

22 March 2017

**Starcom Plc**  
("Starcom", "the Company" or "the Group")

**Final Results**

Starcom (AIM: STAR), which specialises in the development of wireless solutions for the remote tracking, monitoring and protection of a variety of assets and people, announces its Final Results for the year ended 31 December 2016.

**Highlights**

- Revenue for the year of \$5.13m (2015: \$5.13m)
- Gross margin of 28 per cent. (2015: 40 per cent.) after inventory write down (37 per cent. before inventory write down)
- Underlying loss for the year after tax reduced by 23 per cent. to \$1.36m (2015: \$1.76m)
- Operating cost savings of \$0.52m
- SAS revenues grew by 9 per cent. to \$1.75m (2015: \$1.6m).
- New track-and-trace smartphone application, Zeppos, launched
- Helios product range accounted for 76 per cent. of total revenue (excluding SAS revenues)
- Watchlock Pro to be brought in-house to streamline delivery and remove reliance on third party partner

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This announcement contains inside information for the purposes of Article 7 of Regulation (EU) 596/2014.

## Chairman's Statement

I am pleased to present the final audited accounts of Starcom for the year December 2016.

Revenues for the year were \$5.13m (2015: \$5.13m). The net loss for the year after tax but before the adjustments referred to below was \$1.36m (2015: \$1.76m). After adjustments, the total loss for the year was \$2.01m (2015: \$1.76m).

The Company's plan to achieve revenue growth in 2016 through a stronger second half was held back for two main reasons. Firstly, delays experienced in the delivery by a supplier of key product components required for the Watchlock and, secondly, growth in the recurring SAS (Software-as-a-Service) revenues being below expectations as a result of one large client being slow in connecting many of the units it had purchased (and continues to purchase) to our central monitoring system. We do believe that this customer will gradually accelerate the connection of units during 2017.

The high margin SAS revenues, generated from approximately a third of our clients (others use their own central control systems), grew during 2016 by some 9 per cent. to approximately \$1.75m (2015: \$1.6m) as other new clients connected to the service.

Although the Helios range continues to be the main contributor to hardware sales, the Company is increasingly focused on opportunities for its more competitive, newer products, including the newer versions of Helios, and on clients with more specific requirements, where the Company can leverage its flexibility and technological advantages. To enable many more of such market opportunities to be identified and exploited, the Company reorganised its sales force and replaced most of its sales people during 2016 and it is now starting to see a higher quality lead generation and qualification that can increase our conversion ratio.

Revenues continued to be generated from a wide range of countries around the world; there being no over dependency on any one territory. Progress has continued to be positive in Africa which accounts for around one third of unit sales. Europe and the Middle East account for another 30 per cent. and Latin America and Asia approximately 15 per cent. each.

Progress in North America has been slow despite much interest in our products. In the US, it is encouraging to have the approval and support of Amerijet for our Kylos Air system which we anticipate should lead to other airlines also supporting the product by referring their clients to it. Discussions continue with regard to these opportunities.

Gross margin was lower than for the previous year, partly due to the slow growth in SAS revenues and as a result of the inventory write down referred to below. Current trading indicates a return to more normal margins for 2017. The gross margin percentage before the inventory write down was 37 per cent. (2015: 40 per cent.)

As indicated in the trading statement of 27 February 2017, the Board has decided to write down a number of inventory items that were either slow moving or not considered applicable to current products. The total amount written down as a result of this review was approximately \$0.50m.

In addition, the Directors have made a change to the Company's accounting policy for research and development costs. In previous years, the accounting policy has been to capitalise 90 per cent. of such costs. It is now considered more appropriate to reduce this to 50 per cent. This one-off adjustment has added \$0.15m to the R&D costs in the profit and loss account for the year.

In the opinion of the Board, these adjustments will result in a much sounder accounting base for

the future.

The Company has been continuously looking for new efficiencies in its operation and during 2016 achieved savings of 18 per cent. in general and administrative expenses.

## **Products**

### Helios

The current Helios products offer the most advanced AVL (Automatic Vehicle Location) system today for fleet and driver management, and can be tailored precisely to individual and local requirements. The new Helios Advanced Plus Unit is now designed to monitor the vehicle's fuel supply system and to report on fuel levels, speed, mileage and RPM readings. The Helios TT is beginning to make inroads into the motorcycle market with its ability to be easily concealed from view. The Helios Hybrid which is an innovative integration between the Helios unit and an Iridium Satellite module creates a smart cellular/satellite tracker for use in more remote locations. The Helios range accounted for around 86 per cent. of unit sales and 76 per cent. of revenues excluding SAS.

