30 September 2013

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

Interim results for the half year ended 30 June 2013

Starcom Plc (AIM: STAR), which specialises in the development of wireless solutions for the remote tracking, monitoring and protection of various types of assets and people, is pleased to announce its Interim results for the six months ended 30 June 2013.

Highlights

- Revenue increased 2.5 % to $3,498,000 (2012: $3,414,000)
- Gross margin increased to 56.7% (six months ended 30 June 2012: 54.5%)
- Adjusted net Profit of $646,000 before exceptional one off items (six months ended 30 June 2012: $919,000 profit)
- Successful flotation on the AIM market, with proceeds reinvested into a strengthened sales and marketing team
- Increase in Watchlock sales points to positive growth

Commenting on the results, Chairman Michael Rosenberg said: "The Company has enjoyed an encouraging start to 2013. As indicated in the statement accompanying the full year results to 31st December 2012 the majority of revenues and profits are expected to flow in the second half of 2013, though at a slower rate than original expectations. However, we are pleased with the progress to date and expect that the full years' results will show a good improvement over those achieved in 2012 as Starcom's products gain greater penetration onto the global market.

For further information please visit www.starcom.co.uk or contact:

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Chairman's Statement

I am pleased to report that Revenues for the period were $3,498,000 (2012: $3,414,000). The Company recorded a loss of $89,000 for the period (2012:$919,000) which was largely due to one off exceptional items including the early repayment of the Keren Hagshama loan, and exchange rate fluctuations which total, in aggregate, $735,000 - further details of which are below.

The first two months of the year were impacted by the IPO process which took significant management time. However, the resulting inflow of new funds (approximately $3.5m) has enabled the company to build its marketing and sales team and further strengthen the management base. The results of these additions are now beginning to be felt in a positive way and should provide the necessary support for growth in 2014 and beyond, both in sales and product development. Some of these additional costs were incurred in the first six months, thus reducing the net profits for that period. Despite this, gross margins remained healthy at approximately 56%, slightly ahead of the previous year.

As mentioned previously, the company has made changes in its sourcing in Taiwan with new suppliers on more favourable contract terms. Those new arrangements are beginning to show the expected benefits in costs and payment terms.

A brief description of the product portfolio:

Helios

This automatic vehicle location device provides fleet operators with real time information to track shipments. During the first half of this year approximately 20,880 units were sold, compared with a total of 45,000 units in 2012.

Watchlock

The Watchlock is jointly developed and marketed together with Mul-T-Lock Technologies Ltd, part of the Assa Abloy group - the world's leading manufacturer and supplier of high security locking solutions. In 2012, from the launch in May, 6,457 units were shipped worldwide, mainly as demonstration units. In the first six months of 2013 6,542 units were shipped, but a significant increase in sales of these units is anticipated in the second half of this year.

An initial order has been received from Mul-T-Lock for the Canadian Railways of 1000 units to be shipped by the end of 2013 and the directors hope this will lead to further significant orders in due course.

Triton

This product, which provides a simple and effective way to track and monitor freight containers in transit, is still in the early days of marketing and it is unlikely that sales for this year will be that significant. However it is being well received in the market and 2014 should see further progress. A new model is under development which will incorporate temperature and humidity monitoring. This will widen the market opportunities to companies in the food and pharmaceutical industries

Rainbow

The Rainbow is a personal tracking device for individuals and has particular relevance in regards to young children and to the elderly. This product is intended for active marketing in 2014, but interested parties have already made enquiries and some small orders are expected to be delivered later this year.

Kylos

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 expected to start next year.

Financials

As indicated above, the gross margin for the period showed an increase over the same period last year, with final figures at approximately 56%. The total revenues of $3.5m included approximately $680,000 of web recurring revenues. (2012:$883,000). This decrease was caused by a change in mix of sales during the period. Selling and marketing expenses increased following the additional staff recruited and ancillary costs. General and administrative costs also increased due to additional staff and expenses related to the company becoming a listed public company.

The main impact on the profits was the final settlement with Keren Hagshama Ltd in respect of the early repayment of their loans. This caused a one off expense of $340,000. 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 $285,000 were also recorded as a cost when the Company held the IPO proceeds in GBP to make US$ payments. 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. The balance sheet shows an increase in trade receivables since the year end of $4.8m. In the main, this increase was caused by a sale towards the end of the six months period of around $2m. This situation has improved since the period end as the company received payments from its customers.

