTAL ASSETS</b>		<b>6,779</b>	<b>8,406</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
	13	3,497	4,368
<b>NON-CURRENT LIABILITIES:</b>			
Long-term loans from banks, net of current maturities	11	570	698
Related parties	18	153	-
Notes payable		26	-
<b>Total Non-Current Liabilities</b>		<b>749</b>	<b>698</b>
<b>CURRENT LIABILITIES:</b>			
Short-term bank credit		270	309
Short-term loans and current maturities of long-term loans from banks	9	316	331
Convertible debentures	19	91	-
Trade payables		1,330	2,167
Other accounts payable	10	179	159
Related parties	18	347	374
<b>Total Current Liabilities</b>		<b>2,533</b>	<b>3,340</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>6,779</b>	<b>8,406</b>

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

10. March 2016

Date of Approval  
of the Financial Statements

Wai Sheng -  
CFO

Avi Hartmann -  
CEO

**STARCOM Plc**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
U.S. Dollars in thousands (except shares data)

	<u>Note</u>	<u>Year Ended December 31</u> <u>2015</u>	<u>2014</u>
Revenues		5,131	5,005
Cost of sales	14	<u>(3,065)</u>	<u>(2,499)</u>
Gross profit		2,066	2,506
Operating expenses:			
Research and development		(115)	(253)
Selling and marketing		(615)	(*) (901)
General and administrative expenses	15	(2,906)	(*) (4,037)
Other income (expenses)	15A	<u>10</u>	<u>(221)</u>
Total operating expenses		<u>(3,626)</u>	<u>(5,412)</u>
Operating loss		<u>(1,560)</u>	<u>(2,906)</u>
Finance income	16A	1	233
Finance costs	16B	<u>(200)</u>	<u>(145)</u>
Net finance income (costs)		<u>(199)</u>	<u>88</u>
Loss before taxes on income		(1,759)	(2,818)
Taxes on income (tax benefit)	8	<u>- . -</u>	<u>- . -</u>
Total comprehensive loss for the year		<u><u>(1,759)</u></u>	<u><u>(2,818)</u></u>
<b>Earnings (loss) per share:</b>			
Basic and diluted loss per share	17	<u><u>(0.02)</u></u>	<u><u>(0.03)</u></u>

(\*) Reclassified

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

STARCOM Plc  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

U.S. Dollars in thousands

	Share Capital	Premium on Shares	Capital Reserve	Capital Reserve in Regard to Share-Based Payment Transactions	Accumulated Earnings (Loss)	Total
Balance as of December 31 2013	-	3,121	89	309	484	4,003
Proceeds from issued share capital, net of mobilization costs (see Note 13c)	-	3,119	-	-	-	3,119
Share based payment (see Note 13d)	-	-	-	64	-	64
Comprehensive loss for the year	-	-	-	-	(2,818)	(2,818)
Balance as of December 31 2014	-	6,240	89	373	(2,334)	4,368
Proceeds from issued share capital, net of mobilization costs (see Note 1)	-	701	-	-	-	701
Conversion of convertible debentures (see Note 1 and Note 19d)	-	153	-	-	-	153
Share based payment (see Note 13d)	-	-	-	34	-	34
Comprehensive loss for the year	-	-	-	-	(1,759)	(1,759)
Balance as of December 31 2015	-	7,094	89	407	(4,093)	3,497

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

**STARCOM Plc**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

U.S. Dollars in thousands

	Year Ended December 31,	
	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Loss for the year	(1,759)	(2,818)
Adjustments to reconcile net profit to net cash used in operating activities:		
Depreciation and amortization	343	461
Interest expense and exchange rate differences	33	(146)
Equity settled option- based payment expense	34	64
Capital loss	3	19
Changes in assets and liabilities:		
Decrease (Increase) in inventories	1,180	(585)
Decrease in trade receivables	600	1,133
Decrease in other accounts receivable	70	289
Increase in Income Tax Authorities	(11)	-
Decrease in trade payables	(837)	(1,220)
Increase (Decrease) in other accounts payable	20	(75)
Net cash used in operating activities	(324)	(2,878)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property, plant and equipment	(88)	(267)
Proceeds from sales of property, plant and equipment	46	53
Decrease in short-term deposits	38	45
Cost of intangible assets	(567)	(700)
Net cash used in investing activities	(571)	(869)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from (Repayment of) short-term bank credit, net	(39)	197
Short-term loan from a bank, net	(89)	87
Proceeds from convertible debenture	218	-
Repayment from (Proceeds to) related parties	126	204
Increase in notes payable	26	-
Proceeds from receipt of long-term loans	255	737
Repayment of long-term loans	(316)	(543)
Consideration from issue of shares, net	701	3,119
Net cash provided by financing activities	882	3,801
Increase (Decrease) in cash and cash equivalents	(13)	54
Cash and cash equivalents at the beginning of the year	103	49
Cash and cash equivalents at the end of the year	90	103
<b>Appendix A – Additional Information</b>		
Interest received during the year	-	-
Interest paid during the year	(50)	(58)