### SAS (Software-as-a-Service)

Approximately a third of our customers typically choose to connect their tracking devices into our web-based system which benefits from central control by remote access in 32 languages using any kind of device. The recurring revenues generated from those connections are an increasingly solid backbone to the future of the business.

### Zeppos

Zeppos is a new and promising track-and-trace application for mobile devices we developed in 2016 and launched in January 2017. It can be downloaded as an App from the Google Play Store and allows any mobile phone to be turned into an end unit by connecting to Starcom's central control system and in this way become an integral part of the overall tracking solution. This has many potential applications, for example tracking rental vehicles which do not have a Helios unit fitted.

### Watchlock

The new Watchlock Pro was launched in the second half of the year and was well received in the market. Initial orders were received in the fourth quarter but it proved impossible to fulfil these orders due to the failure of our partner Mul-T-Lock to deliver their parts to us by the year end. We expect that this problem will be resolved shortly, but inevitably it has delayed the expected sales from this product.

To avoid this problem in the future and also to obtain more control over the total product and its future revenues, we are developing a new version using a plastic covered unit instead of a metal unit. This new version is to be rebranded and should be available for market within a couple of months. It will also be at a more competitive price. At the same time, the Company is working on the next generation Watchlock which will contain further innovative features and a significant improvement in design.

Sales of Watchlock accounted for 3 per cent. of total unit sales during the period and approximately 6 per cent. of revenues.

### Tetis

The Tetis is a real time monitoring and tracking GPS solution for Dry and Refrigerated (Reefers) containers, designed to work with a global 3G modem and benefits from lower power consumption. This product has proved successful in a number of trials and sales are beginning to increase gradually. Work has recently started with a major shipping agency and we work to penetrate

additional agencies and shipping companies although it is taking longer than originally hoped. During 2016 over 1,200 units were sold, representing about 10 per cent. of revenues (excluding SAS). Further growth is anticipated in 2017 from this product.

### Kylos

During 2016 approximately 2,400 Kylos units were sold representing 7 per cent. of unit sales and around 9 per cent. of revenues from units.

Kylos Air is a brand new product that has been approved by Amerijet, a major logistics and cargo airline, and is currently being tested by other airlines.

### **Financial Report**

Group revenues for the year were \$5.13m, (2015: 5.13m), with revenue in the second half of 2016 of \$2.62m (H2 2015: \$2.63m).

Gross margin for the year was 28 per cent. compared with 40 per cent. in 2015. The decrease is due to the inventory write down of \$0.50m for slow-moving and obsolete inventory items as explained above.

In addition, the change in the accounting policy for research and development costs resulted in an additional charge of \$0.15m, as explained above.

After these adjustments, the operating loss for 2016 was \$1.73m. Without these adjustments, the like-for-like operating loss would have been \$1.09m, compared with an operating loss of \$1.56m in 2015, showing an improvement of \$0.47m. This decrease in the like-for-like operating loss reflected cost savings of \$0.52m, mostly in general and administrative expenses. After adjustments, the total loss for the year after tax was \$2.01m (2015: \$1.76m).

The Group balance sheet shows trade receivables at the same level as in 2015:\$1.39m including the allowance for doubtful debts at the amount of \$0.2m. Group inventories for the year were \$1.26m, compared to \$2.2m for 2015, a decrease of \$0.94m mainly caused by the above mentioned write down of slow moving or obsolete parts.

Trade payables at the year end were \$1.5m, compared with \$1.33m for 2015, an increase of \$0.17m, mainly as a result of additional purchases of hardware and components for the new products.

Net cash used in operating activities for the year was \$0.47m, compared with \$0.32m for 2015. The increase in the net cash used by operating activities mainly resulted from the increase in the Company's net loss (\$2.01m for the year, compared with \$1.76m for 2015).