Outlook

While the revenues and profits for 2013 are likely to be below market expectations, they are expected to still show good growth over those achieved in 2012 and the board is confident that this growth will continue in 2014 and beyond. Our product ranges are well received in the market, but in some cases are taking longer to translate into firm sales. For example, the marketing plans with our joint venture partners regarding Multilock took longer to progress than anticipated but are now beginning to show positive results. In addition the company continues to work on improvements to its products which in turn should see results next year.

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

STARCOM Plc

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

U.S. Dollars in thousands

	Note	June 30 2013 Unaudited	June 30 2012 Unaudited	December 31 2012 Audited
ASSETS				
NON-CURRENT ASSETS:				
Property, plant and equipment, net		296	310	285
Intangible assets	4	1,721	1,371	1,560
Repurchase option	3	89	89	89
Long-term bank deposit		99	43	95
Income Tax Authorities		42	28	-
Deferred tax asset		-	250	-
Total Non-Current Assets		2,247	2,091	2,029
CURRENT ASSETS:				
Inventories		1,946	1,036	1,236
Trade receivables		4,798	2,249	3,761
Other receivables		384	108	565
Shareholders		-	46	-
Income Tax Authorities		-	-	34
Deferred issuance costs		-	-	107
Short-term deposit		10	9	10
Cash and cash equivalents		25	91	118
Total Current Assets		7,163	3,539	5,831
TOTAL ASSETS		9,410	5,630	7,860
LIABILITIES AND EQUITY				
EQUITY				
Equity attributable to owners of the company		5,635	2,300	2,744
Non-controlling interest		-	19	(6)
Total Equity		5,635	2,319	2,738
NON-CURRENT LIABILITIES:				
Long-term loan from non controlling interest	3	-	248	303
Long-term loans from banks		424	443	571
Deferred tax liability		128	-	116
Put option		-	215	-
Total Non-current Liabilities		552	906	990
CURRENT LIABILITIES:				
Short-term bank credit		82	16	80

	Note			
Short-term loans from banks		330	199	288
Current maturities of loan from non controlling interest	3	-	425	506
Related Parties	6	171	-	156
Trade payables		2,433	1,641	2,940
Other payables		207	124	162
Total Current Liabilities		3,223	2,405	4,132
TOTAL LIABILITIES AND EQUITY		9,410	5,630	7,860

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

Date of Approval of the Financial Statements

Director

STARCOM Plc

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

U.S. Dollars in thousands

	Note	Six Months Ended June 30		Year Ended December 31
		2013	2012	2012
		Unaudited	Unaudited	Audited
Revenues		3,498	3,414	8,093
Cost of sales		(1,513)	(1,553)	(3,874)
Gross profit		1,985	1,861	4,219
Operating expenses:				
Research and development, net		(70)	(56)	(98)
Selling and marketing		(268)	(164)	(299)
General and administrative		(1,038)	(632)	(1,786)
		(1,376)	(852)	(2,183)
Operating profit		609	1,009	2,036
Finance income		1	62	2
Finance expenses	7	(699)	(203)	(385)
Net finance costs		(698)	(141)	(383)
Profit (loss) before deferred income tax		(89)	868	1,653
Deferred income tax (income tax expense)		-	51	(315)
Total comprehensive income (loss) for the period		(89)	919	1,338
Attributable to:				
Owners of the company		(86)	917	1,345
Non-controlling interest		(3)	2	(7)
Comprehensive income (loss)		(89)	919	1,338

Earnings per share:

	Note			
Basic and diluted earnings (loss) per share (in dollars)	5	(0.00)	0.02	0.02

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

STARCOM Plc

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

U.S. Dollars in thousands

	Share Capital *	Premium on Shares	Receipts on Account of Shares	Capital Reserve	Capital Reserve for Share-based payment	Accumulated Earnings	Total	Non-Controlling interest	Total
(Unaudited)									
Balance- January 1, 2013	-	28	-	447	-	2,269	2,744	(6)	2,738
Proceeds from issued share capital, net of mobilization costs – see Note 3a	-	2,939	-	-	-	-	2,939	-	2,939
Exchange of Keren Hagshama shares –see Note 3c	-	349	-	(358)	-	-	(9)	9	-
Share based payment –see note 3b	-	(195)	-	-	242	-	47	-	47
Comprehensive loss for the period	-	-	-	-	-	(86)	(86)	(3)	(89)
Balance- June 30, 2013	-	3,121	-	89	242	2,183	5,635	-	5,635
(Unaudited)									
Balance- January 1, 2012	-	-	225	(197)	-	924	952	-	952
Comprehensive income for the period	-	-	-	-	-	917	917	2	919
Issuance to others of shares in subsidiary – see Note 3c	-	-	-	431	-	-	431	17	448
Balance- June 30, 2012	-	-	225	234	-	1,841	2,300	19	2,319
(Audited)									
Balance- January 1, 2012	-	-	225	(197)	-	924	952	-	952

Receipts (refunds) on account of shares	-	28	(225)	197	-	-	-	-	-
Issuance to others of shares in a subsidiary (see Note 3c)	-	-	-	447	-	-	447	1	448
Comprehensive income for the year	-	-	-	-	-	1,345	1,345	(7)	1,338
Balance- December 31, 2012	-	28	-	447	-	2,269	2,744	(6)	2,738

* An amount less than one thousand.