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

### NOTE 1 - GENERAL INFORMATION

#### a. The Reporting Entity

1. Starcom plc ("the Company") was incorporated in Jersey on November 28, 2012. The Group specializes in easy-to-use practical wireless solutions that combine advanced technology, telecommunications and digital data for the protection and management of people, fleets of vehicles, containers and assets and engages in production, marketing, distribution, research and development of G.P.S. systems.

The Company fully owns Starcom G.P.S. Systems Ltd., an Israeli company that engages in the same field, and Starcom Systems Limited, a company in Jersey.

The Company's shares are admitted for trading on London's Stock Exchange Alternative Investment Market ("AIM").

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.

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

2. On June 1, 2015, the Company issued 11,875,000 Ordinary Shares raising £475 (\$723) thousand before expenses.
3. In addition, during November and December 2015, the Company issued 4,958,077 Ordinary Shares with connection to the company's unsecured convertible loan facility (the "Loan Facility") with YA Global Master SPV Ltd, by converting \$150,000 loan principal and accrued interest (amounting in aggregate to US\$152,224 (£100,840.63)). See also Note 19d regarding the Loan Facility.

**NOTE 1 - GENERAL INFORMATION (cont.)**

**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 G.P.S. Systems Ltd. And Starcom Systems Limited.
4. Starcom Jersey – Starcom Systems Limited.
5. Starcom Israel – Starcom G.P.S. Systems Ltd.
6. The Group – Starcom Plc. and the Subsidiaries.
7. Related party - As determined by International Accounting Standard No. 24 in regard to related parties.

**NOTE 2A - BASIS OF PREPARATION**

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

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 were authorized by the company's Board of Directors on March 10, 2016.

**b. Basis of Measurement**

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 2A - BASIS OF PREPARATION (cont.)**

**c. Operating Turnover Period**

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

**d. Functional and Presentation Currency**

The consolidated financial statements are presented in U.S. dollars (hereinafter: "dollars") that is the functional currency of the Group and is rounded to the nearest thousand, except when otherwise indicated.

The dollar is the currency that represents the economic environment in which the Group operates.

The Group's transactions and balances denominated in dollars are presented at their original amounts. Non-dollar transactions and balances have been remeasured to dollars. All transaction gains and losses from remeasurement of monetary assets and liabilities denominated in non-dollar currencies are reflected in the statements of comprehensive income as financial income or expenses, as appropriate.

**NOTE 2B - USE OF ESTIMATES AND JUDGMENTS**

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

Upon formulation of accounting estimates used in preparation of the Group financial statements, management is required to make assumptions in regard to circumstances and events that are significantly uncertain. Management arrives at these decisions based on prior experiences, various facts, external items and reasonable assumptions in accordance with the circumstances related to each assumption.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgment in applying accounting policies that have a significant effect on the amounts recognized in the consolidated financial statements is included in the following Note:

Note 7 – Capitalization of development costs and amortization of these costs.

Note 13d – Options issued.

Note 19d – Convertible debentures.

Information about assumptions and estimations regarding depreciation that have significant risk of resulting in a material adjustment is included in the following Notes:

Note 3B – Allowance for doubtful accounts.

Note 7 – Calculation of amortization.

Note 8 – Utilization of tax losses.



**NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES**

**a. Basis of consolidation**

All intra-Group transactions, balances, income and expenses of the companies are eliminated on consolidation.

**b. Foreign currency and linkage basis**

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

	<b>December 31,</b>	
	<b><u>2015</u></b>	<b><u>2014</u></b>
CPI (in points) *	123.085	124.3
Exchange Rate of U.S. \$ in NIS	3.902	3.889
	<b>Year Ended December 31,</b>	
	<b><u>2015</u></b>	<b><u>2014</u></b>
Change in CPI	(1%)	(0.2%)
Change in Exchange Rate of U.S. \$	0.33%	12%
* Base Index 2002 = 100.		

**c. Financial instruments**

**(i) Non-derivative financial assets**

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

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

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

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

**NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES (cont.)**

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

**(i) Non-derivative financial assets (cont.)**

Financial assets at fair value through profit or loss:

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

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

Loans and receivables:

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

Loans and receivables comprise from trade and other receivables, excluding short term trade and other receivables where the interest amount is immaterial.