### **Legal Matters**

The Company has previously reported details of a claim by Top Alpha lodged against the Company. This claim is now restricted to a claim against Avi Hartmaan, Doron Kedem and a subsidiary of the Company (Starcom Systems Ltd). Based on further examination of the documents relating to this claim by external legal advisers, it is the opinion of both the Company and of Messrs Hartmaan and Kedem that in the event of a claim being successful it is unlikely to exceed a total of \$180,000 notwithstanding earlier suggestions that indicated a much higher figure. In any event and as previously stated, Mr Hartmaan and Mr Kedem have agreed to bear the cost of any such claim.

### **Outlook**

The Directors continue to believe that the Company has strong and continuously improving technology reflected in a range of attractive products and that there is a large global market for them. There are a number of new initiatives underway such as the new Zeppos and the upgraded Watchlock and further development of the product line continues.

The Company believes its challenge has been mainly on the sales and marketing front and it is hopeful that the changes it has implemented in this area, as mentioned above, will lead to increased revenues in 2017 although it is still early in the year to make more specific predictions.

In addition, the Company continues to improve efficiency and reduce overheads. As part of this effort, the Company will be moving to a new and half as costly office facility midyear.

With the above revenue improvement and cost saving initiatives, overall losses in 2017 should be significantly reduced.

The loss in 2016 did impact cash flow but the Directors are satisfied that sufficient loan facilities will be available to the Group to cover its expected cash flow requirements.

#### **Founder Shareholders' Loan Conversion**

Avi Hartmann, Doron Kedem and Uri Hartmann have deferred part of their monthly salary payments over the last few months and they have agreed to convert a total of \$100,000 divided equally between them into shares of the Company at the mid-market price at the close of business on 21 March 2017, reflecting their confidence in the future of the business and their commitment to its success.

I would like to thank our shareholders for their continued support.

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

U.S. Dollars in thousands

	<u>Note</u>	<b>December 31,</b>	
		<u>2016</u>	<u>2015</u>
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS:</b>			
Property, plant and equipment, net	6	303	359
Intangible assets, net	7	2,601	2,611
Income Tax Authorities		34	67
<b>Total Non-Current Assets</b>		<u>2,938</u>	<u>3,037</u>
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents		35	90
Short-term bank deposit	5	57	63
Trade receivables	3B	1,391	1,343
Other accounts receivable	3A	65	44
Inventories	4	1,256	2,202
<b>Total Current Assets</b>		<u>2,804</u>	<u>3,742</u>
<b>TOTAL ASSETS</b>		<u><u>5,742</u></u>	<u><u>6,779</u></u>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
	12	<u>2,744</u>	<u>3,497</u>
<b>NON-CURRENT LIABILITIES:</b>			
Long-term loans from banks, net of current maturities	10	372	570
Related parties	18	-	153
Notes payable		-	26
<b>Total Non-Current Liabilities</b>		<u>372</u>	<u>749</u>
<b>CURRENT LIABILITIES:</b>			
Short term bank credit		265	270
Current maturities of long-term loans from banks	10	314	316
Convertible unsecured loans	19	-	91
Trade payables		1,495	1,330
Other accounts payable	9	178	179
Related parties	18	374	347
<b>Total Current Liabilities</b>		<u>2,626</u>	<u>2,533</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u><u>5,742</u></u>	<u><u>6,779</u></u>

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

	<u>Note</u>	<b>Year Ended December 31</b>	
		<b>2016</b>	<b>2015</b>
Revenues		5,132	5,131
Cost of sales	13	<u>(3,712)</u>	<u>(3,065)</u>
Gross profit		----- 1,420	----- 2,066
Operating expenses:			
Research and development		(189)	(115)
Selling and marketing		(606)	(615)
General and administrative expenses	14	(2,386)	(2,906)
Other income (expenses)	15	<u>24</u>	<u>10</u>
Total operating expenses		----- (3,157)	----- (3,626)
Operating loss		<u>(1,737)</u>	<u>(1,560)</u>
Finance income	16A	19	1
Finance costs	16B	<u>(227)</u>	<u>(200)</u>
Net finance income (costs)		<u>(208)</u>	<u>(199)</u>
Loss before taxes on income		(1,945)	(1,759)
Taxes on income	8	<u>(67)</u>	<u>- . -</u>
Total comprehensive loss for the year		<u><u>(2,012)</u></u>	<u><u>(1,759)</u></u>
<b>Loss per share:</b>			
Basic and diluted loss per share	17	<u><u>(0.015)</u></u>	<u><u>(0.020)</u></u>