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

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

	Six Months Ended June 30		Year Ended December 31
	2013	2012	2012
CASH FLOWS FROM OPERATING ACTIVITIES:	Unaudited	Unaudited	Audited
Comprehensive income (loss)	(89)	919	1,338
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Depreciation and amortization	108	73	184
Interest expense (income) and linkage differences	237	(68)	212
Equity settled option-based payment expense	47	-	-
Deferred income tax	12	(51)	315
Update of sale options	-	18	-
Interest to shareholders	-	-	2
Interest expense in regard to options	-	-	28
Changes in assets and liabilities:			
Increase in inventories	(710)	(124)	(324)
Increase in trade receivables	(1,037)	(1,288)	(2,800)
Decrease (Increase) in other receivables	181	93	(364)
Increase in Income Tax Authorities	(8)	(2)	(8)
Increase in deferred issuance costs	(75)	-	(107)
Increase (Decrease) in trade payables	(507)	(361)	938
Increase in other payables	45	22	60
Net cash used in operating activities	(1,796)	(769)	(526)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment	(44)	(11)	(18)
Proceeds to related parties	-	(35)	-
Increase in short-term deposit	-	(1)	(2)
Decrease (Increase) in long-term deposits	(1)	120	71
Purchase of intangible assets	(236)	(314)	(582)
Net cash used in investing activities	(281)	(241)	(531)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from short-term bank credit, net	2	16	80
Short-term loans from banks	(27)	(39)	(13)
Long-term loans	-	100	327
Proceeds received from shareholders	15	-	165
Repayment of long-term loans	(127)	(105)	(288)

U.S. Dollars in thousands

Repayment of Put Options	-	-	(225)
Proceeds from (Repayment of) long-term loan from non controlling interest, net	(1,000)	1,000	1,000
Consideration from issue of shares	3,121	-	-
Net cash provided by financing activities	1,984	972	1,046
Decrease in cash and cash equivalents	(93)	(38)	(11)
Cash and cash equivalents at the beginning of the period	118	129	129
Cash and cash equivalents at the end of the period	25	91	118
Appendix A – Additional Information			
Interest received during the period	1	1	2
Interest paid during the period	(127)	(104)	(142)

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

NOTE 1 - GENERAL INFORMATION

a. **The Reporting Entity**

Starcom plc ("the Company") was incorporated in Jersey on November 28, 2012. During February 2013 the Company signed an asset purchase agreement with Starcom Systems S.A., a Panamanian company that specializes in easy-to-use practical wireless solutions that combine advanced technology, telecommunications and digital data for the protection and management of people, fleets of vehicles, containers and assets and engages in production, marketing, distribution, research and development of G.P.S systems.

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

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

During the reported period, the Company acquired the remaining 3% of Starcom G.P.S. Limited. See Note 3c.

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

b. **Definitions in these financial statements**

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

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

a. **Company structural change as presented in the financial statements:**
The Company's operations are the continuation of the operations of Starcom Systems S.A, (including its holdings in Starcom G.P.S. Systems Limited) that was held by the same shareholders of the Company. On February 19, 2013, Starcom Systems S.A. transferred all its operations, assets and liabilities to the Company for nominal consideration.

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

a. **Company structural change as presented in the financial statements (cont.)**

Since all the assets, liabilities and operations have been transferred from Starcom Systems S.A. to the Company, it is appropriate in these Unaudited Interim 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.

b. **Basis of preparation**

The interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles for the preparation of financial statements for interim periods, as prescribed in International Accounting Standard No. 34 ("Interim Financial Reporting").
The interim consolidated financial information should be read in conjunction with the annual financial statements as of 31 December, 2012 and for the year ended on that date and with the notes thereto,
The significant accounting policies applied in the annual financial statements of the Company as of December 31, 2012 are applied consistently in these interim consolidated financial statements, except Share-based payment and adoption of new standards and interpretations effective as of 1 January 2013, as detailed below.

Share-based payments
Where equity settled share options are awarded to employees and renderers of services, the fair value of the options at the grant date is charged to the statement of comprehensive income over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other

vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense charged is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the statement of comprehensive income over the remaining vesting period.