**(ii) Non-derivative financial liabilities**

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

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

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

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

**NOTE 2C- SIGNIFICANT ACCOUNTING POLICIES (cont.)**

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

**(iii) Compound financial instruments**

Compound financial instruments issued by the Company comprised: an interest bearing loan with a conversion option issued to the lender.

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

The liability component was recognized initially as the difference between the loan amount and the option component

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

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

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

**d. Cash and cash equivalents**

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

**e. Share capital**

Ordinary shares:

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

**f. Property, plant and equipment**

Property, plant and equipment are measured at cost less accumulated depreciation.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, at the following annual rates:

	%
Computers and software	33
Office furniture and equipment	7 – 15
Vehicles	15
Laboratory equipment	15
Leasehold improvements	10

**NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES (cont.)**

**f. Property, plant and equipment (cont.)**

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

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

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

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

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

The expenditure capitalized includes the cost of materials, direct labor, overhead costs that are directly attributable to preparing the asset for its intended use. 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.

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

**h. Short-term deposit**

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

**NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES (cont.)**

**i. Leases**

**(1) Lease payments**

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

**(2) Determining whether an arrangement contains a lease**

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. This will be the case if the following two criteria are met:

- The fulfillment of the arrangement is dependent on the use of a specific asset or assets; and
- the arrangement contains a right to use the asset(s).

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

**j. Inventories**

Inventories are stated at the lower of cost or net market value.

Cost is determined using the "first-in, first-out" method.

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

**k. Impairment in value of assets**

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

**NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES (cont.)**

**k. Impairment in value of assets (cont.)**

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

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

**l. Revenue recognition**

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

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

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

**m. Allowance for doubtful accounts**

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

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

**NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES (cont.)**

**n. Concentrations of credit risk**

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

**o. Provisions**

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

**p. Employee benefits**

The Group has several benefit plans for its employees:

**1. Short-term employee benefits -**

Short-term employee benefits include salaries, vacation days, recreation and deposits to the National Insurance Institute that are recognized as expenses when rendered.

**2. Benefits upon retirement -**

Benefits upon retirement generally funded by deposits to insurance companies and pension funds are classified as restricted deposit plans or as restricted benefits.

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

**NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES (cont.)**

**q. Finance income and expenses**

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

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

**r. Taxes**

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

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

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

Deferred tax is not recognized for:

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

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

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

Since there is uncertainty in regard to existence of taxable revenues in the near future, a deferred tax asset was not recognized.



**NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES (cont.)****r. Taxes (cont.)**

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

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

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

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

**t. Statement of cash flows**

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

**u. Dividend distribution**

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

**v. Segment reporting**

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

**w. Standards issued but not yet effective**

The Standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these Standards, if applicable, when they become effective.

**IFRS 9 Financial Instruments**

In July 2014, the IASB issued the final and complete version of IFRS 9, "Financial Instruments" ("IFRS 9"), which replaces IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 mainly focuses on the classification and measurement of financial assets and it applies to all assets in the scope of IAS 39.

According to IFRS 9, all financial assets are measured at fair value upon initial recognition. In subsequent periods, debt instruments are measured at amortized cost only if both of the following conditions are met:

- The asset is held within a business model whose objective is to hold assets in order to collect the contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

**NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES (cont.)**

Subsequent measurement of all other debt instruments and financial assets should be at fair value. IFRS 9 establishes a distinction between debt instruments to be measured at fair value through profit or loss and debt instruments to be measured at fair value through other comprehensive income.

Financial assets that are equity instruments should be measured in subsequent periods at fair value and the changes recognized in profit or loss or in other comprehensive income (loss), in accordance with the election by the Company on an instrument-by-instrument basis. If equity instruments are held for trading, they should be measured at fair value through profit or loss.

According to IFRS 9, the provisions of IAS 39 will continue to apply to derecognition and to financial liabilities for which the fair value option has not been elected.

According to IFRS 9, changes in fair value s of financial liabilities which are attributable to the change in credit risk should be presented in other comprehensive income. All other changes in fair value should be presented in profit or loss.

IFRS 9 also prescribes new hedge accounting requirements.

IFRS 9 is to be applied for annual periods beginning on January 1, 2018. Early adoption is permitted.

The Company is evaluating the possible impact of IFRS 9 but is presently unable to assess its effect, if any, on the financial statements.

**IFRS 15 Revenue from Contracts with Customers**

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue Standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new Standard on the required effective date.