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

	<u>Share Capital</u>	<u>Premium on Shares</u>	<u>Capital Reserve</u>	<u>Capital Reserve in Regard to Share-Based Payment Transactions</u>	<u>Accumulated Earnings (Loss)</u>	<u>Total</u>
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 12)	-	701	-	-	-	701
Conversion of convertible unsecured loans (see Note 19c)	-	153	-	-	-	153
Share based payment (see Note 12d)	-	-	-	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
Proceeds from issued share capital, net of mobilization costs (see Note 1)	-	1,137	-	-	-	1,137
Conversion of unsecured loans (see Note 1 and Note 19c)	-	101	-	-	-	101
Share based payment (see Note 12d)	-	-	-	21	-	21
Comprehensive loss for the year	-	-	-	-	(2,012)	(2,012)
Balance as of December 31, 2016	-	8,332	89	428	(6,105)	2,744

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

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

U.S. Dollars in thousands

	<b>Year Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Loss for the year	(2,012)	(1,759)
<b>Adjustments to reconcile net profit to net cash used in operating activities:</b>		
Depreciation and amortization	435	343
Interest expense and exchange rate differences	10	33
Equity settled option- based payment expense	21	34
Capital loss	-	3
<b>Changes in assets and liabilities:</b>		
Decrease in inventories	946	1,180
Decrease (Increase) in trade receivables	(48)	600
Decrease (Increase) in other accounts receivable	(21)	70
Decrease (Increase) in Income Tax Authorities	33	(11)
Increase (Decrease) in trade payables	165	(837)
Increase (Decrease) in other accounts payable	(1)	20
Net cash used in operating activities	<u>(472)</u>	<u>(324)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property, plant and equipment	(19)	(88)
Proceeds from sales of property, plant and equipment	-	46
Decrease in short-term deposits	6	38
Cost of intangible assets	(350)	(567)
Net cash used in investing activities	<u>(363)</u>	<u>(571)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment of short-term bank credit, net	(5)	(39)
Short-term loan from a bank, net	-	(89)
Proceeds from a convertible unsecured loan	-	218
Repayment from related parties, net	78	126
Increase (Decrease) in notes payable	(26)	26
Receipt of long-term loans	104	255
Repayment of long-term loans	(304)	(316)
Consideration from issue of shares, net	933	701
Net cash provided by financing activities	<u>780</u>	<u>882</u>
Decrease in cash and cash equivalents	(55)	(13)
Cash and cash equivalents at the beginning of the year	90	103
Cash and cash equivalents at the end of the year	<u>35</u>	<u>90</u>
<b>Appendix A – Additional Information</b>		
Interest paid during the year	<u>(48)</u>	<u>(50)</u>
<b>Appendix B – Non-cash financing activities</b>		
Issuance of share to related parties (in payment of current period salaries)	204	-
Conversion to shares of convertible unsecured loans	101	-

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

## 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.

In March 2016 Starcom Systems America Inc. was incorporated in Florida, USA and it is fully owned by the Company. Starcom America serves as a Sales and Marketing branch for the Company in North America.

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. During January and February 2016, the Company issued a total of 4,564,270 Ordinary Shares in connection with the company's unsecured convertible loan facility (the "Loan Facility") with YA Global Master SPV Ltd, on the conversion of \$100,000 loan principal and accrued interest (amounting in aggregate to \$101,458 (£70,401)).
3. During March 2016, the Company raised £ 450 thousand (\$648) before expenses, of which \$204 thousand were issued to related parties in order to partially set off their credit balances.
4. During October 2016, The Company has raised £300 thousand (\$369) with new and existing shareholders, before expenses, through a placing of 12,000,000 new Ordinary Shares of no par value at a price of 2.5p per Placing Share.
5. During November 2016, the Company has placed 5,000,000 new Ordinary Shares (the "Placing Shares") with new and existing shareholders at a price of 3p per Placing Share to raise £150 thousand (\$187) before expenses.
6. The Group has accumulated operating losses over the last few years and is dependent on securing financing or infusion of capital. The Group is satisfied that sufficient loan facilities are available to cover its cash flow requirements.

**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. Starcom America - Starcom Systems America Inc.
7. The Group – Starcom Plc. and the Subsidiaries.
8. 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 Company's Board of Directors authorized the Consolidated Financial Statements on March 3, 2017.

**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.

**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 12d – Options issued.

Note 19d – Convertible unsecured loans.