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

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

The Group applies, for the first time, certain standards and amendments. These include IFRS 10 Consolidated Financial Statements, IFRS 13 Fair Value Measurement and Amendments to IAS 1 Presentation of Financial Statements. As required by IAS 34, the nature and the effect of these changes are disclosed below.

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (e.g., net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) now have to be presented separately from items that will never be reclassified (e.g., actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affected presentation only and had no impact on the Group's financial position or performance.

IAS 1 Clarification of the requirement for comparative information (Amendment)

The amendment to IAS 1 clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional voluntarily comparative information does not need to be presented in a complete set of financial statements.

An opening statement of financial position (known as the 'third balance sheet') must be presented when an entity applies an accounting policy retrospectively, makes retrospective restatements, or reclassifies items in its financial statements, provided any of those changes has a material effect on the statement of financial position at the beginning of the preceding period. The amendment clarifies that a third balance sheet does not have to be accompanied by comparative information in the related notes. Under IAS 34, the minimum items required for unaudited interim financial statements do not include a third balance sheet.

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

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

IAS 32 Tax effects of distributions to holders of equity instruments (Amendment)
The amendment to IAS 32 *Financial Instruments: Presentation* clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders. The amendment did not have an impact on the interim condensed consolidated financial statements for the Group, as there is no tax consequences attached to cash or non-cash distribution.

IAS 34 *Interim financial reporting and segment information for total assets and liabilities* (Amendment)
The amendment clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 *Operating Segments*. Total assets and liabilities for a reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity's previous annual consolidated financial statements for that reportable segment. The Group provides this disclosure as total segment assets were reported to the chief operating decision maker (CODM). The amendment did not have an impact on the unaudited interim consolidated financial statements for the Group, as the assets and liabilities are not reported to the CODM.

IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities Amendments to IFRS 7
The amendment requires an entity to disclose information about rights to set-off financial instruments and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with IAS 32. As the Group is not setting off financial instruments in accordance with IAS 32 and does not have relevant offsetting arrangements, the amendment does not have an impact on the Group.

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

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

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements
IFRS 10 establishes a single control model that applies to all entities including special purpose entities.
IFRS 10 replaces the parts of previously existing IAS 27 Consolidated and Separate Financial Statements that dealt with consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 had no impact on the consolidation of investments held by the Group.

IFRS 12 Disclosure of Interests in Other Entities
IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. None of these disclosure requirements are applicable for interim consolidated financial statements, unless significant events and transactions in the interim period requires that they are provided. Accordingly, the Group has not made such disclosures.

IFRS 13 Fair Value Measurement
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Group.
IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 Financial Instruments: Disclosures. Some of these disclosures are specifically required for financial instruments by IAS 34.16A(j), thereby affecting the unaudited interim consolidated financial statements period. The Group provides these disclosures in Note 8.

In addition to the above-mentioned amendments and new standards, IFRS 1 First-time Adoption of International Financial Reporting Standards was amended with effect for reporting periods starting on or after 1 January 2013. The Group is not a first-time adopter of IFRS, therefore, this amendment is not relevant to the Group.
The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

U.S. Dollars in thousands

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

d. **Foreign currency and linkage basis**
Henceforth are the details of the foreign currencies of the main currencies and the changes percentage in the reporting period:

	Six Months Ended June 30		Year Ended December 31
	2013	**2012**	**2012**
CPI (in points) *	123.96	121.9	122.4
Exchange Rate of NIS in U.S. $	0.276	0.255	0.268
Exchange Rate of GBP in U.S. $	1.526	1.564	1.617

	Six Months Ended June 30		Year Ended December 31
	2013	**2012**	**2012**
Change in CPI	1.27%	1.2%	1.66%
Change in Exchange Rate of NIS	2.99%	(2.6%)	2.36%
Change in Exchange Rate of GBP	(5.63%)	1.43%	4.87%

* Base Index 2002 =100.

NOTE 3 - SIGNIFICANT EVENTS DURING THE REPORTED PERIOD

a. **Issue of Shares and Mobilization of Capital**
On February 19, 2013, the Company issued 18,783,333 Ordinary Shares to each of the controlling interest pro-rata to their holdings in the Company.
On February 27, 2013, the Company's shares were admitted to trading on London's Stock Exchange Alternative Investment Market ("AIM") following a successful Initial Public Offering ("IPO") raising £ 2.72 ($ 4.09) million before expenses.
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 a lender to the Company – "Keren Hagshama Ltd" (hereinafter: Keren Hagshama, see also c. below).