The impact on the Company's financial statements of the future Standards, amendments and interpretations is still under review, but the Company does not currently expect any of these changes to have a material impact on the results or the net assets of the Company.

**NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES (cont.)**

**w. Standards issued but not yet effective (cont.)**

**Amendments to IAS 7, "Statement of Cash Flows"**

In January 2016, the IASB issued amendments to IAS 7, "Statement of Cash Flows", ("the amendments") which require additional disclosures regarding financial liabilities. The amendments require disclosure of the changes between the opening balance and the closing balance of financial liabilities, including changes from cash flows, changes arising from obtaining or losing control of subsidiaries, the effect of changes in foreign exchange rates and changes in fair value.

The amendments are effective for annual periods beginning on or after January 1, 2017. Comparative information for periods prior to the effective date of the amendments is not required. Early application is permitted.

The Company will include the necessary disclosures in the financial statements when applicable.

**IFRS 16, "Leases"**

In January 2016, the IASB issued IFRS 16, "Leases" ("the new Standard"). According to the new Standard, a lease is a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration.

According to the new Standard:

Lessees are required to recognize an asset and a corresponding liability in the statement of financial position in respect of all leases (except in certain cases) similar to the accounting treatment of finance leases according to the existing IAS 17, "Leases".

Lessees are required to initially recognize a lease liability for the obligation to make lease payments and a corresponding right-of-use asset. Lessees will also recognize interest and depreciation expenses separately.

Variable lease payments that are not dependent on changes in the Consumer Price Index ("CPI") or interest rates, but are based on performance or use (such as a percentage of revenues) are recognized as an expense by the lessees as incurred and recognized as income by the lessors as earned.

In the event of change in variable lease payments that are CPI-linked, lessees are required to remeasure the lease liability and the effect of the remeasurement is an adjustment to the carrying amount of the right-of-use asset.

**NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES (cont.)**

**w. Standards issued but not yet effective (cont.)**

The new Standard includes two exceptions according to which lessees are permitted to elect to apply a method similar to the current accounting treatment for operating leases. These exceptions are leases for which the underlying asset is of low value and leases with a term of up to one year.

The accounting treatment by lessors remains substantially unchanged, namely classification of a lease as a finance lease or an operating lease.

The new Standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted provided that IFRS 15, "Revenue from Contracts with Customers", is applied concurrently.

For leases existing at the date of transition, the new Standard permits lessees to use either a full retrospective approach, or a modified retrospective approach, with certain transition relief whereby restatement of comparative data is not required.

The Company believes that the new Standard is not expected to have a material impact on the financial statements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

U.S. Dollars in thousands

**NOTE 3A - OTHER ACCOUNTS RECEIVABLE**

	December 31	
	2015	2014
Advances to suppliers	-	24
Government institutions	44	90
	<u>44</u>	<u>114</u>

**NOTE 3B - TRADE RECEIVABLES**

	December 31	
	2015	2014
Group receivables	1,864	2,446
Net of allowance for doubtful accounts	(521)	(503)
	<u>1,343</u>	<u>1,943</u>

**NOTE 4 - INVENTORIES**

	December 31	
	2015	2014
Raw materials	1,107	905
Finished goods	1,095	2,477
	<u>2,202</u>	<u>3,382</u>

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

The deposit sums of \$63 and \$101 for the years ended December 31, 2015 and 2014, 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%.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

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

	Computers and Software	Office Furniture and Equipment	Laboratory Equipment	Leasehold Improvements	Vehicles	Total
<b>Cost:</b>						
Balance as of January 1 2015	145	110	66	80	235	636
Additions during the year	10	-	-	-	78	88
Decrease	-	-	-	-	(71)	(71)
Balance as of December 31 2015	155	110	66	80	242	653
<b>Accumulated Depreciation:</b>						
Balance as of January 1 2015	95	46	40	27	33	241
Depreciation during the year	15	8	10	8	34	75
Decrease	-	-	-	-	(22)	(22)
Balance as of December 31 2015	110	54	50	35	45	294
<b>Net book value as of December 31 2015</b>	<b>45</b>	<b>56</b>	<b>16</b>	<b>45</b>	<b>197</b>	<b>359</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

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

	Computers and Software	Office Furniture and Equipment	Laboratory Equipment	Leasehold Improvements	Vehicles	Total
<b>Cost:</b>						
Balance as of January 1 2014	117	106	66	80	130	499
Additions during the year	28	4	-	-	235	267
Decrease	-	-	-	-	(130)	(130)
Balance as of December 31 2014	145	110	66	80	235	636
<b>Accumulated Depreciation:</b>						
Balance as of January 1 2014	82	38	31	21	57	229
Depreciation during the year	13	8	9	6	34	70
Decrease	-	-	-	-	(58)	(58)
Balance as of December 31 2014	95	46	40	27	33	241
Net book value as of December 31 2014	50	64	26	53	202	395