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.

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## **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>2016</u></b>	<b><u>2015</u></b>
CPI (in points) *	122.8	123.085
Exchange Rate of U.S. \$ in NIS	3.845	3.902

	<b>Year Ended December 31,</b>	
	<u><b>2016</b></u>	<u><b>2015</b></u>
Change in CPI	(0.24%)	(1%)
Change in Exchange Rate of U.S. \$	(1.46%)	0.33%
* 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.

**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 comprised of 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.

(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.

**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.

**d. 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.

**e.**

**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:

**f.**

Computers and software

Office furniture and equipment

Vehicles

Laboratory equipment

Leasehold improvements

\_\_\_\_\_  
%

33

7 – 15

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 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.

**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.

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.

**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.

**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 of 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.

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**

IFRS 9 (2014) replaces the current guidance in IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 (2014) includes revised guidance on the classification and measurement of financial instruments, a new 'expected credit loss' model for calculating impairment for most financial assets, and new guidance and requirements with respect to hedge accounting.

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

The Group 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 replaces the current guidance regarding recognition of revenues and presents a new model for recognizing revenue from contracts with customers. IFRS 15 provides two approaches for recognizing revenue: at a point in time or over time. The model includes five steps for analyzing transactions so as to determine when to recognize revenue and at what amount. Furthermore, IFRS 15 provides new and more extensive disclosure requirements than those that exist under current guidance.

IFRS 15 is applicable for annual periods beginning on or after January 1, 2018 and earlier application is permitted. IFRS 15 includes various alternative transitional provisions, so that companies can choose between one of the following alternatives at initial application: full retrospective application, full retrospective application with practical expedients, or application as from the mandatory effective date, with an adjustment to the balance of retained earnings at that date in respect of transactions that are not yet complete.

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

## IFRS 16, "Leases"

IFRS 16 replaces IAS 17, *Leases* and its related interpretations. The standard's instructions annul the existing requirement from lessees to classify leases as operating or finance leases. Instead of this, for lessees, the new standard presents a unified model for the accounting treatment of all leases according to which the lessee has to recognize an asset and liability in respect of the lease in its financial statements.

Similarly, the standard determines new and expanded disclosure requirements from those required at present.

IFRS 16 is applicable for annual periods as of January 1, 2019, with the possibility of early adoption, so long as the company has also early adopted IFRS 15, Revenue from Contracts with Customers. IFRS 16 includes various alternative transitional provisions, so that companies can choose between one of the following alternatives at initial application: full retrospective application or application (with the possibility of certain practical expedients) as from the mandatory effective date, with an adjustment to the balance of retained earnings at that date.

The Group believes that the new Standard is not expected to have a material impact on the financial statements as the Group currently do not offer its products in the form of lease.

## NOTE 3A - OTHER ACCOUNTS RECEIVABLE

	December 31	
	2016	2015
Advances to suppliers	-	-
Government institutions	65	44
	<u>65</u>	<u>44</u>

## NOTE 3B - TRADE RECEIVABLES

	December 31	
	2016	2015
Group receivables	1,588	1,864
Net of allowance for doubtful accounts	(197)	(521)

1,391

1,343

**NOTE 4 - INVENTORIES**

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Raw materials	563	1,107
Finished goods	693	1,095
	<u>1,256</u>	<u>2,202</u>

See also Note 13.

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

The deposit sums of \$57 and \$63 for the years ended December 31, 2016 and 2015, respectively, serve as a security deposit for repayment of a long-term bank loan. In accordance with terms of the loan, the deposit constitutes approximately 15% of the loan balance. The deposit bears yearly interest at the rate of 1%.

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

	<b>Computers and Software</b>	<b>Office Furniture and Equipment</b>	<b>Laboratory Equipment</b>	<b>Leasehold Improvements</b>	<b>Vehicles</b>	<b>Total</b>
<b>Cost:</b>						
Balance as of January 1 2016	155	110	66	80	242	653
Additions during the year	13	6	-	-	-	19
Decrease	-	-	-	-	-	-
Balance as of December 31 2016	<u>168</u>	<u>116</u>	<u>66</u>	<u>80</u>	<u>242</u>	<u>672</u>
<b>Accumulated Depreciation:</b>						
Balance as of January 1 2016	110	54	50	35	45	294
Depreciation during the year	15	9	8	7	36	75
Decrease	-	-	-	-	-	-
Balance as of December 31 2016	<u>125</u>	<u>63</u>	<u>58</u>	<u>42</u>	<u>81</u>	<u>368</u>
Net book value as of December 31 2016	<u>43</u>	<u>53</u>	<u>8</u>	<u>38</u>	<u>161</u>	<u>303</u>