NOTE 3 - SIGNIFICANT EVENTS DURING THE REPORTED PERIOD (cont.)

b. **Options issued**

1. During February 2013 the Company issued to its directors 1,422 Options for purchase 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 $ 47 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.

c. **Long-term loan from non-controlling interest**

During April 2012, Starcom Israel received a loan through Keren Hagshama Ltd 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 following excerpts from the agreement:

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

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

Upon completion of registration of shares the Company has an option to repurchase the public Company shares within a six month period commencing from the Initial Public Offering (IPO) date in accordance with the realization price per ordinary share as computed in accordance with the Company valuation of $18 million. In the event that the public Company valuation will exceed $23 million, the realization price will be higher, as detailed in the agreement.

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 mobilization of a loan through Keren Hagshama.

NOTE 3 - SIGNIFICANT EVENTS DURING THE REPORTED PERIOD (cont.)

c. **Long-term loan from non-controlling interest (cont.)**

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

U.S. Dollars in thousands

Capital reserve-$469.

The mobilization costs were allocated according to the components ratio.

The loan was assessed assuming a fifty-percent likelihood that the loan will be repaid within a year and a fifty percent likelihood according to the original terms.

Effective annual interest rate was determined as 42.46%.

On February 27, 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 present 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 August 26, 2013.

d. Distribution contract

On June 13, 2013, the Company signed a significant distribution contract with Benish GPS of the Ukraine which includes the Ukrainian distributor being required to purchase a minimum of 20,000 WatchLock units before December 31, 2014 in order to retain exclusivity. The first order is for in excess of 6,000 units and is worth approximately $ 1.13 million. This amount was recorded as an income by the Company during the reported period.

NOTE 4 - INTANGIBLE ASSETS

a. Composition:

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

U.S. Dollars in thousands

	Cost of Materials (including overhead costs)	Direct Labour	Total
Cost:			
Balance as of January 1 2012	799	333	1,132
Additions during the year	179	135	314
Balance as of June 30 2012	978	468	1,446
Accumulated Depreciation:			
Balance as of January 1 2012	28	7	35
Depreciation during the year	29	11	40
Balance as of June 30 2012	57	18	75
Net book value as of June 30 2012	921	450	1,371

NOTE 4 - INTANGIBLE ASSETS (cont.)

a. Composition (cont.):

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

NOTE 5 - SHARE CAPITAL

a. Composition – as of June 30 2013 common stock of no par value, authorized 118,500,000 shares; issued and outstanding – 71,100,000.

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

c. See Note 3a.

U.S. Dollars in thousands

NOTE 6 - RELATED PARTIES

a. Related parties that own the controlling shares in the Group are:
Mr. Avraham Hartman (26%), Mr. Uri Hartman (26%), Mr. Doron Kedem (26%).

b. Balances:

	June 30		December 31
	2013	2012	2012
Current balance	(171)	46	(156)

c. Transactions:

	Six Months Ended June 30		Year Ended December 31
	2013	2012	2012
Total salaries, services rendered and related expenses for shareholders	147	102	202

d. During the reported period, related parties ceased to be employed by the Company and commenced rendering services through independent companies that they own.

NOTE 7 - FINANCE EXPENSES

	Six Months Ended June 30		Year Ended December 31
	2013	2012	2012
Interest to non-controlling interest (1)	338	32	168
Interest to banks and others	32	46	87
Exchange rate differences	285	-	45
Bank charges	27	72	44
Interest to suppliers	17	36	39
Interest to shareholder	-	-	2
Update of sale Options	-	17	-
	(699)	(203)	(385)

(1) See Note 3c.

NOTE 8 - FINANCIAL INSTRUMENTS

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

NOTE 9 - SEGMENTATION REPORTING

Segment information regarding the reported segments:

	Sets	Web	Accessory	Other	Total
Period Ended 30.06.2013:					
Segment revenues	2,637	679	37	145	3,498
Cost of sales	(1,364)	(23)	(18)	(108)	(1,513)
Gross profit	1,273	656	19	37	1,985
Operating expenses					(1,376)
Operating profit					609
Period Ended 30.06.2012:					
Segment revenues	2,420	883	111	-	3,414
Cost of sales	(1,460)	(24)	(69)	-	(1,553)
Gross profit	960	859	42	-	1,861
Operating expenses					(852)
Operating profit					1,009
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
Operating expenses					(2,183)
Operating profit					2,036

NOTE 10 - EVENTS SUBSEQUENT TO THE REPORTING PERIOD

a. Regarding the Repurchase Option expiration See Note 3c.