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

U.S. Dollars in thousands

**NOTE 7 INTANGIBLE ASSETS**

	<u>Total</u>
<b>Cost:</b>	
Balance as of January 1 2015	3,021
Additions during the year	<u>567</u>
Balance as of December 31 2015	<u>3,588</u>
<b>Accumulated Depreciation:</b>	
Balance as of January 1 2015	507
Amortization during the year	<u>268</u>
Balance as of December 31 2015	<u>(775)</u>
Impairment of assets	<u>(202)</u>
Net book value as of December 31 2015	<u><u>2,611</u></u>

	<u>Total</u>
<b>Cost:</b>	
Balance as of January 1 2014	2,321
Additions during the year	<u>700</u>
Balance as of December 31 2014	<u>3,021</u>
<b>Accumulated Depreciation:</b>	
Balance as of January 1 2014	318
Amortization during the year	<u>189</u>
Balance as of December 31 2014	<u>(507)</u>
Impairment of assets	<u>(202)</u>
Net book value as of December 31 2014	<u><u>2,312</u></u>



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****U.S. Dollars in thousands****NOTE 7 - INTANGIBLE ASSETS (cont.)**

Detail of remaining life of instruments as of December 31, 2015:

Instrument	Cost	Remainin g Useful Life (in years)
Set 1	566	5.75
Set 2	340	5.75
Set 3	534	6.5
Set 4	410	6.5
Set 5	307	7.5
Set 6	100	8
Set 7	105	8
Set 8	539	8
Set 9	274	8
Set 10	73	9
Set 11	162	9
Set 12	82	10
Set 13	96	8.75
Total	<u>3,588</u>	

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

Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses.

Amortization is calculated using the straight-line method over the estimated useful lives of the assets: ten years.

See also Note 2C g.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

### NOTE 8 - TAXES ON INCOME

**a. Israeli taxation**

1. The Israeli corporate tax rate in 2014 and 2015 is 26.5% (2013 - 25%).

**2. Tax Benefits from the Law for Encouragement of Capital Investments, 1959 hereinafter: "The Encouragement Law"**

Starcom Israel presents its financial statements to the tax authorities as an Approved Enterprise. In the framework of the Law for Change of Priorities, as abovementioned, an increase in tax rates was approved, commencing with 2014 and thereafter, on revenues from an approved enterprise, as stated in the Encouragement Law for an approved enterprise. An eligible company in Development Area A is entitled to a tax rate of 9% during 2015. In an area that is not Development Area A, the tax rate will be 16%.

Concurrently, the tax rate on a dividend, for distribution from January 1, 2014, the source of which is preferred income as stated in the Encouragement Law, is 20%.

Starcom Israel is subject to a tax rate of 16% for the year 2015.

**b. Jersey taxation**

Taxable income of the Company and Starcom Jersey is subject to tax at the rate of zero percent for the years 2015 and 2014.

**c. Detail of tax income:**

	Year Ended December 31,	
	2015	2014
Deferred taxes	<u>- . -</u>	<u>- . -</u>

Since the recording of a deferred tax asset is limited to the amount of deferred tax liabilities, no deferred tax income was recorded in 2015.

See also Note 22 regarding change in tax rate.

**d. Starcom Israel has carryforward operating tax losses of approximately NIS 15 million as of December 31, 2014. As for deferred tax assets see Note 2r.**

Starcom Israel has been assessed by the Income Tax Authorities up to and including the year 2011.

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

	December 31	
	2015	2014
Short-term loans	-	88
Current maturities of long-term loans	316	243
	<u>316</u>	<u>331</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

## NOTE 10 - OTHER ACCOUNTS PAYABLE

	December 31	
	2015	2014
Employees and payroll accruals	164	148
Accrued expenses	15	11
	<u>179</u>	<u>159</u>

## NOTE 11 - LONG-TERM LOANS FROM BANKS, NET OF CURRENT MATURITIES

### 1. Composition:

	December 31	
	2015	2014
Long-term liability	886	941
Less: current maturities	(316)	(243)
	<u>570</u>	<u>698</u>

### 2. Aggregate maturities of long-term loans for years subsequent to December 31, 2015 are as follows:

	Amount
First year	316
Second year	276
Third year	235
Fourth year and after	59
	<u>886</u>