	<b>Computers and Software</b>	<b>Office Furniture and Equipment</b>	<b>Laboratory Equipment</b>	<b>Leasehold Improvements</b>	<b>Vehicles</b>	<b>Total</b>
<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	<u>155</u>	<u>110</u>	<u>66</u>	<u>80</u>	<u>242</u>	<u>653</u>
<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	<u>110</u>	<u>54</u>	<u>50</u>	<u>35</u>	<u>45</u>	<u>294</u>
Net book value as of December 31 2015	<u><u>45</u></u>	<u><u>56</u></u>	<u><u>16</u></u>	<u><u>45</u></u>	<u><u>197</u></u>	<u><u>359</u></u>

## NOTE 7 - INTANGIBLE ASSETS

	<b>Total</b>
<b>Cost:</b>	
Balance as of January 1 2016	3,588
Additions during the year	<u>350</u>
Balance as of December 31 2016	<u>3,938</u>
<b>Accumulated Depreciation:</b>	
Balance as of January 1 2016	(775)
Amortization during the year	<u>(360)</u>
Balance as of December 31 2016	<u>(1,135)</u>
Impairment of assets	<u>(202)</u>
Net book value as of December 31 2016	<u><u>2,601</u></u>

	<b>Total</b>
<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	<u><u></u></u>

The expenditure capitalized includes the cost of materials and direct labor that are directly attributable to preparing the assets for their 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.

## NOTE 8 - TAXES ON INCOME

### a. Israeli taxation

1. The Israeli corporate tax rate in 2016 is 25% and for 2015 was 26.5%.  
On December 22, 2016 the Knesset plenum passed the Economic Efficiency Law (Legislative Amendments for Achieving Budget Objectives in the Years 2017 and 2018) – 2016, by which, inter alia, the corporate tax rate would be reduced from 25% to 23% in two steps. The first step will be to a rate of 24% as from January 2017 and the second step will be to a rate of 23% as from January 2018.
2. **Tax Benefits from the Law for Encouragement of Capital Investments, 1 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 2016.

3. **Income Tax audit**

Starcom Israel is currently under income tax audit regarding its 2012-2014 financial statements. The Group is currently unable to assess the audit results and its possible impact on the financial statements. To date no assessment was received from income tax authority.

### b. Jersey taxation

Taxable income of the Company and Starcom Jersey is subject to tax at the rate of zero percent for the years 2016 and 2015.

### c. USA taxation

Taxable income of Starcom Inc. is subject to the Corporate Federal taxes in the United States of America and to the taxes set in the States in which it sells its products and services.

### d. Detail of tax income:

Since the recording of a deferred tax asset is limited to the amount of deferred tax liabilities, no deferred tax income was recorded in 2016.

- e. Starcom Israel has carryforward operating tax losses of approximately NIS 27 million as of December 31, 2016. As for deferred tax assets see Note 2r.  
Starcom Israel has been assessed by the Income Tax Authorities up to and including

**NOTE 9 - OTHER ACCOUNTS PAYABLE**

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Employees and payroll accruals	166	164
Accrued expenses	12	15
	<u>178</u>	<u>179</u>

**NOTE 10 - LONG-TERM LOANS FROM BANKS, NET OF CURRENT MATURITIES**

1. Composition:	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Long-term liability	686	886
Less: current maturities	(314)	(316)
	<u>372</u>	<u>570</u>

2. Aggregate maturities of long-term loans for years subsequent to December 31, 2016 are as follows:

	<b>Amount</b>
First year	314
Second year	248
Third year	75
Fourth year and after	49
	<u>686</u>

3. Additional information regarding long-term loans:

<u>Loan #</u>	<u>Date Received</u>	<u>Amount Received NIS (U. S. dollars)</u>	<u>Annual Interest Rate</u>	<u>Loan Terms and Maturity Dates</u>	<u>Interest Payment Terms</u>
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
8.	June 6, 2016	400 (\$ 104)	Prime + 0.9	60 equal monthly installments including principal and interest	Monthly commencing 20 July 2016