### 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.	January 22, 2014	1,900 (\$ 543)	Prime + 1.8%	55 equal monthly installments including principal and interest	Monthly commencing 22 February 2014
2.	January 28, 2014	675 (\$193)	Prime + 0.8%	60 equal monthly installments including principal and interest	Monthly commencing 22 February 2014
3.	August 8, 2012	1,200 (\$ 300)	Prime + 0.9%	60 equal monthly installments including principal and interest	Monthly commencing 9 September 2012
4.	September 20, 2013	950 (\$ 270)	Prime + 0.9%	60 equal monthly installments including principal and interest	Monthly commencing 20 October 2013
5.	May 06, 2015	600 (\$ 154)	Prime + 1.8%	61 equal monthly installments including principal and interest	Monthly commencing 25 June 2015
6.	November 11, 2015	100 (\$ 26)	Prime + 3.5%	36 equal monthly installments of principal not including interest	Monthly commencing 25 December 2015
7.	December 2, 2015	295 (\$ 76)	Prime + 0.15%	36 equal monthly installments including principal and interest	Monthly commencing 2 January 2016

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

### 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 December 31, 2015 and 2014 were in the amounts of \$134 thousand and \$146 thousand, respectively.

Total of future minimum lease payments under non-cancellable operating leases for each of the following periods as of December 31, 2015:

Not later than one year 22

Later than one year and not later than five years -

22

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 December 31, 2015 and 2014 were in the amounts of \$36 thousand and \$41 thousand, respectively.

Total of future minimum lease payments under non-cancellable operating leases for each of the following periods as of December 31, 2015:

Not later than one year 41

Later than one year and not later than four years 61

102

- c. A lawsuit was filed against the subsidiary in Israel regarding breach of an agreed compromise settled in 2012 for an amount of NIS 4.4 million regarding commissions. The Company has filed with the courts its preliminary defense, which the court agreed to hear. According to legal advisors of the Company, chances of the suit being accepted are slim. The Company did not include any provision for the abovementioned claim.

The Company filed a lawsuit against a supplier for deception and for not supplying hardware in an amount of NIS 2.5 million. Post-filing, the supplier filed a counter claim. According to legal advisors of the Company, chances of the counter claim being accepted are slim. The Company did not include any provision 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 a subsidiary bank account.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

U.S. Dollars in thousands

**NOTE 13 - SHARE CAPITAL**

- a. Composition – common stock of no par value, authorized – 118,500,000 shares; issued and outstanding – 101,266,410 and 84,433,332 shares as of December 31, 2015 and December 31, 2014, respectively.
- 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 Mobilization of Capital**  
On February 3, 2014, the Company issued 13,333,333 Ordinary Shares raising £ 2 million before expenses.

Regarding issuance of shares during the reported year, see Note 1.

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 year amounted to \$34 thousand (2014: \$64 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 expired 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.
3. During February 2014 the Company issued 492,533 Options for purchase of Company shares at the exercise price of £ 0.15 per share.
4. In connection with the share issuance occurred on June 1, 2015, the Company has granted Northland Capital Partners Limited options to subscribe for 430,000 new Ordinary Shares at 4p per share, exercisable at any time for a period of 5 years following Admission.

Any outstanding options did not affect the Financial Statements for the reported year as their exercise price is lower than the fair value of a share.

**NOTE 14 - COST OF SALES**

	Year Ended December 31,	
	2015	2014
Purchases and other	1,617	2,895
Amortization	268	189
Decrease (increase) in inventory	1,180	(585)
	<u>3,065</u>	<u>2,499</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

## NOTE 15 - GENERAL AND ADMINISTRATIVE EXPENSES

	Year Ended December 31,	
	2015	2014
a. Salaries and related expenses	1,283	(*) 1,307
Professional services (1)	191	661
Office rent and maintenance	341	275
Depreciation	75	70
Doubtful accounts and bad debts	627	1,322
Other	389	402
	<u>2,906</u>	<u>4,037</u>

(\*) Reclassified

(1) Including share based payment in the amounts of \$34 and \$64 thousand for the years ended December 31, 2015 and 2014, respectively.  
(See note 13d)

### c. Average Number of Staff Members by Category:

	Year Ended December 31,	
	2015	2014
Sales and marketing	5	6
Research and development	5	4
General and administrative	14	16
	<u>24</u>	<u>26</u>

## NOTE 15A - OTHER INCOME

	Year Ended December 31,	
	2015	2014
Impairment of intangible assets	-	(202)
Capital loss from sale of fixed assets	(3)	(19)
Other income	13	-
	<u>10</u>	<u>(221)</u>