**NOTE 11 - 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, 2016 and 2015 were in the amounts of \$137 thousand and \$134 thousand, respectively. Total of future minimum lease payments under non-cancellable operating leases for each of the following periods as of December 31, 2016:

Not later than one year	46
Later than one year and not later than five years	134
	<u>180</u>

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, 2016 and 2015 were in the amounts of \$25 thousand and \$36 thousand, respectively. Total of future minimum lease payments under non-cancellable operating leases for each of the following periods as of December 31, 2016:

Not later than one year	32
Later than one year and not later than four years	23
	<u>55</u>

- c. 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, as the Company have signed an agreement with its Shareholders that any payment will be reimbursed to the Company by the Shareholders.

**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's bank account.

**NOTE 12 - SHARE CAPITAL**

- a. Composition – common stock of no par value, authorized – 118,500,000 shares; issued and outstanding – 152,830,680 and 101,266,410 shares as of December 31, 2016 and December 31, 2015, 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

1. On June 1, 2015, the Company issued 11,875,000 Ordinary Shares raising £475 (\$723) thousand before expenses.
2. In addition, during November and December 2015, the Company issued 4,958,077 Ordinary Shares related 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.

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 \$2 thousand (2015: \$34 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 to professional consultants and brokers 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.
5. During July 2016, the Company issued to its directors and senior management 4,400,000 Options for purchase of 4,400,000 of Company shares at exercise price of 0.05£ per share. The following table list the inputs to the Black and Scholes model used for the grants:

	<u>Directors and Senior Management</u>	<u>Directors</u>
Fair value at the measurement date	0.0171£ 2,400,000	0.0183£ 2,000,000
Quantity		
Dividend Yield (%)	-	-
Expected Volatility (%)	74	74
Risk-free interest rate (%)	1.49	1.49
Share price	0.02875£	0.02875£
Vesting period (years)	3	2
Expiration period (years)	10	10

Total expenses recorded in regard to these Options in the statement of comprehensive income for the reported year amounted \$19 thousand.

**NOTE 13 - COST OF SALES**

	<b>Year Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
Purchases and other	2,406	1,617
Amortization	360	268
Decrease in inventory (1)	946	1,180
	<u>3,712</u>	<u>3,065</u>

(1) The Company have written down inventory items that were either slow moving or not considered applicable to current products. The write down amounted about \$500 thousand.

**NOTE 14 - GENERAL AND ADMINISTRATIVE EXPENSES**

	<b>Year Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
a. Salaries and related expenses	1,120	1,283
Office rent and maintenance	466	341
Professional services (1)	355	191
Doubtful accounts and bad debts	170	627
Depreciation	75	75
Other	200	389
	<u>2,386</u>	<u>2,906</u>

(1) Including share based payment in the amounts of \$21 and \$34 thousand for the years ended December 31, 2016 and 2015, respectively. (See note 12d).

**b. Average Number of Staff Members by Category:**

	<b>Year Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
Sales and marketing	9	5
Research and development	4	5
General and administrative	19	14
	<u>32</u>	<u>24</u>

**NOTE 15 - OTHER INCOME**

	<b>Year Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
Capital loss from sale of fixed assets	-	(3)
Other income	24	13
	<u>24</u>	<u>10</u>

**NOTE 16A FINANCE INCOME**

-

	<b>Year Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
Interest from bank	-	1
Exchange rate differences	19	-
	<u>19</u>	<u>1</u>

## NOTE 16B - FINANCE COSTS

	Year Ended December 31,	
	2016	2015
Exchange rate differences	78	27
Interest to banks and others	45	58
Interest to related parties	13	21
Bank charges	70	73
Interest to suppliers	21	21
	<u>(227)</u>	<u>(200)</u>
Net finance costs	<u>208</u>	<u>199</u>

## NOTE 17 - EARNINGS PER SHARE

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

	Year Ended December 31,	
	2016	2015
Number of shares	<u>131,248,154</u>	<u>91,965,928</u>

## NOTE 18 - RELATED PARTIES

- a. The related parties that own the controlling shares in the Group are:  
Mr. Avraham Hartman (16.6%), Mr. Uri Hartman (14.5%), Mr. Doron Kedem (14.5%).