## NOTE 16A - FINANCE INCOME

	Year Ended December 31,	
	2015	2014
Interest from bank	1	-
Exchange rate differences	-	233
	<u>1</u>	<u>233</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 16B - FINANCE COSTS

	Year Ended December 31,	
	2015	2014
Exchange rate differences	27	-
Interest to banks and others	58	87
Interest to related parties	21	-
Bank charges	73	50
Interest to suppliers	21	8
	<u>(200)</u>	<u>(145)</u>
Net finance costs	<u>199</u>	<u>88</u>

## NOTE 17 - EARNINGS PER SHARE

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

	Year Ended December 31,	
	2015	2014
Number of shares	<u>91,965,928</u>	<u>83,322,000</u>

## NOTE 18 - RELATED PARTIES

- a. The related parties that own the controlling shares in the Group are:  
Mr. Avraham Hartman (17.68%), Mr. Uri Hartman (18.77%), Mr. Doron Kedem (18.77%).

- b. Short-term balances:

	December 31	
	2015	2014
Credit balances	(213)	(374)
Loans	(134)	-
	<u>(347)</u>	<u>(374)</u>

- c. Long-term balances:

	December 31	
	2015	2014
Loans	<u>(153)</u>	<u>-</u>

- d. Shareholders credit balances are linked to the New Israel Shekel ("NIS"). Loans from shareholders accrue 4% annual interest. As of January 1, 2016, outstanding loans from shareholders accrue 8% annual interest. The outstanding shareholders loans' balance as of December 31, 2015 is \$287 thousand.

- e. Transactions:

	Year Ended December 31,	
	2015	2014
Key management compensation:		
Total salaries and related expenses for shareholders	<u>474</u>	<u>645</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

### NOTE 18 - RELATED PARTIES (cont.)

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

### NOTE 19 - FINANCIAL INSTRUMENTS AND MANAGEMENT OF FINANCIAL RISKS

a. **Financial Risk Factors:**

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

In this Note, information is stated in regard to Group exposure to each of the risks abovementioned and the handling of these risks. Risk management and capital are handled by 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 that are linked to the NIS from banks, suppliers and others.

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 will 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

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

### 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, 2015					
	NIS		U.S. Dollar	Euro	Total
	Unlinked	Variable Interest	Unlinked		
<b>Financial Assets:</b>					
Cash and Cash Equivalents	2	-	83	5	90
Short-term Deposit	16	47	-	-	63
Trade Receivables	189	-	1,112	42	1,343
Other Accounts Receivable	44	-	-	-	44
<b>Financial Liabilities:</b>					
Short-term Bank Credit	(270)	-	-	-	(270)
Convertible debenture	-	-	(91)	-	(91)
Trade Payables	(698)	-	(614)	(44)	(1,356)
Other Accounts Payable	(179)	-	-	-	(179)
Related parties	(213)	(287)	-	-	(500)
Long-term Loans From Banks	-	(886)	-	-	(886)
	<u>(1,109)</u>	<u>(1,126)</u>	<u>490</u>	<u>3</u>	<u>(1,742)</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

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

December 31, 2014

	NIS		U.S. Dollar	Euro	Total
	Unlinked	Variable Interest	Unlinked		
<b>Financial Assets:</b>					
Cash and Cash Equivalents	32	-	67	4	103
Short-term Deposit	101	-	-	-	101
Trade Receivables	115	-	1,629	199	1,943
Other Accounts Receivable	114	-	-	-	114
<b>Financial Liabilities:</b>					
Short-term Bank Credit	(309)	-	-	-	(309)
Short-term loans from banks	-	(88)	-	-	(88)
Trade Payables	(1,481)	-	(659)	(27)	(2,167)
Other Accounts Payable	(159)	-	-	-	(159)
Related parties	(374)	-	-	-	(374)
Long-term Loans From Banks	-	(941)	-	-	(941)
	<u>(1,961)</u>	<u>(1,029)</u>	<u>1,037</u>	<u>176</u>	<u>(1,777)</u>

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

	5% Increase in Exchange Rate	5% Decrease in Exchange Rate
For the Year Ended December 31		
2015	(112)	112
2014	(150)	150

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

	5% Increase in Exchange Rate	5% Decrease in Exchange Rate
For the Year Ended December 31		
2015	-	-
2014	9	(9)

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

	5% Increase in Prime (Variable) Interest	5% Decrease in Prime (Variable) Interest
For the Year Ended December 31		
2015	-	-
2014	-	-

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

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

#### c. Fair value

As of December 31, 2015, there was no difference between the carrying amount and fair value of the Company's financial instruments that are presented in the financial statements not at fair value.

#### d. Convertible debenture

In October 14, 2015 the Company signed a convertible loan agreement with YA Global II SPV, LTD (the "Investor") and drawn down an initial tranche of US\$250,000, before expenses.

Each tranche which is drawn down from the Loan Facility is repayable within one year from the date of drawdown and the annual interest rate is 7% per annum.

On any specific date prior to Loan Facility's maturity on 14 October 2017, the Investor has the option to convert all or any part of the outstanding loan balance, together with any outstanding interest, prior to repayment into fully paid shares of Starcom at a price being the lower of (a) 4p per share in respect of the first US\$100,000 of the tranche and 7p per share in respect of the balance or (b) 92.5% of the lowest share price during the ten consecutive trading days prior to a conversion notice date (or 70% of such price in the event of a default).

On November 23, 2015, the Company issued to the Investor 1,605,269 Ordinary Shares at 2.1046p per share in conversion of \$50,000 loan principal and accrued interest (amounting in aggregate to US\$51,438 (£33,784.48)).

On December 11, 2015, the Company issued to the Investor 3,352,808 Ordinary Shares at 2.0p per share in conversion of \$100,000 loan principal and accrued interest (amounting in aggregate to US\$100,806 (£67,056.15)).

Subsequent to the reported year, On January 14, 2016, the Company has issued to the Investor 1,659,312 Ordinary Shares at a price of approximately 2.11p per share in conversion of \$50,000 loan principal and accrued interest (amounting in aggregate to US\$50,748 (£34,955)).

On February 19, 2016, the Company issued to the Investor additional 2,904,958 Ordinary Shares at 1.22p per share in conversion of \$50,000 loan principal and accrued interest (amounting in aggregate to US\$50,710 (£35,446)).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

U.S. Dollars in thousands

**NOTE 20 - CUSTOMERS AND GEOGRAPHIC INFORMATION**

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

	Year Ended December 31,		
	2015	2014	2013
Customer A	7%	12%	14%
Customer B	4%	12%	11%
Customer C	4%	9%	11%

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

	Year Ended December 31,		
	2015	2014	2013
Latin America	25%	24%	15%
Europe	11%	12%	37%
Africa	37%	20%	30%
Asia	11%	33%	10%
Middle East	14%	11%	8%
North America	2%	-	-
Total	100%	100%	100%

- c. As of December 31, 2015: \$ 2,282 thousand of the consolidated depreciated assets are located in Israel and \$ 688 thousand in Jersey.

As of December 31, 2014: \$ 2,007 thousand of the consolidated depreciated assets are located in Israel and \$ 700 thousand in Jersey.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

## NOTE 21 - SEGMENTATION REPORTING

The Group has four main reportable segments, as detailed below:

Reported operating segments include: sets, accessory, SAS 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	SAS	Accessory	Other	Total
<b>Year Ended 31.12.2015:</b>					
Segment revenues	3,238	1,608	60	225	5,131
Cost of sales	(2,634)	(200)	(48)	(183)	(3,065)
Gross profit	604	1,408	12	42	2,066
Research and Development expenses	(81)	(27)	(1)	(6)	(115)
Selling and marketing expenses	(388)	(193)	(7)	(27)	(615)
Operating profit (loss) before general and administrative expenses	135	1,188	4	9	1,336
Unattributed general and administrative expenses and other expenses					(2,896)
					<u>(1,560)</u>
<b>Year Ended 31.12.2014:</b>					
Segment revenues	3,276	1,504	48	177	5,005
Cost of sales	(2,370)	(66)	(24)	(39)	(2,499)
Gross profit	906	1,438	24	138	2,506
Research and Development expenses	(228)	(25)	-	-	(253)
Selling and marketing expenses	(687)	-	-	-	(687)
Operating profit before general and administrative expenses	(9)	1,413	24	138	1,566
Unattributed general and administrative expenses					(4,472)
					<u>(2,906)</u>

## NOTE 22 - EVENTS AFTER THE REPORTING DATE

On January 4, 2016, the Israeli Parliament's Plenum approved by a second and third reading the Bill for Amending the Income Tax Ordinance (No. 216) (Reduction of Corporate Tax Rate), 2016, which includes a reduction of the corporate tax rate from 26.5% to 25%.

The Company estimates that the effect of the change in the tax rate will result in no change in deferred tax balances as of December 31, 2015.

Also refer to Note 19d regarding the issuance a convertible debenture and to Note 18d regarding change in interest rate on Shareholders loans.