- b. Short-term balances:

	December 31	
	2016	2015
Credit balances	(82)	(213)
Loans	(292)	(134)
	<u>(374)</u>	<u>(347)</u>

- c. Long-term balances:

	December 31	
	2016	2015
Loans	-	(153)

- 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, 2016 is \$292 thousand.

Transactions: **Year Ended December 31,**

	<b>2016</b>	<b>2015</b>
e. Key management compensation:		
Total salaries and related expenses for shareholders	496	474
	496	474

- 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.

**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, 2016					
	NIS		U.S. Dollar	GBP	Euro	Total
	Unlinked	Variable Interest	Unlinked			
<b>Financial Assets:</b>						
Cash and Cash Equivalents	3	-	21	6	5	35
Short-term Deposit	-	57	-	-	-	57
Trade Receivables	187	-	1,144	5	55	1,391
Other Accounts Receivable	65	-	-	-	-	65
<b>Financial Liabilities:</b>						
Short-term Bank Credit	-	(265)	-	-	-	(265)
Trade Payables	(267)	-	(1,201)	(18)	(9)	(1,495)
Other Accounts Payable	(178)	-	-	-	-	(178)
Related parties	-	(374)	-	-	-	(374)
Long-term Loans From Banks	-	(686)	-	-	-	(686)
	<u>(190)</u>	<u>(1,268)</u>	<u>(36)</u>	<u>(7)</u>	<u>51</u>	<u>(1,450)</u>

	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 unsecured loan	-	-	(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>

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

	<u>5% Increase in Exchange Rate</u>	<u>5% Decrease in Exchange Rate</u>
For the Year Ended December 31		
2016	(73)	73
2015	(112)	112

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

	<u>5% Increase in Exchange Rate</u>	<u>5% Decrease in Exchange Rate</u>
For the Year Ended December 31		
2016	(3)	3
2015	-	-

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

	<u>5% Increase in Exchange Rate</u>	<u>5% Decrease in Exchange Rate</u>
For the Year Ended December 31		
2016	-	-
2015	-	-

**c. Fair value**

As of December 31, 2016, 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 unsecured loan**

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)).

During January and February 2016, the Company issued 4,564,270 Ordinary Shares in connection with the company's unsecured convertible loan facility (the "Loan Facility") with YA Global Master SPV Ltd, on the conversion of \$100,000 loan principal and accrued interest (amounting in aggregate to \$101,458 (£70,401)).

## NOTE 20 - CUSTOMERS AND GEOGRAPHIC INFORMATION

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

	Year Ended December 31,		
	2016	2015	2014
Customer A	5%	7%	12%
Customer B	5%	4%	12%
Customer C	5%	4%	9%

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

	Year Ended December 31,		
	2016	2015	2014
Latin America	16%	25%	24%
Europe	17%	11%	12%
Africa	38%	37%	20%
Asia	14%	11%	33%
Middle East	14%	14%	11%
North America	1%	2%	-
Total	100%	100%	100%

## 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:

	<u>Sets</u>	<u>SAS</u>	<u>Accessory</u>	<u>Other</u>	<u>Total</u>
<b>Year Ended 31.12.2016:</b>					
Segment revenues	3,128	1,749	44	211	5,132
Cost of sales	<u>3,084</u>	<u>382</u>	<u>40</u>	<u>206</u>	<u>3,712</u>
Gross profit	44	1,367	4	5	1,420
Operating expenses					<u>3,157</u>
Operating loss					<u><u>(1,737)</u></u>
<b>Year Ended 31.12.2015:</b>					
Segment revenues	3,238	1,608	60	225	5,131
Cost of sales	<u>(2,634)</u>	<u>(200)</u>	<u>(48)</u>	<u>(183)</u>	<u>(3,065)</u>
Gross profit	604	1,408	12	42	2,066
Research and Development expenses	(81)	(27)	(1)	(6)	(115)
Selling and marketing expenses	<u>(388)</u>	<u>(193)</u>	<u>(7)</u>	<u>(27)</u>	<u>(615)</u>
Operating profit before general and administrative expenses	135	1,188	4	9	1,336
Unattributed general and administrative expenses					<u>(2,896)</u>
					<u><u>(1,560)</u></u>

**NOTE 22 - EVENTS AFTER THE REPORTING DATE**

Key management have agreed to convert a total of \$100 thousand, which reflect a deferred portion of their monthly salaries, into shares of the Company at the mid-market price at the close of business on 22 March 2017.